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The Danish Ministry of Industry, Business and Financial Affairs' management of relief packages during COVID-19

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Danish Ministry of Industry, Business and Financial Affairs' (in the following, the Ministry of Industry) administration of the government's three largest relief packages for businesses that suffered financially during the COVID-19 pandemic in 2020. The Ministry of Industry had responsibility for not only the majority of relief packages, but also for the largest packages. It has been a complex task that has required fast implementation of administrative processes and fast payment of relief to businesses, and where the prioritisation of controls and fast payments has had consequences for the state as well as for businesses. Over a short period of time, the ministry has taken on approx. 250 temps, established new administrative procedures and expanded existing it-systems in order to be able to process large numbers of applications and pay out compensation.

2. The Danish government decided to impose wide-ranging restrictions in the spring of 2020 in order to contain the spread of COVID-19. The restrictions affected institutions of education and shops, among others. The lockdown had great financial consequences for many businesses that risked losing their income. Therefore, the Danish parliament reserved more than DKK 400 billion for relief packages in 2020. Of this amount, more than DKK 100 billion was reserved for temporary compensation schemes for industry and commerce. In this report, Rigsrevisionen examines the Ministry of Industry's administration of the three largest compensation schemes during the first phase that ran from March to August 2020 and involved payments of approx. DKK 26 billion. The three schemes concern *wage compensation*, *compensation for self-employed individuals* and *compensation for fixed expenses*.

3. The Ministry of Industry has in a short time drawn up and implemented the temporary compensation schemes and several loan and guarantee measures to strengthen the liquidity of businesses. It appears from documents submitted to the Finance Committee under the Danish parliament that the aim was twofold: to pay out compensation as fast as possible and at the same time reduce the risk of abuse and fraud through the involvement of auditors and implementation of risk-based ex-post controls. In this way, the Ministry of Industry would attain its aim of fast payment, which would help the businesses and keep the economy going, but also minimize the risk of fraud and payments being made to ineligible applicants. In this report, Rigsrevisionen examines the Ministry of Industry's administration of the compensation schemes based on the eligibility criteria and documentation requirements that appear from the documents submitted to the Finance Committee and the ministry's executive orders pertaining to the schemes.

COVID-19

Coronavirus disease (COVID-19) is an infectious disease caused by the SARS-CoV-2 virus.

The Danish Finance Committee

The Finance Committee has authority to legislate on behalf of parliament through its approval of applications for supplementary appropriations. Ministers are required to adhere to documents approved by the committee in the same way as if these documents were approved bills. Often these documents authorise the ministers to elaborate more detailed regulations in executive orders.

4. The purpose of the study is to assess whether the Ministry of Industry has ensured satisfactory administration of the three largest compensation schemes.

Rigsrevisionen initiated the study in September 2020.



Main conclusion

The Ministry of Industry's administration of the three largest compensation schemes has been satisfactory to some extent. The ministry has in a short time implemented the relief packages and ensured fast payment. However, Rigsrevisionen notes that monitoring of the compensation schemes is to a high degree based on the ex-post control that has been postponed several times and still has not been implemented. Furthermore, the ministry should have identified the need for earlier ex-post control of particularly risky payments. The postponement of the ex-post control may increase the risk of compensation having been paid to businesses that were not eligible, without the government being able to claim back the money.

The Ministry of Industry has designed controls that largely ensure that only eligible businesses have access to compensation

The Ministry of Industry has developed a coherent system of controls, in which automated controls facilitate fast payment of compensation to risk-free applicants. At the same time, applications that are considered to be risky are selected for manual checks. These checks are supplemented with transaction reports from the Money Laundering Secretariat about potential fraud, which the ministry's control system is unable to detect. Later in the process, the ministry conducts ex-post control of elements that could not be clarified prior to the payment of compensation. This control set-up takes into consideration the need for fast and effective control. However, the effectiveness of the control system depends on the ministry's implementation of sufficient and relevant ex-post control.

Rigsrevisionen's examination of the design of the ex-ante control of the individual eligibility criteria of the three compensation schemes shows that fulfillment of almost all criteria had been adequately clarified for fixed expenses compensation. At the same time, fulfillment of some of the criteria for wage compensation and compensation for self-employed individuals had not been fully clarified. This is due to the fact that all applications for fixed expenses compensation were manually controlled and required endorsement by an auditor, whereas many applications for salary compensation and compensation for self-employed individuals were either accepted or refused immediately after completion of the automated controls. At the same time, documentation requirements concerning manual checks of the two latter schemes were less strict. Fulfillment of some of the eligibility criteria that were only to some extent clarified during the ex-ante control, will not be further clarified in the ex-post control.

Ex-ante control and ex-post control

The control set-up developed by the Ministry of Industry is divided into two control processes: one is implemented before payment of compensation (ex-ante) and one after payment of compensation (ex-post). The ex-ante control is based on data provided by the businesses on estimated losses of revenue, lay-offs etc. and the ex-post control is based on data on actual losses of revenue, lay-offs etc.

The Money Laundering Secretariat is Denmark's financial intelligence unit that receives and processes transaction reports from financial institutions about potential money laundering and economic crime. The Money Laundering Secretariat is a unit under the Danish State Prosecutor for Serious Economic and International Crime.

The Ministry of Industry has implemented controls that to some extent ensured that only eligible businesses received compensation

The study shows that the ministry's manual processing had sufficiently clarified for 86 per cent of the applications, whether the businesses met the eligibility criteria. The processing of 5 per cent of the applications was flawed. For 8 per cent of the applications that were processed manually in accordance with the ministry's internal guidelines, it was only to some extent sufficiently clarified whether the businesses met the eligibility criteria. Because the ministry's resources were strained during the investigation period, the ministry was unable to make relevant data available to Rigsrevisionen concerning the automated ex-ante controls implemented by the ministry. It has therefore not been possible for Rigsrevisionen to determine whether the automated controls have worked as intended.

The study also finds that the Ministry of Industry still has not implemented the ex-post control that was postponed by approx. 11 months, and will be implemented about 18 months after the applicants had received compensation. The ministry has informed Rigsrevisionen that the second wave of COVID-19 in the autumn of 2020 made it pointless to implement the planned ex-post control as originally planned; partly out of consideration for the businesses that the compensation schemes were meant to help, and partly out of consideration for the pressure on the ministry's resources. Postponing ex-post control increases the risk that it will be difficult for the ministry to claim back compensation from businesses that turn out not to meet certain eligibility criteria.

Lastly, the study shows that the Ministry of Industry has screened transaction reports received from the Money Laundering Secretariat about possible compensation scheme fraud. The ministry has referred 4 per cent of the transaction reports to the police, and 76 per cent of the transaction reports have been considered relevant for the schemes. However, these latter transaction reports will not be checked before the ex-post control. In light of the postponement of the general ex-post control, Rigsrevisionen finds that the Ministry of Industry should have clarified the need to implement ex-post control of these particularly risky cases earlier in the process.

The Ministry of Industry has, in regard to compensation that was paid out without undergoing ex-ante control in April and May 2020, to a large extent taken the necessary measures to minimise the number of businesses that might have received compensation without being eligible

In order to speed up processing of applications in the spring of 2020, the Finance Committee gave the Ministry of Industry dispensation on April 29th 2020 to pay out compensation immediately, without ex-ante control, for previously received applications that were awaiting manual checks. The study found that the ministry only occasionally paid out compensation in relation to applications that were not covered by the dispensation concerning ex-ante control, cf. document n. 155 of 29 April 2020. The study also shows that the ministry only carried out analyses to a limited extent to determine the level of risk associated with postponing checks of applications that had been exempted from ex-ante control. Rigsrevisionen has demonstrated that there is a risk that approx. 16 per cent of the applications that were exempted from ex-ante control were accepted, but would have been refused had they been manually checked. In accordance with document no. 155, the ministry will not follow up on these applications before the ex-post control process is implemented. This increases the risk that the government will be unable to claim back compensation exempted from ex-ante control to ineligible applicants.

Rigsrevisionen finds that the Ministry of Industry, in light of the postponed general ex-post control, should have clarified the need for earlier implementation of ex-post control of these particularly risky cases.

The Ministry of Industry has ensured fast case processing of applications for compensation across the three schemes

The study found that the Ministry of Industry processed approx. 90 per cent of all applications for wage compensation and compensation for self-employed individuals within 30 days. The similar number for processing of applications for fixed expenses compensation was 68 per cent, which means that one third of these applicants waited for more than 30 days for a decision on their application. Overall, Rigsrevisionen is of the opinion that case processing time is at a satisfactory level. However, Rigsrevisionen does not find it entirely satisfactory that 7 per cent of the businesses that applied for fixed expenses compensation had to wait for more than 60 days for a decision. The study also finds that the majority of applications in the segment exempted from ex-ante control were processed within the target set for fast payment in document no. 155.