



**FOLKETINGET
STATSREVISORERNE**



**FOLKETINGET
RIGSREVISIONEN**

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**Extract from Rigsrevisionen's report
submitted to the Public Accounts Committee**

The supervision of Post Danmark's accounting practice

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Ministry of Transport and Housing's (Ministry of Transport) supervision of the accounting practice of Post Danmark A/S (Post Danmark). Pursuant to the Postal Services Act, the Ministry of Transport has access to and is responsible for ensuring that Post Danmark, as a postal service provider subject to a universal service obligation, meets the requirements of the law and the rules and conditions otherwise laid down by the ministry under the authority of the law. The Danish Transport, Construction and Housing Authority (Transport Authority) is authorised to supervise Post Danmark, including its accounting practice and fulfilment of the universal service obligation. Additionally, the Ministry of Transport has been commissioned by the Danish state to manage the ownership of the Danish-Swedish owned enterprise *PostNord* AB. Post Danmark is a subsidiary to this enterprise.

2. Post Danmark provides universal postal services in Denmark like, for instance, nationwide carriage of addressed letters. Pursuant to the EU Postal Services Directive, Post Danmark can be compensated for any net cost of the universal service obligation, after due consideration of regulations concerning state aid. Moreover, Post Danmark can, on a regular basis, apply for regulation of the price of stamps for products covered by the universal service obligation to ensure that the postal rates cover the actual cost and generate a reasonable profit. Post Danmark also provides services in competition with private companies delivering, for instance, parcels.

3. The Transport Authority has imposed requirements on Post Danmark's accounting practice through a set of accounting regulations in order to ensure that Post Danmark adheres to the legislation and, in the accounts, separates services provided under the universal service obligation and services outside the universal service obligation. The agreement between the Ministry of Transport and Post Danmark on the universal service obligation expired by the end of 2019. Since then, the Ministry of Transport has extended the agreement by six months several times. It appears from the government's legislative programme for the 2020/2021 parliamentary session that steps will be taken to amend the Postal Services Act to ensure, among other things, a continuation of the universal service obligation.

The universal service obligation

According to the EU Postal Services Directive, each EU Member State appoints an entity to provide the universal service. The universal service obligation is implemented in the Danish Postal Act and includes, for instance, minimum requirements for collection and delivery of various postal items.

Post Danmark accounting regulations

It appears from the accounting regulations that they are intended to ensure that Post Danmark, in its capacity as universal service provider, complies with the accounting regulations set out in the EU Postal Services Directive.

Post Danmark's joint costs

These costs concern several of the activities of the enterprise like, for instance, services provided outside as well as under the universal service obligation. Joint costs cannot be referred to specific services.

Cross subsidisation

Cross subsidisation means that a company holding exclusive or specific rights transfers funds from the part of its business that is not exposed to competition, to the part that is competing with services provided by other businesses.

4. The study was initiated at the request of the Danish Public Accounts Committee. The committee members asked us to examine the accounting practice of Post Danmark, including whether its practice concerning distribution of joint costs and cross subsidisation complied with current legislation. The request was put forward at a time, when the Danish parliament was negotiating an extension of the agreement with Post Danmark as universal service provider. Rigsrevisionen has on two earlier occasions, in 2001 and in 2005, examined Post Danmark's accounting practice at the request of the Public Accounts Committee.

5. The purpose of the study is to assess whether the Ministry of Transport's supervision of Post Danmark's accounting practice in the period from 2011 to 2019 has been adequate. By adequate supervision, we mean a supervision that has reassured the Ministry of Transport that Post Danmark's accounting practice was in accordance with current regulations. In order to achieve the purpose of the study, we have examined whether the Transport Authority has carried out its supervision in accordance with the legislation, and whether the authority through its supervision has obtained additional information, when the authority has become aware that Post Danmark's practice might not comply with the accounting regulations.



Main conclusion

It is Rigsrevisionen's assessment that the Ministry of Transport's supervision of Post Danmark's accounting practice in the period from 2011 to 2019 has not been entirely adequate. The consequence hereof is that the Ministry of Transport's insight has not in all areas sufficed to reassure the ministry that the accounting practice followed by Post Danmark was correct.

The Ministry of Transport has supervised the areas that it is required to by law, but the ministry has not had an adequate basis for the supervision and has lacked specific instructions for the supervision in some areas

According to the accounting regulations for Post Danmark, the Transport Authority is required to supervise compliance with the accounting regulations. Rigsrevisionen's review of the supervision shows that the Transport Authority has based part of its supervision of Post Danmark's accounting practice on an opinion given by Post Danmark's external auditor. In the period from 2011 to 2019, the external auditors have not been required by the Transport Authority to provide a certain level of assurance in their report. It is Rigsrevisionen's assessment that the Transport Authority should consider defining an appropriate level of assurance, when it delegates its supervisory obligation to the auditors. Additionally, the study found that - contrary to the requirements of the accounting regulations - the Transport Authority is not ensuring that the auditors examine whether Post Danmark's registration of data is sufficiently detailed. The Transport Authority has informed Rigsrevisionen that the authority will discuss the level of assurance provided in the auditor's report with the external auditor. The authority will also discuss with the auditor how the level of detail in the registration of data can be documented.

The study found that the Transport Authority supervises Post Danmark's postage prices and quality concerning carriage of letters and parcels under the universal service obligation through the annual auditor's report, quarterly meetings with Post Danmark, quality measurements and complaints, if any. The study found that postage profits relating to letters weighing up to 50 grammes increased considerably in the period from 2011 to 2019. Moreover, the Transport Authority has no written procedure for the approval of Post Danmark's postage prices for letters, including objective criteria that reflect what the authority considers to be a fair level of profit. In the opinion of Rigsrevisionen, written procedures contribute to ensuring correct and consistent case processing. The benefits of having written procedures is emphasized by the fact that the Transport Authority has made an incorrect comparison between Post Danmark's reported profits and the gross profits of other comparable lines of business. This has, in the opinion of Rigsrevisionen, affected the Transport Authority's basis for assessing whether Post Danmark's postage profit relating to carriage of letters is fair. The Transport Authority has informed Rigsrevisionen that the authority is taking steps to develop a process for approval of postage for letters weighing up to 50 grammes that will provide a better basis for assessing whether Post Danmark's profit is fair.

The Ministry of Transport has obtained supplementary information in instances, where doubts were raised as to whether Post Danmark's allocation of joint costs and pricing complied with the legislation. However, it is Rigsrevisionen's assessment that the ministry should also in a few other cases have obtained supplementary information about Post Danmark's accounting practice

The Transport Authority has informed Rigsrevisionen that it did not consider the changes made to the Postal Services Directive and the accounting regulations in 2014 to be of importance for Post Danmark's accounting practice. The study shows that the Transport Authority, in spite of this assessment, commissioned an external review, because it had been questioned whether Post Danmark's allocation of joint costs complied with the 2008 Postal Services Directive. The external review found that the principles and methods applied by Post Danmark to allocate costs followed the requirements of the accounting regulations from 2011. This meant that the majority of the costs were allocated to the services provided under the universal service obligation in spite of the fact that these made up less than half of all the services provided. However, the review did not directly address the Postal Services Directive and the accounting regulations from 2014 currently in force. The review could thus not confirm the Transport Authority's claim that the changes made to the accounting regulations in 2014 had no influence on Post Danmark's allocation of costs to services provided outside or under the universal service obligation.

The study shows that the Ministry of Transport commissioned two external reviews concerning cross subsidisation in 2020. The first review found that the price structure of PostNord's subsidiary, PostNord Logistics, had, for a period of time, not been appropriate and had been replaced by a new and updated structure in 2016/2017. The other review dismissed a number of anonymous claims of cross subsidisation, but did not present any analyses or background for the conclusions made.

It is Rigsrevisionen's assessment that the Ministry of Transport could have improved the basis for its supervision of Post Danmark, if the reviewers had been asked to provide more information about the accounting regulations and the anonymous claims.