

Conclusions and recommendations of the National Audit Office

Grants awarded from the proceeds of gambling activities – Appropriateness of their management and prerequisites for effectiveness

The audit was targeted at the discretionary government grants awarded by three ministries from the proceeds of gambling activities. The proceeds that the state has received from gambling activities have accounted for a significant part of the funding of many social activities. The proceeds have been used to promote sports and physical education, science, art, youth work, health and social welfare, as well as horse breeding and equestrian sports. The proceeds from gambling activities have decreased, and at the time of the audit, a reform of the funding model for the activities funded by them was under preparation.

The audit examined whether the government grants awarded from gambling proceeds have been managed appropriately. In addition, the audit examined the prerequisites for effective allocation of the grants. The grants are awarded by the Ministry of Education and Culture, the Ministry of Social Affairs and Health, and the Ministry of Agriculture and Forestry, which are the ministries responsible for distributing the proceeds. The grants awarded to social and health organisations are managed by an independent government grant authority, the Funding Centre for Social Welfare and Health Organisations (STEA), which operates in connection with the Ministry of Social Affairs and Health. Thus, the government grant authorities at which the audit was mainly targeted in practice were the Ministry of Education and Culture, the Ministry of Agriculture and Forestry and STEA.

The management processes of government grants awarded from the proceeds of gambling activities essentially comply with legislation

Based on the audit, the ministries responsible for distributing the proceeds have complied with the purpose laid down in the Lotteries Act when awarding government grants from gambling proceeds. According to the Lotteries Act, 53 per cent of the proceeds of Veikkaus Oy shall be used to promote sports and physical education, science, art, and youth work, while 43 per cent shall be used to promote health and social welfare and 4 per cent to promote horse breeding and equestrian sports.

In connection with the amendment to the Lotteries Act that entered into force at the beginning of 2017, the undistributed profits of gambling companies were transferred to the balance sheets of the Ministry of Education and Culture and the Ministry of Social Affairs and Health as separate items. In the annual accounts

2021 of the Ministry of Social Affairs and Health, undistributed profits amount to EUR 176 million. When the level of budget appropriations is defined within the new funding model, the systematic elimination of undistributed profits from the balance sheet of the Ministry of Social Affairs and Health should be taken into account.

The government grant authorities have provided sufficient information on the possibilities of applying for government grants and the related procedures. The audit did not find any substantial shortcomings in the government authorities' general procedures, such as the formal and content requirements for grant decisions or the payment of grants.

The award process is not fully transparent

Grants from gambling proceeds have been awarded to a well-established group of beneficiaries. This has reduced the actual impact of the award criteria. The award criteria applied and the justifications provided in grant decisions may also have been of very general nature. The audit could not always identify a clear continuum from the processing of a grant application to a grant decision with justifications.

According to the audit, well-established beneficiaries, criteria of a general nature, and occasionally very limited documentation of the application process may weaken the transparency of the award process. It is difficult to demonstrate that the applicants have been treated equally unless the considerations related to the award of grants are sufficiently transparent.

Shortcomings in the supervision by the government grant authorities

The audit found shortcomings in the supervision of government grants awarded from gambling proceeds. On the basis of the audit, the Ministry of Education and Culture and the Ministry of Agriculture and Forestry, in particular, have not fully ensured appropriate and adequate supervision of the government grants awarded from gambling proceeds, as required by chapter 4 of the Act on Discretionary Government Transfers and section 69 of the State Budget Decree. However, in the supervision of the eligibility of costs for grants, shortcomings were found in all of the audited government grant authorities. The reports that the recipients of government grants were required to submit on the use of the grant were not always sufficient in view of supervision of compliance with the terms and conditions of the grants and monitoring of the costs.

The Ministry of Education and Culture does not carry out so-called on-the-spot inspections among beneficiaries, except in individual cases; the National Audit Office pointed this out already in the audit conducted in 2012. In the case of the Ministry of Agriculture and Forestry, in addition to shortcomings in the monitoring of eligible costs, it was found that the Ministry had not fully properly monitored the effectiveness and appropriateness of the use of government grants awarded from gambling proceeds.

The Funding Centre for Social Welfare and Health Organisations (STEA), which is responsible for the management of grants in the social and health sector, applies

a number of noteworthy good practices in its supervision, such as comprehensive auditing, including both performance and compliance audits.

The different government authorities have different management procedures

The audit found that the procedures the government grant authorities apply in the management of grants differ from each other in several respects. Differences were found in the general procedures for processing applications, the documentation, the preparation of decision making, the supervision of the use of grants, and also in the details of the terms and conditions of the grants.

Individual differences in the grant terms may appear small, but they may lead to differences in principle in the approval of eligible costs. For example, unlike the Ministry of Education and Culture, STEA does not apply a maximum amount to reasonable payroll costs covered by the grant. Of the government grant authorities audited, STEA had the most fragmented overall grant structure: one and the same beneficiary may have received several separate grants, which may complicate the management of the grants.

The definition of the maximum amount of a government grant varies in grant decisions. In addition to an amount in euros, it may also be defined as a share of the eligible costs of the supported project or activity. The audit identified risks with awarding a government grant only in euros. This requires special attention particularly in the supervision of grants to the horse industry.

On the basis of the audit, there is a clear need to harmonise the different grant management practices. There is also a need to promote the availability and use of information on government grant activities and to increase the transparency of the grant activities. The ongoing project for the development and digitalisation of government grant activities may be one way to find solutions to the shortcomings in the grant process.

The perspective of effectiveness is not integrated with the management processes so that it would actually steer effective allocation of the grants

The activities of the government grant authorities also differ in how they take into account the effectiveness of the supported activities at different stages of the grant process. Overall, grants from gambling proceeds have been awarded to a well-established group of beneficiaries, and grant decisions are largely based on a well-established structure. Based on the audit, the perspective of effectiveness is not integrated with the grant process so closely that it would have any significant steering effect on the allocation of grants.

Effectiveness is partly included in the award criteria. However, it is difficult to verify the impact of the effectiveness perspective on grant decisions. In any case, based on the audit, the impact appears to be rather insignificant.

In order to be effective, the use of a grant must be based on a clear need for which the grant is awarded and have specified objectives and indicators for

monitoring. Based on the audit, indicators are used inconsistently for assessing the results of the activities. The use of indicators may be limited, or the indicators may not be useful in practice because they are linked to objectives of too general a nature or for other reasons.

There are considerable differences between the three audited government grant authorities in the comprehensiveness of their effectiveness monitoring. The Ministry of Agriculture and Forestry has, in part, monitored the overall effectiveness of the financial support for the promotion of horse breeding and equestrian sports funded by gambling proceeds. However, it has not required that the monitoring data on effectiveness should be reported by type of support or on individual grants. In addition to the effectiveness of the activities of individual beneficiaries, the Ministry of Education and Culture monitors policy themes. However, according to the audit, the Ministry does not have sufficiently uniform data on the grants awarded from gambling proceeds to meet the needs of overall monitoring of the grants. The most comprehensive overall monitoring is carried out by STEA, which also assesses the effectiveness of individual grants through separate performance audits.

The audit raises the question if the decisions on grants awarded from gambling proceeds have been preceded by sufficient consideration as to whether the activity for which a grant is awarded is the most justified from the point of view of strategic objectives and lower-level objectives derived from them, whether the public funding allocated to it is meaningful in relation to the objective, and whether the supported activity has been carried out economically, avoiding overlaps and allocation of funding to administrative costs instead of core activities.

Recommendations of the National Audit Office

1. The National Audit Office recommends that the audited government grant authorities should pay attention to the transparency of the grant process. There should be a clear continuum from the processing of a grant application to the grant decision and its sufficiently detailed justifications.
2. The National Audit Office recommends that the audited government grant authorities should tighten the supervision of eligibility of costs and compliance with the grant terms. The Ministry of Agriculture and Forestry should also pay attention to sufficiently comprehensive monitoring of the effectiveness of the grants awarded to the horse industry. In addition to the supervision of compliance with the grant terms and cost monitoring, the Ministry of Education and Culture should pay attention to the adequacy of both the reports submitted on the use of government grants and on-the-spot inspections. On the basis of the audit, the National Audit Office also recommends that the Ministry should provide guidelines on appropriate internal control procedures in compliance with section 24b of the State Budget Act for government grants the use of which is divided over several years. The audit activities of the Funding Centre for Social Welfare and Health Organisations (STEA), which include performance and compliance audits, may partly serve as a good practice when audits of government grants are organised.

3. The National Audit Office recommends that the audited government grant authorities should enhance their efforts to harmonise their grant management practices and to promote the usability of the information available on government grant activities.
4. The National Audit Office recommends that the ministries responsible for distributing the proceeds should pay attention to the setting of objectives and indicators for the grants awarded and harmonise the requirements set by them in thematically similar activities in order to improve comparability.
5. The National Audit Office recommends that the ministries responsible for distributing the proceeds should clarify the effectiveness policies linked to the grants awarded from gambling proceeds. The ministries should demonstrate more clearly that the grant awarded has priority over alternative allocation in achieving strategic objectives and lower-level objectives derived from them. The amount of the grant awarded should also be proportionate to the objectives. Attention should be paid to any overlaps between the activities supported in relation to the objective.