

### Funding from betting and lottery proceeds to promote sports and physical education, science, the arts and youth work

According to section 17 of the Lotteries Act (1047/2001), the proceeds from money lotteries, pools and betting are used to promote sports and physical education, science, the arts and youth work. Separate provisions are issued regarding the distribution of proceeds among these purposes. According to section 18 of the Lotteries Act, entries are made in the budget each year for appropriations approximating to the profits and the amortisation and interest on loans granted from retained earnings of gaming operators running money lotteries, pools and betting for the financial period in question (betting proceeds).

In 2011 funding from betting proceeds was budgeted in items 29.40.53 (Betting and lottery proceeds to promote science), 29.80.52 (Betting and lottery proceeds to promote the arts), 29.90.50 (Betting and lottery proceeds to promote sports and physical education) and 29.91.50 (Betting and lottery proceeds to promote youth work) in the state budget. Funds were budgeted in the form of estimated appropriations.

In 2011 a total of 514.1 million euros in funding from betting proceeds was spent. This was 4.4 per cent more than in 2010 and 11.7 per cent more than in 2009. The Ministry of Education and Culture's share of the application of funding from betting proceeds averaged 82.5 per cent in 2009–2011.

In connection with a risk analysis for the audit period 2011-2012, in selecting compliance audit topics it was noted that in the state budget discretionary grants total about 1.9 billion euros a year. Funding from lottery, pool and betting proceeds accounts for about 25 per cent of discretionary grants. Funding is distributed among tens of grant systems, which have their own special features. Funding is based either on separate Acts or on the Act on Discretionary Government Transfers. Funding granted on the basis of a separate Act is also subject secondarily to the Act on Discretionary Government Transfers. On the basis of the risk analysis the National Audit Office decided to conduct a compliance audit on funding granted from betting proceeds.

The objective of the audit was to give an opinion based on reasonable assurance concerning the following:

1. Have legislation and guidelines been complied with in granting and paying funds, monitoring the use of funds and recovering funds?
2. Has the internal control of the funding process been properly arranged?

The objective of the audit here was to give a general opinion on whether legislation and guidelines have been complied with in administering grants in essential respects.

Another objective was to give an opinion based on limited assurance concerning the following matters:

1. Have funds been used for the purpose for which they were granted?
2. Has true and fair information been provided on the use of funds?

In an opinion based on limited assurance audit findings are reported without striving to issue a comprehensive statement.

The audit was conducted according to the National Audit Office's 2011 audit plan and compliance audit manual. Compliance audit is conducted by the National Audit Office in accordance with the ISSAI 4100 standard endorsed by the International Organisation of Supreme Audit Institutions (INTOSAI).

The objective of compliance audit is to examine whether legislation, lower-level regulation and guidelines issued by authorities have been complied with in an area that falls within the National Audit Office's mandate. Compliance audit also strives to determine whether activities have been arranged in accordance with the budget and the principles of good administration.

The audit concerned discretionary grants administered by the Ministry of Education and Culture that were funded from betting proceeds with the exception of grants based on the Act on the Financing of Education and Culture (1705/2009).

Funding administered by the Ministry of Education and Culture has been granted to final recipients in four ways:

1. The ministry has granted funds directly to the final recipient.
2. The ministry has allocated funds to another state authority, which has granted funds.
3. The ministry has granted funds to an association or foundation, which has granted funds on the basis of authority prescribed in legislation (state aid authority).
4. The ministry has granted funds to an association or foundation, which has transferred funds to the final recipient on the basis of section 7:2 of the Act on Discretionary Government Transfers.

The audit excluded decisions made by the Ministry of Education and Culture concerning funds allocated to state agencies, which totalled 16.5 million euros in 2011. Of this 14.9 million euros was allocated to the Centres for Economic Development, Transport and the Environment, including 9.5 million euros earmarked as discretionary grants for the construction of sports facilities. Discretionary grants for the construction of sports facilities were audited and reported on in 2011 in connection with the financial audit of the Centres for Economic Development, Transport and the Environment. The audit also excluded funds granted by the Arts Council of Finland.

In 2011 funding included in the scope of the audit totalled 309.4 million euros, of which about 76 per cent was granted to non-profit organisations. About 12 per cent of funding was granted to local authorities and 9 per cent to businesses. Of the funding that was granted to businesses in 2011, 8.6 million euros went to CSC - IT Centre for Science Ltd, which is fully owned by the state.

The audit examined different grant systems so that the purposes for which proceeds from money lotteries, pools and betting are used according to section 17 of the Lotteries Act (sports and physical education, science, the arts and youth work) were all covered.

Answers were sought to the questions mentioned in the audit's objectives by deriving key audit criteria from legislation and particularly the Act on Discretionary Government Transfers (688/2001), the Government proposal concerning the Act (Government proposal 63/2001) and guidelines prepared by the Ministry of Education and Culture.

Criteria can be divided according to the Act on Discretionary Government Transfers into criteria concerning the grounds for granting funding, the granting and paying of funds, the use of funds and related monitoring, and the returning and recovery of funds. The audit also looked at criteria concerning the funding process more broadly.

The audit was conducted in the form of an analytical audit, an audit of the administrative process and an audit of the transaction chain. The audit of the transaction chain examined about 250 applications and funding decisions. In ten associations or foundations that received funding the audit of the transaction chain was supplemented by auditing bookkeeping in 2010 mainly concerning two purposes for which funds were used as well as internal control.

With regard to the first objective the National Audit Office issues as its statement that the Ministry of Education and Culture has not complied with legislation and guidelines concerning the funding process in all respects. One shortcoming was that the ministry has not taken care of the proper and adequate monitoring of grants as required by section 15 of the

Act on Discretionary Government Transfers. Furthermore, contrary to section 12 of the Act on Discretionary Government Transfers, the Ministry of Education and Culture has often paid funds in a manner that is unnecessarily frontloaded and before costs have been incurred.

As grounds for this statement and as a supplementary conclusion the National Audit Office also notes that the Ministry of Education and Culture has increasingly delegated authority to grant funding to associations and foundations on the basis of section 7:2 of the Act on Discretionary Government Transfers. The most significant delegations in money terms and procedurally are based on the additional entry of betting proceeds as income in a 2010 supplementary budget, with 12.6 million euros being aimed at employing young people in different wage support models. When recipients have in turn granted funds, the process has involved broad discretion and the actual exercise of public powers. The problem is that, according to section 124 of the Constitution (731/1999), a public administrative task may be delegated to other than public authorities only by an Act or on the basis of an Act. According to section 124, tasks involving the significant exercise of public powers can only be delegated to public authorities.

With regard to the second objective the National Audit Office issues as its statement that in arranging internal control of the funding process, there have been gaps in decision procedures, the monitoring of the use of funds and the payment of funds, as a result of which the Ministry of Education and Culture should take appropriate measures.

With regard to the third objective the National Audit Office issues as its statement that the Ministry of Education and Culture's funding decisions and the standard terms and restrictions appended to them have not set requirements for the monitoring of the use of funds and the provision of information on the use of funds in a sufficiently unambiguous way. During the course of the audit the ministry revised standard terms and restrictions, but they should be further developed taking into consideration the shortcomings noted in the audit report.

According to section 21 of the Lotteries Act, the Government may decide to leave undistributed a maximum of 20 per cent of the appropriations referred to in section 18 each year. The amount left undistributed must be distributed within five years. On the basis of the audit there is a risk that a considerable increase in the amount of funds that is distributed annually can lead to the inappropriate use of funding or the accumulation of funding. It would be preferable to apply section 21 of the Lotteries Act so that, regardless of the Finnish National Lottery's profit for a particular year, the total volume of funding from betting proceeds would be kept stable.