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The Danish government's payroll administration

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Danish Ministry of Finance's effort to support the government's payroll administration, i.e. the task of managing and ultimately paying salaries to government employees.

In 2008, the government decided to establish a centralised joint service centre for payroll and accounting under the Ministry of Finance. The service centre is today known as the Danish Agency for Governmental Administration (the Agency). The Agency was intended to deliver a number of payroll and accounting services that were previously delivered by the individual government institutions. The overall responsibility for payroll services was transferred from the institutions to the Ministry of Finance by royal decrees issued in 2009 and 2010. The purpose of centralising payroll and accounting was to increase the quality and efficiency of payroll and accounting services. This would release time for the institutions to perform their core task – and thereby achieve better value for the taxpayers' money. Ensuring that payroll administration was standardised and supported by effective systems was a fundamental prerequisite for improved efficiency and quality.

2. The Agency and the institutions are required to collaborate on payroll administration, and this involves a risk of duplication of effort and errors. As a result of errors in payroll administration – and because fixed salaries are paid automatically every month – salary transfers to affected employees risk being incorrect for the entire duration of their employment. The Ministry of Finance's concept for payroll control states: "the complexity of the division of tasks and responsibility increases with the number of bodies involved, which again increases the risk of duplicating control and cases falling between two stools". Ensuring that the collaboration between the Agency and institutions is effective and efficient is therefore an important task for the ministry.

3. In 2013, Rigsrevisionen submitted a report to the Danish Public Accounts Committee on the centralisation of the government's payroll administration under the Ministry of Finance that indicated problems with duplication of effort and errors in the administration of payroll. Rigsrevisionen concluded that overall, the centralisation of payroll administration had not resulted in the intended efficiency gains. Therefore, Rigsrevisionen recommended that the ministry should re-assess the division of payroll administration tasks between the government institutions.

The Danish Agency for Governmental Administration

This agency delivers payroll services to approx. 150 government institutions. Combined the agency and the institutions administer payroll funds of approx. DKK 20 billion.

Royal decree

A royal decree is issued, for instance, when the responsibilities of the government departments are changed.

Duplication of effort

In this report, the term covers duplication of data entries and duplication of control activities relating to payroll administration. It occurs when the Danish Agency for Governmental Administration and the institutions enter the same data and perform the same control in connection with salary payments.

4. The purpose of this study is to provide an assessment of whether the Ministry of Finance has supported the government's payroll administration in a satisfactory manner. Rigsrevisionen initiated the study in August 2018, and it is based on payroll audits of the Agency and six selected institutions, carried out by Rigsrevisionen in 2018. The six institutions are the Danish Ministry of Foreign Affairs, the Danish Business Authority, the Danish State Administration (now the Agency of Family Law), The Royal Danish Academy of Fine Arts Schools of Architecture, Design and Conservation, the Danish National Archives and the Danish Veterinary and Food Administration. Payroll audits look at workflows between the Agency and institutions, including duplication of administration.



Conclusion

It is Rigsrevisionen's assessment that the Ministry of Finance has not supported payroll administration in a satisfactory manner. The administration of payroll was centralised in 2008 with the purpose of making it more efficient and although the ministry has worked on streamlining the administration for more than ten years, duplication of effort is still a problem. The consequence is that the resources available to the Agency and the institutions are not used effectively. This means that there is an unexploited potential for further efficiency gains in relation to the government's payroll administration.

The study shows that the Agency and the institutions enter the same payroll data and perform the same payroll checks. The extent to which the institutions could rely on the payroll checks made by the Agency has not been made sufficiently clear by the Ministry of Finance. Additionally the ministry has not ensured adequate standardisation and system support of the workflow in payroll administration. The ministry has failed to do so in spite of the fact that when the government made the decision to centralise payroll services, standardisation and system support were emphasised as essential prerequisites for the improvement of the efficiency and quality of payroll administration. The ministry will now await the implementation of a new IT system, before it re-assesses the division of work and analyses the overall payroll support system. It is therefore not clear when the ministry expects to resolve the issue of duplication of effort. Rigsrevisionen has monitored the area on a current basis and it is our assessment that progress since 2013 has been too slow.

The study also shows that the Ministry of Finance has failed to follow up whether the concept for payroll control has been implemented as intended, and whether the targets set for the introduction of the concept have been achieved. Thus the ministry has also failed to follow up whether the institutions' plans for payroll control contribute to avoiding duplication of effort, as intended. Rigsrevisionen's review shows that the institutions' plans for payroll control are inadequate and - according to about half of the plans - lead to duplication of effort.

Additionally, the report shows that the Ministry of Finance does not detect and follow up on errors in payroll administration to the extent necessary. As a result, the ministry has no overview of the number or nature of errors, nor of their cause or what should be done to mitigate them. It is therefore difficult for the ministry to monitor and improve the quality of payroll administration.

Last, Rigsrevisionen has found an inconsistency between the royal decrees on the transfer of responsibilities and the division of tasks within payroll administration. The Ministry of Finance has taken note of this and will take steps to re-assess the division of tasks.