



Extract from the report to the
Public Accounts Committee on
the financial management of
the Ministry of Taxation

November
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1. Introduction and conclusion

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1. This report concerns the financial management of the Ministry of Taxation and SKAT (Danish central customs and tax administration) in the period 2011 to 2014. The study was initiated at the request of the Danish Public Accounts Committee in October 2014.

2. The background for the study is the detection of a number of significant problems in recent years concerning the administrative practices of the Ministry of Taxation and SKAT, which induced the Public Accounts Committee to ask Rigsrevisionen to examine the financial management of the Ministry of Tax and SKAT and the supervision provided by the department.

3. SKAT is responsible for the administration and collection of direct taxes, customs, consumption and environmental taxes, labour market contributions, collection of arrears, etc. SKAT employs around 7,000 people and has an operating budget of just under DKK 5 billion. In 2014, direct and indirect tax revenues totalled well over DKK 900 billion.

4. In 2011 and 2012, the department of the Ministry of Taxation and SKAT made up one organisation. The Ministry of Taxation was composed of SKAT and a central administrative function – headed by the permanent secretary – with responsibility for the management, operating and development of the organization. On 1 January 2013, SKAT was again separated out into an independent agency under the department.

5. The purpose of the study is to assess whether the financial management of the Ministry of Taxation and SKAT is conducted in a satisfactory manner and ensuring the quality and observance of due process in case processing. The purpose of the study is also to assess the department's management and supervision of SKAT. The report answers the following questions:

- Is the financial management of SKAT conducted in a satisfactory manner?
- Is SKAT ensuring the quality and observance of due process in case processing?
- Is the Ministry of Taxation providing adequate supervision of SKAT?

Since 2010, Rigsrevisionen has submitted the following reports concerning SKAT to the Public Accounts Committee:

- *SKAT's merger of debt collection*
- *SKAT's compliance strategy (II)*
- *Illegal collection of property taxes*
- *Merger of central and municipal tax administrations (II)*
- *Public property assessment*
- *SKAT's administration of arrears*
- *SKAT's system modernisation project.*

CONCLUSION

Since the merger of the central and municipal tax administrations in 2005, the Ministry of Taxation has undergone numerous and extensive organisational changes, which have comprised also the principles underlying the technical and financial management of SKAT. In recent years, the Ministry of Taxation and SKAT have struggled to deliver the required and expected level of service, efficiency, quality and due process in case processing. In particular, the emergence of a number of issues that have affected many taxpayers have highlighted the significant challenges that the Ministry of Taxation is facing in relation to ensuring the necessary efficiency and quality in delivery of its core services. There have been issues in relation to real property assessments, property taxes, collection of arrears, the quality of SKAT's controls, and consistent and correct treatment of citizens and businesses.

In 2013, the Ministry of Taxation acknowledged the issues and launched several initiatives, particularly in 2014 and onwards, to improve SKAT's financial management. For instance, the department has implemented an extensive strategic plan including a rotation-based analysis system to ensure more efficient operation of SKAT and, in 2014, a new management model was introduced. The perspective of the strategic plan is long term and none of the problems that SKAT is currently facing has therefore been resolved at this point in time.

Rigsrevisionen's study shows that the financial management of the Ministry of Taxation has been conducted in an unsatisfactory manner in the period 2011 to 2013. The performance management system lacked coherence and responsibility for the targets set had not been clearly defined. Rigsrevisionen has established improvements concerning SKAT's performance management in 2014, but overall SKAT's activities and resources have been managed in an unsatisfactory manner throughout the period. SKAT's new management model is intended to improve management of activities and resources and thus provide a better basis for allocating and prioritising resources, and enhancing the coherence between the overall objectives of SKAT and the operational targets that guide the day-to-day operations.

SKAT has not exceeded its appropriations in the period examined, but has struggled to achieve the targets defined for delivery of its core services, particularly regarding debt collection. Rigsrevisionen has established that the financial framework within which SKAT operates has been reduced in the course of the period examined. In this period, expenditure for the production of core services has been reduced, whereas spending on support functions (including IT), general management and administration has increased.

A prerequisite for the merger of the central and municipal tax administrations was that SKAT should provide the same level of services as before by streamlining its operations. The planned efficiency gains were expected to be achieved mainly through the implementation of new digital solutions. However, SKAT has had significant difficulties managing the planned streamlining activities and implementing the planned IT projects on time, at the price and in the quality agreed. To this should be added that problems in SKAT's current IT operating environment are also affecting the delivery of core services. Throughout the period 2011 to 2014, SKAT has struggled to achieve the planned efficiency gains, which, however, following the recent decision to close down the EFI and DMI systems have become unattainable.

It is Rigsrevisionen's assessment that SKAT has not adequately ensured the observance of due process and quality of its services. Despite a number of business procedures and controls established in SKAT in order to underpin observance of due process and quality, Rigsrevisionen has established that SKAT, on several occasions, have had difficulties ensuring the quality of case processing and providing consistent and correct treatment of citizens and businesses. Some of these cases have their root in the fact that the concepts of due process and quality are not adequately incorporated in SKAT's IT solutions, whereas others are the result of management decisions or lack of resources. At the request of the Ministry of Taxation, an independent body under the ministry with responsibility for due process and relations with the citizens has carried out examinations showing that staff do not have sufficient knowledge of relevant rules and guidance. SKAT has launched initiatives to remedy this situation.

It is Rigsrevisionen's assessment that the department's supervision of SKAT in 2013 and 2014 has been fragmented and too loose compared to the risks in the area. The system of supervision was in a build-up phase at the time and the basis for management has therefore been incomplete. The department has not adequately specified which cases it wants to follow closely. The evidence of the supervision has only been sparsely documented; for instance, no minutes are available from the quarterly meetings between the top management teams of the department and SKAT. In order to identify and resolve the problems in SKAT, the department has taken steps to carry out a number of rotation-based analyses of all central functions in SKAT. Rigsrevisionen considers this a very ambitious, comprehensive and long-term project, yet well founded.