

## Funding for organisations and foundations to promote health and social welfare

On the basis of the Lotteries Act (1047/2001) the Government has issued the Slot Machine Association a license that gives it exclusive rights to operate slot machines and casino games and to run casinos in Finland. Through its licence-based operations the Slot Machine Association procures funds for eligible non-profit organisations and foundations to promote health and social welfare. Funds are distributed in the form of discretionary grants on the basis of applications.

According to the 2010 state budget the intention was to distribute a total of 381 million euros of the Slot Machine Association's proceeds in 2010, including 278.2 million euros in grants from item 33.90.50 (Funding for organisations and foundations to promote health and social welfare).

In the state budget discretionary grants total about 1.9 billion euros a year. The funding distributed by the Slot Machine Association forms the largest single system of discretionary grants. A risk analysis that was performed in the compliance audit suggested that risks linked to the grant system are higher than average.

The objective of the audit was to give an opinion based on reasonable assurance as to whether

1) legislation and guidelines have been complied with in granting and paying funds, monitoring the use of funds and recovering funds and

2) internal control of the funding process has been arranged properly.

The objective of the audit in these respects 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 as to whether

3) funds have been used for the purpose for which they were granted and whether true and fair information has been provided on the use of funds.

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

The audit was conducted according to the National Audit Office's 2010 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 focused on operations funding provided by the Slot Machine Association, which includes general funding and targeted operations funding. The audit concerned funding granted in 2008-2010. Operations funding has totalled 184.5-191.4 million euros a year.

In the funding process the Slot Machine Association handles applications for funds, prepares proposals for the distribution of funds and administers payments and the monitoring of the use of funds according to the Act on Slot Machine Funding Assistance (1056/2001) and the Government Decree on Deadlines that Apply to Specific Slot Machine Funding (1170/2001). Funds are granted by the Government on the basis of a funding proposal prepared by the Slot Machine Association's Executive Committee, on the presentation of the Ministry of Social Affairs and Health.

To meet the audit's objectives key audit criteria were derived from legislation, particularly the Act on Slot Machine Funding Assistance (1056/2001) and the relevant Government proposal (75/2001 vp) as well as guidelines for interpreting the Act that were prepared by the Slot Machine Association. Following the structure of the Act, criteria concerned the grounds for granting funding, granting and paying funds, the use of funds and related monitoring, and the returning and recovery of funds. The audit also looked at

criteria concerning the Ministry of Social Affairs and Health's steering and control task or 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 application, funding decision and annual report information as well as possible audit reports for 20 organisations that received operations funding in 2008-2010. In eight organisations that received operations funding the audit of the transaction chain was supplemented by auditing bookkeeping in 2009 concerning two purposes for which funds were used as well as organisations' internal control.

With regard to the first objective the National Audit Office issues as its statement that legislation and guidelines have not been complied with in all respects in granting operations funds and monitoring its use. One shortcoming was that funding decisions' brief text does not meet the minimum requirements concerning the content of funding decisions prescribed in section 7:2 of the Act on Slot Machine Funding Assistance, nor do funding decisions include an obligation to comply with the Act on Public Contracts if funding is used for procurements. Another shortcoming was that, despite the Slot Machine Association's guidelines and monitoring, organisations' accounting has not been arranged in the manner prescribed in section 18:1 of the Act on Slot Machine Funding Assistance in all respects so that the use of funding could be properly monitored from accounts.

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 procedures regarding funding decisions and applications, the presentation of true and fair information and the specification of general conditions for granting funding, as a result of which the Slot Machine Association should take appropriate measures. The Ministry of Social Affairs and Health for its part should pay attention to shortcomings in steering and monitoring the Slot Machine Association's procedures for preparing its distribution proposal and funding plan.

With regard to the third objective the National Audit Office issues as its statement that targeted operations funding has not been used in the manner prescribed in section 13:1 of the Act on Slot Machine Funding Assistance in all respects and that beneficiaries

have not provided true and fair information in all respects as required by section 10:1 of the Act so that compliance with the conditions in a funding decision can be monitored. Shortcomings in the provision of true and fair information also mean that the audit could not obtain complete assurance that general funding was used in the manner prescribed in section 12 of the Act.

Targeted operations funding has been used to cover not only the separate costs of operations but also general costs, contrary to section 13:1 of the Act on Slot Machine Funding Assistance. The audit found that specifying, verifying and interpreting separate costs is difficult and requires special monitoring. Correcting the observed shortcomings would require the increased monitoring of the use of funding and improved preconditions for monitoring. Instead of differentiating between separate costs and general costs one could consider an alternative in which an organisation would receive funding in the form of a percentage of total operational costs as specified in a funding decision. Shifting to funding total costs would in practice mean a substantial change in the monitoring of the use of funding as well. Shifting to funding total costs would require the amendment of section 13 of the Act on Slot Machine Funding Assistance.