



RIKSREVISIONEN
The Swedish National Audit Office

RiR 2008:7 Summary

Foundations established by the central government -
The Government's insight and monitoring

Summary

An inventory carried out in 2007 by *Riksrevisionen* (the Swedish National Audit Office, SNAO) showed that the Swedish central government has established, on its own or jointly with others, about 145 foundations which remain active. The total assets of these foundations are about SEK 30 billion. Of these foundations, about 50 were established by the central government on its own while the remaining ones were established by it jointly with others. In connection with their establishment, these foundations were given central-government funds which they should manage and use to fulfil specific objects.

The operations conducted by foundations established by the central government vary greatly as regards their nature and the sectors of society concerned. Some of them have assets of several billion SEK while the capital of others is significantly smaller – sometimes only a few tens of thousands of SEK. The really large foundations are rather few but account for most of the total assets.

Foundations established by the central government are separate legal entities which are not part of the legal person constituted by the central-government sector. As a result, the opportunities for the central government to gain insight into and monitor the operations of these foundations are significantly more limited than for the operations conducted by the central government under the aegis of government agencies.

However, the Foundations Act (SFS 1994:1220) gives the Government a right to gain insight and opportunities to exert influence. It is crucial for the central government to ensure the efficiency of any operations initiated and funded by the central government but conducted under the aegis of foundations. To do this, the central government must have an overview of, and good knowledge about, the operations of the various foundations established by it.

This is why the SNAO decided to carry out audits of such foundations during 2007 and 2008. In two previous audits, the SNAO examined the quality of the annual reports of foundations established by the central government as well as capital management in some of the foundations established using assets from wage-earners' investment funds (collectively owned and managed funds financed from corporate profits which were wound up in 1992). Against the background of the conclusions we drew in those audits, the SNAO has now examined the Government's insight into and monitoring of foundations established by the central government.

Inadequate knowledge about the foundations established by the central government

The SNAO's audit shows that the Government has inadequate knowledge about what foundations the central government has established on its own or

jointly with others. While all ministries have foundations within their remits, the SNAO's audit shows that the Government is ignorant of just over half the foundations established by the central government that the SNAO has identified.

To a question from the SNAO, the Government Offices replied that there were a total of 62 foundations established by the central government within the remits of the various ministries. These 62 foundations included the largest ones.

Because of this lack of knowledge about existing foundations, the Government cannot assume overall responsibility. In the SNAO's opinion, the Government has a duty to ensure that there is an up-to-date list of foundations established by the central government and the assets at the disposal of those foundations.

Weak monitoring

The audit shows that the Government has made fairly limited use of its opportunities of insight and monitoring in relation to foundations established by the central government, both as regards financial management and as regards compliance with the objects of the various foundations. The Government Offices mainly monitor the large foundations, but the total number of evaluations is small and few of them were actually initiated by the Government Offices. In the past five years, the Government Offices did not initiate any evaluations of any of the largest foundations. For the foundations established by the central government on its own, the Government Offices initiated two evaluations during that period. Slightly fewer than half the ministries have had access to evaluations performed by the boards of trustees or directors of foundations.

The Government has not taken a decision specifying the extent to which foundations established by the central government are to be monitored. As a result, there are unjustified differences in working methods among ministries. In the SNAO's opinion, it is particularly important that the Government should monitor the largest foundations more actively. However, the Government has a responsibility to ensure the efficiency of the smaller foundations as well. The need for monitoring may vary depending on the size of a foundation, the nature of its operations and the Government's opportunities to exert influence.

Inadequate basis for assessing the need to change foundation charters

For the about 50 foundations established by the central government on its own, the Government is entitled to amend the foundation charter and thus has a direct opportunity to exert influence. Of those foundations, half are included in the list made available to the SNAO of foundations within the remits of the various ministries.

The audit shows that limited use has been made of this opportunity to amend foundation charters and that there is variation within the Government Offices as regards knowledge of and views on this opportunity. The

Government has not taken a decision specifying how this amendment opportunity should be used to ensure that public authorities have appropriate insight and that democratic institutions can exert influence and exercise scrutiny. This was in fact the reason given for conferring this right on the Government. As is clear from the above, the SNAO considers that the Government has an inadequate basis on which to assess the need for amendments.

The SNAO deems it particularly important that the Government should ensure, within the framework set by the Foundations Act, efficient management and good compliance with objects in those foundations established by the central government which have large assets or conduct operations of great importance to society.

Varying basis for appointments of trustees or directors

The fact that the Government appoints trustees or directors for about 40 foundations established by the central government means that the Government assumes part of the responsibility for the management of those foundations. The appointment of trustees or directors is also an important tool by which the Government may influence the operations of a foundation. The Government has not taken a decision specifying the principles that are to determine when the Government should appoint trustees or directors for a foundation established by the central government on its own.

The Government Offices do not receive the same type of regular information and reporting from foundations as they do from government agencies and from companies where the Government appoints board members. Where the Government appoints trustees or directors for a foundation, having insight into and monitoring the operations of the foundation is therefore of great importance to obtain the knowledge required as a basis for such appointments. However, the SNAO's audit reveals that there is variation in the information produced by the various ministries to underpin appointments, and that the Government Offices do not generally perform their own evaluations of boards of trustees or directors.

Limited opportunities to inform the Riksdag

The Government lacks the knowledge it would need to provide the Riksdag (parliament) with information about all existing foundations established by the central government. The Government does not have the knowledge required to provide, when necessary, the Riksdag with information about the operations, financial situation and compliance with objects of foundations established by the central government.

The SNAO's overall assessment and recommendations

The SNAO's overall assessment is that the Government has limited insight into the foundations established by the central government and that the opportunities of insight and influence afforded by the Foundations Act are

rarely made use of. The Government does monitor the operations of certain foundations, but its monitoring activities are incomplete in several respects. The Government has failed to assume overall responsibility for determining how the management of foundations established by the central government is to be monitored or what measures should be taken when this management is not efficient. Against the background of the observations made in this audit, the SNAO provides the following recommendations:

The SNAO recommends that the Government should:

- ensure that there is an up-to-date list of the foundations established by the central government and the assets at their disposal;
- find effective mechanisms enabling the central government to gain insight into, monitor and exert influence on foundations established by the central government, and follow up on those mechanisms to ensure that there exists relevant knowledge about the compliance with objects and financial situation of those foundations;
- consider the need to inform the Riksdag about the operations and financial situation of foundations established by the central government.