



Extract from the report to the
Public Accounts Committee on
government transfers to local and
regional and authorities in 2009

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I. Introduction and results

1. This report is about the audit of government transfers to local and regional authorities for the fiscal year 2009 regarding government reimbursement of local authority expenditure on payments to citizens, block grants and special grants to local authorities, and grants to regional authorities for healthcare, etc.

2. In 2009, government transfers were administered under the Danish Finance Act, section 15. The Ministry of Interior and Social Affairs, section 17. The Ministry of Employment, and section 18. The Ministry of Refugee, Integration and Immigration Affairs (Ministry of Integration).

In the course of the examination period the responsibilities of several ministries were reorganized. Schemes managed by the former Ministry of Interior and Social Affairs have now been divided between the Ministry of Interior and Health, the Ministry of Social Affairs and the Ministry of Employment. In this report, the relevant ministries are referred to by their present names.

3. The Ministry of Social Affairs, the Ministry of Employment and the Ministry of Integration now administer government reimbursement of local authority payments to citizens. The Ministry of Interior and Health administers block grants and special grants to local authorities and grants to regional authorities.

Government transfers to local and regional authorities in 2009 amounted to DKK 304.4 billion, see table 1.

Table 1. Government transfers to local and regional authorities in 2009 (DKK billion)

Government reimbursement of local authority payments to citizens (e.g. pensions, social assistance benefits, etc.)	161.1
Block grants and special grants to local authorities	67.0
Healthcare, etc., grants to regional authorities	76.3
Total	304.4

Source: State Accounts 2009.

According to table 1, transfers relating to government reimbursement of local authority expenditure on payments to citizens in 2009 amounted to DKK 161.1 billion.

It also appears from table 1 that government block grants and special grants to local authorities in 2009 amounted to DKK 67 billion. These grants are primarily general grants for local authority operations and were determined in the annual agreement on the finances of the local authorities between the government and Kommunernes Landsforening, the interest organization for Danish local authorities.

Finally, table 1 shows that government grants to regional authorities in 2009 amounted to DKK 76.3 billion, of which DKK 74.4 billion was allocated to regional healthcare and DKK 1.9 billion to regional development tasks. Government grants to the regions are fixed in the annual agreement on the finances of the regional authorities between the government and Danske Regioner, the interest organization for Danish regions.

Government transfers to local and regional authorities amounted to just under half the government's net expenditure in 2009.

4. Furthermore, the audit findings form part of the audit opinions relating to 2009 that Rigsrevisionen issues regarding the various ministerial areas. The audit opinions are included in the report to the Danish Public Accounts Committee on the audit of the state accounts for 2009.

5. The government transfers to local and regional authorities were examined on the basis of the following questions:

- Is the ministries' financial reporting of grants and reimbursements to local and regional authorities correct?
- Have the ministries established procedures and internal controls to ensure to the widest possible extent that transactions comprised by the financial reporting comply with appropriations, acts, other regulations, agreements concluded and usual practice?
- Is the local and regional authorities' financial reporting for this area subject to adequate auditing?
- Do the ministries adequately review local authority audit reports as part of their supervision of the reimbursement schemes?
- Is the local authorities' administration of the central reimbursement scheme satisfactory?
- Has the Ministry of Social Affairs had a satisfactory budgeting basis for the central reimbursement scheme?

6. The audit of this report was planned and performed in compliance with generally accepted public auditing standards.

Rigsrevisionen examined the ministries' administration and financial reporting of grants and reimbursements to local and regional authorities. In this connection, Rigsrevisionen examined the processing of local authority audit reports for the fiscal year 2008 of the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Integration. In the audit reports, the local authority auditor explicitly focuses on local authority administration of reimbursements received from the government. Rigsrevisionen has reviewed the Ministry of Employment's response to the local authority auditor's comments on the employment area (including the active labour market programmes) in the audit report for the fiscal year 2008 regarding the City of Copenhagen, see paragraph 45. The Danish Parliamentary Ombudsman has been approached regarding the reimbursement case in the City of Copenhagen, and we have been informed that he is pursuing the matter.

Rigsrevisionen also examined the administration performed by eight selected local authorities of government reimbursements from the central reimbursement scheme within the remit of the Ministry's Social Affairs.

Where possible, Rigsrevisionen also assessed whether there was reason to assume that the administration in the areas examined had not been handled in a financially appropriate manner and whether these areas were subject to adequate auditing.

7. The report is divided into five parts:

- Part II deals with the financial reporting of government reimbursement to local authorities of the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Integration.
- Part III deals with the ministries' review of local authority audit reports as part of the supervision of local authorities in areas receiving government reimbursement.
- Part IV deals with local authority administration of government reimbursements with special focus on the central reimbursement scheme.
- Part V deals with the Ministry of Interior and Health's financial reporting of block grants to local authorities.
- regional authorities and presents a review of regional authority accounts.

8. The draft report was presented to the Ministry of Social Affairs, the Ministry of Employment, the Ministry of Integration, the Ministry and Interior and Health, the Ministry of Finance, the five regions and the eight local authorities that Rigsrevisionen visited during its audit.

MAIN FINDINGS AND CONCLUSIONS

In 2009, the Ministry of Social Affairs, the Ministry of Employment, the Ministry of Integration and the Ministry of Interior and Health paid DKK 304.4 billion to local and regional authorities.

Rigsrevisionen is of the opinion that on the whole, the 2009 accounts of the Ministry of Social Affairs, the Ministry of Employment, the Ministry of Integration and the Ministry of Interior and Health relating to government reimbursements to local and regional authorities are correct and that the financial reporting is generally adequate.

Rigsrevisionen's overall assessment is based on the following:

Rigsrevisionen finds that on the whole, the financial reporting of the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Integration in areas receiving government reimbursements for 2009 is correct and that the ministries have established procedures to ensure to the widest possible extent that the transactions comprised by the financial reporting comply with appropriations, legislation and other provisions, agreements made and general practice.

Local authority financial reporting for 2008 in areas receiving government reimbursement and the local authorities' reimbursement calculations was subject to adequate auditing.

- The Ministry of Social Affairs' government reimbursements to local authorities in 2009 were correct.
- The cooperation between the ministries on managing the reimbursement scheme was generally satisfactory.

- A few errors were identified in the 2008 reimbursement transfers from the Ministry of Employment to the Ministry of Social Affairs. These errors were not identified and corrected until 2010, and did not affect the state accounts for 2009.
- Rigsrevisionen finds it satisfactory that the ministries have taken steps to ensure more uniform reporting from local authority auditors. This reduces the risk of different auditors reporting differently on the same type of error while giving ministries a better basis for supervising local authority administration of the areas receiving government reimbursement that are based on a review of local authority audit reports.

Rigsrevisionen finds that the ministries' case processing of local authority audit reports was generally satisfactory.

- The ministries' replies to the local authorities were relevant and adequate relative to the subjects covered by the audit reports, and generally similar problems were treated in the same manner by the ministries across local authority districts.
- Rigsrevisionen finds that local authorities should increasingly meet the deadline for submitting audit reports to the ministries. Less than half the audit reports for the fiscal year 2008 were submitted on time.
- Only in 22% of the cases did the Ministry of Employment meet the deadline for processing local authority audit reports for the fiscal year 2008. Rigsrevisionen did not find this satisfactory. Failure to meet the deadline meant that the local council and the auditors could not always follow up on the Ministry's comments in the report for the following fiscal year. To a certain degree the local authorities' failure to observe the deadline for submitting audit reports affected the Ministry of Employment's case processing, but Rigsrevisionen does not consider this a decisive factor for the Ministry's late response to the local authorities.

The central reimbursement scheme is a Ministry of Social Affairs scheme prescribed by law that compensates local authorities for their expenditure on particularly cost-consuming individual cases.

Rigsrevisionen does not consider the local authority administration of the scheme entirely satisfactory. Although the local authorities had provided a correct basis for recovering reimbursements, the bulk of them were recovered with delay.

Government expenditure for the scheme amounted to DKK 2.9 billion in 2009, thus exceeding the budget by 120%.

The budget overruns can be explained in part by the fact that the Ministry of Social Affairs' basis for the budgeting was inadequate, primarily because the county authorities had underestimated the expenditure relating to the tasks when these were transferred to the local authorities.

Moreover, the budget overruns reflect that the local authorities only recovered approx. half the reimbursements in the course of the year, whereas the other half was recovered through a final settlement in the subsequent year. Approx. half of the budget overrun in 2009 was thus attributable to expenditure from 2008 for which the local authorities did not request reimbursement until 2009. The delayed recovery meant that the Ministry of Social Affairs had no overview of its actual expenditure for the scheme in 2007 – the year it was introduced – until 2009.

- The local authorities had essentially organized the administrative system to ensure that cases eligible for reimbursement from the central reimbursement scheme were identified, relevant information across administrations was coordinated and expenditure accrued in accordance with the rules in force. Against this background Rigsrevisionen finds that the local authorities were able to correctly calculate the government reimbursement under the scheme.
- The local authorities' quarterly recovery of reimbursements during the period 2007-2009 was based on budget figures rather than on ongoing calculations of actual consumption. For the central reimbursement scheme, this resulted in relatively high final settlements. Rigsrevisionen finds that for a period, this rendered the Ministry of Social Affairs' budgeting of the scheme difficult.
- Central reimbursement scheme expenditure was severely underestimated in the calculations that formed the budgeting basis for the 2007 Finance Act. Rigsrevisionen finds that the applied data from 2004 partly explained the significant discrepancy between the actual local authority expenditure and the budgets provided in the Finance Acts. Rigsrevisionen notes that the Ministry of Social Affairs' budgeting was based on the information available at the time.
- Rigsrevisionen is of the opinion that the Ministry of Social Affairs in its budgeting for the Finance Act for 2009 used the information available at the time when the agreement on the finances of the local authorities for 2009 was concluded with the local authorities.
- However, the Ministry of Social Affairs' overview of the actual expenditure for the central reimbursement scheme was not used to adjust the budget in the proposed amendments to the Finance Act for 2009. The Ministry of Social Affairs and the Ministry of Finance have stated that they did not propose amendments to the account because the expenditure estimate had been frozen earlier in the year in connection with the annual agreement on the finances of the local authorities.
- The overspending in 2007, 2008 and 2009 on the central reimbursement scheme did not reduce the block grants to local authorities because exemption was granted through appropriations. Accordingly, part of the overspending during the three years was financed by the government.
- In the Finance Act for 2010, the appropriation for the central reimbursement scheme was increased by DKK 1 billion compared to 2009. The Ministry of Social Affairs has thus to a greater extent than before sought to adapt the budget to the actual expenditure level.

- Different calculation bases for cost-based tariffs render transparency and comparability in the area difficult. It would therefore be practical to create a basis for more uniform cost calculations.
- Separating decision-making from financing responsibility has complicated local authority budgeting and financial control in this area and generated uncertainty about the local authority basis for provisional recovery of reimbursements. Rigsrevisionen finds that the legislative amendments to merge decision-making and financing responsibility in the same local authority district will reduce this uncertainty.

Rigsrevisionen believes that the Ministry of Interior and Health's financial reporting of the 2009 block grant is correct and that procedures have been established to ensure to the widest possible extent that the transactions comprised by the financial reporting comply with appropriations, legislation and other provisions, agreements made and general practice.

- The Ministry of Interior and Health had established appropriate procedures to validate the data that form part of the calculation and distribution of the grants. Rigsrevisionen finds that on the whole, grants have been calculated in compliance with the act.
- On the whole, the payment of grants to local authorities was satisfactory and the financial reporting was correct.
- Although the Ministry of Interior and Health reconciled block grants paid to the local authorities relative to appropriations granted, the work was not done systematically. Rigsrevisionen finds it positive that the Ministry intends to strengthen the financial follow-up on grants paid.

Rigsrevisionen considers the Ministry of Interior and Health's financial reporting of the government grant to the regional authorities for 2009 to be correct and that procedures and internal controls have been established to ensure to the widest possible extent that the transactions comprised by the financial reporting comply with appropriations, legislation and other provisions, agreements made and general practice.

Rigsrevisionen finds that the 2008 accounts of the regions were subject to adequate auditing.

- The Ministry of Interior and Health's administration of grant distribution and payments to the regional authorities was appropriate, and the Ministry's procedures supported a satisfactory financial reporting of the grants.
- Although the Ministry of Interior and Health reconciled grants paid to the regional authorities relative to appropriations granted, the work was not done systematically. Rigsrevisionen finds it positive that the Ministry intends to strengthen the financial follow-up on grants paid.
- Rigsrevisionen finds that regional authority auditors performed their audit, including legal-critical and performance audits, in compliance with generally accepted public auditing standards.

- Rigsrevisionen established that certain regional authority accounts contained such material errors that the auditor had to qualify his/her opinion or include emphasis of matter paragraphs.
- Rigsrevisionen established that regional administrations and individual regional councils considered and addressed the comments included in the audit reports for the fiscal year 2008.