



FOLKETINGET
STATSREVISORERNE



FOLKETINGET
RIGSREVISIONEN

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

The audit of the Danish public accounts for 2021

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the audit of the Danish public accounts for 2021. Rigsrevisornen's conclusion on the overall public accounts provides the basis for the Danish Public Accounts Committee's recommendation to the Danish parliament (the Folketing) on approval of the public accounts.

The report answers the following questions:

- Are the public accounts in all material respects correct, meaning have they been prepared in compliance with relevant appropriation acts and the government accounting regulations?
- Has the government complied with appropriations and transaction regulations in all material respects?

With revenues of DKK 904.7 billion and expenses of DKK 871.6 billion, the government generated a surplus of DKK 33.1 billion in 2021.

The annual government budget is framed in the Danish Finance Act that includes a section on the budget of each ministry and other government-funded activities like, for instance, the Danish royal household. The individual financial statements are prepared by the ministries at year-end and include the appropriations provided by the Folketing to the ministerial remits and the revenue and expenses incurred by the ministries in the fiscal year. Together these financial statements make up the overall public accounts. The ministers' responsibilities include ensuring compliance with the appropriations and submitting correct financial statements. Thus, the conclusions on the ministries' financial statements support the members of the Folketing in their efforts to hold the ministers accountable.

We issue an opinion on the public accounts and opinions on the financial statements of the individual ministries every year. The auditor's opinion is a formal statement made by an auditor concerning a client's financial statements. The opinion on the public accounts and the financial statements of the individual ministries operate with different materiality levels that determine when misstatements are considered significant. The aggregate materiality threshold for the Danish public accounts is DKK 10 billion. This materiality threshold reflects the total government revenue and expenses of approx. DKK 1,800 billion. Materiality thresholds set for misstatements in the individual financial statements of the ministries have been set at a lower level, taking into consideration the total revenue and expenses of the relevant ministry.



Main conclusion

The overall Danish public accounts are correct in all material respects, and the government has complied with the terms of appropriations in all material respects, with the exception of isolated misstatements and uncertainties. The aggregate sum of misstatements and uncertainties found during the audit makes up approx. 1% of the government's total revenue and expenses, and Rigsrevisionen has therefore qualified its opinion on specific sections of the public accounts.

Preparing correct financial statements has been a challenge for the Ministry of Taxation for some years, and in 2021 the ministry's financial statements were once more affected by misstatements and uncertainties, which led to a qualified opinion on section 9. The Ministry of Taxation and section 38. Taxes and duties of the Finance Act and also contributed to the qualified opinion on the overall public accounts:

- According to the government's accounting regulations, expenses incurred while developing IT applications that add value in the form of new or additional functionality should be capitalized. The Ministry of Taxation has omitted to do so. The ministry's assets stated on the balance sheet would be higher if these expenses were treated correctly.
- The value of barred arrears is not correctly reflected in the financial statements of the Ministry of Taxation. The ministry's valuation is not considering the extent to which and when the ministry will be able to collect the debt. Additionally, several of the ministry's IT systems are affected by shortcomings in internal controls, which entails a risk of misstatements in the financial statements and lastly, the ministry's financial statements are affected by misstatements relating to interest charges of approx. DKK 1,095 million.

The financial statements of the Ministry of Health, the Ministry of Industry, Business and Financial Affairs and the Ministry of Employment are also affected by misstatements. These are however not a reflection of systematic management accounting problems, nor an indication that the ministries have exceeded their appropriations. The misstatements were detected at the end of the accounting year and concern understatement of the government's assets and/or revenue in the financial statements:

- The Ministry of Health has failed to recognise DKK 1.9 billion as revenue. The qualified opinion on the overall public accounts is caused partly by this misstatement and it led to a qualified opinion on the financial statements of the Ministry of Health.
- The misstatement in the financial statements of the Ministry of Industry, Business and Commercial Affairs is caused by an error in the ministry's valuation of the government's capital shares in several independent public enterprises (Vækstfonden, Finansiel Stabilitet, EKF Danmarks Eksportkredit and Nordsfonden). Rigsrevisionen estimates that the valuation is understated by approx. DKK 6.2 billion on the balance sheet. This error contributes to the qualified opinion on the overall public accounts but has no impact on the ministry's individual financial statements.

- The misstatement in the financial statements of the Ministry of Employment is caused by the ministry's failure to record receivables from the municipalities worth approx. DKK 800 in the financial statements. This error contributes to the qualified opinion on the overall public accounts, but as it did not exceed the materiality threshold set for the ministry, it did not lead to a qualified opinion on the ministry's financial statements.

The focus of the report is on material errors and uncertainties, which means that some misstatements will not be referred to in the report.

1.2. Background

2. Rigsrevisionen audits the public accounts every year and compares the financial statements of the ministries with the amounts appropriated by the Folketing for the ministerial remit. Under the Auditor General Act, section 17, sub-section 1, we submit an annual report to the Danish Public Accounts Committee on the audit and control of appropriations.

We conduct the audit and appropriation control in a manner that allows us to issue an opinion on the overall public accounts and separate opinions on the ministries' financial statements that are included in the public accounts. Our opinions are based on the Danish standards of public-sector auditing (SOR) and international auditing standards.

We audit each ministry until we have obtained sufficient and appropriate audit evidence to determine that the sections of the public accounts that the ministry is responsible for are not affected by material misstatements or deviations from appropriations. Our professional judgment is based on our insight into the ministries and their financial statements. Material misstatements and deviations from appropriations found during the audit are reported in the auditor's report and this report to the Public Accounts Committee.

Figure 1 shows an overview of the different types of conclusions and our conclusions in the opinions issued on the 2021 financial statements.

Figure 1

Overview of the four types of conclusions and the specific conclusions expressed in the opinions issued on the 2021 financial statements

POSITIVE OPINION	QUALIFIED OPINION	ADVERSE OPINION	DISCLAIMER OF OPINION
<p>“The financial statements are correct in all material respects, and the ministry has observed the terms of appropriations in all material respects.”</p>  <p>Misstatements and deviations from appropriations are not significant</p>	<p>“The financial statements are correct in all material respects, and the ministry has observed the terms of appropriations in all material respects, with the exception of the consequences of the audit findings described under the heading: <i>Basis for qualified opinion</i>.”</p>  <p>Misstatements and deviations from appropriations are significant, but not pervasive.</p>	<p>“The financial statements are not correct and on account of the audit findings described under the heading: <i>Basis for adverse conclusion</i>, the ministry has not observed the terms of the appropriations.”</p>  <p>Misstatements and deviations from appropriations are pervasive.</p>	<p>“We do not express an opinion on the financial statements and the ministry’s compliance with the terms of the appropriations. We have been unable to obtain sufficient and appropriate audit evidence on account of the audit findings described under the heading: <i>Basis for disclaimer of opinion</i>.”</p>  <p>The extent of misstatements and deviations from appropriations cannot be determined.</p>

OPINIONS ISSUED BY RIGSREVISIONEN IN 2021



Kilde: Rigsrevisionen.

Rigsrevisionen's opinions are based on the outcome of the audit and whether the audit has disclosed material, pervasive misstatements or deviations from appropriations.

A *positive opinion* means that we have not found any material misstatements and deviations from appropriations in the financial statements. Despite a positive conclusion, the financial statements can however include minor errors. We have issued positive opinions on 21 out of the 24 individual financial statements for 2021 that are included in the public accounts.

The type of conclusion drawn by Rigsrevisionen depends on whether material misstatements or deviations from appropriations disclosed during the audit are pervasive. Misstatements are considered *pervasive* if they cannot be confined to specific elements of the financial statements:

- Errors that can be confined to a specific account or type of cost are not considered pervasive and lead to a *qualified opinion* which means that the financial statements are correct with the exception of misstatements concerning specific financial items. How the misstatements affect the financial statements is described in detail in a section of the auditor's opinion. We issued a qualified opinion on the overall public accounts for 2021 and qualified our opinion on three of 24 financial statements for 2021: § 9. The Ministry of Taxation, § 16. The Ministry of Health and § 38. Taxes and duties.
- Material misstatements that cannot be confined to specific elements of the financial statements are pervasive and result in an *adverse opinion* which means that the financial statements are not correct. We have not expressed any adverse opinions on the financial statements for 2021.

The fourth and last type of modification to the auditor's opinion is the – *disclaimer of opinion*. The auditors disclaim an opinion, if they, for reasons beyond their control, are unable to obtain sufficient and appropriate audit evidence. We have not disclaimed any opinions concerning the 2021 financial statements.

Table 1
Overview of the public accounts and audit findings

Section of the public accounts	Sum of revenue and expenses in DKK millions	Audit findings referred to in the report	Findings affecting our opinion on	
			The ministries' individual financial statements	The overall public accounts
§ 1-2. The Queen and members of the royal household	114.3			
§ 5. Prime Minister's Office	135.0			
§ 6. Ministry of Foreign Affairs	16,706.5			
§ 7. Ministry of Finance	32,805.1			
§ 8. Ministry of Industry, Business and Financial Affairs	31,579.6	The Ministry of Industry, Business and Financial Affairs has understated the value of its capital shares by approx. DKK 6.2 billion.		●
§ 9. Ministry of Taxation	13,678.9	The Ministry of Taxation has failed to capitalise relevant development expenses.	●	●
§ 11. Ministry of Justice	33,155.7	The Prison and Probation Service has incurred expenses of DKK 72.9 million concerning the NyX IT project without proper authorisation by the Danish Finance Committee.		
§ 12. Ministry of Defence	27,004.3	The Ministry of Defence has not taken adequate steps to eliminate shortcomings in its internal control environment		
§ 13. Ministry of the Interior and Housing	237,229.6			
§ 14. Ministry of Immigration and Integration	3,039.3			
§ 15. Ministry of Social Affairs and the Elderly	9,845.3			
§ 16. Ministry of Health	14,876.6	The Ministry of Health has failed to recognise DKK 1.9 billion as revenue in the financial statements.	●	●
§ 17. Ministry of Employment	229,970.7	The department of the Ministry of Employment has not recorded all receivables in the financial statements.		●
§ 19. Ministry of Higher Education and Science	51,760.8			
§ 20. Ministry of Children and Education	31,134.9			
§ 21. Ministry of Culture	12,266.4			
§ 22. Ministry of Ecclesiastical Affairs	604.4			
§ 23. Ministry of Environment	2,208.8			
§ 24. Ministry of Food, Agriculture and Fisheries	18,254.8			
§ 28. Ministry of Transport	18,845.5			
§ 29. Ministry of Climate, Energy and Utilities	13,976.7			

Table 1 (continued)**Overview of the public accounts and audit findings**

Section of the public accounts	Sum of revenue and expenses in DKK millions	Audit findings referred to in the report	Findings affecting our opinion on	
			The ministries' individual financial statements	The overall public accounts
§ 35-37. Generel reserves, pension and interest	46,835.0			
§ 38. Taxes and duties	929,023.7	The financial statements are affected by several errors and uncertainties, including an uncertain valuation of debt to the public sector, shortcomings in controls and errors in interest charges.	●	●
§ 40-42 Relending, cashflow and net reductions in government debt	-			

Note: Section 3 of the public accounts – the Danish parliament – is not audited by Rigsrevisionen and therefore not included in table 1. It is relevant to calculate the sum of revenue and expenses only for the profit and loss account. We have therefore not included any numbers for section 40-42.

It appears from table 1 that the report addresses seven significant audit findings. Five of these contribute to Rigsrevisionen's qualified opinion on the overall public accounts. Rigsrevisionen's opinion on the overall public accounts is presented in chapter 2.

It further appears from the table that three audit finds contribute to the qualified opinion on the overall public accounts and also result in a qualified opinion on the individual financial statements of three ministries: § 9. The Ministry of Taxation, § 16. The Ministry of Health and § 38. Taxes and duties. The background for Rigsrevisionen's qualification of its opinion on the individual financial statements of the ministries is described in chapter 3 (not available in English).

It also appears from the table that two auditing findings contribute to the qualified opinion on the overall public accounts without leading to a qualified opinion on the individual financial statements of the Ministry of Industry, Business and Financial Affairs. These findings are described in chapter 4 (not available in English).

The table also refers to two audit findings concerning the Ministry of Justice and the Ministry of Defence. Neither of these led to a qualification of opinion, but they are mentioned in order to draw attention to the Ministry of Justice's breach of the transaction regulations and issues concerning internal controls in the procurement process in the Ministry of Defence. A description of the two audit findings can be found in chapter 5 (not available in English).

Chapter 6 (not available in English) describes audit findings from previous reports and whether Rigsrevisionen considers that these have been addressed adequately by the relevant ministry and can be closed.

2. Rigsrevisionen's opinion on the overall public accounts



Qualified opinion

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 Danish parliament (the Folketing), are not audited by Rigsrevisionen. The public accounts shall be prepared in accordance with relevant appropriation acts (i.e. the Finance Act and Supplementary Appropriation Act for 2021) and the government accounting regulations.

The public accounts are correct in all material respects and the government has observed the terms of appropriations in all material respects, with the exception of the consequences of the audit findings described under the heading: Basis for the qualified opinion.

Basis for the qualified opinion

Rigsrevisionen qualified its opinion due to isolated misstatements and uncertainties that combined made up approx. 1% of the government's total revenue and expenses. The modification of our opinion reflects that the public accounts are correct with the exception of isolated misstatements and uncertainties. The most significant misstatements and uncertainties are:

- The Ministry of Taxation failed to capitalise relevant development expenses, see section 3.1.
- The Ministry of Health failed to recognise DKK 1.9 billion as revenue in the financial statements, see section 3.2.
- The financial statements concerning taxes and duties are affected by several errors and uncertainties, including an uncertain valuation of debt to the public sector, shortcomings in controls and errors in interest charges, see section 3.3.
- The Ministry of Industry, Business and Financial Affairs understated the value of its capital shares by approx. DKK 6.2 billion, see section 18.
- The department of the Ministry of Employment failed to record all receivables in the financial statements, see section 19.

We have conducted the audit based on the Danish standards of public-sector auditing in 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 auditing 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 performing her duties.

Rigsrevisionen assesses that the audit evidence obtained is sufficient to provide a basis for our conclusion.

With the issue of this opinion, the audit of the public accounts for 2021 is completed. However, Rigsrevisionen may later decide to re-examine issues relating to this and previous accounting years, which may lead to the 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 supplementary appropriation acts. The public accounts should include all government income and expenditure concerning the past fiscal year and assets and liabilities and movements in these in the year. The public accounts consist of the financial statements of the government departments, which include the financial statements of the individual entities and bodies 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 the internal controls necessary to facilitate the preparation of financial statements 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 managing public benefits) or the Danish municipalities. The relevant ministries are responsible for entering the information in the accounts in compliance with the appropriation acts and current government accounting regulations. Because *Udbetaling Danmark* and the municipalities submit their annual accounts later than the central government, the ministries cannot verify all the information provided by *Udbetaling Danmark* and the municipalities before the public accounts are presented. It is, therefore, essential that the information received from *Udbetaling* is verified subsequently and before Rigsrevisionen expresses its opinion on the public accounts.

The verification is obtained when *Udbetaling Danmark*'s financial statements and annual report are audited by an approved auditor before Rigsrevisionen expresses its opinion on the public accounts. The information provided by the municipalities is verified through auditor reports that are available after Rigsrevisionen has expressed its opinion on the public accounts. The ministries are, therefore, required to correct any misstatements subsequently to ensure the correctness of the public accounts, when viewed over several 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 expenses 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 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 auditing 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 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 misstatements resulting from fraud is higher than for misstatements 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 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 the 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 included in the public accounts. Our conclusions concerning these audits appear from our opinions on the individual ministerial remits or other sections of the public accounts. If our opinions are qualified or otherwise modified, it will appear in this report.

Statement on compliance and performance audit

The ministries are responsible for ensuring that the transactions comprised by the financial statements comply 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 also 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 to select subject matters relevant to both compliance audit and performance audit of the public accounts. These audits are planned and prioritised five years ahead. The scope of each audit is limited to specific transactions, systems or processes that entail a risk of significant violations of the regulations or weaknesses in the administration.

We report our conclusions and the scope of the audit 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 that is submitted to the Public Accounts Committee.

Rigsrevisionen, 11 August 2022

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