



RIKSREVISIONEN

*Summary:*

## Government Agencies' export of services

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RiR 2011:24

# THE SWEDISH NATIONAL AUDIT OFFICE

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#### Summary

The Swedish National Audit Office (SNAO) has audited how government agencies manage their export of services, and also whether the Government exercises sufficient control over this export in order to provide the Riksdag (the Swedish parliament) with accurate information. A review of 28 government agencies has been conducted. The agencies with the largest known reported turnover from their export of services and the agencies that received funding from Sida exceeding ten million Swedish Kronor in 2009 were included. The SNAO assesses that the Government does not have sufficient information to provide the Riksdag with an accurate description of the government agencies' export of services.

#### Background

*Rationale for the audit:* In the spring of 2010, the Swedish Government encouraged government agencies to engage in export of services. The export should be conducted in collaboration with other actors (e.g. other government agencies or civil society, but not in competition with domestic private companies. Export of services should only be undertaken in areas where the government agency have unique competencies, and the fee levels set should fully cover the direct and indirect costs associated with the export for the agency in question. The SNAO assesses that it is relevant to audit whether the Government controls this area in such a way that these criteria are met.

*Purpose of the audit:* The purpose of the audit was to provide a comprehensive overview of the size of the export of services within government agencies as well as the conditions for efficiency and effectiveness of relevant control mechanisms. The audit has not aimed to identify problems within single government agencies but rather to shed light on challenges within the export of services as a whole.

*The methods of the audit:* A survey was sent to the included government agencies. The survey covered questions regarding definitions and motives for export of services, the size and staffing of these activities, and how the export of services relates to the core activities of the agency. Appropriation directions and directives for the government agencies have been reviewed to map how the export of services is governed. Official publications from the Riksdag and other documentation, such as consultations on fee levels made between government agencies and the Swedish National Financial Management Authority (ESV) as well as previous reviews of export of services have been studied. The SNAO has also met with the seven government ministries responsible for the government agencies included in the audit and with the Swedish International Development cooperation Agency (Sida), the Swedish Competition Authority and ESV. The SNAO has also reviewed project documentation from Sida.

#### The results of the audit

The audit has resulted in the following main conclusions:

*The size of government export of services is unknown, and the objectives are unclear*  
Several government agencies export services without reporting it. The export of services could, according to the SNAO's estimate, be twice the size officially

reported. This calls for more active control from the Government. Furthermore, the SNAO assesses that the objectives of the export of services are diffuse and are interpreted in a variety of ways by the government agencies. The absence of clearly defined goals and the unknown size of the export of services results in uncertainty regarding both the long and short-term effects of the activities, which is problematic since the Government and the Riksdag encourages government agencies to engage in export of services. However, politically expressed restrictions for the export of services exist; it cannot compete with domestic private actors, it shall be limited to the government agency's unique competencies and the economic objective should be to cover the full cost incurred by the government agency. Whether or not these conditions are met can currently not be ascertained. In summary, the SNAO assesses that the Government should clarify the objectives for export of services to guide government agencies in engaging in export of services in accordance with the intentions of the Riksdag.

*Government agencies can do as they please in the absence of adequate measures of control*

The SNAO concludes that the mechanisms of control for the export of services is insufficient and has weakened in the last few years. Government agencies are obliged to consult with ESV on the fees they plan to charge for export of services. The SNAO has reviewed the documentation from these consultations for the government agencies included in this audit. The review shows that the consultations are insufficient and that ESV rarely objects to the fee levels suggested by the government agencies. Some of the agencies included in the audit have rarely or never consulted with ESV in spite of the obligation to do so. The Government has the opportunity to regulate the export of services in directives and appropriation directions. The SNAO could however conclude that only 39 percent of the government agencies included in the audit have got any form of obligation to separately account for their export of services. Furthermore, the SNAO assesses that several government agencies that do not account for their export of services separately, or are obliged to do so, are major exporters of services in monetary terms. The SNAO also assesses that the insufficient measures of control have led to that government agencies have been able to do as they please. The agencies have themselves interpreted and accounted for what they consider to be export of services. The audit shows that a majority of the government agencies do not report their export of service to the responsible ministry apart from the annual financial report. A major consequence of the insufficient governance, and the fact that briefings of current events in export of services are not requested, is that the extent of the export of services is currently unknown.

*Deviations from fully covering the costs of export of services lead to inefficient use of government resources*

The levels of compensation for employees working with export of services vary widely and many of the government agencies included in the audit have been unable to show their hourly rates. The SNAO concludes that several government agencies have not been able to ensure that full coverage of their costs has been achieved, which is a basic requirement to compete on equal terms. Deviations from full cost coverage may have skewed competition on the market to be less efficient. The SNAO argues that it is a reasonable demand for government agencies to set their fees to fully cover their costs, regardless of the circumstances. Exemptions from this principle should be preceded by special authorization. At fee levels below full cost coverage, resources intended for the government agency's core mission may be used for different purposes. If the government agencies set the level of its fees too high, resources of the buyer, in most cases Sida, will be consumed at a larger scale than necessary. The SNAO assesses that both these adverse effects lead to inefficient use of government resources. One of the fundamental restrictions for export of services is that it should not compete with domestic private actors. The variations in fee levels and the lack of demand for reporting of the activities involved makes it difficult, if not impossible, for the Government to follow up to what extent this restriction is adhered to. There is thereby a risk for inefficient competition on the

market. In conclusion the SNAO assesses that the Government does not have sufficient information in order to provide the Riksdag with an accurate account of the export of services within government agencies.

### The SNAO's recommendations

The SNAO gives the following recommendations to the Government:

- *Formulate objectives for the export of services and demand briefings of the activities within this area*

Export of services is today conducted without clear objectives. The SNAO recommends that the Government proposes goals for the direction of the export of services within government agencies. Furthermore, briefings and reports on the activities undertaken within export of services, in addition to the annual financial report should be requested. The reporting could encompass the extent and financing as well as the internal and external effects of the activities.

- *Expanded role for ESV in consultations and follow-up activities regarding the export of services*

Government agencies should consult with ESV about the fees they intend to charge for their export of services, but the frequency and quality of these consultations vary. ESV is not responsible for reminding government agencies that have not consulted with them. ESV is however responsible for gathering data and summarizing the government agencies' export of services. Even though this summary has flaws, it is valuable to have one government agency collect and summarize information on export of services. The SNAO therefore recommends the Government to consider giving ESV additional responsibilities regarding consultations on fee levels for export of services and production of statistics. This is necessary to obtain a more comprehensive and accurate overview of the export of services, as well as to confirm that the intentions of the Riksdag are being realised.