



Extract from the report to the
Public Accounts Committee on
Charlottenborg Udstillingsbygning

October
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I. Introduction and results

1. Charlottenborg Udstillingsbygning (Charlottenborg) is a government institution serving as an exhibition venue for Danish and international art.

In 2008, Charlottenborg was facing financial difficulties and the institution needed additional funding. In November 2008, the Ministry of Culture dismissed the managing director of Charlottenborg upon recommendation from the board. Subsequently, the Ministry initiated a reconstruction of the set-up of the institution.

2. On 10 November 2008, the Public Accounts Committee asked Rigsrevisionen to examine the financial position of Charlottenborg. The Public Accounts Committee asked Rigsrevisionen to examine various areas, including the following:

- How was it possible to generate a deficit of DKK 3 million in less than 12 months without anyone intervening?
- The composition of the deficit: Was it caused by too much expenditure and/or too little revenue compared to budget and appropriation?
- What was the background for the establishment of the guest flat for the managing director, and had the necessary permission been obtained to establish the flat?
- Have all the expenditure or part of the expenditure relating to the establishment of the flat been capitalized – and has the financial reporting of the institution followed the rules relating to accrual-based accounting?
- In what way was the board informed of the financial position of the institution, and what was the board's reaction to this information?
- In what way was the Ministry of Culture informed of the economic development and how did the Ministry respond to the information?

3. The overall objective of Rigsrevisionen's examination of Charlottenborg was to assess the causes of the financial development and management's handling of finances. Based on the questions raised by the Public Accounts Committee, Rigsrevisionen examined the following factors:

- Has management's handling of the Charlottenborg finances been satisfactory?
- Was the guest flat of Charlottenborg established and subsequently used in compliance with current regulations and in agreement with the board?
- Has the board's handling of Charlottenborg's finances been satisfactory?
- Has the Ministry of Culture performed its duties as an oversight authority in a satisfactory manner?

MAIN FINDINGS AND CONCLUSIONS

The financial position of Charlottenborg deteriorated in 2008 and additional funding was required from the Ministry of Culture.

The financial difficulties were caused by an ambitious budget based on unrealistic expectations to the revenue. Furthermore, some of the transactions and decisions made by management were in conflict with current accounting rules. The transactions contributed to strain the economy of Charlottenborg further. The board failed to live up to its supervisory duties with respect to management of the finances. The supervision of the financial position of Charlottenborg conducted by the Ministry of Culture was adequate, and the Ministry intervened when it found evidence of financial difficulties.

Generally, the examination showed that also small institutions need the services of an administrative body to ensure compliance with current rules and regulations and sound financial management. The examination also showed that the framework established for the management of an institution headed by a board of directors, should be clearly specified. Finally, the chain of events leading to the difficulties of Charlottenborg demonstrates the importance of having a responsible ministry monitoring the finances of the various institutions and intervening if called for – like the Ministry of Culture did.

This overall assessment is based on the following findings:

The financial management of Charlottenborg has been unsatisfactory. The administration has in particular in 2008 been characterized by inadequate basic financial management and violation of the accounting rules.

- After the first six months of 2008, Charlottenborg anticipated a significant deficit and the year was ended with net additional expenditure of DKK 3.4 million. At year-end, the deficit had been reduced to DKK 0.3 million, because the Ministry of Culture had temporarily increased the appropriation by net DKK 2.1 million and transferred DKK 1 million to the non-operating appropriation. Taking these steps was necessary because the budget of Charlottenborg for 2008 was based on uncertain assumptions. Thus the budgeted expenditure exceeded the appropriation included in the Finance Act by approximately 40 per cent. The high level of expenditure was expected to be covered by revenues generated by entrance fees, sponsorships, etc. totalling DKK 4,76 million. However, revenues had been estimated on the basis of inadequate evidence, and Charlottenborg was only able to generate DKK 2 million in revenues, of which an extraordinary appropriation from the Ministry of Culture accounted for DKK 1 million.
- Rigsrevisionen has also established that Charlottenborg has presented one budget for the board, but used another budget – that presented more fairly the financial position of the institution – for the internal financial management.
- The financial administration of Charlottenborg has been characterized by more violations of current accounting rules. For instance, travel expenses were reimbursed on the basis of inadequate documentation, Charlottenborg's credit cards were used for private transactions, and the rules stipulated in the budget guidance documents were violated.

In 2008, the managing director established a guest flat without obtaining prior permission from the relevant authorities and the board. The managing director has on several occasions used the flat privately. In accordance with current rules, the expenditure related to the renovation of the flat has not been capitalized. The total costs of the renovation cannot be determined due to inadequate accounting of the expenditure.

- The renovation of the flat in the protected building was carried out without prior permission from the relevant authorities, i.e. the Heritage Agency of Denmark and the Municipality of Copenhagen. Charlottenborg is currently legalizing the implemented renovation.
- The establishment of the guest flat was included in the board's original building plans for Charlottenborg from the summer of 2006. The plan to establish a flat was, however, put on hold by the board and was not included in the budgets for the renovation of Charlottenborg. The managing director took the initiative to have the flat established without having obtained permission from the board. In the spring of 2008, the board was informed that the renovation had been initiated, but the board did not ask for information on the extent of the renovation and its financial implications. Only when the administrative center of the Ministry of Culture was involved in the efforts to unravel the financial status of Charlottenborg in August/September 2008, did the board ask for the relevant information on the flat and the financial consequences of the renovation.
- The board did not discuss the purpose of establishing the flat nor any other questions relating to its establishment. The managing director used the flat free of charge 10 – 15 times in the course of 2008.
- Charlottenborg has its registered address in a protected building that is categorized as a national monument. In compliance with the rules relating to accrual-based accounts, the expenditure related to the establishment of the flat was not capitalized.
- The expenditure for the reconstruction and furnishing of the flat cannot be determined due to inadequate accounting of the expenditure.

The board's handling of the finances of Charlottenborg in 2008 has been unsatisfactory. The board has failed to live up to its supervisory duties in critical areas within budgeting and follow up on the economy of Charlottenborg.

- Up to August 2008, the board has been without clear, written instructions for the work it should conduct and for the responsibilities of the managing director and his/her interaction with the board. No practice had been established for the execution of the board work, i.e. the minutes were inadequate, and even missing for a few meetings.

- The board has not secured the required information concerning Charlottenborg's budget for 2008, which was considerably more ambitious than assumed in the Finance Act and in Charlottenborg's performance contract. Neither did the board secure the required information on the financial position of Charlottenborg in the first six months of 2008. Thereby the board prevented itself from following up on the finances in compliance with the executive order concerning Charlottenborg. The board ignored several warning signals in the course of 2008, and did not take action till November 2008 when it recommended that the Ministry should dismiss the managing director.
- Furthermore, the examination showed that the board had approved the transactions made by management late in 2007, although they were violating the rules stipulated in the budget guidance documents.

The Ministry of Culture has performed its tasks as the overall authority in a satisfactory manner. Thus the Ministry of Culture has supervised the financial position of Charlottenborg adequately and the Ministry intervened when it found evidence of the financial difficulties. The framework established for the management of Charlottenborg proved to be inappropriate, and the Ministry of Culture has subsequently changed the construction.

- The board of Charlottenborg had the overall responsibility for the financial and professional results of Charlottenborg, but did not have the authority to employ the managing director. In 2009, the Ministry of Culture has reconstructed the basis of Charlottenborg which means that the board will be downsized and, in accordance with the new executive order, authorized to employ (and dismiss) the managing director.
- The Ministry of Culture acted immediately when it learnt about the financial difficulties of Charlottenborg in April 2008, and the Ministry took various initiatives to ensure sound financial management of Charlottenborg.