



Financed by the
European Union

PEFA-based Assessment of Greenland

EUROPEAID/127054/C/SV/multi Framework contract Beneficiaries –
Lot n°11 – Macro Economy, Statistics and Public Finance Management

Final Report

Client: **Development and Co-operation Directorate-General – EuropeAid (DEVCO)**

Contract 2013/334462

ECORYS MACRO Consortium

Implemented by:



Peter Jensen

5 August 2014



ECORYS Nederland BV
P.O. Box 4175
3006 AD Rotterdam
Watermanweg 44
3067 GG Rotterdam
The Netherlands

T +31 10 453 88 00
F +31 10 453 07 68
E netherlands@ecorys.com
W www.ecorys.nl
Registration no. 24316726

Dept. of Marketing & Communication
T +31 (0)10 453 88 31
F +31 (0)10 453 07 68

	Initials	Date
Author(s)	PJ	05/08/2014
Counter-reading	FP	23/07/2014
	EV	05/08/2014
Lay-out / editing	EV	05/08/2014

Table of contents

Abbreviations	7
1 Executive Summary	9
2 Introduction	19
2.1 Background	19
2.2 Objectives and Outputs	19
2.3 Methodology	20
3 Relationship with Denmark and the European Union	23
3.1 Relationship with Denmark	23
3.2 Relationship with the European Union	24
4 Macro-Economic Situation and Outlook	27
4.1 Macro-Economic Situation	27
4.2 Fiscal Policy	29
4.3 Municipalities	31
4.4 Public Enterprises	33
4.5 Oil and Mineral Resources	34
4.6 Medium-Term Macro-Economic Outlook	36
5 PFM Review	39
5.1 Background	40
5.2 PFM Out-turns – A. Credibility of the Budget	42
PI-01 Aggregate expenditure out-turn compared to original approved budget	42
PI-02 Composition of expenditure out-turn compared to original approved budget	45
PI-03 Aggregate revenue out-turn compared to original approved budget	48
PI-04 Stock and monitoring of expenditure payment arrears	50
5.3 Key Cross-Cutting Issues – B. Comprehensiveness and transparency	51
PI-05 Classification of the budget	51
PI-06 Comprehensiveness of information included in budget documentation	54
PI-07 Extent of unreported government operations	55
PI-08 Transparency of Inter-Governmental Fiscal Relations	56
PI-09 Oversight of aggregate fiscal risk from other public sector entities	60
PI-10 Public access to key fiscal information	64
5.4 Budget Cycle – C.1 Policy-based budgeting	66
PI-11 Orderliness and participation in the annual budget process	66
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	68
5.5 Budget Cycle – C.2 Predictability and control in budget execution	71
PI-13 Transparency of taxpayer obligations and liabilities	71
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	74
PI-15 Effectiveness in collection of tax payments	77
PI-16 Predictability in the availability of funds for commitment of expenditures	81
PI-17 Recording and management of cash balances, debt and guarantees	83
PI-18 Effectiveness of payroll controls	85
PI-19 Competition, value-for-money and controls in procurement	88
PI-20 Effectiveness of internal controls for non-salary expenditure	98

PI-21 Effectiveness of internal audit	100
5.6 Budget Cycle – C.3 Accounting, recording and reporting	103
PI-22 Timeliness and regularity of accounts reconciliation	103
PI-23 Availability of information on resources received by service delivery units	104
PI-24 Quality and timeliness of in-year budget reports	105
PI-25 Quality and timeliness of annual financial statements	107
5.7 Budget Cycle – C.4 External scrutiny and audit	109
PI-26 Scope, nature and follow-up of external audit	109
PI-27 Legislative scrutiny of the annual budget law	111
PI-28 Legislative scrutiny of external audit reports	114
5.8 Summary Overview	116
6 Assessment of Budget Support Eligibility Criteria	119
6.1 Stable Macro-Economic Framework	119
6.2 Public Financial Management (PFM)	120
6.3 Transparency and Oversight of the Budget	122
6.4 Risk Management	123
7 Conclusions and Recommendations	125
7.1 Conclusions	125
7.1.1 Main Findings on the Macro-Economic Situation and Medium-Term Outlook	125
7.1.2 Review of the 3 Focus Areas that were monitored annually during 2009-2013	126
7.1.3 Identified weaknesses in the PFM system according to the PEFA Assessment	127
7.1.4 On-Going PFM Developments and Reform Initiatives	128
7.2 Key Indicators to Measure Budgetary Effectiveness and Efficiency	130
7.3 Proposal for Elements to be included in a Medium-Term PFM Reform Plan	131
Annexes	135
Annex A – ToR	136
Annex B – Work Plan	137
Annex C – Aide Memoire	138
Annex D – Documents Reviewed	139
Annex E – Persons Consulted	145
Annex F – Transparency and Oversight of the Budget	147
Annex G – Data applied for the Calculation of PI-01 and PI-02	155
Annex H – GoG Housing	157
Annex I – Comments on the Draft Report	159

Abbreviations

AGA	Autonomous Government Agency
COFOG	Classification of Functions of Government
CPR	Centrale PersonRegister [Civil Registration System]
CSR	Corporate Social Responsibility
EC	European Commission
EEC	European Economic Community
EMU	Economic and Monetary Union
ERP	Enterprise Resource Planning
EU	European Union
GDP	Gross Domestic Product
GEC	Greenland Economic Council
GEP	Greenland Education Programme
GER	Grønlandske ErhvervsRegister [Greenlandic Business Register]
GFS	Government Finance Statistics
GoG	Government of Greenland
HR	Human Resources
ICT	Information and Communication Technology
IIA	Institute of Internal Auditors
INTOSAI	International Organisation of Supreme Audit Institutions
ISPPA	International Standards for the Professional Practice in Internal Audit
ISSAI	International Standards of Supreme Audit Institutions
KANUKOKA	Kalaallit Nunaanni Kommunit Kattuffiannit [Association of Municipalities]
MDA	Ministry, Department, Agency
MoFDA	Ministry of Finance & Domestic Affairs
MTEF	Medium-Term Expenditure Framework
NA	Not Applicable
NR	Not Rated
OCTs	Overseas Countries and Territories
PDSD	Programming Document for the Sustainable Development
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PI	Performance Indicator
PFM	Public Financial Management
SAI	Supreme Audit Institution
TA	Technical Assistance
TSA	Treasury Single Account
XAL	eXtended Application Language

Fiscal Year: 1 January to 31 December.

Exchange Rate: EUR 1 = DKK 7.45.

1 Executive Summary

Background

The European Commission (EC) has proposed to its Budgetary Authority to provide budget support to the Government of Greenland (GoG) for the period 2014-2020. This requires that an assessment is carried out of eligibility criteria, including 1) Macro-economic framework; 2) Public Financial Management (PFM); and, 3) Transparency and oversight of the budget. An assessment has carried out on to provide the EC with an opinion on the three eligibility criteria so as to enable the EC Services to make a decision as to whether and on which conditions Greenland meets the criteria.

This report provides a review of Greenland's macro-economic situation and outlook (Chapter 4), a full PEFA-based PFM performance assessment of the GoG (Chapter 5), and a review of the transparency and oversight of the budget (Annex F). The conclusions of the analytical work are for the budget support eligibility criteria provided in Chapter 6. The conclusions regarding the GoG's performance regarding PFM reform under the previous programme (2009-2013) are presented in Chapter 7, which also includes a summary of the identified weaknesses in the existing PFM system together with an overview of the GoG's current reform initiatives. This provides the basis for a proposed new PFM reform plan to be discussed and agreed between the EC and the GoG.

The activities carried out as part of the assessment include a desk-based review of documentation (Annex D provides the applicable list of documents), a three-week field mission to Nuuk during February 2014 (Annex E lists the persons consulted) as well as briefing and debriefing meetings with EuropeAid (DEVCO) in Brussels before and after the field mission.

Relationship with Denmark and with the European Union

Greenland has been an integral part of the Kingdom of Denmark since 1953. Self-Rule was established in June 2009 based on which Greenland can gradually assume responsibility for 34 specific areas, while the Danish Government retains control of tasks related to the commonwealth. The GoG in January 2010 took over the responsibility for mineral resource activities. An annual block grant Denmark is fixed at DKK 3.4 billion (EUR 456 million) and is now adjusted annually in line with the price-wage index used for the Danish budget for that year.

Greenland became a member of the European Economic Community (EEC) in 1973 together with Denmark, but left in 1985 following a referendum and has since then been associated as one of the Overseas Countries and Territories (OCTs). The Treaty on Greenland conferred some rights and financial compensation to Greenland based on a Fisheries Agreement. In 2006 a Partnership was established to broaden and strengthen relations between the EC and Greenland as well as to support Greenland's sustainable development. The EC provided financial assistance for 2007-2013 through sector budget support based on the Greenland Education Programme (GEP). A new Partnership for the period 2014-2020 was adopted by the EU on 14 March 2014.

Macro-Economic Assessment

Greenland has during the past decades seen relatively rapid economic development, and is now a modern society based on the Danish welfare model and with a high standard of living. GDP per capita is above the EU average, but below that of Denmark. Greenland has a population of 56,282.

The macro-economic assessment has noted the following current status and future outlook:

- **GDP growth** – Business activities and economic growth increased during 2010 and, especially 2011, due to investments in exploration activities, some large-scale capital investments and a stable fishery sector. Declining investments in oil exploration led to negative growth in 2012, which is expected to have lasted into 2013 although earlier forecasts operating with more significant declines in growth did not seem to have materialised. The Greenland Economic Council (GEC) in September 2013 estimated that economic growth for 2014 would be zero based on the assumptions that there will be a small increase in the exploration activities related to minerals and that construction investments will decrease less than in 2013. The GrønlandsBANKEN, a commercial bank, has in February 2014 provided a similar assessment, and for 2015 and 2016 expects a substantial increase in GoG-financed construction activities;
- **Unemployment** – Available data suggest a significant increase in unemployment during 2011 (from 7.8% to 9.4%) and a smaller increase during 2012, but it is not clear if this reflects more job seekers being unable to find work because of new statistics having been introduced. However, unemployment is high which is result of structural problems in the labour market relating to education (skills mismatch) and mobility (geographical barriers between work localities and wage-earners' residences). This is supported by the fact that 2011, despite unemployment, saw an influx of foreign unskilled labour. It seems likely that the expected increase in construction activities in 2014 onwards will create new employment opportunities that should help to keep unemployment at least at its current level, but reducing unemployment more permanently requires structural reforms, e.g. through implementation of the education sector strategy as well as providing access to affordable housing;
- **Inflation** – Changes in the consumer price index have been quite low in all years, except 2012, and for the July 2012 to July 2013 inflation has decelerated to 0.9%. The majority of products for investments and private consumption are imported, which thus makes Greenland vulnerable to global price development. Greenland's inflation rate tends to be slightly higher than that of Denmark, and the value of the Danish block grant (which is adjusted annually according to the price-wage index used for the Danish budget, not the one used by the GoG for its budget) over time will be gradually eroded. This may be further accelerated if/when Greenland's economy over time is strengthened through exploitation of the country's natural resources. There are currently no specific indications to suggest a significant rise in inflation;
- **Trade balance** – Greenland's trade balance is characterised by imports significantly larger than exports. The deficit in 2010, equivalent to almost 20% of GDP, was the largest deficit ever. The deficit declined slightly from 2010 to 2012 and preliminary data for 2013 suggests a further reduction. Fishery products account for around 90% of goods exports, which makes the economy vulnerable to external price shocks, and it continues to be a structural challenge that the development of new export areas is lacking (although on the balance of payment side the trade imbalance is compensated through the block grant from Denmark). Due to the openness of the Greenlandic economy and the significant reliance on fishery products for exports (the conditions for which are influenced by climate change), it is difficult to predict the future development of the trade balance. However, assuming that the contribution from the fishery sector might decline slightly during 2014, taking into account that no new oil exploration activities are currently planned (which have earlier led to large imports), that the world market oil prices are relatively stable, and that a higher level of economic activity in the construction sector may lead to more imports, it would seem likely that the trade balance will remain stable, or possibly deteriorate slightly in the short- to medium-term;
- **GoG budget balance** – The GoG had budget deficits during 2010-2013, averaging 1.7% of total spending per year, which was a result of a fiscal policy that provided net-lending for capital investments. The GoG operates with two different measures for its fiscal balance, one with and another without net-lending (known under the Danish abbreviations DA and DAU, respectively), but neither measure adequately captures all relevant revenues and expenditures, and they are thus not in line with international practices for fiscal management instruments. Public finances

are highly dependent on the block grant from Denmark, DKK 3.6 billion (EUR 486 million) for 2013, which was 56% of total budgeted GoG revenues and 36% of public finances when taking municipal revenues into account. The block grant thus has a significant stabilising effect on the public finances and is likely to be required for years to come to sustain the standard of living. The 2014 Finance Act operates with small budget surpluses for 2014 and 2016-2017, and a small deficit for 2015, which combine to an overall surplus of 0.4% over the four-year period. However, the GoG's original Draft Finance Act had proposed budget deficits for 2014 and 2015 followed by surpluses for 2016 and 2017, which – although in line with the GoG's short-term fiscal goals – would have been based on an inherent risk to undertake spending before financing was in place;

- **GoG Debt** – The GoG in 2010 and 2012 took up two loans totalling DKK 600 million (EUR 80.5 million) to finance construction of new hydropower plants (and to ensure cash reserves equivalent to 10% of annual revenues, one of the GoG's two short-term fiscal policy targets). The loans were taken on behalf of and the proceeds provided to the GoG's energy company, an Autonomous Government Agency (AGA) under the Ministry of Environment & Nature. The GoG's debt amounts to 4.4% of Greenland's GDP, and is in that perspective very sustainable. Repayment of the loans starts in 2015 over a 15-year period. The GoG has no domestic debt. The GoG is currently considering an additional DKK 200 million loan to finance construction activities of the new port in Nuuk, which would bring total debt to DKK 800 million (EUR 107.4 million). Given the GoG's cash reserves, even with an additional loan the GoG would not have any net interest-bearing debt.

The **GoG's fiscal policy** is based on a clearly formulated overall objective as well as meaningful short-term and longer term goals, and a number of fiscal policy principles have been established which, if fully implemented, will provide a good basis in the medium-term for achieving fiscal balance and allocation of resources in accordance with the GoG's strategic priorities. However, due to the structure of Greenland's welfare and tax system in conjunction with future demographic changes there will in future develop massive structural and un-sustainable budget deficits (while this type of long-term problem is common to many countries, the magnitude of the potential structural deficit is particularly unsustainable for Greenland). Major reforms (that go well beyond the fiscal policy principles) are therefore urgently needed to address the challenges. The GoG is acknowledging the need for reform, but is yet to make concrete decisions that will help to address the fiscal sustainability problem, and given the political economy it is not clear if and when concrete reforms will be formulated and implemented.

The financial situation of the four **municipalities** is generally somewhat precarious (exemplified by significant per capita budget variations between the municipalities), but it varies between the municipalities and it is noted that they overall have a budget surplus. The GoG's annual block grant to the municipalities amounts to about 1/3 of total municipal revenues. The 2009 amalgamation reform aimed at creating more economically robust municipalities and it was expected that synergies and better collaboration would be achieved between the GoG and the municipalities, and also that efficiency gains would follow from the reform. However, the extent to which the expected gains have materialised is not clear as not all goals can be documented, but a comprehensive evaluation launched by the GoG and the municipalities is expected to clarify this. There are clear legislative requirements for the municipalities to send to the Ministry of Finance & Domestic Affairs (MoFDA) their annual budget as well as budget monitoring reports and annual financial statements. Despite this the GoG lacks a precise and detailed overview regarding the municipal finances since the data is not being analysed and consolidated. According to the GoG this is among other reasons due to the municipalities sending their data belatedly to the GoG (for example, by mid-March 2014 the MoF had not received the 2014 budgets from the municipalities). It is not clear whether this impacts adversely on the GoG's fiscal oversight of the municipalities.

The significance of the 15 GoG-owned **Public Enterprises (PEs)**, 12 fully and 3 partly, in Greenland's economy is very clear in the areas of infrastructure, supply of goods and product exports. The PEs are vital in terms of service provision and employment (about 5,000 staff) and they provide sizable annual dividend incomes for the GoG. Most PEs function in areas where there are no other operators, or where competition is weak, which explains the need for the GoG to be engaged. The combined PE portfolio poses a governance challenge with potential fiduciary risks to the GoG, which the GoG addresses through its oversight function (Board Secretariat in the Prime Minister's Office) and the on-going professionalisation of the PE boards. The Board Secretariat conducts the GoG's ownership and coordinates development and implementation of policies using an 'arm's length principle'. Financial reporting from the PEs is undertaken annually through a controller function as well as based on regular interaction with the PE boards and managements, and also annual meetings with the external auditors. The Board Secretariat issues an annual report to the Inatsisartut (Parliament), which provides a consolidated financial overview of the PEs. The Inatsisartut's Audit Committee of supervises the GoG's performance of the PE ownership and shareholder interests. The net interest-bearing debt of the PEs decreased only slightly from 2011 to 2012, where it was DKK 2.9 billion (EUR 388 million). 55% of the debt is owed by Royal Greenland, and it is expected that the PEs in the coming years will decrease their debt levels, especially Royal Greenland which is pursuing an active strategy in this regard.

The socio-economic potentials for **exploitation of mineral resources** in Greenland are evident from the experiences in recent years where exploration activities have had significant effect on local employment and tax revenues. Although interest from international companies has waned slightly in 2012 and 2013, due to different developments that overall have affected the expected profitability of exploitation, there has been a large increase in the number of exploration licenses issued (about 150 as of February 2014), which suggests that there may be an increase in activity-levels in the coming years. Framework conditions for the sector are being formulated and implemented, which provides transparency and predictability for private companies. The GoG recently launched its oil and mineral strategy for 2014-2018 that outlines a vision based on which there within five years would be three to five mines and every two years one to two offshore drilling projects. While it is clear that the extraction of minerals and oil can have very significant socio-economic potentials and implications in the longer term, and that there especially at the political level are great expectations about realising these, it remains unclear if and when they will materialise. Several reports have been prepared in recent years that assess possible future scenarios for Greenland regarding the extraction of minerals and oil, some of which assess this vis-à-vis the issues of the GoG's fiscal sustainability and the long-term goal of independence from the Danish block grant. The reports generally find that the GoG will require significant and continuing revenues over a long period of time (25-40 years are mentioned, slightly shorter if commercially viable oil discoveries are made) to achieve balance on the public finances, and that this will only be achieved if all elements of the process are in place and well-functioning. The alternatives are either that the long-term goal about fiscal independence from Denmark will not be fulfilled, or that considerable reductions in social welfare would have to be accepted. It is therefore clear that public sector and public finance reforms need to be initiated since the mineral resource sector by itself is highly unlikely in the short- to medium-term to generate the revenues required to adequately address the GoG's fiscal sustainability challenge, and – especially – so as to guard against the risks of intensifying the challenge in case the mineral resource sector does not develop as anticipated.

It is difficult to prioritise the macro-economic challenges in terms of importance since the different elements to some extent are inter-related. However, it would seem that increasing employment and achieving higher economic growth by raising the general level of education, developing traditional industries and promoting new sectors, and focusing public investments on selected infrastructure

projects should be among the main target areas for the GoG in the coming years. These would also support the current GoG's objective with economic policy of achieving economic independence of block grants from Denmark and increasing political freedom of action. However, in the medium-term a specific focus on low inflation would also be needed to maintain the value of the Danish grants.

PFM Assessment

The following findings and observations have been made with the PFM assessment (reference is made to Table 5.23 in Chapter 5, which shows the detailed PEFA scoring of all PFM elements):

- The GoG has a high level of **budget credibility**, which is evidenced by low deviations for the expenditure budgets, both total and at the disaggregated level, and both measures have overall improved from 2010 to 2012 (2013 expenditure data is not yet available). The revenue out-turn was somewhat high in 2011 (+8.2%), which was mainly a result of a high activity level regarding exploration for oil and other minerals (for which the GoG so far has lacked experience in estimating the tax implications of). It is noted though that revenue collection generally over-performs in all years and for most revenue sources, especially taxes, which indicates that estimations could be improved. The GoG does not have expenditure payment arrears;
- **Comprehensiveness and transparency** is relatively high, in particular regarding the classification of the budget (where there is full consistency between the classifications used for budget formulation, presentation, accounting and reporting) and the extent of reported GoG operations (as there are no extra-budgetary expenditures). Some improvements could be made regarding the comprehensiveness of information included in budget documentation, especially the fiscal deficit measure (which is not defined according to an internationally recognised standard), financial assets (information on which is not included), and the current year's budget (neither revised budget figures nor estimated out-turns are included). Similarly, there is a lack of public access to key fiscal information regarding in-year budget execution reports and contract awards. Transparency of inter-government fiscal relations is high with regard to the allocation mechanism and timeliness of information to the municipalities, but the MoFDA lacks overview regarding the municipal finances and does not prepare a consolidated report on undertake comparative analyses. Oversight of aggregate fiscal risk from PEs is stringent and all PEs provide financial data to the GoG on a regular basis, which is consolidated into an annual report. However, oversight of AGAs is managed separately by different ministries and without central oversight or consolidation of information. Municipalities cannot generate fiscal liabilities for the GoG;
- **Policy-based budgeting** is with regard to the orderliness and participation in the annual budget preparation process well-functioning. A clear annual budget calendar exists that is fully adhered to and allows line ministries sufficient time to prepare their budget estimates on time. Also, the guidance provided to the ministries is clear and complete, and reflects political involvement and direction, and the legislature has for the last three years approved the budget on time. However, the multi-year perspective in fiscal planning, expenditure policy and budgeting is somewhat problematic since, although sector strategies are prepared to some extent, none of them have substantially complete costing of capital investments and recurrent expenditure, and linkages between investment budgets and forward expenditure estimates is generally missing. It is noted though that the preparation of multi-year fiscal forecasts and sectoral/functional allocations is done for three years and on a rolling annual basis. Debt sustainability analyses are not required for the GoG given its low public debt level;
- **Predictability and control in budget execution** provides a slightly mixed picture. The tax administration is very well-functioning tax administration, with a high level of transparency regarding taxpayer obligations and liabilities as well as effective measures for taxpayer registration and tax assessment, including for tax audits. The effectiveness in collection of tax payments is as such also high, although the Tax Agency has not monitored collection rates for

gross tax arrears on an annual basis and that the available data suggests that collection rates for tax arrears is low. The Tax Agency is also charged with collection of non-tax related arrears, including from municipalities, which constitutes very significant amounts (EUR 88.2 million as of January 2014), but non-tax related arrears are not covered by the PEFA framework. The level of predictability in the availability of funds is high, and recording and management of cash balances, debt and guarantees well-functioning. Internal controls and payroll controls are overall satisfactory, although some challenges exist regarding some specific internal control procedures and a number of weaknesses exist in the administrative procedures for payroll controls. Also, while internal audit is operational for all GoG entities it does not work according to international standards and its follow-up vis-à-vis auditees on the implementation of recommendations is seemingly not well-organised. The area of procurement is quite problematic and in the PEFA assessment receives very low scores. For *works-related procurement* there are shortcomings in the legal framework (as open tender is not defined as the default method), the use of procurement methods is not reviewed by the Building Authority and data is not available about the methods applied by GoG entities and a system to generate data based on contract value is lacking, procurement plans are not being prepared contract award is not available to the public, and the Complaints Board does not include members from civil society and the GoG. For *procurement of goods and services* there are shortcomings in the legal framework (there is only a circular and no law or regulation, the circular is not readily available to the public, it covers only nine specific types of goods and services of all GoG entities, and AGAs are not covered), the use of procurement methods is not reviewed and no systematic data is available about the methods applied, procurement plans are not being prepared contract award is not available to the public, and there is no complaint mechanism;

- The areas of **accounting, recording and reporting** is overall very well-functioning, especially with regard to the timeliness and regularity of accounts reconciliation, quality of in-year budget reports, and the quality and timeliness of annual financial statements. The only issues noted are that a GoG-level budget monitoring reports was not prepared for the first quarter of 2013 due to the elections (indicating that the process is not fully institutionalised), and that the GoG does not publish expenditure data information separately for the health sector;
- The **external scrutiny and audit** undertaken by the Inatsisartut is well-functioning as regards annual budget process in that it covers relevant aspects, the procedures for the process are well established and respected, it has ample time for the review, and the rules for in-year amendments to the budget without ex-ante approval by the legislature are clear. The scope, nature and follow-up of external audit is well-functioning, although performance audit is only undertaken to a limited extent. The external audit is in Greenland undertaken by a private chartered accounting firm, which is appointed annually by the Inatsisartut. The set-up is a result of historical and cost-effectiveness factors, and appears to be fully appropriate for the context of Greenland. However, the legislative scrutiny of external audit reports is somewhat lacking since the Audit Committee only to a very limited extent undertakes hearings with GoG officials during the process (although written communication does indicate that interaction with the GoG focuses on some key issues and is consistent), and as it is unclear to which extent recommendations for action to be implemented by the GoG, which are issued by the Audit Committee, have been implemented since follow-up is not formalised and systematic.

The results of the 2014 PEFA assessment overall shows that the GoG's PFM system is very well-designed and functioning with a high quality. It is noted that the quantified total average score for Greenland (3.37) can be compared positively with the 2008 score for Norway (3.41),¹ and that these are among the highest PEFA scores established world-wide. The full set of scores for all 28 PEFA Performance Indicators (PIs) is shown in Table 5.25.

¹ Quantifying the PIs is done on the following basis: A = 4, B+ = 3.5, B = 3, C+ = 2.5 C = 2, D+ = 1.5 and D = 1.

It is emphasised that some progress in some specific areas – covered by PEFA PI-8 iii (fiscal data consolidated according to sectoral categories), PI-12 (extending the existing MTEF for the GoG's education sector to the municipalities), PI-19 (procurement), PI-23 (availability of information on resources received by service delivery units) and PI-28 (legislative scrutiny of external audit reports) – is important for the EU support targeting the education sector. Particular attention by the GoG (and DEVCO) should thus be given to PFM reforms in these areas as they can directly measure and help to improve education sector service delivery by the GoG and the municipalities.

Assessment of Budget Support Eligibility Criteria

The assessment of the three budget support eligibility criteria is provided below in Chapter 6. The overall findings and conclusions are as follows:

- **Stable Macro-Economic Framework** – Based on the analysis undertaken, it is concluded that Greenland has a stability-oriented macro-economic framework:
 - Policy relevance: This is demonstrated by the GoG's fiscal policy which has in earlier years been used with counter-cyclical effect, while the 2014 budget, on the other hand, shows a more neutral fiscal policy that is moving towards a position from where the GoG will be better able to start addressing the fiscal sustainability issues of the future. Other policies, e.g. the GoG's enterprise policy, supports efforts to pursue growth-orientated and economic diversification strategies, while the strategy being implemented vis-à-vis the PEs (strengthened oversight, professionalisation and reducing debt) specifically focuses on macro-economic objectives (growth, employment and export);
 - Policy credibility: Strategies, e.g. the 2012 Debt & Investment Strategy, are realistic and relevant, the institutional arrangements seem to be adequately functioning, and there is a track record of effective implementation (e.g. the GEP). It is noted that are challenges in the longer term regarding fiscal sustainability, which requires relatively urgent action. While this is acknowledged by the GoG, there so far remains a gap in political commitment in terms of formulating and implementing concrete measures. It is hence not yet clear if the current Government will implement reforms before the end of its term, but – as elections are due only in 2017 – it does leave it some limited time to start the process.
- **Public Financial Management (PFM)** – On the basis of the analysis, it is confirmed that there has been satisfactory progress in improving the GoG's PFM system and procedures, taking into account progress achieved against annual targets and overall as well as the positive direction of change, and that the eligibility criterion hence is fulfilled.
 - Progress: The GoG has met all milestones/benchmarks defined with the 2008 PEFA assessment report, and the findings of the PEFA assessment provide the distinct impression that progress has been made in various other areas in recent years, which various recent and on-going PFM reform initiatives corroborate;
 - Direction of change: The previous monitoring framework has **not** included medium-term targets for achieving the three budgetary outcomes (fiscal discipline, strategic allocation of resources and efficient service delivery). However, the following can be noted:
 - As regards *fiscal discipline* it is noted that the GoG, after running overall budget deficits during 2010-2013, for 2014 onwards has tightened its fiscal policy approach, so that the budget balance is positive for 2014 as well as over the medium term (three years). This is a result of the GoG having established and met its two short-term fiscal policy goals, which constitute the GoG's basic assumptions for the priorities being set with the annual Finance Acts, namely to maintain the (partial) balance of the recurrent and capital investment account for the fiscal year and in the medium-term as well as to ensure having a cash liquidity of at least 10% of total annual expenditure. This also corresponds with the GoG longer term fiscal policy goals of pursuing a sustainable fiscal policy and achieving socio-economic growth, but – given currently the available calculations – it is

clear that the existing structure of the GoG's public finances are un-sustainable in the longer term and that the GoG thus needs to undertake reforms, which it is indeed also intending based on a number of specific fiscal policy principles that the MoFDA has formulated in 2013.

- With regard to *strategic allocation of resources* is noted that the GoG has a well-functioning system of preparing multi-year fiscal forecasts and functional/sectoral allocations, despite not having costed sector strategies or MTEFs. Also, while strategies have been developed in recent years for some sectors and specific programmes, none have substantially complete costing of capital investments and recurrent expenditures. Furthermore, there are limited linkages between capital investment budgets and forward expenditure estimates. This means that there are limitations for the GoG in its possibilities/abilities for strategic resource allocation since the lack of sector strategies based on GoG objectives and properly costed programmes hinders linking resource allocation directly to key priorities. Also, the cash basis of accounting inherently lacks the capacity to reveal full resource outlays, and performance information is also not included in the budgeting system to improve strategic resource allocation. It is noted, however, that the GoG currently is considering if and how to reform the procedural framework for strategic resource allocation by addressing both the multi-year fiscal forecast and functional/sectoral allocation aspects through development of 10-year sector strategies.
- As such no specific assessment can be provided regarding the target of *efficient service delivery*, as data or information for this purpose is not currently readily available (e.g. quantitative unit-based measures such as cost, time or headcount, or externally-focused processes such as service delivery targets and actual results). However, developing quantitative unit measures based on cost, time or headcount for selected internal (vis-à-vis other GoG entities) or external (vis-à-vis the public) processes can be relatively easily done. This requires firstly determining baselines and targets so as to develop a performance measurement system from which aggregate measures could be included in the annual Finance Act. It should also be noted, more generally, that service delivery measures and the underlying data of a performance measurement system could furthermore be used as inputs for the MTEFs and the costing of sector strategies, which in the longer term could be a platform upon which to develop and implement performance-based budgeting which links resource allocation and results-delivery.
 - Financial compliance: The internal control rules and regulations of the GoG are comprehensive and effective. Compliance with rules and regulations at the transaction-level is generally high, although some challenges exist for some specific procedures.
- **Transparency and Oversight of the Budget** – Based on the information outlined and assessments provided, it is concluded that there is satisfactory progress made by the GoG in that the entry point can be confirmed met, and there are on-going developments in selected areas to increase transparency and provide more information to the public:
 - Key budgetary documents of the GoG adhere to international best practice regarding the executive's budget proposal, enacted budget, and year-end report. The GoG does not undertake mid-year reporting, monthly and quarterly reporting is undertaken though not published, and there are some weaknesses in the legislative audit scrutiny process;
 - There are on-going developments regarding the comprehensiveness of information included in the GoG's budget documentation, public access to key fiscal information, in-year budget reports, and annual financial statements.

Specific observations regarding risk management are included in Chapter 6.

Proposed Elements for a PFM Reform Plan

Based on the findings and assessments, a number of elements can be relevant to consider for a new PFM reform plan to be discussed and agreed between the EC and the GoG. The following elements are a 'gross' list from which the most relevant and urgent elements can be selected:

1. Revenue projections/forecasting;
2. Comprehensiveness in the budget documents;
3. New fiscal sustainability measure;
4. Fiscal and financial oversight of the municipalities;
5. Fiscal risk oversight and public reporting for the three AGAs;
6. Publication of key fiscal information (in-year budget execution reports and contract awards);
7. 10-year sector strategies, including costing and forward expenditure estimates;
8. Medium-Term Expenditure Estimates (MTEFs) for key sectors;
9. Annual monitoring of collection rates for gross tax arrears;
10. Payroll controls;
11. Works-related procurement;
12. Goods and services procurement;
13. Internal control;
14. Internal audit;
15. In-year budget execution reporting;
16. Legislative scrutiny of external audit reports.

Given the reform plans of the GoG and taking into account the status of the different areas, including considering related fiduciary risks, it would seem that the following elements could be prioritised: Revenue projections/forecasting (1), new fiscal sustainability measure (3), fiscal and financial oversight of the municipalities (4), 10-year sector strategies, including costing and forward expenditure estimates (7), MTEFs for key sectors (8), and procurement (11 and 12).

The 16 elements are detailed in Section 7.2, including with indications regarding the timeframe for the actions (short-term and medium-term). It is stressed that the list is a proposal based on which only some of the most relevant and urgent elements should be selected for action under the new Partnership, since it will not be feasible for the GoG to undertake and address all elements.

It is expected that the Enterprise Resource Planning (ERP) project, which was initiated by the GoG in mid-2012 so as to develop a new and integrated business management software system for the GoG and the municipalities, will continue as per current plans with a test phase taking place in 2015 and being fully operational in early 2016. The introduction of the ERP will be an important indicator on the success of PFM reforms for the GoG and the municipalities.

Chapter 7 includes an overview regarding the specific weaknesses for the relevant PEFA PIs as well as information about the GoG's on-going and planned PFM reform initiatives. Both sections should be taken into account when considering the pros and cons as well as relevance and urgency (in a risk perspective) of the above-listed 16 elements.

Chapter 7 furthermore includes a section on 'Key Indicators to Measure Budgetary Effectiveness and Efficiency' as required in the ToR for the assignment.

2 Introduction

This chapter outlines the background for the assignment (Section 2.1), its objectives and outputs (Section 2.2), and the applied methodology (Section 2.3).

2.1 Background

The EC has proposed to its Budgetary Authority to provide further support to the GoG for the period 2014-2020. Budget support is the most favoured implementation modality for a possible support programme. Provision of budget support requires that an assessment be carried out that includes eligibility criteria covering:² 1) Macro-economic framework; 2) PFM; and, 3) Transparency and oversight of the budget. The purpose of the assignment is to submit to the EC sufficient background and justification to enable the EU Services to make a decision as to whether and on which conditions Greenland meets these three eligibility criteria.

The ToR for the assignment furthermore notes that necessary information should be submitted to enable the EU services to assess the possible risks of budget support to Greenland. Additionally, the ToR requires information and assessment of some other aspects, including on-going reforms; procurement; financial flows; monitoring, reporting and control mechanisms of the budgetary process; identification of implemented or on-going actions based on previous recommendations; and, identification of a set of key indicators to measure budgetary effectiveness and efficiency. Furthermore, the EC has requested that information be provided – as and where relevant – regarding municipalities, the external audit set-up and the GoG's housing policy.

2.2 Objectives and Outputs

The global objective of assignment is to undertake a PEFA-based assessment of the quality, transparency, accountability, and effectiveness of the GoG's PFM system.

The specific objectives relate to the use of the PEFA assessment as baseline data and as a basis for information and monitoring so as to: (i) facilitate and update the dialogue on PFM between the GoG and the EC; (ii) support the EC assessing eligibility for budget support programmes; (iii) recommend specific PFM elements for improvement and medium-term targets to be achieved; and, (iv) recommend intermediary annual targets for these specific elements to ensure their achievement.

In the medium-term, the PEFA assessment may contribute to reflections on: (i) the preparation or revision of a PFM reform strategy (and related action plan); and, (ii) the preparation or revision of a PFM capacity development programme, in coordination with the GoG.

The requested service of the assignment is to provide an external evaluation of the GoG's PFM system and its PFM reform strategy based on the PEFA methodology.

The required outputs cover two specific areas:

² The first eligibility criterion is in fact 'National/sector policies and reforms ("public policies")', assessing specifically whether the policy continue does to be sufficiently relevant and credible, and that there has been satisfactory progress in policy implementation since the last eligibility check. This eligibility criterion, however, is not covered with this assignment.

1) PFM Review: Formulation of a PFM review (including public procurement legal framework, procedures and practice) supplemented with practical recommendations for PFM monitoring. The consultants will apply the PEFA Performance Measurement Framework.³ On the basis of the information available, the consultants will provide the following:

- Description and analysis of the legal and institutional framework, budgetary process, and budgetary procedures in place, including the public tendering procedures and on-going reforms at both the GoG and municipal levels – *This has been provided with the PEFA assessment (Chapter 5);*
- Description of global and sectoral financial flows, including a description of revenue generation (transfers from Denmark, own tax collection, customs duties, special levies, etc.) and the system for allocation of total revenues, including for the municipalities – *This has been provided with the Macro-Economic Assessment (Chapter 4) and the PEFA assessment (Chapter 5);*
- Analysis of the monitoring, reporting and control (internal and external) mechanisms of the budgetary process and the timeframes within which these controls operate – *This has been provided with the PEFA assessment (Chapter 5);*
- Identification of implemented or on-going actions based on recommendations of previous audits and evaluation of performance – *This has been provided with the PEFA assessment (Chapter 5) and, specifically, in the Conclusion (Section 7.1);*
- Identification of a set of key indicators to measure budgetary effectiveness and efficiency. All assessments should be dynamic and state which are the perspectives and probable evolution of the situation in addition to the description of the current conditions – *This has been provided in the Conclusion (Section 7.2);*
- The consultants will make a comprehensive assessment of the public procurement legal framework, procedures and practices (openness, effectiveness and transparency) at both the GoG and municipal levels – *This has been provided with the PEFA assessment (Chapter 5).*

2) Assessment of Budget Support Eligibility Criteria: A well-justified opinion on three eligibility criteria – Stable Macro-Economic Framework, PFM, and Transparency and Oversight of the Budget – must be provided as per the EC’s budget support guidelines.⁴ The opinion should allow the EC to assess the detailed background and justification underlying the assessments. Also, information is to be included so as to enable the EC to assess the possible risks of budget support to the GoG.⁵

2.3 Methodology

The following activities have been carried out:

1. **Documentation/Desk Study** – Prior to the field mission, and with support from the GoG, relevant documentation was collected, and studied in detail. The full list of documents reviewed is included as Annex C;
2. **Work Plan** – A work plan describing the main steps of the assignment, including a proposed meeting list, tentative time plan and overview regarding information and data yet to be collected, was submitted to and approved by the EC;
3. **Briefing Meeting** – A briefing session with EuropeAid (DEVCO) in Brussels was held on 7 February 2014 to discuss the requirements for and implementation of the assignment;

³ Specifically as outlined with the PEFA Secretariat’s “‘Fieldguide’ for Undertaking an Assessment using the PEFA Performance Measurement Framework”, 3 May 2012, cf. <http://www.pefa.org>.

⁴ EC (2012a): “Budget Support Guidelines – Part II Programming, Design and Management”, September. Sections 5.1.2, 5.1.3 and 5.1.4. Further information is provided in EC (2012b): “Budget Support Guidelines – Part III: Thematic Topics and Procedural Requirements”, September, Annexes 4, 5 and 6.

⁵ This will be based on section 5.3 “Risk Management Framework” of the guidelines (EC (2012a)).

4. **Field Mission** – The in-country mission took place 10-28 February 2014, and included consultations with 33 representatives of various GoG entities and other stakeholders, and significant follow-up and exchanges. The list of persons consulted is included as Annex D. At the end of the mission a debriefing meeting was held with GoG representatives to present and discuss the preliminary finds and conclusions;
5. **Aide Memoire** – Based on the document review, consultations undertaken and analyses carried out, an *Aide Memoire* was prepared which contains the main findings of the mission as well as any initial recommendations;
6. **Debriefing Meeting** – A debriefing session with EuropeAid (DEVCO) in Brussels was held on 3 March 2014, which included GoG representatives, to present and discuss the Aide Memoire, and to outline the further activities and time plan for the preparation of the assessment report;
7. **Draft Report** – A draft report has been prepared and submitted to the EC and the GoG;
8. **Comments** – The EC and GoG will send any comments on the draft report within 45 days following the reception of the draft report. The comments will be incorporated in a draft final report within five working days, including with an annex outlining the resulting amendments, which will be submitted to the EC and GoG that provide comments within five working days;
9. **Final Report** – Based on the final comments from the EC and GoG, the Final Report will be prepared within three working days and thereafter submitted to the EC.

The GoG appointed a MoFDA focal person who provided support in making documents available as well as facilitated the setting up of meetings with GoG officials and other representatives. The focal person participated in most meetings with GoG officials and stakeholders.

The consultations were planned among key stakeholders based on a total population sampling approach, i.e. consult with all those that are deemed relevant and necessary in order to address the questions raised. This approach proved well-justified given the relatively limited size of the civil service of the GoG and since the main intention was to ensure a comprehensive information basis.

The application of the different research methods, including desk research and consultations was, as expected, complementary and enabled triangulation of key issues and aspects regarding the functioning and performance of the GoG's PFM system.

Data used for the PEFA assessment has been provided by GoG, and each PI description has been shared in draft with the concerned officials and whose comments have been taken into account for the final version. Also, the full draft assessment was shared with the GoG.

3 Relationship with Denmark and the European Union

This chapter provides a brief overview regarding the relationships between Greenland and Denmark (Section 3.1) and Greenland and the European Union (Section 3.2).

3.1 Relationship with Denmark

Greenland was a Danish colony from 1814 until 1953 when it was designated as a county and thus became an integral part of the Kingdom of Denmark. Under the new Constitution of Denmark, Greenland from 1953 onwards has elected two members to the Danish Parliament. In the 1950s and 1960s – through investments in education, construction, social services and communication – the economy of Greenland was modernised, while attempts were made to change the societal structure from a subsistence-based hunter society to an urbanised worker community.

Based on a Commission report from 1978, Home Rule was established in Greenland by law in November 1978,⁶ based on which Greenland became a separate community within the Kingdom of Denmark. The Law was subject to a consultative referendum in Greenland in January 1979 where 70% voted for its adoption, and Home Rule was introduced on 1 May 1979.

The main purpose of introducing Home Rule was to transfer decision-making power from Danish to Greenlandic political authorities in recognition of Greenland's unique national, cultural and geographical features. Many tasks were transferred that provided the Home Rule Government with legislative and administrative power in areas that affected the citizens.⁷ However, Home Rule was at the same time based on the supposition that national unity and solidarity should be maintained, which implied some restrictions on the tasks transferred to the Home Rule Government (e.g. foreign, defence and monetary policy).⁸

In transferring tasks and responsibilities, the main principle was that legislative power and the power to make appropriations should be closely related. Therefore, for tasks where the transfer of responsibilities had been agreed (the Law's Article 5), Denmark provided an annual block grant negotiated based on the expenditures previously incurred by Denmark for carrying out the tasks. For these areas the Danish authorities retained overall responsibility for ensuring that the Home Rule Government observed the legislative frameworks (although the Home Rule Government had considerable freedom to decide how to prioritise the financing of the transferred tasks). However, some tasks could be taken over by the Home Rule Government based on self-financing (the Law's Article 4), and – as full legislative responsibilities and administrative powers had thus been

⁶ Lov nr. 577 af 29. november 1978 om Grønlands Hjemmestyre.

⁷ Tasks transferred included administrative organisation; taxation; religious affairs; regulation of fishing, hunting and agriculture; trade; social welfare; labour market affairs; education; cultural affairs; health care; transportation; and, environmental protection.

⁸ In accordance with the Constitution, the Danish authorities were responsible for conducting foreign policy and had the power to enter into international obligations. However, from 2005 the Home Rule Government had been able to negotiate and conclude international agreements with foreign states and international organisations that related entirely to transferred responsibilities. Also, foreign policy cooperation had been reinforced by a joint declaration of principle (the "Itilleq Declaration") signed in 2003. Furthermore, in practice treaties, legislation and administrative regulations that affected Greenland were submitted to the Home Rule Government for comments before they were brought before the Danish Parliament.

transferred for such areas – Danish ministerial responsibilities ceased. By mid-2000s, the Law's schedule of task that could be transferred from to Greenland had been almost exhausted.⁹

In June 2004, a Greenlandic-Danish Self-Rule Commission was established which, on the basis of Greenland's existing constitutional status and in accordance with the right of self-determination of the people of Greenland under international law, deliberated and made proposals for further transfer of responsibilities to establish Self-Rule. The Commission submitted its report in April 2008, which included drafts for a new Law on Self-Rule and laws on the transfer of responsibilities covering police, prison service, courts, civil law, border control and mineral resources.

A referendum was held in November 2008 on the introduction of Self-Rule in Greenland with the content and on the conditions outlined in the Commission's draft Law. 76% of the population voted in favour, and the Danish Parliament subsequently in June 2009 adopted the Law.¹⁰ Self-Rule came into effect on Greenland's National Day, 21 June 2009. Along with the Constitution of Denmark, the Law on Self-Rule defines Greenland's constitutional position in the Kingdom.

Under the law, Greenland can gradually assume responsibility for 34 areas that are included in the Law's schedule of tasks, while the Danish Government retains control of constitutional matters, foreign affairs, defence, monetary policy, citizenship and the Supreme Court. The Law states that an annual block grant of DKK 3.4 billion (EUR 456 million) will be provided, which is fixed at the 2009 price-wage levels and will be adjusted annually in line with the price-wage index used for the Danish budget for that year. As the price-wage indices differ slightly between Denmark and Greenland (inflation is higher in Greenland), the real value of the block grant will over time diminish.

The Law furthermore states that areas taken over by the Government of Greenland (GoG) are to be financed by the GoG. Also, GoG revenues from mineral resource activities will result in a reduction of the Danish block grant by 50% of the amount that exceeds DKK 75 million (EUR 10 million) per year.¹¹ The GoG on 1 January 2010 took over the responsibility for mineral resource activities and working environment for off-shore activities. It does not appear that the GoG currently plans to take over further areas. If and when the Danish block grant should be reduced to DKK 0, the two Governments would start negotiations about their future economic relations.¹²

3.2 Relationship with the European Union

When Denmark joined the European Economic Community (EEC) in 1973,¹³ although 70% of Greenlanders had voted against membership in the referendum in October 1972,¹⁴ Greenland automatically became a member as it was a Danish county. Following the establishment of Home Rule in 1979, a referendum was held in February 1982 in which 53% of Greenland's population voted to leave the EEC. The terms were negotiated between 1982 and 1984, and on 1 February

⁹ A number of areas had not been included in the Home Rule Law's schedule of task, but could in principle be transferred. These tasks, which thus remained with the Danish authorities, included: the legal system, police, prison service, criminal law, property law, civil law, family and succession law, intellectual property law, responsibilities relating to raw materials, aliens, the financial sector, insurance activities shipping and aviation and work environment, the majority of the veterinary field, parts of the responsibilities relating to quality control of fish and fish products, and most responsibilities related to marine environment.

¹⁰ Lov Nr. 473 om Grønlands Selvstyre, 12. juni 2009.

¹¹ The threshold will be adjusted annually in line with the price-wage indices used for the Danish budget for each year.

¹² For the Danish block grant to be reduced to DKK 0, the revenues from mineral resource activities should amount to at least DKK 7.0 billion (EUR 933 million) per year at 2009 prices. For comparison, in 2012, the GoG's domestic (own) revenues were DKK 2.4 billion (EUR 321 million).

¹³ Since the EEC was officially renamed as the European Community (EC) only in 1993, the former name is used here.

¹⁴ The overall vote for Denmark as a whole was, with 63%, in favour of membership.

1985 Greenland formally withdrew from the EEC. From being a part of a Member State, Greenland instead became associated to the EEC as one of 25 Overseas Countries and Territories (OCTs).¹⁵

A Treaty on Greenland, prepared in 1985, conferred to Greenland the right of tariff-free fishery exports to the EEC as well as financial compensation, while the EEC's traditional fishing rights were sustained in Greenland waters through a Fisheries Agreement. The Treaty furthermore stated that arrangements permitting close and lasting links between the EEC and Greenland should be maintained and mutual interests to be taken into account, and that the arrangements applicable to OCTs should provide a framework for the relations. The Overseas Association Decision applies to Greenland, but due to per capita income limits, Greenland does not qualify for support.

Based on the Fisheries Agreement, the EC from 2007-2013 contributed EUR 17.8 million per year to Greenland. Following the signing of a new Protocol to the Agreement (Council Decision of 16 July 2012, 2012/653/EU), similar annual contributions are being provided for 2013-2014.

A new Partnership was laid down in Council Decision of 17 July 2006 (2006/526/EC). It aimed at broadening and strengthening relations between the EC and Greenland as well as contributing to Greenland's sustainable development. A Programming Document for the Sustainable Development (PDSD), which identified education and vocational training as the cooperation focal point, was adopted in 2007. The EC's financial assistance for 2007-2013 was granted as sector budget support based on the Greenland Education Programme (GEP), and amounted to about EUR 25 million annually. The Council Decision expired on 31 December 2013.

A new Partnership for the period 2014-2020 was adopted by the EU with Council Decision of 14 March 2014 (2014/137/EU). The specific objectives of the Partnership are: a) to support and to cooperate with Greenland in addressing its major challenges, in particular the sustainable diversification of the economy, the need to increase the skills of its labour force, and the need to improve information systems;¹⁶ and, b) to contribute to the capacity of the administration to formulate and implement national policies, in particular in new areas identified in a new PSDS. The Council Decision outlined a number of possible areas of cooperation.¹⁷ A similar level of annual financial support as in earlier years (EUR 25 million) is planned.

Bi-annual meetings are held between the EC Services and the GoG on the EU support to the Greenland Education Programme (GEP). The latest meeting was held in early March 2014.

¹⁵ The 25 OCTs depend constitutionally on four EU Member States: Denmark (1), France (6), the Netherlands (6), and the United Kingdom (12). OCT nationals are citizens of the EU Member States, but the OCTs do not form part of EU territory. They are therefore not directly subject to EU law, the European acquis, although they benefit from associate status conferred on them by the Treaty of Lisbon. The aim of this association is mainly to contribute to their economic and social development.

¹⁶ The achievement of objectives is to be measured by the percentage of trade balance in GDP, the percentage of the fisheries sector in total exports, and the results of education statistical indicators, and other indicators deemed suitable.

¹⁷ (a) education and training, tourism and culture; (b) natural resources, including raw materials; (c) energy, climate, environment and biodiversity; (d) Arctic issues; (e) the social sector, mobility of the workforce, social protection systems, food safety and food security issues; and, (f) research and innovation in areas such as energy, climate change, disaster resilience, natural resources, including raw materials, and sustainable use of living resources.

4 Macro-Economic Situation and Outlook

This chapter provides an overview on the macro-economic situation and outlook of Greenland (Section 4.1), a review of the GoG's current economic policy (Section 4.2), brief status assessments regarding the municipalities (Section 4.3) and the Public Enterprises (4.4), and lastly a perspective on the macro-economic outlook for the medium-term (section 4.5).

4.1 Macro-Economic Situation

Greenland has during the past decades seen relatively rapid economic development, and is now a modern society based on the Danish welfare model and with a high standard of living. GDP per capita is above the EU average, but below that of Denmark. As of January 2014, Greenland has a population of 56,282 (86% living in towns and 14% in settlements) of which 11% is foreign born, and with a labour force of 36,432 (2012 figure).¹⁸ 11,500 Greenlanders live in Denmark,¹⁹ and net-emigration for 2013 was 447 (i.e. about 0.8% of the population left the country last year).²⁰

The development in the macro-economic indicators for Greenland in recent years is shown below.

Table 4.1 Macroeconomic Indicators, 2010-2012

	2010	2011	2012	2013
Real GDP growth	2.5%	4.0%	-0.9%*	-1.4%*
Average no. of unemployed	2,844	3,440	3,660	3,669
Unemployment rate (average)	7.8%	9.4%	9.8%	n/a
Inflation (July to July)	2.3%	2.2%	4.3%	0.9%
Trade balance	DKK -2.64 bn	DKK -2.60 bn	DKK -2.23 bn	n/a
GoG budget balance, total (DAU)	DKK -2 m	DKK -156 m	DKK -65 m	DKK -114 m*
GoG budget balance, partial (DA)	DKK +203 m	DKK +54 m	DKK +149 m	DKK +1 m*
GoG debt	DKK 250 m	DKK 250 m	DKK 600 m	DKK 600 m

Source: Økonomisk Råd (2013a): "Grønlands Økonomi 2013", September, table 1.1, p. 7; Departementet for Finanser og Indenrigsanliggender (2013b): "Politisk-Økonomiske Beretning 2013", table 1, p. 6; Statistics Greenland's Stat Bank (available on: <http://bank.stat.gl/Dialog/statfile.asp?lang=1>); Grønlands Selvstyre (2013a): "Finanslov for 2014", p. 4.

Note: "*" is estimate, "n/a" is not available.

GDP growth: The international financial crisis that affected the global economy in 2008 had only limited impact on Greenland.²¹ Business activities and economic growth increased during 2010 and, especially 2011, due to investments in exploration activities, the laying of a sub-marine cable and other large-scale capital investments as well as a stable fishery sector. Declining investments in oil exploration led to negative growth in 2012, which is expected to have lasted in 2013, but earlier forecasts operating with more significant declines in growth did not seem to have

¹⁸ Statistics Greenland's Stat Bank (available on: <http://bank.stat.gl/Dialog/statfile.asp?lang=1>).

¹⁹ Økonomisk Råd (2013e): "Teknisk baggrundsnotat 2013-4, Belysning af grønlandere bosiddende i Danmark". The total number of people born in Greenland that live in Denmark is about 14,000, but only about 11,500 grew up in Greenland.

²⁰ ¼ of those who emigrated during 2013 were born in Greenland, and most of the remainder in Denmark.

²¹ The reasons generally quoted to explain this are the stabilising effect of the block grant from the Denmark, that GrønlandsBANKEN [Bank of Greenland, the largest commercial bank in Greenland], had pursued a conservative loan policy and had a high degree of solvency, there being no housing price bubble in Greenland, and that significant public investments in construction and increased off-shore oil exploration activities had a counter-cyclical effect [European Commission (2013a): "Medium Term Expenditure Framework 2013-2016", Final Draft, CfBT Consortium / sequa gGmbH, September, p. 18].

materialised as the fishery sector performed better than expected.²² Also, value creation in the construction sector decreased by 20% in 2012, which affected GDP negatively, and the second half of 2013 saw a further decline in the sector, especially in Nuuk, although activities in coastal towns were assessed to having been higher in 2012 and 2013 than in previous years.

Unemployment: Despite economic growth, unemployment appears to have risen significantly in 2011 and somewhat in 2012 (even as net-emigration was 709 persons). However, it is not clear that this indicates more job seekers being unable to find work since the underlying statistics prepared by Statistics Greenland were revised in 2011 and 2012 (to bring Greenland's labour market statistics in line with international standards),²³ i.e. the earlier unemployment figures may have been under-stated. Also, the administrative practice of registering job seekers has not always been uniform across municipalities (e.g. by including individuals with restricted working capacity),²⁴ which means that the 2011 and 2012 figures may have over-stated the actual numbers of unemployed. However, it is acknowledged that Greenland faces structural problems in the labour market relating to education (skills mismatch) and mobility (geographical barriers between work localities and wage-earners' residences).²⁵ This is supported by the fact that 2011, despite unemployment, saw an influx of foreign unskilled labour.

It is noted that unemployment is highest among persons aged 18–19 and 20-24, and in settlements. The public sector employs almost 40% of the work force, while the second largest employment sector is fisheries (about 14%).²⁶

Inflation: The changes in the consumer price index have been quite low in all years, except 2012. For the last year (July 2012 to July 2013), it is seen that inflation has decelerated. The majority of products included in investments as well as private consumption are imported, and price increases are overall seen mainly for housing and transportation costs, caused by rising global oil prices, as well as for food items. Greenland's inflation rate tends to be slightly higher than that of Denmark, and was with about 2%-points significantly higher in 2012. This means that the value of the Danish block grant (which is fixed at the 2009-level and is being adjusted annually according to the price-wage index used for the Danish budget, not the one used by the GoG for its budget) over time will be gradually eroded. This may be further accelerated if/when Greenland's economy over time is strengthened through exploitation of the country's natural resources.

Trade balance: Greenland's trade balance is characterised by imports being significantly larger than exports, and the deficit in 2010, equivalent to almost 20% of GDP, was the largest deficit ever.²⁷ From 2010 to 2012 the deficit has declined slightly, thus reversing the trend that started in the early 1990s. Imports increased from 2010 to 2011, mainly due to equipment used for oil exploration activities, while exports increased significantly up to 2012, mainly as a result of favourable prices for fishery products. The latter account for around 90% of goods exports,²⁸ which is a slight decline compared to earlier years.²⁹ However, the high reliance on the fishery sector makes the economy vulnerable to external price shocks, and it continues to be a structural

²² Despite a decline in prawn quotas of 14% in 2012 and 13% in 2013, the fishery sector fared better than expected in 2012 and 2013 due to favourable price developments and the new mackerel fishery [GrønlandsBANKEN (2014): "Årsrapport 2013 – Meddelelse til Nasdaq OMX Copenhagen, 01/2014", 19. februar, p. 5].

²³ Grønlands Statistik (2014): "Beskæftigelsen 2012", 31. januar, p. 1.

²⁴ Departementet for Finanser og Indenrigsanliggender (2013b): op.cit., p. 39.

²⁵ A significant barrier regarding mobility is the (limited) access to housing [Økonomisk Råd (2013a): "Grønlands Økonomi 2013", September, p. 6].

²⁶ The figures are for 2012, the latest available from Statistics Greenland (<http://bank.stat.gl/Dialog/statfile.asp?lang=1>).

²⁷ Nationalbanken (2012): "Aktuelle tendenser i den grønlandske økonomi", Kvartalsoversigt, 1. kvartal 2012, del 1, 21. marts, p. 142.

²⁸ Taking into account export of services, the fishery exports (DKK 2.4 billion (EUR 322 million)) accounted for 57% of the total in 2011 [Copenhagen Economics (2013): "Fiskeriets økonomiske fodaftryk i Grønland", 22 October, p. 8].

²⁹ Grønlands Statistik (2013): "Udenrigshandel 1. halvår 2013", 27. september, table 3, p. 7.

challenge that the development of new export areas is lacking (though it is of course noted that on the balance of payment side the trade imbalance is compensated through the block grant from Denmark).³⁰ It is noted that data for the first three quarters of 2013 seems to suggest that both imports and exports for that year have decreased slightly compared to 2012, resulting in a further reduction in the trade deficit.

GoG budget balance: The GoG has had budget deficits during 2010-2013. This was a result of a tightened fiscal policy approach where recurrent expenditures were balanced with revenues, but where net-lending for capital investments have been provided (about DKK 200 million per year for 2010 to 2012, and DKK 114 million for 2013). This is seen from the differences between the two different measures for the balance of the public finances applied by the GoG, of which one includes and one excludes net-lending (total balance and partial balance, respectively).³¹ The GoG public finances are highly dependent on the block grant from Denmark which for 2013 amounted to DKK 3.6 billion (EUR 486 million), which was about 56% of total revenues, and thus has a significant stabilising effect on the GoG's budget balance. The block grant is likely to be required for years to come to support the public finances and sustain the standard of living.

GoG debt: After having been debt-free since 2006, the GoG in 2010 took up a DKK 250 million (EUR 33.6 million) loan to finance the construction of a new hydropower plant (as well as to ensure cash reserves equivalent to 10% of the GoG's revenues).³² The loan was taken on behalf of and the proceeds provided to the GoG's energy company (Nukissiorfiit), an Autonomous Government Agency (AGA) under the Ministry of Environment & Nature. A further loan of DKK 350 million (EUR 46.9 million) with a similar purpose was taken in 2012, and as of end-2013 the total foreign loan portfolio of the GoG was thus DKK 600 million (EUR 80.5 million), which is estimated equivalent to 4.4% of Greenland's GDP. Repayment of the two loans will start in 2015 over a 15-year period. The GoG has no domestic debt.

4.2 Fiscal Policy

The overall objective of the GoG in its fiscal policy is to achieve economic independence of block grants from Denmark and to increase political freedom of action.³³ For the short term, the GoG has stated two goals in this regard: 1) Maintain the (partial) balance of the recurrent and capital investment account for the fiscal year and in the medium-term (three year); and, 2) Ensure to have a cash liquidity of at least 10% of total annual expenditure. For the longer term, the GoG has formulated the following two goals: 1) Sustainable fiscal policy; and 2) Real socio-economic growth.

³⁰ Balance of payments accounts are not yet being prepared for Greenland.

³¹ These are in Greenland known under the Danish abbreviations: DAU (*Drift, Anlæg og Udlån*) [Operating, Capital and Loans/Lending] and DA (*Drift og Anlæg*) [Operating and Capital]. The total (DAU) balance is calculated with GoG lending to public entities (Autonomous Government Agencies (AGAs), Public Enterprises (PEs) and municipalities), and does not take into account interest and principal payments on loans. The partial (DA) balance indicates revenue and expenditure for operations and facilities in the same year, and lending to public entities is not included (as these have a high probability of being fully re-paid). The partial (DA) balance thereby does not take account of fluctuations in construction spending from year to year. The two balances can thus fluctuate widely from year to year depending on the level of new investments, loans and repayments.

³² The liquidity target of 10% is an informal aim, which in 2010 (and 2011) corresponded to a cash position of DKK 600-650 million, is stated in the 2010 and 2011 audited financial statements [Grønlands Selvstyre (2011b): "Landskassens årsregnskab 2010", p. 4; Grønlands Selvstyre (2012b): "Landskassens årsregnskab 2011", p. 5]. It is noted that while the statement made in the audited annual financial statements specifies the target vis-à-vis revenues, the MoFDA in its Political and Economic Report 2013 mentions expenditures [Departementet for Finanser og Indenrigsanliggender (2013b): op.cit., p. 14].

³³ Departementet for Finanser og Indenrigsanliggender (2013b): op.cit., p. 14.

The short-term goals imply that fluctuations may occur during individual years (which hence explains the focus on the partial rather than the total budgetary balance), but that – over a four-year period – the average balance as a minimum should be zero or higher, while liquidity should at least DKK 650 million at any one time. These targets are the GoG's basic assumptions for the priorities of the annual Finance Acts. This should help to ensure that while it will be possible to undertake investments that result in a deficit in one year, it can help to generate a profit in subsequent years. Also, the liquidity target means that ordinary fluctuations of revenues and payments can be sufficiently accommodated, and also that the GoG will have freedom of action to respond quickly if the need for urgent action should arise.

The longer term goals aim at achieving fiscal balance between revenue and expenditure to ensure the sustainability of the fiscal policy, which is to be measured at the level of the entire public sector (i.e. including both the GoG and the municipalities). Measuring the expected surplus/deficit of the total public finances over a longer period of time will allow for assessments as to whether the current public sector structure can be funded (i.e. is sustainable) in the long term. In concrete terms this will be measured based on a 'finance indicator' that operates with a time horizon up to 2040.³⁴ Given the available calculations, which illustrate the un-sustainability of the existing structure of public finances, the GoG intends to consider reforms that can ensure a sustainable structure in the long term. The GoG states that the objective is to create real economic growth by defining a general framework that can form the basis for higher productivity in both the public and private sectors, and to establish framework conditions that will promote high-growth enterprises. This is to be done by improving underlying incentive structures and by targeted use of public funds.

The GoG has outlined a number of fiscal policy principles as a framework for the administrative and political management:³⁵

- Joint criteria for assessing public investments;
- Impact measurement of the effects of all significant expenditure areas, both existing and new;
- Incentives structure that supports the policy objectives;
- All subsidy schemes must be time-limited in time and, in relation to business subsidies, the GoG shall only provide grants or issue guarantees to projects that have been credit-rated;
- Common guidelines to ensure the maintenance of fixed assets so as to prevent the existing maintenance backlog from increasing further;
- Specific action to reduce the existing maintenance backlog; and
- Extraordinary revenue is to be prioritised for the construction of educational facilities so as to support the overall fiscal policy objectives, and not for increased recurrent expenditure.

Implementing the principles will require that coordination of public investments is ensured between the GoG, municipalities and the Public Enterprises (PEs). For this purpose the GoG has prepared guidelines for calculating and assessing of socio-economic consequences of investment projects so as to ensure comparability for prioritising among projects.³⁶ This relates to the principle of impact measurement, which will make it possible to assess whether a specific initiative or project should be implemented or continued. Incentive structures to support political and fiscal targets relates to the definition of appropriate frameworks (e.g. reducing the marginal tax rate to improve interaction between the labour market and social services, as has been proposed by the 2011 Tax & Welfare Commission as well as by the GEC). With regard to subsidy schemes and guarantees, the GoG

³⁴ The Greenland Economic Council (GEC) is tasked with carrying out regular assessments of the business cycle and sustainability in the GoG's fiscal policy. A model for measuring the latter on the basis of a 'finance indicator' was developed by the GEC in 2010 [Økonomisk Råd (2010): "Teknisk rapport 2010-1, Finansindkatoren"].

³⁵ Departementet for Finanser og Indenrigsanliggender (2013b): op.cit., p. 15.

³⁶ Departementet for Finanser og Indenrigsanliggender (2014): "Vejledning i fremstilling af samfundsøkonomiske konsekvensvurderinger", Januar.

intends also to assess existing arrangements. As regards maintenance of fixed assets, this relates to the fact that a relatively large share of capital expenditure is for new construction, which in future will require that funds for maintenance have been set aside. And using extraordinary revenue for education-related investment would be done to generate permanent increases in the population's individual incomes over the long term.

While the GoG's main objective with fiscal policy as well as the short-term and longer term goals are comprehensible and meaningful, it is somewhat less clear – given the political economy – when and to which extent the actions that are partly formulated with the fiscal policy principles can and will be implemented. This is discussed further below in Section 4.6.

With regard to domestic revenue mobilisation, the total share of tax revenues to GDP for Greenland's public sector, i.e. GoG and the municipalities, was 32.2% for 2012 (the latest year for which data is available).³⁷ The ratio has been quite stable for the past decade. Greenland's ratio is well below that of the EU-28 for 2012 (40.6%) and in particular that of Denmark (49.1%, the highest among EU countries), but quite comparable to that of Island (36.8%).³⁸ The OECD average for 2012 is 34.6%.³⁹ Some further issues related to domestic revenue mobilisation are discussed and assessed under PI-03 (GoG) and PI-08 (municipalities), while revenue collection and arrears are included under PI-15 in Chapter 5 below.

4.3 Municipalities

With the structural reform that took effect on 1 January 2009, Greenland's previous 18 municipalities were amalgamated into four municipalities. Some factual details are provided below.

Table 4.2 Greenland's Municipalities

Name	Municipality Centre	Population (01/2014)	Area (km ²)
Kujalleq	Qaqortoq	7,088	32,000
Qaasuitsup	Ilulissat	17,291	660,000
Qeqqata	Sisimiut	9,436	115,500
Sermersooq	Nuuk	22,236	531,900
Outside the four municipalities		231	826,686
Total		56,282	2,166,086

Source: Statistics Greenland (<http://www.stat.gl/dialog/main.asp?lang=da&sc=BE&version=201401>).

The Northeast Greenland National Park is unincorporated, while Thule Air Base is administered by the United States Air Force and operates as an unincorporated enclave within, but separate from, Qaasuitsup municipality.

The next table shows the 2013 budgets of the municipalities.⁴⁰

³⁷ Data provided by Statistics Greenland, which will eventually be published in "Statistisk Årbog 2013 – Offentlige finanser".

³⁸ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Tax_revenue_statistics.

³⁹ <http://www.oecd.org/newsroom/tax-revenues-continue-to-rise-across-the-oecd.htm>.

⁴⁰ The 2014 budgets are available on the websites of the municipalities for only one municipality (Sermersooq) in Greenlandic. The 2014 municipal budgets are not available with the MoFDA, and has also not been available from KANUKOKA. The 2014 municipal budgets were requested from KANUKOKA on 24 June 2014, but no reply was received.

Table 4.3 Municipal Budgets 2013

DKK Million	Kujalleq	Qaasuitsup	Qeqqata	Sermersooq	Total
Recurrent expenditure	394.7	910.7	473.9	1,205.9	2,985.1
Capital expenditure	16.4	47.0	66.4	302.4	432.3
Total	411.1	957.7	540.2	1,508.4	3,417.4
Revenues	480.2	1,107.4	595.7	1,496.8	3,680.0
Balance	+69.1	+149.7	+55.5	-11.6	+262.7

Source: KANUKOKA.

The table shows that the total municipal budgeted expenditure for 2013 were DKK 3.4 billion (EUR 458.7 million), which amounts to 52% of the GoG's budgeted expenditure for 2013 (DKK 6.564 million). In other words, the municipal finances make up 1/3 of the total public finances.

The table furthermore shows that three of the four municipalities have budgeted with relatively large budget surpluses, while one municipality had budgeted with a small deficit. Also, capital expenditures accounted for on average 13% of total expenditure, but varied between the municipalities (from 4% to 20%). As for the recurrent expenditure, education and culture accounted for 36% of the budget, social welfare for 27% and administration for 15%.

Municipal expenditure was for 2013 on average DKK 60,000 per capita, but varied significantly between the municipalities (from DKK 54,000 in Qaasuitsup municipality to DKK 69,000 in Sermersooq municipality). There are concerns that the financial situation of especially two municipalities – Qaasuitsup and Kujalleq – is somewhat precarious. Both have experienced challenges in terms of adverse business cycle developments, falling tax revenues and declining populations,⁴¹ and have therefore had to raise taxes as well as take up some limited loans (commercial bank loans and loans from the GoG).⁴²

The GoG's annual block grant to the municipalities in 2013 amounted to DKK 1.1 billion (EUR 152 million) and made up about 1/3 of the municipal revenues. Income tax accounted for almost 50% and the remainder consisted mainly of other shared taxes.

The 2009 amalgamation reform aimed, *inter alia*, at creating more economically robust municipalities with much larger population bases and through professionalisation of the administrations through better management and more trained personnel. Also, it was expected that synergies and better collaboration would be achieved between the GoG and the municipalities. It is unclear to which extent these goals have been met, and a comprehensive evaluation of the structural reform is therefore currently being launched by the GoG and the municipalities.

Some specific aspects regarding the relations between the GoG and the municipalities in terms of horizontal allocations, revenues and equalisation, and the new budget cooperation arrangements are discussed under PI-08 in Chapter 5 below.

⁴¹ The population number of Qaasuitsup and Kujalleq municipalities declined by 2.6% and 6.6%, respectively, from 2011 to 2014. However, also Qeqqata municipality has seen a decline in population number (2.5%). Only Sermersooq municipality has seen an increase during the three-year period (+4.7%).

⁴² However, overall, the municipalities are assessed as not having any net debt as of 2013 [Departementet for Finanser og Indenrigsanliggende (2013b): op.cit., p. 13]. It is noted that municipalities cannot obtain loans over DKK 10 million (EUR 1.34 million) without prior permission from the GoG.

4.4 Public Enterprises

The Public Enterprises (PEs) owned – fully (12) or partly (3) – by the GoG constitute a large share of Greenland’s total economic activities. Cf. PI-09 in Chapter 5 below, the 15 companies in 2012 had a combined net-turnover of about DKK 10.7 billion (EUR 1.4 billion) and about 5,000 staff, while the GoG in 2013 derived combined dividends of DKK 153 million (EUR 20.5 million).⁴³

Several of the PEs provide services in areas such as infrastructure, supply of goods and product exports where there are no other operators, or where competition is weak, which explains the need for the GoG to be engaged (though these circumstances at the same time mean that there is a particular need for efficient and professional management of the PEs).

The net interest-bearing debt of the PEs for 2010-2012 (the latest data available) is shown below.

Table 4.4 Data for the PEs with Net Interest-Bearing Debt, 2010-2012

<i>DKK Million</i>	2010	2011	2012
Royal Greenland	1,976	1,773	1,599
KNI	440	507	747
Royal Arctic Line	-184	-51	-272
Tele Greenland	573	475	371
Great Greenland	20	16	17
Illuut	153	231	429
Total	2,978	2,950	2,892

Source: Board Secretariat, Prime Minister’s Office.

The table shows that the total net interest-bearing debt has decreased only slightly from 2011 to 2012, where it was DKK 2.9 billion (EUR 388 million). 55% of the debt is owed by Royal Greenland. It is also seen that one company – Royal Arctic Line – in 2012 had more liquid resources than debt, and hence a negative net interest-bearing debt.

The table furthermore shows that the net interest-bearing debt increased significantly for KNI and Illuut.⁴⁴ The debt developments for KNI has been a concern for the GoG, which replaced the board in February 2014 and expects the new board to undertake necessary strategic initiatives to bring the company back on track. The borrowing undertaken by Illuut was planned so as to enable it to invest in new buildings where a significant proportion is debt financed.

It is expected that the PEs in the coming years will decrease their debt levels, especially Royal Greenland which is pursuing an active strategy in this regard.

The GoG’s management of the PEs, including with regard to fiscal risk oversight, is discussed under PI-9, dimension (i), in Chapter 5 below.

⁴³ Naalakkersuisut (2013): “Selvstyrets Aktieselskaber – Årlig Redegørelse til Inatsisartut 2013”, November, Table 1.2, p. 6.

⁴⁴ KNI is a trading company comprising different subsidiaries, including Pilersuisoq (general stores in remote locations), Polaroil (liquid fuel distribution network), Neqi (grocery store chain), and KNI Property (manages real estate holdings and investments). Illuut was set up in 2009 with the purpose of acquiring, constructing and owning, sell or rent out real estate. Illuut does not conduct real estate administration or service, but rather provides the GoG with a financial mechanism to take on mortgages.

4.5 Oil and Mineral Resources

Exploration activities regarding minerals and oil have in recent years affected the economy of Greenland significantly, especially in terms of local employment and tax revenues, but also by significantly increasing imports of goods and services.

In 2010 and 2011, oil and gas exploration activities in West Greenland were very high (eight separate initiatives were undertaken). The activities in 2012 and 2013 were limited to seismic studies. This followed a strong growth in oil and gas production in North America in the form of fracking and exploitation of tar sands, which reduced America's dependence on hydrocarbons and thus many oil companies' interest in hydrocarbons from areas with high extraction costs.⁴⁵ During 2012 the number of exploration permits for mineral resources increased from 75 to 97, but at the same time the spending related to exploration decreased significantly. Activities in 2013 were to some extent also adversely affected due to a number of commodities dropping in price and interest in access to water power waned since the price of CO² emission allowances decreased dramatically, which was also affected by the slowdown in the growth of the Chinese economy in 2013.⁴⁶ However, the large increase in the number of exploration licenses issued in 2012 suggests that there may be an increase in exploration activities in the coming years, which is supported by there as of February 2014 being about 150 exploration licences issued.

The Ministry of Industry & Mineral Resources in February 2014 published the GoG's Oil and Mineral Strategy 2014-2018.⁴⁷ This includes royalty/taxation models for oils and gas as well as minerals, which will provide transparent and predictable framework conditions for private companies (as well as for the GoG). The document outlines the GoG's vision that a realisation of the recommendations during the period 2014-2018 will lead to there within five years being opened three to five mines, and that there every two years will be one to two offshore drilling projects. The new strategy also focuses on establishing a geo-survey in Greenland, and more widely on sustainable development regarding environment, education and employment, while also discussing infrastructure challenges as well as citizen and stakeholder involvement.

The Inatsisartut (Parliament) in 2012 adopted the 'Large-Scale Law',⁴⁸ which enables companies under specific conditions to use foreign labour for large construction projects related to mining (so as to make Greenland more attractive to foreign mining companies). The Coalition Agreement of the new Government states that the law needs to be adjusted, and also that the opportunities of the law should be initiated as soon as possible,⁴⁹ but these initiatives are yet to be undertaken. However, given that the labour demand during construction phases of, for example, three mining projects (one large and two smaller) could lead to labour demand of more than 3,400 jobs annually,⁵⁰ it is clear that domestic man-power would not be able to fully meet demand.

Furthermore, the exploitation of radioactive minerals in Greenland had previously been banned due to a zero tolerance policy, but the Inatsisartut in October 2013 voted to lift the ban. New legislation and guidelines now have to be developed before exploitation permits for uranium can be provided.

⁴⁵ Økonomisk Råd (2013a): op.cit., p. 9.

⁴⁶ Ibid.

⁴⁷ Departementet for Erhverv, Råstoffer og Arbejdsmarked (2014): "Grønlands Olie- og Mineralstrategi 2014-2018", Februar.

⁴⁸ Inatsisartutlov nr. 25 af 18. december 2012 om bygge- og anlægsarbejder ved storskala-projekter.

⁴⁹ "Et samlet land – Et samlet folk, Koalitionsaftale 2013-2017", p. 3.

⁵⁰ Departementet for Erhverv, Råstoffer og Arbejdsmarked (2014): op.cit, p. 82. Such three projects are furthermore assumed during implementation to require approximately 1,300 full-time staff with different qualification levels (60% unskilled workers, 30% skilled workers and 10% with academic degrees).

While it is clear that the extraction of minerals and oil can have very significant socio-economic potentials and implications in the longer term,⁵¹ and that there especially at the political level are great expectations about realising these, it remains unclear if and when they will materialise. This is well-illustrated by the so-called Alcoa project (discussed in Section 2.4 of the 2008 PEFA assessment report), which was a major initiative to assess the possibility for developing an aluminium smelter with a hydropower plant at Maniitsoq. Discussions between the GoG and Alcoa Inc. took place over a number of years, but have so far not led to further developments due to disagreement about the framework conditions for the project, a fall in the global price of aluminium, lack of clarity about the ownership model and financial risks related to potential GoG co-ownership. However, overall the exploitation of mineral resources remains by far the most important potential export area to supplement the fishery sector, although uncertainty continues to be large.⁵²

Several reports have been prepared in recent years that assess possible future scenarios for Greenland in terms of employment and revenues related to the extraction of minerals and oil.⁵³ Some of these specifically deal with the issues of the GoG's fiscal sustainability and the long-term goal of independence from the annual Danish block grant. While the details differ, the reports find that the GoG will require significant and continuing revenues over a long period of time (25-40 years are mentioned, slightly shorter if commercially viable oil discoveries are made) to achieve balance on the public finances, and that this will only be achieved if all elements of the process – e.g. appropriate legislative and regulatory framework, suitable taxation/royalty model, qualified and timely administration of applications for exploration and exploitation licenses, relevant geological and related research undertaken, required infrastructure in place, and an upgraded education system that develops the required capacities of the labour force – are in place and well-functioning. The alternatives are either that the long-term goal will not be fulfilled, or that considerable reductions in social welfare would have to be accepted (while it is not clear to which extent full independence enjoys popular support, it is unlikely that a lower standard of living will find any popular or political support).

The reports also point to the various risks that exist in the current situation, including that resource revenues may lead to necessary reforms not being undertaken (which in the longer term could undermine the benefits derived from the resource boom), a Dutch disease-style situation (the export of resources and resulting revenue flow over time leading to a decrease in the price competitiveness, while imports will increase, thus overall leading to a worsening of the trade balance), that rapid build-up of an extensive mining industry may not allow sufficient time for local capacity development (thus leading to import of better-paid foreign workers resulting in part of the population being kept in their current lower-paid jobs), and – in the worst case – a decay of the Greenlandic culture, language and political control (if large foreign companies gain political influence and too many foreign workers settle in Greenland).

It is clear that the process of developing the mineral resource sector must be managed carefully and proficiently if it is to ultimately ensure a continued high standard of living and deliver the kind of welfare that it has the potential to do. And, also, that reforms should be initiated since the mineral

⁵¹ The GoG's Oil and Mineral Strategy 2014-2018 mentions that 5-10 active mines in Greenland could provide tax revenues of more than DKK 30 billion (EUR 2 billion) over 15 years, while the potential benefits from establishing two oil fields (one producing 500 million barrels from 2020 and another 2 billion barrels from 2025) under current conditions could result in more than DKK 435 billion (EUR 58.4 billion) until 2060. Oil would thus be the real game-changer for Greenland.

⁵² Nationalbanken (2013): "Aktuelle tendenser i den grønlandske økonomi", Kvartalsoversigt, 2. kvartal 2013, del 1, 12. juni, p. 124.

⁵³ Grønlands Arbejdsgiverforening-NIRAS (2010): "Økonomisk Selvstændighed, En Enorm Opgave, men ikke Håbløs", March; Copenhagen Economics (2012): "Råstoffer og bæredygtig økonomisk vækst", 11 October; Institut for Fremtidforskning (2013): "Fremtidsscenerier for Grønland", September; Ilisimatusarfik og Københavns Universitet (2014): "Til gavn for Grønland", Januar; Økonomisk Råd (2012a): "Økonomisk Råd Rapport 2012 – Naturressourcer som Vækststrategi", September.

resource sector by itself is highly unlikely in the short- to medium-term to generate the revenues required to adequately address the GoG's fiscal sustainability challenge, and – especially – so as to guard against the risks of intensifying the challenge in case the mineral resource sector does not develop as anticipated.

4.6 Medium-Term Macro-Economic Outlook

GDP growth: The GEC in September 2013 estimated that economic growth for 2014 would be zero, and thus an improvement compared to 2013. The assumptions behind this assessment was, *inter alia*, that there will be a small increase in the exploration activities related to minerals and that construction investments will decrease less than in 2013.⁵⁴ There are so far no clear indications as to whether these assumptions will hold true for 2014. However, GrønlandsBANKEN in its 2013 annual report (published 19 February 2014) similarly to the GEC estimates that the growth rate for 2014 will be about zero.⁵⁵ This is based on the assumption of no change in the fisheries sector and that an increase in construction activities (a new prison and an expansion of the port in Nuuk) will be felt only in the latter part of 2014. The annual report includes a business confidence review with feedback from 14 senior managers of which half expect that the economy in 2014 will be similar to 2013, while four expect an improvement and three expect a worsening.

With regard to the fisheries sector, GrønlandsBANKEN notes that political uncertainty about legislation could act as a future disincentive for investment incentives,⁵⁶ and that fewer investments eventually could have serious negative consequences for the sector, and hence the economy as a whole. It is noted that while GrønlandsBANKEN in its report does not discuss climate change, the consequences of climate change are changing the conditions for the fishery sector though the direction of change seems currently to be unclear.

With regard to the construction sector, GrønlandsBANKEN sees the outlook for 2015 and 2016 as a substantial increase in activities since the Fund for Construction & Renovation (*Anlægs- og Renoveringsfonden*) in early held about DKK 1.3 billion (EUR 175 million), including the 2013 budget allocation for capital investments, to which has been added the GoG 2014 allocation of DKK 779 million (EUR 105 million) for public works projects.

Unemployment: As noted above, it is not quite clear to which extent actual unemployment rose during 2011 and 2012, but it is acknowledged that Greenland's labour market faces structural problems related to skills mismatch and mobility. Any significant reducing in unemployment thus requires structural reforms, e.g. through implementation of the education sector strategy as well as providing access to affordable housing, although it is clear that it for both areas will take time to achieve tangible results. In the medium-term, however, it seems likely that the expected increase in construction activities, cf. above, will create new employment opportunities that, as a minimum, should help to keep unemployment at its current level.

Inflation: No official or other types of forecasts exist for inflation. However, as discussed above the inflation rate has decelerated from mid-2011 to mid-2013, and there are as such currently no specific indications to suggest a significant rise in inflation. It is furthermore noted that it is essential that inflation in Greenland is no larger than in Denmark so as to avoid eroding the real value of the

⁵⁴ Økonomisk Råd (2013a): op.cit., p. 4.

⁵⁵ GrønlandsBANKEN (2014): op.cit., p. 5.

⁵⁶ As recent examples of uncertainty about framework conditions were noted as the taxation of exploratory fishing for mackerel and proposals on ownership restrictions in coastal fishing. While GrønlandsBANKEN found a balanced taxation of mackerel economically sound and noted that the proposed new law had been withdrawn, the sudden large shifts in fisheries politics without prior impact assessments and dialogue with the industry was deemed problematic.

Danish block grant. Since Greenland has no control over monetary policy (this being the responsibility of the National Bank of Denmark with which Greenland is in a monetary union), the GoG will have to rely on fiscal policy tools in terms of taxation and spending to influence the economy. However, this will be challenging at the best of times, given that Greenland is a very small and open economy that is vulnerable to external shocks.

Trade balance: There are no official forecasts for the trade balance. While the trade deficit decreased slightly from 2010-2012 due to significantly higher exports and lower imports, it seems that both exports and imports have decreased during 2013, possibly further reducing the trade deficit. GrønlandsBANKEN in its latest annual report states an expectation that 2014 will see a decreasing contribution from the fisheries sector (and that, in the longer term, political uncertainty about legislation could adversely affect the industry, cf. above). It is also noted that export prices for fishery products are subject to relatively large fluctuations from year to year, and that it presumably will take another few years before any mineral resource-related exports are to be expected. As regards imports, given that no new oil exploration activities are expected and as the world market oil prices are relatively stable, it would seem that imports may remain at the current level, although a higher level of economic activity in Greenland may lead to more imports. Overall it would thus appear that the trade balance could reasonably be assumed to remain stable, or possibly deteriorate slightly in the short- to medium-term.

GoG fiscal policy and budget balance: The GoG in presenting the Draft Finance Act for 2014 noted as a fundamental dilemma of fiscal policy to prioritise between solutions that address short-term challenges (e.g. high unemployment) and at the same time contribute to solving long-term structural challenges (e.g. a generally low education level), and stated the need for fiscal policy objectives to address both aspects. The Draft Finance Act operated with budget deficits for 2014 and 2015 followed by surpluses for 2016 and 2017, which was in line with the GoG's short-term goal over any four-year period to ensure an average balance of at least zero. The GEC in its annual report 2013 found that while the business cycle could justify some fiscal easing – e.g. increased capital investments for the education sector which at the same time would support implementation of the education strategy in the longer term – the approach had an inherent risk since spending would take place before financing was in place. The 2014 Finance Act that was eventually adopted instead operated with a budget surplus for 2014 as well as for 2016-2017, while only 2015 operated with a deficit.

While the 2014 Finance Act thus was more fiscally responsible than the Draft Finance Act, it is noted that although the GoG during the budget preparation process emphasised the need for reforms to support business development and ensure sustainable public finances, and thus a self-sustaining economy, the reform ambitions were not yet specified.⁵⁷ However, this is an urgent priority given that the current structure of Greenland's welfare and tax system in conjunction with demographic change means that there will be structural budget deficits,⁵⁸ which will require major reforms to address. The GEC in its 2013 annual report calculated that achieving balance between revenue and expenditure up to 2040 requires permanent budgetary improvements of up to DKK 1 billion (EUR 134 million).⁵⁹ This is similar to the GEC earlier assessments, hence indicating that the long-term fiscal challenge is unchanged, which reflects that no decisions have been made

⁵⁷ Økonomisk Råd (2013a): op.cit., pp. 4-5.

⁵⁸ The demographic change not only means that the dependency ratio will increase, implying that fewer working age tax payers will need to support more retirees, but also an increasing financial pressure in relation to pensions, health care services, etc. According to the available data, the dependency ratio starts increasing already in 2014 and will continue to do so till 2035.

⁵⁹ Ibid, p. 14.

regarding reforms that will help to address the fiscal sustainability problem.⁶⁰ The GEC's overall conclusion thus is that the current fiscal policy combined with demographic projections leads to unsustainable developments in public finances.⁶¹

The GEC furthermore noted that the GoG's practice of managing the public finances focusing mainly on the liquidity measure – partial (DA) balance – is problematic as it is too simplistic to adequately capture all relevant revenue and expenditure aspects.⁶² Also, the partial (DA) balance is not in line with international practice as a fiscal management instrument (nor is the total (DAU) balance although it as such is a better measure), which would rather be to calculate the fiscal balance taking into account the flows of all economic transactions. The GEC's fiscal sustainability model is based on such principles. Furthermore, multi-year spending limits can be used as a management tool to ensure that public sector operations are rationalised in the medium term. The MoFDA is currently considering the possibilities of applying additional measures for assessing fiscal policies in a multi-year perspective, including related to the GEC's fiscal sustainability model. Also, the GoG plans to prepare 10-year costed sector strategies and provide forward expenditure estimates for capital investment projects.

Debt: The GoG's current foreign loan portfolio is DKK 600 million for which repayment will start in 2015 over a 15-year period. The Draft Finance Act (*Forslag til Finanslov*) for 2014 stated that additional borrowing totalling DKK 200 million (EUR 26.8 million) was expected, which would bring total debt to DKK 800 million (EUR 107.4 million). It is understood that the GoG does in fact expect to borrow DKK 200 million, and that if it should do so this would be in accordance with the principles outlined in the Debt & Investment Strategy. The purpose with the additional loan would be to ensure that the GoG has cash reserves equivalent to 10% of the GoG's expenditures/revenues (since cash liquidity is about DKK 1 billion and the gross debt is DKK 600 million, the GoG's net worth is DKK 400 million which is DKK 200 million short of the liquidity target), and relates to consideration about taking on a loan to finance construction activities related to the new port in Nuuk. However, even with an additional loan would not have any net interest-bearing debt. The municipalities also currently have no net debt, but future loans may be raised for construction activities, particularly regarding housing. The PEs at end-2012 held net interest-bearing debt amounting to DKK 2.9 billion (EUR 388 million), but this is expected to decrease in the coming years, in particular Royal Greenland which is pursuing an active strategy in this regard.

⁶⁰ Many of these reforms have been identified and formulated by the 2011 Tax & Welfare Commission within the areas of taxation, housing, education, pensions and social welfare as well as involving the work and functioning of the municipalities.

⁶¹ Økonomisk Råd (2013d): "Teknisk baggrundsnotat 2013-3, Finanspolitisk holdbarhed".

⁶² Ibid, p. 18.

5 PFM Review

This chapter assesses the current status of the PFM system, processes and entities of the GoG against the 28 Performance Indicators (PIs) prescribed in the PEFA framework. Each PI is assigned a rating calculated from the score achieved in each dimension and based on the minimum requirements for that score as defined in the PEFA framework.

A summary of the ratings for each PI is provided in Section 5.7, which also indicates the scoring Methodology 1 or 2 (M1, M2) for each PI.⁶³

The structure used in this chapter to present the findings follows the six levels of the PEFA framework:

- Section 5.1: Background
- Section 5.2: PFM Out-turns – A. Credibility of the Budget
- Section 5.3: Key Cross-Cutting Issues – B. Comprehensiveness and transparency
- Section 5.4: Budget Cycle – C.1 Policy-based budgeting
- Section 5.5: Budget Cycle – C.2 Predictability and control in budget execution
- Section 5.6: Budget Cycle – C.3 Accounting, recording and reporting
- Section 5.7: Budget Cycle – C.4 External scrutiny and audit

Recent and/or on-going reform developments have, where relevant, been noted under the PI descriptions since this may be important for future performance, and thus should be considered when developing a medium-term PFM reform plan (a proposal of which is provided in Section 7.3).

It should be noted that, since the frameworks and status of procurement for works and goods & services differ significantly for the GoG, two separate assessments have provided below (ordinarily only one PI description for procurement is provided in PEFA assessments). However, the PI-19 rating shown in Section 5.7 for procurement is a combined score covering both areas.

The 2008 PEFA assessment report concluded that “*the analysis of Greenlandic PFM system shows that it is credible, transparent and very well-functioning; adhering to both national legislation and international best practice standards*”.⁶⁴ However, the report did not include quantitative scores of the PIs and the quality of the PI presentations and assessments is such that it in most cases is not possible subsequently to score the PIs. It is therefore not possible in the 2014 PEFA assessment to provide precise information regarding progress made for the 28 PIs. The trajectory of change therefore instead has to be inferred from recent and on-going PFM reform developments and initiatives. A brief status review of the three focus areas that have been the subject of annual reviews during 2009-2013 – tax audits (PI-14, dimension iii), tax collection and arrears (PI-15, dimension i) and procurement (PI-19) – is provided in Sub-Section 7.1.2.

⁶³ The PEFA scoring methodology: M1 is used for all single-dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator. The overall score is therefore set at the lowest-ranked dimension with “+” added if there is another dimension score higher than this. M2 is based on averaging the scores for individual dimensions of an indicator using a table provided in the PEFA Secretariat (2012): “Fieldguide – for Undertaking an Assessment using the PEFA Performance Measurement Framework”, 3 May, p. 15.

⁶⁴ European Commission (2008): “Greenland – Public Financial Management Assessment”, Final Report, ADE, 7 August, p. 5.

5.1 Background

The structure of the public sector in Greenland is consists of a public administration and public corporations:

- The *public administration* includes authorities and institutions that offer non-market services, redistribute income, and generally seek to promote economic development. Non-market services are services actively controlled by public authorities and available free of charge for individuals and businesses. Public services are financed mainly through taxes, but some services (e.g. child care) are partly funded through user fees. The public administration includes three sub-sectors: GoG, municipalities and the Danish State (activities still managed and funded directly by the Danish State).
- *Public corporations* consist of Public Enterprises (PEs) and Autonomous Government Agencies (AGAs). PEs are publicly held companies that operate on market terms and are controlled and/or owned by the GoG.⁶⁵ AGAs undertake commercial tasks and are organised in a manner that resembles PEs, but are organisationally and legally part of the GoG and are included in the GoG budget (and hence the annual Finance Act).

The division of responsibilities within the MoFDA is expressed through its organisational structure, which consists of the following divisions: Budgeting & Economic Planning, Reform Activities, Domestic Affairs, Legal Affairs and Land-Use Planning. The main responsibilities of the MoFDA are to service and advise the Minister, draft legislation and provide oversight. Three agencies, which primarily have operational and administrative functions, are part of the MoFDA: The *Tax Agency* is charged with administration of tax and fees/duties as well as recovery of public arrears. The *Economy & Personnel Agency* is charged with accounting and financial reporting, internal audit, procurement of goods and services, and personnel and payroll administration. The *Agency for Digitisation* provides support to GoG entities in regard to IT systems and also has a coordinating role in relation to IT projects. Also, Statistics Greenland refers to the MoFDA.

The budgetary outcomes for the GoG for 2010-2013 in absolute figures are shown below.

⁶⁵ PEs in which the GoG holds a minority stake (Air Greenland, NunaMinerals and GrønlandsBanken) are thus as such not PEs, but are nonetheless included in GoG reporting due to the strategic and monetary significance of the ownership.

Table 5.1 GoG Expenditures, 2010-2013 (DKK Million)

<i>DKK</i>	2010	2011	2012	2013
Tax and fees/charges	-1,885,732,026	-1,968,811,104	-2,030,140,871	-1,891,944,831
Budget support (Denmark and EU)	-3,816,025,998	-3,753,672,556	-3,908,831,910	-3,964,506,929
Other revenues	-480,185,311	-547,517,641	-443,061,267	-550,903,644
Total income	-6,181,943,335	-6,270,001,301	-6,382,034,048	-6,407,355,404
Salaries	1,499,308,349	1,532,510,901	1,541,435,385	1,610,102,434
Travel	241,233,252	232,033,587	230,675,736	241,333,619
Goods and services	1,522,241,625	1,282,730,297	1,362,106,229	1,399,729,896
Transfers between years	-7,236,323	35,244,535	-4,618,180	-2,169,474
Subsidies	1,644,029,451	1,599,903,358	1,599,504,385	1,706,290,446
Block grants to municipalities	857,165,126	1,110,015,103	1,198,828,413	1,193,416,879
Losses	84,421,333	-6,345,383	51,920,527	36,229,753
Total operating expenditure	5,841,162,814	5,786,092,399	5,979,852,496	6,184,933,553
Capital expenditure	349,847,133	563,212,255	287,044,894	189,603,752
Interest income	-278,132,512	-221,390,411	-302,631,060	-401,069,013
Interest expense	2,221,615	11,310,113	12,714,641	20,066,522
Capital and financing expenditure	73,936,235	353,131,956	-2,871,525	-191,398,739
Changes in loans	258,691,896	385,136,410	505,466,108	356,728,130
Changes in share holdings	12,000,000	-80,187,000	8,000,000	30,000,000
Changes in housing loans	-6,087,463	-13,515,903	-43,114,825	-43,685,526
Total changes	264,604,433	291,433,507	470,351,283	343,042,604
Overall balance	-2,239,852	160,656,561	65,298,205	-70,777,986

Source: Data set provided by the GoG's Central Department of Accountancy.

The table shows that the budgetary balance was positive for 2010 and 2013, while being negative for 2011 and 2012. Given that income has increased steadily over the period (by 3.6% overall), the changes are a result of fluctuations in expenditure (in particular block grants to municipalities for 2011 as well as salaries and subsidies in 2013).

The budgetary outcomes for the GoG for 2010-2012 as a share of GDP are shown below (the GDP figure for 2013 is not yet available from Statistics Greenland).

Table 5.2 GoG Expenditures, 2010-2013 (% of GDP)

%	2010	2011	2012	2013
Tax and fees/charges	-15%	-14%	-15%	-
Budget support (Denmark and EU)	-30%	-28%	-28%	-
Other revenues	-4%	-4%	-3%	-
Total income	-48%	-46%	-46%	-
Salaries	12%	11%	11%	-
Travel	2%	2%	2%	-
Goods and services	12%	9%	10%	-
Inter-year transfers	0%	0%	0%	-
Subsidies	13%	12%	12%	-
Block grants to municipalities	7%	8%	9%	-
Losses	1%	0%	0%	-
Total operating expenditure	45%	43%	43%	-
Capital expenditure	3%	4%	2%	-
Interest income	-2%	-2%	-2%	-
Interest expense	0%	0%	0%	-
Capital and financing expenditure	1%	3%	0%	-
Changes in loans	2%	3%	4%	-
Changes in shareholdings	0%	-1%	0%	-
Changes in housing loans	0%	0%	0%	-
Total changes	2%	2%	3%	-
Overall Balance	0%	1%	0%	-

Source: GDP figures for 2010-2012 are from Grønlands Statistik (2013): "Nationalregnskab", 20. December. GDP figures for 2013 will, according to Statistics Greenland, be available only in November 2014.

The table shows that both income and expenditure decreased has a share of GDP for 2011, which was due to 5.8% economic growth for 2011. It is also seen that the GDP share of taxes and fees/charges is unchanged from 2010 to 2012, whereas budget support decreased from 2010 to 2011, i.e. there has been a relatively large increase in taxes and fees/charges. For expenditure it is seen that whereas the shares of salaries, goods and services, and subsidies decreased, the share of the block grants to municipalities increased for each of the three years.

5.2 PFM Out-turns – A. Credibility of the Budget

PI-01 Aggregate expenditure out-turn compared to original approved budget

The indicator measures actual total expenditure compared to originally-budgeted total expenditure, which helps to describe a government's ability through the budget to deliver public services as expressed in policy statements, commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports).⁶⁶ In order to understand the reasons behind deviation from budgeted spending, it is important that the narrative describes the external factors that may have led to the deviation.

⁶⁶ PI-01 excludes two expenditure categories over which governments have little control: 1) Debt service payments, which in principle governments cannot alter during the year though they may change due to interest and exchange rates movements; and, 2) Donor-funded project expenditure, the management and reporting of which are typically under the control of donors. As for the GoG, there is currently no debt repayment (for the existing debt, repayment starts only in 2015), and the GoG also does not have any donor-funded projects relevant for inclusion or consideration here.

Dimension	2014 Score	Brief Explanation of Status
PI-01 Aggregate expenditure out-turn compared to original approved budget. The difference between actual primary expenditure and the originally budgeted primary expenditure.	A	In none of the three years covered (2010, 2011 and 2012), has actual expenditure deviated from budgeted expenditure by more than 5%. In fact, deviations have been between -1.2% (2010) and +1.6% for 2011.

The GoG makes appropriations using the following main spending categories:⁶⁷

1. **Recurrent (*driftsudgifter*)** – This is a financial allocation (envelope) for the net-operating expenditures of the institutions/administrative units that appropriation covers. Salaries can only be paid from this category, which also cover minor construction and renovation spending;
2. **Statutory (*lovbundne*)** – This applies when legislation entitles a particular recipient to a certain benefit, and where the amount or calculation basis is established by legislation (i.e. it is mandatory and non-discretionary). The budget for statutory expenditure is an estimate, and deviations therefore do not require prior approval (unless they are caused by legislative changes in which case a Supplementary Act must be prepared and approved);
3. **Grants (*tilskud*)** – This provides authorisation for providing grants as per the budget. Grants are here defined broadly as covering, for example, capital injections in Public Enterprises (PEs), interest payments, business subsidies, reserves, depreciation and loans;
4. **Capital (*anlægsudgifter*)** – This covers purchase of property, construction, lending and subsidies for construction as well as renovation. Generally each capital appropriation covers one project, although in special cases one appropriation can include several smaller projects. Changes to an allocated capital budget require prior parliamentary approval.

The table below shows the expenditure out-turn compared to the original appropriations for the past three fiscal years where both budget and actual spending data is available (2010, 2011 and 2012).

Table 5.3 Comparison of Original Budgets against Expenditure, 2010-2012

DKK Million	2010	2011	2012
1. Recurrent (<i>driftsudgifter</i>)			
Budget	3,066.4	2,778.4	2,900.8
Actual	3,078.2	2,777.4	2,735.5
Deviation	+0.4%	-0.0%	-5.7%
2. Statutory (<i>lovbundne</i>)			
Budget	866.8	889.6	884.9
Actual	852.0	870.2	878.5
Deviation	-1.7%	-2.2%	-0.7%
3. Grants (<i>tilskud</i>)			
Budget	1,570.8	1,839.7	1,880.5
Actual	1,534.3	1,808.5	2,008.4
Deviation	-2.3%	-1.7%	+6.8%
4. Capital (<i>anlægsudgifter</i>)			
Budget	757.6	937.4	946.4
Actual	719.0	1,095.0	968.6
Deviation	-5.1%	+16.8%	+2.3%
Total Expenditures			

⁶⁷ Chapter 4 in the 1999 Law on the GoG's Budget (Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyrer budget), and Section 2.2 in the 2008 Budget Regulations (Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008). The fifth appropriation category is for revenues (*indtægter*), which is analysed under PI-03.

DKK Million	2010	2011	2012
Original Budget	6,261.6	6,445.1	6,612.6
Actual	6,183.4	6,551.2	6,591.0
Deviation	-1.2%	+1.6%	-0.3%

Source: Finance Acts [Finansloven] and Annual Audited Financial Statements [Landskassens Årsregnskaber] for 2010, 2011 and 2012.

The table shows that the deviations between total originally budgeted and total actual spending were low for all three years, ranging between -1.2% (2010) and +1.6% (2011). If capital (*anlæg*) expenditures were to be excluded in the calculations, the deviations would be very low for all three years (-0.7% for 2010, -0.9% for 2011 and -0.8% for 2012).

However, when assessing each of the four appropriation categories separately, it is seen that while the deviations were in all years minor for statutory (*lovbundne*) expenditures, they were somewhat high for recurrent (*drift*) and grants (*tilskud*) in 2012, while for capital (*anlæg*) expenditures they were high for 2010 and – especially – 2011.

The relatively high deviation for recurrent (*drift*) in 2012 was partly caused by general under-spending across a number of entities, but also as two budget lines for Autonomous Government Agencies (AGAs),⁶⁸ which had a total appropriation of DKK 70 million (EUR 9.4 million), during the year were changed from net-operating recurrent expenditure to grants (*tilskud*).

In addition, the over-spending of grants (*tilskud*) in 2012 was furthermore caused by an increase of the block grant to the municipalities by DKK 69 million (EUR 9.3 million) for education and counselling tasks transferred from the GoG to the municipalities.

The reason for the deviations regarding capital (*anlæg*) expenditures in 2010 was mainly a number of changes to several housing-related appropriations. For 2011, an additional DKK 141 million (EUR 18.9 million) were allocated for school dormitories with a Supplementary Act (financed from higher-than-projected revenues).

For capital (*anlæg*) expenditures, it is noted that almost all funding budgeted under activity codes 80-87 and 89 in the Finance Acts at the start of each fiscal year is transferred to the Fund for Construction & Renovation (*Anlægs- og Renoveringsfonden*).⁶⁹ The fund is an accounting-technical set-up to enable separate monitoring of spending on capital projects, and the budgeted capital expenditures are accounted for as spent with the annual transfer to the fund. Deviations between budgeted and actual capital spending are thus caused by either planned projects being cancelled (and related funds hence not being transferred and accounted for as spent), or additional funding being made available during the year through additional appropriation (Supplementary Acts). An overview of the funding and annual changes for the three years covered by the assessment is shown below.

Table 5.4 Finances of the Fund for Construction & Renovation, 2010-2012

DKK Million	2010	2011	2012
Appropriation	750	1,101	1,014
Spending during the Fiscal Year	897	898	1,044

⁶⁸ Account no. 70.01.13 Asiaq (geo-technics) and no. 73.94.02 Nukissiorfiit (energy).

⁶⁹ The GoG's Central Department of Accountancy (under the Economy & Personnel Agency) maintains a separate cash flow overview for the fund (cf. PI-16, dimension i), while the Ministry of Housing prepares an annual report for the fund that details the status of projects and related spending. The spending and balance of the fund is covered by the annual external audit.

DKK Million	2010	2011	2012
<i>Deviation</i>	-147	+203	-30
Unspent funds/cancelled projects	0	0	-38
Transfer to the Fund	-148	+203	-68
Fund balance at year-end	592	795	727

Source: Departementet for Boliger, Infrastruktur og Trafik (2013): "Redegørelse om Anlægs- og Renoveringsfonden", Table 3.5, p. 12.

The table shows that appropriations and actual spending for capital projects vary from year to year, which is due to the time required for implementation and construction. Technical transfers to the fund therefore also differ from year to year.

The data sets applied for calculations under PI-01 (and PI-02) are provided in Annex F.

PI-02 Composition of expenditure out-turn compared to original approved budget

The indicator measures actual expenditure out-turn against the original budget at the level of budget heads, and hence how in-year re-allocations between these have contributed to variance in the expenditure composition (dimension i). This helps to assess the usefulness of the budget as a policy statement. The indicator also measures the extent to which expenditure funded from contingency items is charged to (accounted for under) contingency codes (dimension ii).

Dimension	2014 Score	Brief Explanation of Status
PI-02 Composition of expenditure out-turn compared to original approved budget.	A	Overall rating based on M1 methodology.
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	A	Variance in expenditure composition exceeded 5% only in one of the three years assessed (9.5% for 2011).
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	The GoG has only for one year (2010) charged a very minor amount of actual expenditure (0.1%) directly to a reserve vote/account.

Dimension (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items

The analysis is based on the actual expenditure at the level of the two-digit codes used in the GoG's Chart of Accounts for the budget (appropriations in the Finance Act) and actual expenditure (as stated in the audited annual financial statements).⁷⁰ This amounts to a total of 19 budget lines that generally align to administrative/organisational entities as well as some capital budgets, cf. below.

The calculated expenditure composition variances are shown in the table below.

Table 5.5 Variance in Expenditure Composition (PI-2)

Fiscal Year	Composition Variance
2010	4.8%
2011	9.5%
2012	3.6%

⁷⁰ It is noted that the financial statements actually consists of four separate sets of statements: One for the GoG (*Landskassens Årsregnskab*) and three for the three AGAs. Unless specifically mentioned, the term 'financial statements' is used in this assessment as referring to that of the GoG.

Source: Finance Acts [Finansloven] and Audited Annual Financial Statements [Landskassens Årsregnskaber] for 2010, 2011 and 2012.

Note: The calculations exclude on the budget side budgeted reserve items in the Finance Acts under the account nos. 20.05.31 (*Reserve til merudgift på det kommunale område*) and 20.11 (*Reserver – Departementet for Finanser*) as these are transferred to other accounts/areas during the fiscal year.

The table shows that the expenditure composition variances were relatively low for 2010 and 2012, but somewhat high for 2011. The main reasons for the variances are provided below.

A detailed overview of the data sets is shown in the following table.⁷¹

Table 5.6 Original Budgets and Actual Expenditure for Primary Budget Entities

DKK Million	2010		2011		2012	
	Original Budget	Actual Exp.	Original Budget	Actual Exp.	Original Budget	Actual Exp.
01 Inatsisartuts Formandskab	81.0	75.8	78.6	74.8	81.4	77.3
10 Formanden for Naalakkersuisut	70.0	67.4	65.6	63.9	58.8	67.5
12 Grønlands Repræsentation	14.1	14.0	13.8	13.7	14.1	13.7
20 Departementet for Finanser	959.5	955.9	1,213.8	1,211.0	1,262.6	1,316.4
24 Skattestyrelsen	75.9	71.9	75.6	70.4	77.6	73.3
30 Departementet for Familie, Kultur, Kirke og Ligestilling	1,126.6	1,089.4	870.6	1,006.5	1,074.8	1,029.0
34 Departementet for Sundhed	1,161.5	1,200.6	1,183.6	1,222.7	1,237.7	1,247.0
40 Departementet for Uddannelse og Forskning	1,129.6	1,136.5	1,138.4	963.2	969.6	928.6
50 Departementet for Fiskeri, Fangst og Landbrug	15.2	17.0	50.3	55.4	70.6	70.2
51 Styrelsen for Fiskeri, Fangst og Landbrug	107.6	104.8	92.2	87.1	93.4	87.5
62 Styrelse under Erhverv og Råstoffer	10.1	9.6	9.5	9.6	7.9	7.8
64 Departementet for Erhverv og Arbejdsmarked	147.4	139.3	142.3	140.4	149.1	162.2
66 Råstofdirektoratet	42.2	42.1	42.4	42.3	43.2	43.0
70 Departementet for Boliger, Infrastruktur og Trafik	58.7	53.2	54.1	48.3	53.8	49.9
72 Boliger	12.6	11.7	10.8	8.5	11.5	20.1
73 Energi og infrastruktur	381.8	395.6	382.5	372.9	370.2	361.2
77 Departementet for Indenrigsanliggender, Natur og Miljø	64.9	65.9	68.8	65.2	71.3	67.6
80-87 Anlægsområdet	324.7	382.5	338.5	516.0	273.5	286.7
89 Anlægsudlån	432.9	336.5	598.9	579.0	672.9	682.3
Reserver	45.2	13.9	14.8	-	18.7	-
Total	6,261.5	6,183.4	6,445.1	6,551.2	6,612.6	6,591.0

Source: Finance Acts [Finansloven] and Audited Annual Financial Statements [Landskassens Årsregnskaber] for 2010, 2011 and 2012.

Note: The titles used for entities/areas are as of the 2012 Finance Act.

⁷¹ It is noted that the budget figures applied, cf. the PEFA methodology, are adjusted so that for each budgetary unit they make up their share of the original budget, but in total these sum up to the actual total expenditure, i.e., the PI-02 calculation is based on relative rather than absolute figures.

The table shows limited deviation between the original budgets and actual expenditures for most entities/areas, except the following where the absolute variations have been high:

- 20 *Departementet for Finanser* in 2011 and 2012;
- 30 *Departementet for Familie, Kultur, Kirke og Ligestilling* in 2010, 2011 and 2012;
- 34 *Departementet for Sundhed* in 2010;
- 40 *Departementet for Uddannelse og Forskning* in 2011 and 2012;
- 80-87 *Anlægsområdet* in 2010 and 2011;
- 89 *Anlægsudlån* in 2010 and 2011.

The reasons for the variances are for 2010 mainly changes related to (i) appropriated funds for capital projects, including transfers between the two main budget lines which used capital projects, and (ii) over-spending on health and under-spending on social affairs. For 2011, the main reasons were portfolio changes between two ministries (social affairs and education) as well as additional capital spending funded by higher-than-projected revenues. For 2012, the main reason for variation was an increase of the municipal block grant (affecting the ministries of finance and education), as well as some under-spending by the Ministry of Family & Culture.

The data sets applied for calculations under PI-02 (and PI-01) are provided in Annex F.

Dimension (ii) The average amount of expenditure actually charged to the contingency vote over the last three years

According to the 2008 Budget Regulations, new or changed appropriations during the fiscal year are to be reduced as much as possible, and they primarily should relate to unexpected expenditure as well as implementation of reserves (Sections 1.3 and 4.3).⁷²

It is furthermore specifically noted that reserves for capital projects can be provided for in the Finance Act, but that – in such cases – it is required that the Finance & Tax Committee of the Inatsisartut (Parliament) approves the change before the amount in question can be transferred to a project appropriation in the Fund for Construction & Renovation (Section 7.5). The purpose of initially setting aside a reserve is to improve decision-making, so that the final political decision regarding a construction project is made when all economic implications have been identified and assessed. In the Finance Acts, accounts no. 80.00 and no. 87.00 include such funding termed ‘reserves’ (DKK 61.5 million in 2010, DKK 137.4 million in 2011, and DKK 50.5 million in 2012), but they are – cf. above – not actual contingencies.

The Finance Act also includes reserves under the MoFDA (accounts 20.05.31 and 20.11). The first account is for grants and relates to possible additional costs at the municipal level that can cover, for example, new legislation with financial implications for the municipalities, implementing the results of an analysis carried out regarding the development of a new budgetary cooperation agreement between the GoG and municipalities (cf. PI-08), and additional funding for an evaluation of the amalgamation reform. The second account covers mainly reserve funding for emergencies.

The reserves budgeted for in the Finance Acts and the actual expenditures charged to the reserve accounts for 2010, 2011 and 2012 are shown below.

Table 5.7 Budgeted Reserves and Actual Expenditures Charged to the Reserve Accounts

<i>DKK Million</i>	2010	2011	2012
--------------------	------	------	------

⁷² Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008.

	Original Budget	Actual Exp.	Original Budget	Actual Exp.	Original Budget	Actual Exp.
20.05.31 Reserve til merudgift på det kommunale område	5.7	-	3.7	-	0.7	-
20.11 Reserver (Departementet for Finanser)	39.5	13.9	11.0	-	17.9	-
Total	45.2	13.9	14.8	-	18.7	-

Source: Finance Acts [Finansloven] and Audited Annual Financial Statements [Landskassens Årsregnskaber] for 2010, 2011 and 2012.

The table shows that the reserves set aside with the annual Finance Acts are very low, especially for 2011 and 2012, and also that for the last two years spending is not actually charged to the reserve accounts (but rather to the account(s) from where it was actually spent).

PI-03 Aggregate revenue out-turn compared to original approved budget

A comparison of budgeted and actual revenue provides an overall indicator of the quality of revenue forecasting, which is a key input to the preparation of a credible budget. As it is recognised that revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of the forecast (e.g., a major macro-economic shock), the calibration allows for one "outlier" year to be excluded.

Dimension	2014 Score	Brief Explanation of Status
PI-03 Aggregate revenue out-turn compared to original approved budget. Actual domestic revenue compared to domestic revenue in the originally approved budget.	B	Actual domestic revenue was between 105.8% and 109.2% of budgeted domestic revenue during the last three years for which data is available (2010, 2011 and 2012).

Overall multi-year fiscal forecasting is the responsibility of the MoFDA, and covers the budget for the coming fiscal year and three additional years (*budgetoverslagsårene*). The annual Finance Act has a medium-term perspective. At the aggregate level, the total revenues forecasted include the following sources:

- Block Grant and Other Grants/Income;⁷³
- Taxes;
- Fees and Duties;
- Return on Investments;
- Repayment of loans to the GoG; and,
- Other Revenues.

The Block Grant and Other Grants/Income is forecasted by the MoFDA based on the agreements with the Government of Denmark about the block grant and the share of the profit of the Danish Central Bank,⁷⁴ and the annual grants included in the agreements with the EU. Estimates about the

⁷³ In the Finance Acts and the annual accounts, "Aftalte indtægter" ["agreed revenues"] covers the block grant from Denmark (in 2012 accounting for 91% of the total), Partnership Agreement with the EU (5%), the GoG's share of the profit of the Danish Central Bank (1%), Fisheries Agreement with the EU (1%) and the sale of fishing rights (2%).

⁷⁴ The block grant is fixed at its 2009 level, but adjusted annually by the Government of Denmark according to the calculated price and wage index level (i.e. not according to the price and wage index level in Greenland, which tends to be slightly higher). Greenland's share of the profit of the Central Bank follows from the monetary union between Denmark, Greenland and the Faroe Islands, and is for Greenland determined as approximately 1% of the amounts payable to the Government of Denmark, corresponding to the ratio of the population of Greenland and the total population in Denmark, Greenland and the Faroe Islands.

sale of fishing rights is received from the Ministry of Fisheries, Hunting & Agriculture. Taxes and fees/duties are forecasted by the Tax Agency based on (conservative) estimates derived from assessments of the previous years' revenues. Revenue figures regarding return on investments, repayment of loans to the GoG and other revenues are estimated by the various GoG entities responsible for the different areas and provided for consolidation to the MoFDA.

Of the different main revenue sources, only taxes, fees and duties, interests on investments, and other revenues are considered domestic revenues. Block grants from Denmark and the EU grants are not domestic revenue, while repayment of loans is not technically considered revenue (since it is a "below-the line" financing item).

The following table shows the aggregate domestic revenue out-turn compared to the original budget for the past three fiscal years for which data is available (2010, 2011 and 2012), and the deviation of actual out-turn compared with the original budget.

Table 5.8 Budgeted and Actual Domestic Revenues (PI-3)

Million DKK	2010			2011			2012		
	Budget	Actual	Dev.	Budget	Actual	Dev.	Budget	Actual	Dev.
Taxes	893	1,018	+14%	909	1,135	+25%	1,004	1,143	+14%
Fees and Duties	810	772	-5%	847	800	-6%	851	860	+1%
Return on Investments	255	290	+14%	248	322	+30%	305	321	+5%
Other Revenues	97	165	+70%	156	80	-49%	103	70	-32%
Total	2,055	2,245	+9%	2,160	2,337	+8%	2,263	2,394	+6%
<i>Deviation in %</i>	+9.2%			+8.2%			+5.8%		
Actual as share of Budget	109.2%			108.2%			105.8%		

Source: Audited Annual Financial Statements [Landskassens Årsregnskab 2010, 2011 & 2012].

The table shows that revenue collection over-performed in all three years. While the total deviation per year is somewhat similar, it is seen that the deviations for the specific revenue items differ within as well as between years. Especially the taxes are over-performing each year (hence are under-estimated) as was also the case for return on investment in 2010 and 2011, while other revenues deviate significantly, but in different directions. Only actual fees and duties are in all three years relatively close to the budgeted amounts (though under-performing in two of the three years).

The higher than budgeted tax revenues in 2011, and to some extent in 2012, was a result mainly of high activity level regarding exploration of oil and other minerals, which can vary significantly from year to year and were particularly high in 2011. That this was not budgeted for must be seen in the context of exploration activities having been very limited in previous years, and hence the Tax Agency lacking experience in estimating the tax implications hereof.

It is noted that if the block grants and other grants were included in the above calculations, then the total deviations per year would be significantly smaller (and result in an "A" score). This indicates that the block grants and other grants at the aggregate level mitigate the effects of the domestic revenue deviations.

It is furthermore noted that the performance measured with the 2008 PEFA assessment qualified for an "A" (even with applying the new and more strict methodology for PI-3 that was introduced in 2011) since actual domestic revenue compared to domestic revenue were 109.2%, 100.7% and

103.2% for 2005, 2006 and 2007, respectively (when excluding block grants and other grants). The deviations between budgeted and actual revenues were less pronounced at that time.

PI-04 Stock and monitoring of expenditure payment arrears

This indicator measures whether there are expenditure payment arrears, and the extent to which data is available to monitor these. A high level of arrears would indicate financial management problems (for example, inadequate commitment controls, inadequate budgeting for contracts, under-budgeting of specific items, or lack of information).

It is important to note that expenditure payment arrears here are understood as expenditure obligations that have been incurred and for which payment is overdue. A distinction is made between outstanding payments and overdue payments (arrears). An outstanding payment becomes overdue when the contractual date of payment is exceeded without payment.

Dimension	2014 Score	Brief Explanation of Status
PI-04 Stock and monitoring of expenditure payment arrears.	A	Overall rating based on M1 methodology.
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	A	The GoG does not have expenditure payment arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	NA	-

Dimension (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

The GoG's cash management and commitment control – within the context of overall accounting practices – is performed in such a manner that it, coupled with a high degree of liquidity, means that overdue payments are non-existent. The only exception would be what may be caused by human error, but this is deemed to be negligible in terms of amounts (and no specific statistics are collected in this regard). The GoG's accounting system does not keep track of accounts payable with age profile.

According to the 1995 Accounting Regulation,⁷⁵ a supplementary period exists after each fiscal year where expenditures and revenues that are attributable to the (previous) fiscal year can and should be registered. This supplementary period usually lasts about six weeks (i.e. up to about mid-February), so as to ensure that the accounting period includes all relevant transactions.

Outstanding payments are recorded at the end of the fiscal year as a current liability in the annual accounts. The Accounting Regulation allows at year-end for invoices concerning the fiscal year to be submitted two months into the next fiscal year, and these obligations are recorded in the accounts as a current liability. For the last three years, these are shown below.

Table 5.9 Outstanding Payments, End-Year

2010		2011		2012	
Current liabilities, year-end (DKK)	% of total expenditures	Current liabilities, year-end (DKK)	% of total expenditures	Current liabilities, year-end (DKK)	% of total expenditures
621	10.0%	737	11.3%	1.053	16.0%

⁷⁵ Hjemmestyrets bekendtgørelse nr. 8 af 27. februar 1995 om hjemmestyrets regnskabsvæsen m.v.

Source: Annual Audited Treasury Statements [Landskassens Årsregnskaber 2010, 2011 & 2012].

Note: The current liabilities stated in the 2011 was DKK 748 million, whereas the starting balance in the 2012 accounts is stated as DKK 737 million. The deviation concerns the treatment of accrued income recognised at year-end.

The volume of outstanding, non-overdue payments has increased by 70% in absolute terms from 2010 to 2012, while the share of total expenditure increased by 6%-points (from 10% to 16%). The reasons for the increase are mainly related to accrued tax revenues recognised at year-end.

It is noted, however, that these outstanding payments do not constitute 'stock of arrears', neither in general accounting terms nor as defined with the PEFA assessment framework.

Dimension (ii) Availability of data for monitoring the stock of expenditure payment arrears

Following from the above, the GoG does not have any payment arrears.

5.3 Key Cross-Cutting Issues – B. Comprehensiveness and transparency

PI-05 Classification of the budget

The indicator describes the classification system used for formulation, execution, and reporting of the budget by reference to international standards. The budget should be presented in a format based on the most important classifications (usually administrative combined with economic, functional and/or programmatic), and reflected in the Chart of Accounts to ensure that all transactions can be reported in accordance with any of the classifications used. The international standard for classification systems is the Government Finance Statistics (GFS) which provides the framework for economic classification of transactions,⁷⁶ and the Classification of Functions of Government (COFOG), which is the functional classification of transaction.⁷⁷ There is no international standard for programmatic classification, as this type of classification is used differently across countries, but programme classification can be an important tool in budget formulation, management and reporting (ref. indicator PI-12).

Dimension	2014 Score	Brief Explanation of Status
PI-05 Classification of the budget. The classification system used for formulation, execution and reporting of the central government's budget.	A	There is full consistency between the classifications used for budget formulation, presentation, execution (accounting) and reporting.

The 1994 Accounting Law⁷⁸ prescribes that the GoG accounts are to be structured in a manner similar to that of the Finance Act and Supplementary Act, and must include all revenues and expenditures for the fiscal year, assets and liabilities as well as the transactions during the year (Article 1). The 1995 Accounting Regulation⁷⁹ states that accounting must be done in accordance with the Finance and Supplementary Acts as well as pursuant to the GoG's Chart of Accounts and related guidance issued by the Central Department of Accountancy.

⁷⁶ The GFS is developed by the Statistics Department of the International Monetary Fund (IMF) which works to prepare manuals describing methodologies that should be used to compile economic and financial statistics. The initial GFS standard was developed with the cash-based GFS Manual 1986, while a move was made to accrual-based reporting with the current GFS Manual 2001. However, basic classification of revenues and expenditures in a cash-based accounting system can well be based on the GFS Manual 2001. The GFS is harmonised with the United Nations System of National Accounts (SNA) 1993.

⁷⁷ The COFOG was developed by the Organisation for Economic Co-operation and Development (OECD) and published by the United Nations Statistics Division. COFOG is a detailed classification of the functions, or socio-economic objectives, that general government units aim to achieve through various kinds of outlays. COFOG is widely used to compare government accounts across countries.

⁷⁸ Landstingslov nr. 23 af 3. november 1994 om Grønlands Hjemmestyres regnskabsvæsen m.v.

⁷⁹ Hjemmestyrets bekendtgørelse nr. 8 af 27. februar 1995 om hjemmestyrets regnskabsvæsen m.v.

The Chart of Accounts has the following structure and content, which can only be amended by the Central Department of Accountancy:

Table 5.10 Chart of Account Structure and Examples

Chart of Account	Coding Groups	Digits	Example / Explanation	
'Finance Act Chart of Accounts' (<i>Finanslovskontoplan</i>)	Activity Code	1 st and 2 nd	30	Ministry of Family & Legal and Justice
	Purpose Code	3 rd and 4 th	30.10	Children and Youth
	Main Code	5 th and 6 th	30.10.37	Nationwide residential institutions
'Object Chart of Accounts' (<i>Artskontoplan</i>)	Object Code	7 th to 10 th	30.10.37.1230	Training Course
	Location Code	11 th to 13 th	30.10.37.1230.060	Nuuk
'Internal Chart of Accounts' (<i>Intern kontoplan</i>)	Object Code Specifications	14 th to 15 th	Used to subdivide object codes for internal purposes	
	Location Code Specifications	16 th to 17 th	Used to subdivide location codes for underlying organisational units	
	Breakdown of the main code	18 th to 19 th	Used for a further breakdown of the six-digit main codes for internal purposes	
'Capital Project Chart of Accounts'	Capital Code	20 th to 24 th	-	-

Source: Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008, Section 2.1; Den centrale Regnskabsafdeling: "Regnskabshåndbog 2013", Konteringsinstruks.

The first part of the Chart of Accounts – referred to as the 'Finance Act Chart of Accounts' (*Finanslovskontoplan*) – consists of the activity, purpose and main codes. The annual appropriations in the Finance Act are made at the level of the 'main code' (*hovedkonto*). Any adjustments at this level (or at the higher-level activity and purpose codes) require prior parliamentary approval (cf. PI-16, dimension (iii)).

The second part of the Chart of Accounts – referred to as the 'Object Chart of Accounts' (*Artskontoplan*) – consists of the object and location codes used by the GoG entities for their internal budgeting and resource registration purposes.⁸⁰ This part does not form part of the Finance Act.

The third part of the Chart of Accounts – referred to as the 'Internal Chart of Accounts' (*Intern kontoplan*) – consists of three levels with each two digits that can be used by the Central Department of Accountancy and the budgetary units to break down and further specify the object and location codes as well as the main codes for use in their internal budgeting and for resource registration purposes. This part does not form part of the Finance Act.

All capital projects included in the Finance Act have a separate five-digit project number.

As a general comment to the GoG Chart of Accounts it is noted that the object code-level is an economic classification of transactions that resembles, but is not fully aligned to the GFS standard.

⁸⁰ The 7th digit (the first number of the object code) is used to subdivide different expenditure and revenue types: 1) Operating expenditure; 2) Operating income; 5) Transfers (expenditures); 6) Taxes and transfer income; 7) Capital expenditure; 8) Liabilities; and 9) Financial assets.

Also, while functional classifications of transactions are found across the activity, purpose and main code levels, these are not developed or organised in a manner aligned with the COFOG standard. Furthermore, there is no separate fund code in the Chart of Accounts.

Overall, the classification system used for formulation, presentation, execution and reporting of the GoG budget can thus be described as follows:

- **Budget formulation** – This is done by the GoG budgetary units at the level of object codes and location codes. Different budgeting approaches are applied for ordinary activities and the development of capital projects;
- **Budget presentation** – The Finance Act presents the budget for each organisational entity,⁸¹ and separately for capital projects, at the main code-level which is the appropriation basis.⁸² The Act also includes overview tables/matrices, including: 1) Allocations per appropriation type sub-divided into areas that resemble a limited functional classification;⁸³ 2) Appropriation types per activity code; 3) Staff per activity code; and, 4) Capital projects. The Finance Act does not present budgetary information on the basis of economic or functional classifications;
- **Budget execution** – Accounting is done based on and using the Chart of Accounts as per the structure and codes described in the table above;
- **Reporting** – The in-year reporting undertaken by the budgetary units and at the GoG-level by the MoFDA is done at the level of main codes (*hovedkonti*) although internal monitoring generally is done at a more detailed level. The annual financial statements are similarly presented at the level of main codes (*hovedkonti*) and, in the annexes, with object codes (7th and 8th digits) for the main codes under each activity code. The focus is thus predominant on reporting vis-à-vis the appropriations provided.

While the GoG does not present data on the basis of functional classification, Statistics Greenland is by law required to perform certain tasks related to international cooperation.⁸⁴ Statistics Greenland uses conversion tables to prepare GoG revenue and expenditure data into COFOG data at the division (10; two-digit), group (69; three-digit) and classes (109; four-digit) levels. This is also done for municipal revenue and expenditure data. The data is reported to the United Nations on an annual basis. Data for 1994-2012 is available on the Statistics Greenland website.⁸⁵

Recent, on-going and planned reform initiatives

The GoG in mid-2012 initiated an Enterprise Resource Planning (ERP) project to develop a new and integrated business management software system for the GoG and the municipalities. A sub-project charged with preparing a new Chart of Accounts and classification approach was carried out from June 2012 to July 2013, and undertook a detailed assessment of the existing set-up and made concrete recommendations for a new Chart of Accounts and related classification system that will meet the needs of both GoG entities and the municipalities. The new Chart of Accounts and classifications will be implemented as part of the overall ERP project, which to be tested during 2015 and be fully operational in early 2016.

⁸¹ Alphabetic characters are used in the Finance Act for each main code to indicate the specific appropriation type: "D" for recurrent (*driftsudgifter*), "L" for statutory (*lovbundne*), "T" for grants (*tilskud*), "A" for capital (*anlæg*), and "I" for revenues (*indtægter*).

⁸² There is no separate and detailed presentation of revenues, which are instead included under each organisational entity that is responsible for generating and/or collecting these. The same applies to the AGAs (Act (*netto styrede virksomheder*) that have only a net-revenue or -expenditure included in the Finance Act.

⁸³ For example, for the recurrent appropriation type: Administration; Family; Health Education; Net-controlled companies; Business, Fisheries, Hunting and Agriculture; and, Other operating expenses.

⁸⁴ Landstingslov nr. 11 af 29. oktober 1999 om Grønlands Statistik (Article 2).

⁸⁵ <http://www.stat.gl/dialog/topmain.asp?lang=en&subj=Public+Finances&sc=OF>.

PI-06 Comprehensiveness of information included in budget documentation

The indicator measures the comprehensiveness of information provided with the annual budget documentation (Finance Act and supporting documents) as submitted to the legislature for scrutiny and approval. The documents should allow a complete picture of government fiscal forecasts, budget proposals and out-turn of previous years.

Dimension	2014 Score	Brief Explanation of Status
<p>PI-06 Comprehensiveness of information included in budget documentation.</p> <p>Share of nine core pieces of information in the budget documentation most recently issued by the government.</p>	B	<p>The 2014 budget documentation (Finance Act and other documents) fulfil five of eight information benchmarks (Macroeconomic assumptions; Debt stock; Prior year's budget out-turn; Summarised budget data for both revenue and expenditure; and, Explanation of budget implications of new policy initiatives).⁸⁶</p>

The relevant documents presented to the Inatsisartut (Parliament) and hence relevant in assessing the comprehensiveness of information included in the budget documents in preparing the 2014 Finance Act consisted of three documents:

- Draft 2014 Finance Act (Forslag til Finanslov for 2014);
- Answers provided by the MoFDA to the Finance & Tax Committee of the Inatsisartut on questions related to the draft 2014 Finance Act;
- 2014 Finance Act (Finanslov for 2014).

The comprehensiveness of the information included in the documents vis-à-vis the elements outlined for PI-6 is shown below.

Table 5.11 Comprehensiveness of Information included in the 2014 Budget Documents

Elements of Annual Budget Documentation	Included	Comments
<p>1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.</p>	Yes	<p>The Draft Finance Act includes Chapter 5 on the macro-economic situation – with data on GDP growth, unemployment, inflation and two measures for fiscal balance – and discusses the fiscal status of the GoG and municipalities, financial developments of the largest Public Enterprises (PEs) and the GoG debt level.</p>
<p>2. Fiscal deficit, defined according to GFS or other internationally recognised standard.⁸⁷</p>	No	<p>The Draft Finance Act and Finance Act include two fiscal measures: 1) Total balance (total revenues minus total expenditure); and, 2) Partial balance (total revenue minus total expenditure excluding capital-related lending).⁸⁸ However, neither measure is in accordance with international standards for measuring fiscal deficits understood as the primary deficit.</p>
<p>3. Deficit financing, describing anticipated composition.</p>	N/A	<p>The GoG's 2014 budget is operating with an overall budget surplus, i.e. the GoG does not</p>

⁸⁶ Cf. below, one benchmark – Deficit financing – is not applicable for GoG's 2014 budget.

⁸⁷ The fiscal deficit is understood as the primary deficit (difference between current government spending on goods and services and total current revenue) plus debt service (interest) payments.

⁸⁸ The concepts are explained in Section 4.1.

Elements of Annual Budget Documentation	Included	Comments
		require deficit financing.
4. Debt stock , including details at least for the beginning of the current year.	Yes	Information on the GoG's debt situation and the outlook for future years is included in the Draft Finance Act, Section 5.5.
5. Financial assets , including details at least for the beginning of the current year.	No	Information on financial assets is not included in any of the budget documents. ⁸⁹
6. Prior year's budget out-turn , presented in the same format as the budget proposal.	Yes	The documents for the 2014 budget include actual 2012 revenue and expenditure data.
7. Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal.	No	The 2013 revenue and expenditure data included in the budget documents is the original budget as approved with the 2013 Finance Act (<i>FL 2013</i>), i.e. it does not include supplementary appropriations or projections for 2013.
8. Summarised budget data for both revenue and expenditure according to the main heads of the classification used (ref. PI-5), including data for current and previous year.	Yes	Summarised budget data is presented for appropriation types and with some functional aspects (table: <i>Regnskabsmæssigt konsolideret resultatoversigt, 2008-2017</i>), including for six previous fiscal years and three future years.
9. Explanation of budget implications of new policy initiatives , with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes.	Yes	The 2014 Finance Act includes estimates about the financial and fiscal implications of all expenditure and revenue policies, including for policy changes for the budget year and the 2015-2017 fiscal years (<i>budgetoverslagsårene</i>).

The table shows that the 2014 budget documents fulfil five of eight information benchmarks – namely 1) Macro-economic assumptions; 4) Debt stock; 6) Prior year's budget out-turn; 8) Summarised budget data for both revenue and expenditure; and, 9) Explanation of budget implications of new policy initiatives. One benchmark – 3) Deficit financing – is not applicable.

Recent, on-going and planned reform initiatives

The MoFDA is currently considering different possibilities for developing and using additional measures for assessing GoG fiscal policies in an annual as well as multi-year perspective, including related to the fiscal policy sustainability model used by the GEC as well as the plans by the GoG to prepare 10-year costed sector strategies and providing forward expenditure estimates for (all) capital investment projects. This may, over time, lead to developments of and changes to the content and presentation of the information provided with the Draft Finance Acts and Finance Acts.

PI-07 Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public should cover all budgetary and extra-budgetary activities of the government to allow a complete picture of its revenues and expenditures across all categories, and financing. The indicator assesses: (i) the level of extra-budgetary expenditure (i.e. any government activities not included in the annual budget and/or fiscal reports), and (ii) donor-funded project activities included in the budget, but managed and reported outside the government's financial management system.

⁸⁹ In the context of the GoG, financial assets include funds placed in the Fund for Construction & Renovation, liquidity/cash reserves, balances vis-à-vis AGAs, loans provided to various entities, accounts receivables, share holdings in Public Enterprises (PEs), short-term debt, and long-term debt. Information on financial assets is included only in the annex to the annual audited financial statements (*Landskassens Årsregnskaber*).

Dimension	2014 Score	Brief Explanation of Status
PI-07 Extent of unreported government operations.	A	Overall rating based on M1 methodology.
(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported, i.e., not included in fiscal reports.	A	The GoG does not have any extra-budgetary expenditure.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	A	All external funding is included fully in the GoG's fiscal reports as an integral part of the GoG revenues.

Dimension (i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported, i.e., not included in fiscal reports

There is no evidence and no indications, including in the audited annual financial statements, that the GoG has any extra-budgetary expenditure, i.e. any GoG activities or funds not included in the annual Finance Act and in the budget monitoring reports or financial statements.

It is also noted that guarantees, drawing rights (in respect of companies) and contingent liabilities of different kinds are included in the Finance Act and reported in the audited annual financial statements.

Furthermore, while a large part of the annually appropriated capital spending is at the start of the fiscal year transferred to the Fund for Construction & Renovation (*Anlægs- og Renoveringsfonden*) and then technically accounted for as spent, this is accounted for appropriately in the relevant budget monitoring reports and audited annual financial statements. In other words, this does not characterise extra-budgetary spending.

Dimension (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports

The GoG receives annual block grants from the Government of Denmark, which are included fully as revenue in the GoG revenue budget. The same applies to sector budget support provided by the EU for the Fisheries Agreement and the Partnership Agreement related to support for the Greenland Education Programme (GEP). All external funding is thus included in the GoG's fiscal reports.

PI-08 Transparency of Inter-Governmental Fiscal Relations

In many countries sub-national governments (e.g. municipalities) have wide-ranging expenditure responsibilities, which require financing that often involves transfers from the central government. Such fiscal relationships should be transparent and rules-based so as to ensure equitable and efficient provision of decentralised public services across sub-national governments. In addition, the ability to generate and track budget and spending data is important for monitoring the system. This indicator measures these different aspects of inter-governmental fiscal relations.

Dimension	2014 Score	Brief Explanation of Status
PI-8 Transparency of Inter-Governmental Fiscal Relations.	B	Overall rating based on M2 methodology.
(i) Transparency and objectivity in the horizontal allocation among sub-national (SN) governments.	A	The horizontal allocation of all transfers from the GoG to the municipalities is determined by a fully transparent and rules-based system.
(ii) Timeliness of reliable information to	A	The municipalities have reliable information on the

SN governments on their allocations.		block grant allocation before they start their detailed annual budgeting processes.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories.	D	The MoFDA lacks overview regarding the municipal finances, the financial data is not directly comparable with that of the GoG, and the MoFDA also does not prepare a consolidated report on or comparative analysis of municipal budget and actual expenditure data based on the data it does have.

Dimension (i) Transparency and objectivity in the horizontal allocation among sub-national (SN) governments

The fiscal relations between the GoG and the municipalities are well-defined and intended to provide equal service and living standards for the population irrespective of the socio-economic and demographic characteristics and composition of the population.

The municipal revenues consist of the following four main sources:⁹⁰

- Income tax (*personskat*) – accounting for about 48% of total revenues;
- Joint municipal tax (*fælleskommunal skat*) – about 14%;
- Corporate tax and dividend tax (*selskabs- og udbytteskat*) – about 3%;
- Block grant (*bloktilskud*) – about 32%.

Equalisation between the municipalities is done for all four sources. Equalisation of the taxes is done to even out differences in municipal income, while the block grant serves to offset differences in municipal expenditures. It is only the block grant which is provided from the GoG to the municipalities.

The income tax equalisation is based on a formula that uses the income basis (*indkomstgrundlag*) and calculates whether the municipalities are at less than 90 % or above 115% of the average. Municipalities with tax incomes below 90% of the average will be recipients, while municipalities with tax incomes above 115% will be contributors.⁹¹

The equalisation between the municipalities of the other two tax sources and the main part (69%) of the block grant is based on a formula that takes into account the relative population share of each municipality weighted by the municipality's relative dependency ratio. The latter is calculated as the sum of persons under the age of 18 and above the age of 65 compared to the number of people of working age (i.e. those between 18 and 64 years). This allocation approach is used to ensure that funds are provided for those population groups for which the municipalities typically require relatively higher spending. The remainder of the block grant (31%) is distributed between the municipalities based on specific agreements for selected areas.⁹²

⁹⁰ Other municipal revenue sources – interest income, capital return on rental housing, sale of real estate, and payment for land development – account for about 3% of total revenues.

⁹¹ The results of the income tax equalisation system has generally been that one municipality (Sermersooq) has contributed mainly to one municipality (Qaasuitsup) and to a limited extent to one other municipality (Kujalleq), while the income tax revenue for the fourth municipality (Qeqqata) ranged between 90-115% and thus that municipality has neither been recipient nor contributor.

⁹² The distribution of block grant for sewer rehabilitation (2% of the total) is separately agreed. The distribution of the block grant for the disability area (25 % of the total) is based on an agreement entered into when the area was first transferred to the municipalities, and the distribution is regulated annually based on the relative population shares between the municipalities. The distribution of block grants to the special education classes (6% of the total) is calculated based on the actual expenditures of the municipalities at the time when the tasks were transferred to them.

It is noted that while the basis for the equalisation of the three taxes is the 2006 Law on Income Tax (Articles 41 and 42),⁹³ there is as such no legislative or regulatory basis for the block grants though the annual Finance Acts do provide a formal basis for the annual transfers in this regard.

Dimension (ii) Timeliness of reliable information to SN governments on their allocations

The MoFDA and KANUKOKA (the Association of Municipalities) negotiate the block grant on an annual basis. The block grant agreement document consists of a main text that outlines all areas and aspects that have been discussed in terms of their fiscal/financial impact on the block grant, and an annex that specifies the details for the coming fiscal year and for the medium-term (three years). The negotiations commence in the spring the year before the fiscal year in question, and have as a starting point the block grant level that was agreed for that fiscal year in the last agreement (for example, the negotiations for 2014 took as a starting point the 2014 total figure that was agreed in the 2013 block grant agreement). The last three block grant agreements were signed on the following dates:⁹⁴

- Block grant agreement for 2012 – 3 October 2011;
- Block grant agreement for 2013 – 9 November 2012;
- Block grant agreement for 2014 – 3 July 2013.

Because the negotiations include changes that increase (e.g. the annual price and wage regulation, and transfer of new responsibilities) as well as decrease (e.g. lower estimated statutory expenditures) the grant level, the total net-changes that follow from the negotiations are relatively small (the net-changes between the starting point and the end-result vary between -2.7% and +0.5% for the fiscal years 2012-2014), but the absolute changes are significantly higher (ranging between 4.4% and 7.0% for the three years).

The municipalities start the annual planning and budgeting process for the next fiscal year in the spring, and the municipal councils must adopt the final budget by 30 November.⁹⁵

Given the above, the municipalities have a reliable estimate about the size of the block grant more than one year before the fiscal year, i.e. this information is available at the start of their annual budget preparation process. The final block grant figure is agreed and available before the municipalities adopt their budgets.

With regard to taxes (although not subject for assessment under PI-08), it is noted that the GoG's Tax Agency, which collects taxes on behalf of the municipalities, is legally obligated by 1 July every year to provide an estimate of the tax collection for the next fiscal year (i.e. the municipalities will know the estimated tax revenues at the latest at this time for inclusion in their budget preparation).

Dimension (iii) Extent of consolidation of fiscal data for general government according to sectoral categories

The 2010 Law on Local Government⁹⁶ requires that the municipalities send to the GoG (MoFDA) their annual budget within 14 days of its adoption (Article 42). The municipalities are similarly required to forward to the GoG their budget monitoring reports (at least three reports annually) and the annual financial statement (within one month of approval).⁹⁷ While the GoG thus should have a

⁹³ Landstingslov nr. 12 af 2. november 2006 om indkomstskat).

⁹⁴ It is noted that PI-08's dimension (ii) according to the PEFA framework only considers the last completed fiscal year, i.e. 2013.

⁹⁵ While there is no deadline set in legislation or regulations, this date follows from Article 62 in the 2006 Law on Income Tax, which states that the municipal council must set the municipal tax rate before 1 December.

⁹⁶ Inatsisartutlov nr. 22 af 18. november 2010 om den kommunale styrelse.

⁹⁷ Selvstyrets bekendtgørelse nr. 3 af 3. februar 2012 om kommunernes budgetlægning, likviditet, regnskab, revision samt kasse og regnskabsvæsen (Article 6 and 8, respectively).

precise and detailed overview regarding the finances of the municipalities, it appears that this to some extent is lacking and that the data is not actively used. Also, the financial data is not directly comparable with that of the GoG since the municipalities are using a different Chart of Accounts, and the GoG does not undertake conversion of the data into the classification format used by the GoG.⁹⁸ Furthermore, the GoG does not use the data it does have to prepare any comparative analyses of municipal budget and actual expenditure data, or other kinds of consolidated reports.⁹⁹

Recent, on-going and planned reform initiatives

A new framework and process for budget cooperation, including regarding fiscal and financial aspects (tax equalisation and block grants), has been discussed by the GoG and the municipalities/KANUKOKA since April 2013. This resulted in a detailed report being prepared in December 2013,¹⁰⁰ which provides analyses and recommendations for the various areas and aspects covered. This led to a new budget cooperation being agreed and signed in January 2014, which includes a number of new approaches, including multi-year financial agreements to support longer term planning and fiscal sustainability, development of multi-year sector plans, preparation of an annual budget cooperation process that meets the budget preparation needs of the municipalities, and implementing a financial regulation mechanism for the block grant that ensures that all legislative and regulatory changes will be compensated. These new approaches must now be defined, designed and implemented. A proposal for a new tax equalisation and block grant distribution model has already been developed.¹⁰¹

Also, efforts are on-going to assess the possibilities for increasing efficiency and effectiveness, both in the municipalities and the GoG, using benchmarking methods and identification of best practice. A first report was prepared and published in 2013.¹⁰²

More overall, the principles for the division of tasks and responsibilities between the GoG and the municipalities are being reviewed as well as concrete tasks in different areas (e.g., health and regarding capital investment projects).

Furthermore, the MoFDA is currently in the process of launching a review of the 2009 amalgamation which will evaluate the results achieved with regard to various administrative and financial measures as well as assess specific procedural and democracy aspects. The final review report is planned for early 2015, and any necessary legislative and regulatory changes can then be prepared and adopted during the second part of 2015 and in 2016.

Finally, it should be mentioned that the GoG together with the municipalities is working on an ERP project to develop a new and integrated business management software system. The new system aims to improve financial management and related procedures, and will allow the GoG and the municipalities to apply the same Chart of Accounts, which will enable reporting based on the same data classification. This will facilitate the consolidation and analysis of municipal finance data in a format that is fully consistent and comparable with that used by the GoG. It is expected that the new system will be operational in early 2016, but it is noted that the municipalities are yet to formally agree to participate.

⁹⁸ Statistics Greenland prepares comparable overviews of expenditure data with its annual 'public finance' publications.

⁹⁹ While the Draft Finance Act (*Forslag til Finanslov*) does include municipal finance data, this shows the actual figures for one year compared with the budget for the next year, i.e. it is not a budget variation analysis.

¹⁰⁰ Grønlands Selvstyre-De Grønlandske Kommuner Landsforening (2013c): "Redegørelse for samarbejdsaftale mellem Selvstyret og kommunerne", 9 December.

¹⁰¹ BDO (2014): "Notat om Model for ny kommunal udligning og bloktilskud", Udkast, 18. februar.

¹⁰² BDO (2013): "Effektivisering og Udgiftsreduktioner i den Offentlige Sektor i Grønland".

PI-09 Oversight of aggregate fiscal risk from other public sector entities

The government usually has a formal oversight role in relation to other public sector entities and should monitor and manage fiscal risks with national implications arising from activities of Autonomous Government Agencies (AGAs) and Public Enterprises (PEs). Monitoring is furthermore relevant where municipalities can generate fiscal liabilities for the government. Fiscal risks can be created and may take the form of debt service defaulting (with or without guarantees issued by the government), operational losses caused by unfunded quasi-fiscal operations, expenditure payment arrears, and unfunded pension obligations.

Government should receive regular financial statements and audited year-end statements from AGAs and PEs, and monitor performance against financial targets. AGAs and PEs often report to parent line ministries, but consolidation of information is important for overview and reporting of the total fiscal risk for central government. Where municipalities can generate fiscal liabilities for the government, their fiscal position should be monitored, at least on an annual basis.

Dimension	2014 Score	Brief Explanation of Status
PI-09 Oversight of aggregate fiscal risk from other public sector entities.	C+	Overall rating based on M1 methodology.
(i) Extent of central government monitoring of AGAs and PEs.	C	Oversight of PEs is stringent and all PEs provide financial data to the GoG on a regular basis, which the GoG consolidates into an annual report. However, oversight of AGAs is managed separately by different ministries and without central oversight or consolidation of information.
(ii) Extent of central government monitoring of sub-national (SN) governments' fiscal position.	A	Municipalities cannot generate fiscal liabilities for the GoG (but despite this the GoG should monitor their fiscal position regularly and closely).

Dimension (i) Extent of central government monitoring of AGAs and PEs

The unique characteristics of Greenland having a small population thinly spread over a large arctic territory and with limited market access, necessitates that the GoG assumes a significant role in the wider economy to ensure the provision of goods and services countrywide.

Autonomous Government Agencies (AGAs)

AGAs (*nettostyrede virksomheder*) in Greenland take the form of companies that undertake commercial tasks and therefore are organised in a manner that resembles private sector companies. However, they remain organisationally and legally a part of the GoG and are included in the GoG budget (and hence the annual Finance Act) with a net-amount based on an underlying budget agreed with the GoG (rather than having specific revenue and expenditure details/requirements stated in the Finance Act).¹⁰³ This enables the companies to function relatively independently, while referring to a GoG Ministry that thereby retains control and oversight. There are currently three AGA, as shown in the table below.

Table 5.12 List of the GoG's AGAs

Entity	Activity	Staff	Parent Ministry	Amount in 2014 Finance Act
Nukissiorfiit	Energy	400	Ministry of Environment & Nature	Revenue: DKK +270.2 m Recurrent: DKK -7.2 m Grant: DKK -45.5 m Capital: DKK -160 m

¹⁰³ Some budgetary aspects of the AGAs are outlined in Chapter 11 of the 2008 Budget Regulations (Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008).

Entity	Activity	Staff	Parent Ministry	Amount in 2014 Finance Act
Mittarfeqarfiit	Airports	391	Ministry of Health & Infrastructure	Revenue: DKK +12.7 m Grant: DKK -6.4 m
Asiaq	Geo-technics	24	Ministry of Housing	Grant: DKK -16.4 m
Total				Revenue: DKK +282.9 m Recurrent: DKK: -7.2 m Grant: DKK -68.3 m Capital: DKK -160 m

Source: Finance Act 2014. Nukissiofiit and Asiaq websites regarding staff numbers.

Note: Costs related to housing (temporary and permanent of AGA staff is budgeted and accounted for separately. Also, two AGAs have drawing rights on the Treasury Single Account (TSA) (*Landskassen*) for which interest is charged: Nukissiofiit (DKK 70 million), and Mittarfeqarfiit (DKK 100 million).

The table shows that the three AGAs, which for 2014 are budgeted to generate a total net income for the GoG of DKK 47.4 million (EUR 6.4 million). The AGAs employ about 800 staff.

The AGAs are subordinated to the GoG and refer to their respective parent ministry. Financial monitoring is undertaken in a manner similar to that applied for GoG budgetary units (although AGAs have a separate regulation),¹⁰⁴ but the information is not consolidated for the three AGAs. The external audit set-up is similar to that of other GoG entities, and hence undertaken by the external auditor appointed by the Inatsisartut (Parliament) for the GoG, but separate audited annual financial statements and Audit Protocols are prepared for each AGA.

The GoG is considering restructuring Nukissiofiit, the largest and financially by far the most significant of the three AGAs, as a public limited company.¹⁰⁵ The purpose of consolidating the commercially-based management of the company through a new ownership structure would be to create more efficient company operations. If done, Nukissiofiit would become part of the portfolio managed and overseen as other public enterprises, cf. below.

Public Enterprises (PEs)

The GoG has equity stakes in 15 public limited companies engaged in various sectors, including housing, communication, fishery and processing, exploration, tourism and shipping. The majority of the companies are 100% owned by the GoG, while it holds minority stakes in three companies. An overview of the companies together with some key indicators is provided in the table below.

Table 5.13 GoG's Fully- and Partly-Owned Companies (financial figures in DKK), 2012/2013

Entity	GoG Ownership	Activity	Staff	Net-Turnover	Result
Boligselskabet INI	100%	Housing administration	181	110.5 m	-2.1 m
Great Greenland	100%	Fashion/seal textiles	40	14.5 m	-5.8 m
Greenland Oil Spill Response	100%	Environmental cleanup	N/A	1.5 m	+0.3 m
Greenland Holding	100%	Business support	10	5.7 m	50.6 m
Illuut	100%	Property	N/A	28.9 m	7.8 m
KNI*	100%	Wholesale & retail trade, fish and sea-food products, freight and oil-imports	786	2,537 m	78.0 m

¹⁰⁴ Hjemmestyrets bekendtgørelse nr. 25 af 26. november 1998 om Grønlands hjemmestyres nettostyrede virksomheders regnskabsvæsen m.v.

¹⁰⁵ Departementet for Finanser og Indenrigsanliggender (2013b): "Politisk-Økonomiske Beretning 2013", p. 49.

NUNAOIL**	100%	Oil exploration	8	16.8 m	1.2 m
Royal Arctic Line**	100%	Shipping	787	897.0 m	73.0 m
Royal Greenland*	100%	Fishing and food processing	1,888	4.724 m	79.0 m
Tele Greenland*	100%	Telecommunication & postal service	496	796.0 m	48.0 m
Visit Greenland*	100%	Tourism	9	23.3 m	0.4 m
Sikuki Nuuk Harbour***	100%	Harbour	-	-	-
Air Greenland*	37.5%	Air transport	642	1,220 m	51.0 m
NunaMinerals**	30.6%	Mineral exploration	10	0.9 m	-33.4 m
GrønlandsBanken**	13.7%	Banking	113	-	59.0 m

Source: Naalakkersuisut (2013): "Selvstyrets Aktieselskaber – Årlig Redegørelse til Inatsisartut 2013", November.

Notes: * 2011/12; ** 2011; *** Sikuki Nuuk Harbour was established in December 2013.

The table shows that the 15 companies have about 5,000 staff and a combined net-turnover of about DKK 10.7 billion (EUR 1.4 billion), and that just two companies – KNI and Royal Greenland – account for half of both key measures. The combined dividends derived by the GoG for 2013 from the companies was DKK 153 million (EUR 20.5 million).¹⁰⁶

The combined net-interest bearing debt of the companies at end-2012 stood at approximately DKK 3 billion (EUR 403 million).¹⁰⁷ Royal Greenland accounted for about half of the net-debt, followed by KNI, Tele Greenland and Illuut. It is understood that the debt of the companies has been decreased during 2013 though specific figures are not yet available.

The combined portfolio poses a governance challenge with potential fiduciary risks. To address this, and to exercise proper and professional management and oversight, the GoG in 2007 has set up the 'Board Secretariat' (*Bestyrelsesssekretariatet*) within the Prime Minister's Office. The Board Secretariat is responsible for conducting the GoG's ownership of the companies and coordinating the development and implementation of policies using an 'arm's length principle'. This is based on a 2011 consultation document that outlined the GoG's plans for developing the ownership,¹⁰⁸ which included issuing an annual report to improve information and increase transparency, support strategic development by setting specific targets for each company, ensure professional and cost-effective operations of the companies, appoint competent and professional boards, develop a clear relationship between the companies and the GoG regarding debt and dividend policies, and analyse issues related to competition, subsidy policy and cross-subsidisation. Also, corporate governance of the companies has been strengthened with the implementation of new guidelines in 2012 that focus specifically on the boards (tasks, responsibilities and appointment) as well as the management of companies.¹⁰⁹

According to a 2006 law,¹¹⁰ the Audit Committee of the Inatsisartut (Parliament) supervises the GoG's performance regarding its company ownership and shareholder interests, and it can impose on the GoG to seek specific information from the companies (Article 17a). The Finance & Tax Committee has similar powers in cases where it is examining any proposals or applications for capital injections, guarantees, or other financial inducements related to the companies (Article 16a).

¹⁰⁶ Naalakkersuisut (2013): op.cit., Table 1.2, p. 6.

¹⁰⁷ Ibid, Figure 1.2.3, p. 7.

¹⁰⁸ Formandens Department (2011): "Redegørelse om ejerskabsforhold og udvikling i de helt eller delvist selvstyrejede aktieselskaber", Høringsudkast, 2 August.

¹⁰⁹ Formandens Department (2012): "Retningslinjer for god selskabsledelse i de selvstyrejede aktieselskaber", December. The new guidelines replace earlier ones that had been used since 2003.

¹¹⁰ Landstingslov nr. 18 af 20. november 2006 om ændring af landstingslov om landstinget og landsstyret (Landstingets adgang til oplysninger vedrørende helt eller delvist hjemmestyrede aktieselskaber).

Also, the companies are governed by the Danish Law on Public and Private Limited Companies (*lov om aktie- og anpartsselskaber (selskabsloven)*), including with regard to disclosure requirements as well as regarding the appoint and work of the external auditors. The external audit itself is undertaken in accordance with the Danish Law on Commercial Enterprises' Presentation of Financial Statements, etc. (*årsregnskabsloven*). The services of external auditors has since 2011/2012 been procured by the companies based on a competitive process. The Board Secretariat meets separately with the external auditors of each company on an annual basis to discuss the audit findings and recommendations.

Furthermore, all companies have Articles of Association, and new companies – e.g. Sikuki Nuuk Harbour, which was set up in December 2013 – are established based on specific and dedicated legislation.

In terms of financial reporting from the companies to the GoG, the Board Secretariat has a controller function that receives and analyses key data from all companies on an annual basis. Also, the GoG has annual shareholder meetings with each company, which include a discussion with the board (chair and deputy) and the director about last year's financial developments and the plans and budgets for the coming year. A separate meeting is held with the chair to formally evaluate the work and functioning of the board (based on a template developed by the Board Secretariat). Furthermore, each company prepares an annual report with audited financial statements, which is discussed and approved at the annual general meeting.

The Board Secretariat has since 2012 issued an annual report to the Inatsisartut, which is publicly available.¹¹¹ The reports provide a consolidated overview regarding the companies in terms of financial turn-over and results, dividends, debt, payroll and staffing, and tax payments. They furthermore include follow-up on the implementation of the recommendations and plans outlined in the 2011 consultation document in terms of developing the GoG's ownership. Also, plans and initiatives for the coming year are outlined, while an annex provides various financial and other details for each of the companies.

Dimension (ii) Extent of central government monitoring of sub-national (SN) governments' fiscal position

The Constitution of Denmark states that the right of municipalities to manage their own affairs independently under state supervision shall be laid down by law (Article 82). The 2010 Law on Local Government states that the annual budget of a municipality may not be based on borrowing, renting or leasing, unless it has the necessary permission from the GoG, or existing and applicable rules allows the municipal council to do so without such prior approval (Article 41).¹¹² The established practice is furthermore that municipalities do not make short-term overdrafts or take advantage of possible supplier credit.

It is noted that the Supervisory Board for Municipalities,¹¹³ according to Article 65 of the Law, can suspend a decision made by the municipal council or any of its committees if the decision is illegal. Even a decision that has been implemented may be suspended under certain circumstances.

¹¹¹ <http://naalakkersuisut.gl/da/Naalakkersuisut/Departementer/Formandens-departement/Bestyrelsessekretariatet/Selskabspolitik>.

¹¹² Inatsisartutlov nr. 22 af 18. november 2010 om den kommunale styrelse. Article 45 of the law furthermore states that the GoG can regulate municipal access to: 1) Borrowing and assuming other liabilities; 2) Taking on guarantees or other contingent liabilities; 3) Entering into lease agreements; and, 4) Committing to regular payments that municipalities are not required to provide under this Law. It is understood that no such regulation has been issued by the GoG.

¹¹³ While the GoG in general is responsible for overseeing that municipal councils in their management adhere to the provisions of the Law on Local Governance, and otherwise manages their affairs in accordance with applicable rules and regulations, the GoG is not responsible for doing so to the extent that a specific complaints or regulatory authority may decide the case. The Supervisory Board for Municipalities is established and functions in accordance with Articles 60-65 of the Law on Local Government. The Board shall ensure that municipalities comply with the Law on Local Government and

Also, cf. PI-08 above, the revenue sources of the municipalities are known and consist almost exclusively of the GoG block grant and the shared tax revenue.

Finally, the GoG is under no legal obligation to take responsibility for any fiscal liability generated by the municipalities, should this occur. The MoFDA does not undertake close and regular monitoring of the municipal finances, which thus could be improved (cf. PI-08, dimension (iii), above).

Recent, on-going and planned reform initiatives

As noted above, a number of specific initiatives have been taken in recent years to develop and improve the ownership role of the GoG vis-à-vis the PEs as well as to professionalise the work and functioning of the boards of the companies.

PI-10 Public access to key fiscal information

Transparency in government depends on whether information on plans, budgets and performance is easily accessible by the public. This indicator measures the public availability of key fiscal information.

Dimension	2014 Score	Brief Explanation of Status
PI-10 Public access to key fiscal information.	B	The GoG makes available to the public three of the six listed types of information.

The legislative/regulatory basis for public access to budgetary and fiscal documents is as follows:

- **Annual budget documentation** – While it is not explicitly stated that the Draft Finance Acts, Finance Acts and Supplementary Acts are to be made public, the fact that they are subject to negotiations and discussions in the Inatsisartut (Parliament) means that they become public;¹¹⁴
- **In-year budget execution reports** – There is no requirement for making in-year budget monitoring reports publically available;
- **Year-end financial statements** – It is not explicitly stated that the annual financial statements must be made public, but this follows from the GoG being required, in accordance with the 1994 Accounting Law (Article 1),¹¹⁵ to table them at the Inatsisartut;
- **External audit reports** – There is no explicit requirement that external audit documents must be made public, but public availability follows from the documents being submitted by the external auditor to the Inatsisartut;
- **Contract awards** – There are no formal requirements that information about the awarding of procurement contracts must be made public, neither for works nor for goods and services.

There are thus no explicit legislative or regulatory requirements for the publication of any budgetary and fiscal documents, although for some (annual budget documentation, annual financial statements, and external audit reports) this follows from the procedures by which they are handled.

The table below discusses the elements determining public access to key fiscal information.

Table 5.14 Public Access to Key Fiscal Information

that they otherwise manage their affairs in accordance with the prevailing legislation and regulations. The Board consists of five members of whom the chair is appointed by the Judge of Greenland, two members by the Inatsisartut, and two members by KANUKOKA (the local government association). The MoFDA is the secretariat for the Board.

¹¹⁴ Article 9 of the 2010 Law on the Inatsisartut and the GoG (Inatsisartutlov nr. 26 af 18. november 2010 om Inatsisartut og Naalakkersuisut) states that meetings of the Inatsisartut are public, and that the negotiations with appendices are made public.

¹¹⁵ Landstingslov nr. 23 af 3. november 1994 om Grønlands Hjemmestyres regnskabsvæsen m.v.

Elements of Information	Publicly Available	Availability and Means
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes	The Draft Finance Acts, Finance Acts and Supplementary Acts are published on the website of the MoFDA after submission to the Inatsisartut, ¹¹⁶ usually within a few days.
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	No	In-year budget execution report or financial statements are not made publicly available.
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes	The GoG's annual financial statements are published on the MoFDA's website after their submission to the Inatsisartut, which is done on time. ¹¹⁷
(iv) External audit reports: All reports on national government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes	The GoG's annual financial statements (cf. (iii) above) include the Auditor's Report, which constitute the essence of the external auditor's work and assessment. The external auditor's detailed Audit Protocols are also made publicly on the website of the Inatsisartut. ¹¹⁸
(v) Contract awards: Award of all contracts with value above approximately US\$100,000 equivalent is published at least quarterly by appropriate means.	No	Information on contract awards is not currently published and so there is no public access to the information, neither for works nor for goods and services.
(vi) Resources available to primary service units: Information is publicised through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No	Data on resources available to and used by the GoG's 'health regions' is systemically collected with the XAL accounting system, but is not published (see PI-23). Data on resources available to primary schools is not collected or published by the GoG as these are the responsibility of the municipalities.

The table shows that there is public access to three of the six elements included in the list.

The classification systems used for budget formulation, presentation, execution and reporting are covered with PI-5, while the comprehensiveness of information in the budget documentation is assessed with PI-6. PI-11 covers the budget process, while PIs 24 and 25 assess in-year and year-end financial reporting.

It should be noted that in Greenland citizens' access to information is enshrined by legislation (based on two 1994 Laws on Case Management and on Public Administration),¹¹⁹ which provide a comprehensive framework for public access to information. While these appear to be effectively used by the local media, there also appear to be examples of access to public documents not always being adhered to in practice due to a lack of compliance with the rules.¹²⁰ However, at the same time, demand by the public for accountability from the public sector is well developed in

¹¹⁶ <http://naalakkersuisut.gl/da/Naalakkersuisut/Departementer/Finanser-og-Indenrigsanliggender/Finanslov>.

¹¹⁷ <http://naalakkersuisut.gl/da/Naalakkersuisut/Departementer/Finanser-og-Indenrigsanliggender/Landskassens-regnskab>.

¹¹⁸ The external auditor's Audit Protocols are included in the information and documents made available as part of the Audit Committee's work for each parliament session (<http://www.inatsisartut.gl/samlingerhome/oversigt-over-samlinger.aspx>).

¹¹⁹ Landstingslov nr. 8. af 13. juni 1994 om sagsbehandling i den offentlige forvaltning; Landstingslov nr. 9 af 13. juni 1994 om offentlighed i forvaltningen.

¹²⁰ Nordic Consulting Group (2012): "Integrity Study of the Public Sector in Greenland", January, p. 18 and p. 32.

Greenland. Also, debates by the Inatsisartut on the annual budget are broadcasted by radio and excerpts on television. The approved budget and audited annual financial statements are available in both hard and soft copy. Furthermore, the debate in Inatsisartut on the Audit Committee's report regarding the annual financial statements, and the replies on the external auditor's comments, is widely followed in the media and by the public.

Recent, on-going and planned reform initiatives

The GoG's Office for Strategic Procurement & Temporary Housing is planning to develop a new website for procurement of goods & services, which will also include information about contract awards.

5.4 Budget Cycle – C.1 Policy-based budgeting

PI-11 Orderliness and participation in the annual budget process

While the Ministry of Finance is usually the driver of the annual budget formulation process, effective participation in the budget formulation process by all government entities as well as political leadership from the executive is important. Full participation requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar. The calendar should allow for passing of the budget before the start of the fiscal year and for sufficient time for the ministries to meaningfully prepare their detailed budget proposals. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual.

Dimension	2014 Score	Brief Explanation of Status
PI-11 Orderliness and participation in the annual budget process.	A	Overall rating based on M2 methodology.
(i) Existence of and adherence to a fixed budget calendar.	A	A clear annual budget calendar exists that is fully adhered to and allows line ministries sufficient time to prepare their budget estimates on time.
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	A	The guidance provided to the ministries about the budgeting process is clear and complete, and reflects close political involvement and direction.
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	A	During the last three years the legislature has approved the budget on 15 November, which is in accordance with the legislative requirement and well ahead of the start of the fiscal year.

Dimension (i) Existence of and adherence to a fixed budget calendar

The basic aspects of the annual budget preparation process that are formally outlined relate to the timing. Chapter 2 of the 1999 Law on the GoG's Budget¹²¹ states that the Draft Finance Act (*Forslag til Finanslov*) must be submitted by the GoG to the Inatsisartut by 1 September of the preceding fiscal year, and that the Finance Act (*Finanslov*) must be adopted by 15 November.¹²² The GoG's 2008 Budget Regulations¹²³ includes some information about the content of the budget contributions from GoG entities (Section 5.2), but not an outline of the budget preparation process.

¹²¹ Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget.

¹²² The deadline was changed from 1 November to 15 November in 2000 (Landstingslov nr. 1 af 23. maj 2000 om ændring af Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget).

¹²³ Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008.

The annual process starts in February or March with the MoFDA requesting the line ministries to prepare budget estimates on statutory expenditures (*lovbudne udgifter*) and revenues (*indtægter*) for the next fiscal year and the three medium-term years (*budgetoverslagsårene*). The request to the ministries is sent as an e-mail which in a succinct and clear manner outlines the information to be provided and the format (a spreadsheet template is attached to the e-mail for that purpose), and the time frame for the first part of the budget preparation process (the ministries have about two weeks to prepare their inputs). The MoFDA in the meantime separately prepares initial estimates for recurrent expenditures (*driftsudgifter*) and grants (*tilskud*), which are regulated based on a price and wage index, and capital expenditures (*anlægsudgifter*), which is based on the political priorities of the GoG. When receiving the inputs from the line ministries, the MoFDA prepares a consolidated overview with a 'base' budget (*basisbudget*) – consisting of estimates for recurrent and capital expenditures as well as net-lending – and estimates for changes regarding statutory expenditures and revenues, all of which are calculated together to assess the fiscal balances per year.¹²⁴ The base budget does not include funding changes that follow from new or changed policy priorities.

On this basis, the MoFDA prepares a note for the GoG that includes summary figures of the preliminary budget, a cash liquidity overview, and time plan for the budget preparation process. The time plan for the 2014 budget preparation process included the following activities:¹²⁵

- **Mid-April 2013** – The GoG approves the base budget 2014;
- **End-April 2013** – Seminar on the GoG's overall economic policy as a basis for further work on the Draft Finance Act 2014;
- **May 2013** – Preparation of action plans, including internal GoG seminars;
- **Early June 2013** – The GoG decides the key figures in the Draft Finance Act 2014;
- **Mid-June 2013** – The GoG decides the final Draft Finance Act 2014, including 'text annotations' (*tekstanmærkning*) and general notes (*almindelige bemærkninger*);
- **9 August 2013** – The Draft Finance Act 2014 is submitted to the Inatsisartut. On the same day, a press conference is held;
- **15 November 2013** – The Draft Finance Act 2014 is approved by the Inatsisartut.

The budget calendar was fully adhered to during the budget preparation process, and was in fact partly ahead of schedule as the Draft Finance Act 2014 was submitted to Inatsisartut on 5 August 2013 (i.e. four days earlier than originally planned).¹²⁶

As can be seen from the above, the GoG's annual budget preparation process – while involving the line ministries and being based on a clear calendar that is adhered to – does not follow a "traditional" integrated top-down and bottom-up budgeting approach, where ministries require significant time to complete detailed budget estimates. This can partly be explained by some appropriations being mandatory (statutory expenditures), but also by incremental budgeting being applied for recurrent expenditures and grants as these are viewed as having limited flexibility in practical terms (the budgeting for these appropriations hence being based on the existing resource allocation). The only area where the GoG exercises discretion to any significant degree are capital investments, which are project-based and do not require a "traditional" budgeting approach with ministries using significant time to complete detailed estimates as part of a top-down and bottom-up approach.

¹²⁴ The GoG calculates the fiscal balances using two measures: Total (DAU) balance and partial (DA) balance. These are described in more detail under PI-06.

¹²⁵ Medlem af Naalakkersuisut for Finanser og Indenrigsanliggender (2013): "Oplæg til Naalakkersuisut, Forslag til Finanslov 2014 – Godkendelse af basisbudget og tidsplan", 10. april, p. 3.

¹²⁶ <http://naalakkersuisut.gl/da/Naalakkersuisut/Pressemeddelelser/2013/08/FFL2014>.

Dimension (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)

As described under dimension (i) above, the MoFDA prepares a note for the GoG that includes summary figures of the preliminary budget, a cash liquidity overview, and time plan for the budget preparation process. This does not include budget ceilings for the individual ministries (as these are not needed, given the GoG's budgeting approach), but rather aggregate figures for different appropriation types/expenditure categories. However, within the context of the GoG's approach, the guidance provided to the ministries in the initial e-mail and with the GoG note is complete and clear, and the political engagement throughout the process is evident (e.g. as the GoG note is presented for approval, thus reflecting that the process overall is directed by the GoG).

Dimension (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)

As noted above, the 1999 Law on the GoG's Budget states a requirement that Inatsisartut adopt the Finance Act by 15 November. The third reading and the approval of the Finance Acts for 2012, 2013 and 2014 has each year taken place exactly on 15 November (i.e. in 2011, 2012 and 2013, respectively). The budget approvals have thus been timely and in line with the legislative requirement.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

Expenditure policy decisions have multi-year implications, and therefore must take into account the availability of resources in the medium-term perspective. A medium-term outlook in the budget process that includes both revenue forecasts and aggregates for mandatory expenditure as well as potential deficit financing (including reviews of debt sustainability) is thus crucial to ensuring the longer-term sustainability of fiscal and sectoral policies. This indicator assesses the link between budgeting and policy priorities within a medium-term perspective and the extent to which the implications of policy initiatives are costed and integrated into the budget formulation process.

Dimension	2014 Score	Brief Explanation of Status
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	Overall rating based on M2 methodology.
(i) Preparation of multi-year fiscal forecasts and functional allocations.	A	Forecasts of fiscal aggregates are prepared for three years and on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.
(ii) Scope and frequency of debt sustainability analysis.	N/A	Since the net public debt is insignificant (estimated 4.5% of GDP), the dimension is according to the PEFA guidance not applicable. ¹²⁷
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	D	Strategies have been prepared for several sectors, but none of them have substantially complete costing of capital investments and recurrent expenditure.
(iv) Linkages between investment budgets and forward expenditure estimates.	C	Investment decisions generally have weak links to sector strategies, and related recurrent cost implications are included in forward expenditure estimates only in a few cases.

¹²⁷ PEFA Secretariat (2012): op.cit., p. 76 (clarification to query/issue 12-e). The indicator is thus scored on the basis of the other three dimensions only.

Dimension (i) Preparation of multi-year fiscal forecasts and functional allocations

The 1999 Law on the GoG's Budget¹²⁸ states that the 'main account summary' (*hovedkontooversigten*) in the Finance Act must include the expected appropriations for the next three years after the fiscal year (Article 13). Also, the GoG's 2008 Budget Regulations¹²⁹ mentions that the Finance Act must include non-binding estimates for the next three fiscal years (*budgetoverslagsårene*) (Section 1.1).

In practice, all budgetary information in the Finance Act includes the fiscal year and the expected appropriations for the next three years. Following the Chart of Accounts applied by the GoG, the forecasts of fiscal aggregates are presented on the basis of mixed functional/sectoral classification per appropriation type as well as for each administrative entity that has a 'main code' (*hovedkonto*), i.e. the forecasts underpinning the aggregates in the Fiscal Act are thus done at a quite detailed level. The multi-year forecasts are prepared and updated on a rolling basis every year.

In the annual budget preparation process, the starting point for establishing the annual budget ceiling is generally the first of the three fiscal years included in the previous year's multi-year fiscal forecast. As discussed under PI-11, dimension (i), the estimates for the Draft Finance Act are prepared from the fiscal balances of the previous year. Changes compared to the previous year are explained in the note that the MoFDA prepares for the GoG.¹³⁰

It is noted that the forecasts of fiscal aggregates are not based on sectoral Medium-Term Expenditure Frameworks (MTEFs), except for the education sector where a summarised MTEF based on the 2006 Greenland Education Programme (GEP) has been prepared annually since 2009 with support from the EU as part of the Partnership Agreement.

Dimension (ii) Scope and frequency of debt sustainability analysis

As of end-2013, the total foreign loan portfolio of the GoG stood at DKK 600 million (EUR 80.5 million), which is equivalent to about 4.4% of Greenland's Gross Domestic Product (GDP).¹³¹ This compares very favourably to the 60% limit stipulated for EU countries in the Stability and Growth Pact agreement for the Economic and Monetary Union (EMU). The GoG has no domestic debt. The municipalities have very limited debt.¹³²

Since net public debt is insignificant (defined as less than 10% of GDP), the dimension is according to the PEFA guidance not applicable.

Dimension (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

A number of strategic documents have been prepared by GoG ministries and entities during the past few years and where valid for 2013, including for the following sectors/areas:¹³³

- Health ('Strategies and Objectives for Public Health 2013-2019', 2012);

¹²⁸ Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget.

¹²⁹ Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008.

¹³⁰ Medlem af Naalakkersuisut for Finanser og Indenrigsanliggender (2013): "Oplæg til Naalakkersuisut, Forslag til Finanslov 2014 – Godkendelse af basisbudget og tidsplan", 10. april.

¹³¹ Greenland's 2012 GDP was DKK 13,789 million of which DKK 600 million is 4.35% [Grønlands Statistik (2014): "Nationalregnskab 2003-2012", 20. December, p. 2]. The foreign loans have been unchanged from 2012 to 2013, and 2013 GDP data will only be available in late 2014.

¹³² Departementet for Finanser og Indenrigsanliggender (2013b): op.cit., pp. 12-13. (DKK 196 million (EUR 26.3 million) as of 2013).

¹³³ It is noted that some sectors/areas in early 2014 have prepared new strategic plans (including education, minerals, and culture), but PI-12's dimension (iii) assesses only those available for the 'last completed budget', i.e. those that were in place during 2013. It is furthermore noted that strategies for several other sectors/areas are being developed or are planned (e.g., harbours, airports, digitalisation, elderly, housing and agriculture).

- Education ('Report on the GoG's Education Strategy', 2012);
- Tourism ('National Tourism Strategy 2012-2015', 2012);
- Information & Communication Technology ('ICT Strategy 2011-2015', undated);
- Mineral resources ('Mineral Strategi 2009', 2009);
- Energy ('Strategy and Action Plan 2008-2015, 2007).

The structure, content and level of detail of the strategies differ widely, and most do not include financial information. Only two strategies (education and ICT) summarise overall expected financing needs, but while this for one (education) includes both capital investment and recurrent expenditure, it covers only capital investment for the other (ICT). None of the strategies are costed.

While a MTEF exist for the education sector which is updated annually with the support of the EU as part of the Partnership Agreement,¹³⁴ it does not seem to fulfil the requirement for a costed sector strategy as per the PEFA framework (while it does include implementing agencies and programmes, it is not broken down by main economic category (personnel, other recurrent expenditure, capital), and the main parameters and assumptions upon which the analyses and forecasts are based, are not stated).¹³⁵

Dimension (iv) Linkages between investment budgets and forward expenditure estimates

The 1999 Law on the GoG's Budget¹³⁶ states that approval of capital/construction projects is subject to all operating as well as capital expenditure implications are shown in the project document (Article 18). Furthermore, the GoG's 2008 Budget Regulations¹³⁷ require that when funds are appropriated for new construction/facilities, funds for related operating expenditures must likewise be appropriated (Section 7.4). These funds may initially be allocated to a reserve pending a final decision, and it is recommended in the Budget Regulations that an annual allocation of 1.5-2.0% of the total construction sum is set aside for this purpose.

It is furthermore noted that the GoG in April 2012 outlined a Debt and Investment strategy that states the policy for raising public debt.¹³⁸ With regard to the stated 'prioritisation criteria', it stresses the importance of calculating the total cost of projects, including operating costs and – especially – maintenance costs. However, it is noted that while the strategy does outline a national capital investment plan with financing needs for different sectors and projects, it does not include forward expenditure estimates related to the operating costs.

For the 2014 budget, there are examples of a link between capital projects and related recurrent cost implications (e.g. for the ERP project under main account 82.20.02, funds are allocated for salaries and related expenditures under main account 20.01.04).¹³⁹ However, otherwise the 2014 Finance Act has only very limited evidence of a link between investment decisions, sector strategies and related recurrent cost implications.

¹³⁴ 2009: European Commission (2009a): "Medium Term Expenditure Framework for the Education Sector in Greenland 2009-2013", Government of Greenland, July; 2010: European Commission (2010a): "Medium Term Expenditure Framework Report 2010", Agriconsulting Europe S.A., August; 2011: European Commission (2011a): "Medium Term Expenditure Framework 2011-2014", Final Draft, AESA Consortium, June; 2012: European Commission (2012a): "Medium Term Expenditure Framework 2012-2015", Final Draft, AESA Consortium, September; 2013: European Commission (2013a): "Medium Term Expenditure Framework 2013-2016", Final Draft, CfBT Consortium / sequa gGmbH, September.

¹³⁵ "A sector strategy is costed if it shows the cost of each sector program, broken down by implementing agency, by main economic category (personnel, other recurrent expenditure, capital), and by year over the medium term, and main parameters and assumptions are stated. It should be approved by the head of the responsible ministry. It may or may not be within aggregate fiscal forecasts" [PEFA Secretariat (2012): op.cit., p. 77 (clarification to query/issue 12-g)].

¹³⁶ Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget.

¹³⁷ Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008.

¹³⁸ Departmentet for Finanser (2012): "Gælds- og Investeringsstrategi – Oplæg til National Anlægsplan", April, p. 29.

¹³⁹ Grønlands Selvstyre (2013a): "Finanslov for 2014", p. 513.

Recent, on-going and planned reform initiatives

The GoG is planning to develop long-term (10-year) strategic plans for selected sectors, including education and health. In this context the MoFDA is planning to introduce a template to be used for all sector strategies so as to ensure a uniform structure, content and level of detail. A separate chapter is planned for costing and financing, which will cover budgeting (sector plan budget for the medium and longer terms, facility development plan and prioritisation of individual projects, expected financing, and forward expenditure estimates), risk assessment (rating of risk factors and risk mitigation measures), and impact assessment (consequences of changes to the proposed implementation plan, and calculated impact on the fiscal balances in the short and longer term).

Also, the MoFDA in January 2014 published guidelines on the preparation of socio-economic impact assessments for the GoG, municipalities and PEs.¹⁴⁰ The approach is based on four central analyses – welfare economic, financial, social and environmental sustainability, and regional and national development – and includes both quantitative and qualitative aspects. The guidelines were applied for two specific cases – the expansion of the container port at Nuuk and investments to increase the capacity of vocational training – and examples of the two cases are included.

It is understood that the GoG is considering the possibility, based on a revision of the 2008 Budget Regulation,¹⁴¹ to introduce an automatic increase of the recurrent expenditure budget (maintenance) for concerned entities once a capital project has been finalised.

5.5 Budget Cycle – C.2 Predictability and control in budget execution

PI-13 Transparency of taxpayer obligations and liabilities

Effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system, but is also very dependent on the direct involvement and co-operation of individual taxpayers as well as those from the corporate sector. Contribution to the overall level of compliance is encouraged and facilitated by a high degree of transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability.

Dimension	2014 Score	Brief Explanation of Status
PI-13 Transparency of Taxpayer Obligations and Liabilities.	A	Overall rating based on M2 methodology.
(i) Clarity and comprehensiveness of tax liabilities.	A	The legislative and regulatory framework for taxes as well as fees and duties is comprehensive and clear, and the discretionary powers of the Tax Agency are strictly limited.
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	A	Taxpayers have easy access to comprehensive and up-to-date information about tax liabilities and administrative procedures for all taxes, fees and duties. Information campaigns are carried out when needed for individual tax payers.
(iii) Existence and functioning of a tax	A	The tax appeals system is based on transparent

¹⁴⁰ Departementet for Finanser og Indenrigsanliggender (2014): "Vejledning i fremstilling af samfundsøkonomiske konsekvensvurderinger", Januar.

¹⁴¹ It is noted that there in the spring session of the Inatsisartut (Parliament) in 2012 was a first and second reading of a proposal presented by the Chair of the Finance & Tax Committee for a motion that would have required the GoG at the latest during the autumn session 2013 to propose amendments to the 1999 Law on the GoG's Budget (Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget). However, this did not happen due to the elections and change of government in March 2013.

appeals mechanism.		administrative procedures with appropriate checks and balances, and implemented through an independent institutional structure that operates effectively, fair and satisfactorily (evidenced by very few rulings being appealed to the courts).
--------------------	--	---

The organisation and functions of the tax administration is laid down in the 2006 Law on Tax Administration.¹⁴² The Tax Agency has its main office in Nuuk and four regional offices (as it collects all taxes in Greenland, including municipal taxes), which include custom functions. In 2013, personal income taxes accounted for 46% of total collections,¹⁴³ import duties made up 25% (mainly tobacco and alcohol), other fees and duties were 19%, and company taxes 9%. Greenland has currently registered about 45,000 individual tax payers as well as 3,500 companies and self-employed persons. As of end-2013, the Tax Agency had 109 full-time employees and three interns.

Dimension (i) Clarity and comprehensiveness of tax liabilities

The tax legislation consists of five laws on tax administration and seven laws on income tax as well as 16 regulations and seven circulars, while duties and fees are governed by a total of 12 laws and seven regulations. The Tax Agency has also issued a number of guidelines. The main income tax law is the 2006 Law on Income Tax, which covers both personal income tax and company tax.¹⁴⁴ Personal income tax is based on a 'pay-as-you-earn' principle with employers charged with withholding income tax at source that must be transferred on a monthly basis to the Tax Agency. Greenland has no value-added tax.

Compared to many other countries, the Greenlandic tax system is relatively simple as income from work and capital gains is treated similarly, it is based on proportional taxation, and there are a limited number of fees and duties.¹⁴⁵ While the system is based on the same basic principles as the Danish tax system, it is less complex as the income basis in Greenland is different. Moreover there is a specific intention of keeping the system simple.¹⁴⁶ Taxation of individuals as well as companies is based on objective assessments, and exemptions from taxable income are clearly stated in the Income Tax Law (Article 34).

The Greenlandic tax system is also characterised by a number of key provisions in the legislation relevant for companies (e.g. related to tax-exempt mergers or divisions) requiring the Tax Agency to provide prior permissions or exemptions, without the procedures for obtaining such being clearly specified in the legislation.¹⁴⁷ While these procedures are generally based on clear legal practices, it is assumed that the number of permission/exemption clauses could be reduced significantly if administrative simplifications were undertaken. The main discretionary powers of the Tax Agency are limited to two specific areas in the taxation of companies: 1) Dispensations regarding limitations in carrying forward a deficit (according to Article 30.5 of the 2006 Income Tax Law); and, 2) Dispensations related to depreciation of taxable assets (Article 22a).¹⁴⁸

Dimension (ii) Taxpayer access to information on tax liabilities and administrative procedures

A complete set of legislation, regulations and guidelines for taxes as well as fees and duties is available on the Tax Agency website (www.aka.gl) in Greenlandic as well as Danish, while some

¹⁴² Landstingslov nr. 11 af 2. november 2006 om forvaltning af skatter.

¹⁴³ It is noted that this only covers the GoG's share of personal income tax revenues, which accounts for approximately ¼ of the total, while the share of the municipalities is about ¾.

¹⁴⁴ Landstingslov nr. 12 af 2. november 2006 om indkomstskat.

¹⁴⁵ Benchmarkingudvalget (2003): "Skatter og afgifter i Grønland – Det grønlandske skatte- og afgiftssystem", 27 March. p. 2.

¹⁴⁶ Skatte- og Velfærdskommissionen (2011): "Vores velstand og velfærd – kræver handling nu", Betænkning, March, p. 340.

¹⁴⁷ Benchmarkingudvalget (2003): op.it., p. 142.

¹⁴⁸ Inatsisartutlov nr. 3 af 30. november 2009 om ændring af landstingslov om indkomstskat (Skattepligt i forbindelse med råstofaktiviteter, skærpet beskattning af fri bil, handel med skattemæssige afskrivninger og udvidet indeholdelsespligt).

guidelines are also available in English. The website includes separate sections for individual taxpayers and for companies, and has comprehensive information on tax liabilities and administrative procedures, including 30 different forms as well as all 110 tax information notes issued by the Tax Agency since 2006. The website furthermore has a section on the tax appeals system as well as a facility allowing individuals to calculate their tax liabilities. Various brochures for individuals and companies are available in the five tax offices, which also each have a combined one-stop information and help desk.

In the 2008 PEFA assessment report it was noted that an estimated 1/6 of taxpayers did not file an annual tax declaration. However, the tax declaration process has since 2011 been fully automated and tax-related information is now collected routinely from almost all relevant sources to produce pre-prepared tax declarations for individual tax payers. The Tax Agency estimates that about 75% of all tax payers are fully covered by this automated process, and hence do no longer require to interact with the Tax Agency.

Public campaigns using posters and advertisements in newspapers are undertaken annually during the month of August to inform individual tax payers about the final settlement for the previous year, which for some involves payment of additional taxes or repayments. The Tax Agency also provides information to companies about income tax withholding procedures. There is generally no need for education campaigns with regard to fees and duties since these in most cases relate to companies and professionals that have a high level of capacity to administer taxation procedures. All new legislation and regulations, as well as changes to existing ones, are advertised in newspapers.

Dimension (iii) Existence and functioning of a tax appeals mechanism

The tax appeal system is outlined in the Law on Tax Administration (Chapters 2 and 15-17), which covers both tax and fees/duties. It consists of an independent Tax Council with seven members – a chairperson appointed by the GoG and six additional members nominated by different organisations¹⁴⁹ – that meet three times annually to hear and rule on complaints/cases related to taxes and duties/fees. The work and functioning of the Tax Council is regulated by and detailed in a separate set of Rules of Procedures.¹⁵⁰ Administrative assistance to the Tax Council is provided by two legal specialists placed at the MoFDA.

Some data on the cases received and processed by the Tax Council for 2011-2013 is shown below.

Table 5.15 Case Data for the Tax Council, 2011-2013

	Case Numbers	Decision In Favour of Complainant	Decision In Favour of Tax Agency
Existing cases as of 1 January 2011	39	-	-
New cases received 2011-2013	130	-	-
Cases processed 2011-2013	155	53 (i.e. 34%)	102 (i.e. 66%)
Remaining cases as of 1 January 2014	14	-	-

Source: Tax Council.

Note: Four existing cases on 1 January 2011 were related to fees and duties, while all other cases, including those received during 2011-2013, concerned taxes only.

The table shows that about 1/3 of cases brought before the Tax Council are decided in favour of the complainants and thus about 2/3 in favour of the Tax Agency. Of the currently 16 cases being processed (including two new cases received after 1 January 2014), most concern taxable income

¹⁴⁹ Greenland Workers Union (SIK), Union of Public Servants (AK), Employer's Association of Greenland (GA), Organisation of Greenlandic Employers (NUSUKA), Fishermen's Organisation (KNAPK) and Local Government Association (KANUKOKA).

¹⁵⁰ Hjemmestyrets bekendtgørelse nr. 24 af 1. december 2006 om forretningsorden for Skatterådet med videre.

estimates made by the Tax Agency. None of the existing cases are older than 10 months, and all 16 cases are to be tabled at the next Tax Council meeting in May 2014.

The website of the Tax Agency has a separate section for the Tax Council, which includes information about its members, rules and scheduled meetings. Rulings of the Tax Council considered 'fundamental decisions' are published on the website.

Cf. Chapter 16 of Law on Tax Administration, the rulings of the Tax Council can be appealed to the courts. On average only one appeal per year has been made during the past four years.

Recent and/or on-going reform developments

The Tax Agency has in recent years worked to further improve and automate the collection of tax-related data needed for the annual tax declaration. In 2013, this included information on share dividends, which is now automatically collected and added to the tax files.

The Tax Agency in late 2013 implemented a new organisational structure consisting of five new sections: Management, Finance (including collection and payments), Performance and Control (including audit as well as customer care), Recovery (related to debts and arrears), and Shared Functions (including HR and administration). It is expected that the re-organisation will improve the work and functioning of the Tax Agency as well as ensure a clearer output-orientation. It is also noted that recruitment over time has increasingly focused on candidates with academic degrees, and that all managers attend executive training arranged by the GoG.

The Tax Agency works on improving its internal procedures, including through technical improvements of its tax administration system (*eSkat*).

The secretarial assistance to the Tax Council was earlier provided by staff employed by the Tax Agency, but has since January 2014 been provided by the MoFDA so as to ensure a further degree of separation.

Future reforms are expected to focus on implementing the recommendations of the Tax & Welfare Commission (2011), as and when so decided by the GoG, by revising the existing legislative and regulatory framework as/when decided by the GoG. This could include reforms to reduce the number of permission/exemption clauses related to taxation of companies, which may be undertaken through administrative simplifications and by making requirements based on objective criteria stated in the legislation and regulations.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Registration is facilitated by control mechanisms introduced by the tax administration. Ensuring that taxpayers comply with their procedural obligations of registration and tax declaration is usually encouraged by penalties that vary with the seriousness of the offence, and are consistently and fairly administered. Also, using risk-targeted auditing of taxpayers may improve compliance and deter tax evasion.

Dimension	2014 Score	Brief Explanation of Status
PI-14 Effectiveness of measures for taxpayer registration and tax assessment.	A	Overall rating based on M2 methodology.
(i) Controls in the Taxpayer Registration system.	A	All taxpayers, both individuals and legal entities, are registered in fully comprehensive systems that

		provide the linkages for interaction with all public and almost all private sector entities.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	A	Penalties of non-compliance are high for all important areas and thus act as deterrence, and are consistently administered.
(iii) Planning and monitoring of tax audit and fraud investigation programmes.	A	Tax audits are managed and reported on according to a comprehensive and documented plan that uses clear risk assessment criteria.

Dimension (i) Controls in the Taxpayer Registration system

All individual tax payers in Greenland are registered and identified based on their personal identification (CPR number), while all legal entities (employers, self-employed persons, organisations, funds and public entities) have a unique identification number (GER number).

The CPR number is a ten-digit national identification number, which is part of the personal information stored in the Danish Civil Registration System (*Det Centrale Personregister*). It is issued to all persons born in Denmark and Greenland who have Danish citizenship, persons required to pay tax in these countries, and people residing in these countries for more than three months. The CPR number is required for all interactions with the public sector as well as in most parts of the private sector (e.g. employers and banks).

The GER is the central Greenlandic Business Register (*Grønlandske Erhvervsregister*) and is established by law.¹⁵¹ It serves to collect basic data on all legal entities and employers operating in Greenland, including foreign companies, and provides a unique registration number for all entities. The GER is maintained by the Tax Agency and currently has 4,997 entities registered (of which about half are sole proprietorships). The GER number is used for all interactions between the legal entities and the GoG as well as for almost all private sector entities (e.g. banks).

The use of the CPR and GER numbers means that all taxpayers in Greenland are registered in complete database systems that are fully comprehensive since the unique numbers are required for all interactions with public and almost all private sector entities.

As an additional registration control measure, Tax Agency controllers and bailiffs in collaboration with the police and representatives of the Ministry of Industry & Mineral Resources (checking work and residence permits), carries out unannounced control visits at businesses and workplaces to check the tax status of the businesses and legal status of employees. One such control visit was carried in Nuuk in 2013 which resulted in 64 different cases being registered. For 2014, four such control visits are planned at different locations in Greenland.

Dimension (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

The Tax Agency is, according to Law on Tax Administration (Article 82), authorised to offer taxpayers to settle penalties administratively. If the tax payer does not accept this, the case is transferred to the police which shall refer the matter to the courts for judgment.

The 2006 Income Tax Law (Chapter 10) stipulates various possible sanctions and penalties in cases of non-compliance with the law, which relates to both individuals and companies. The

¹⁵¹ Landstingslov af 29. oktober 1999 om Det Grønlandske Erhvervsregister; and, Landstingslov nr. 9 af 29. november 2004 om ændring af landstingslov om Det Grønlandske Erhvervsregister.

specific penalties generally range from 1½ to 3 times the applicable taxable amount.¹⁵² During 2013 only one penalty was issued amounting to DKK 37,000 (EUR 4,966), but the Tax Agency currently has about 100 cases from 2012-2013 being legally assessed (a process that was delayed due to lack of staff, which was resolved in late 2013 with the hiring of two additional legal counsellors).

Non-submission of the annual tax declaration currently carries a very low penalty (DKK 100 plus 6%, i.e. approximately EUR 14),¹⁵³ which 262 companies were fined in 2013, but the amount is planned increased with a revision of the legislation during 2014.

The Tax Agency is authorised, based on the relevant laws, to issue penalties for non-compliance related to payment of fees and duties. Penalties are generally set at two times the evaded amounts, but higher penalties can be applied through criminal prosecution (which also applies if penalties are not paid). Non-compliance or large-scale evasion by companies, although rare, would usually lead to prosecution under the criminal legal code. A total of 145 penalties amounting to DKK 237,000 (EUR 31,812) for non-payment of fees and duties were issued during 2013 (i.e. an average of DKK1,634 (EUR 219) per case, thus indicating that most cases are relatively minor).

The 1999 GER Law (Chapter 6) states that companies which fail to provide required information can be fined. Non-compliance with GER registration is found mainly among self-employed persons and is usually due to a lack of familiarity with the requirement, and the Tax Agency has therefore so far not found it necessary to use penalties to enforce registration.

Penalties are consistently administered based on the established legal practice. There are no inconsistencies in the size of penalties for similar non-compliance, and specifically tax-related penalties are generally always reviewed by a Tax Agency legal counsellor before being issued.

Dimension (iii) Planning and monitoring of tax audit and fraud investigation programmes

The Tax Agency prepares a comprehensive tax assessment plan on an annual basis (1 May to 30 April, given that the annual deadline for submission of tax declaration is 1 May). The plan distinguishes between individual tax payers, and self-employed persons and companies.

For individual tax payers, all tax declarations undergo an initial assessment ('visitation process') that is automatically done in the tax administration system (*eSkat*), except for explicitly pre-identified tax payers (e.g. individuals owning companies and/or significant share holdings), which are assessed manually. Further assessments are undertaken based on materiality (tax payers with incomes above a certain threshold) and risk (individuals owning rental properties). The Tax Agency aims to focus its resources on those areas where errors or problems are typically experienced, but all major discrepancies observed between available data and information vis-à-vis the tax declaration must be clarified.

For self-employed persons and companies, the initial assessment is done using checklists and includes all tax declarations based on which a more detailed review in the form of a partial or a full tax audit is undertaken of tax declarations selected based on materiality and risk. This also takes into account that it – given the relatively low number of tax payers in Greenland – often is clear in which sectors there may be a need for more detailed investigations (e.g., during 2013 a specific focus area was on consulting fees and rental incomes, which both generally are being under-reported). Partial audits examine a pre-determined number of declared tax items and follow

¹⁵² Skattedirektoratets Cirkulære nr. 1 af 5. marts 1980 om administrative bødefastsættelser ved overtrædelse af bestemmelserne i kapitel 10 i landstingslov om indkomstskat.

¹⁵³ Landstingslov nr. 11 af 2. november 2006 om forvaltning af skatter, Article 19. It is noted that this issue now is relevant only for companies and other legal entities since the tax declarations are generated automatically for individuals.

standard procedures, while full audits check all items declared. The latter include benchmarking to similar entities (using specific sector codes that are assigned to all tax payers), which has proved an effective tool in identifying 'abnormal' tax declarations and hence providing indications as to where specific investigations are required. For 2014, the tax assessment plan states that 100 self-employed persons and 75 companies will be selected for partial audit, and 25 cases for a full audit.

It is noted that data provided by the Tax Agency on planned and executed tax audits has been included in each of the five PFM assessment reports prepared for the EC during 2009-2013. However, it is understood from the Tax Agency that the data reflects "reasonable estimates" of the audits carried out, not as such necessarily the actual numbers of partial and full audits executed. It is also noted that, cf. above, no specific number of audits are generally planned regarding individual tax payers, but rather that this is done only for self-employed persons and companies. A comparison of planned and executed tax audits would thus not seem meaningful and should, if undertaken, instead focus on the latter group. This, however, does not in any way indicate a lack of quality or thoroughness regarding the Tax Agency's planning and monitoring of tax audits.

In 2013, the net-revenue resulting from the initial assessments, partial audits and full audits was DKK 206 million (EUR 27.7 million).¹⁵⁴ This was a change compared to 2012 where the net-change was a decrease of DKK 45.8 million (EUR 6.1 million).

Recent, on-going and planned reform initiatives

The Tax Agency is collaborating with the tax administration in Scandinavia to develop a formalised manner to exchange tax-related data based on a Taxpayer Identification Number (TIN) for the purpose of undertaking controls of employers and businesses.

Also, as noted it is planned to revise the Law on Tax Administration so that penalties for non-submission of the annual tax declaration will be significantly increased.

The Coalition Agreement establishing the new Government in March 2013 states an intention to strengthen controls of taxation of companies.¹⁵⁵ Concrete initiatives are yet to be formulated and implemented in this regard.

PI-15 Effectiveness in collection of tax payments

Accumulation of tax arrears can be a critical factor undermining high budget out-turns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily or need close follow-up. The level of tax arrears itself does not necessarily correlate to the effectiveness of the tax collection system, since a major tax assessment drive may substantially increase tax arrears, but the tax administration's ability to collect the taxes assessed is critical, unless the overall level of arrears is insignificant. Aggregate reporting on tax assessment, collection, arrears and transfer to the Treasury should take place regularly in order to ensure that the tax collection system works as intended, that tax arrears are monitored and the revenue float is minimised.

Dimension	2014 Score	Brief Explanation of Status
PI-15 Effectiveness in the collection of tax payments.	NR	According to PEFA methodology, when a dimension is Not Rated (NR), the overall score is NR. ¹⁵⁶

¹⁵⁴ This covered an increase of DKK 298 million (EUR 40 million) and a decrease of DKK 92 million (EUR 12.3 million).

¹⁵⁵ Naalakkersuisut (2013): "Et samlet land – Et samlet folk, Koalitionsaftale 2013-2017", p. 5.

¹⁵⁶ The PEFA Fieldguide, page 16 (point G-c), states: "NR on one dimension would lead to NR on the indicator (irrespective of M1 or M2) because if there were information available on the missing dimension(s), the rating potentially could improve to

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	NR	The Tax Agency does not regularly prepare and monitor collection rates for gross tax arrears on an annual basis and as per the PEFA manual.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	A	Revenues are paid into accounts controlled by the GoG's Central Department of Accountancy.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury.	A	The Tax Agency undertakes a complete reconciliation of tax assessments, collections, arrears and transfers to the Treasury takes place on a monthly basis.

Dimension (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

Collection rates for gross tax arrears – as outlined in the PEFA manual – are not prepared on an annual basis by the Tax Agency, and are hence not monitored.¹⁵⁷

The Tax Agency instead monitors arrears twice annually, which is *inter alia* being used for information provided to the Inatsisartut for its Spring and Autumn sessions (i.e. about four and eight months into the fiscal year, respectively). This does not fulfil the PEFA requirement, which is instead based on monitoring for the full 12-month fiscal year.

The developments for revenue-related arrears (taxes and fees/duties) during 2012 and 2013 in terms of number of cases and total amounts are shown in the following two tables.

Table 5.16 Total Change in Arrears during 2012

	January 2012		January 2013		Absolute Change		Percentage Change	
	No. of Cases	DKK, Million	No. of Cases	DKK, Million	No. of Cases	DKK, Million	No. of Cases	DKK, Million
Residual Tax	5,092	44.3	4,457	44.7	-635	+0.5	-12%	+1%
Personal Income Tax	433	202.5	2,296	173.3	+1,863	-29.2	+430%	-14%
Company Tax	86	3.2	73	3.4	-13	+0.1	-15%	+4%
Interest	5	0.0	1,635	3.2	+1,630	+3.2	+32600%	+9283%
<i>Sum - Taxes</i>	<i>5,616</i>	<i>250.0</i>	<i>8,461</i>	<i>224.6</i>	<i>+2,845</i>	<i>-25.4</i>	<i>+51%</i>	<i>-10%</i>
Fees & Duties	1,520	13.8	2,218	12.4	+698	-1.4	+46%	-10%
Total	7,136	263.9	10,679	237.0	+3,543	-26.9	+50%	-10%

Source: Tax Agency.

The table shows that while the number of arrears (taxes and fees/duties) during 2012 rose 50% in terms of number of cases, the amount decreased by 10% to DKK 237.0 million (EUR 31.8 million).

D+. However, there is an exception in the case of an M1 indicator with 3 or 4 dimensions and one is rated D, one is rated NR and the other(s) rated C or above: here the overall rating could be D+, but for consistency NR may be preferable.”

¹⁵⁷ The electronic collection system applied by the Tax Agency, which is a module in the GoG's XAL accounting system, is primarily a case management system. While it can be used for statistical monitoring purposes, this needs to be programmed. As described in the text, the Tax Agency in future intends to monitor collection rates for gross tax arrears on an annual basis.

It is furthermore seen that by far the most significant arrear is personal income tax, which in January 2013 accounted for 73% of the total, while fees and duties accounted for 5%.

Table 5.17 Total Change in Arrears during 2013

	January 2013		January 2014		Absolute Change		Percentage Change	
	No. of Cases	DKK, Million	No. of Cases	DKK, Million	No. of Cases	DKK, Million	No. of Cases	DKK, Million
Residual Tax	4,457	44.7	4,545	43.8	+88	-0.9	+2%	-2%
Personal Income Tax	2,296	173.3	2,457	175.5	+161	+2.2	+7%	+1%
Company Tax	73	3.4	77	2.7	+4	-0.7	+5%	-21%
Interest	1,635	3.2	1,442	2.9	-193	-0.3	-12%	-10%
<i>Sum - Taxes</i>	<i>8,461</i>	<i>224.6</i>	<i>8,521</i>	<i>224.9</i>	<i>+60</i>	<i>+0.3</i>	<i>+1%</i>	<i>+0%</i>
Fees & Duties	2,218	12.4	3,903	17.5	+1,685	+5.2	+76%	+42%
Total	10,679	237.0	12,424	242.5	+1,745	+5.5	+16%	+2%

Source: Tax Agency.

The table shows that during 2013 the number of arrears rose 16% in terms of number of cases, while the amount increased by 2% to DKK 242.5 million (EUR 32.5 million). It is furthermore seen that personal income tax also in January 2014 was by far the most significant arrear (72%), while fees and duties accounted for 7% due to a relatively large increase in the arrear amount.

The Tax Agency has specifically for the use in this PEFA assessment prepared a data set that shows the revenue-related arrears (taxes and fees/duties) as of 16 January 2013 and compared the outstanding number of cases and related amounts from this as of 13 February 2014. The data is shown below.

Table 5.18 Change in Revenue-related Arrears from 16 January 2013 to 13 February 2014

	16 January 2013		13 February 2014		Absolute Change		Percentage Change	
	No. of Cases	DKK, Million	No. of Cases	DKK, Million	No. of Cases	DKK, Million	No. of Cases	DKK, Million
Residual Tax	4,457	44.7	3,580	37.4	-877	-7.4	-20%	-16%
Personal Income Tax	2,296	173.3	1,755	39.0	-541	-134.3	-24%	-77%
Company Tax	73	3.4	60	2.3	-13	-1.1	-18%	-32%
Interest	1,635	3.2	1,375	2.9	-260	-0.3	-16%	-10%
<i>Sum - Taxes</i>	<i>8,461</i>	<i>224.6</i>	<i>6,770</i>	<i>81.5</i>	<i>-1,691</i>	<i>-143.1</i>	<i>-20%</i>	<i>-64%</i>
Fees & Duties	2,218	12.4	1,678	10.1	-540	-2.3	-24%	-19%
Total	10,679	237.0	8,448	91.6	-2,231	-145.4	-21%	-61%

Source: Tax Agency.

The table shows that of the 10,679 cases amounting to DKK 237.0 million (EUR 31.8 million) in arrears as of January 2013, a total of 2,231 cases involving DKK 145.4 million (EUR 19.5 million) had been resolved by February 2014. It is furthermore seen that while just 21% of cases had been

resolved during the 13-month period, 61% of the amounts had been collected, i.e. the majority of cases resolved are those involving the highest amounts.¹⁵⁸

It is noted that PI-15 concerns only domestic revenue-related arrears, and hence that other types of arrears are therefore not included in the tables above. However, the Tax Agency is also charged with collecting various other non-tax related arrears on behalf of GoG entities as well as the municipalities.¹⁵⁹ As of January 2014, the arrears of municipalities amounted to DKK 487.7 million (EUR 65.5 million),¹⁶⁰ while those of the GoG amounted to DKK 169.1 million (EUR 22.7 million).¹⁶¹ In other words, ¾ of all other types of non-revenue related arrears originate from municipalities and only ¼ originate from the GoG. This distribution between the municipalities and the GoG has been unchanged during the last few years, but the total level of total level of other arrears has increased.

As of January 2014, the domestic revenue-related arrears (tax and fees/duties) constitute 8.3% of the GoG's 2014 recurrent budget, while the GoG's other types of arrears amount to 6.3% of the GoG's 2014 recurrent budget. Even though arrears have decreased slightly in recent years, especially regarding taxes, the total amounts are thus still very significant.

The GoG had for 2013 set aside a reserve of DKK 73.8 million (EUR 9.9 million) for potential tax arrears being uncollectable, while the actual amount written off was DKK 10.7 million (EUR 1.4 million). The GoG's 2014 Finance Act includes a budget of DKK 20 million (EUR 2.7 million) of tax arrears not being collectable and hence written off.

Dimension (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

Tax revenue as well as fees and duties are paid into accounts at the GrønlandsBANKEN [Bank of Greenland], a commercial bank. While the accounts are nominally held by the Tax Agency, all GoG bank accounts are set up and controlled by the Central Department of Accountancy as part of the Treasury Single Account (TSA) system (*Landskassen*) (cf. PI-17, dimension (ii)). The Central Department of Accountancy transfers the revenues into other of its bank accounts on a weekly basis as part of an established practice.

Dimension (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury

¹⁵⁸ It should be noted that if the data presented in the table had been in accordance with that required for PI-15 (which is collection ratio for gross tax arrears for the past two fiscal years), it might have resulted in a "C" score. The average debt collection ratio for the past two fiscal years would have had to be 90% or above for a "A" score, 75-90% for a "B" score, 60-75% for a "C" score, and below 60% for a "D". At 61% for a 13-month period, the resultant score could also have been a "D".

¹⁵⁹ According to Article 597 of the Law on Administration of Justice (Retsplejelov for Grønland nr. 305 af 30. April 2008), the GoG appoints bailiffs to collect tax and fee/duty arrears, and Article 11a of the Law on Recovery (Landstingslov nr. 13 af 15. november 2007 om ændring af landstingslov om inddrivelse og forebyggelse af restancer til det offentlige (Én landsdækkende inddrivelsesmyndighed)) designates the Tax Agency as the recovery authority. Furthermore, municipal claims are transferred to the Tax Agency for recovery when the deadline for payment has passed in accordance with a 2008 Law on Recovery (Landstingslov nr. 7 af 5. december 2008 om ændring af landstingslov om inddrivelse og forebyggelse af restancer til det offentlige (Overdragelse af kommunale fordringer til inddrivelse)).

¹⁶⁰ For municipalities, alimonies made up by far the largest share (64%), followed by miscellaneous arrears (9%) and rent (7%). Alimony payment, including child support, is in Greenland – like Scandinavia in general – a mandatory benefit payable as a result of separation, divorce or termination of cohabitation to the parent with whom the child/children is living. Child support derives from the parents' obligation to provide for their dependents. Unlike many other countries, in Scandinavia the responsibility for providing such support is – in cases where a parent does not provide the required financial support – assumed by the state. The right of a custodial parent to request the municipality for payment of child support, if the other parent does not pay or does not do so on time, is stated in law (Article 4 in the Landstingsforordning nr. 2 af 3. marts 1994 om udbetaling af underholdsbidrag m.v. til børn samt adoptionstilskud). Therefore, when a municipality has made child support payments, the municipality rather than the custodial parent becomes the claimant against the other parent (Article 17 of the Law). This statutory aspect is thus the legislative background for the increasing alimony payment arrears.

¹⁶¹ For the GoG, business support loans made up the largest share (41%), followed by rent (21%) and 'Nordic' arrears (14%).

The Tax Agency undertakes monthly follow-up on all collections of tax as well as fees and duties vis-à-vis the budget, which is reported on a quarterly basis to the MoFDA for its monitoring activities and for the reporting to the GoG and Inatsisartut's Finance & Tax Committee. Monthly follow-up is likewise done for domestic revenue-related arrears (taxes and fees/duties), but only twice yearly for other types of arrears (however, this later type of arrears is not covered by PI-15).

Recent, on-going and planned reform initiatives

The Coalition Agreement that established the new Government in March 2013 stated the intention to strengthen the collection of arrears, including by reconsidering the administrative set-up in this regard.¹⁶² The organisational re-structuring of the Tax Agency in late 2013 included a particular focus on enforcement through a dedicated entity for recovery of debts and arrears. The Tax Agency expects that this will lead to further improvements in its tax collection efforts, including a higher level of tax arrears being collected.

In the future, the Tax Agency intends to monitor collection rates for gross tax arrears by gathering the relevant data at the beginning and end of each fiscal year, i.e. will in future have data on the percentage of tax arrears at the beginning of a fiscal year that is collected during that fiscal year.

Since a considerable amount of data is exchanged between the Tax Agency's tax administration system (*eSkat*) and the GoG's XAL accounting system (e.g. tax invoices and prepared and tax payments registered in the latter), the Tax Agency has been actively involved in the preparations related to the development of the ERP project, which has been on-going since mid-2012. The data interchange is currently manual, but will be fully automated with the new ERP system, which should lead to a more efficient and effective administration of taxes when operational in early 2016.

PI-16 Predictability in the availability of funds for commitment of expenditures

Effective execution of the budget, in accordance with the work plans, requires that the budgetary units receive reliable information on availability of funds within which they can commit expenditure for recurrent/operating and capital/development inputs. Predictability is facilitated by effective cash-flow planning, monitoring, and management by the Treasury. This should be based on regular and reliable forecasts of cash inflows and of major, atypical outflows which are linked to the budget implementation and commitment plans for individual units, and incorporates the planned in-year borrowing to ensure adequate liquidity at any time. This indicator assesses the extent to which the MoF provides reliable information on the availability of funds to budgetary units.

Dimension	2014 Score	Brief Explanation of Status
PI-16 Predictability in the availability of funds for commitment of expenditures.	A	Overall rating based on methodology M1.
(i) Extent to which cash flows are forecast and monitored.	A	The cash position of the GoG is closely monitored for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	A	The GoG's budgetary units are able to plan and commit expenditure for the full fiscal year in accordance with the budgeted appropriations.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	A	In-year adjustments to budget allocations are financially insignificant, and are done in a fully transparent and predictable way.

¹⁶² Naalakkersuisut (2013): "Et samlet land – Et samlet folk, Koalitionsaftale 2013-2017", p. 5.

Dimension (i) Extent to which cash flows are forecast and monitored

The Central Department of Accountancy prepares the opening cash holding position in a timely and reliably manner for the fiscal year, and undertakes monthly follow-up. The cash holding monitored overview includes cash, bank deposits and treasury bills.

A separate and detailed overview is prepared on monthly basis for the Fund for Construction & Renovation (*Anlægs- og Renoveringsfonden*) since payments related to work projects generally are large and do not always follow a similar pattern from year to year (although there is a certain seasonality of expenditures as construction activities and related outlays mainly take place during the summer and autumn).

Cash flow analyses in the traditional sense are not made for recurrent, statutory/non-discretionary, and grant spending since these always are within the limits sets by the annual appropriations, and can be fully accommodated with the funds available (the 2013 cash position of the GoG ranged between DKK 817.6 million and DKK 1,139.2 million (EUR 109.7 million and EUR 152.9 million)).¹⁶³ It is in this regard also noted that the block grant from Denmark is being allocated with 1/12 of the full annual amount at the beginning of every month), which means that the GoG generally has a high degree of liquidity. Furthermore, budget execution is closely monitored (cf. PI-24 below).

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

The approval of the annual Finance Act grants full authority for GoG entities to spend at the beginning of the fiscal year, and the MoFDA does not impose any kind of delays on incurring commitments, or making payments. The GoG entities are thus able to plan and commit expenditure in advance for the full fiscal year in accordance with the budgeted appropriations as there are no ceilings for expenditure commitments (beyond those imposed by the overall budgetary limits) and the full allotment is thus available.

Dimension (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

Adjustments of or changes to the budgetary allocations stated in the Finance Act – where appropriations are provided at the level of ‘main code’ (*hovedkonto*) for all appropriation types except for works, which is approved at the level of each specific project, cf. PI-2 above – cannot be undertaken by the GoG, unless specific and prior permission is provided through so-called ‘text annotations’ (*tekstanmærkninger*) included in the Finance Act’s in Annex 2 and cross-referenced for each ‘main code’ (*hovedkonto*) where relevant.¹⁶⁴

According to the 1999 Law on the GoG budget,¹⁶⁵ new appropriations or changes to the existing budgetary allocations during the fiscal year require supplementary appropriation (*tillægsbevillinger*), except where prior permission has been provided, cf. above. Supplementary appropriations are subject to approval of the Inatsisartut’s Finance & Tax Committee (Article 25). Application for supplementary appropriations must be submitted to the Finance & Tax Committee by the Minister of Finance (i.e. thus require that prior consent is obtained from the MoFDA), must include only transactions that are “essential” and could not be foreseen at the time when the budget was being

¹⁶³ It is in this regard noted that the GoG maintains an informal liquidity target of 10% (i.e. that cash amounting to approximately DKK 675 million (EUR 90.6 million) should be maintained at any one time).

¹⁶⁴ The use of text annotations is in accordance with Article 6 in the 1999 Law on the GoG’s Budget (Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget), which specifies that they may only supplement the management of appropriations, are only valid for the fiscal year in which they are included in the budget, may give additional specific provisions to existing legislation (with changes to existing legislation only being possible if the change is temporary), and may not be grant-enhancing for subsequent fiscal years. Further procedural details are outlined in Chapter 3 of the GoG’s 2008 Budget Regulations (Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008).

¹⁶⁵ Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget.

prepared, and may only include financing relevant for the current fiscal year (Article 28).¹⁶⁶ Furthermore, a Supplementary Appropriations Act (*Tillægsbevillingslov*) must be presented by the GoG during the first regular parliamentary session in the year following the fiscal year. Some additional procedural requirements are stated in the GoG's 2008 Budget Regulations (Chapter 4).

During 2013, a total of 46 applications for budgetary adjustments were submitted by the ministries of which eight were approved directly by the GoG (as they did not change the budgetary allocations and followed text annotations included in the Finance Act, which authorise such approvals). Of the remaining 38 applications, two were directly approved by the Inatsisartut (as they concerned its own area), while 36 applications were presented to the Finance & Tax Committee. Of these, 28 were approved, seven rejected, while one case was not processed due to the national elections (that took place on 12 March 2013). Of the 38 applications approved, 34 were budget neutral (i.e. did not have financial implications, instead being related to changed organisational set-ups and responsibilities following the establishment of the new government on 26 March 2013), while four applications involved a change in net-spending of DKK -10.3 million (EUR -1.4 million),¹⁶⁷ equivalent to 0.16% of the originally budgeted expenditure for 2013.¹⁶⁸

PI-17 Recording and management of cash balances, debt and guarantees

Debt management in contracting, servicing and repayment, and the provision of government guarantees is often a major element of overall fiscal management. The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity. An important requirement for avoiding unnecessary borrowing and interest costs is that cash balances in all government bank accounts are identified and consolidated. Calculation and consolidation of bank accounts are facilitated where a single Treasury account exists or where all accounts are centralised. Critical to debt management performance are also the proper recording and reporting of government issued guarantees, and the approval of these by a single entity against adequate and transparent criteria.

Dimension	2014 Score	Brief Explanation of Status
PI-17 Recording and management of cash balances, debt and guarantees.	A	Scoring based on M2 methodology.
(i) Quality of debt data recording and reporting.	A	Foreign debt records are complete and updated. Reconciliation will be done regularly once repayments start in 2015. The GoG has no domestic debt.
(ii) Extent of consolidation of the government's cash balances.	B	All major accounts are calculated daily and consolidated, while the remainder is calculated and consolidated weekly.
(iii) Systems for contracting loans and issuance of guarantees.	A	Contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by Parliament.

Dimension (i) Quality of debt data recording and reporting

The GoG completed repayment of an earlier foreign debt in 2006, and was debt-free until 2010 when it took up a DKK 250 million (EUR 33.6 million) loan with a 15-year repayment schedule from the Nordic Investment Bank to finance the construction of a new hydropower plant (as well as to

¹⁶⁶ Another requirement relates to statutory (*lovbundne*) appropriations, where changes in financing are only permitted due to new or amended legislation, and where the appropriation is approved by the Finance & Tax Committee (Article 27).

¹⁶⁷ This covered increased spending of DKK 6.2 million and decreased spending of DKK 16.5 million.

¹⁶⁸ This compares with supplementary appropriations for 2011 with a net-budgetary impact to +2.9% of the original budget, and a net-budgetary impact of +1.21 % for 2012.

ensure cash reserves equivalent to 10% of the GoG's revenues).¹⁶⁹ The loan was taken on behalf of and the proceeds provided to the GoG's energy company (Nukissioffiit).¹⁷⁰ A loan of DKK 350 million (EUR 46.9 million) with a similar purpose and repayment schedule was provided by the Nordic Investment Bank to the GoG in 2012. As of end-2013, the total foreign loan portfolio of the GoG thus stands at DKK 600 million (EUR 80.5 million).¹⁷¹ The GoG has no domestic debt. The municipalities have very limited debt.¹⁷²

The full set of debt records and data, which include the repayment and amortisation schedules, are kept by the Central Department of Accountancy. Debt repayment starts in 2015.

The GoG is authorised to obtain foreign loans up to DKK 1.9 billion (EUR 255 million) based on the 1993 Law on Borrowing Abroad.¹⁷³

Dimension (ii) Extent of consolidation of the government's cash balances

The Central Department of Accountancy, on behalf of the GoG, holds accounts in four commercial banks of which most are held at the GrønlandsBANKEN [Bank of Greenland], a commercial bank. The accounts combine to a Treasury Single Account (TSA) system (*Landskassen*) that is integrated into a set of linked accounts where revenues are held and from where payments are transacted. All bank accounts are set up and controlled by the Central Department of Accountancy.

There are currently a total of 189 accounts held by GoG entities, mainly in GrønlandsBANKEN. All bank accounts supporting the execution of the GoG budget are under the control of the Central Department of Accountancy. The Central Department of Accountancy calculates and consolidates the cash holdings of all major accounts on a daily basis. The bank accounts held by other GoG account holders are reconciled on a weekly basis, and funds above an agreed threshold transferred to one of the accounts held by Central Department of Accountancy.

Dimension (iii) Systems for contracting loans and issuance of guarantees

Contingent liabilities (guarantees) are regulated with the GoG's 2008 Budget Regulations (Chapter 6).¹⁷⁴ Before entering into any agreements or contracts entailing contingent liabilities, it is required that the Department of Accountancy is informed, which assesses whether the information should be included in the financial statements. Furthermore, the MoFDA must be contacted for an assessment since providing a guarantee requires an appropriation (which will depend on the nature and size as well as the obligation that may later result in payments from the GoG). Any guarantee provided requires that a 'text annotation' (*tekstanmærkning*) is included in the Finance Act (unless existing legislation already provides for this). To the extent that a guarantee is considered material, it is also required that the GoG obtains a financial and legal opinion from independent experts, which is to be provided when the application is submitted to the GoG or the Finance & Tax Committee. In the case of service-related contracts that may imply contingent liabilities, a description and an estimate of the value of these must be added to the contract. This also applies to GoG-owned PEs.

¹⁶⁹ The liquidity target of 10% is an informal aim, which in 2010 (and 2011) corresponded to a cash position of DKK 600-650 million, is stated in the 2010 and 2011 audited financial statements [Grønlands Selvstyre (2011b): "Landskassens årsregnskab 2010", p. 4; Grønlands Selvstyre (2012b): "Landskassens årsregnskab 2011", p. 5].

¹⁷⁰ Nukissioffiit is one of the GoG's three Autonomous Government Agencies (AGAs) that are discussed under PI-9, dimension i.

¹⁷¹ This is estimated equivalent to 4.4% of Greenland's GDP, which compares very favourably to the 60% stipulated for EU countries in the Stability and Growth Pact agreement for the Economic and Monetary Union (EMU).

¹⁷² Departementet for Finansier og Indenrigsafførelser (2013b): "Politisk-Økonomiske Beretning 2013", p. 13.

¹⁷³ Landstingslov nr. 13 af 28. oktober 1993 om optagelse af lån i udlandet.

¹⁷⁴ Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008.

Existing government guarantees include, according to the audited 2012 financial statements (the latest available):

- Loans for land-based businesses issued by three commercial banks where guarantees have been issued against mortgage collateral from the borrowers (DKK 45 million (EUR 6.0 million));
- Loans to fisheries companies issued by the Government of Denmark (DKK 4.8 million (EUR 0.6 million));
- Loan to a farm supply company issued by GrønlandsBANKEN (DKK 3.0 million (EUR 0.4 million));
- Student loans granted by GrønlandsBANKEN (DKK 0.5 million (EUR 0.07 million), where the GoG overall has deposited DKK 69 million (EUR 9.3 million));
- Money supply credit of DKK 45 million (EUR 6.0 million) provided to KNI Pilersuisoq, a PE, with an additional credit of DKK 7 million (EUR 0.9 million), if required;¹⁷⁵
- Pension obligations to former long-standing members of the Council of Greenland, Parliament and Cabinet (now Inatsisartut and Naalakkersuisut).

It is furthermore noted that some of the fully GoG-owned PEs have 'drawing rights' vis-à-vis the Treasury (the limits being stated in the specific company financial statements). It is understood that actual GoG expenditure due to guarantees is very low.

Recent, on-going and planned reform initiatives

The GoG in April 2012 prepared a Debt and Investment Strategy that outlines its policy for raising public debt (i.e. it includes the GoG as well as municipalities and GoG-owned PEs).¹⁷⁶ The policy has two dimensions: 1) Four 'debt principles' that provide parameters for future debt planning as a framework for total possible loan financing;¹⁷⁷ and, 2) Four 'prioritisation criteria' against which all future GoG investments must be assessed.¹⁷⁸ The 2012 loan of DKK 350 million (EUR 46.9 million) was, according to the GoG, made in accordance with the Debt and Investment Strategy.

The GoG is currently considering a loan of approximately DKK 200 million (EUR 26.8 million) for the financing of construction activities related to a new port in Nuuk, but otherwise a stabilisation of the overall debt-level is expected.

PI-18 Effectiveness of payroll controls

The wage bill is usually one of the biggest items of government expenditure. The payroll is underpinned by a personnel database, which provides a list of all staff, who should be paid every month and which can be verified against the approved establishment list and the individual personnel records (or staff files). The link between the personnel database and the payroll is a key control. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail. Payroll audits should be undertaken regularly to fill data gaps and identify control weaknesses.

¹⁷⁵ KNI is a trading company comprising different subsidiaries, including Pilersuisoq (general stores in remote locations), Polaroil (liquid fuel distribution network), Neqi (grocery store chain), and KNI Property (manages real estate holdings and investments).

¹⁷⁶ Departmentet for Finanser (2012): "Gælds- og Investeringsstrategi – Oplæg til National Anlægsplan", April.

¹⁷⁷ The four 'debt principles' are: 1) In a normal year, the current operating and capital balance must be positive, and debt service should not limit possibilities for providing public services during a recession; 2) The GoG will only borrow if it contributes to improving fiscal sustainability; 3) The GoG borrows only in relation to housing, commercial and infrastructure projects where increased user fees as a minimum can finance debt interest and loan repayments; and, 4) The total public debt shall be calculated on an on-going and consistent basis so it can be assessed at any given time.

¹⁷⁸ The four 'prioritisation criteria' are: 1) The internal rate of return of a project must as a minimum match the current market rate, taking into account socio-economic effects; 2) Public construction investments are to be used as a tool for creating a framework for the necessary structural changes to ensure fiscal sustainability; 3) Public investment shall be assessed in terms of whether they contribute to environmentally and socially sustainable development; and, 4) Public investment that are economically viable and contribute to sustainable development shall be located where it is expected that also in the longer term business development and population growth will take place.

Dimension	2014 Score	Brief Explanation of Status
PI-18 Effectiveness of payroll controls	B+	Overall rating based on methodology M1.
(i) Degree of integration and reconciliation between payroll and personnel.	A	The IT system used is a database for personnel and payroll, which are thus directly linked in terms of data consistency and reconciliation.
(ii) Timeliness of changes to personnel and payroll.	A	While the authority to change records and payroll is restricted and results in an audit trail, the 2013 annual payroll audit found a number of weaknesses in the administrative procedures.
(iii) Internal controls of changes to personnel records and payroll.	B	Authority to change personnel records and payroll data is restricted and results in an audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	A	A strong system of annual as well as in-year payroll audits exists to identify control weaknesses.

For the GoG, salaries are a significant cost element in the operating budget, representing about 25% of total GoG spending for 2013, and 59% of the recurrent costs incurred in 2013.

Dimension (i) Degree of integration and reconciliation between payroll and personnel

The GoG's personnel and payroll is managed by the MoFDA's Economy & Personnel Agency, where responsibilities are divided between three units: The Office for Collective Agreements (which negotiates and concludes contracts and agreements as well as salary and job structures, and establishes the overall general and basic pay and working conditions), Personnel Office (which deals with the formal aspects of hiring, transferring and dismissing staff) and Payroll Services (which is charged with the technical and practical aspects of paying salaries). Some GoG entities also have separate Personnel Units.

The Economy & Personnel Agency uses KMD Perspective, a centralised IT-based system for payroll administration (including payroll bookkeeping, salary specifications, transfers/remittances, postings to the XAL accounting system, etc.) and time registration. The system handles payments for a total of currently 21,018 persons (including full-time and part-time employed as well as pensioners) of which 7,213 (34%) are registered by the GoG and 13,805 (66%) by the municipalities.

The IT system includes a database with all GoG personnel and salary details, i.e. there is full data consistency and immediate reconciliation, and the monthly salaries are calculated based on the data in the system. Payment instructions are issued to GrønlandsBANKEN from where transfers are made directly into the individual bank accounts of the staff. The monthly salary payment data is automatically exported into the GoG's XAL accounting system.

Dimension (ii) Timeliness of changes to personnel and payroll

Changes to the personnel database are made on an on-going and timely basis (and always in time for the next month's payments). All entries and changes are undertaken by the Payroll Services. The initial entry is based on an employment letter issued by the Personnel Office, while later changes may follow from new work agreements negotiated between unions and the Office for Collective Agreements (which the latter will inform the Payroll Services office about in writing) and related to promotions (which the Personnel Office will inform about in writing). All salary calculations are automated and only overtime work is manually entered based on documentation submitted by the concerned GoG entities. No changes are made unless there is a specific and written basis for it.

The guidelines used for data entries are very detailed and thorough. All calculations in the system are automated and only overtime work is manually entered based on documentation submitted by the concerned departments.

Retroactive adjustments are in general only undertaken in cases where the results following from new contracts and agreements negotiated between unions and the GoG have not been possible to enter into the IT system in time (e.g., in cases where the contracts/agreements are negotiated and agreed only very shortly before becoming effective).

Dimension (iii) Internal controls of changes to personnel records and payroll

Access to the payroll administration system is based on specific control requirements that are strictly adhered to. The main instruments of control for the system are:

1. Physical checks on first entries and permanent amendments where the resulting details of the salary slips are compared with the submitted documentation;
2. Variable salary elements (e.g. overtime payment) are checked against documentation manually before each payment; and
3. A detailed personnel and salary list (*bruttolønliste*) is sent monthly to each budgetary unit, which must be checked, signed and returned to the Payroll Services office indicating any errors or changes. This procedure of downloading and approving the lists is done directly on an internal web-based database ("Nanuarq") though changes still require that the relevant documents are printed, signed and forwarded to Payroll Services.

The Audit Protocol prepared by the external auditor (Deloitte) for the 2012 accounts,¹⁷⁹ the latest available, noted that although staff generally received correct salary payments, a number of errors were made in the payroll administration, especially for variable salary elements that involved many manual procedures. It was noted that descriptions were lacking regarding essential processes and related internal controls; reconciliations related to records from previous years to some extent remained outstanding; controls were lacking related to pension deductions; and, there were incorrect registrations regarding holiday allowances.

The 2013 payroll audit undertaken by the external auditor, while overall concluding that the functioning of the payroll administration is satisfactory (as staff receive correct salary payments) also noted a number of weaknesses related to the internal controls of changes to personnel records and payroll.¹⁸⁰ It was also found that there were a number of weaknesses which meant that errors and shortcomings were not prevented, or were not noticed and corrected in time. For example, the external auditor found that follow-up on the monthly detailed personnel and salary lists (*bruttolønlisten*) in terms of approval was not undertaken, and also that for some budgetary units documentation was lacking as to whether control of the list was undertaken. The external auditor furthermore was of the view that the administration regarding time sheets did not function properly, mainly due to it being manual and with few or no controls, and a sample found relatively many errors. Also, it salary payments to former staff took place relatively often due to information about staffing changes being delayed from the budgetary units. Finally, a sample of 100 cases found errors in 61 cases, which mainly related to issues about the documentation for staff and their salary basis, and regarding the use of time sheets.

According to the Economy & Personnel Agency, efforts have during 2013 been made through a number of procedural changes to improve the work and functioning of the payroll administration.

¹⁷⁹ Deloitte (2013): "Grønlands Selvstyre – Revisionsprotokollat til Årsregnskab 2012", pp. 930-931.

¹⁸⁰ Deloitte (2013): "Revisionsrapport 2-213, Økonomi- og Personalestyrelsens afdeling for Personaleservice", 29 November.

This is confirmed by the external auditor (Deloitte), which regards the payroll administration as having improved during 2013 so that it in general now functions relatively satisfactory.

Dimension (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

Cf. above, the external auditor (Deloitte) undertakes a separate payroll audit every year as part of the annual audit of the GoG accounts. This includes sample-based controls of amendments to the personnel database against the documentation, and audits the system every second year.

Furthermore, the site visits undertaken by the GoG's Internal Audit Unit include examination of the payroll at each budgetary unit. This focuses especially on the extent the entities check salary payment lists against payslips, how personnel and salary lists are handled, and whether non-financial benefits are reported and taxed.

The centralised system and automated payroll processing coupled with the internal controls applied as well as the payroll audits carried out by the external auditor and the Internal Audit Unit to a large extent secures the payroll against weaknesses.

Recent, on-going and planned reform initiatives

The current IT system was introduced in 2008-2009 because an earlier assessment by the external auditor had assessed the IT controls in the previous system to be unsatisfactory. The system and procedures have been changed and improved over time, for example with additional controls to ensure that former staff are removed from the payroll in a timely manner.

Future plans for improvements include operationalising the personnel administration module of the IT system, so that data can be transferred directly within the system rather than having to be manually added. Such a change would further improve the functioning of the system as well as the specific system control measures and procedures.

PI-19 Competition, value-for-money and controls in procurement

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that funds are used effectively for achieving efficiency in acquiring inputs for, and value-for-money in, delivery of programmes and services by the government. The principles of a well-functioning system need to be stated in a well-defined and transparent legal framework that clearly establishes appropriate policy, procedures, accountability and controls. One of the key principles established by the legal framework is the use of transparency and competition as a means to obtain fair and reasonable prices and overall value-for-money.

The table below combines the scores of for works as well as goods and services, but it is noted that the institutional set-up as well as work and functioning of the two areas are very different (as described below for each of the four dimensions).

Dimension	2014 Score	Brief Explanation of Status
PI-19 Transparency, competition and complaints mechanisms in procurement.	D+	Overall rating based on M2 methodology.
(i) Transparency, comprehensiveness, and competition in the legal and regulatory framework.	C	<u>Works</u> : The framework meets four of the six listed requirements regarding the legislative and regulatory framework. <i>(Separate Score: B)</i> . <u>Goods and services</u> : The framework meets one of the six listed requirements regarding the legal framework. <i>(Separate Score: D)</i> .

(ii) Use of competitive procurement methods.	D	<p><u>Works</u>: The use of procurement methods is not reviewed by the Building Authority, and no systematic data is available about the procurement methods applied by the GoG entities undertaking works-related procurement. <i>(Separate Score: D).</i></p> <p><u>Goods and services</u>: The use of procurement methods is not reviewed by the Office for Strategic Procurement & Temporary Housing, and no systematic data is available about the methods applied by the Office or by GoG entities undertaking procurement of goods and services. <i>(Separate Score: D).</i></p>
(iii) Public access to complete, reliable, and timely procurement information.	D	<p><u>Works</u>: While there is public access to some key procurement information, the GoG lacks a system to generate data based on contract value and as defined with the PEFA framework. <i>(Separate Score: D).</i></p> <p><u>Goods and services</u>: While there is public access to bidding opportunities, other types of key procurement information as defined with the PEFA framework cannot be prepared (as there are no procurement plans and no independent complaints mechanism), or is not generated (contract award). <i>(Separate Score: D).</i></p>
(iv) Existence of an independent administrative procurement complaints system.	D	<p><u>Works</u>: While there is a functioning complaints system in place that meets six of seven criteria, it does not meet the crucial criteria i (regarding membership of the Complaints Board in that this should include members from civil society and the GoG). <i>(Separate Score: D).</i></p> <p><u>Goods and services</u>: There is no independent administrative complaint mechanism for procurement of goods and services. <i>(Separate Score: D).</i></p>

Dimension (i) Transparency, comprehensiveness, and competition in the legal and regulatory framework – Works

The overall institutional responsibility for works and works-related procurement rests with the GoG's Ministry of Housing. The Engineering & Land Planning Authority administers the legislation and regulations related to construction, handles complaints about decisions made by the municipal building authorities, and functions as the secretariat for the Complaints Board for Procurement. The Building Authority manages works-related procurement for the GoG. Smaller procurement for construction, maintenance and renovation is decentralised to the individual GoG entities, while the AGAs all undertake their own procurement.

Works-related procurement is governed by the 2009 Law on Inviting Tenders in the Construction Sector,¹⁸¹ with two revisions made in 2011.¹⁸² Some specific tender requirements for regarding the

¹⁸¹ Inatsisartutlov nr. 11 af 2. december 2009 om indhentning af tilbud i bygge- og anlægssektoren.

¹⁸² Inatsisartutlov nr. 4 af 15. april 2011 om ændring af Inatsisartutlov om indhentning af tilbud i bygge- og anlægssektoren (Præcisering af brugen af "Fælles betingelser for arbejder og leverancer i bygge- og anlægsvirksomhed i Grønland" (AP).

employment of apprentices are stated in a 2010 regulation.¹⁸³ There is furthermore a circular from 2000 with guidelines for works-related procurement from 2000.¹⁸⁴

Table 5.19 Assessment of the legal and regulatory framework for works procurement

Is the legal and regulatory framework for procurement ...	Met	Comments
(i) Organised hierarchically and precedence clearly established?	Yes	The law with revisions regulates procurement for all public works. There is also a regulation as well as a circular with guidelines.
(ii) Freely and easily accessible to the public through appropriate means?	Yes	The law as well as the circular and guidelines are available from the website of the Building Authority (http://www.byginfo.gl/), while the law, two law revisions and the regulation are available from the GoG's 'Legislation' website (http://lovgivning.gl/).
(iii) Applied to all procurement undertaken using government funds?	Yes	The legislations and regulation cover all construction undertaken by the GoG, including the three AGAs, municipalities and those of the PEs where the GoG holds a controlling interest.
(iv) Making open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified?	No	The law states three procurement methods – open tender, restricted tender and invited offer – but it does not define a default method. While the law states that the opportunities that exist to create sufficient competition must be used, it does as such allow for a choice between using either open tender or restricted tender with pre-qualification (although, cf. below, there are practical aspects that guide which method is most appropriate). However, the conditions for using restricted tender without pre-qualification as well as invited offer are clearly stated. ¹⁸⁵
(v) Providing for public access to all of the following procurement information: Government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints?	No*	The GoG does not prepare procurement plans (it is noted that all major works-projects are included and detailed in the Finance Act). Bidding opportunities are published in national newspapers. Information about the award of contracts is only provided to the bidders. Data on the resolution of procurement

Sammensætning af Klagenævnet for Udbud ved behandling af klager. Udvidede beføjelser for Klagenævnet for Udbud); Inatsisartutlov nr. 18 af 22. november 2011 om ændring af Inatsisartutlov om indhentning af tilbud i bygge- og anlægssektoren (Tilføjelse af bestemmelse der bemyndiger Naalakkersuisut til at fastsætte regler for indhentning af tilbud på bygge- og anlægsarbejder i kvalitetskonkurrence).

¹⁸³ Selvstyrets bekendtgørelse nr. 10 af 12. juli 2010 om lærlinge i bygge- og anlægsarbejder.

¹⁸⁴ Hjemmestyrets cirkulære af 1. oktober 2000 om udbud af bygge- og anlægsarbejder; Vejledning til Hjemmestyrets cirkulære af 1. oktober 2000 om Udbud af bygge- og anlægsarbejder.

¹⁸⁵ According to the law, restricted tender can be carried out without prior pre-qualification when only certain contractors have the necessary capacity or the specialisation to undertake the work (Article 13). Invited offer may not be obtained unless: 1) They will have a total value of DKK 500,000 or less; 2) The scope, quality or time of the project can only be determined with great difficulty for the tendering basis (e.g. certain experimental research and development work, or restoration, repair and alteration works, or works that for compelling reasons of safety cannot be delayed); 3) An earlier tender not having resulted in any appropriate or admissible bids, or no bids have been received, provided that the original terms of the contract are not substantially altered; 4) Only one contractor will be able to perform the work; or, 5) Other special reasons of overriding importance to select a particular contractor (Article 20).

Is the legal and regulatory framework for procurement ...	Met	Comments
		complaints are published in annual reports by the Complaints Board, available from the Board's website (http://www.negeroorut.gl/), where each decision is also published.
(vi) Providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature?	Yes	Cf. dimension iv below, a Complaints Board for Procurement, that functions as an independent administrative review body, exists.

Note: As for criteria (v), while public access is provided regarding bidding opportunities and data on resolution of procurement complaints, this is not the case regarding procurement plans and contract awards.

The table shows that the legislative and regulatory framework for works-related procurement meets four of the six listed requirements. The law does not make open tender the default method of procurement (although the situations in which restricted tender without pre-qualification and invited offer can be used are clearly stated), and also full public access to all procurement information is not provided (GoG entities do not prepare procurement plans, and contract award information is not publically available).

Dimension (i) Transparency, comprehensiveness, and competition in the legal and regulatory framework – Goods and Services

No formal tender procedure existed for goods and services until the Prime Minister's Office issued a circular that took effect from January 2010.¹⁸⁶ The circular covers all GoG entities, except the AGAs, for nine specific areas as outlined in an annex to the circular.¹⁸⁷ There is no law or regulation covering procurement of goods and services.

The GoG in 2009 under the Economy & Personnel Agency established a Procurement Unit, in early 2014 renamed as the Office for Strategic Procurement & Temporary Housing, which has the overall institutional responsibility for procurement of goods and services and functions, including central purchasing. According to the circular, GoG entities may undertake procurement using open tender for areas covered by the circular only with prior permission from the Office (Article 3).

The following table provides an assessment of the legal framework for goods and services procurement.

Table 5.20 Assessment of the legal framework for procurement of goods and services

Is the legal and regulatory framework for procurement ...	Met	Comments
(i) Organised hierarchically and precedence clearly established?	No	There is no law for procurement of goods and services, and also no regulation, but a circular has been issued. ¹⁸⁸

¹⁸⁶ The first circular was issued on 30 December 2009. A revised version was issued in September 2010 [Cirkulære af 24.09.2010 om Indkøb af Varer og Tjenesteydelser i Selvstyrets Centraladministration og Underliggende Institutioner].

¹⁸⁷ Goods: IT equipment; printers and multi-function machines; office supplies; and, office furniture and fixtures; Services: Snow removal; cleaning; consultancy and advice relating to IT systems acquisition; IT operations and support; and, job advertisement. The circular does not cover the municipalities and the Public Enterprises (PEs).

¹⁸⁸ The hierarchy of the legal framework in Greenland consists of the following: A law (lov) is a set of rules that has been developed in accordance with the legislative procedure prescribed in the Constitution and is adopted by the Inatsisartut (Parliament). Laws contain main rules and principles, while leaving it to the administration (e.g. a ministry) to prepare the subordinate regulations for technical and practical implementation. A regulation (bekendtgørelse) is issued by an administrative authority, usually a ministry, pursuant to a law. It contains rules that are more specific than the law upon which it is based. Regulations have the same function and similar legal force as a law and apply to the same as the law. A circular (cirkulære) is an administrative order issued by an administrative authority, usually a ministry, and typically

Is the legal and regulatory framework for procurement ...	Met	Comments
(ii) Freely and easily accessible to the public through appropriate means?	No	The circular is not readily available on any GoG websites (it can be found on the internet only through searches). ¹⁸⁹
(iii) Applied to all procurement undertaken using government funds?	No	The circular covers procurement of goods and services of all GoG entities, except the three AGAs and the Inatsisartut (Parliament). ¹⁹⁰ Nine specific types of goods and services are mentioned in the annex to the circular, which does not appear to be comprehensive (e.g. consultancy services are only included in relation to IT system acquisitions).
(iv) Making open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified?	Yes	The circular mentions three procurement methods – open tender, restricted tender and negotiation – and states open tender as the default method for contracts over thresholds specified in the annex for the different types of goods and services (Articles 2 and 6). The conditions for using restricted tender and negotiation are clearly stated (Article 9 and 10). ¹⁹¹
(v) Providing for public access to all of the following procurement information: Government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints?	No	GoG entities do not prepare procurement plans. Bidding opportunities are published on a GoG website (http://www.odbud.gl/) and in one or more national newspapers. Contracts above DKK 25 million (EUR 3.4 million) are furthermore advertised on two international websites (Article 11). Information about the award of contracts is only provided to the bidders. There is no independent administrative procurement complaint mechanism in place.
(vi) Providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature?	No	The circular does not provide for an independent administrative complaint mechanism, but rather that complaints can be submitted to the MoFDA (Article 19).

contains provisions aimed at organisationally subordinate entities which in this context are instructional authorities. Circulars are not actual law as they are binding only in relation to those that can be given instruction, and they thus often deal with how subordinate entities should administer a law and how the provisions of a law and/or a regulation are to be understood. A guideline (vejledning) is an indicative information on how authorities are to use a particular law or regulation. Guidelines often include explanations of the legal background and purpose as well as on how the rules should be interpreted.

¹⁸⁹ The circular is available only on an old GoG website (http://dk.vintage.nanog.gl/Emner/Landsstyre/Departementer/Departement_for_finans_indenrigs/Oekonomi_og_personale_styrelsen/Afdelinger/Indkoebsfunktion/indkoebscirkulaeret.aspx).

¹⁹⁰ The AGAs are, however, required to inform the Economy & Personnel Agency about planned procurements.

¹⁹¹ According to the law, restricted tender can be used when only certain suppliers have the necessary capacity or the necessary specialisation to deliver the goods or services. In restricted tenders, pre-qualification can be undertaken by inviting potential bidders through publication of an advertisement (Article 9). Negotiation may be used in the following cases: 1) If the scope, quality or time period for the goods or services can be determined only with great difficulty in the tender documents; 2) When only one supplier has an effective opportunity to provide the goods or services; and, 3) When carrying out a tender will entail disproportionate costs in relation to the potential savings (Article 10).

The table shows that the legal framework for procurement of goods and services meets only one of the six listed requirements, namely that of making open tender the default method of procurement.

Dimension (ii) Use of competitive procurement methods – Works

As noted above, while the law states three procurement methods – open tender (*offentlig licitation*), restricted tender (*begrænset licitation*), and invited offer (*underhåndsbud*) – it does not specifically define open tender as the default method. The law states that the opportunities that exist to create sufficient competition must be used (Article 7, para 2), but it does as such allow for a choice between using either open tender or restricted tender with pre-qualification (although using the latter method may mean less competition, which would violate the law (Article 7, para 3)).¹⁹² However, it is noted that the conditions for using restricted tender without pre-qualification and invited offer are clearly stated.

This dimension assesses the extent to which – when contracts are awarded by methods other than open competition (open tender) – this is justified in accordance with the conditions/requirements stated in the law, and for how many contracts (measured by value) this is the case. Given the formulation of the Law on Inviting Tenders in the Construction Sector, in practical terms this means that this should focus on restricted tender without pre-qualification and invited offer, since there are no specific conditions/requirements for when restricted tender with pre-qualification may be used instead of open tender.

In order to make these assessments, it is required that information is available, preferable with the Building Authority or at least easily obtainable from each GoG entity undertaking works-related procurement, about the procurement methods applied. However, such information is not collected by the Building Authority (indicating that no controls are in place to review the procurement methods used by the GoG entities), and also not readily available with the concerned GoG entities (such data is usually straightforward to obtain when annual procurement plans are prepared). Data on the value of contracts awarded using the methods of restricted tender without pre-qualification and invited offer is thus not available.¹⁹³

Dimension (ii) Use of competitive procurement methods – Goods and Services

As noted above, the circular mentions three procurement methods – open tender (*offentlig udbud*), restricted tender (*begrænset udbud*), and negotiation (*aftale efter forhandling*) – and states that open tender is the default method over specified thresholds (Articles 2 and 6). The conditions for using restricted tender and negotiation are also clearly stated (Articles 9 and 10).

This dimension assesses the extent to which – when contracts are awarded by methods other than open competition (open tender), i.e. when the method used is restricted tender or negotiation – this is justified in accordance with the conditions/requirements stated in the circular, and for how many contracts (measured by value) this is the case.

In order to make these assessments, it is required that information is available, preferable with the Office for Strategic Procurement & Temporary Housing or at least easily obtainable from each GoG

¹⁹² The intention of providing for restricted tender with pre-qualification is that this method is preferred for turn-key contracts that require tenderers to prepare design on a larger scale. By offering a turn-key contract, it is – according to the Ministry of Housing – usually advisable to undertake restricted tender with pre-qualification, rather than open tender, so as not unnecessarily to inconvenience too many bidders with the design task. It is understood that a certain level of political ‘interest’ is noted in many tenders in terms of a particular contract method being applied (this is not covered by the law). While this is generally done from good intentions (e.g. emphasising the possibility of involving smaller companies in projects so as to enable them to build up their experience), it can have an adverse effect on competition, is contrary to the purpose of the law, and also makes it difficult for the civil service to administer the law.

¹⁹³ The Building Authority estimates that on average only about 10 construction projects with a contract value above DKK 10 million (EUR 1.3 million) take place per year.

entity undertaking procurement of goods and services, about the procurement methods applied. However, such information is neither yet being collected by the Office (indicating that controls to review adherence by the GoG entities with the circular are not in place), nor readily available with the individual GoG entities (such data would usually be straightforward to obtain when annual procurement plans are prepared). Data on the value of contracts awarded using the methods of restricted tender without pre-qualification and invited offer is thus not available.

Dimension (iii) Public access to complete, reliable, and timely procurement information – Works

This dimension assesses the extent to which specific key procurement information is complete and reliable, and is made available to the public in a timely manner through appropriate means. The key procurement information elements are the following:

- **Procurement plans** – GoG entities do not prepare procurement plans (though it is noted that all major works-projects are included and detailed in the annual Finance Acts);
- **Bidding opportunities** – Bidding opportunities are published in national newspapers. While the Building Authority has a website (<http://www.byginfo.gl/>), it is not used for advertising bidding opportunities;¹⁹⁴
- **Contract awards** – Information about the award of contracts is only provided to the bidders;
- **Data on resolution of procurement complaints** – Information is published in an annual report by the Complaints Board, which is available from the Board's website (<http://www.negeroorut.gl/>), where each decision is also published.

The intention with the dimension is to measure the extent of public access to key information elements by contract value. This would require that information is readily available, or could be generated, about the GoG's procurement for the different information elements. However, such information is not collected by the Building Authority and is also not readily available with GoG entities undertaking procurement.

Dimension (iii) Public access to complete, reliable, and timely procurement information – Goods and Services

This dimension assesses the extent to which specific key procurement information is complete and reliable, and is made available to the public in a timely manner through appropriate means. The key procurement information elements are the following:

- **Procurement plans** – GoG entities do not prepare procurement plans;
- **Bidding opportunities** – Bidding opportunities are published on a GoG website (<http://www.udbud.gl/>) and in one or more national newspapers. Contracts above DKK 25 million (EUR 3.4 million) are furthermore advertised on two international websites (Article 11);¹⁹⁵
- **Contract awards** – Information about the award of contracts is only provided to the bidders;
- **Data on resolution of procurement complaints** – As there is no independent administrative procurement complaint mechanism in place, data on resolution of complaints is not available. It is understood that the MoFDA has so far not received any complaints.¹⁹⁶

The intention with the dimension is to measure the extent of public access to the key information elements by contract value. This would require that information about the GoG's procurement for the different information elements is readily available, or could be generated. However, such

¹⁹⁴ Two municipalities, Qeqqata and Qaasuitsup have established dedicated websites for both works-related and goods and services procurement, while Sermersooq and Kujalleq have websites for works-related procurement.

¹⁹⁵ Two municipalities, Qeqqata and Qaasuitsup have established dedicated websites for both works-related and goods and services procurement.

¹⁹⁶ One complaint was received in 2013 by the Ombudsman, but was rejected as the Ombudsman is not charged with assessing such complaints.

information is not collected by the Office for Strategic Procurement & Temporary Housing and is also not readily available with GoG entities undertaking procurement of goods and services.

Dimension (iv) Existence of an independent administrative procurement complaints system – Works
A Complaint Board for Procurement is established by the GoG in accordance with Article 26 of the law. It is an independent administrative review body and functions as a quasi-judicial appeals body that is not subject to instructions from any authority. The Board is charged only with works-related procurement. The assessment in the table below is based on the PEFA framework.

Table 5.21 Assessment of the procurement complaints system

Are complaints reviewed by a body which ...	Met	Comments
(i) Is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government?	No	The Board consists of the chairperson, who is a judge appointed by the Judge of Greenland, and two experts appointed by the GoG based upon recommendation by the construction industry (Article 26). The Board does not have members from civil society ¹⁹⁷ or the GoG. ¹⁹⁸ It is noted that the Board may allow a third party or public authority, for which the case has particular importance, to participate in favour of the defendant (the entity that issued the tender).
(ii) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions?	Yes	None of the members of the Complaints Board are involved in any capacity in procurement processes. Substitutes are appointed for all three members and will participate instead of the ordinary members in any cases where a conflict of interest could potentially exist. The Engineering & Land Planning Authority provides secretarial support to the Complaints Board, which is segregated from the Building Authority that manages procurement of works.
(iii) Does not charge fees that prohibit access by concerned parties?	Yes	The fee charged for submitting a complaint is 1% of the construction cost, but max. DKK 100,000 (EUR 13,400) (Article 28).
(iv) Follows processes for submission and resolution of complaints that are clearly defined and publicly available?	Yes	The law states who can lodge complaints (Article 29) and outlines in general terms the process undertaken by the Board (Article 28). The Board follows the outlined process. In accordance with the law (Article 28), the Board established Rules of Procedures in 2010, which outlines its procedures in more detail. The Rules of Procedures are, however, not publicly available.
(v) Exercises the authority to suspend the procurement process?	Yes	A complaint has suspensive effect to the extent only that the Board, following such request by the complainant, decides this based on there being special circumstances (Article 30).

¹⁹⁷ It may perhaps be argued that since the construction industry representatives typically are members of the Employers' Association, they are as such also part of the civil society.

¹⁹⁸ It is noted that that the same set-up in terms of appointments and members applies to the Complaints Board for Procurement in Denmark.

Are complaints reviewed by a body which ...	Met	Comments
(vi) Issues decisions within the timeframe specified in the rules/regulations?	Yes	The law stipulates that the Board's should make its decision within three months of the complaint having been lodged (Article 27), which – as seen in the table below – is generally the case.
(vii) Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)?	Yes	The Board's decisions are binding on all parties. While decisions cannot be appealed to any other administrative authority, they can be appealed to the courts within a period of eight weeks after the Board has announced its decision (Article 32).

The table shows that the complaints system meets six of seven criteria, but not the crucial criteria about membership of the Board.

The table below shows the number of complaints received per year and the ruling of the Board.

Table 5.22 Data on the Complaints received by the Complaints Board, 2010-2012

Year	No. of Complaints	Case and Ruling	Processing Time
2010	1	Complaint against Nukissiorfiit (AGA) – Rejected as the complaint was not received within the stipulated four weeks after the provider had announced the results of the bidding process.	2½ months.
2011	1	Complaint against a municipality – Rejected as the contract in question, energy mapping and preparing an energy action plan, was not covered by the law.	1 month.
2012	3	Complaint against Qeqqata Municipality – Rejected as the task in question was predominantly operational work, and thus not covered by the law and the Board therefore also did not have jurisdiction.	1 month.
		Complaint against Nukissiorfiit (AGA) – The complainant was awarded DKK 125,000 in damages as well as DKK 35,000 in legal costs.	2 ¾ months
		Complaint against Sermersooq Municipality – While the defendant was found in one case to have acted contrary to the law, this did not affect the outcome which was that the complaint was dismissed.	3½ months.

Source: Complaints Board for Procurement's Annual Reports 2010, 2011 and 2012 (Klagenævnet for Udbud: "Årsberetning 2010", "Årsberetning 2011", "Årsberetning 2012").

Note: The information provided in the annual reports and the decisions about the date when the complaints were received is in some cases not quite clearly presented. The specific dates for the 2011 case are established based on the information provided in the decision (available at: <http://www.negeroorut.gl/da-dk/kendelser.aspx>).

The table shows that a total of five complaints were received and processed during 2010-2012 of which one was won by the complainant and four were rejected. The time taken by the Board to process the complaints and make its decision varied between one month and 3½ month.

Dimension (iv) Existence of an independent administrative procurement complaints system – Goods and Services

As noted above, the circular does not provide for an independent administrative complaint mechanism for procurement of goods and services. The circular merely states that complaints can be submitted to the MoFDA, and that complaints have no suspensive effect (Article 19).

Recent, on-going and planned reform initiatives – Works

The GoG has since mid-2012 worked on an ERP project to develop a new and integrated business management software system for the GoG and the municipalities. The purpose with the new system is generally to improve financial management and related procedures, but the Building Authority expects that it also may enable better possibilities for collecting procurement-related data for statistical and analytical uses. It is expected that the ERP will be implemented and tested during 2015, and the full system operational in early 2016.

Recent, on-going and planned reform initiatives – Goods and Services

After setting up the Procurement Unit in 2009, the GoG has undertaken a number of activities to strengthen and develop procurement of goods and services, including the following:

- **Staffing** – After a high staff turn-over in 2010-2012, an increased staff allocation and dedicated recruitment efforts have ensured that the unit since mid-2013 has increased from one to three staff. Since 2014 there has been a total of six staff (three academic staff and three support staff) at the Office for Strategic Procurement & Temporary Housing;
- **Framework contracts** – A total of 30 framework contracts covering 17 different specific areas of goods and services have been established in recent years;
- **Annual report** – In 2011 the Office for Strategic Procurement & Temporary Housing issued a comprehensive report¹⁹⁹ that analysed the existing organisational and legal set-up, current procurement procedures and practices, and outlined possible future scenarios for procurement of goods and services, including recommendations.²⁰⁰ The 2012 report provided a status of the procurement function in terms of its organisation and resources, existing framework contracts, challenges, and future focus areas.²⁰¹ It is noted though that the reports are not readily available for the public;²⁰²
- **Procurement strategy** – A strategy was prepared in 2012, which outlines a procurement policy, the purpose and specific goals for strategic procurement, potential cost savings,²⁰³ organisation and resources, and communication issues. The strategy was not officially approved during 2013 as a result of procedural delays following the March 2013 elections, but an updated strategy²⁰⁴ is expected to be approved by the GoG/MoFDA during 2014;
- **Action Plan 2014** – The Office for Strategic Procurement & Temporary Housing has prepared an ambitious and relevant plan for activities to be carried out during 2014,²⁰⁵ which includes:
 - Review of the procurement circular with a view to increase competition (for procurement undertaken below the threshold values), clarify procedures (for GoG entities as well as suppliers), improve transparency, and consider an independent complaints mechanism;
 - Concrete targets for CSR;
 - Cooperation with municipalities and KANUKOKA;

¹⁹⁹ Departementet for Finanser (2011): "Indkøbsreddegørelse".

²⁰⁰ The main recommendation was that the GoG should allocate more resources to the procurement function, and increase centralisation and standardisation of procurement. The primary focus would be to increase the socio-economic value of procurement and to promote Corporate Social Responsibility (CSR), and a secondary focus was on financial optimisation. Økonomi- og Personalestyrelsen (2013): "Den Centrale Indkøbsfunktion – Status for 2012", Januar.

²⁰² The 2011 can be found only on an old GoG website (http://dk.vintage.nanog.gl/Emner/Landsstyre/Departementer/Departement_for_finans_indenrigs/Oekonomi_og_personale_styrelsen/Afdelinger/Indkoebsfunktion/Indkoebsreddegørelsen.aspx), while the 2012 is not available on any GoG website.

²⁰³ Savings amounting to DKK 55 million (EUR 7.4 million) were included in the Draft Finance Act for 2014 for the period 2014-2017 based on the expectation that such savings could be achieved through more and better procurement contracts to be used more widely by the GoG. However, the expected savings were not included in the (final) 2014 Finance Act.

²⁰⁴ Økonomi- og Personalestyrelsen (2014b): "Indkøbsstrategi for Selvstyret", February 2014.

²⁰⁵ Økonomi- og Personalestyrelsen (2014a): "Strategisk Indkøb, Handlingsplan for 2014", Januar.

- Analysis of the existing procurement approach;
- Increased controlling;²⁰⁶
- Optimising data through improved billing documents;
- Web portal for procurement of goods and services to be established as part of the new business web portal currently being developed by the MoFDA's Agency for Digitalisation;
- Electronic procurement system;²⁰⁷
- Archive for procurement contracts from all GoG entities;
- Preparing standard templates and guidelines for various procedures and service types;
- Knowledge centre to be set up on the GoG's intranet (internal website) 'Nanuarraq';
- Communication across the GoG regarding procurement.
- **Enterprise Resource Planning (ERP) project** – It is furthermore expected that the possibilities for generating and analysing data will be improved once the ERP is implemented and functional in the GoG and municipalities from early 2016 onwards.

PI-20 Effectiveness of internal controls for non-salary expenditure

An effective internal control system is one that (a) is relevant (i.e., based on an assessment of risks and the controls required to manage the risks), (b) incorporates a comprehensive and cost effective set of controls (which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), (c) is widely understood and complied with, and (d) is circumvented only for genuine emergency reasons.

Dimension	2014 Score	Brief Explanation of Status
PI-20 Effectiveness of internal controls for non-salary expenditure.	B+	Overall rating based on M1 methodology.
(i) Effectiveness of expenditure commitment controls.	A	Comprehensive expenditure controls are in place and spending is generally always within the approved budget allocations.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	A	Other internal control rules and procedures are relevant, and incorporate a comprehensive and effective set of controls that are generally well-understood.
(iii) Degree of compliance with rules for processing and recording transactions.	B	Compliance with rules is generally high, but some challenges exist regarding some specific internal control procedures.

Dimension (i) Effectiveness of expenditure commitment controls

The approval of the annual Finance Act gives authority for the GoG budgetary units to spend at the beginning of the fiscal year (cf. PI-16, dimension (iii)). Article 3 of the 1999 Law on the GoG budget (1999),²⁰⁸ authorises spending of appropriations with established rules and regulations, but also assigns the units the responsibility of the appropriations. Section 1.4 in the 2008 Budget Regulations²⁰⁹ states that the Minister is required to monitor on the use of the appropriations and ensure that they be applied as best possible in accordance with the stated conditions. Also, the

²⁰⁶ The Office for Strategic Procurement & Temporary Housing has started using a procurement analysis system (buboINVOICE), which is expected to provide the necessary data for improved controlling.

²⁰⁷ The Office for Strategic Procurement & Temporary Housing plans to test the Electronic Tender Handling, Information & Communications System (ETHICS), an electronic tendering solution and case handling system, that has been developed by the National Procurement Ltd. (a company jointly owned by the Danish Government and the Danish Local Government Association) in cooperation with IBM and its business partner Inno:vation. If adopted, it is expected that the system will support all procurement-related processes (internal planning, publication, authorisation of participating vendors, preparation of tender material and questionnaires, handling of questions/answers, secure uploading, storing and scoring), and hence lead to more cost-effective, accurate and timely procurement procedures.

²⁰⁸ Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget.

²⁰⁹ Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008.

Ministers must ensure that the administration is organised in a satisfactory manner, including that the Ministry has a good and effective financial management. If budget monitoring indicates a risk of over-spending, the Minister is required to take necessary steps to ensure that the appropriation is complied with, or seek supplementary appropriation (applications for which must be accompanied by a proposal for savings in other areas).

Expenditure commitment controls in the traditional sense are not applied by the GoG as each budgetary unit, cf. the legislative and regulatory requirements noted above, is expected to execute its budget within the overall ceiling with due regard to the requirements, which includes fulfilling the activity- and other plans on which the budget is based.

Furthermore, payment processing is now centralised and undertaken by the Central Department of Accountancy, where also the creditor register is kept, and the budgetary units have only limited access to funds (as compared to earlier). Many budgetary units used to have cheque books, but this has now been limited to just 10 (with only one unit using cheques frequently), and will be phased out during 2014. Most budgetary units have a debit card, but these are issued only upon the accountant signing a statement of personal liability, and cards have a set daily limit (DKK 2,000, equivalent to EUR 268). Petty cash holdings are very limited. An electronic invoicing system is currently being implemented, cf. below, which will eliminate the need for paper-based procedures.

The budget monitoring procedures undertaken by the MoFDA and by the budgetary units is further discussed below (cf. PI-24).

Dimension (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures

The 1994 Accounting Law²¹⁰ governs the public accounting system, and the 1995 Accounting Regulation²¹¹ states all legislation and regulation related to public accounting are to be approved by the Economy & Personnel Agency (Article 4), which in practice is done by the Central Department of Accountancy. The latter has published a comprehensive general accounting manual,²¹² which is updated annually, but each budgetary unit is furthermore obliged to prepare its own detailed set of instructions that outline its specific accounting and bookkeeping activities, segregation of responsibilities and internal control procedures (Article 5). The instructions must be approved by the GoG's Internal Audit Unit (rather than the Central Department of Accountancy, so as to ensure the necessary separation of duties), which also reviews the actual procedures during site-visits (cf. PI-21, dimension (i)).

Dimension (iii) Degree of compliance with rules for processing and recording transactions

The Audit Protocol prepared by the external auditor (Deloitte) for the 2012 accounts,²¹³ the latest records available, noted that some shortcomings in the internal controls, especially regarding reconciliations, which mainly was due to a certain lack of clarity in the division of responsibilities between the Central Department of Accountancy and the budgetary units. Also, some reconciliations were deemed too complex for most budgetary units to do. The external auditor noted though that efforts were on-going to address these issues through renewals of service agreements.

The external auditor also found some problems related to the preparation of debtors' and creditors' lists to reconcile with the debtors' and creditors' control accounts, but noted that procedural changes (conversion of the creditor module in the XAL accounting system, and a systems-based

²¹⁰ Landstingslov nr. 23 af 3. november 1994 om Grønlands Hjemmestyres regnskabsvæsen m.v.

²¹¹ Hjemmestyrets bekendtgørelse nr. 8 af 27. februar 1995 om hjemmestyrets regnskabsvæsen m.v.

²¹² Den centrale Regnskabsafdeling: "Regnskabshåndbog 2013".

²¹³ Deloitte (2013): "Grønlands Selvstyre – Revisionsprotokollat til Årsregnskab 2012", pp. 924-926.

centralisation of the debtor registration) was expected to lead to improvements in 2013. Some issues were also found regarding reconciliation of bank accounts (cf. PI-17, dimension (i), below).

With regard to IT controls related to the XAL accounting system, for 2012 the external auditor found that these were not adequately designed and maintained in all areas, especially related to access control and separation of functions (between developers and users). According to the Central Department of Accountancy, these weaknesses have since then been addressed.

The Audit Protocol for the 2013 accounts are not yet available, but it is understood from the external auditor that compliance with the financial procedures has improved during 2013 and that the area generally functions satisfactory, but that there remains further scope for improvements. It is noted though that the work by the external auditor in itself is an important control measure. Moreover, no concrete cases of misuse or deliberate violation of rules are known to have occurred.

Recent, on-going and planned reform initiatives

The Central Department of Accountancy is currently in the process of implementing a new electronic invoice management system (IRIS Suite) that will automate reception, electronic encoding (digitalisation), validation, and distribution of invoices for approval and payment. This is expected to significantly improve management of invoices and related processes, including enhancing the quality and timeliness of bookkeeping and other accounting processes.

Furthermore, the GoG has since mid-2012 worked on an ERP project to develop a new and integrated business management software system for the GoG and the municipalities. The new system is generally to improve financial management and related procedures, including to provide a better internal control framework, and specifically to enable the preparation of better management information, enhance data exchange and file sharing, and do away with various separate sub-systems. The technical specifications for the ERP system are currently being prepared, and tendering expected to take place in mid-2014. Implementation of the new system and testing of its various modules is planned for 2015, and the full system expected to be operational in early 2016.

Also, the Central Department of Accountancy is working on phasing out the use of cheques as well as further limiting the use and holdings of petty cash.

PI-21 Effectiveness of internal audit

Regular and adequate feedback to management is required on the performance of the internal control systems through an internal audit function (or equivalent systems monitoring function). Such a function should meet international standards such as the International Standards for the Professional Practice in Internal Audit (ISPPA), issued by the Institute of Internal Auditors (IIA), in terms of appropriate structure/professional independence, sufficient breadth of mandate as well as access to information and power to report, and the use of qualified audit methods. The function should focus on reporting on significant systemic issues in relation to: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations and contracts.

Dimension	2014 Score	Brief Explanation of Status
PI-21 Effectiveness of Internal Audit.	B+	Overall rating based on methodology M1.
(i) Coverage and quality of internal audit function.	B	Internal audit is operational for all GoG entities (covered over a three-four year cycle), focuses on systemic issues (for at least 50% of staff time), but the work does not meet international standards.

(ii) Frequency and distribution of reports.	A	Reports adhere to a fixed schedule and are distributed to the audited entity, the relevant GoG ministry and the external auditor (Deloitte).
(iii) Extent of management responses to internal audit findings.	B	Prompt and comprehensive action on the recommendations of the Internal Audit Unit appears to be taken by many, but not all entities, although there is no formal evidence of the Internal Audit Unit's monitoring.

Dimension (i) Coverage and quality of internal audit function

The Internal Audit Unit is placed within the MoFDA's Economy & Personnel Agency. It refers directly to the Head of the Agency so as to ensure a level of independence from the accounting and payment processes. The Internal Audit Unit has four staff (a head of office and three auditors), which all have internal audit training though none have formal audit certifications. It is noted that the Internal Audit Unit has seen a high turn-over during the past 18 months (three managers).

The responsibilities and functions of the Internal Audit Unit are based on the 1995 Regulation Public Accounting,²¹⁴ which prescribes that all budgetary units must prepare an accounting manual to be approved by the Internal Audit Unit (Article 5), and that Internal Audit Unit approves the accounts of the budgetary units and subordinate entities (Article 12). The regulatory basis for internal audit formally focuses on internal control rather than internal audit. However, a 'Framework Instruction for Internal Audit' (1990) states that the tasks of the Internal Audit Unit include financial audit to be carried out during the fiscal year (and which are outlined in some detail) as well as performance audit (if such has been included in the annual work plan).²¹⁵ There thus appears to be some ambiguities in the regulatory basis for the work of the Internal Audit Unit.

The work of the Internal Audit Unit covers all GoG entities, and is based on an annual internal audit plan that is developed in consultation with the external auditor (Deloitte).²¹⁶ Both these aspects are clearly mandated in the 'Framework Instruction for Internal Audit' (1990). The level of detail and quality of the annual internal audit plan differs significantly between years, but it appears that the approximately 180 GoG entities are being covered in terms of unannounced site-visits approximately every three-four years by the Internal Audit Office. The external auditor (Deloitte) similarly undertakes a number of unannounced site-visits annually. The number of internal audits planned and carried out by the Internal Audit Unit in 2013 has not been possible to establish, nor is it clear how many site-visits are planned for 2014. The annual coverage in terms of expenditure is not calculated or estimated by the Internal Audit Unit.

The internal audit work follow standardised procedure using a number of templates, and include assessments of the accounting procedures and internal controls, payroll data, physical assets, inventories, budgeting procedures, bank and petty cash assets, and bookkeeping documentation. The approach is focused on systems with sampling of individual transactions, and the Internal Audit Unit estimates that more than 50% of staff time is used on systemic issues.

The work and procedures of the Internal Audit Unit do not follow or adhere to specific international standards though the regulatory basis does provide an appropriate structure with regard to professional independence, and it gives a sufficient breadth of mandate, access to information and power to report. Furthermore, while the use of audit methods does not include formalised risk

²¹⁴ Hjemmestyrets bekendtgørelse nr. 8 af 27. februar 1995 om hjemmestyrets regnskabsvæsen m.v.

²¹⁵ Grønlands Hjemmestyre (1990): "Ramme instruks for intern revision", 7. juni.

²¹⁶ While the Internal Audit Unit and the external auditor (Deloitte) in earlier years have jointly prepared an audit plan, this has – due to staffing changes at both the Internal Audit Unit and the external auditor (Deloitte) – not yet been done for 2014.

assessment techniques, it is noted that the number of GoG entities is somewhat limited, and hence may not necessitate or justify application of advanced risk assessment systems. Also, the external auditor (Deloitte) works closely with the Internal Audit Unit to provide support and guidance.

Dimension (ii) Frequency and distribution of reports

The Internal Audit Unit prepares a draft report based on a standardised template after each site-visit, which are sent to the concerned budgetary units for comments. The final reports are submitted to the budgetary units, the relevant ministry and to the external auditor (Deloitte). The number of internal audit reports prepared during 2010-2013 is shown in the table below.

Table 5.23 Number of Internal Audit Reports prepared, 2010-2013

	Internal Audit Unit	External Auditor (Deloitte)
2010	17 reports	10 reports
2011	16 reports	5 reports
2012	26 reports	20 reports
2013	15 reports	20 reports

Source: Deloitte: Audit Protocols for 2010, 2011 and 2012 (*Revisionsprotokollat til Årsregnskab 2010, 2011, 2012*) and information provided by Deloitte for 2013.

The table shows that the number of internal audit reports have varied somewhat from year to year, which relates to the number of site-visits undertaken, but for the Internal Audit Unit also relates to it having had high staff turn-over at the managerial level during 2012 and 2013.

For 2014, the Internal Audit Unit expects to prepare 15 audit reports, while the external auditor (Deloitte) expects to prepare a similar number of reports.

The external auditor (Deloitte) annually controls on a sample basis the reports prepared by the Internal Audit Unit where the applied procedures and the underlying documentation is scrutinised to verify the findings. For 2012 it was found that the reports generally were well-documented and adequate for the external auditor to use as an input (in expressing an unqualified opinion on the overall GoG accounts for 2012). The external auditor will be formally assessing the reports of the Internal Audit Unit starting end-February 2014 together with the reconciliations of all GoG balance sheets that has been undertaken by the Internal Audit Unit. Based on the on-going collaboration with the Internal Audit Unit throughout 2013, the external auditor expects the quality of the reports to be of a satisfactory quality similar to that of earlier years.

A sample of three 2013 internal audit reports reviewed shows that the work of the Internal Audit Unit is thorough and covers the relevant areas as per the standardised procedure, cf. above.

Dimension (iii) Extent of management responses to IA findings

The draft as well as final internal audit reports are forwarded to the auditees, and the Internal Audit Unit undertakes a follow-up visit after three months to assess the extent to which findings have been addressed and recommendations implemented. According to the Internal Audit Unit most entities undertake prompt and comprehensive action in accordance with the recommendations, but it does not undertake any quantitative recording in this regard or otherwise formally monitor adherence. In cases where entities do not undertake the necessary actions, the cases are referred to the concerned ministries, which are assumed to undertake further follow-up if and as needed (i.e. the Internal Audit Unit does not follow such cases further). It is understood that the external auditor (Deloitte) follows up on the implementation of recommendations made by the Internal Audit Unit, but quantitative and qualitative data is not available in this regard.

Recent, on-going and planned reform initiatives

An HR strategy summary developed by the Economy & Personnel Agency in early 2014 outlines focus areas (management, staff welfare, demand-driven skills development, recruitment, retention, and communication).²¹⁷ Implementing the strategy would, *inter alia*, seek to ensure retaining staff and managers in key positions, so as to address recent problems with high turn-over rates.

5.6 Budget Cycle – C.3 Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Reliable reporting of financial information requires constant checking and verification of the recording practices of transactions, which is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data integrity and reliability. This includes two critical activities: (i) reconciliation of accounting data, held in the government's books, with government bank account data held by central and commercial banks; and (ii) clearing and reconciliation of suspense accounts and advances.²¹⁸

Dimension	2014 Score	Brief Explanation of Status
PI-22 Timeliness and regularity of accounts reconciliation.	A	Overall rating based on M2 methodology.
(i) Regularity of bank reconciliations.	A	Bank reconciliation for all GoG bank accounts take place at least monthly, generally within four weeks of the end of period.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	A	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from the end of period.

Dimension (i) Regularity of bank reconciliations

As noted under PI-17 above, the Central Department of Accountancy, on behalf of the GoG, holds accounts at the GrønlandsBANKEN [Bank of Greenland], which combined acts as the TSA system (*Landskassen*) that integrate accounts into a set of linked accounts where revenues are held and from where payments are transacted. All the currently 189 accounts held by GoG entities are reconciled regularly, generally on a weekly basis.

Most of the 180 GoG budgetary units earlier held their own bank accounts, typically three-four accounts per unit. The external auditor (Deloitte) in the Audit Protocol prepared for the 2012 accounts found that reconciliations for some bank accounts had not been done throughout the year, and in some cases even for previous years.²¹⁹ This was despite that the Internal Audit Unit had sent reminders whenever monthly reconciliation statements had not been received. In order to improve on this, the Central Department of Accountancy during 2013 closed a number of bank accounts. The external auditor (Deloitte) has confirmed that the procedures related to reconciliations appear to have been strengthened during 2013.

Dimension (ii) Regularity of reconciliation and clearance of suspense accounts and advances

²¹⁷ Økonomi- og Personalestyrelsen (2014): "HR-strategi 2014-16 for Grønlands Selvstyres Centraladministration".

²¹⁸ Advances includes travel advances and operational imprests, but not budgeted transfers to autonomous agencies and municipalities, which are classified as expenditures when they are effected, even if reporting on any ear-marked portion of the transfers is expected periodically [PEFA Secretariat (2012): op.cit., p. 130].

²¹⁹ Deloitte (2013): "Grønlands Selvstyre – Revisionsprotokollat til Årsregnskab 2012", p. 926.

Reconciliation of the suspense accounts (*mellemregningskonto / interimskonto*) is done on an on-going basis by budgetary units charged with this function though most reconciliation work is now done directly by the Central Department of Accountancy as functions have been centralised (cf. above). Reconciliation sheets are sent to and assessed by the Internal Audit Unit on a monthly basis, and feedback is provided to the budgetary units and the Central Department of Accountancy, if and as required.

Advances are, in accordance with employment contracts of the staff, only provided in relation to travel and only when prior advances have been fully and properly liquidated.²²⁰ All advances are managed electronically with direct transfers from the TSA to staff's personal bank accounts. There were in 2013 several thousand advance payments made, all of which were liquidated as required.

Recent, on-going and planned reform initiatives

The Central Department of Accountancy is over time reducing the number of bank accounts held by the budgetary units, and also centralising bookkeeping and payment functions so as to improve the overall quality of accounting, including reconciliations, and further minimise the risk of errors.

PI-23 Availability of information on resources received by service delivery units

The indicator measures the availability of information on the provision of resources to front-line service delivery units – primary schools and primary health clinics – which were intended for their use. Information on the receipt of resources by service units is critical to ensure that funding becomes available as required and in a timely manner. The intended resource provision may not be explicit in budget documents, but is often part of ministries' internal budget estimates preparation.

Dimension	2014 Score	Brief Explanation of Status
<p>PI-23 Availability of information on resources received by service delivery units.</p> <p>Collection and processing of information to demonstrate the resources that were actually received by primary schools and primary health clinics.</p>	D	<p>Primary schools (<i>folkeskoler</i>) are the responsibility of the municipalities, while the health care system (including 'health regions') is the responsibility of the GoG. Expenditure accounting for <i>folkeskoler</i> is undertaken by the municipalities.</p> <p>The GoG's accounting system contains comprehensive and fully reliable expenditure data on other education institutions and for the health sector, and there are no indications of delays in funds flow, but the information is not compiled and consolidated into annual reports and analysed.</p>

In Greenland, the education system is based on the *folkeskole*, which consists of 1st to 10th grade that all are obligatory. There are in Greenland a total of 94 *folkeskoler*, which administratively and financially are the responsibility of the four municipalities. Budgeting and accounting for the *folkeskoler* is thus undertaken by the municipalities. Data on annual budgets and expenditures of the municipalities, including for the *folkeskoler*, is available on the website of KANUKOKA (the Association of Greenland's Municipalities).²²¹

The GoG is hence not directly involved with front-line service delivery in the area of primary education, but instead with the following:

- The Ministry of Education, Church, Culture & Equality has the overall responsibility for 11 youth education institutions and 5 higher education institutions. Also, the continuation schools

²²⁰ Den centrale Regnskabsafdeling: "Regnskabshåndbog 2013", Section 2.3 (Kvikmanual – Artskontoplan), p. 8.

²²¹ <http://www.kanukoka.gl/da-dk/sagsomrader/ekonomiogskat.aspx>.

(residential schools) and the folk high schools are independent institutions that receive appropriations from the GoG, but which have their own regulations and with boards that are responsible for the schools;

- The Ministry of Industry & Mineral Resources has the responsibility for 18 local advisory centres (*Piarsersarfiiit*), some of which offer 10th form courses.

The budget allocations appropriated annually with the Finance Act are provided at the level of 'main code' (*hovedkonti*). As part of the ministry-internal budget preparation processes, activity- and input-based budgeting for the service delivery units (institutions) is undertaken. Accounting for the education institutions is done using the GoG's XAL accounting system, and is monitored by the Ministry on a monthly basis. Activity levels are likewise monitored closely.

The Annex to the GoG's audited annual financial statements (*Landskassens Årsregnskaber*) include some activity data and financial reporting vis-à-vis the appropriations for the GoG's education institutions. The Ilisimatusarfik (University of Greenland) publishes an annual report on the *folkeskoler* that includes various statistical data.²²² Also, Statistics Greenland on its website publishes activity data on the different education institutions.²²³ Furthermore, the Ministry undertakes annual reporting to the European Commission as part of the Partnership Agreement.

The health care system in Greenland is based on five 'health regions', apart from the capital Nuuk where the national hospital also serves as a local hospital for the population (i.e. the primary and the secondary health care systems are combined in most of the country). There are hospitals in most towns and health clinics in the villages, while settlements generally have only a local health worker without formal health education who is responsible for a medicine supply.

In recent years for medical services provided in five 'health regions' (covering about 1/3 of the ministry's budget) the annual budgeting undertaken by the Ministry of Health & Infrastructure has been based on demographic projections combined with cost estimates for different age-groups (this approach, which has been used successfully in Denmark, was adopted to address frequent over-spending compared to the budgeted allocations in earlier years).

Accounting is done by the hospitals using the XAL accounting system of the GoG, and is monitored by the Ministry on a monthly basis. Activity levels are likewise monitored closely.

The Ministry of Health & Infrastructure up to 2010 published an annual report,²²⁴ which presented and discussed the work and functioning of the health care sector, and also included various activity and financial data as well as analyses, but the publication was discontinued for financial reasons. However, the audited annual financial statements (*Landskassens Årsregnskaber*) of the GoG in the Annex include a relatively detailed outline of activity data and financial information for the health sector as well as financial reporting vis-à-vis the appropriations.

PI-24 Quality and timeliness of in-year budget reports

The ability to "bring in" the budget requires timely and regular information on actual budget performance to be available to the MoFDA (and Cabinet), to monitor performance and if necessary to identify new actions to get the budget back on track, and to the budgetary units for managing the affairs for which they are accountable. The indicator focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget. Coverage of

²²² <http://www.inerisaavik.gl/publikationer/rapporter/folkeskolen-i-groenland/>. While the University of Greenland prepares and publishes the report annually, for some reason the latest report available on the webpage covers 2010/11.

²²³ <http://www.stat.gl/dialog/main.asp?lang=da&sc=SA&version=201215>.

²²⁴ <http://naalakkersuisut.gl/da/Naalakkersuisut/Departementer/Sundhed-og-Infrastruktur/Aarsberetninger>.

expenditure at both the commitment and the payment stage is important for monitoring of budget implementation and utilisation of funds released.

Dimension	2014 Score	Brief Explanation of Status
PI-24 Quality and timeliness of in-year budget reports.	B+	Overall rating based on M1 methodology.
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	A	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.
(ii) Timeliness of the issue of reports.	B	Budget monitoring reports are prepared monthly (budgetary units) and usually quarterly (GoG-level), though the 2013 election affected the first quarter reporting process. The issuance of reports in terms of timing depends on the report type.
(iii) Quality of information.	A	There are no material concerns regarding data accuracy.

Dimension (i) Scope of reports in terms of coverage and compatibility with budget estimates

The 1994 Accounting Law 1994²²⁵ prescribes that the GoG accounts must be structured in a manner similar to that of the Finance Act and supplementary acts, must include all revenues and expenditures for the fiscal year, assets and liabilities as well as the transactions during the year (Article 1). Furthermore, all budgetary units of the GoG are, according to 1995 Accounting Regulation,²²⁶ required to maintain appropriation accounts (*bevillingsregnskab*) that include the budgetary appropriations, expenditure and revenue as well as assets and liabilities (Article 6). The accounts of the budgetary units (*interne regnskaber*) must be maintained in such a manner that expenditure and revenue can be assigned according to internal organisational units, projects, tasks and purposes (Article 8). Also, the accounting must be done so that commitments can be registered (*dispositionsregnskab*), if needed (Article 7). Finally, budgetary units are required to submit periodic and annual accounts as per the instructions issued by the Economy & Personnel Agency (Article 11), but it does not appear that any such instructions have been issued.

There are no specific or formal requirements regarding maintenance of in-year budget reports. It follows from the above-mentioned legislative and regulatory requirements that any accounts maintained should use a classification that allows for direct comparison to the complete budget (original appropriations as well as supplementary appropriations), is sufficiently detailed, and includes commitments, if and as required.

At the level of the budgetary units, since there is no formal requirement to prepare in-year budget reports, doing so is as such at the discretion of each unit. It is understood that all budgetary units as well as service delivery units (schools, health clinics, etc.) prepare monthly budget reports for internal monitoring purposes though with different intervals (cf. dimension (ii) below).

At the level of the GoG as a whole, the MoFDA prepares two types of budget monitoring report: 1) Regular reports for the GoG ministries (typically used for assessing any needs for supplementary appropriations); and, 2) Bi-annual reports for the GoG and the Inatsisartut. Both types of reports compare the full budget (i.e. original and supplementary appropriations) with the year-to-date

²²⁵ Landstingslov nr. 23 af 3. november 1994 om Grønlands Hjemmestyres regnskabsvæsen m.v.

²²⁶ Hjemmestyrets bekendtgørelse nr. 8 af 27. februar 1995 om hjemmestyrets regnskabsvæsen m.v.

spending in addition to a forecast up to year-end.²²⁷ The bi-annual reports are prepared in consultation with the line ministries, and are accompanied by a detailed analysis of spending that is non-technical in nature and focuses on those areas where deviations from the budget have been confirmed together with brief explanations for causes and consequences. Detailed information is also provided on appropriations.

Dimension (ii) Timeliness of the issue of reports

As noted above, while there is no formal requirement to prepare in-year budget reports, including regarding their frequency, budgetary units prepare monthly budget reports for their internal monitoring purposes as do service delivery units. Distribution of such reports takes place within one-two weeks after month-end.

During 2012, the MoFDA's regular budget monitoring reports were prepared for April, July, August, September and October. These reports are usually distributed within one to two weeks after month-end. It is noted that the regular budget monitoring reports are generally prepared also for the first quarter of the fiscal year, but 2013 saw the national election (12 March) and the formation of a new coalition government (26 March), which affected the reporting process since significant changes were made to the functional organisation of the GoG ministries that first needed to be accommodated in the budgetary and accounting systems.

The bi-annual reports for the GoG and the Inatsisartut are prepared in May (covering the first four month of the fiscal year), and in September (for the first eight months of the fiscal year), which correspond with the spring and autumn sessions of the Inatsisartut. Since the bi-annual reports are prepared in close consultation with the line ministries, require approval by the Premier's Office, and are translated into Greenlandic, they are generally submitted to the GoG and the Inatsisartut only six-eight weeks after the end of the period covered.

Dimension (iii) Quality of information

All budget monitoring reports are based on complete budget data (i.e. including the original appropriations and supplementary appropriations) and expenditure data derived from the XAL accounting system, which is deemed to be fully comprehensive and up-to-date. There are hence no concerns about the quality or accuracy of the expenditure data.

Recent, on-going and planned reform initiatives

It is understood that the GoG is considering the extent to which the MoFDA, or possibly the Economy & Personnel Agency (which is charged with preparing the annual accounting statements), should formalise and collect monthly budget monitoring reports from all budgetary units.

PI-25 Quality and timeliness of annual financial statements

Consolidated year-end financial statements are critical for transparency in the PFM system. To be complete, they must be based on details of all ministries, independent entities and deconcentrated units. The ability to prepare year-end financial statements in a timely fashion is a key indicator of how well the accounting system is operating and the quality of records maintained.

Validation of financial statements through certification by the external auditor is covered in PI-26.

Dimension	2014 Score	Brief Explanation of Status
PI-25 Quality and timeliness of annual financial statements.	A	Overall rating based on M1 methodology.

²²⁷ The financial follow-up is presented in a one-page matrix based on the overall appropriation types (recurrent costs, non-discretionary costs, grants, investments, and revenues) for each activity area (main organisational entities).

(i) Completeness of financial statements.	A	The GoG's annual financial statements include full information on all revenues, expenditures and financial assets/liabilities.
(ii) Timeliness of submission of the financial statements.	A	The 2013 financial statements were submitted to the external auditor within two months of the end of the fiscal year.
(iii) Accounting standards used.	A	The national standards applied for the annual financial statements are aligned with IPSAS.

Dimension (i) Completeness of financial statements

The 1994 Accounting Law²²⁸ prescribes that the GoG accounts must be structured in a manner similar to that of the Finance Act and Supplementary Acts, must include all revenues and expenditures, assets and liabilities as well as the transactions during the year (Article 1). It is also stated that the accounts must include all budgetary units and other entities that have financing included in the Finance Act. Some details regarding accounting procedures are outlined in the 1995 Accounting Regulation.²²⁹

The GoG's Central Department of Accountancy prepares the annual financial statements of accounts for the GoG (the AGAs prepare their own separate statements). The GoG statement provides a detailed financial report for each of the five appropriation types, a statement of the applied policies, a summary of the expenditures for the past three fiscal years, information about contingent liabilities, and a summary balance sheet. The annex to the annual financial statements of accounts consists of the following sections and tables:

- Appropriation, spending and execution rate for the main appropriation types (recurrent, statutory, grants, investments, and revenues) for administrative units and functional areas;
- Spending for the past three fiscal years for the main appropriation types for administrative units and functional areas;
- Appropriation, spending and execution rate for each administrative unit with separate overviews for the main appropriation types, organisational units, and economic classification per organisational unit;
- Annex with summary data on municipal grants, contracts with service providers (value-based), aggregate liquidity, transactions with AGAs and PEs, loans, accommodation support loans, other loans, receivables, share holdings, short-term debt, long-term debt, Fund for Construction & Renovation (*Anlægs- og Renoveringsfonden*), net-lending, and balance.

The annual accounts are generated with the XAL accounting system, and include all budget items and budgetary units. It comprises full information on revenues, expenditures and financial assets/liabilities.

It is noted that the Ministry of Housing publishes an annual report on the Fund for Construction & Renovation, which contains a detailed account of all planned and on-going capital investment projects as well as a financial status for all applicable main accounts (*hovedkonti*).

Dimension (ii) Timeliness of submission of the financial statements

The 2013 annual financial statement of accounts was submitted by the Central Department of Accountancy to the external auditor (Deloitte) by end-February 2014, i.e. less than two months after the end of the fiscal year. In earlier years, annual financial statements of accounts were submitted during March or April, i.e. approximately three-four months after the end of the fiscal year.

²²⁸ Landstingslov nr. 23 af 3. november 1994 om Grønlands Hjemmestyres regnskabsvæsen m.v.

²²⁹ Hjemmestyrets bekendtgørelse nr. 8 af 27. februar 1995 om hjemmestyrets regnskabsvæsen m.v.

The annual financial statements are also generally submitted to the Inatsisartut during its spring sessions for the first reading.

Dimension (iii) Accounting standards used

The consolidated annual financial statements of accounts are prepared from the accounts in the XAL accounting system on a modified accrual-basis applying a standard which is aligned with the International Federation of Accountants' International Public Sector Accounting Standards (IPSAS).

Recent, on-going and planned reform initiatives

The GoG has since mid-2012 worked on an ERP project to develop a new and integrated business management software system for the GoG and the municipalities. The new system is generally to improve financial management and related procedures, including to provide a better internal control framework, and specifically to enable the preparation of better management information, enhance data exchange and file sharing, and do away with various separate sub-systems. The technical specifications for the new ERP system are currently being prepared, and tendering expected to take place in mid-2014. Implementation of the new system and testing of the various modules is planned for 2015, and the full system thus expected to be operational in early 2016.

5.7 Budget Cycle – C.4 External scrutiny and audit

PI-26 Scope, nature and follow-up of external audit

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of actual external audit comprise the scope/coverage of the audit, adherence to appropriate auditing standards, including independence of the external audit institution, focus on significant and systemic PFM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit would also be expected of a high quality audit function. The scope of audit mandate should include AGAs. The executive (the audited entities and/or the MoF) would be expected to follow up on audit findings, and evidence of effective follow-up includes the issuance of a formal written response to the audit findings indicating how these will be or already have been addressed.

Dimension	2014 Score	Brief Explanation of Status
PI-26 Scope, nature and follow up of external audit.	B+	Overall rating based on M1 methodology.
(i) Scope/nature of audit performed (including adherence to auditing standards).	B	All GoG entities are audited annually covering revenue, expenditure and assets/liabilities. The external auditor undertakes financial audits, but only to a limited extent performance audit. The audit is done in adherence to auditing standards, and focuses on significant and systemic issues.
(ii) Timeliness of submission of audit reports to legislature.	A	The audit documents for the 2012 accounts were submitted to the legislature about three months after the financial statements were received by the external auditor from the GoG.
(iii) Evidence of follow up on audit recommendations.	A	There is evidence of effective and timely follow-up on the external auditor's recommendations.

Dimension (i) Scope/nature of audit performed (including adherence to auditing standards).

The GoG has no Supreme Audit Institution (SAI) and in lieu the Inatsisartut appoints, based on a recommendation from the Audit Committee, a private chartered accounting firm as external auditor each year during its autumn session. The background for this set-up is explained by two factors – history and cost-effectiveness: 1) Before home rule was introduced in 1979, external audit in Greenland was conducted by a Danish private chartered accounting firm (this firm over time underwent several mergers, and is today Deloitte); and, 2) Although there have been occasional debates in the Inatsisartut to create a state audit office based on the Danish model, it is considered uneconomical given the relatively modest volume of audit work, and inefficient in view of the audit service rendered by the private firm.

In terms of independence, it is noted that the external auditor is appointed by the Inatsisartut (rather than the GoG), which is a legislative requirement stated in Article 5 of the 1994 Accounting Law.²³⁰ Furthermore, the law's Article 7 states that the GoG is obliged to provide any information necessary to assess the financial statements (i.e. the external auditor has unrestricted access to information). Also, cf. dimension (iii) below, there is effective follow-up on the findings and recommendations of the external auditor, while financial and managerial autonomy and the availability of appropriate resources for the work is based on the contract agreed and signed between the Inatsisartut and the external auditor. In other words, four of the eight core principles on SAI independence as stated by INTOSAI are fulfilled.²³¹ But it is clear that the external audit set-up would not qualify as independent as defined per INTOSAI's founding principles for public sector auditing since that is based on a SAI as a public entity.²³² However, in practical terms the external auditor functions independently, and no cases of pressure having been exerted to influence it in undertaking its tasks objectively and effectively are known. Also, as an externally contracted entity, it is by definition functionally and organisationally independent of the GoG.

It is also noted that auditors working in Greenland must adhere to the Danish 2008 Law no. 623 on Chartered Accountants and Registered Auditors.²³³ It outlines conditions for appointing auditors and for their carrying out audit tasks. The law implemented the Eighth Council Directive 84/253/EEC of 10 April 1984 on the approval of persons responsible for carrying out statutory audits.

With regard to the scope of audit, the 1994 Accounting Law states that the external auditor must examine if the accounts are correct and whether the transactions covered by the financial statements are consistent with appropriations, laws and other regulations, contracts and customary practices (Article 5). Accordingly, the expenditures and revenues as well as assets and liabilities of all GoG entities are covered by the external audit. The external auditor undertakes separate audits of the three AGAs (*nettostyrede virksomheder*) and prepares separate Audit Protocols for these.

Also, the law requires that the external auditor reviews the financial statements in accordance with generally accepted auditing standards, and must undertake a critical review of the accounting records (Article 6). The external auditor's statement of assurance pertains to the reliability of financial accounts, and the legality and regularity of the underlying transactions. The Audit

²³⁰ Landstingslov nr. 23 af 3. november 1994 om Grønlands Hjemmestyres regnskabsvæsen m.v.

²³¹ INTOSAI (2007): "Mexico Declaration on SAI Independence", ISSAI 10. The eight principles are: 1) The existence of an appropriate and effective constitutional/statutory/legal framework and the de facto application provisions of this framework; 2) The independence of SAI heads and members of collegial institutions, including security of tenure and legal immunity in the normal discharge of their duties; 3) A sufficiently broad mandate and full discretion in the discharge of SAI functions; 4) Unrestricted access to information; 5) The rights and obligation to report on their work; 6) The freedom to decide the content and timing of audit reports and to publish and disseminate them; 7) The existence of effective follow-up mechanisms on SAI recommendations; and, 8) Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.

²³² INTOSAI (1998): "The Lima Declaration", ISSAI 1, Sections 5-8.

²³³ Anordning om ikrafttræden for Grønland af lov om statsautoriserede og registrerede revisorer, Nr. 623, 23. juni 2008.

Protocols include some mentioning and assessment of leadership and management in some organisations, but otherwise performance audit is only undertaken to a limited extent. It is in this regard noted that the legislation permits the Audit Committee to undertake performance audits.²³⁴

It is noted that Public Enterprises (PEs) hire their own external auditors,²³⁵ which is likewise the case for the four municipalities.²³⁶

Dimension (ii) Timeliness of submission of audit reports to legislature

The external auditor carries out on-going audit throughout the year, including site-visits to GoG entities, and collaborates with the GoG's Internal Audit Unit. However, the audit of the annual financial statements begins when the Central Department of Accountancy provides the consolidated accounts to the external auditor in February-March. The audit of the annual financial statements are generally completed after about two months, and then submitted to the Inatsisartut's Audit Committee together with the Audit Protocol. The 2012 audited annual financial statements and related documents were submitted to the Audit Committee on 17 June 2013, i.e. about three months after the accounts were made available to the external auditor.²³⁷

The submission of the audited annual financial statements and related documents takes place during Inatsisartut's spring session, when the Prime Minister announces the fiscal and financial results of the previous year. The MoFDA distributes the comments of the audit documents to the GoG entities concerned, and requests their replies within two months. These are then provided to the Audit Committee, which takes them into account when preparing its Audit Report for the Inatsisartut where it is debated during the autumn session after which it is formally adopted.

Dimension (iii) Evidence of follow up on audit recommendations

During the process of auditing the annual financial statements, the external auditor checks the extent to which recommendations made in the previous year's Audit Protocols have been implemented.²³⁸ This is evidenced by the written comments provided by the auditees, which is consolidated and forwarded by the MoFDA to the Inatsisartut's Audit Committee (the external auditor receives a copy of this document).²³⁹ Follow-up is also done, as and where relevant, as part of the on-going audit carried out during the year, and the external auditor does to some extent in the next year's Audit Protocols include comments about the level of and extent to which the GoG has addressed issues raised. The follow-up on the 2013 comments and recommendations will from 2014 onwards be presented in a separate section of the Audit Protocols.

PI-27 Legislative scrutiny of the annual budget law

The power of giving the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised. This undermines the accountability of the government vis-à-vis the electorate. Assessing the legislative process is informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for

²³⁴ Article 18 of the Law on the Inatsisartut and the GoG (Inatsisartutlov nr. 26 af 18. november 2010 om Inatsisartut og Naalakkersuisut) states that the Audit Committee may make an assessment of whether the GoG's administration has been adequately economical in its operations (i.e. undertake performance audit). The Audit Committee's Rules of Procedure explicitly states that it may initiate performance audits (Article 3).

²³⁵ At least three different firms are auditing the financial statements of the 15 PEs.

²³⁶ Three of the four municipalities have appointed the same firm as the GoG as external auditor (Deloitte), while one municipality has appointed a different firm (BDO).

²³⁷ The 2011 audited annual financial statements and related documents were submitted to the Audit Committee on 2 May 2012, and the 2010 audited annual financial statements and related documents on 12 May 2010.

²³⁸ It is understood that the external auditor also checks whether recommendations that may have been made by the Audit Committee in their Audit Report have been implemented, but it is noted that this is not evident from the Audit Protocols.

²³⁹ For the audited 2012 financial statements, the MoFDA forwarded the GoG's management responses to the Inatsisartut on 19 July 2013, one month after having received the Audit Protocol from the Inatsisartut's Audit Committee.

scrutiny and debate, and the time allowed for that process (adequacy of the budget documentation is covered by PI-06). In-year budget amendments constitute a common feature of annual budget processes. In order not to undermine the significance of the original budget, the authorisation of amendments that can be done by the executive must be clearly defined and the rules adhered to.

Dimension	2014 Score	Brief Explanation of Status
PI-27 Legislative Scrutiny of Annual Budget Law.	A	Overall rating based on M1 methodology.
(i) Scope of the legislature's scrutiny.	A	The legislature's review covers fiscal policies, medium-term fiscal framework and priorities as well as details of expenditure and revenue.
(ii) Extent to which legislature's procedures are well established and respected.	A	The legislature's procedures for the annual budget review are well-established and respected. They include arrangements for the work and functioning of the Finance & Tax Committee.
(iii) Adequacy of time for review by legislature.	A	The legislature has about three months to review the budget proposals.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	In-year amendments to the budget by the GoG are based on clear rules that set strict limits on the extent and nature of amendments, and the rules are consistently respected.

Dimension (i) Scope of the legislature's scrutiny

The annual budget process and its involvement of the Inatsisartut generally takes place as follows:

- **June** – The GoG finalises the budget proposal for the next fiscal year in the form of the Draft Finance Act (*Forslag til Finanslov*);
- **July/August** – The GoG provides an unofficial copy of the Draft Finance Act to the Finance & Tax Committee;
- **Mid-August** – The GoG presents the Draft Finance Act to the public at a press conference;
- **August/September** – The Finance & Tax Committee undertakes a 'budget seminar' to deliberate on the Draft Finance Act;
- **Mid-September** – The autumn session of the Inatsisartut commences, including with a first reading of the Draft Finance Act (*1. behandling af Forslag til Finanslov*);
- **October** – Based on the findings of its budget seminar, discussions with other Committees, and interactions with the GoG, the Finance & Tax Committee prepares and submits a Report (*Betænkning*) for the second reading of the Draft Finance Act (*2. behandling*);
- **November** – The GoG makes amendments to the Draft Finance Act, which the Finance & Tax Committee discusses and makes recommendations about in a Supplementary Report for the third reading of the Draft Finance Act. If required, the Committee prepares one or even two additional reports as part of the third reading (*3. behandling*);
- **15 November** – The third reading ends with the Inatsisartut adopting the Finance Act (*Finansloven*).

Cf. PI-06 above, the 2014 budget documents provided a relatively complete picture of relevant information in terms of assessing the basis for the GoG's budget proposal.²⁴⁰ The Reports prepared by the Finance & Tax Committee furthermore show that the Inatsisartut deliberates and considers in some detail the views and recommendations of the Greenland Economic Council (GEC)

²⁴⁰ Five of eight information benchmarks were fulfilled: Macro-economic assumptions; Debt stock; Prior year's budget out-turn; Summarised budget data for both revenue and expenditure; and, Explanation of budget implications of new policy initiatives.

regarding the fiscal policy in the short and medium term. The Reports also discuss in detail a large number of specific revenue and expenditure items. The fiscal impact/consequences of the amendments to the Draft Finance Act, which are proposed with the third reading, are always shown in the Supplementary Report prepared by the Finance & Tax Committee. In addition, the full details of all information and answers provided by the GoG to the Finance & Tax Committee are available to the Inatsisartut, including all documents and annexes.

Dimension (ii) Extent to which legislature's procedures are well established and respected

The overall framework for the annual budget process is outlined with Chapter 2 of the 1999 Law on the GoG's Budget,²⁴¹ which states that the Draft Finance Act must be submitted by the GoG to the Inatsisartut by 1 September of the preceding fiscal year, that amendments to the Draft must be submitted in accordance with the Inatsisartut's Rules of Procedure, and that the Finance Act must be adopted by 15 November of the preceding fiscal year.²⁴²

The formal role of the Finance & Tax Committee is mentioned in the 2010 Law on the Inatsisartut and the GoG (Article 16).²⁴³ The work and functioning of the Committee is outlined in its Rules of Procedure. The Committee has furthermore prepared a detailed document that describes the framework under which it works as well as the practice that has been established in areas not covered by formal regulation.²⁴⁴ Also, the Finance & Tax Committee prepares an annual meeting schedule at the start of each fiscal year.

The rules for the legislature's review of the budget proposal are fully respected by both the GoG and the members of the Inatsisartut.

Dimension (iii) Adequacy of time for review by legislature

The Finance & Tax Committee generally receives an unofficial copy of the Draft Finance Act (*Forslag til Finanslov*) by end-July or early-August, which provides the Committee with at least three months to review and deliberate on the budget proposal. The full Inatsisartut receives the Draft Finance Act at the latest when it is made public in mid-August, having about three months as well to deliberate on the proposal.

Dimension (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

New or amended appropriations are regulated by Chapter 6 of the 1999 Law on the GoG budget.²⁴⁵ The Law states that new appropriations or changes to the existing budgetary allocations during the fiscal year require a supplementary appropriation (*tillægsbevilling*), and hence parliamentary approval, except where prior permission has been provided in the Finance Act with 'text annotations' (*tekstanmærkninger*).

Application for supplementary appropriations must be submitted by the Minister of Finance (i.e. require prior consent from the MoFDA) to the Finance & Tax Committee. The Law states that only transactions that are "essential" and could not be foreseen at the time when the budget was being prepared may be presented as supplementary appropriations. It is furthermore required that the financing must only relate to the current fiscal year, and also that for statutory appropriations

²⁴¹ Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget.

²⁴² The deadline was changed from 1 November to 15 November in 2000 (Landstingslov nr. 1 af 23. maj 2000 om ændring af Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget).

²⁴³ Inatsisartutlov nr. 26 af 18. november 2010 om Inatsisartut og Naalakkersuisut.

²⁴⁴ "Forretningsorden for Inatsisartuts Finans- og Skatteudvalg", 17. april 2013; "Arbejdsform for Finans- og Skatteudvalget 2013", 17. april 2013.

²⁴⁵ Additional procedural requirements are stated in Chapter 4 of the GoG's 2008 Budget Regulations (Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008).

(*lovbundne udgifter*) changes in financing are only permitted in the case of new or amended legislation, and if the appropriation is approved by the Finance & Tax Committee.

Finally, a Supplementary Appropriations Act (*Tillægsbevillingslov*) must be presented by the GoG to the Inatsisartut during its first regular in the year following the fiscal year.

The rules for in-year amendments to the budget are consistently respected (as indicated by neither the external auditor nor the Audit Committee having any findings to the contrary).

PI-28 Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee that examines external audit reports and questions concerned parties about the findings of the reports. The operation of the committee will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors (cf. PI-26 above).

The focus in this indicator is on central government entities, including autonomous agencies to the extent that either (a) they are required by law to submit audit reports to the legislative, or (b) their parent or controlling ministry must answer questions and take action on the agencies' behalf.

Dimension	2014 Score	Brief Explanation of Status
PI-28 Scope, nature and follow up of external audit.	C+	Overall rating based on M1 methodology.
(i) Timeliness of examination of audit reports by the legislature.	B	The legislature's scrutiny of the annual audit report is usually completed within six months from receipt of the documents.
(ii) Extent of hearings on key findings undertaken by the legislature.	C	The Audit Committee did not during the audit review process in 2013 undertake hearings with GoG officials, but the written communication does indicate that interaction with the GoG focuses on some key issues and is consistent.
(iii) Issuance of recommended actions by the legislature and implementation by the Executive.	C	The Audit Committee issues recommendations for action to be implemented by the GoG, but it is unclear to which extent these have been implemented since follow-up has not been formalised and systematic.

Dimension (i) Timeliness of examination of audit reports by the legislature

There is no specific deadline established for the legislative review of the audited annual financial statements, but the procedure is outlined in the 2010 Law on the Inatsisartut and the GoG.²⁴⁶ Article 18 states that the Inatsisartut's Audit Committee reviews the annual financial statements and the auditor's observations once a year, and submits such queries to the GoG as may arise. The questions raised and comments provided by the GoG are forwarded to the Inatsisartut. The internal functioning of the Committee is outlined in its Rules of Procedure.²⁴⁷

²⁴⁶ Inatsisartutlov nr. 26 af 18. november 2010 om Inatsisartut og Naalakkersuisut.

²⁴⁷ "Forretningsorden for Revisionsudvalget", April 2013.

The time required by the Inatsisartut to scrutinise and approve the audited annual financial statements of the GoG is shown below for the past three fiscal years (i.e. 2010, 2011 and 2012) and is measured as the time taken from the submission by the external auditor of the statements to the Audit Committee and the Inatsisartut's approval of the audited statements.

Table 5.24 Time Required by the Legislature to Scrutinise and Approve Audit Reports

Accounts	Submission of Audited Annual Financial Statements and Audit Protocols	Audit Scrutiny Process Completed with the Inatsisartut's Approval of the Accounts	Total Time Required
2010	13 May 2011	9 November 2011	5.9 months
2011	2 May 2012	13 November 2012	6.4 months
2012	17 June 2013	13 November 2013	4.9 months

Source: Annual Audited Financial Statements (*Landskassens Årsregnskaber*) for 2010, 2011 and 2012, and information provided by the Inatsisartut's Audit Committee Secretariat.

The table shows that the time required by the Inatsisartut to scrutinise and approve annual financial statements for the past three years has varied between approximately 5-6½ months, and with an average of slightly less than six months.

It is noted that while there are four sets of Audit Protocols, one for the GoG and three for the AGAs (Nukissiorfiit, Mittarfeqarfiit and Asiaq), the annual approval procedure covers all entities.

Dimension (ii) Extent of hearings on key findings undertaken by the legislature

The GoG on its own initiative provides comments on the audit findings as presented by the external auditor in the Audit Protocols. This lessens the need for the Audit Committee to request comments from the GoG, which are therefore limited to some further areas and issues of the financial statements where the Committee puts some specific questions to the GoG. The Report prepared by the Audit Committee ("*Betænkning afgivet af Revisionsudvalget vedrørende Forslag til Inatsisartutbeslutning om godkendelse af Landskassens regnskab*") presents selected audit findings and GoG's comments together with the Committee's observations in this regard. While the Committee seemingly did not undertake hearings as part of its examinations for the 2012 GoG financial statements (hearings are not mentioned in the Committee's Report),²⁴⁸ the written communication between it and the GoG does indicate that interaction with the GoG focuses on some key issues and is consistent.²⁴⁹

Dimension (iii) Issuance of recommended actions by the legislature and implementation by the Executive

There are no legislative or regulatory requirements that the Inatsisartut or the Audit Committee make recommendations about actions to be considered or implemented by the GoG. However, the Audit Committee's Rules of Procedure does specify that the Committee can make recommendations about improvements to the accounting system (Article 3.9), that it should emphasise making recommendations to the Inatsisartut about examining or re-examining issues of specific importance (Article 3.10), and that the Committee may undertake control and follow-up on how the GoG is addressing specific concerns and afterwards assess the effects of the GoG's actions (Article 3.11).²⁵⁰

²⁴⁸ It is noted that the process related to the review of the 2011 financial statements (which took place in 2012) did include one Minister being requested to participate in a hearing, while the process related to the review of the 2010 financial statements (which took place in 2011) did seemingly not include any such consultation.

²⁴⁹ While the PEFA framework for PI-28, dimension (ii), only covers the past 12 months as the period to be assessed and used as a basis for the scoring, it is noted that the process related to the review of the 2012 financial statement (which took place in 2013) appears somewhat less detailed and thorough than the processes related to the reviews of the 2011 and 2010 financial statements (which took place in 2012 and 2011, respectively).

²⁵⁰ "Forretningsorden for Revisionsudvalget", April 2013.

The Report prepared by the Audit Committee on the 2012 GoG financial statement includes a number of requests for information from the GoG as well as recommendations for actions to be undertaken by the GoG.²⁵¹ However, from the Report it is not clear how monitoring and follow-up is to be undertaken on these. It is in this regard noted that Reports from earlier years likewise include information requests and recommendations for actions,²⁵² but no progress reporting is provided in the subsequent Reports.

It is understood that the external auditor (Deloitte), while following up on the recommendations made in previous years' Audit Protocols as to whether they have been implemented, also checks on the recommendations made by the Audit Committee in their Report and whether they have been implemented. However, such follow-up has so far not been formalised and systematic. It is understood from the external auditor that follow-up on the 2013 recommendations from this year onwards will be presented in a separate section of the Audit Protocols.

5.8 Summary Overview

The table below shows the ratings for all 28 PIs.

Table 5.25 2014 PEFA Scores for Greenland

Performance Indicators		Scoring Method	2014				Overall Score
			Dimension Ratings				
			i	ii	iii	iv	
A – Credibility of the Budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A	A			A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				B
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	NA			A
B – Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	B				B
PI-7	Extent of unreported government operations	M1	A	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	A	A	D		B
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	A			C+
PI-10	Public access to key fiscal information	M1	B				B
C – Policy Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	A		A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	A	N/A	D	C	C+
D – Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	A	A		A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	A	A		A

²⁵¹ "Betænkning afgivet af Revisionsudvalget vedrørende Forslag til Inatsisartutbeslutning om godkendelse af Landskassens regnskab for 2012 – Afgivet til forslagens 2. behandling", EM2013/11, 21. oktober 2013.

²⁵² "Betænkning afgivet af Revisionsudvalget vedrørende Forslag til Inatsisartutbeslutning om godkendelse af Landskassens regnskab for 2010 – Afgivet til forslagens 2. behandling", EM2011/11, 4. november 2011; "Betænkning afgivet af Revisionsudvalget vedrørende Forslag til Inatsisartutbeslutning om godkendelse af Landskassens regnskab for 2011 – Afgivet til forslagens 2. behandling", EM2012/11, 8. november 2012.

Performance Indicators		Scoring Method	2014				Overall Score
			Dimension Ratings				
			i	ii	iii	iv	
PI-15	Effectiveness in collection of tax payments	M1	NR	A	A		NR
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	A	A		A
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	B	A		A
PI-18	Effectiveness of payroll controls	M1	A	A	B	A	B+
PI-19	Transparency, competition and complaints mechanism in procurement	M2	C	D	D	D	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	A	B		B+
PI-21	Effectiveness of internal audit	M1	B	A	B		B+
E – Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	A			A
PI-23	Availability of information on resources received by service delivery units	M1	D				D
PI-24	Quality and timeliness of in-year budget reports	M1	A	B	A		B+
PI-25	Quality and timeliness of annual financial statements	M1	A	A	A		A
F – External Scrutiny and Audit							
PI-26	Scope, nature & follow-up of external audit	M1	B	A	A		B+
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	A	A	A
PI-28	Legislative scrutiny of external audit reports	M1	B	C	C		C+

The table shows that the scores for the GoG in most cases are high, which indicates an overall very well-designed and -functioning PFM system. There are a few PIs that received low scores – most notably PI-9 (fiscal risk oversight), PI-12 (costing of sector strategies), PI-19 (procurement), PI-23 (data on resources for service delivery units), and PI-28 (legislative scrutiny of external audit reports) – which together with a more detailed assessment of the dimension-level scores will be used to outline a proposed Medium-Term PFM Reform Plan in Section 7.3 below.

6 Assessment of Budget Support Eligibility Criteria

This chapter provides an assessment of the three budget support eligibility criteria – Stable Macro-Economic Framework, Public Financial Management (PFM) and Transparency and Oversight of the Budget – which is provided in accordance with the EC's budget support guidelines.²⁵³ Also, information is included so as to enable the EC to assess the possible risks of providing sector budget support to the GoG.²⁵⁴

6.1 Stable Macro-Economic Framework

Greenland's macro-economic situation is currently stable and the outlook overall positive.

GDP growth is, after two years of negative growth, expected to improve for 2014 to about zero, which is encouraging given the size of the economy and the dominance of a few major sectors (fisheries, construction and mineral exploration). Unemployment is relatively high, even taking into account possibilities about data inaccuracy, but it has mainly structural reasons which will take time to address, and for 2014 it seems likely that the rate will remain stable or decrease. Inflation is low and there are currently no indications to suggest a significant rise in the near future. The trade balance has a significant gap between exports and imports, but the earlier trend of an ever widening gap has been stopped and is possibly reversing slightly. The fiscal balance of the GoG was negative for 2011-2013, but is positive for 2014 as well as over the medium term (three years); and, the debt situation is quite unproblematic for the GoG and the municipalities, while it is improving for the PEs. Of the macro-economic aggregates it is therefore only the trade balance that as such is of concern (although the Danish block grant more than compensates for the deficit on the balance of payment side), while also the development in GDP growth must be followed closely.

The policy relevance of the GoG's fiscal policy has in earlier years been seen in the significant public investments in construction which had a counter-cyclical effect (hence being considered one of the factors that ensured that the international financial crisis in 2008 had only limited impact on Greenland). The 2014 budget, on the other hand, is a more neutral fiscal policy that suggest a move from three years of fiscal deficits towards a position from where the GoG will be better able to start addressing the fiscal sustainability issues of the future. The enterprise policy of the GoG more broadly (e.g. in attracting exploration and exploitation activities in the oil and mining sectors) is also evidence to the efforts of pursuing growth-orientated and economic diversification strategies. The strengthened oversight of the PEs, the on-going professionalisation of their managements and the focus of lowering debt-levels should also be seen in the context, given the significance of the companies in the Greenlandic economy, of pursuing macro-economic objectives (growth, employment and export).

The GoG is as such characterised by a reasonable level of *policy credibility* in that strategies are realistic (e.g. the 2012 Debt & Investment Strategy), institutional arrangements seem adequately functional (no evidence to the contrary has been observed) and there is track record of effective implementation (e.g. the GEP). However, while it appears that both the challenges related to longer term fiscal sustainability and the relatively urgency in addressing this are understood and acknowledged by the GoG, there so far remains a gap in political commitment in terms of

²⁵³ EC (2012a): op.cit., Sections 5.1.2, 5.1.3 and 5.1.4.

²⁵⁴ This will be based on section 5.3 "Risk Management Framework" of the guidelines (EC (2012a)).

formulating and implementing concrete measures. This seems influenced by the anticipation that Greenland possibly very soon could start realising potential socio-economic benefits from extracting minerals. It is thus not yet clear whether the current Government necessarily has the motivation to see through difficult reforms before the end of its term, but – as these are due only in 2017 – it does leave the Government some limited time to start the process.

Conclusion: Based on the analysis above, it is concluded that Greenland has a stability-oriented macro-economic framework.

6.2 Public Financial Management (PFM)

The 2008 PEFA assessment report concluded that “*it is evident from the assessment of the PEFA indicators that Greenland meets the criteria to be eligible for budget support*”.²⁵⁵ Three key weaknesses were identified: 1) Tax audits (PI-14, dimension iii); 2) Tax collection and arrears (PI-15, dimension i); and, 3) Procurement (PI-19). The 2008 status of these three areas comprised the baseline and the framework against which reform developments were monitored annually during 2009-2013.²⁵⁶

The 2008 PEFA assessment report included “suggested trends” as annual reform and performance objectives against which the annual monitoring provided updated information, but in many cases not in line with the originally stated trends.²⁵⁷ Therefore, while it appears that all “suggested trends” were eventually met, it is difficult based on the annual PFM progress reports to establish the exact target achievements and timings. It is also noted that some “suggested trends” were not necessarily formulated in a meaningful manner, while others were seemingly fulfilled earlier than others, but no targets were re-formulated or new target values set. Some further comments on the three focus areas are provided in Sub-Section 7.1.2 below.

Also, the monitoring framework has not included medium-term targets for achieving the three budgetary outcomes (fiscal discipline, strategic allocation of resources and efficient service delivery), which limits the possibilities for providing an assessment in this regard. However, the macro-economic review does include information that can be used to assess ‘fiscal discipline’, while PI-12 (multi-year perspective in fiscal planning, expenditure policy and budgeting) can be used to provide some observations on ‘strategic allocation of resources’.

Furthermore, as noted in Chapter 5, the 2008 PEFA assessment report did not include quantitative scores of the PIs and it is not possible to subsequently score the PIs. It is therefore not possible in the 2014 PEFA assessment to provide precise information regarding progress made against the 28 PIs.²⁵⁸

²⁵⁵ European Commission (2008): op.cit., p. 51.

²⁵⁶ European Commission (2009b): “Greenland, Recent Macroeconomic and Public Finance Developments – PFM Update Report”, ADE, July; European Commission (2010b): “Recent Macroeconomics and Public Finance Developments Report 2010”, Agriconsulting Europe S.A., August; European Commission (2011b): “Public Finance Management Report 2011”, June; European Commission (2012b): “Public Finance Management (PFM) Report Developments 2012”, Final Draft, AESA Consortium, September; and, European Commission (2013b): “Public Finance Management Report 2013”, Final Draft, CfBT Consortium / sequa gGmbH, September.

²⁵⁷ For example, for PI-14 one trend was ‘Tax audit training provided to all new staff’, but the reporting did not specifically assess whether training was provided to new staff. For PI-15, one trend outlined targets for tax arrears up till 2010 which was the reporting assessed for all years, but for 2011 onwards also added non-tax related arrears. For PI-19, the two trends included were ‘Draft Guidelines 2009 (supplies and services)’ and ‘Prepare first annual report with procurement details covering fiscal 2010’, but the reporting for 2010 onwards went well beyond these targets.

²⁵⁸ While this is not a requirement for the PFM eligibility assessment, having had such a comprehensive basis for assessing progress across all PEFA PIs would obviously have been very beneficial.

Based on the PEFA-based PFM performance assessment, and taking into account the above comments, the following overall conclusion can be made regarding:

1. **Progress** – The GoG has met all milestones/benchmarks defined with the 2008 PEFA assessment report. Additionally the findings of the PEFA assessment provide the distinct impression that progress has been made in various other areas in recent years, which is corroborated by the status provided regarding recent PFM reform developments and initiatives (summarised in Sub-Section 7.1.5); and,
2. **Direction of change** – The following observations are made:
 - a. As regards fiscal discipline it is noted that the GoG, after running overall budget deficits during 2010-2013, for 2014 onwards has tightened its fiscal policy approach, so that the budget balance is positive for 2014 as well as over the medium term (three years). This is a result of the GoG having established and met its two short-term fiscal policy goals, which constitute the GoG's basic assumptions for the priorities being set with the annual Finance Acts, namely to maintain the (partial) balance of the recurrent and capital investment account for the fiscal year and in the medium-term as well as to ensure having a cash liquidity of at least 10% of total annual expenditure.²⁵⁹ This also corresponds with the GoG longer term fiscal policy goals of pursuing a sustainable fiscal policy and achieving socio-economic growth,²⁶⁰ but – given currently the available calculations – it is clear that the existing structure of the GoG's public finances are un-sustainability in the longer term and that the GoG thus needs to undertake reforms, which it is indeed also intending based on a number of specific fiscal policy principles that the MoFDA has formulated in 2013.
 - b. With regard to strategic allocation of resources is noted that the GoG has a well-functioning system of preparing multi-year fiscal forecasts and functional/sectoral allocations, despite not having costed sector strategies or MTEFs. Also, while strategies have been developed in recent years for some sectors and specific programmes, none have substantially complete costing of capital investments and recurrent expenditures. Furthermore, there are limited linkages between capital investment budgets and forward expenditure estimates. This means that there are limitations for the GoG in its possibilities/abilities for strategic resource allocation since the lack of sector strategies based on GoG objectives and properly costed programmes hinders linking resource allocation directly to key priorities. Also, the cash basis of accounting inherently lacks the capacity to reveal full resource outlays, and performance information is also not included in the budgeting system to improve strategic resource allocation. It is noted, however, that the GoG currently is considering if and how to reform the procedural framework for strategic resource allocation by addressing both the multi-year fiscal forecast and functional/sectoral allocation aspects through development of 10-year sector strategies.
 - c. As such no specific assessment can be provided regarding the target of efficient service delivery, as data or information for this purpose is not currently readily available (e.g. quantitative unit-based measures such as cost, time or headcount, or externally-focused processes such as service delivery targets and actual results). It should be noted though that developing quantitative unit measures based on cost, time or headcount for selected

²⁵⁹ With regard to the short-term goals it should be noted that these specifically imply that fluctuations may occur during individual years (which hence explains the focus on the partial rather than the total budgetary balance), but that – over a four-year period – the average balance as a minimum should be zero or higher, while liquidity should at least DKK 650 million at any one time. This helps to ensure that while it will be possible for the GoG to undertake investments that result in a deficit in one year, it can generate a surplus in other years. Furthermore, the liquidity target means that ordinary fluctuations of revenues and payments can be accommodated, and that the GoG has freedom of action to respond quickly should a need for urgent action arise.

²⁶⁰ Regarding the longer term goals it should be noted that these aim at achieving fiscal balance (and hence sustainability), which is to be measured at the level of the entire public sector (i.e. including both the GoG and the municipalities). In measuring the expected surplus/deficit of the total public finances over a longer time period (based on a 'finance indicator'), it is possible to assess whether the current public sector structure can be funded in the long term.

internal (vis-à-vis other GoG entities) or external (vis-à-vis the public) processes can be relatively easily outlined and implemented, cf. Section 7.2 below. This requires firstly determining baselines and targets so as to develop a performance measurement system from which aggregate measures could be included in the annual Finance Act. It should also be noted, more generally, that service delivery measures and the underlying data of a performance measurement system could furthermore be used as inputs for the MTEFs and the costing of sector strategies, which in the longer term could be a platform upon which to develop and implement performance-based budgeting which links resource allocation and results-delivery.

The EC guidelines additionally state a requirement to assess **financial compliance**.²⁶¹ While this aspect is not addressed in the guidelines, but it appears from the guidance provided for the ‘Supplementary Document to the Action Fiche – PFM Eligibility Assessment’ that this relates to compliance with laws and regulations.²⁶² This is covered by two dimensions of PI 20 of the PEFA framework, for which the 2014 PEFA assessment made the following observations:

Table 6.1 PI-20 Effectiveness of Internal Controls for Non-Salary Expenditure

Dimension	Score	Justification for Score
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures [<i>than those for expenditure commitment controls</i>].	A	Other internal control rules and procedures are relevant, and incorporate a comprehensive and effective set of controls that are generally well-understood.
(iii) Degree of compliance with rules for processing and recording transactions.	B	Compliance with rules is generally high, but some challenges exist regarding some specific internal control procedures.

The table shows that the internal control rules and regulations (other than those related to expenditure commitment control) are comprehensive and effective, and that compliance at the transaction-level generally is high although some challenges exist for some specific procedures.

Conclusion: On the basis of the analysis, it is confirmed that there has been satisfactory progress in improving the GoG’s PFM system and procedures, taking into account progress achieved against annual targets and overall as well as the positive direction of change, and that the eligibility criterion hence is fulfilled.

6.3 Transparency and Oversight of the Budget

The key budgetary documents of the GoG adhere to international best practice as regards the executive’s budget proposal, enacted budget, and year-end report. However, the GoG does not undertake mid-year reporting, monthly and quarterly reporting is undertaken though not published, there are some weaknesses in the legislative scrutiny process regarding the audit report.

There are on-going developments regarding the comprehensiveness of information included in the GoG’s budget documentation (e.g. plans to develop and use additional measures for assessing the fiscal policies in an annual as well as multi-year perspective, and also about preparing 10-year costed sector strategies and providing forward expenditure estimates for capital investment projects), public access to key fiscal information (a new website for procurement of goods and

²⁶¹ EC (2012a): op.cit., p. 28.

²⁶² EC (2012b): op.cit., p. 38, 70.

services that will include information about contract awards), in-year budget reports (considerations to collect monthly budget monitoring reports from all budgetary units), and annual financial statements (in terms of developing a new integrated business management software system that will enable the preparation of better management information).

Conclusion: Based on the information outlined and assessments provided (Annex E), it is concluded that there is satisfactory progress made by the GoG in that the entry point can be confirmed met, and there are on-going developments in selected areas to increase transparency and provide more information to the public.

6.4 Risk Management

Based on the assessments carried out on the macro-economic situation and outlook as well as the functioning of the PFM system, a number of specific risk mitigation measures have been identified that can help to address the risk dimensions for the two relevant risk categories, cf. below.

Table 6.2 Risk Assessment

Risk Category	Risk Dimension	Risk Level	Mitigation Measures	Residual Risk
Macro-economic	Macro-economic policy	Substantial	Fiscal sustainability measures – A new measure should be developed and adopted, and the calculated value(s) included in the budget documents. Municipal fiscal and financial oversight – A new process and systems for data collection, analyses and annual reporting should be prepared and implemented. MTEFs – An approach for the development and application of MTEFs in key sectors should be developed and implemented.	Moderate
	Debt Sustainability	Low	n/a	Low
	Vulnerability and exogenous shocks	Substantial	10-year sector strategies – A consolidated concept for strategies, including detailed costing of both capital and recurrent (forward) expenditures, should be prepared and implemented.	Moderate
PFM	Comprehensiveness of the budget	Moderate	Data and information on financial assets and the current year's budget (revised or estimated out-turn) should be included in the budget documentation.	Low
	Controls in budget execution	Moderate	Payroll controls – An action plan should be prepared and	Low

Risk Category	Risk Dimension	Risk Level	Mitigation Measures	Residual Risk
			implemented based on the external auditor's 2014 payroll audit. Internal controls – – An action plan should be prepared and implemented based on the external auditor's Audit Protocols for the 2013 annual financial statements (if relevant). Internal audit – A review of the work and functioning of the Internal Audit Unit should be carried focusing on audit standards and the monitoring mechanism, and an action plan formulated and implemented through TA and training	
	Procurement	High	For both areas (works as well as goods and services) assessments should be carried out vis-à-vis the PEFA framework, and on that basis action plans prepared and implemented in a phased manner to address identified shortcomings. Specific focus areas are included in Table 7.1 in Section 7.3.	Moderate
	External Audit	Low	n/a	Low

Note: "n/a" is not available.

The table shows that while the risks are deemed to be low for two dimensions (debt sustainability and external audit), and hence do not require mitigation measures, for the remaining five dimensions risk mitigation is required so as to obtain lower residual risks. The proposed risk mitigation measures are in line with the recommendations provided in Section 7.3 regarding elements that are relevant to consider for a new PFM reform plan.

With regard to procurement it should be noted that – given the current status of both works-related as well as goods and services procurement – it will be necessary to provide significant managerial focus and undertake considerable changes and improvements of the frameworks (especially for goods and services procurement) and at the technical and procedural levels (both areas) to make sufficient progress so as to achieve a moderate risk level in the medium-term.

7 Conclusions and Recommendations

This chapter includes overall findings and conclusions for the different areas covered by the assessment (Section 7.1), suggestions for key indicators to measure budgetary effectiveness and efficiency (Section 7.2), and a proposal for elements that could be included as part of a medium-term PFM reform plan to be agreed between the EC and the GoG (Section 7.3).

7.1 Conclusions

Based on the analyses and findings established in the previous chapters, this section provides a number of conclusions for the different relevant areas, including the macro-economic situation and medium-term outlook, the three focus areas that annually during 2009-2013 have been assessed by the EU, weaknesses in the PFM system according to the PEFA assessment, and the GoG's on-going PFM reform initiatives.

7.1.1 Main Findings on the Macro-Economic Situation and Medium-Term Outlook

With regard to the macro-economic assessment, the following conclusions can be made:

- **The macro-economic situation is currently stable and the outlook generally positive** – 2014 economic growth is expected to improve compared to 2013 (to about zero); unemployment is somewhat high (though the accuracy of the data is not certain), but it is likely to remain unchanged or fall slightly; inflation is low and there are currently no specific indications to suggest a significant rise in inflation (although Greenland is vulnerable to external shocks); the trade balance appears to be improving, but different factors will influence this and it might thus possibly deteriorate slightly in the short- to medium-term; the GoG runs a budget surplus for 2014 and over the medium term; and, the debt situation is unproblematic for the GoG and the municipalities, while it is improving for the PEs;
- The **GoG's fiscal policy** is based on a clearly formulated overall objective as well as short-term and longer term goals, and a number of fiscal policy principles have been established. However, it is somewhat less clear – given the political economy – when and to which extent the actions that are formulated with the fiscal policy principles can and will be implemented. It is noted though that while the GoG in the Draft Finance Act for 2014 operated with budget deficits for 2014 and 2015 (followed by surpluses only for 2016 and 2017), the 2014 Finance Act that was eventually adopted instead operated with a budget surplus for 2014 as well as for 2016-2017, and only 2015 has a deficit. Due to the longer term un-sustainability of the public finances, evidenced by the considerable structural budget deficits that will develop in future, the GEC stresses that urgent priority must be given to review and reform the welfare and tax system (this goes well beyond the fiscal policy principles). Also, the GoG must in future base its budgetary assessments on an appropriate fiscal sustainability measure and management tools to ensure that the public sector is rationalised in the medium term must be introduced;
- The financial situation between **municipalities** varies, but is for some precarious (exemplified by significant per capita budget variations between the municipalities), although it is noted that they overall have a budget surplus. The expected gains from the 2009 amalgamation reform do not appear to have materialised. The GoG's fiscal and financial oversight of the municipalities is weak and should be improved;
- The significance of **Public Enterprises (PEs)** in the economy is very clear and – with management being professionalised, oversight strengthened, and debt lowered to more

sustainable levels – seem to continue providing sizable incomes for the GoG in the coming years, in addition to being vital in terms of service provision and employment;

- The socio-economic potentials for **exploitation of mineral resources** are evident and, while framework conditions for mining and oil companies are being formulated and implemented, it remains unclear if and when they will materialise. Several reports prepared in recent years find that the GoG will require significant and continuing revenues over a long period of time (25-40 years are mentioned, slightly shorter if commercially viable oil discoveries are made) to achieve full balance on the public finances, and that this will only be achieved if all elements of the process are in place and well-functioning. It is generally agreed, at least at the administrative levels, that the potentials will not lessen the need for administrative and other reforms in the meantime.

The dominant fiscal and political challenge facing the GoG (and Greenland as a society) is to create a basis for development that will ensure future growth, especially given the un-sustainability of the current expenditure patterns, present revenue sources and future demographic changes. It appears that, while the challenges and relatively urgent need for reforms are understood and acknowledged by the GoG, there remains a gap in terms of formulating concrete measures to be implemented. Although the next elections are due only in 2017, the question is whether the present Government will have time (and the necessary motivation) to develop and implement difficult reforms before the end of its term.

However, it seems that there is willingness to ensure a stable fiscal policy as well as pursue changes and reforms in some areas – e.g. full implementation of the 2012 Debt & Investment Strategy, development of a new fiscal sustainability measurement approach, and some limited initiatives regarding tax reform (although many proposals of the 2011 Tax & Welfare Commission are still to be addressed). It is specifically noted that reforms in the education sector following from the Greenland Education Programme (GEP) appear quite successful. The importance of some of the existing major revenue sources (block grant from Denmark), export articles (fishery products) and employment (public sector) will thus remain relevant and required for the foreseeable future, although diversification is possible and being considered to some extent (e.g. tourism).

7.1.2 Review of the 3 Focus Areas that were monitored annually during 2009-2013

With regard to the three focus areas that have been assessed annually by the EC, the following comments are made (reference is also made to Section 6.2 above):

- **Tax audits (PI-14, iii)** – It is seen in the annual PFM reports that there has been an increase in the number of tax audits planned and carried out. However, according to the Tax Agency the data actually reflects “reasonable estimates” of the audits carried out, not as such necessarily the actual numbers of partial and full audits executed. It is the impression though that the tax visitation and audit process is well-planned and managed. It is also noted that for 2013, the net-revenue resulting from initial assessments, partial audits and full audits was DKK 206 million (EUR 27.7 million), which was a change compared to 2012 where the net-change was a decrease of DKK 45.8 million (EUR 6.1 million);
- **Tax collection and arrears (PI-15, i)** – The annual follow-up undertaken is based on a misconception since dimension (i) deals with tax collection (i.e. taxes and fees/duties), and not non-revenue related arrears. Moreover, it is understood that the Tax Agency was not informed that the focus actually should have been on in-year collection rates, rather than total arrears (despite the latter, of course, also being relevant, but income tax arrears is a main issue and non-revenue related arrears have different causes, which require different approaches to address). The available data shows that total domestic revenue-related arrears decreased in 2012 and increased in 2013 (-10% and +2%, respectively). A 13-month review of the gross

collection rate (covering mid-January 2013 to mid-February 2014) shows a collection rate of 61% (which would result in a “C” score in the PEFA framework if it was for a 12-month period). According to the Tax Agency it will in future undertake regular checks on the in-year collection rates;

- **Procurement (PI-19)** – The annual PFM reports have only focused on the procurement of goods and services (presumably following from the 2008 assessment and agreed targets). However, also works-related procurement requires attention as does procurement undertaken by AGAs. It is also noted that some areas, e.g. advisory services, are so far are not covered by either of the two procurement entities/areas. For goods and services procurement, a dedicated unit was set up in 2009 and is now, after some challenges during 2010-2012, functional and appears capacitated. Also, a procurement strategy has been formulated and is applied (although not yet officially endorsed), the 2010 circular is to be updated (including based on EU standards as well as widening coverage and requirements for procurement under the established thresholds), a new website is planned, and case management system and data analysis systems are being procured. However, cf. below both procurement areas are characterised by a number of shortcomings. The annual PFM reviews have seemingly not provided any technical inputs to or reporting information about what would constitute international standards or best practice for procurement, which would have been very useful.

As the above shows, the monitoring process that was applied from 2009-2013 has been somewhat rigid and – given that the baselines applied have been static – probably time-wise covered a too long period. Furthermore, while the annual reports prepared may perhaps have been informative for the EC, the process has seemingly been limitedly supportive or helpful for the GoG.

For the future it would thus appear that a more flexible, pro-active and TA-oriented annual monitoring approach would be more beneficial for both parties, and could help to ensure that a new PFM reform plan would be implemented in a more effective and efficient manner.

7.1.3 Identified weaknesses in the PFM system according to the PEFA Assessment

Based on the PEFA assessment, the following weaknesses have been identified regarding the GoG’s PFM system:

- **Revenue projections/forecasting (PI-03)** – The GoG continuously over-performs on tax collection due to conservative estimation approach and (understandable) lack of experience on the part of the Tax Agency with revenue budgeting related to mineral exploration activities. It is also noted that there is no requirement for Supplementary Acts regarding changes to the budgeted revenues;
- **Information comprehensiveness in budget documents (PI-06)** – The GoG’s budget documentation does not include three of eight information benchmarks: Fiscal deficit defined according to an internationally recognised standard, financial assets and current year’s budget (revised or estimated out-turn);
- **Consolidated of municipal fiscal data (PI-08, iii)** – Formally the MoFDA’s oversight regarding the municipalities’ fiscal and financial aspects is in place, but data collection is ad hoc-based, is not being consolidated and comparative analyses (budgets vs. actuals as well as between municipalities) are not prepared;
- **Oversight over AGAs (PI-09, i)** – While oversight and management of PEs by the premier’s Office appears well-functioning, a similar approach is lacking for the three AGAs which instead refer to respective ministries and are not part of the overall oversight framework;
- **Public access to key fiscal information (PI-10)** – In-year budget execution reports or financial statements are not made public, contract award information is not available for either goods and

services or works-related procurement, and data on resources available to and used by the GoG's health regions is not published;

- **Multi-year perspective in planning and budgeting (PI-12)** – Various strategies have been developed in recent years, but none have substantially complete costing of capital investments and recurrent expenditures, and there are limited linkages between capital investment budgets and forward expenditure estimates;
- **Effectiveness in collection of tax payments (PI-15, i)** – The Tax Agency does not prepare and monitor collection rates for gross tax arrears on an annual basis;
- **Payroll controls (PI-18, ii)** – While the external auditor (Deloitte) in the 2013 annual payroll audit overall deemed the functioning of the payroll administration satisfactory, a number of administrative and procedural weaknesses were noted;
- **Procurement (PI-19) on works** – There are shortcomings in the legal framework (open tender is not defined as the default procurement method), the use of procurement methods is not reviewed by the Building Authority and data is not available about the methods applied by GoG entities and a system to generate data based on contract value is lacking, procurement plans are not being prepared contract award is not available to the public, and the Complaints Board does not include members from civil society and the GoG;
- **Procurement (PI-19) on goods and services** – There are shortcomings in the legal framework (there is only a circular and no law or regulation, the circular is not readily available to the public, it covers only nine specific types of goods and services of all GoG entities, and AGAs are not covered), the use of procurement methods is not reviewed and no systematic data is available about the methods applied, procurement plans are not being prepared contract award is not available to the public, and there is no complaint mechanism;
- **Internal control (PI-20, iii)** – While the degree of compliance with rules for processing and recording transactions generally is high, challenges exist regarding some specific internal control procedures;
- **Internal audit (PI-21)** – The activities of the Internal Audit Unit does not meet international standards, and it does not undertake monitor the extent to which the auditees take action on the issues raised in the internal audit reports;
- **Quality and timeliness of in-year budget reports (PI-24, ii)** – Budget monitoring reports are prepared monthly by the budgetary units, but for the GoG-level the MoFDA did not prepare a report for the first quarter 2013 due to the elections, which shows a lack of institutionalisation;
- **Scope, nature & follow-up of external audit (PI-26, i)** – The external auditor undertakes financial audits, but only to a limited extent performance audit;
- **Legislative scrutiny of external audit reports (PI-28)** – The legislature's scrutiny of the annual audit report takes up to five months to complete, the Audit Committee did not during the 2013 audit review process undertake hearings with GoG officials, and there is no formalised and systematic of the Audit Committee's recommendations for action issued to the GoG.

7.1.4 On-Going PFM Developments and Reform Initiatives

The GoG is currently undertaking a number of initiatives to further improve the work and functioning of the PFM system, including in the following areas:

- An Enterprise Resource Planning (ERP) project was initiated in mid-2012 to develop a new and integrated business management software system for the GoG and the municipalities. The system is to improve financial management and related procedures, including to provide a better internal control framework, enable preparation of better management information, automate data exchange (including for the Tax Agency), and do away with various separate sub-systems. It is also expected that the new system will provide better possibilities for collecting procurement-related data for statistical and analytical uses. A sub-project was carried out from June 2012 to July 2013 to prepare a new Chart of Accounts and classification

approach. This is a significant benefit in itself and will furthermore allow the GoG and the municipalities to undertake unified reporting, which will facilitate consolidation and analysis of municipal finance data in a format that is fully consistent and comparable with that used by the GoG (assuming that the municipalities formally agree to participate). The technical specifications for the new ERP system are currently being prepared, and tendering expected to take place in mid-2014. Implementation of the new system and testing of the various modules is planned for 2015, and the full system thus expected to be operational in early 2016. The ERP will thus, when operational, impact on various elements of the PFM system and procedures. In the PEFA context this relates specifically to PIs 05, 08 (iii), 15, 19, 20 and 25;

- Budget cooperation between the GoG and the municipalities is being developed based on a new framework and process that was formally agreed in January 2014. A number of new approaches are to be introduced, including multi-year financial agreements to support longer term planning and fiscal sustainability, development of multi-year sector plans, preparation of an annual budget cooperation process that meets the budget preparation needs of the municipalities, and implementing a financial regulation mechanism for the block grant that ensures that all legislative and regulatory changes will be compensated. Also, a proposal for a new tax equalisation and block grant distribution model has been developed. Furthermore, the possibilities for increasing efficiency and effectiveness in the municipalities and the GoG are being assessed, including by reviewing the principles for division of tasks and responsibilities between the GoG and the municipalities. In addition to this the MoFDA is in the process of launching a review of the 2009 amalgamation to evaluate the results achieved so far. These various activities relate specifically to PI-08 of the PEFA assessment;
- The MoFDA is currently considering possibilities for additional measures to assess GoG fiscal policies in an annual as well as multi-year perspective, including related to the fiscal policy sustainability model used by the GEC. This relates to the PEFA assessment's PI-06;
- The multi-year perspective in fiscal planning, expenditure policy and budgeting is currently being reviewed so as to develop and improve the procedures applied. The MoFDA in January 2014 published guidelines on the preparation of socio-economic impact assessments for the GoG, municipalities and PEs, which are to support the implementation of the 2012 Debt and Investment Strategy. Also, the GoG intends to prepare 10-year strategic plans for selected sectors, which will include uniform approach to undertake costing and calculate forward expenditure estimates. It is furthermore understood that the GoG is considering the possibility to introduce a requirement, by amending the 2008 Budget Regulation, for automatic increases of maintenance budgets once capital projects are finalised. These activities relate to PIs 12 and 17 of the PEFA assessment;
- Management and oversight of the Public Enterprises (PEs) has been improved by the Board Secretariat based on a 2011 consultation document that outlined the GoG's plans for developing the ownership, publishing annual reports to increase transparency, and support corporate governance of the companies through the implementation of new guidelines in 2012 that focus specifically on the boards. Also, the GoG is currently considering restructuring Nukissiorfiit, the largest and financially by far the most significant of the three AGAs, as a PE, which would bring it under the portfolio managed and overseen by the Board Secretariat. These activities relate to PI-09;
- Tax administration is being developed through various measures, including a new organisational structure for the Tax Agency that was implemented in late 2013, further automation of tax-related data collection, exchange of tax information with counterparts in Scandinavia, and shifting the secretarial assistance of the Tax Council to the MoFDA in January 2014 so as to ensure a further degree of separation. Future plans include a revision of the Law on Tax Administration (to increase penalties for non-submission of the annual tax declaration), strengthening controls of companies (stated in the new Government's Coalition Agreement), and implementing the 2011 Tax & Welfare Commission's many recommendations (as and when

so decided by the GoG). The Tax Agency also intends in future to monitor collection rates for gross tax arrears annually. These activities relate to PIs 13, 14 and 15;

- Payroll controls have been strengthened by adding additional controls to the IT system so as to ensure that all relevant processes are undertaken in a timely manner. It is furthermore planned to operationalise a personnel administration module of the IT system, so that data can be transferred directly within the system rather than having to be manually added. This relates specifically to PI-18 of the PEFA assessment;
- Procurement of goods and services has undergone a number of developments in recent years, including an increased number of staffing in the Office for Strategic Procurement & Temporary Housing, total of 30 framework contracts covering 17 different areas have been established, preparation of an annual report, formulation of a procurement strategy (yet to be officially endorsed), preparation of a ambitious action plan for 2014 that includes a number of very relevant activities (e.g. review of the procurement circular, setting targets for CSR, establish cooperation with municipalities and KANUKOKA, increased controlling, optimising data through improved billing documents, developing a web portal, electronic procurement system, archive system for procurement contracts from all GoG entities, and preparing standard templates and guidelines for various procedures and service types). This relates to PIs 10 and 19;
- The Central Department of Accountancy is currently in the process of implementing a new electronic invoice management system that is expected to significantly improve management of invoices and related processes. Also, cheques are to be phased out the use and holdings of petty cash to be further reduced. Furthermore, the number of bank accounts held by the budgetary units is being reduced, and bookkeeping and payment functions centralised so as to improve the quality of accounting. It is being considered whether to make if a requirement for budgetary units to submit monthly budget monitoring reports. These activities relate to PIs 20, 22 and 24 of the PEFA assessment;
- Also, the GoG is currently considering reviewing and updating existing legislation, regulation, circulars and guidelines, specifically to update and revise the content and financial management procedures.

7.2 Key Indicators to Measure Budgetary Effectiveness and Efficiency

The ToR for the assignment includes a requirement that a set of key indicators to measure budgetary effectiveness and efficiency be identified. This is set in the context that assessments should be dynamic and state the perspectives and probable evolution of the situation in addition to the description of the current conditions.

Effectiveness indicators ordinarily measure how much of a target was met, and thus relate actual to expected values or a plan (since effectiveness cannot be measured without a target). *Efficiency indicators* measure resources or inputs vis-à-vis the produced outputs or deliverables, and often include quantitative measures based on units of, for example, cost, time or headcount.

Budgetary effectiveness and efficiency is within the framework of public finances typically measured based on the three Public Expenditure Management (PEM) outcomes: Fiscal discipline, strategic allocation of resources, and efficient service delivery. A good, open and orderly PFM system will support a government in meeting these targets, which is essential for the implementation of policies and the achievement of stated policy objectives. The enabling elements for meeting the three levels of budgetary outcomes can be described as follows:

- **Fiscal discipline** – Effective controls of the budget totals (revenues and expenditures) and management of fiscal risks contribute to maintaining aggregate fiscal discipline;

- **Strategic allocation of resources** – Planning and executing the budget in line with government priorities contributes to implementation of government’s objectives;
- **Efficient service delivery** – Managing the use of budgeted resources contributes to efficient service delivery and value-for-money.

For the GoG, it could be considered to measure fiscal discipline on the following basis:

- Fiscal sustainability indicator value as measured annually on the GoG budget by the GEC (given the current model, the value would have to be 0.0% in order for the public finances of 2040 to be balanced with total revenue just equal to total expenditures);
- Target values (i.e. Finance Act) vs. actual values (i.e. audited annual financial statements) for the partial (DA) and total (DAU) budget balance measures;
- PEFA PI-01 and PI-03 could be used on an annual basis to measure the aggregate expenditure and revenue out-turns compared to original approved budgets;
- PEFA PI-15 could be applied to measure on an annual basis the collection ratio for gross tax arrears (since a high level of arrears could undermine the revenue side of the budget).

For the GoG, it could be considered to measure strategic allocation of resources on the following basis with an overall goal of supporting improved allocative decision-making:

- The development and implementation of 10-year costed sector strategies (in factual terms, i.e. are the strategies developed, for how many sectors/covering how much of the budget, is the costing done appropriately, and do they included forward expenditure estimates?);
- The preparation and application of MTEFs for key sectors, e.g. education and health,²⁶³ so as to provide linkages between both annual and multi-year planning and budgeting.

For the GoG, it could be considered to take the following approach so as measure efficient service delivery:

- By developing quantitative unit measures based on cost, time or headcount, if and as relevant, for selected internal (vis-à-vis other GoG entities) or external (vis-à-vis the public) processes. This can be used to determine baselines and targets so as to develop a performance measurement system from which aggregate measures could be included in the annual Finance Act (currently only some activity and staffing numbers are included for a limited number of GoG entities).

Service delivery measures and the underlying data of a performance measurement system could furthermore be used as inputs for the MTEFs and the costing of sector strategies. This could in the long term be a platform upon which to develop and implement performance-based budgeting which links resource allocation and results-delivery.

7.3 Proposal for Elements to be included in a Medium-Term PFM Reform Plan

Based on the above findings and assessments, a number of elements are relevant to consider for a new PFM reform plan to be discussed and agreed between the EC and the GoG. The following table presents a ‘gross’ list from which to select, which can be used for that purpose.

Table 7.1 Proposed Elements for a PFM Reform Plan

²⁶³ While a MTEF exist for the education sector which is updated annually with the support of the EU as part of the Partnership Agreement, it does not include a break-down by main economic category (personnel, other recurrent expenditure, capital), and it also does not inform about the main parameters and assumptions upon which the analyses and forecasts are based.

	Short-Term 1 year – 2014/2015	Medium-Term 2-3 years – 2015 to 2016
1. Develop revenue projections/forecasting, including for revenues related to mineral resource exploration and exploitation.	✓	
2. Improve the informational comprehensiveness in the budget documents (inclusion of data and information on financial assets and the current year's budget (revised or estimated out-turn)).		✓
3. Develop and institutionalise the application of a new fiscal sustainability measure, in addition to the existing partial (DA) and total (DAU), and include these in the budget documents.	✓	✓
4. Improve and document MoFDA's data collection, analyses and annual reporting regarding municipal fiscal and financial data.	✓	
5. Develop an approach for improved and uniform fiscal risk oversight and public reporting of the three AGAs.	✓	
6. Prepare a plan for publication of key fiscal information: In-year budget execution reports (both entity- and GoG-levels), contract awards (works as well as goods and services), and detailed resource data for the health regions.	✓	
7. Prepare a consolidated concept for the development of 10-year sector strategies that include detailed costing of both capital and recurrent (forward) expenditures based on a uniform template.	✓	✓
8. Prepare a detailed approach for the development and application of MTEFs in key sectors.		✓
9. Establish annual monitoring of collection rates for gross tax arrears by the Tax Agency.	✓	
10. Prepare and implement an action plan for improving payroll controls based on the external auditor's 2014 payroll audit.	✓	
11. Carry out an assessment of the Ministry of Housing's works-related procurement vis-à-vis the PEFA framework, and prepare and implement an action plan to address identified shortcomings (focusing especially on the legal framework, oversight function, data collection, and the membership of the Complaints Board). Possible cooperation and synergies vis-à-vis goods and services procurement should be assessed and formalised. <i>See further below.</i>	✓	✓
12. Carry out an assessment of the Office for Strategic Procurement & Temporary Housing's activities related goods and services	✓	✓

	Short-Term 1 year – 2014/2015	Medium-Term 2-3 years – 2015 to 2016
procurement vis-à-vis the PEFA framework, and prepare and implement an action plan to address identified shortcomings (focusing especially on developing a law, broadening the scope to all goods and services and entities (including municipalities, GoG-controlled PEs and AGAs), oversight regarding procurement methods, data collection, development of annual procurement plans by relevant GoG entities, and setting up an independent administrative complaint mechanism). Possible cooperation and synergies vis-à-vis procurement of works should be assessed and formalised.		
13. Prepare and implement an action plan for improving internal controls based on the external auditor's 2014 Audit Protocols (for the 2013 annual financial statements), if relevant.	✓	
14. Carry out an assessment of the Internal Audit Unit in terms of its work and functioning, including the applied audit standards and the monitoring mechanism, and outline an action plan for implementation through technical support and training.	✓	✓
15. Institutionalise the MoFDA's preparation of quarterly in-year budget reports.	✓	
16. Review the Audit Committee's work and functioning regarding the scrutiny of external audit reports, especially regarding the hearing process and the monitoring process on recommendations for action issued to the GoG, and prepare and implement an action plan.		✓

The table shows that a relatively large number of actionable elements could be considered for the PFM reform plan. However, in order to ensure a realistic yet ambitious approach, the pros and cons of each element should be carefully and thoroughly considered so that only selected items that address core aspects of interest to both parties are included (e.g. those considered particularly relevant in relation to the new Partnership Agreement).

When discussing the details of the PFM reform plan, attention should be paid to the on-going as well as planned PFM developments and reform initiatives outlined in Sub-Section 7.1.4 above.

Given the reform plans of the GoG and taking into account the status of the different areas, including considering related fiduciary risks, it would seem that the following elements could be prioritised: Revenue projections/forecasting (1), new fiscal sustainability measure (3), fiscal and financial oversight of the municipalities (4), 10-year sector strategies, including costing and forward expenditure estimates (7), MTEFs for key sectors (8), and procurement (11 and 12).

Specifically with regard to procurement, it is proposed to focus on the following specific targets:

- For both procurement types: 1) Examine synergies and consider options for coordination and joint management of both functions (such as a Central Tenders Board).
- For procurement of works: 1) Carry out an in-depth review on the use of procurement methods (short-term) and clarify/ revise the legal framework accordingly (medium term), including publication requirements. 2) Change provisions for selection of members of the Complaints Board to fit PEFA requirements.
- For procurement of goods and services: 1) Revision of the circular as intended in the Action Plan. 2) Upon revision, consider formalising its provisions in a designated law. 3) Establish a suitable complaints mechanism.

Annexes

Annex A – ToR

Annex B – Work Plan

Annex C – Aide Memoire

Annex D – Documents Reviewed

Annex E – Persons Consulted

Annex F – Transparency and Oversight over the Budget

Annex G – Data applied for the calculation of PI-01 and PI-02

Annex H – GoG's Housing Policy

Annex I – Comments on the Draft Report

Annex A – ToR

Kindly refer to separate file.

Annex B – Work Plan

Kindly refer to separate file.

Annex C – Aide Memoire

Kindly refer to separate file.

Annex D – Documents Reviewed

Government of Greenland and Committees – Reports and Assessments:

- Departementet for Erhverv, Råstoffer og Arbejdsmarked (2014): "Grønlands Olie- og Mineralstrategi 2014-2018", Februar;
- Departementet for Finanser (2012): "Gælds- og Investeringsstrategi – Oplæg til National Anlægsplan", April;
- Departementet for Finanser og Indenrigsanliggender (2013a): "IKT Business case for Pisariillisaaneq-projektet Fællesoffentligt ERP – Enterprise Ressource Planning", 7 February;
- Departementet for Finanser og Indenrigsanliggender (2013b): "Politisk-Økonomiske Beretning 2013";
- Departementet for Finanser og Indenrigsanliggender (2014): "Vejledning i fremstilling af samfundsøkonomiske konsekvensvurderinger", Januar;
- Grønlands Selvstyre (2014): "Uddannelseshåndbog", Version 1.5, Januar;
- Grønlands Statistik (2013): "Udenrigshandel 1. halvår 2013", 27. september;
- Grønlands Statistik (2012): "Statistisk Årbog – Offentlige finanser", 20. december;
- Grønlands Statistik (2013): "Nationalregnskab", 20. December;
- Grønlands Statistik (2014): "Beskæftigelsen 2012", 31. Januar;
- Naalakkersuisut (2012a): "Vores fremtid – Dit og Mit Ansvar, På Vej mod 2025";
- Naalakkersuisut (2012b): "Selvstyrets Aktieselskaber – Årlig Redegørelse til Inatsisartut 2012", October;
- Naalakkersuisut (2013): "Selvstyrets Aktieselskaber – Årlig Redegørelse til Inatsisartut 2013", November;
- Nationalbanken (2012): "Aktuelle tendenser i den grønlandske økonomi", Kvartalsoversigt, 1. kvartal 2012, del 1, 21. marts;
- Nationalbanken (2013): "Aktuelle tendenser i den grønlandske økonomi", Kvartalsoversigt, 2. kvartal 2013, del 1, 12. juni;
- Porsgaard, Torben (undated): "Analyse af XAL – Arbejdspakke 1.7.1.3 i Pisariillisaaneq-projektet - Systemoverblik og snitflader for Selvstyrets XAL";
- Skatte- og Velfærdscommissionen (2010): "Hvordan sikres vækst og velfærd i Grønland", Baggrundsrapport, March;
- Skatte- og Velfærdscommissionen (2011): "Vores velstand og velfærd – kræver handling nu", Betænkning, March;
- Økonomi- og Personalestyrelsen (2014): "HR-strategi 2014-16 for Grønlands Selvstyres Centraladministration";
- Økonomisk Råd (2010): "Økonomisk Råd Rapport 2010";
- Økonomisk Råd (2010): "Teknisk rapport 2010-1, Finansindkatoren";
- Økonomisk Råd (2010): "Teknisk rapport 2010-2, Afkast af uddannelse";
- Økonomisk Råd (2011): "Økonomisk Råd Rapport 2011";
- Økonomisk Råd (2012a): "Økonomisk Råd Rapport 2012 – Naturressourcer som Vækststrategi", September;
- Økonomisk Råd (2012b): "Kommentarer til Rapporten fra Økonomisk Råds medlemmer", Bilag;
- Økonomisk Råd (2013a): "Grønlands Økonomi 2013", September;
- Økonomisk Råd (2013b): "Teknisk baggrundsnotat 2013-1, Befolkningsbevægelser indenfor Grønland";
- Økonomisk Råd (2013c): "Teknisk baggrundsnotat 2013-2, Effekter på de offentlige finanser af øget beskæftigelse";
- Økonomisk Råd (2013d): "Teknisk baggrundsnotat 2013-3, Finanspolitisk holdbarhed";
- Økonomisk Råd (2013e): "Teknisk baggrundsnotat 2013-4, Belysning af grønlændere bosiddende i Danmark";
- "Et samlet land – Et samlet folk, Koalitionsaftale 2013-2017".

Legislation, Regulations, Circulars and Guidelines – Accounting and Finance:

- Skattedirektoratets Cirkulære nr. 1 af 5. marts 1980 om administrative bødefastsættelser ved overtrædelse af bestemmelserne i kapitel 10 i landstingslov om indkomstskat;

- Grønlands Hjemmestyre (1990): "Ramme instruks for intern revision", 7. juni;
- Landstingslov nr. 13 af 28. oktober 1993 om optagelse af lån i udlandet;
- Landstingslov nr. 23 af 3. november 1994 om Grønlands Hjemmestyres regnskabsvæsen m.v.;
- Hjemmestyrets bekendtgørelse nr. 8 af 27. februar 1995 om hjemmestyrets regnskabsvæsen m.v.;
- Hjemmestyrets bekendtgørelse nr. 25 af 26. november 1998 om Grønlands hjemmestyres nettostyrede virksomheders regnskabsvæsen m.v.;
- Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget;
- Bemærkninger til Forslag til Landstingslov om Grønlands Hjemmestyres Budget, 1999;
- Landstingslov af 29. oktober 1999 om Det Grønlandske Erhvervsregister;
- Landstingslov nr. 11 af 29. oktober 1999 om Grønlands Statistik;
- Landstingslov nr. 9 af 29. november 2004 om ændring af landstingslov om Det Grønlandske Erhvervsregister;
- Landstingslov nr. 11 af 2. november 2006 om forvaltning af skatter;
- Landstingslov nr. 12 af 2. november 2006 om indkomstskat;
- Hjemmestyrets bekendtgørelse nr. 24 af 1. december 2006 om forretningsorden for Skatterådet med videre;
- Landstingslov nr. 13 af 15. november 2007 om ændring af landstingslov om inddrivelse og forebyggelse af restancer til det offentlige (En landsdækkende inddrivelsesmyndighed);
- Grønlands Hjemmestyre – Budgetregulativ, 17. juni 2008;
- Landstingslov nr. 7 af 5. december 2008 om ændring af landstingslov om inddrivelse og forebyggelse af restancer til det offentlige (Overdragelse af kommunale fordringer til inddrivelse);
- Inatsisartutlov nr. 3 af 30. november 2009 om ændring af landstingslov om indkomstskat (Skattepligt i forbindelse med råstofaktiviteter, skærpet beskatning af fri bil, handel med skattemæssige afskrivninger og udvidet indeholdelsespligt);
- Landstingslov nr. 1 af 23. maj 2000 om ændring af Landstingslov nr. 8 af 29. oktober 1999 om Grønlands Hjemmestyres budget;
- Den centrale Regnskabsafdeling: "Regnskabshåndbog 2013".

Legislation, Regulations, Circulars and Guidelines – Procurement:

- Hjemmestyrets cirkulære af 1. oktober 2000 om udbud af bygge- og anlægsarbejder;
- Vejledning til Hjemmestyrets cirkulære af 1. oktober 2000 om Udbud af bygge- og anlægsarbejder;
- "Forslag til Inatsisartuts lov om indhentning af tilbud i bygge- og anlægssektoren – Forelæggelsesnotat, 1. behandling", EM 2009/115, 22. juli 2009;
- "Bemærkninger til lovforslaget – Forslag til: Inatsisartutlov nr. xx af xx måned 2009 om indhentning af tilbud i bygge- og anlægssektoren ("Rettelsesblad – erstatter Naalakkersuisuts forslag af d. 22. juli 2009")", EM 2009/115, 5. oktober 2009;
- "Betænkning afgivet af Bolig- og Infrastrukturudvalget vedrørende Forslag til Inatsisartuts lov om indhentning af tilbud i bygge- og anlægssektoren – Afgivet til lovforslagets 2. behandling", EM2009/115, 30. oktober 2009;
- Inatsisartutlov nr. 11 af 2. december 2009 om indhentning af tilbud i bygge og anlægssektoren;
- Selvstyrets bekendtgørelse nr. 10 af 12. juli 2010 om lærlinge i bygge- og anlægsarbejder;
- Cirkulære af 24.09.2010 om Indkøb af Varer og Tjenesteydelser i Selvstyrets Centraladministration og Underliggende Institutioner;
- Inatsisartutlov nr. 4 af 15. april 2011 om ændring af Inatsisartutlov om indhentning af tilbud i bygge- og anlægssektoren (Præcisering af brugen af "Fælles betingelser for arbejder og leverancer i bygge- og anlægsvirksomhed i Grønland" (AP). Sættelse af Klagenævnet for Udbud ved behandling af klager. Udvidede beføjelser for Klagenævnet for Udbud);
- Inatsisartutlov nr. 18 af 22. november 2011 om ændring af Inatsisartutlov om indhentning af tilbud i bygge- og anlægssektoren (Tilføjelse af bestemmelse der bemyndiger Naalakkersuisut til at fastsætte regler for indhentning af tilbud på bygge- og anlægsarbejder i kvalitetskonkurrence).

Procurement – Other Documents:

- "Forretningsorden for Klagenævnet for Udbud" (undated);
- Departementet for Finanser (2011): "Indkøbsredegørelse";
- Klagenævnet for Udbud (2011): "Årsberetning 2010";
- Klagenævnet for Udbud (2012): "Årsberetning 2011";
- Klagenævnet for Udbud (2013): "Årsberetning 2012";
- Økonomi- og Personalestyrelsen (2013): "Den Centrale Indkøbsfunktion – Status for 2012", Januar;
- Økonomi- og Personalestyrelsen (2014a): "Strategisk Indkøb, Handlingsplan for 2014", Januar;
- Økonomi- og Personalestyrelsen (2014b): "Indkøbsstrategi for Selvstyret", Februar.

Legislation, Regulations, Circulars and Guidelines – Other Areas:

- Landstingsforordning nr. 2 af 3. marts 1994 om udbetaling af underholdsbidrag m.v. til børn samt adoptionstilskud;
- Landstingslov nr. 8. af 13. juni 1994 om sagsbehandling i den offentlige forvaltning;
- Landstingslov nr. 9 af 13. juni 1994 om offentlighed i forvaltningen;
- Landstingslov nr. 18 af 20. november 2006 om ændring af landstingslov om landstinget og landsstyret (Landstingets adgang til oplysninger vedrørende helt eller delvist hjemmestyreejede aktieselskaber);
- Retsplejelov for Grønland nr. 305 af 30. April 2008;
- Forslag til Lov om Grønlands Selvstyre, 2009;
- Lov Nr. 473 om Grønlands Selvstyre, 12. juni 2009;
- Formandens Department (2011): "Redegørelse om ejerskabsforhold og udvikling i de helt eller delvist selvstyreejede aktieselskaber", Høringsudkast, 2 August;
- Formandens Department (2011): "Cirkulære om administration af boliger til vakant og anden midlertidig indkvartering af ansatte i Selvstyrets institutioner og nettestyrede virksomheder i Nuuk", 7. november;
- Formandens Department (2012): "Retningslinjer for god selskabsledelse i de selvstyreejede aktieselskaber", December;
- Bemærkninger til forslaget (Inatsisartutloven om den kommunale styrelse), EM 2013/104, 8. juli 2013;
- Inatsisartutlov nr. 6 af 29. november 2013 om ændring af inatsisartutlov om den kommunale styrelse (Begæringer om udtræden af kommunalbestyrelsen. Lokaludvalg og særlige udvalg samt vederlag til udvalgenes medlemmer. Pensionsordninger for borgmestre);
- Inatsisartutlov nr. 4 af 15. april 2011 om ændring af Inatsisartutlov om indhentning af tilbud i bygge- og anlægssektoren (Præcisering af brugen af "Fælles betingelser for arbejder og leverancer i bygge- og anlægsvirksomhed i Grønland" (AP). Sammensætning af Klagenævnet for Udbud ved behandling af klager. Udvidede beføjelser for Klagenævnet for Udbud).

Government of Greenland – Finance-related Documents:

- Departementet for Boliger, Infrastruktur og Trafik (2011): "Redegørelse om Anlægs- og Renoveringsfonden 2010";
- Departementet for Boliger, Infrastruktur og Trafik (2012): "Redegørelse om Anlægs- og Renoveringsfonden 2011";
- Departementet for Boliger, Infrastruktur og Trafik (2013): "Redegørelse om Anlægs- og Renoveringsfonden 2012";
- Grønlands Selvstyre (2009): "Finanslov for 2010";
- Grønlands Selvstyre (2010): "Finanslov for 2011";
- Grønlands Selvstyre (2011a): "Finanslov for 2012";
- Grønlands Selvstyre (2011b): "Landskassens årsregnskab 2010";
- Grønlands Selvstyre (2011c): "Landskassens årsregnskab 2010 – Bilag";
- Grønlands Selvstyre (2012a): "Finanslov for 2013";
- Grønlands Selvstyre (2012b): "Landskassens årsregnskab 2011";
- Grønlands Selvstyre (2012c): "Landskassens årsregnskab 2011 – Bilag";
- Grønlands Selvstyre (2013a): "Finanslov for 2014";

- Grønlands Selvstyre (2013b): "Landskassens årsregnskab 2012";
- Grønlands Selvstyre (2013c): "Landskassens årsregnskab 2012 – Bilag";
- Medlem af Naalakkersuisut for Finanser og Indenrigsanklæggende (2013): "Oplæg til Naalakkersuisut, Forslag til Finanslov 2014 – Godkendelse af basisbudget og tidsplan", 10. april.

Government of Greenland and KANUKOKA – Documents related to the Municipalities:

- Grønlands Selvstyre-De Grønlandske Kommuners Landsforening (2010): "Aftale om bloktilskud til kommunerne for budgetåret 2011";
- Grønlands Selvstyre-De Grønlandske Kommuners Landsforening (2011): "Aftale om bloktilskud til kommunerne for budgetåret 2012";
- Grønlands Selvstyre-De Grønlandske Kommuners Landsforening (2012): "Aftale om bloktilskud til kommunerne for budgetåret 2013";
- Grønlands Selvstyre-De Grønlandske Kommuners Landsforening (2013a): "Aftale om bloktilskud til kommunerne for budgetåret 2014";
- Grønlands Selvstyre-De Grønlandske Kommuners Landsforening (2013b): "Kommissorium for Samarbejdsaftale mellem Selvstyret, KANUKOKA og Kommunerne", Endelig Udgave, 19 April;
- Grønlands Selvstyre-De Grønlandske Kommuners Landsforening (2013c): "Redegørelse for samarbejdsaftale mellem Selvstyret og kommunerne". 9 December;
- Grønlands Selvstyre-De Grønlandske Kommuners Landsforening (2014): "Budgetsamarbejdsaftale mellem Selvstyret og kommunerne". 22 January;
- Hjemmestyrets bekendtgørelse nr. 14 af 23. august 1999 om revision af Hjemmestyreområderne i kommunerne m.v.;
- Inatsisartutlov nr. 22 af 18. november 2010 om den kommunale styrelse;
- Selvstyrets bekendtgørelse nr. 3 af 3. februar 2012 om kommunernes budgetlægning, likviditet, regnskab, revision samt kasse- og regnskabsvæsen.

Inatsisartut (Parliament) – Legislation, Regulations and Reports:

- Inatsisartutlov nr. 26 af 18. november 2010 om Inatsisartut og Naalakkersuisut;
- "Betænkning afgivet af Revisionsudvalget vedrørende Forslag til Inatsisartutbeslutning om godkendelse af Landskassens regnskab for 2010 – Afgivet til forslagens 2. behandling", EM2011/11, 4. november 2011;
- "Betænkning afgivet af Finans- og Skatteudvalget vedrørende Forslag til Finanslov for 2012 – Afgivet til lovforslagets 2. behandling", EM2011/7, 4. november 2011;
- "Årsberetning 2011", August 2012;
- "Betænkning afgivet af Finans- og Skatteudvalget vedrørende Forslag til Finanslov for 2013 – Afgivet til lovforslagets 2. behandling", EM2012/7, 2. november 2012;
- "Betænkning afgivet af Revisionsudvalget vedrørende Forslag til Inatsisartutbeslutning om godkendelse af Landskassens regnskab for 2011 – Afgivet til forslagens 2. behandling", EM2012/11, 8. november 2012;
- "Tillægsbetænkning afgivet af Finans- og Skatteudvalget vedrørende Forslag til Finanslov for 2013 – Afgivet til lovforslagets 3. behandling", EM2012/7, 12. november 2012;
- "Forretningsorden for Inatsisartut", sammenskrevet 1. januar 2013;
- "Forretningsorden for Revisionsudvalget", April 2013;
- "The Parliament of Greenland", April 2013;
- "Forretningsorden for Inatsisartuts Finans- og Skatteudvalg", 17. april 2013;
- "Arbejdsform for Finans- og Skatteudvalget 2013", 17. april 2013;
- "Årsberetning 2012", August 2013;
- "Betænkning afgivet af Revisionsudvalget vedrørende Forslag til Inatsisartutbeslutning om godkendelse af Landskassens regnskab for 2012 – Afgivet til forslagens 2. behandling", EM2013/11, 21. oktober 2013;
- "Betænkning afgivet af Finans- og Skatteudvalget vedrørende Forslag til Finanslov for 2014 – Afgivet til lovforslagets 2. behandling", EM2013/7, 18. oktober 2013;
- "Tillægsbetænkning afgivet af Finans- og Skatteudvalget vedrørende Forslag til Finanslov for 2014 – Afgivet til lovforslagets 3. behandling", EM2013/7, 13. november 2013;

- "Supplerende Tillægsbetænkning afgivet af Finans- og Skatteudvalget vedrørende Forslag til Finanslov for 2014 – Afgivet til lovforslagets 3. behandling", EM2013/7, 14. november 2013;
- "Yderligere Supplerende Tillægsbetænkning afgivet af Finans- og Skatteudvalget vedrørende Forslag til Finanslov for 2014 (Ændringsforslag nr. 231) – Afgivet til lovforslagets 3. behandling", EM2013/7, 15. november 2013.

External Auditor (Deloitte) – Audit Documents:

- Anordning om ikrafttræden for Grønland af lov om statsautoriserede og registrerede revisorer, Nr. 623, 23. juni 2008;
- "Grønlands Selvstyre – Revisionsprotokollat til Årsregnskab 2010", 12 May 2011;
- "Grønlands Selvstyre – Revisionsprotokollat til Årsregnskab 2011", 2 May 2012;
- "Grønlands Selvstyre – Revisionsprotokollat til Årsregnskab 2012", 17 June 2013;
- "Revisionsrapport 2-213, Økonomi- og Personalestyrelsens afdeling for Personaleservice", 29 November 2013.

European Commission / European Union:

- European Commission (2007a): "Commission Regulation (EC) No 439/2007 of 20 April 2007 Implementing Council Decision 2006/526/EC on relations between the European Community on the one hand, and Greenland and the Kingdom of Denmark on the other";
- European Commission (2007b): "Programming Document for the Sustainable Development of Greenland", June;
- European Commission (2008): "Greenland – Public Financial Management Assessment", Final Report, ADE, 7 August;
- European Commission (2009a): "Medium Term Expenditure Framework for the Education Sector in Greenland 2009-2013", Government of Greenland, July;
- European Commission (2009b): "Greenland, Recent Macroeconomic and Public Finance Developments – PFM Update Report", ADE, July;
- European Commission (2010a): "Medium Term Expenditure Framework Report 2010", Agriconsulting Europe S.A., August;
- European Commission (2010b): "Recent Macroeconomics and Public Finance Developments Report 2010", Agriconsulting Europe S.A., August;
- European Commission (2011a): "Medium Term Expenditure Framework 2011-2014", Final Draft, AESA Consortium, June;
- European Commission (2011b): "Public Finance Management Report 2011", June;
- European Commission (2012a): "Medium Term Expenditure Framework 2012-2015", Final Draft, AESA Consortium, September;
- European Commission (2012b): "Public Finance Management (PFM) Report Developments 2012", Final Draft, AESA Consortium, September;
- European Commission (2012c): "Mid-Term Review of the Partnership 2007-2013 (2006/526/EC)", 8 May;
- European Commission (2013a): "Medium Term Expenditure Framework 2013-2016", Final Draft, CfBT Consortium / sequa gGmbH, September;
- European Commission (2013b): "Public Finance Management Report 2013", Final Draft, CfBT Consortium / sequa gGmbH, September;
- European Commission (2013c): "Financing Agreement between the European Union and the Government of Greenland – Support to the Greenland Education and Vocational Training Sector 2013", GL/2013/024-622, 5 December 2013;
- Council Decision 2014/137/EU of 14 March 2014 on relations between the European Union on the one hand, and Greenland and the Kingdom of Denmark on the other.

Other Reports and Assessments:

- BDO (2013): "Effektivisering og Udgiftsreduktioner i den Offentlige Sektor i Grønland";
- BDO (2014): "Notat om Model for ny kommunal udligning og bloktilskud", Udkast, 18. februar;
- Benchmarkingudvalget (2003): "Skatter og afgifter i Grønland – Det grønlandske skatte- og afgiftssystem", 27 March;

- Copenhagen Economics (2012): "Råstoffer og bæredygtig økonomisk vækst", 11 October;
- Copenhagen Economics (2013): "Fiskeriets økonomiske fodaftryk i Grønland", 22 October;
- Grønlands Arbejdsgiverforening-NIRAS (2010): "Økonomisk Selvstændighed, En Enorm Opgave, men ikke Håbløs", March;
- GrønlandsBANKEN (2014): "Årsrapport 2013 – Meddelelse til Nasdaq OMX Copenhagen, 01/2014", 19. februar;
- Grønlands Statistik (2014): "Nationalregnskab 2003-2012", 20. December;
- Hendriksen, Kåre (2013): "Grønlands bygder – økonomi og udviklingsdynamik", PhD Theses, 14 January 2013;
- Ilisimatusarfik og Københavns Universitet (2014): "Til gavn for Grønland", Januar;
- Institutet for Fremtidsscenarier (2013): "Fremtidsscenarier for Grønland", September;
- Nordic Consulting Group (2012): "Integrity Study of the Public Sector in Greenland", January;
- OECD (2011): "Territorial Reviews: NORA Region: The Faroe Islands, Greenland, Iceland and Coastal Norway".

Guidance Documents – European Commission and PEFA Secretariat:

- European Commission (2012a): "Budget Support Guidelines – Part II: Programming, Design and Management of Budget Support", September;
- European Commission (2012b): "Budget Support Guidelines – Part III: Thematic Topics and Procedural Requirements", September;
- PEFA Secretariat (2012): "Fieldguide – for Undertaking an Assessment using the PEFA Performance Measurement Framework", 3 May;
- PEFA Secretariat (undated): "No Score Methodology".

Auditing Standards:

- INTOSAI (1998): "The Lima Declaration", ISSAI 1;
- INTOSAI (2007): "Mexico Declaration on SAI Independence", ISSAI 10.

Frequently used Web Sites:

- EC/DEVCO – http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/index_en.htm;
- Goods and Procurement website – <http://www.udbud.gl/>;
- Inatsisartut (Parliament) – <http://en.inatsisartut.gl/>;
- KANUKOKA (Association of Municipalities) – <http://www.kanukoka.gl/>;
- Legislation – <http://lovgivning.gl/>;
- Naalakkersuisut (Government) – <http://naalakkersuisut.gl/en>;
- Neqeroorut (Compliance Board for Procurement) – <http://www.neqeroorut.gl/da-dk/forside.aspx>;
- PEFA Secretariat – <http://www.pefa.org/>;
- Statistics Greenland – <http://www.stat.gl/default.asp?lang=en>;
- Sulisitsisut (Employers' Association) – <http://www.ga.gl/>;
- Tax Agency – <http://aka.gl/da>.

Annex E – Persons Consulted

European Commission

1. **Mr Paulus Schildkamp** – Programme Manager, DEVCO G.2
2. **Ms Mila Tsoneva** – Programme Assistant, DEVCO G.2
3. **Mr Jose-Antonio Valente** – Head of Sector, DEVCO Task Force OCTs
4. **Mr David Mena-de-la-Torre** – International Aid/Cooperation officer, DEVCO G.1
5. **Mr Martin Ellegaard Hansen** – International Relations Officer, DEVCO Task Force OCTs
6. **Mr Francisco Lopez Menchero** – Economic Analyst - Budget support, DEVCO G.1

Government of Greenland

1. **Mr Peter Hansen** – Permanent Secretary (Acting), Ministry of Finance & Domestic Affairs
2. **Mr Peter Bech** – Senior Consultant, Ministry of Finance & Domestic Affairs
3. **Mr Kunuk Olsen** – Head of Department, Ministry of Finance & Domestic Affairs
4. **Mr Michael Frøslev Alsbjerg** – Head of Section, Ministry of Finance & Domestic Affairs
5. **Mr Rune Schou Larsen** – Special Adviser, Ministry of Finance & Domestic Affairs
6. **Mr Michael Rudy Schrøder** – Head of Section, Ministry of Finance & Domestic Affairs
7. **Mr Hans-Erik Bresson** – Head of Department, Ministry of Finance & Domestic Affairs
8. **Mr Leif Scharling** – Special Advisor, Ministry of Finance & Domestic Affairs
9. **Mr Kim N. Nielsen** – Head of Agency, Tax Agency
10. **Mr Peter Aarup Andersen** – Special Advisor, Tax Agency
11. **Ms Rita Lyberth Jensen** – Head of Department, Tax Agency
12. **Mr Morten Wenzel Selvejer** – Legal Adviser (Tax), Ministry of Finance & Domestic Affairs
13. **Mr Lars Dencker** – Head of Agency, Economy & Personnel Agency
14. **Mr Hans Jørgen Mørch** – Head of Accounting, Central Department of Accountancy
15. **Ms Lise Sand Ellerbæk** – Acting Head of Office, Office for Strategic Procurement & Temporary Housing
16. **Mr Looqi Svane** – Consultant / Auditor, Internal Audit Unit
17. **Ms Anja Madsen** – Head of Section / Legal Adviser, Economy & Personnel Agency
18. **Mr Jørn Skov Nielsen** – Permanent Secretary, Ministry of Industry & Mineral Resources
19. **Mr Mikael Kristensen** – Permanent Secretary, Ministry of Education, Church, Culture & Equality
20. **Ms Randi Mortensen** – Head of Section, Ministry of Education, Church, Culture & Equality
21. **Mr Rasmus Pedersen** – Head of Office, Portfolio Secretariat, Premier's Office
22. **Mr Jesper Johannesen** – Director, Ministry of Housing
23. **Mr Janus Mortensen Skou Krog** – Chief Project Manager, Ministry of Housing
24. **Mr Janus Køster** – Section Engineer / Secretary, Complaints Board for Procurement, Ministry of Housing
25. **Mr David Jensen** – Committee Secretary (Industry and Fisheries, Hunting & Agriculture), Inatsisartut [Parliament]
26. **Mr Kasper Juul-Nielsen** – Committee Secretary (Audit), Inatsisartut [Parliament]
27. **Mr Anders Blaabjerg** – Head of Agency, Statistics Greenland
28. **Ms Lene Baunbæk** – Advisor, Statistics Greenland

Others

1. **Mr Bo Colbe** – Chartered Accountant & Partner, Deloitte
2. **Mr John Jakobsen** – Deputy Director, GrønlandsBANKEN [Bank of Greenland]
3. **Ms Martha Abelsen** – Chairperson, KANUKOKA [Association of Greenland's Municipalities]
4. **Mr Simon Lennert** – Senior Consultant, KANUKOKA [Association of Greenland's Municipalities]
5. **Mr Ole Peter Kristensen** – Special Adviser, KANUKOKA [Association of Greenland's Municipalities]
6. **Mr Karsten Klausen** – Head of Secretariat, The Employers' Association of Greenland

Annex F – Transparency and Oversight of the Budget

The purpose of this annex is to establish whether the ‘entry point’ is met and to monitor progress regarding on-going eligibility.

Assessing the ‘Entry Point’:

The ‘entry point’ is that the GoG must have published its budget within the past or current budget cycle (either the executive's budget proposal or the enacted budget). Based on the assessment undertaken, the conclusion is that the ‘entry point’ is considered met as the GoG’s Finance Act 2014 as enacted was published on 24 November 2013 at <http://naalakkersuisut.gl/da/Naalakkersuisut/Departementer/Finanser-og-Indenrigsanliggender/Finanslov>.

Assessing Progress:

This section assesses the on-going eligibility of Greenland a partner for the criterion on transparency and oversight of the budget.

The following table provides an overview regarding transparency and oversight of the budget based on the findings of the 2014 PEFA-based PFM Performance Assessment.

Table E.1 – Public Expenditure and Financial Accountability (PEFA) Framework

Indicator	Description	2014 PEFA-based PFM Performance Assessment		Comments / Recent and/or on-going reform developments
		Score	Details	
PI-6	Comprehensiveness of information included in budget documentation	B	The 2014 budget documentation (Finance Act and other document) fulfil five of eight information benchmarks (Macro-economic assumptions; Debt stock; Prior year’s budget out-turn; Summarised budget data for both revenue and expenditure; and, Explanation of budget implications of new policy initiatives). ²⁶⁴	The MoFDA is considering different possibilities for developing and using additional measures for assessing the GoG's fiscal policies in an annual as well as multi-year perspective, including related to the fiscal policy sustainability model used by the Greenland Economic Council (GEC) as well as the plans to prepare 10-year costed sector strategies and providing forward expenditure estimates for capital investment projects. This may, over time, lead to developments of and changes to the content and presentation of the information provided with the Draft Finance Acts and Finance Acts.
PI-10	Public access to key fiscal information	B	The GoG makes available to the public three of the six listed types of information: Annual budget documentation, year-end financial statements, and external audit reports.	The GoG’s Office for Strategic Procurement & Temporary Housing is planning to develop a new website for procurement of goods & services, which will also include information about contract awards.

²⁶⁴ One benchmark – Deficit financing – is not applicable for Greenland's 2014 budget.

Indicator	Description	2014 PEFA-based PFM Performance Assessment		Comments / Recent and/or on-going reform developments
		Score	Details	
PI-24	Quality and timeliness of in-year budget reports	B	<p><u>Dimension i:</u> Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. <i>Score: A.</i></p> <p><u>Dimension ii:</u> Budget monitoring reports are prepared monthly (budgetary units) and usually quarterly (GoG-level), though the 2013 election affected the first quarter reporting process. The issuance of reports in terms of timing depends on the report type. <i>Score: B.</i></p> <p><u>Dimension iii:</u> There are no material concerns regarding data accuracy. <i>Score: A.</i></p>	The GoG is considering the extent to which the MoFDA, or possibly the Economy & Personnel Agency, should formalise and collect monthly budget monitoring reports from all budgetary units.
PI-25	Quality and timeliness of annual financial statements	A	<p><u>Dimension i:</u> The consolidated annual statement includes full information on all revenues, expenditures and financial assets/liabilities. <i>Score: A.</i></p> <p><u>Dimension ii:</u> The 2013 financial statement was submitted to the external auditor within two months of the end of the fiscal year. <i>Score: A.</i></p> <p><u>Dimension iii:</u> The national standards applied for the annual statement is aligned with IPSAS. <i>Score: A.</i></p>	The GoG has since mid-2012 worked on an Enterprise Resource Planning (ERP) project to develop a new and integrated business management software system for the GoG and the municipalities. The new system is generally to improve financial management and related procedures, including to provide a better internal control framework, and specifically to enable the preparation of better management information, enhance data exchange and file sharing, and do away with various separate sub-systems. The new system is expected to be operational in early 2016.
PI-26	Scope, nature and follow-up of external audit	B+	<p><u>Dimension i:</u> All GoG entities are audited annually covering revenue, expenditure and assets/liabilities. The external auditor undertakes financial audits, but only to a limited extent performance audit. The audit is done in adherence to auditing standards, and focuses on significant and systemic issues. <i>Score: B.</i></p> <p><u>Dimension ii:</u> The audit documents for the 2012 accounts were submitted to the legislature about three months after the financial statements were received</p>	-

Indicator	Description	2014 PEFA-based PFM Performance Assessment		Comments / Recent and/or on-going reform developments
		Score	Details	
			by the external auditor from the GoG. <i>Score: A.</i> <u>Dimension iii:</u> There is clear evidence of effective and timely follow up. <i>Score: A.</i>	
PI-27	Legislative scrutiny of the annual budget law	A	<u>Dimension i:</u> The legislature's review covers fiscal policies, medium-term fiscal framework and priorities as well as details of expenditure and revenue. <i>Score: A.</i> <u>Dimension ii:</u> The legislature's procedures for the annual budget review are well-established and respected. They include arrangements for the work and functioning of the Finance & Tax Committee. <i>Score: A.</i> <u>Dimension iii:</u> The legislature has about three months to review the budget proposals. <i>Score: A.</i> <u>Dimension iv:</u> In-year amendments to the budget by the GoG are based on clear rules that set strict limits on the extent and nature of amendments, and the rules are consistently respected. <i>Score: A.</i>	-

The table shows that there are on-going developments regarding the comprehensiveness of information included in budget documentation (plans about developing and using additional measures for assessing the GoG's fiscal policies in an annual as well as multi-year perspective, and also about preparing 10-year costed sector strategies and providing forward expenditure estimates for capital investment projects), public access to key fiscal information (a new website for procurement of goods & services that will include information about contract awards), in-year budget reports (considerations to collect monthly budget monitoring reports from all budgetary units), and annual financial statements (in terms of developing a new integrated business management software system that will enable the preparation of better management information).

The next table provides a more detailed assessment of different aspects related to the key budget documents as per the 2014 PEFA assessment.

Table E.2 – Key Budgetary Documents

	General Description	Specific Weaknesses / Baseline	Medium-Term Reform Expectation	Means (results of policy dialogue)	Evolutions since last Assessment
Executive's budget proposal	<p>The executive's budget proposal is the government's draft budget that should be submitted to the legislature.</p> <p><u>EC's release benchmark:</u> Should be made available to the public when it is first presented to the legislature or, <i>at a minimum, before the legislature approves it.</i></p> <p><u>Comprehensiveness expected by the EC:</u> Should be presented within a medium-term macroeconomic and fiscal policy framework, include all budgetary activities of the government and detailed commentary on each revenue and expenditure programme.</p>	<p>The annual Draft Finance Act (<i>Forslag til Finanslov</i>) presented in August by the Minister of Finance & Domestic Affairs is made public at the time of its presentation to the Inatsisartut (Parliament).</p> <p>The draft executive proposal presents the budget in four parts: 1) Aggregate and ministry-specific levels for the fiscal year and the medium-term (three years); 2) Ordinary comments (<i>Almindelige bemærkninger</i>) that outlines the GoG's fiscal policy, priorities for the budget year, priority sectors, macro-economic situation, and key data; 3) Tables with actual expenditure and budget data for 2008-2017, staffing numbers per entity, and data on investment projects; 4) Detailed data for each ministry/entity for the fiscal year and the medium-term (three years).</p>	<p>None (while the financial statement could be presented within a medium-term macroeconomic and fiscal policy framework, the existing approach does not appear to lead to any shortcomings in the process).</p>	<p>Has not so far been subject to dialogue between the EC and the GoG.</p>	N/A
Enacted Budget	<p>The enacted budget refers to the budget that has been</p>	<p>None (the enacted budget – Finance Act (<i>Finanslov</i>) – is</p>	N/A	-	N/A

	General Description	Specific Weaknesses / Baseline	Medium-Term Reform Expectation	Means (results of policy dialogue)	Evolutions since last Assessment
	<p>passed by the legislature.</p> <p><u>EC's release benchmark:</u> Should be released to the public <i>no later than three month</i> after the legislature approves it.</p> <p><u>Comprehensiveness expected by the EC:</u> See executive's budget proposal.</p>	made public after parliamentary approval).			
In-year report	<p>In-year reports (also Monthly Reports or Quarterly Reports) show progress in implementing the budget. These reports can be issued for the entire government or issued by different agencies.</p> <p><u>EC's release benchmark:</u> Should be released to the public <i>no later than three months</i> after the reporting period.</p> <p><u>Comprehensiveness expected by the EC:</u> Should show the executive's progress in implementing the budget.</p>	<p>Budget monitoring reports are prepared monthly by the budgetary units and ordinarily quarterly by the MoFDA (for the GoG-level), but in 2013 no first quarter report was prepared because of the elections. Also, the in-year budget monitoring reports are not made public.</p>	The MoFDA's quarterly budget monitoring reports for the GoG-level should be made public.	Has not so far been subject to dialogue between the EC and the GoG.	N/A
Mid-year report	The mid-year report provides a more comprehensive update on the implementation of the	The MoFDA prepares two budget monitoring reports per year – the first covering	The MoFDA's bi-annual budget monitoring reports should be made public.	Has not so far been subject to dialogue between the EC and the GoG.	N/A

	General Description	Specific Weaknesses / Baseline	Medium-Term Reform Expectation	Means (results of policy dialogue)	Evolutions since last Assessment
	<p>budget.</p> <p><u>EC's release benchmark:</u> Should be released <i>no later than three month</i> after the reporting period.</p> <p><u>Comprehensiveness expected by the EC:</u> Should include an update on the implementation of the budget, a review of economic assumptions, and an updated forecast of the budget outcome for the current fiscal year.</p>	<p>January-April and the second covering January-August – which include detailed analysis of spending and focuses on those areas where deviations from the budget have been confirmed. The reports are provided to the Inatsisartut (Parliament) of its spring and autumn sessions, but are not made available to the public.</p>			
Year-end report	<p>The year-end report is one of the key accountability documents. It shows compliance with the level of revenue and expenditures authorised by the legislature.</p> <p><u>EC's release benchmark:</u> Should be released <i>no later than one year</i> after the end of the fiscal year (the reporting period).²⁶⁵</p> <p><u>Comprehensiveness expected</u></p>	<p>None (the annual financial statements are the consolidated year-end accounts, and are presented to the Inatsisartut during its spring session, i.e. four-five months after year-end. The statements include comparisons between the approved budget and the actual revenues and expenditures).</p>	N/A	-	N/A

²⁶⁵ It would seem that this release benchmark is not quite consistent with the guidance for PI-25 (Quality and timeliness of annual financial statements), as assessed in table 6.2 above, since the PEFA framework applies the following timings for rating performance: "A" – The statement is submitted for external audit within 6 months of the end of the fiscal year.; "B" – The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year; and, "C" – The statements are submitted for external audit within 15 months of the end of the fiscal year.

	General Description	Specific Weaknesses / Baseline	Medium-Term Reform Expectation	Means (results of policy dialogue)	Evolutions since last Assessment
	by the EC: Should include the reconciliation with the approved budget and compliance with the revenue and expenditures authorised by the Parliament.				
Audit report	<p>This report covers the year-end report audited by an independent Supreme Audit Institution.</p> <p><u>EC's release benchmark:</u> Should be released <i>no later than two years</i> after the end of the fiscal year (the reporting period).²⁶⁶</p> <p><u>Comprehensiveness expected by the EC:</u> Should cover all activities undertaken by the executive following the adherence to appropriate auditing standards, and to the principle of interdependence of the external audit institution. Should focus on significant and systematic PFM issues and on performance such as reliability</p>	<p>The audited annual financial statements are submitted to the Inatsisartut five-six months after year-end.</p> <p>The applied audit methods focus on regularity (financial, compliance), and separate IT and payroll audits are undertaken. The audit is undertaken to international standards (it is noted that the independence of the external auditor does not formally adhere to INTOSAI standards).</p> <p>The audit covers the whole of the GoG, and the three AGAs are audited based on their individual financial statements.</p> <p>The Audit Protocols show that focus is on areas of materiality and risk (including taking into account previous years' audit</p>	<p>The scrutiny with which the Inatsisartut's Audit Committee reviews the annual audit report should be strengthened in terms of hearing with concerned officials, if/as relevant, and the monitoring of recommendations for action to be implemented by the GoG should be formalised and systematised.</p>	<p>Has not so far been subject to dialogue between the EC and the GoG.</p>	N/A

²⁶⁶ It would seem that this release benchmark is not quite consistent with the guidance for PI-26 Scope, nature and follow-up of external audit), as assessed in table 6.2 above, since the PEFA framework applies the following timings for rating performance: "A" – Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office; "B" – Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office; "C" – Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors); and, "D" – Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors).

	General Description	Specific Weaknesses / Baseline	Medium-Term Reform Expectation	Means (results of policy dialogue)	Evolutions since last Assessment
	of financial statements, regularity of transactions, functioning of internal control and procurement systems. The assessment should also cover the timely and effective follow-up by the legislature and executive on the main recommendations of the Audit Report	findings). The Inatsisartut's Audit Committee generally reviews the annual audit report within six months from receipt of the documents. The Committee did not undertake hearings with officials during the audit review process in 2013 (regarding 2012 accounts) although written communication indicates that interaction with the GoG focuses on some key issues and is consistent. While the t Committee issues recommendations for action to be implemented by the GoG, it is unclear to which extent these are being implemented since follow-up is not formalised and systematic.			

N/A: Not Applicable.

The table shows that the key budgetary documents of the GoG adhere to international best practice as regards the executive's budget proposal, enacted budget, and year-end report. However, the GoG does not undertake mid-year reporting, monthly and quarterly reporting is undertaken though not published, there are some weaknesses in the legislative scrutiny process regarding the audit report.

Transparency and oversight of the budget has so far not been subject to discussions between the EC and the GoG.

Annex G – Data applied for the Calculation of PI-01 and PI-02

Table F.1 – Original Budget and Actual Expenditures for 2010 (DKK)

Administrative or Functional Head	Original Budget	Actual Expenditure	Adjusted Budget	Deviation	Absolute Deviation	Percent
01 Inatsisartut Formandskab	80,952,000	75,837,000	80,343,119	-4,506,119	4,506,119	5.6%
10 Formanden for Naalakkersuisut	70,048,000	67,375,000	69,521,134	-2,146,134	2,146,134	3.1%
12 Grønlands Repræsentation	14,113,000	13,987,000	14,006,849	-19,849	19,849	0.1%
20 Departementet for Finanser	959,523,000	955,916,000	952,305,944	3,610,056	3,610,056	0.4%
24 Skattestyrelsen	75,896,000	71,869,000	75,325,148	-3,456,148	3,456,148	4.6%
30 Departementet for Sociale Anliggender	1,126,585,000	1,089,386,000	1,118,111,387	-28,725,387	28,725,387	2.6%
34 Departementet for Sundhed	1,161,463,000	1,200,590,000	1,152,727,051	47,862,949	47,862,949	4.2%
40 Departementet for Kultur, Uddannelse, Forskning og K	1,129,604,000	1,136,472,000	1,121,107,679	15,364,321	15,364,321	1.4%
50 Departementet for Fiskeri, Fangst og Landbrug	15,185,000	16,969,000	15,070,786	1,898,214	1,898,214	12.6%
51 Styrelsen for Fiskeri, Fangst og Landbrug	107,630,000	104,813,000	106,820,461	-2,007,461	2,007,461	1.9%
62 Styrelse under Erhverv og Råstoffer	10,058,000	9,558,000	9,982,349	-424,349	424,349	4.3%
64 Departementet for Erhverv og Arbejdsmarked	147,424,000	139,288,000	146,315,150	-7,027,150	7,027,150	4.8%
66 Råstofdirektoratet	42,211,000	42,084,000	41,893,510	190,490	190,490	0.5%
70 Departementet for Boliger, Infrastruktur og Trafik	58,742,000	53,152,000	58,300,172	-5,148,172	5,148,172	8.8%
72 Boliger	12,576,000	11,736,000	12,481,410	-745,410	745,410	6.0%
73 Energi og infrastruktur	381,818,000	395,598,000	378,946,154	16,651,846	16,651,846	4.4%
77 Departementet for Indenrigsanliggender, Natur og Mil	64,925,000	65,925,000	64,436,666	1,488,334	1,488,334	2.3%
80-87 Anlægsområdet	324,657,000	382,486,000	322,215,091	60,270,909	60,270,909	18.7%
89 Anlægsudlån	432,900,000	336,513,000	429,643,941	-93,130,941	93,130,941	21.7%
Allocated expenditure	6,216,310,000	6,169,554,000	6,169,554,000	0	294,674,236	
Contingency	45,237,000	13,879,000				
Total expenditure	6,261,547,000	6,183,433,000				
<i>Overall (PI-1) variance</i>						1.2%
<i>Composition (PI-2) variance</i>						4.8%
<i>Contingency share of budget</i>						0.2%

Table F.2 – Original Budget and Actual Expenditures for 2011 (DKK)

Administrative or Functional Head	Original Budget	Actual Expenditure	Adjusted Budget	Deviation	Absolute Deviation	Percent
01 Inatsisartut Formandskab	78,648,000	74,843,000	80,126,268	-5,283,268	5,283,268	6.6%
10 Formanden for Naalakkersuisut	65,595,000	63,887,000	66,827,924	-2,940,924	2,940,924	4.4%
12 Grønlands Repræsentation	13,809,000	13,686,000	14,068,554	-382,554	382,554	2.7%
20 Departementet for Finanser	1,213,842,000	1,211,040,000	1,236,657,382	-25,617,382	25,617,382	2.1%
24 Skattestyrelsen	75,633,000	70,375,000	77,054,598	-6,679,598	6,679,598	8.7%
30 Departementet for Sociale Anliggender	870,608,000	1,006,549,000	886,971,954	119,577,046	119,577,046	13.5%
34 Departementet for Sundhed	1,183,594,000	1,222,692,000	1,205,840,841	16,851,159	16,851,159	1.4%
40 Departementet for Kultur, Uddannelse, Forskning og K	1,138,395,000	963,193,000	1,159,792,280	-196,599,280	196,599,280	17.0%
50 Departementet for Fiskeri, Fangst og Landbrug	50,337,000	55,427,000	51,283,135	4,143,865	4,143,865	8.1%
51 Styrelsen for Fiskeri, Fangst og Landbrug	92,182,000	87,125,000	93,914,653	-6,789,653	6,789,653	7.2%
62 Styrelse under Erhverv og Råstoffer	9,511,000	9,593,000	9,689,769	-96,769	96,769	1.0%
64 Departementet for Erhverv og Arbejdsmarked	142,268,000	140,441,000	144,942,070	-4,501,070	4,501,070	3.1%
66 Råstofdirektoratet	42,352,000	42,314,000	43,148,048	-834,048	834,048	1.9%
70 Departementet for Boliger, Infrastruktur og Trafik	54,057,000	48,344,000	55,073,056	-6,729,056	6,729,056	12.2%
72 Boliger	10,772,000	8,541,000	10,974,471	-2,433,471	2,433,471	22.2%
73 Energi og infrastruktur	382,544,000	372,923,000	389,734,300	-16,811,300	16,811,300	4.3%

Administrative or Functional Head	Original Budget	Actual Expenditure	Adjusted Budget	Deviation	Absolute Deviation	Percent
77 Departementet for Indenrigsanliggender, Natur og Mil	68,801,000	65,187,000	70,094,184	-4,907,184	4,907,184	7.0%
80-87 Anlægsområdet	338,454,000	515,962,000	344,815,584	171,146,416	171,146,416	49.6%
89 Anlægsudlån	598,900,000	579,044,000	610,156,928	-31,112,928	31,112,928	5.1%
Allocated expenditure	6,430,302,000	6,551,166,000	6,551,166,000	0	623,436,974	
Contingency	14,770,000	0				
Total expenditure	6,445,072,000	6,551,166,000				
<i>Overall (PI-1) variance</i>						1.6%
<i>Composition (PI-2) variance</i>						9.5%
<i>Contingency share of budget</i>						0.0%

Table F.3 – Original Budget and Actual Expenditures for 2012 (DKK)

Administrative or Functional Head	Original Budget	Actual Expenditure	Adjusted Budget	Deviation	Absolute Deviation	Percent
01 Inatsisartuts Formandskab	81,386,000	77,229,000	81,349,972	-4,120,972	4,120,972	5.1%
10 Formanden for Naalakkersuisut	58,757,000	67,461,000	58,730,990	8,730,010	8,730,010	14.9%
12 Grønlands Repræsentation	14,101,000	13,724,000	14,094,758	-370,758	370,758	2.6%
20 Departementet for Finanser	1,262,605,000	1,316,384,000	1,262,046,073	54,337,927	54,337,927	4.3%
24 Skattestyrelsen	77,590,000	73,282,000	77,555,653	-4,273,653	4,273,653	5.5%
30 Departementet for Familie, Kultur, Kirke & Ligestilling	1,074,821,000	1,028,996,000	1,074,345,201	-45,349,201	45,349,201	4.2%
34 Departementet for Sundhed	1,237,697,000	1,246,910,000	1,237,149,099	9,760,901	9,760,901	0.8%
40 Departementet for Uddannelse og Forskning	969,602,000	928,566,000	969,172,779	-40,606,779	40,606,779	4.2%
50 Departementet for Fiskeri, Fangst og Landbrug	70,596,000	70,193,000	70,564,749	-371,749	371,749	0.5%
51 Styrelsen for Fiskeri, Fangst og Landbrug	93,354,000	87,465,000	93,312,674	-5,847,674	5,847,674	6.3%
62 Styrelse under Erhverv og Råstoffer	7,911,000	7,790,000	7,907,498	-117,498	117,498	1.5%
64 Departementet for Erhverv og Arbejdsmarked	149,059,000	162,184,000	148,993,015	13,190,985	13,190,985	8.9%
66 Råstofdirektoratet	43,241,000	43,026,000	43,221,858	-195,858	195,858	0.5%
70 Departementet for Boliger, Infrastruktur og Trafik	53,840,000	49,915,000	53,816,166	-3,901,166	3,901,166	7.2%
72 Boliger	11,532,000	20,052,000	11,526,895	8,525,105	8,525,105	73.9%
73 Energi og infrastruktur	370,203,000	361,197,000	370,039,119	-8,842,119	8,842,119	2.4%
77 Departementet for Indenrigsanliggender, Natur og Mil	71,302,000	67,642,000	71,270,436	-3,628,436	3,628,436	5.1%
80-87 Anlægsområdet	273,466,000	286,684,000	273,344,943	13,339,057	13,339,057	4.9%
89 Anlægsudlån	672,900,000	682,344,000	672,602,122	9,741,878	9,741,878	1.4%
Allocated expenditure	6,593,963,000	6,591,044,000	6,591,044,000	0	235,251,727	
Contingency	18,650,000	0				
Total expenditure	6,612,613,000	6,591,044,000				
<i>Overall (PI-1) variance</i>						0.3%
<i>Composition (PI-2) variance</i>						3.6%
<i>Contingency share of budget</i>						0.0%

Year	for PI-1 Total Exp. Deviation	for PI-2 (i) Composition Variance	for PI-2 (ii) Contingency Share
2010	1.2%	4.8%	0.1%
2011	1.6%	9.5%	
2012	0.3%	3.6%	

Score for indicator PI-1:	A
Score for indicator PI-2 (i):	A
Score for indicator PI-2 (ii):	A
Overall Score for indicator PI-2:	A

Annex H – GoG Housing

The GoG has three categories of accommodation that can be used for GoG and AGA staff:

- **'Vacant accommodation'** – This is used when staff take up a position to which the right for staff housing has been assigned, and when it is necessary that the staff stays temporarily in furnished accommodation while awaiting available staff housing;
- **Other temporary accommodation** – This applies to staff in short-term positions of up to one year. This uses the same furnished type of apartments as vacant accommodation;
- **Staff housing** – This is used for longer term appointments to which a right for accommodation has been assigned.

The first two categories of accommodation is the responsibility of the Office of Strategic Procurement & Temporary Housing within the Economy & Personnel Agency. The area is governed by a 2011 Circular on Administration of Housing for Vacant Other Temporary Accommodation of Staff in GoG Entities and AGAs in Nuuk.²⁶⁷ The third category, staff housing, is formally the responsibility of the Ministry of Housing. Staff housing is regulated through a 2005 Parliamentary Regulation on Rental Accommodation and a 2008 regulation on the Rental of Accommodation.²⁶⁸ However, the waiting list is managed by the Office of Strategic Procurement & Temporary Housing (since those awaiting staff housing are usually identical with those staying in vacant accommodation).

The right to assign staff housing to a position was earlier the responsibility of a central committee, but the Permanent Secretaries in early 2014 approved a new model based on which the available staff housing will be allocated monthly to the ministries based on their relatively share of the total GoG staffing number. It will then be left to the ministries to prioritise the available staff housing vis-à-vis its staff vacancies. A new circular is currently being prepared to implement the model.

The number of apartments used for 'vacant accommodation' totalled 70 in January 2013 (ranging from one- to five-room apartments), but has since then been reduced and totalled 36 as of January 2014 (ranging one- to four-room apartments). The change follows a political prioritisation of reducing the net budgetary outlay for 'vacant accommodation', which decreased from DKK 12.8 million (EUR 1.7 million) in 2013 to DKK 6.8 million (EUR 0.9 million) in 2014. The total number of staff housing units is approximately 400.

²⁶⁷ Formandens Department (2011): "Cirkulære om administration af boliger til vakant og anden midlertidig indkvartering af ansatte i Selvstyrets institutioner og nettestyrede virksomheder i Nuuk", 7. november.

²⁶⁸ Landstingsforordning nr. 2 af 12. maj 2005 om leje af boliger; Hjemmestyrets bekendtgørelse nr. 12 af 23. april 2008 om udlejning af ejendomme til beboelse.

Annex I – Comments on the Draft Report

The following three tables show the comments made by the Government of Greenland (GoG), the European Commission (EC)/DEVCO and the PEFA Secretariat on the draft report (dated 21 March 2014), and the resulting proposed amendments agreed for the final report.

Table I.1 – Comments by the Government of Greenland (GoG)

#	Type (page no.)	Original text.	GoG Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
1	Comment (page 11)	However, the expected gains do not appear to have materialised, and a comprehensive evaluation is therefore being launched by the GoG and the municipalities.	This is not quite right. Some of the goals are achieved but cannot be documented.	Comment duly noted.	<u>Proposed revised text:</u> However, the extent to which the expected gains have materialised is not clear as not all goals can be document, but a comprehensive evaluation launched by the GoG and the municipalities is expected to clarify this.
2	Comment (page 11)	However, despite this the GoG lacks a precise and detailed overview regarding the municipal finances since the data is not analysed and consolidated.	This is not entirely right. Data from the municipalities is often received too late.	That data may often be sent too late by the municipalities to the GoG can be added to the text. However, it was based on the information received during the mission the clear impression that the MoF did not analyse or consolidate any municipal data.	<u>Proposed revised text:</u> Despite this the GoG lacks a precise and detailed overview regarding the municipal finances since the data is not being analysed and consolidated. According to the GoG this is among other reasons due to the municipalities sending their data belatedly to the GoG (for example, by mid-March 2014 the MoF had not received the 2014 budgets from the municipalities).
3	Comment (page 30, footnote 42)	However, overall, the municipalities are assessed as not having any net debt as of 2013 [Departementet for Finanser og Indenrigsanliggende (2013b): op.cit., p. 13].	Perhaps we could include that the municipalities cannot obtain loans over DKK 10 million without prior permission from the GOG.	Comment duly noted.	<u>Proposed revised text:</u> However, overall, the municipalities are assessed as not having any net debt as of 2013 [Departementet for Finanser og Indenrigsanliggende (2013b): op.cit., p. 13]. It is noted that municipalities cannot obtain loans over DKK 10 million (EUR 1.34 million) without prior permission from the GoG.
4	Comment (page 36)	Debt: The GoG's current foreign loan portfolio is DKK 600 million for which repayment will start in 2015 over a 15-year period. The Draft Finance Act	In our current budget we do not expect to borrow DKK 200 million. But if we are to borrow, then it will be in accordance with the debt and investment principles.	Comment duly noted.	<u>Proposed revised text:</u> Debt: The GoG's current foreign loan portfolio is DKK 600 million for which repayment will start in 2015 over a 15-year period. The Draft

#	Type (page no.)	Original text.	GoG Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
		(<i>Forslag til Finanslov</i>) for 2014 stated that additional borrowing totalling DKK 200 million (EUR 26.8 million) is expected, which would bring total debt to DKK 800 million (EUR 107.4 million).			Finance Act (<i>Forslag til Finanslov</i>) for 2014 stated that additional borrowing totalling DKK 200 million (EUR 26.8 million) was expected, which would bring total debt to DKK 800 million (EUR 107.4 million). It is understood that the GoG does in fact expect to borrow DKK 200 million, and that if it should do so this would be in accordance with the principles outlined in the Debt & Investment Strategy.
5	Comment (page 68)	The Tax Agency estimates that about 95% of all tax payers are fully covered by this automated process, and hence do no longer require to interact with the Tax Agency.	75%.	Comment duly noted.	<u>Proposed revised text:</u> The Tax Agency estimates that about 75% of all tax payers are fully covered by this automated process, and hence do no longer require to interact with the Tax Agency.
6	Comment (page 70)	The CPR number ... is issued to all persons born in Denmark, Greenland and the Faroe Islands who have Danish citizenship, persons required to pay tax in these countries, and people residing in these countries for more than three months.	I don't think that they are using the CPR system. They have so called P-numbers instead.	Comment duly noted.	<u>Proposed revised text:</u> The CPR number ... is issued to all persons born in Denmark and Greenland who have Danish citizenship, persons required to pay tax in these countries, and people residing in these countries for more than three months.
7	Comment (page 71)	... Tax Agency controllers ... carries out unannounced control visits at businesses and workplaces to check the tax status of the businesses and legal status of employees. (...). For 2014, six such control visits are planned at different locations in Greenland.	Four in 2014.	Comment duly noted.	<u>Proposed revised text:</u> For 2014, four such control visits are planned at different locations in Greenland.
A	Proposed text amendment (page 93)	<u>Original text:</u> “ Staffing – After a high staff turn-over in 2010-2012, an increased staff allocation and dedicated recruitment efforts have ensured that since mid-2013 there has been a total of six staff (three academic staff and three support staff) at the Procurement	<u>Proposed revision:</u> “ Staffing – After a high staff turn-over in 2010-2012, an increased staff allocation and dedicated recruitment efforts have ensured that since mid-2013 <u>The unit has increased from one staff to three staff.</u> Since 2014 there has been a total of six staff (three	Proposed change duly noted.	<u>Proposed revised text:</u> Staffing – After a high staff turn-over in 2010-2012, an increased staff allocation and dedicated recruitment efforts have ensured that the unit since mid-2013 has increased from one staff to three staff. Since 2014 there has been a total of six staff (three

#	Type (page no.)	Original text.	GoG Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
		Unit/Office for Strategic Procurement & Temporary Housing;”	academic staff and three support staff) at the Procurement Unit/Office for Strategic Procurement & Temporary Housing;”		academic staff and three support staff) at the Office for Strategic Procurement & Temporary Housing;
8	Comment (page 100)	In Greenland, the <u>education</u> system is based on the <i>folkeskole</i> , which consists of pre-school class, nine years of primary and lower secondary education, and an optional one-year 10 th form.	This is incorrect. The elementary school consists of 1 st to 10 th grade. All 10 grades are obligatory	Comment duly noted.	<u>Proposed revised text:</u> In Greenland, the <u>education</u> system is based on the <i>folkeskole</i> , which consists of 1 st to 10 th grade that all are obligatory.
9	Comment (page 100)	The Ministry of Education, Church, Culture & Equality has the overall responsibility for two residential schools (for students age 14-18), two ‘folk high schools’ (institutions for non-formal adult education), 10 youth and business education institutions, and six higher education institutions ...	The Ministry of Education, Church, Culture and Gender Equality (IIKNN) would like to point out that the continuation schools (residential schools) and the folk high schools are independent institutions who receive appropriations from the GoG. The schools have their own regulations and the school boards are responsible for the schools.	Comment duly noted.	<u>Proposed revised text:</u> The Ministry of Education, Church, Culture & Equality has the overall responsibility for 11 youth education institutions and 5 higher education institutions. Also, the continuation schools (residential schools) and the folk high schools are independent institutions that receive appropriations from the GoG, but which have their own regulations and with boards that are responsible for the schools.
10	Comment (page 100)		We have 11 youth education institutions counting merged institutions as one institution e.g. Business School Qaqortoq + High school Qaqortoq = 1 institution).	Comment duly noted.	
11	Comment (page 100)		We have 5 higher education institutions (counting PI/SPS, Nuuk Business School and Qaqortoq Business School as both youth education and higher education as they organise a range of different study programmes at different levels)	Comment duly noted.	

Table I.2 – Comments by DEVCO

#	Type (page no.)	Original text.	DEVCO Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
1	E-mail, no. 1	-	As expected the report shows that Greenland remains eligible for budget support with relatively small risks. The risk assessment in section 6.4 is	Comment duly noted.	- (none).

#	Type (page no.)	Original text.	DEVCO Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
			largely consistent with the RMF's prepared by Directorate G over the past 2 years.		
2	E-mail, no. 2	-	Considering the ambition of the GoG to include the elementary school system in the scope of the Education Sector Support programme to benefit from the EU Sector Reform Contract, I have specifically looked at the links between the GoG and the Municipalities as the latter are the service providers for elementary education. In this context I want to highlight the importance of the quality of the education at elementary level, as less than 50% of elementary school leavers (at the age of 15/16) actually continue education within the next 2 years.	Comment duly noted. Presumably such detailed discussion of sectoral issues is not required for the PEFA report.	- (none).
3	E-mail, no. 3	-	While the PEFA based analysis of the GoG PFM systems is detailed, there is a lack of information about the situation in the municipalities. As indicated under PI-8 (iii) no consolidation is made of the municipal budgets and financial reports by the GoG. However there is mention that a new budget cooperation agreement has been signed in January 2014. This agreement is not only relevant considering the financial reporting of the municipalities (PI-8 (iii)) but also considering multi-year perspectives in planning, policy and budgeting (PI-12 and PI-17) also on municipal level.	More focus on municipalities would require a separate analysis, which – it would seem given the ToR and discussions at the briefing and debriefing meetings – is beyond the PEFA assignment. Also, it is unclear where the additional necessary information and data would be found.	- (none).
4	E-mail, no. 4	-	Procurement remains a weakness as confirmed by the report. The recommendations in the report that procurement management should be subject of a PFM reform plan, that it should include works as well as goods and service are well documented. However, the reform proposals are very general and do not indicate when which steps are to be undertaken. Considering the importance of the municipal budgets (around 33% of public expenditures) more emphasis is necessary that it is imperative and not facultative (up on the	While an input to GoG procurement reform is proposed (see next column), it would be beyond the scope of a GoG-focused PEFA-based PFM review to assess and address municipal procurement.	The following text is proposed added: "If endorsed, the Action Plan for goods and services will address many of those issues. Regardless of this, based on the current assessment, the following specific targets can be identified as per below. For <u>both</u> procurement types: 1) Examine synergies and consider

#	Type (page no.)	Original text.	DEVCO Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
			willingness of the municipalities) that municipal procurement is fully integrated. Considering that although procurement was an area of attention since 2008 (the previous PFM Assessment report), the actual improvements achieved was very limited (as documented in section 7.1.2). Therefore more specific targets need to be identified.		<p>options for coordination and joint management of both functions (such as a Central Tenders Board).</p> <p>For procurement of <u>works</u>:</p> <ol style="list-style-type: none"> 1) Carry out an in-depth review on the use of procurement methods (short-term) and clarify/ revise the legal framework accordingly (medium term), including publication requirements. 2) Change provisions for selection of members of the Complaints Board to fit PEFA requirements. <p>For procurement of <u>goods and services</u>:</p> <ol style="list-style-type: none"> 1) Revision of the circular as intended in the Action Plan. 2) Upon revision, consider formalising its provisions in a designated law. 3) Establish a suitable complaints mechanism."
5	E-mail, no. 5	-	No reference is made to the introduction of the ERP in the Reform Plan although this is correctly identified in section 7.1.4 as a key reform initiative which could have an impact on "weak" indicators as PI-8 (iii), 15, 19, 20 and 25. The introduction of the ERP as GoG and municipal level will thus be an important indicator on the possible success of PFM reforms in Greenland.	The ERP is not mentioned among the proposed future reform steps since it is an activity already being undertaken and implemented by the GoG.	The importance of the ERP for reform of PFM will be stressed in the Executive Summary.
6	E-mail, no. 6	-	The section 7.3 on a medium term PFM reform plan needs to be prioritised. More specifically the 16 proposed elements should be prioritised and possible targets for end-2014, for end-2015 and for 2017.	It was understood at the debriefing meeting on 3 March 2014 with DEVCO and the GoG that they between them would decide which selected items should be included in a new reform plan to be formally signed by them, i.e. it is not clear whether the consultant should prioritise the potential reform areas.	- (none).

#	Type (page no.)	Original text.	DEVCO Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
7	E-mail, no. 7	-	As the EU support will target the Education Sector particular attention needs to be given to those PFM reforms that directly measure and improve the service delivery by both the GoG as well as the municipalities. Therefore a particular attention to PI-8 (iii), PI-12 (extending the existing MTEF for the Education Sector in the GoG to the municipalities), PI-19, PI-23 and PI-28 (by including in the future PFM reporting the scrutiny by municipal councils).	Comment duly noted.	The importance of PI-8 (iii), PI-12 (extending the existing MTEF for the Education Sector in the GoG to the municipalities), PI-19, PI-23 and PI-28 for the EU support targeting the Education Sector will be added in the Executive Summary.
8	General comment (pages 12-14)	-	When reading the executive summary of the PFM assessment (pp.12-14), unless the reader has the PEFA scores in hand, it's hard to appreciate which problems are small (got a score of B) and which are more significant (C or D), especially since most of the scores are very good.	Comment duly noted.	Reference to Table 5.23 will be added in the Executive Summary.
9	General comment (pages 15-16; 122-124)	-	If possible, it would help if the author could prioritize somewhat among the potential areas for PFM reform (pp. 15-16, 122-124). As the report is now, areas that got good PEFA scores (PI-3, 6, 10, 18 (ii), 20 (iii), 24 (ii), 26 (i)) are along areas that got more problematic PEFA scores (PI- 8 (iii), 9 (i), 12 (iii) and (iv), 19, 28 (ii) and (iii)).	See # 6 above.	See # 6 above.
10	General comment	-	Among the macroeconomic challenges I'm having some trouble picking out the most important ones: Promoting employment and foreign investment, to achieve faster economic growth. The need for more skilled and mobile labor. Improving the quality of public investment. The need to have inflation at roughly the same rate as in the Danish mainland, to maintain the value of the Danish contribution to Greenland.	Comment duly noted.	Will assess the possibility of providing a prioritisation of these in the Executive Summary in terms of importance.
11	General comment	-	Among the macroeconomic challenges I'm having some trouble picking out the most important ones:	Comment duly noted.	That this kind of long-term problem is difficult for any democratic country to

#	Type (page no.)	Original text.	DEVCO Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
			Greenland's welfare and tax systems combined with expected demographic changes will lead to unsustainable, structural budget deficits by 2040 – These kinds of long term problems are difficult for any democratic country to face.		face will be added in the Executive Summary and Chapter 4.
12	General comment	-	Among the macroeconomic challenges I'm having some trouble picking out the most important ones: Whether there really are undiscovered natural resources that can transform Greenland's development.	Given that the exploration activities have only started relatively recently, it would seem likely that there exist yet undiscovered resources.	- (none).
13	General comment (pages 35-36)	-	Among the macroeconomic challenges I'm having some trouble picking out the most important ones: The high level of cash liquidity (pp. 35-36) – I'm unsure how to interpret this. I understand that a government needs to be able to pay its bills on time and wants to be prepared for unanticipated costs should they arise. Most well-functioning states try to accomplish this with good cash management, anticipating expenditures and borrowing in the short-run to make up time differences between revenues and expenditures. Is Greenland not doing this? Do they lack the capacity to do it, or are they unwilling to pay a bank to do it for them? Is the high level of cash liquidity a costly old-fashioned rule?	While this is perhaps not as such a macro-economic issue, it is of course important the issue is well-presented in the report. The GoG's the liquidity target of 10% is an informal aim and means that ordinary fluctuations of revenues and payments can be sufficiently accommodated, and also that the GoG will have freedom of action to respond quickly if the need for urgent action should arise	- (none).
14	General comment	-	Among the macroeconomic challenges I'm having some trouble picking out the most important ones: I realize that not everything can be mentioned in this kind of report, but aren't the effects of climate change becoming quite apparent in Greenland and won't this have a major impact, if difficult to analyze macroeconomically?	Specific mentioning of this aspects did not appear to be prominent in the available documentation, but an additional review will be undertaken of the available documents.	If specific information is found this will be added as and where relevant in the report.
15	General comment	-	PI-15 (i) – Do I understand correctly that the tax authorities are planning to present the information	The Tax Agency will rather in future check on an annual basis (which is	- (none).

#	Type (page no.)	Original text.	DEVCO Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
			the PEFA requires in the near future?	what this dimension is about).	
16	General comment (pp. 100-101)	-	I understand why Greenland gets a low score on PI-23 Availability of information on resources received by service delivery units and why this low score might not be problematic, but I can't really judge from the text whether the information GoG is generating is adequate to identify PFM problems particularly as regards the flow of funds to primary education and health care.	The comment is understood to relate to whether there is sufficient information of funds receipt at the national level. The low scoring is a result of the information not being consolidated and complete, and not due to the fact that there are delays in resources received.	The relevant text of PI-23 will be re-phrased.
17	General comment (p. 13)	Also, while internal audit is operational for all GoG entities it does not work according to international standards and its follow-up vis-à-vis auditees on the implementation of recommendations is seemingly not well-organised.	A detail: Is the word "not" missing from this sentence: "Also, while internal audit is operational for all GoG entities it does not work according to international standards and its follow-up vis-à-vis auditees on the implementation of recommendations is seemingly not well-organised"?	Comment duly noted.	Also, while internal audit is operational for all GoG entities it does not work according to international standards and its follow-up vis-à-vis auditees on the implementation of recommendations is seemingly not well-organised.

Table I.3 – Comments by the PEFA Secretariat

#	Type (page no.)	Original text.	PEFA Secretariat Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
1	Comment	-	The report is not qualified for the PEFA Check as the PEFA Secretariat did not review the Concept Note or TOR.	If the PEFA Secretariat should have been able to consider the PEFA assessment for PEFA Check, DEVCO should have developed and shared a concept note with the PEFA Secretariat at the start of the process. It is understood that DEVCO is aware of this.	- (none).
2	Comment (page 7)	-	The list of abbreviations is provided, but the fiscal year and exchange rate are not stated.	Will be added in the final report.	The fiscal year is the calendar year. The EUR-DKK exchange is 7.45.
3	Comment	-	The structure of the public sector in Greenland is not provided.	Comment duly noted.	A new Section 5.1 will be added that includes a brief description of the structure of the public sector in Greenland.

#	Type (page no.)	Original text.	PEFA Secretariat Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
4	Comment	-	The report will not be eligible for the PEFA CHECK as the PEFA Secretariat did not receive concept note or terms of reference for review.	As above (# 1).	- (none).
5	Comment	-	Information on budgetary outcomes per PEFA Framework is not provided: the tables with data on functional and economic classification of the budget are missing.	Comment duly noted. It is noted that the GoG with regard to sector-level expenditure data has provided the following information: <i>"Unfortunately it is not possible to fill-in the spreadsheet "Actual budgetary allocations by sector" due to changes in the structure of the government over the years. The numbers will not be comparable over time"</i> .	A new Section 5.1 will be added that includes a table showing the budgetary outcomes of the GoG (GoG expenditure in DKK as well as in percent of GDP) based on the data that the GoG can provide.
6	Comment	-	Division of responsibilities within the Ministry of Finance is not discussed.	Comment duly noted.	A new Section 5.1 will be added that includes a brief description of the division of responsibilities within the Ministry of Finance.
7	Comment (page 46)	-	PI-4 (ii): NA but uncertain. If there is a system that keeps track of accounts payable with age profile that allows monitoring expenditure payment arrears should they exist, a score of A may be appropriate. Please, clarify.	There is no such system.	It will be added in the final report that the GoG's accounting system does not keep track of accounts payable with age profile.
8	Comment (pages 73-74)	-	PI-15 (i): NR but uncertain. Given that dimension (iii) is scored on the basis of reconciliation of tax collection, assessment and arrears, it seems odd that the arrears collection data is not available. Please, clarify.	PI-15 (i) is about the collection ratio for gross tax arrears compared at the beginning and end of the fiscal year. The Tax Agency does not regularly prepare and monitor collection rates for gross tax arrears on an annual basis. However, reconciliation is done as per the data that the Tax Agency keeps.	- (none).
9	Comment (page 82)	-	PI-18 (ii): Rated B but uncertain. The narrative for the dimension may suggest a higher score. The reference to audit findings in the table is inconsistent with the text below. Please, clarify.	Correct.	Will be re-rated from "B" to "A".

#	Type (page no.)	Original text.	PEFA Secretariat Comments	Reply by the Consultant (if any)	Resulting Amendment(s) for the Final Report
10	Comment (pages 82-83)	-	PI-18 (iii): Rated A but uncertain. Similarly to the previous dimension, audit findings are not referenced in the table, but are provided in the narrative. Please, clarify.	Correct.	Will be re-rated from "A" to "B".
11	Comment (page 81)	-	PI-18 overall: Correctly combined to B+, but now uncertain.	Will remain unchanged.	- (none).
12	Comment (pages 84-85 and 91-92)	-	PI-19 (i): Rated B for works and D for goods and services, but uncertain. The PEFA methodology does not envisage splitting the indicator into separate parts. Instead, the team may consider coming up with a single score for each dimension by scoring two systems separately and then taking weighted (by share of works in overall procurement and share of goods and services in overall procurement) average.	Comment duly noted. It is noted that data is not available to weight the score for each dimension for the share of works (in overall procurement) and the share of goods and services (in overall procurement).	The descriptions under PI-19 will be merged and the ratings of each dimension combined based on a simple average.
13	Comment (page 102)	-	PI-24 overall: Incorrectly combined to B. M2 method of aggregation would imply B+.	Correct. Presumably the evaluator means M1.	Score will be changed to "B+".
14	Comment (pages 115-120)	-	The Summary Assessment provides a good description of the performance of the PFM system across the six "critical dimensions". This section also discusses the implications of the PFM weaknesses, however instead of using three main budgetary outcomes (fiscal discipline, strategic allocation of resources and efficient service delivery), it analyzes weaknesses by stable macro-fiscal framework, PFM and transparency and oversight.	The structure of Chapter 6 follows the EC guidelines, and the three main budgetary outcomes are hence mentioned as required in Section 6.2.	The three main budgetary outcomes in Section 6.2 will be further discussed.

The contents of this publication are the sole responsibility of ECORYS Consortium and can in no way be taken to reflect the views of the European Union.



P.O. Box 4175
3006 AD Rotterdam
The Netherlands

Watermanweg 44
3067 GG Rotterdam
The Netherlands

T +31 (0)10 453 88 00
F +31 (0)10 453 07 68
E netherlands@ecorys.com

W www.ecorys.nl

Sound analysis, inspiring ideas