



**FOLKETINGET
STATSREVISORERNE**



**FOLKETINGET
RIGSREVISIONEN**

**August 2020
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**Extract from Rigsrevisionen's report
submitted to the Public Accounts Committee**

The audit of the Danish public accounts for 2019

Rigsrevisionen's opinion on the Danish public accounts

Purpose and conclusion

The report concerns the audit of the Danish public accounts for 2019. The public accounts include the financial statements of all ministries with responsibility for public expenditure and revenue. The report also addresses audit issues from previous years that are now resolved.

The purpose of the audit is to assess whether the information presented by the government departments in the public accounts is correct. We have also checked whether the departments are complying with the terms of appropriations. The report supports the Danish Public Accounts Committee and the Danish Folketing (the parliament) in their processing of the public accounts. The report answers the following questions:

- Are the public accounts in all material respects correct, i.e. prepared in compliance with the relevant appropriation acts and the government accounting regulations?
- Has the government in all material respects complied with the appropriations and transaction regulations?



Main conclusion

The Danish public accounts for 2019 are in all material respects correct, and the government has in all material respects complied with the terms of the appropriations, with the exception of the consequences of Rigsrevisionen's qualified opinion on the correctness of Section 38. Taxes and duties and a number of specific errors across the public accounts.

Rigsrevisionen has qualified its opinion on Section 38. Taxes and duties even though the uncertainty affecting this section of the public accounts has been greatly reduced in 2019

Our qualification is based on the following facts: 1. The Ministry of Taxation's long-standing illegal practice of charging penalty interest on amounts overdue is not reflected in the annual accounts. 2. The Ministry of Taxation's estimation of the value of money owed by citizens and businesses to the public sector is not reliable. 3. The Ministry of Taxation's estimation of the value of claims that may not be legally enforceable is inaccurate and/or affected by uncertainty concerning the quality of data on accounts receivable. 4. The financial statements concerning Section 38 are affected by a number of specific errors in the amount of DKK 1,615.9 million.

The individual financial statements on other sections of the Finance Act included in the public accounts are in all material respects correct

However, the financial statements are affected by misstatement and weaknesses in the accounting management that Rigsrevisionen has found it relevant to highlight in the report.

A considerable number of government bodies across 10 ministerial remits have failed to ensure segregation of duties and adequate internal controls relating to payments and collection of revenues, which entail great unnecessary risk of fraud and misstatement. Rigsrevisionen has not detected misstatements due to fraud, but has established that staff in several government bodies have access to de-activate or delete logs, which makes it very difficult to detect potential abuse. The ministries need to either reduce the risk or establish compensating controls.

Table 1 shows the total sum of expenditure and revenue related to the individual sections included in the public accounts. The table also provides an overview of the audit issues that we refer to in chapters 3 and 4 of the report.

Table 1
Overview of the public accounts and our audit findings

| | Sum of revenue and expenditure DKK millions ¹⁾ | Modifications | Significant and cross-departmental audit matters |
|--|--|---------------|---|
| § 1. The Queen | 84 | | |
| § 2. Members of the royal family | 28 | | |
| § 5. Prime Minister's Office | 117 | | |
| § 6. Ministry of Foreign Affairs | 18,279 | | |
| § 7. Ministry of Finance | 43,096 | | |
| § 8. Ministry of Industry, Business and Financial Affairs | 6,866 | | |
| § 9. Ministry of Taxation | 12,036 | | The issues concerning valuation of barred debt also affect Section 9 of the public accounts, see item 14. Still weaknesses in the Ministry of Taxation's management of access, see items 25-27. Misstatement and uncertainty is still affecting the valuation of <i>Udviklings- og Forenklingsstyrelsen</i> (agency developing e-government) assets, see item 38. |
| § 11. Ministry of Justice | 23,321 | | Inadequate IT security related to Navision Stat at the Danish Prison and Probation Service, see item 34. Inadequate IT security related to Navision Stat at the Courts of Denmark, see item 34. Inadequate management of user access to <i>Statens Lønssystem</i> (payroll administration system), see items 28-31. |
| § 12. Ministry of Defence | 26,107 | | The control environment at the Ministry of Defence concerning procurement is inadequate, see items 21-23. Uncertainty about the Ministry of Defence's contingent liabilities, see item 39. |
| § 14. Ministry of Immigration and Integration | 4,339 | | |
| § 15. Ministry of Social and Domestic Affairs | 215,394 | | Inadequate management of user access to <i>Statens Lønssystem</i> (payroll administration system), see items 28-31. |
| § 16. Ministry of Health | 9,611 | | |

¹⁾ Sum of revenue and expenditure

Source: Rigsrevisionen based on data from *Statens Koncernsystem* (government accounting data system) and the financial audit.

Table 1 – continued

Overview of the public accounts and audit findings

| | Sum of revenue and expenditure DKK millions ¹⁾ | Modifications | Significant and cross-departmental audit matters |
|---|--|--|--|
| § 17. Ministry of Employment | 287,764 | | <p>Issues concerning valuation of barred debt also affect Section 17 of the public accounts, see item 14.</p> <p>The steps taken by the Ministry of Employment to improve controls concerning disbursement of billions of kroner to the municipalities are inadequate, see item 32.</p> <p>Controls at the Danish Agency for Labour Market and Recruitment concerning disbursement of grants are still inadequate, see item 36.</p> |
| § 19. Ministry of Higher Education and Science | 70,846 | | <p>Issues concerning valuation of barred debt also affect Section 17 of the public accounts, see item 14.</p> <p>Inadequate management of user access to <i>Statens Lønssystem</i> (payroll administration system), see items 28-31.</p> |
| § 20. Ministry of Children and Education | 42,239 | | Weaknesses in the management of user access to <i>Statens Lønssystem</i> (payroll administration system), see items 28-31. |
| § 21. Ministry of Culture | 12,060 | | Inadequate management of user access to <i>Statens Lønssystem</i> (payroll administration system), see items 28-31. |
| § 22. Ministry of Ecclesiastical Affairs | 620 | | |
| § 24. Ministry of Environment and Food | 24,682 | | |
| § 28. Ministry of Transport and Housing | 19,469 | | <p>Controls at the Danish Building and Property Agency concerning rent is entirely inadequate, see item 24.</p> <p><i>Banedanmark</i> (body responsible for maintaining the Danish railway system) still has not addressed deficiencies in its control environment in its SAP system, see item 33.</p> <p>Uncertainty related to the valuation of property owned by the Ministry of Transport and Housing, see item 40.</p> <p>Uncertainty related to the valuation of provisions for social housing, see item 41.</p> |
| § 29. Ministry of Climate, Energy and Utilities | 22,516 | | Inadequate management of user access to <i>Statens Lønssystem</i> (payroll administration system), see items 28-31. |
| § 35. General provisions | 10,950 | | |
| § 36. Pension | 30,990 | | |
| § 37. Interest | 42,174 | | |
| § 38. Taxes and duties | 764,022 | Modification concerning Section 38. Taxes and duties, see section 3.1. | |

¹⁾ Sum of revenue and expenditure.Source: Rigsrevisionen based on data from *Statens Koncernsystem* (government accounting data system) and the financial audit.

Opinion on the public accounts



Conclusion

Rigsrevisionen has audited the main section of the public accounts (i.e. section A. Summaries and section B. Appropriations and financial statements), relevant specifications of budgets and accounts and settlement of appropriations. The financial statements of the Folketing referred to under section 3 of the public accounts, are not audited by Rigsrevisionen, but by a private auditing firm. The public accounts shall be prepared in accordance with the appropriation acts (i.e. the Finance Act and Appropriation Adjustment Act for 2019) and the government accounting regulations.

Our assessment is that the public accounts are in all material aspects correct, meaning that the financial statements have been prepared in accordance with the appropriation acts and government accounting regulations, and that the government has observed the terms of the appropriations and the transaction regulations in all material respects, with the exception of the effect of the specific errors referred to below:

- Section 38. Taxes and duties is still affected by considerable uncertainty and significant errors even though the uncertainty has been greatly reduced in 2019. Rigsrevisionen has therefore qualified its opinion concerning Section 38 (see section 3.1. of the report).
- The Ministry of Taxation's valuation of barred debt is not accurate, which is one of the reasons for the qualification of our opinion concerning Section 38. Taxes and duties. The inaccurate valuation also affects the following sections of the public accounts: Section 9. The Ministry of Taxation, Section 17. The Ministry of Employment and Section 19. The Ministry of Higher Education and Science. Combined, these ministries have registered a credit balance of DKK 1.7 billion in their financial statements based on the Ministry of Taxation's valuation model (see item 14).
- Across the public accounts, Rigsrevisionen has found misstatements in the amount of DKK 0.7 billion in the income statement and DKK 1.7 billion in the balance sheet. The errors relate to a number of ministries. Items 36 and 38 of the report provide details of the most significant errors.

The misstatements have not resulted in any qualifications beyond the one related to Section 38. Taxes and duties. However, the overall effect of the misstatements referred to in the above section is a qualification of our opinion on the public accounts.

Basis for conclusion

We have conducted the audit in compliance with the Danish standards of public-sector auditing, which ensures compliance with sections 3 and 17 of the Auditor General Act (cf. consolidated act no. 1010 of 19 January 2021).

The section *Rigsrevisionen's responsibility for the audit of the financial statements* provides more details on our responsibility according to the standards for public-sector auditing.

In compliance with the Auditor General Act, section 1, sub-section 6, the auditor general is independent in the performance of her duties.

In our opinion, the audit evidence obtained is sufficient to provide a basis for our conclusion.

With the issue of the auditor's report, the audit of the public accounts for 2019 is completed. However, Rigsrevisionen may later decide to re-examine issues relating to this and previous accounting years, which may lead to disclosure of new information and result in a reassessment of items examined in this report.

The ministries' responsibility for the financial statements

The Minister for Finance presents the public accounts to the Folketing. The public accounts are presented in compliance with the relevant finance act and appropriation adjustment acts and must include all government income and expenditure concerning the past fiscal year, assets and liabilities and movements in these in the course of the year. The public accounts include the financial statements of the government departments, which on their part include the financial statements of the individual entities under the respective departments.

The ministries are responsible for presenting correct financial statements in compliance with the appropriation acts and government accounting regulations. The ministries are also responsible for establishing internal controls as deemed necessary by the ministries to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The ministries and the individual government bodies and public enterprises under the remit of the ministries are also responsible for applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The public accounts include information provided by *Udbetaling Danmark* (government body administrating public benefits) or the Danish municipalities. The relevant ministries are responsible for including the information in the accounts in compliance with the appropriation acts and current government accounting regulations. Information of this nature can be based on Udbetaling Danmark's annual report that is audited by a certified auditor in accordance with the regulations governing Udbetaling Danmark. Information provided by municipalities can be included in the public accounts for the year in question after having been verified to the extent possible at the time, on the condition that the ministries subsequently have the information verified in a way that provides assurance of the correctness of the accounts, over a number of years.

Moreover, the ministries are responsible for observing the terms of the appropriations and other relevant regulations. The ministries are responsible for ensuring that transactions are funded as required, and that income and expenditure included in the public accounts are generated and used in compliance with the objectives and terms set out in the appropriation acts. If these original conditions are no longer present, the ministries are under obligation to inform the Folketing in an appropriate manner and apply for adjustment of the appropriations.

The departments supervise that government bodies and public enterprises comply with the government accounting regulations and approve the annual financial statements prepared by these bodies.

Rigsrevisionen's responsibility for the audit of the financial statements

Our objective is to obtain reasonable assurance about whether the public accounts as a whole are free from material misstatement, whether due to fraud or error, or affected by material variances to appropriations, and to issue an auditor's report that includes our opinion. Reasonable assurance is not a guarantee that an audit conducted in accordance with good public-sector auditing practice will always detect material misstatement or variances to appropriations, when those exist. Misstatement and variance to appropriations can arise from fraud or error and are considered material if, individually or in total, they could reasonably be expected to influence the decisions made by the Folketing and other users of the financial statements based on the public accounts.

We conduct the audit in compliance with the standards for public-sector auditing, which means that we exercise professional judgement and maintain professional scepticism through the audit. We also:

- Identify and assess the risk of material misstatement in the financial statements, whether due to fraud or error, and the risk of material variances to appropriations, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the ministries' internal control.
- Evaluate the appropriateness of the accounting policy used by the ministries and the reasonableness of the accounting estimates and related disclosures made by the ministries.
- Verify that the information provided by Udbetaling Danmark or by municipalities is reflected correctly in the accounts prepared by the ministries.
- Compare the accounting figures with the relevant appropriations to assess compliance with the terms of the appropriations.

The audit of the public accounts includes audits of financial statements concerning specific sections of the appropriation acts that are included in the public accounts. The conclusions of these audits appear from our opinions on the individual ministerial remits or other sections of the public accounts. If these opinions are qualified or in other ways modify our conclusion on the accounts, it will appear from this report. Other significant observations and assessments made during the audit will also be included in this report.

Statements on compliance and performance audit

The ministries are responsible for ensuring that the transactions comprised by the financial statements are complying with appropriations, legislation and other regulations as well as with agreements concluded and generally accepted practice. The ministries are also responsible for taking due financial considerations into account in the administration of the funds and the operation of the government bodies and public enterprises comprised by the public accounts. The ministries are in that connection responsible for establishing systems and processes that support economy, efficiency and effectiveness.

In compliance with the standards for public-sector auditing, it is our responsibility, in connection with our audit of the public accounts, to select subject matters relevant to both compliance audit and performance audit. These audits are planned and prioritised five years ahead. The scope of each individual audit is limited to specific transactions, systems or processes that, according to our assessments, entail a risk of significant violations of the regulations or weaknesses in the administration.

We report our conclusions and audit of specific elements of the financial statements to the relevant departments. Material compliance breaches or weaknesses in the administration, including critical remarks in the opinion on a section of the public accounts, are included in the *Report on the audit of the government's administration*.

Rigsrevisionen 13 August 2020

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