



Report to the Public Accounts
Committee on the audit of
EU funds in Denmark in 2009

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Contents

I.	Opinion on the audit of EU funds in Denmark in 2009.....	1
II.	Introduction and results.....	3
III.	Introduction	9
	A. Objective and methodology	9
	B. Objective and international audit cooperation.....	10
IV.	Statement of EU revenue and EU expenditure as included in the state accounts.....	12
V.	Agricultural subsidy schemes under the Ministry of Food, Agriculture and Fisheries	15
	A. Single Payment Scheme.....	16
	B. EU exclusions of expenditure	23
	C. Other agricultural support schemes	26
VI.	The structural funds under the Ministry of Economic and Business Affairs	29
	A. The European Regional Fund.....	30
	B. The European Social Fund	35
VII.	Project subsidies under four ministries	37
VIII.	EU expenditure under the Ministry of Taxation.....	40
	Appendix – Glossary	47

This report is submitted to the Public Accounts Committee in accordance with section 17(2) of the Auditor General's Act, cf. consolidated act no. 3 of 7 January 1997 as amended by act no. 590 of 13 June 2006.

The report concerns the following sections of the Fiscal Act: section 7 - The Ministry of Finance, section 8 - The Ministry of Economic and Business Affairs, section 9 - The Ministry of Taxation, section 19 - The Ministry of Science, Technology and Innovation, section 23 - The Ministry of the Environment, section 24 - The Ministry of Food, Agriculture and Fisheries, section 29 - The Ministry of Climate and Energy and section 38 - Taxes and duties.

The ministers of certain ministerial areas have been replaced during the fiscal year 2009. Several of the audit cases referred to in this report have roots in previous accounting years, including factors that are mentioned in the Final report on the audit of the state accounts or the Report on the audit of the state accounts concerning previous accounting years. Rigsrevisionen has therefore decided not to refer to any of the ministers by name.

I. Opinion on the audit of EU funds in Denmark in 2009

Introduction

1. Rigsrevisionen has issued an opinion and report on the audit of EU funds in Denmark in 2009. The opinion and the report have been submitted to clarify Rigsrevisionen's overall assessment of the financial administration of EU funds in Denmark.

The report provides a coherent assessment of the financial administration of EU funds in Denmark and presents the audit findings upon which the opinion is founded. EU funds are significant and are attracting much interest from the European Commission (the Commission) and the European Parliament (the Parliament). Rigsrevisionen is cooperating and sharing knowledge with the Supreme Audit Institutions of the EU Member States and with the European Court of Auditors (the Court) in an effort to enhance the control and management of EU funds. This report can contribute to enhancing the control and management of EU funds in Denmark.

OPINION ON THE AUDIT OF EU FUNDS IN DENMARK IN 2009

In the opinion of Rigsrevisionen, the 2009 financial statement of EU revenue and EU expenditure has been prepared in accordance with the government accounting rules. The financial statement gives a true and fair view of revenue and expenditure in the financial year under review and of the financial position at the end of the financial year.

On the basis of the audit findings, Rigsrevisionen is of the opinion that taken as a whole, the transactions underlying the 2009 financial statement of EU revenue and expenditure are legal, regular and in compliance with the provisions laid down by the Commission and the Council of the European Union (the Council).

Emphasis of matter was made concerning the audit of the Single Payment Scheme and the previous hectare aid scheme as follows:

In the last couple of years, the Commission has opened proceedings against Denmark in the common agricultural policy area, and depending on the outcome of the proceedings, Denmark may be forced to repay previously received EU funding. The exclusion of expenditure from co-funding by the EU budget concerns primarily the Single Payment Scheme and the previous hectare aid scheme:

- The weaknesses of the Single Payment Scheme have lead the Commission to exclude expenditure concerning the field-block index and control of size of farmland, cross compliance control and the control of payment entitlements. The Danish authorities have been in continuous dialogue with the Commission and have managed to reduce the amount of the imposed financial correction to approximately EUR 26 million. The Ministry of Food, Agriculture and Fisheries has on 26 October 2010 submitted a document on the exclusion of expenditure to the Finance Committee under the Danish Folketing (parliament).
- In compliance with the EU regulations, repayment of EUR 101 million concerning the former hectare aid scheme has already been effected as the Commission has set off the amount against the reimbursement of eligible costs declared by FødevarerErhverv (the Food Agency) in 2009. The amount is included in the Danish state accounts for 2009 as negative revenue. However, the Danish authorities do not agree with the imposed financial correction and have brought the case before the EU Court. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area and bringing the case before the EU Court is considered justified by Rigsrevisionen.

II. Introduction and results

2. The report is about the audit of EU funds in Denmark in 2009, i.e. the audit of revenue received from the EU (EU revenue) and contributions made to the EU (EU expenditure).

Seen from the perspective of the EU, the Danish revenue and expenditure will be considered as expenditure and revenue, respectively. In this report, Rigsrevisionen has decided to view matters from Denmark's perspective. The definition of revenue and expenditure is thus in compliance with the definition contained in the Danish state accounts.

3. The audit performed in 2009 included EU revenue received through agricultural subsidy schemes under the Ministry of Food, Agriculture and Fisheries, and through the European Regional Fund and the European Social Fund (the structural funds) under the Ministry of Economic and Business Affairs.

The structural funds, the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development, of which the latter two are financing the majority of EU revenue from the agricultural schemes, are part of the EU budget and not funds in the traditional legal sense of the word.

4. The audit included also project subsidies granted directly from the Commission to institutions under the four ministries, and EU expenditure under the Ministry of Taxation.

5. The objective of the examination was to assess the quality of the financial administration of EU funds in Denmark.

The report answers the following four questions:

- Has the financial administration of agricultural subsidy schemes been satisfactory?
- Has the financial administration of structural funds been satisfactory?
- Has the financial administration of project subsidies been satisfactory?
- Has the financial administration of EU expenditure been satisfactory?

MAIN FINDINGS AND CONCLUSIONS

In the opinion of Rigsrevisionen, the 2009 financial statement of EU revenue and EU expenditure has been prepared in accordance with the government accounting rules. The financial statement gives a true and fair view of revenue and expenditure in the financial year under review and of the financial position at the end of the financial year.

On the basis of the audit findings, Rigsrevisionen is of the opinion that taken as a whole, the transactions underlying the 2009 financial statement of EU revenue and expenditure are legal, regular and in compliance with the provisions laid down by the Commission and the Council of the European Union (the Council).

Emphasis of matter was made concerning the audit of the field-block index and control of size of farmland, the cross-compliance control, the control of payment entitlements and the previous hectare aid scheme.

Rigsrevisionen's assessment is based on the following findings:

Generally, the financial administration of the agricultural subsidy schemes is satisfactory, whereas parts of the administration of the field-block index and the control of size of farmland, the cross-compliance control and the control of payment entitlements is not entirely satisfactory. Yet Rigsrevisionen is of the opinion that improvements have been made in these areas.

Single Payment Scheme

- Overall, Rigsrevisionen considers the EU financial statement of the Single Payment Scheme 2009 to be correct. In 2009, payments from the Single Payment Scheme amounted to approximately EUR 1 billion.
- Like in previous years, the audit of the control of size of farmland disclosed that support had been granted to areas that were not eligible, and to blocks that were not correctly defined. However, the audit performed in 2009 also showed that the control of size of farmland has improved. For instance, the quality of registrations in the field-block index has improved, and spot checks of the remote-sensing control also showed improvements over previous years.
- The audit of the cross-compliance control disclosed, like in previous years, that for instance the quality of the risk analyses and control reports provided by the municipalities was not entirely satisfactory. Furthermore, many of the control results had not been reported to the Food Agency within the deadline of two months after the control visit.
- Rigsrevisionen has established irregularities relating to the allocation of payment entitlements to farmers in 2005 when the Single Payment Scheme was implemented. The Food Agency has therefore reviewed the field blocks in order to establish the scope of incorrect payment entitlements allocated in 2005. The review is expected to result in re-calculation of payment entitlements allocated to approximately 900 farmers.

- Rigsrevisionen finds it satisfactory that the Ministry of Food, Agriculture and Fisheries has launched the project "Enhanced control" which is expected to improve the control of farmland size and the cross-compliance control significantly. The Ministry of Food, Agriculture and Fisheries has moreover informed Rigsrevisionen that the quality of risk analyses and control reports relating to cross-compliance control has improved significantly in 2010, and the Food Agency is receiving control results much earlier than before. Rigsrevisionen will continue to monitor the initiatives taken to improve the control of size of farmland and cross-compliance control.
- The scope of the errors and irregularities relating to the field-block index and control of size of farmland, the cross-compliance control and the control of payment entitlements is so limited that it does not cause Rigsrevisionen to change its overall assessment of the financial statement of the Single Payment Scheme as being correct.

Exclusion of expenditure

- The weaknesses of the Single Payment Scheme have led to exclusion of expenditure concerning the field-block index and control of size of farmland, cross compliance control and the control of payment entitlements. The Danish authorities have been in continuous dialogue with the Commission and have managed to reduce the amount of the imposed financial correction to approximately EUR 26 million. The Ministry of Food, Agriculture and Fisheries has on 26 October 2010 submitted a document on the exclusion to the Finance Committee under the Danish Folketing.
- In compliance with the EU regulations, repayment of EUR 101 million concerning the former hectare aid scheme has already been effected as the Commission has set off the amount against the reimbursement of eligible costs declared by the Food Agency in 2009. The amount is included in the Danish state accounts for 2009 as negative revenue. However, the Danish authorities do not agree with the imposed financial correction and have brought the case before the EU Court. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area and bringing the case before the EU Court is considered justified by Rigsrevisionen. The Danish authorities and the Commission have filed a reply with and submitted a rejoinder to the EU Court, respectively, and a date will now be set for an oral hearing of the case.
- The amounts that have been disqualified from reimbursement are significant, and emphasis of matter has therefore been made by Rigsrevisionen in the accounts for 2009 in this respect.

Other agricultural support schemes

- In the opinion of Rigsrevisionen, the EU financial statement of other agricultural support schemes is generally correct. Payments made from the schemes amounted to approximately EUR 0.1 billion in 2009.
- The audit of the rural development programmes, the job creation programme and the programme concerning attractive quality of life in rural areas showed that satisfactory business procedures and internal controls had been established in the audited areas.

In the opinion of Rigsrevisionen, the financial administration of funds from the European Regional Fund and the European Social Fund is generally satisfactory.

The European Regional Fund

- In the opinion of Rigsrevisionen, the EU financial statement of the European Regional Fund is generally correct. In 2009, payments made from the fund amounted to approximately EUR 66 billion.
- Rigsrevisionen finds that the financial administration of grants performed by the Danish Enterprise and Construction Agency (DECA) has been satisfactory, as have the business procedures and internal controls established by the Agency. Rigsrevisionen is also of the opinion that the Agency's financial administration of environmental projects financed by the Regional Fund programme in the period 2007 to 2013 has been satisfactory.
- Rigsrevisionen has with the Gdansk office of the Polish Supreme Audit Office conducted a joint audit of environmental projects in the region of Pomerania and in Denmark, respectively. The audit showed that the Regional Fund programme provides Member States with the opportunity to pursue different objectives, which explains the different approaches taken to environmental issues in eDenmark and Pomerania.

In Pomerania, the objective of the projects established under the Regional Fund programme's goal 2: "The environment and risk prevention" was to achieve a positive effect on the environment. In Denmark, environmental issues were considered across all Regional Fund projects.

In Pomerania measurable and concrete environmental indicators were linked to the implementation of each individual project, whereas the Danish environmental indicators were not related to specific projects, but were more broadly formulated and aimed at all projects that were receiving funds from the Regional Fund. In the joint audit the approach adopted by the region of Pomerania was emphasized as an example of good practice.

- The joint audit provided other examples of good practice:
 - In Denmark, the electronic grant administration system, TAS, helps to ensure administrative efficiency, as the system is used by the regional growth fora, DECA as well as the private auditing firm that is certifying the accounts.
 - DECA has in Denmark developed a project database for its website; it contains various data on all the projects that are receiving funds from the European Regional Development Fund. Rigsrevisionen finds the database informative as well as easy to use, and therefore well suited to disseminate information on the projects and ensure transparency of the allocation of funds.
- The Danish audit disclosed that neither the application form nor the underlying guidance material issued by DECA specifies how the environmental indicators should be interpreted. Nor is the material providing details on the assessed impact of the indicators on the environment. This is considered unsatisfactory by Rigsrevisionen.

The European Social Fund

- In the opinion of Rigsrevisionen, the EU financial statement of the European Social Fund is generally correct. Payments made from the fund amounted to approximately EUR 31 million in 2009.
- Rigsrevisionen's assessment is based on the Court's conclusion that the management control procedures established by DECA and the system-based audits performed by the controllers of DECA function satisfactorily. Furthermore, Rigsrevisionen has attached importance to the fact that the administration of the European Social Fund in the current programming period is following the administrative guidelines laid down for the European Regional Development Fund, and the financial administration of project subsidies is in this respect considered satisfactory by Rigsrevisionen.

In the opinion of Rigsrevisionen, the financial administration of project subsidies received from the Commission is generally satisfactory.

- In the opinion of Rigsrevisionen, the EU project accounts presented under the Ministry of Economic and Business Affairs, the Ministry of the Environment, the Ministry of Climate and Energy and the Ministry of Science, Technology and Innovation are generally correct. Project subsidy payments from the Commission to institutions under these four ministries amounted to approximately EUR 74 million in 2009.

In the opinion of Rigsrevisionen, the financial administration of EU expenditure under the Ministry of Taxation is generally satisfactory. However, there are still errors in the customs declarations, but the errors are minor in terms of amounts and the companies are settling too much as well as too little duty.

- According to Rigsrevisionen's assessment, the financial statement of EU expenditure under the Ministry of Taxation is generally correct. However, the audit disclosed certain irregularities concerning customs declarations. The EU expenditure, which is Denmark's contribution to the EU, amounted to a total of approximately EUR 2.5 billion in 2009.
- Audits performed in the past few years have disclosed many errors in the customs declarations. The errors are small in terms of amounts and the companies alternately settle too much and too little duty. The companies are clearing customs electronically, which means that they via the internet report the data required to perform the clearance. The errors identified were caused by inadequate quality of the data reported by the companies.
- Rigsrevisionen is satisfied that SKAT (the Danish tax authorities) has implemented three projects, which through a mix of information and guidance directed at the companies, are meant to reduce the risk of error and improve the quality of the customs declarations. The three projects are as follows: "Large companies" involving direct communication with the 20 companies that are responsible for most of the errors in the customs declarations; "MoFia" involving spot-check monitoring and correction of errors in customs declarations, and "Compliance customs duty" involving spot checks of the extent to which the companies are complying with the rules. Rigsrevisionen finds that the focus areas of the three projects have contributed to enhancing the quality of customs declarations.

- Rigsrevisionen is of the opinion that SKAT needs to continue its efforts to reduce the error rate in the customs declarations. Rigsrevisionen approves of the decision to make spot-check monitoring and correction of errors in the customs declarations in the form introduced under the MoFia project a permanent feature, and believes that it will have a positive effect on the error rate.

III. Introduction

A. Objective and methodology

6. This report is about the audit of EU funds in Denmark in 2009, i.e. the audit of revenue received from the EU (EU revenue) and contributions made to the EU (EU expenditure).

Seen from the perspective of the EU, the Danish revenue and expenditure will be considered as expenditure and revenue, respectively. In this report, Rigsrevisionen has decided to view matters from Denmark's perspective. The definition of revenue and expenditure is thus in compliance with the definition contained in the Danish state accounts.

7. Rigsrevisionen plans and performs the audit of EU funds in accordance with the materiality and risk considerations that are applying to the audit of government funds. Rigsrevisionen complies with good public auditing practice and basically applies the audit methods used for the auditing of government funds in general, i.e. systems-based auditing and sample substantive auditing.

8. The audit of the EU funds is performed by Rigsrevisionen in cooperation with and through supervision of the internal auditors and in cooperation with relevant controllers and the Court. Being the external auditor, Rigsrevisionen has the overall responsibility for the audit of EU funds in Denmark.

The audit of agricultural and fisheries subsidies, which are both administered by the Food Agency, is performed in a cooperation between Rigsrevisionen and the internal auditor of the Food Agency, cf. the section 9 agreement entered between the Minister of Food, Agriculture and Fisheries and the Auditor General.

The audit of the Social Fund and the Regional Fund is carried out by Rigsrevisionen in cooperation with the controllers of DECA. The results of the work carried out by the controllers are included in Rigsrevisionen's assessment of materiality and risk.

The audit of EU expenditure administered by SKAT, and including GNI-based contributions, VAT-based contributions, customs duties and agricultural fees and levies, is performed by Rigsrevisionen in cooperation with the internal auditors of the Ministry of Taxation, cf. the section 9 agreement entered between the Minister of Taxation and the Auditor General.

9. Rigsrevisionen also supervises the work performed by the internal auditors which, in the opinion of Rigsrevisionen, is generally satisfactory and thus underpinning Rigsrevisionen's assessment of the annual accounts. The overall assessment of the accounts is based on audits performed by Rigsrevisionen, audits performed in cooperation with the internal auditors and audits performed by the internal auditors.

10. Rigsrevisionen cooperates with the Court and participates in the Court's audits in Denmark. It appears from article 248 of the EC Treaty that audits performed by the Court in the Member States should be conducted in cooperation with the national Supreme Audit Institutions. The Court and Rigsrevisionen are both independent external auditors of EU funds.

Rigsrevisionen is cooperating and sharing knowledge with the Supreme Audit Institutions in the Member States in an effort to improve the control and administration of EU funds. The cooperation takes place, for instance within the framework of the EU contact Committee, where also the Court is represented.

Rigsrevisionen is also keeping informed of the results of the Commission's control visits with the entities that are responsible for the administration of EU funds in Denmark. The findings relating to these control visits are also taken into consideration when Rigsrevisionen is planning its audit of EU funds in Denmark.

11. A draft version of the report has been presented to the Ministry of Finance, the Ministry of Economic and Business Affairs, the Ministry of Taxation, the Ministry of Science, Technology and Innovation, the Ministry of Food, Agriculture and Fisheries and the Ministry of Climate and Energy. The comments made by the ministries to the report have to the widest possible extent been incorporated into this final version of the report.

B. Objective and international audit cooperation

Objective

12. The objective of the examination was to assess the quality of the financial administration of EU funds in Denmark.

The report answers the following four questions:

- Has the financial administration of agricultural subsidy schemes been satisfactory?
- Has the financial administration of structural funds been satisfactory?
- Has the financial administration of project subsidies been satisfactory?
- Has the financial administration of EU expenditure been satisfactory?

The assessment of the four areas of accounting is based on the following three criteria:

- Are the financial statements of EU revenue and expenditure correct, i.e. without material error and deficiencies?
- Have the ministries established business procedures and internal controls, which to the widest possible extent ensure that the transactions underlying the 2009 accounts are in compliance with appropriations, legislation and other provisions, agreements made and general practice?
- Are the business procedures and internal controls in the ministries achieving their objectives and meeting the standards set for good administration of subsidies, and thereby contributing to ensuring that the financial statements are correct?

13. On the basis of the examination, Rigsrevisionen has issued an opinion on the audit of EU funds in Denmark. The opinion is included in chapter 1.

14. The examination does not include funds that private enterprises, private associations, etc. receive directly from the Commission, as these funds are not appropriated and are therefore not included in the state accounts. Subsidies received by the universities under the Ministry of Science, Technology and Innovation are not included in the state accounts either, but they are being referred to in the report, because the universities are audited by Rigsrevisionen.

15. The structural funds, the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development Fund are part of the EU budget and not funds in the traditional legal sense of the word. The latter two are financing the majority of EU revenue from the agricultural schemes.

International audit cooperation

16. In January 2010, Rigsrevisionen entered into a cooperation with the Gdansk office of the Polish Supreme Audit Office (NIK) concerning a joint audit of environmental projects in the Pomeranian region that had received subsidies from the European Regional Fund in 2009. The Gdansk office is responsible for the audit of the Pomeranian region. The objective of the audit was to assess whether the financial administration of subsidies received for environmental projects in 2009 in Denmark and Pomerania was satisfactory.

The purpose of performing the audit as a joint venture was to identify examples of good practice. Rigsrevisionen and the Gdansk office of the Polish Supreme Audit Office have each performed the audit relating to respectively Denmark and Pomerania, and have subsequently discussed and compared their audit findings in order to highlight examples of good practice.

IV. Statement of EU revenue and EU expenditure as included in the state accounts

17. In the state accounts for 2009, the Ministry of Finance has included a statement of the funds that Denmark has received from the EU (EU revenue) and the contributions that Denmark has made to the EU (EU expenditure). The statement appears from table 1.

**Table 1. EU revenue and EU expenditure in 2009
(EUR million)**

	Revenue	Expenditure
§ 6. The Ministry of Foreign Affairs	0.0	43.0
§ 8. The Ministry of Economic and Business Affairs	98.0	0.0
§ 9. The Ministry of Taxation	(0.2)	0.0
§ 11. The Ministry of Justice	0.7	0.0
§ 12. The Ministry of Defence	0.4	0.0
§ 15. The Ministry of the Interior and Social Affairs	0.0	0.0
§ 16. The Ministry of Health and Prevention	2.6	0.0
§ 17. The Ministry of Employment	1.1	0.0
§ 18. The Ministry of Refugee, Immigrant and Integration Affairs	1.3	0.0
§ 19. The Ministry of Science, Technology and Innovation	1.5	0.0
§ 20. The Ministry of Education	0.6	0.0
§ 21. The Ministry of Culture	0.7	0.0
§ 23. The Ministry of the Environment	6.8	0.1
§ 24. The Ministry of Food, Agriculture and Fisheries	1,155.8	42.2
§ 28. The Ministry of Transportation	1.9	0.1
§ 29. The Ministry of Climate and Energy	1.0	0.0
§ 38. Taxes, duties and levies	0.0	2,483.5
Total	1,272.4	2,568.9

As table 1 shows total revenue amounts to approximately EUR 1,272.4 million and total expenditure to approximately EUR 2,568.9 million.

Table 1 includes all EU expenditure but not all EU revenue as certain EU subsidies are not included in the state accounts like, for instance direct subsidies from the Commission to private organisations and independent institutions. Among these are EU subsidies amounting to approximately EUR 67 million for the universities. The universities have legal status as public independent institutions in Denmark and EU subsidies received by the universities are therefore not included in table 1 despite the fact that they belong under the Ministry of Science, Technology and Innovation.

EU revenue

18. It also appears from table 1 that the Ministry of Food, Agriculture and Fisheries is accounting for the largest revenue of EUR 1.2 billion. The Ministry of Food, Agriculture and Fisheries is administering subsidy schemes concerning agriculture, rural development and fisheries development. The Single Payment Scheme is accounting for most of the payments made to approximately 54,000 farmers annually. Payments made from the Single Payment Scheme are accounting for EUR 1 billion of the EUR 1.2 billion.

In 2009, agricultural subsidies amounting to approximately EUR 106 million were disqualified from reimbursement by the Commission. Approximately EUR 101 million of this amount can be related to the exclusion of expenditure concerning the former hectare aid scheme. In accordance with existing provisions the correction has already been set off against the reimbursement of eligible costs from the Commission despite the fact that the case has not yet been settled. The exclusion of expenditure is described in more detail in chapter V, section B. EU exclusion of expenditure.

19. The second largest revenue is represented by the funds that the Ministry of Economic and Business Affairs are receiving from the Regional Fund and the Social Fund. This revenue amounts to EUR 98 million of which EUR 67 million concerns funds received from the Regional Fund and EUR 27 million concerns funds received from the Social Fund. EU funds received by the remaining ministerial remits are mainly provided as project subsidies and amounting to a total of EUR 18.6 million.

EU expenditure

20. According to table 1, EU expenditure amounts to a total of approximately EUR 2,568.9 million. Taxes and duties (section 38) is accounting for approximately EUR 2,483.5 million or 97 per cent of the expenditure.

The remaining three per cent of the expenditure can primarily be referred to two ministerial remits; the expenditure of approximately EUR 43 million under the Ministry of Foreign Affairs consists mainly of Denmark's contribution to the European Development Fund (the fund is not financed through the EU's ordinary budget, but through direct contributions from the Member States).

Under the Ministry of Food, Agriculture and Fisheries, the expenditure of EUR 42.2 million concerns restructuring of levies relating to sugar. The levies are settled by the sugar Industry in the respective Members States and the Danish contribution is thus not charged to the Danish state accounts.

21. In table 2, EU expenditure under section 38 - Taxes and duties has been broken down on three elements:

Table 2. EU expenditure in 2009 under section 38 - Taxes and duties (EUR million)

GNI-based contribution	1,762
VAT-based contribution	448
Customs duties and agricultural fees and levies, excluding administration costs	273
Total	2,483

As indicated above, EU expenditure of approximately EUR 2,483 million consists of contributions based on gross national income (GNI-based budget contributions), VAT-based contributions and customs duties and agricultural levies. The EUR 273 million represents customs duties and agricultural fees and levies less 25 per cent for administrative expenditure.

Continued development of the EU accounts in Denmark

22. The Ministry of Finance has stated that the Ministry, following consultation with Rigsrevisionen, decided to include the statement of the contributions made by Denmark to the EU (EU expenditure) and the revenue that Denmark has received from the EU (EU revenue) in the 2008 and 2009 accounts. The purpose of the statement is to raise the quality of the information provided to stakeholders and the public on the allocation and application of EU funds. The Ministry of Finance continues its efforts to include an actual consolidated EU financial statement for Denmark in the state accounts in order to increase the informative value of the accounts.

23. Rigsrevisionen is satisfied that the Ministry of Finance, within the next few years, has committed to working out a consolidated EU financial statement similar to those elaborated by other Member States. The financial statement will comprise all EU funds that are included in the state accounts.

V. Agricultural subsidy schemes under the Ministry of Food, Agriculture and Fisheries

MAIN FINDINGS

Generally, the financial administration of the agricultural subsidy schemes is satisfactory, whereas the administration of the field-block index and the control of size of farmland, the cross-compliance control and the control of payment entitlements is not entirely satisfactory. Yet Rigsrevisionen is of the opinion that improvements have been made in these areas.

24. As mentioned in chapter IV, the Ministry of Food, Agriculture and Fisheries is accounting for approximately EUR 1,155.8 million of the total EU revenue of approximately EUR 1,272.4 million.

Most of this EU revenue is transferred to Denmark from three EU funds; the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development (the two agricultural funds) which are responsible for funding in the agricultural area, and the European Fisheries Fund which is responsible for funding in the fisheries area.

The Food Agency under the Ministry of Food, Agriculture and Fisheries is administering all support schemes regarding agriculture, rural development and fisheries.

Revenue received from the three EU funds in 2009 appears from table 3.

Table 3. EU revenue received from the agricultural funds in 2009 (EUR million)

The European Agricultural Guarantee Fund	1,057
The European Agricultural Fund for Rural Development	60
The European Fisheries Fund	38
Total	1,155

According to table 3 the European Agricultural Guarantee Fund is the largest with subsidy payments amounting to approximately EUR 1,057 million in 2009. The Single Payment Scheme is the largest scheme under the European Agricultural Guarantee Fund making annual payments to approximately 54,000 farmers. In 2009, subsidy payments from the Single Payment Scheme amounted to approximately EUR 1 billion.

It also appears from the table that in 2009, EU subsidy payments from the European Agricultural Fund for Rural Development and the European Fisheries Fund amounted to approximately EUR 60 million and EUR 38 million, respectively.

25. Rigsrevisionen has audited the Single Payment Scheme to assess whether the administration of the agricultural subsidy schemes is satisfactory. As mentioned above, the Single Payment Scheme is the largest scheme with subsidy payments amounting to approximately EUR 1 billion. Rigsrevisionen has also audited schemes under the Rural Development Scheme, which in total provided EU subsidies amounting to approximately EUR 60 million.

A. Single Payment Scheme

26. In the next sections, the audit findings relating to the following subjects will be reviewed:

- area control;
- cross-compliance control;
- substantive testing carried out by the Court;
- measures to improve the quality of area control and cross-compliance control in Denmark;
- clearance of accounts.

Area control

27. To receive subsidy payments, the farmer must be the owner of eligible farmland and hold a corresponding number of entitlements. Support is provided only to areas that are used for agricultural activities or are kept in good agricultural or environmental condition. To qualify for support, the farmer should submit an application to the Food Agency every year before 21 April.

28. Land used for agricultural activities (including grazing) is eligible for support under the Single Payment Scheme. The following areas are not eligible for support: fire lanes, property lines, windbreakers, natural areas like heather, areas overgrown with rush and other wetland plants, and areas that are not primarily used for agricultural activities or are planted with Christmas trees.

In Denmark, agricultural farmland is computed in blocks, consisting of one or more fields delimited by fixed, visible characteristics of the landscape like, for instance roads, streams and hedgerows. The fields making up a block have been measured and the data have been lodged into the Food Agency's block index.

29. The control of block size that is carried out by the Food Agency includes administrative control as well as visual inspections. The objective of the control is to ensure compliance with the eligibility requirements. Area control also includes checking the data provided by the farmers in the applications against the data held in the block index – this exercise is referred to as cross control.

The Food Agency compares the information on land size stated in the application with the data in the Food Agency's block index. The control performed by the Food Agency also includes checking whether the farmer is holding the required entitlements.

In the course of the year, the Agency performs spot checks of the data provided in the applications. The control is carried out either as remote sensing by the Faculty of Agricultural Sciences at Aarhus University or as physical GPS-based measurements performed by inspectors from the Plant Directorate.

30. In order to keep the field index updated, farmers are required to inform the Food Agency of any changes in the landscape that may influence the size of the eligible area in the blocks. The field index is also updated with changes identified during the visual inspections performed by the Plant Directorate and the results of remote sensing.

To assist the Food Agency in its work, the Agency has developed a web-based field map system, allowing the farmers, inspectors from the Plant Directorate and caseworkers from the Food Agency to plot fields and areas that should be deducted from the eligible areas into the digital field maps and submit requests for corrections of field sizes online.

In the opinion of the Commission, the quality of area control has improved

31. On a control visit to Denmark in the autumn of 2009, the Commission found that the Danish authorities, since its last visit, had made a considerable effort to exclude ineligible areas and delimit blocks correctly, which was reflected in the quality of the block index and the digital field maps.

However, the Commission detected a few cases where the Food Agency had failed to update the block index and digital field maps with the control data submitted by the Plant Directorate. The Commission was of the opinion that this could have an adverse impact on the effectiveness of the administrative cross control in subsequent years, i.e. the control of compliance between the information on land size stated in the applications and the data held in the block index.

32. In response, the Food Agency stated that as from 2009, it has systematically reviewed all results from the remote-sensing control and the suggestions made by the Plant Directorate concerning changes of blocks, including suggestions to adjust for ineligible areas. The Food Agency was therefore of the opinion that there was no evidence to support the Commission's assessment of the Danish cross control.

33. On its visit in 2009, the Commission also performed a control measurement of 78 fields for which farmers had received subsidy payments, and which had previously been checked by the Plant Directorate inspectors. The Commission found inconsistencies relating to 16 fields. The comments mainly concerned the fact that the Plant Directorate inspectors had failed to adjust for ineligible areas identified during their previous checks. The Commission therefore concluded that the procedure for on-the-spot checks was generally inadequate.

A closer review of these fields performed by the Food Agency, revealed that the inspectors had made errors relating to only seven fields and that the errors were generally very small and of practically no consequence to the subsidy received. The Commission's conclusion that the control procedures were generally weak was, against this background, considered excessive by the Danish authorities.

34. Rigsrevisionen notes that the Commission on its visit to Denmark in 2009 saw progress in the block index, but the Danish cross control and the physical control are still subject to severe criticism.

According to the Plant Directorate, the quality of remote-sensing control has improved in 2009

35. The Plant Directorate is implementing annual quality checks of remote-sensing controls that have previously been approved by the Faculty of Agricultural Sciences at Aarhus University. The control is performed as physical GPS-based measurements. In 2009, the quality checks comprised 40 applications and control measurement of 111 fields. Irregularities relating to deviations in field sizes that were not detected during remote-sensing, were detected in nine of the 40 previously approved applications, corresponding to 23 per cent.

This represents a significant improvement over 2008, where irregularities were detected in 15 of 32 applications, corresponding to 47 per cent. Unlike previous years, significant deviations were only identified in four of the nine applications, the deviation between the results of the remote-sensing and the control measurement was between 3 and 10 per cent, and the largest deviation corresponded to an area of 1,44 hectare.

36. The Plant Directorate also established that areas measured by remote sensing tend to appear larger than when the areas are control measured. This means that applications that have been approved on the basis of remote sensing risk being disqualified when the area measurements are being physically checked.

37. Rigsrevisionen finds it satisfactory that the remote-sensing control has been improved in 2009. Rigsrevisionen has also noted that the Food Agency, as a consequence of its "Enhanced control" project is expecting to enhance the quality of the remote-sensing method in the future, c.f. the section on measures to improve the quality of area control and cross-compliance control in Denmark.

Cross-compliance control

38. The implementation of the reform of the Common Agricultural Policy in 2005 introduced cohesion (cross compliance) between payment of subsidies to the farmers and the farmers compliance with national standards regarding the environment, health, animal welfare and the maintenance of all land in good agricultural and environmental condition. The direct support received by farmers may be reduced if they fail to comply with the provisions.

39. The Food Agency is responsible for coordinating cross-compliance control, whereas the municipalities and various government authorities are performing the control.

One per cent of all beneficiaries of direct support are spot checked every year. Direct support includes payments made under the Single Payment Scheme, support for protein and energy crops, starch potatoes, ewe and slaughter of bulls and steers and beneficiaries of area- and animal-based support under the rural development programme like, for instance the subsidy scheme for organic farming.

Farmers who are not complying with the cross-compliance requirements are reported to the Agency by the municipalities and the government authorities, and the Agency follows up on the reports.

Cross-compliance control was not entirely satisfactory

40. In 2007 and 2008, audits of the cross-compliance control performed by Rigsrevisionen showed that the quality of the risk analyses and control reports provided by the municipalities was not entirely satisfactory. Furthermore, the municipalities very often reported the control results long after deadline.

41. In 2008, the internal auditors of the Food Agency followed up on the cross-compliance control and issued a report on their audit findings in 2009. Based on this report, Rigsrevisionen has concluded that the quality of cross-compliance remains an area of concern.

According to EU regulations, the supervisory authorities are required to work out a risk analysis to ensure that the beneficiaries with the highest probability of infringing the regulations are included in the sample drawn for control. The internal audit concluded that several municipalities were unable to provide evidence that they had worked out a risk analysis, whereas others had failed to define the risk criteria according to which the sample had been selected.

Moreover, several municipalities had not used the template developed by the Food Agency to report the control data, not all control reports were of satisfactory quality and data were reported long after the deadline of two months after the visit of the supervising authorities.

42. The Food Agency has stated that it has taken over the preparation of risk analyses from the municipalities as from the beginning of 2010, and that the municipalities in 2009 had increasingly been using the required template for the reporting. The Food Agency is of the opinion that the quality of the risk analyses and control reports in 2010 has improved considerably. Lastly, the Food Agency has stated that the municipalities in the first nine months of 2010 have generally reported the control data within the deadline of two months after the visit of the supervising authorities.

Sample testing by the Court

43. Once a year, the Court submits to the Parliament and the Council a Statement of Assurance on the legality and regularity of the EU consolidated financial statements. The statement is called "DAS", which is short for "Déclaration d'Assurance".

Prior to the issues of the DAS, the Court audits a representative sample of projects in the Member States. A statistic random sample provides the beneficiaries for testing, most often farmers receiving subsidies under the Single Payment Scheme, which in terms of funds is the largest scheme in the EU. The audit includes measuring selected fields and comparing the results with the measurements and entitlements indicated in the applications.

The Court detected two minor errors on its audit visit to Denmark

44. Rigsrevisionen participated in the Court's audit of the financial year 2009. The three samples drawn were all beneficiaries under the Single Payment Scheme. The control measurements carried out by the Court showed minor deviations at two of the three farms that were being checked.

One error concerned over-declaration of eligible land (that the farmer had over-stated the size of land), whereas the other error concerned scission in connection with a transfer of entitlements, where the "new" entitlements had not been correctly registered by the farmer.

45. The audit findings provide the basis for the Court's statement of assurance, and are of no consequence to the farmers, unless the Food Agency decides to address the issues raised.

In this instance, the Food Agency decided to intervene and checked the farm where the size of land had been over-declared. The measurement performed on-the-spot showed that the farmer had over-stated eligible land by 2,16 hectare and he/she was instructed to repay approximately EUR 2,000 relating to payments received in 2008.

As regards the error concerning the use of the divided entitlement, the Food Agency concluded that it was a systemic weakness and a review showed that the same error occurred at 15 other farms. In 11 instances, farmers had received single payments for ineligible land. In the remaining four cases, the payment entitlements had not been utilised and single payments had therefore not been activated. The total value of divided entitlements that had been incorrectly registered, amounted to approximately EUR 2,600 in 2008.

46. Rigsrevisionen is satisfied that the Food Agency subsequently performed a full check of the farmer, sanctioned the over-declaration and reviewed all the cases where errors relating to scissions had been detected.

Measures to improve area control and cross-compliance control in Denmark*Initiatives launched by the Ministry of Food, Agriculture and Fisheries*

47. The Ministry has launched several initiatives to improve area control and cross-compliance control, which will be monitored by Rigsrevisionen, cf. Final report on the state accounts for 2008, page 261, items 4-11.

48. The initiatives launched by the Ministry of Food, Agriculture and Fisheries are based on Instrument No. 176 16/6 2009 according to which the Finance Committee endorses resources to recalculate payment entitlements and subsidy payments, update the block index and enhance the quality of checks performed on-the-spot. A total of approximately EUR 3.4 million was appropriated to strengthen these areas.

In consequence of the above, the Ministry of Food, Agriculture and Fisheries made an agreement with a consultancy firm to carry out an analysis, which in October 2009 pointed to a number of areas where the authorities could enhance the quality of administration and control to counter exclusions of expenditure in the future.

On the basis of the recommendations made in the analysis report and the initiatives that had already been launched under Instrument No 176, the Ministry of Food, Agriculture and Fisheries in November 2009 launched the project "Enhanced control" which will run until November 2011.

49. Rigsrevisionen has monitored the project "Enhanced control" and is providing a brief update on the project in the following sections.

50. The project "Enhanced control" is addressing the following subject areas:

- *IT support of the control procedure.* The Ministry has developed a programme which collects all significant data on cases that have been selected for sample checks, including updates on administrative control, remote-sensing control and on-the-spot checks.
- *The quality of field maps and remote-sensing.* The updating of all field blocks is progressing as planned and by the end of the 3rd quarter of 2010, two thirds of the approximately 300,000 blocks in Denmark had been updated. Furthermore, the Ministry has prepared a draft paper concerning transfer of the remote-sensing control in 2012 from the Faculty of Agricultural Sciences at Aarhus University to the Food Agency. The transfer is expected to enhance the quality of the remote-sensing method and improve the management and planning of remote-sensing control.
- *Legal quality assurance.* The EU regulations governing the control area, including areas where the risk of different interpretations is considered high, are currently being mapped. Efforts are also made to establish fixed procedures for the regulatory work involving, for instance quality assurance of EU regulations in guidance material, etc.
- *Coordination of control.* A control agreement, guidance and instructions have been prepared across the Ministry of Food, Agriculture and Fisheries and the Faculty of Agricultural Sciences at Aarhus University in order to improve coordination of control. The first part of a new concept designed to qualify the control of subsidies granted on the basis of land size.
- *Planning and quality of on-the-spot checks.* The Plant Directorate has established a control coordination unit, which has the overall responsibility for coordinating control activities. All the inspectors of the Plant Directorate were supervised during the spring of 2010 to ensure that checks are performed along the same guidelines, and in the summer of 2010, manning on 30 inspections was doubled. According to another new procedure introduced in 2010, aerial photographs that do not support observations made in the field will be supplemented by new photographs of the fields in question. Furthermore, the inspectors will get access to direct support over the phone to clarify issues and problems occurring in the field during their physical inspections.

- *Quality and management of the cross-compliance control.* The Food Agency has taken over the task of preparing risk analyses from the municipalities and the sample of farmers that the municipalities are required to check for cross-compliance as from 2010 is drawn by the Food Agency. Cooperation agreements entered with supervising authorities are adjusted annually. Moreover, the appropriate authorities are asked to submit their input to ensure continuous updating of the regulations governing cross-compliance.

The Ministry of Food, Agriculture and Fisheries has prepared time schedules for all projects and initiatives, and milestones and deadlines are updated regularly. According to the Ministry, the work is progressing as planned.

51. Rigsrevisionen is satisfied that the Ministry has launched the project "Enhanced control", which is expected to enhance the quality of area and cross-compliance control in important areas. Rigsrevisionen will continue to monitor the progress of the initiatives launched to improve area and cross-compliance control.

Recalculation of 900 cases will be completed by the end of 2010

52. With the introduction of the Single Payment Scheme in 2005, payment of direct agricultural support was made dependent upon the size of land held by the farmer in 2005 (payment entitlements). Subsequently, it turned out that not all areas were eligible for support according to the Single Payment Scheme like, for instance lakes, golf courses, airport grounds and built-up areas.

53. In consequence, the Food Agency decided to compare registrations of field sizes made in 2005 with registrations made in 2008. The comparison showed that payment entitlements relating to 34,000 of the total of approximately 300,000 field blocks in Denmark could have been incorrectly allocated. Based on a criterion of materiality, the Food Agency reviewed all blocks showing a deviation compared to 2005 of 10 per cent or 1 hectare. This exercise reduced the number of blocks involved from 34,000 to 7,000.

Following a thorough review of these 7,000 blocks, the Food Agency issued letters of hearing to the 1,800 farmers whose blocks needed to be recalculated. The farmers were thereby given an opportunity to object or forward evidence supporting their case if they disagreed with the Food Agency's rationale for reducing the amount of payment entitlements. The Food Agency has received approximately 1,000 responses to the hearing letters, and the Agency has accepted the objections made by approximately 600 farmers. The Agency is expecting to recalculate approximately 900 cases before the end of 2010.

54. Rigsrevisionen is satisfied that the Food Agency is expecting to complete its recalculation by the end of 2010.

Clearance of accounts

55. The Food Agency is administering and paying subsidies from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The Food Agency is, in EU terms, the paying agency. A private auditing firm is acting as the certifying authority and is auditing the accounts of the funds that are to be presented to the Commission, whereas the department under the Ministry of Food, Agriculture and Fisheries has the overall responsibility for the clearance of the accounts.

Figure 1 presents the three bodies and their tasks.



56. The clearance of accounts is largely based on the opinion issued by the private auditing firm on the financial statement of the paying agency. The Director General of the Food Agency is responsible for the paying agency and therefore also required to issue a statement confirming the correctness of the accounts of the paying agency and the existence of business procedures providing reasonable assurance of the legality and regularity of the underlying transactions.

57. The certifying authority and the paying agency have both issued unqualified opinions on the financial statements for 2009.

The Commission detected a few inconsistencies concerning the approval of the financial statements of the two agricultural funds for 2008 and 2009

58. The Commission visited Denmark in November 2009 to ascertain whether the approval of the financial statements of the two agricultural funds for 2008 and 2009 was in compliance with the EU regulations.

59. The certification of the accounts for 2009 and 2010 was signed by the competent body, but the Commission found that the certifying authority (the private auditing firm) contrary to the regulations had been appointed by the paying agency (the Food Agency) in the years 2006-2008, and not by the competent body (the department).

Furthermore, the Commission found that the certification made by the certifying authority was largely based on the work performed by the internal auditors of the paying agency. The Commission was of the opinion that the distribution of tasks between the internal auditors of the certifying authority and the paying agency, and the scope of audit resources applied should appear clearly from the audit report prepared by the certifying authority.

60. The Ministry of Food, Agriculture and Fisheries has taken note of the comments made by the Commission.

Overall assessment of the Single Payment Scheme in Denmark

61. Overall, Rigsrevisionen considers the EU financial statement of the Single Payment Scheme to be correct. In 2009, payments from the Single Payment Scheme amounted to approximately EUR 1 billion.

62. Like in previous years, the audit of the control of size of farmland disclosed that support had been granted to areas that were not eligible, and to blocks that were not correctly defined. However, the audit performed in 2009 also showed that the control of size of farmland has improved. For instance, the quality of registrations in the field-block index has improved, and spot checks of the remote-sensing control also showed improvements over previous years.

63. The audit of the cross-compliance control disclosed, like in previous years, that for instance the quality of risk analyses and control reports provided by the municipalities was not entirely satisfactory. Furthermore, many of the control results had not been reported to the Food Agency within the deadline of two months after the control visit.

64. Rigsrevisionen has detected irregularities relating to the allocation of payment entitlements to farmers in 2005 when the Single Payment Scheme was implemented. The Food Agency has therefore reviewed the field blocks in order to establish how many payment entitlements that were incorrectly allocated in 2005. The review is expected to result in recalculation of payment entitlements allocated to approximately 900 farmers.

65. Rigsrevisionen finds it satisfactory that the Ministry of Food, Agriculture and Fisheries has launched the project "Enhanced control" which is expected to improve the control of farmland size and the cross-compliance control in significant areas. The Ministry of Food, Agriculture and Fisheries has moreover informed Rigsrevisionen that the quality of risk analyses and control reports relating to cross-compliance control has improved significantly in 2010, and the Food Agency now receives the control results much earlier than before. Rigsrevisionen will continue to monitor the initiatives taken to improve the control of size of farmland and cross-compliance control.

66. The scope of the errors and deficiencies relating to the field-block index and control of size of farmland, the cross-compliance control and the control of payment entitlements is so limited that it does not cause Rigsrevisionen to change its overall assessment of the financial statement of the Single Payment Scheme as being correct.

B. EU exclusions of expenditure

67. The Commission may decide not to reimburse the full amount that the Member State has disbursed on behalf of the EU, if the country has failed to comply with EU regulations governing the particular area. This is referred to as exclusion of expenditure. The actual repayment is implemented through the application of a so-called flat-rate financial correction according to which a certain percentage of the subsidy amount received will not be reimbursed.

The Commission has in recent years tightened the requirements to the administration and control performed by the national authorities. In consequence, the Commission has increasingly refused to reimburse payments already made by Member States, and has imposed financial corrections on the respective Member States.

68. Pending cases in Denmark concern primarily the Single Payment Scheme and the former hectare aid scheme:

- the block index and area control in the period 2005 to 2009;
- payment entitlements in the period 2005 to 2009;
- cross-compliance control in the period 2005 to 2009;
- the area support scheme in the period 2002 to 2004.

69. The Commission sets off the excluded expenditure against the reimbursement, which the Food Agency would normally receive from the Commission to cover the expenditure of subsidy payments made to farmers.

Correction relating to the block index and area control in the period 2005 to 2009

70. The exclusion of expenditure relating to the block index and area control is caused by the weaknesses in the block system and in the checks performed on-the-spot that were detected by the Commission on its visit to Denmark in 2006.

In February 2010, the Commission presented its proposal for a correction relating to expenditure that had been excluded from reimbursement in 2005 and 2006. The Commission had concluded that Denmark should repay approximately EUR 40 million. A more accurate calculation of the potential errors in the areas where weaknesses had been found was performed in Denmark. The Ministry of Food, Agriculture and Fisheries and the Commission concluded that the correction could be estimated at approximately EUR 20 million and this amount has been accepted by the Ministry.

71. At this point, Denmark has not yet received any information on the size of the correction relating to 2007. The Ministry of Food, Agriculture and Fisheries has stated that the Ministry has been in dialogue with the Commission in an effort to reduce the amount of the correction. The scale of the expenditure that will be excluded is unknown, but is estimated to be in the region of EUR 1 to 3 million, but with a maximum of EUR 5 million.

72. Denmark has not received any notice of exclusions of expenditure in 2008 and 2009. The Ministry of Food, Agriculture and Fisheries has stated that the Ministry is in continuous dialogue with the Commission, and that the Commission has noted the improvements made, but maintains that there are still weaknesses in certain areas.

The Commission notes that the error rate for land set-aside and pastures is relatively high which, according to the Commission, should have been followed up with increased control. The Commission also concludes that this weakness has led to payment of support for ineligible areas. The Commission will continue its discussion of this subject with the Food Agency in order to find a method to determine the risk and scale of the possible correction.

Correction relating to control of entitlements in the period 2005 to 2009

73. With the introduction of the Single Payment Scheme in 2005, payment of direct agricultural support was made dependent upon the size of land held by the farmer in 2005 (payment entitlements). In 2008, the Commission examined whether the control of the allocation of payment entitlements was adequate.

74. According to the EU regulations, the beneficiary must be an active farmer and the farmland must be used for agricultural activities. At its visit, the Commission established that entitlements had been incorrectly allocated.

The Commission also established that support had been granted to areas that were not used for agricultural activities. For instance, the Commission detected that support had been provided to sports grounds, golf courses, camping sites and airports. The Commission concluded that the control system established by the Danish authorities was unable to perform a correct identification of areas that were not used for agricultural activities when the applications for support were being processed in 2005.

75. The Commission presented its proposal for a correction in July 2010. The Commission has calculated that expenditure amounting to approximately EUR 1.5 million should be excluded from reimbursement. The Ministry of Food, Agriculture and Fisheries has been in continuous dialogue with the Commission in order to reduce the size of the proposed correction. The Ministry of Food, Agriculture and Fisheries has decided not to bring the case before the Conciliation Body (whose task it is to reconcile differences between the Member States and the Commission) or before the EU Court.

Correction relating to control of cross-compliance in the period 2005 to 2006

76. On a control visit in 2006, the Commission detected that the Danish authorities had not defined any requirements concerning control, identification and registration of sheep, goats and pigs. The Commission also found that the Danish authorities did not comply in full with the regulations governing the requirements for good agricultural and environmental conditions.

77. The Commission found that the missing requirements and inadequate control procedures warranted a correction of approximately EUR 5.5 million. The Food Agency did not agree with the Commission and the case was brought before the Conciliation Body.

The Conciliation Body issued its report in April 2009, suggesting that the correction be reduced to EUR 4.4 million. The Commission accepted the Conciliation Body's proposal in March 2010 and the amount was set off against the Danish claims for reimbursement in May 2010.

Correction relating to hectare aid in the period 2002 to 2004

78. In the autumn of 2004, the Commission visited Denmark and detected weaknesses in the Danish control of compliance with the regulations concerning maintenance of land set-aside. Weaknesses were also, but to a lesser extent, detected in the performance of remote-sensing control. The Commission concluded that the Danish control had declared land that was set-aside eligible, in spite of the fact that it had not been maintained in accordance with regulations, had not been returned to nature or was unsuitable for cultivation and therefore used for unauthorised purposes.

79. Following the implementation of Agenda 2000, the Danish regulations were amended to the effect that specific requirements concerning maintenance of land in good agricultural condition were excluded, whereas the regulations concerning maintenance and protection of agricultural land were upheld.

The Danish authorities emphasized that with the implementation of Agenda 2000, protecting the environment was prioritized over maintaining land in good agricultural condition. Seen in that perspective, the Danish authorities considered the Danish regulations concerning maintenance of set-aside land, which did not include any requirements to mow emergent plants, to be in compliance with the EU regulations. Moreover, the main emphasis of the maintenance requirement was on the environmental aspects like, for instance concern for the nitrogen-fixing effect of the cover of vegetation and the ban on using fertilisers and pesticides.

80. The Commission insisted on repayment of EUR 102 million of the hectare aid funds that Denmark had received in the years 2002, 2003 and 2004. On the basis of the report issued by the Conciliation Body, the Commission on 19 March 2009 reduced the previously proposed correction from EUR 102 million to EUR 101 million.

The Conciliation Body, whose task it is to reconcile differences between the Member States and the Commission, is not a court and its decisions are not legally binding for the Commission. The Danish authorities still do not agree with the correction and have brought the case before the EU Court asking for an annulment, alternatively reduction of the correction.

81. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area and bringing the case before the EU Court is considered justified by Rigsrevisionen. The Danish authorities and the Commission have filed a reply with and submitted a rejoinder to the EU Court, respectively, and a date will now be set for an oral hearing of the case.

82. In compliance with the EU regulations, repayment of EUR 101 million concerning the former hectare aid scheme has already been effected as the Commission has set off the amount against the reimbursement of eligible costs declared by the Food Agency in 2009. The amount is included in the Danish state accounts for 2009 as negative revenue.

Overall assessment of EU corrections

83. The weaknesses of the Single Payment Scheme have led to exclusion of expenditure concerning the field-block index and control of size of farmland, cross compliance control and the control of payment entitlements. The Danish authorities have been in continuous dialogue with the Commission and have managed to reduce the size of the correction to approximately EUR 26 million. The Ministry of Food, Agriculture and Fisheries has on 26 October 2010 submitted a document addressing the correction to the Finance Committee under the Danish Folketing (parliament).

84. In compliance with the EU regulations, repayment of EUR 101 million concerning the former hectare aid scheme has already been effected as the Commission has set off the amount against the reimbursement of eligible costs declared by the Food Agency in 2009. The amount is included in the Danish state accounts for 2009 as negative revenue under direct agricultural support. The Danish authorities do not agree with the correction and have brought the case before the EU Court. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area and bringing the case before the EU Court is considered justified by Rigsrevisionen. The Danish authorities and the Commission have filed a reply with and submitted a rejoinder to the EU Court, respectively, and a date will now be set for an oral hearing of the case.

85. The amounts of excluded expenditure are significant, and emphasis of matter has therefore been made by Rigsrevisionen in the accounts for 2009 in this respect.

C. Other agricultural support schemes

86. The European Agricultural Fund for Rural Development is providing support to programmes established under the rural development policy.

The objective of the rural development policy is to improve the competitiveness of the agricultural and forestry sector, improve conditions for innovation and create local jobs in the rural areas, ensure the preservation of diverse landscapes, rich nature and a clean environment and ensure attractive living conditions in the rural areas which will increase cohesion between city and countryside.

In Denmark, various programmes have been established to implement the objectives of the rural development policy. In 2009, 18 programmes received support from the fund.

The two largest programmes appear from table 4.

Table 4. EU revenue in 2009 from the European Agricultural Fund for Rural Development (EUR million)

Job creation and attractive living conditions	15.5
Innovation and development within primary agriculture	14.1
16 other programmes	30.1
Total	59.7

It appears from table 4 that total subsidies amount to approximately EUR 59.7 million with the subsidies for job creation and establishment of attractive living conditions accounting for approximately EUR 15.5 million hereof. The objective of this programme is to promote projects aiming to make it attractive for working families to live in the countryside.

The second largest programme is focused on innovation and development in primary agriculture, and received EU funds amounting to approximately EUR 14.1 million. The objective of this programme is to promote innovation and sustainable farming.

The administration of the development programmes established under the rural development policy is generally satisfactory, but the criteria used for the allocation of subsidies are not clear

87. In 2009, Rigsrevisionen audited the development programmes established under the rural development policy. The audit included reviews of business procedures and internal controls concerning the schemes, and reviews of 15 selected projects.

88. Based on its review of the projects, Rigsrevisionen concluded that the administration of subsidies was generally satisfactory, but could be improved in some areas.

Rigsrevisionen was of the opinion that the many and broadly formulated criteria for allocation of subsidies had an adverse effect on the transparency of the Food Agency's procedure for assessment of applications. The practice of delegating the assessment of applications to members of staff combined with the many and broadly formulated criteria may result in great variations in the assessments.

89. The Food Agency has stated that according to a new statutory instrument, which has been effective since 1 July 2010, points will be awarded to the applications in accordance with a pre-determined system and the criteria underlying the points system will be published on the Food Agency's website prior to the application period. The Food Agency also stated that in the light of the introduction of the new points system, it will consider revising the current practise of delegating the assessment of applications.

Rigsrevisionen found this satisfactory.

The administration of the programme established to create jobs and attractive living conditions under the rural development policy is satisfactory

90. The internal auditors of the Food Agency have audited the programme established to create new jobs and attractive living conditions in the rural districts. The audit performed included a review of business procedures and internal controls and a review of 12 selected projects.

91. The internal auditors of the Food Agency concluded that the quality of the administration of project subsidies granted under the policy was satisfactory.

Overall assessment of the other agricultural support schemes in Denmark

92. In the opinion of Rigsrevisionen, the EU accounts for other agricultural support schemes in 2009 are generally correct. In 2009, payments made from the schemes amounted to approximately EUR 0.1 million.

93. The audit of the rural development policy and the programme designed to create new jobs and attractive living conditions in the rural areas showed that satisfactory business procedures and internal controls had been established in the areas that were examined.

VI. The structural funds under the Ministry of Economic and Business Affairs

MAIN FINDINGS

In the opinion of Rigsrevisionen, the financial administration of funds from the European Regional Fund and the European Social Fund is generally satisfactory.

94. The Danish Enterprise and Construction Authority (DECA), under the Ministry of Economic and Business Affairs, is responsible for the financial administration of the Danish funds received from the European Regional Fund and the European Social Fund (the structural funds). The revenue from the structural funds amounts to a total of EUR 98 million, of which EUR 67 million is relating to the European Regional Fund and EUR 31 million is relating to the European Social Fund, cf. chapter IV on the state accounts.

95. The European Regional Fund and the European Social Fund are both meant to contribute to achievement of the objectives set for sustainable growth, competitiveness and employment. In Denmark the structural funds are also meant to support the government's globalisation strategy. Support from the funds must be sought for specific projects. In order to qualify for support, the projects must demonstrate additionality which means that without funding from the structural funds they would not be implemented.

96. Rigsrevisionen has examined whether the administration of structural funds is satisfactory. To supplement its own audit, Rigsrevisionen has also reviewed the Court's audit report on the European Social Fund.

Joint audit with the Supreme Audit Institution of Poland

97. In January 2010, Rigsrevisionen entered into a cooperation with the Gdansk office of the Polish Supreme Audit Office concerning a joint audit of environmental projects in the Pomeranian region that had received subsidies from the European Regional Fund in 2009. The Gdansk office is responsible for the audit of the Pomeranian region.

The objective of the audit was to assess whether the financial administration of subsidies received for Danish and Pomeranian environmental projects in 2009 was satisfactory. The audit performed in Denmark was based on a sample of 15 environmental projects that received support from the European Regional Fund in 2009.

98. The purpose of performing the audit as a joint venture was to identify examples of good practice. Rigsrevisionen and the Gdansk office of the Polish Supreme Audit Office have each performed the audits relating to respectively Denmark and Pomerania, and have subsequently discussed and compared their audit findings in order to highlight examples of good practice.

A. The European Regional Fund

Budget

99. The European Regional Fund is operating with 7-year programming periods and the current programme period is running from 2007 to 2013. The Danish budget for the programme period appears from table 5.

Table 5. Budget for the Regional Fund programme in the period 2007 to 2013 (EUR million)

EU contribution	255
National contribution	255
Total	510

It appears from table 5 that the total budget is approximately EUR 510 million. Funds are distributed evenly over the seven years (annual budget of well over 14 per cent of total funds). The EU contribution accounts for approximately EUR 255 million corresponding to 50 per cent of the total expenditure relating to the Regional Fund projects.

For the sake of comparison, the region of Pomerania is receiving approximately three and a half times as much in funding from the Regional Fund.

100. National funding is provided by the state, municipalities, regions and private companies, etc. Just under 4 per cent of the budget, corresponding to EUR 20 million, is earmarked to cover the expenditure of the Danish authorities for technical assistance in connection with the development and implementation of the Regional Fund programme.

Administration

101. DECA is responsible for the administration of the Regional Funds. The allocation of funds is mainly performed by six regional growth fora. Representatives of the business sector, knowledge and educational institutions, the labour market and local and regional authorities all have seats in the fora whose tasks also include working out regional business development strategies and monitoring regional and local conditions of growth.

To ensure high quality and effective implementation of the Regional Fund programme, a monitoring committee has been set up. The composition of the committee reflects the composition of the regional growth fora, but is supplemented with representatives from various ministries.

102. For the entire life of the project, the grant recipient must report project progress to DECA every six months, and interim and final project accounts must be audited by a private auditing firm appointed by DECA for the entire programming period.

Environmental objectives

103. In compliance with a directive from the Parliament and the Council, DECA has performed an environmental assessment of the Danish Regional Fund programme, and has subsequently decided to focus on four environmental indicators and one environmental objective. The environmental assessment, including the environmental indicators and the overall environmental objective, has been approved by the EU Directorate-General for the Environment.

According to the environmental objective set by Denmark, which is applying to all projects for the entire programme period, at least 70 per cent of the funding will be allocated to projects with a positive or zero impact on the environment.

104. In compliance with the statutory order issued by the Parliament and the Council concerning regional competitiveness and employment, funds from the European Regional Fund should primarily be directed towards the following areas:

- innovation and knowledge economy;
- the environment and risk prevention;
- access to transport and telecommunication services of general economic interest.

Denmark's Regional Fund programme for the period 2007 to 2013 is focused on three key areas under the objective "Innovation and knowledge economy":

- innovation, knowledge sharing and knowledge building;
- establishment and development of new enterprises;
- use of new technology.

105. Denmark has decided to focus on innovation and knowledge economy rather than on the objectives concerning the environment and risk prevention. However, the concern for the environment along with equal opportunities, employment and territorial considerations (peripheral areas, towns and cities, and rural districts) are integrated in the three focus areas mentioned above. The horizontal consideration of these areas means that when choosing between two projects of otherwise equal merit, the project which has the greatest positive impact in relation to the horizontal considerations will be selected.

106. The region of Pomerania has decided to focus on environmental considerations and is therefore operating in two key areas under the objective "The environment and risk prevention".

Sampling of projects

107. Rigsrevisionen reviewed a sample of 15 projects that had received EU funding in 2009. The sample was drawn on the basis of information provided in the applications as to whether the respective project was meant to have a positive impact on the environment beyond what is required by national environmental legislation. In this context, the environment refers to the physical, chemical and biological factors that are determining whether animals and plants are thriving.

Audit findings

Enhanced administrative efficiency as a result of access to a joint administrative system

108. Project applications are handled by the secretariats of the regional growth fora and by DECA, whereas the interim and project accounts are reviewed by DECA and an appointed private auditing firm. Status reports and final reports are reviewed by DECA.

Project applications are processed in accordance with available guidelines and mandatory checklists. The case processing performed by the secretariats as well as DECA is based on and loaded into the electronic system for administration of subsidies called "TAS". The appointed auditing firm has access to restricted parts of TAS.

109. Rigsrevisionen is of the opinion that the administrative procedures are satisfactory. The fact that the regional growth fora as well as the appointed auditing firm and DECA all have access to TAS enhances the efficiency of administration.

The application of the TAS system in Denmark was for the same reason highlighted as an example of good practice in the joint audit with the Polish Gdansk office.

Requirements to the environmental assessment method

110. Applicants are required to include an assessment in their application for support as to whether the impact of their project on the environment is expected to be positive or negative. If that is the case, the applicant will be asked to provide information on four specified environmental indicators and on any other possible effect of the project.

The indicators appear from table 6.

Table 6. Environmental indicators in the Regional Fund programme 2007-2013

- | |
|--|
| <ol style="list-style-type: none"> 1. Number of trips into protected areas. 2. Areas to which semi-liquid manure is applied in connection with bio-gas plants for which programme support has been provided. 3. Quantity of CO2 "saved" of which derived from traditional combustion. 4. Quantity of energy extracted from renewable sources/"saved" on non-renewable sources. 5. Other effect. |
|--|

111. Rigsrevisionen established that DECA, neither in the application nor in the underlying guidance material, has explained how the indicators should be interpreted and defined. Nor has DECA provided details on the assessed impact of the indicators on the environment.

This means that the applicants, for instance under environmental indicator no. 2 above, receive no guidance on the connection between semi-liquid manure and bio-gas plants, and are not informed of the background for the assessment of the positive or negative impact on the environment of projects in this category.

112. Rigsrevisionen is not finding it satisfactory that DECA has failed to specify how the indicators should be interpreted and what their assessed impact on the environment is. Inadequate guidance on the interpretation and definition of the indicators increases the risk of inaccurate information being provided in the applications.

113. DECA has stated that it will improve the guidance on environmental indicators in connection with the ongoing general review of the application form. Rigsrevisionen finds this satisfactory.

114. Rigsrevisionen also established that DECA has not defined any requirements to the assessment method, nor are the applicants required to provide information on this subject in their applications. Rigsrevisionen finds the lack of transparency in this area unfortunate.

Rigsrevisionen recommended that DECA should reconsider the methods used to assess the environmental objectives and the environmental indicators, at the very latest in connection with the evaluation of the complete programme period. In certain cases, DECA should also consider transferring the responsibility for the assessment and subsequent measurement of the environmental impact of projects from the applicant to an independent body.

115. Rigsrevisionen finds it positive that DECA has for the first time commissioned an environmental assessment of the Regional Fund programme and set up environmental indicators and objectives. However, Rigsrevisionen also established that the Monitoring Committee and DECA are not monitoring the achievement of the environmental objective in order to adjust the assessment and prioritization of future applications and thereby ensure achievement of the objective.

DECA has stated that in future annual reports, it will inform of its proactive follow-up on achievement of the environmental objective and progress made. Rigsrevisionen finds this satisfactory.

116. Subsidy payments are released only if the objective of the project has been achieved. However, in relation to projects established under the environmental objective, applicants are not required to achieve the environmental impacts indicated in their applications to receive the subsidy.

117. DECA has informed Rigsrevisionen that it finds it difficult to include the environmental impact as an absolute requirement, because the Danish Regional Fund programme is not operating with specific measures directed at environmental projects, but is instead considering environmental aspects horizontally in all projects under the programme.

Rigsrevisionen agrees with DECA that the special character of the environmental objective as a horizontal consideration has a bearing on whether its achievement should be an absolute requirement.

118. Rigsrevisionen has not assessed whether the environmental objective is ambitious and realistic, but has established that according to DECA more than 98 per cent of the funds committed by the end of 2009 are allocated to projects which, according to information provided by the applicants, have a positive or zero impact on the environment.

Environmental considerations in Denmark and Pomerania

119. The joint audit showed that the Regional Fund programme provides Member States with the opportunity to pursue different objectives, which explains the different approaches taken to environmental issues in Denmark and Pomerania.

In the region of Pomerania, achieving a positive impact on the environment was the objective of the projects established under goal 2 of the Regional Fund programme "The environment and risk prevention". Pomerania focused on, for instance projects that were aiming to produce a well defined positive environmental impact.

In Denmark, on the other hand, concern for the environment was incorporated horizontally in all the Regional Fund projects established under goal 1 of the programme "Innovation and knowledge economy". The projects sampled for audit by Rigsrevisionen were demonstration and development projects in the environmental area, which generally involved new application of known technology or cooperation between players who had not previously considered merging their competencies and products.

120. In Pomerania measurable and concrete environmental indicators were linked to the implementation of each individual project, whereas the Danish environmental indicators were not related to specific projects, but were more broadly formulated and aimed at all projects that were receiving funds from the Regional Fund. In the joint audit, the approach adopted by the region of Pomerania was emphasized as an example of good practice.

Novelty value of projects

121. In accordance with guidelines drawn up by DECA, the projects should, to the widest possible extent, have novelty value on a regional as well as national level. Novelty value in this context means that the projects should add or demonstrate new features that will encourage the beneficiary or other interested parties to continue the project or activities related to the project after the end of the programming period.

122. To support this ambition, DECA's website is providing access to a database containing information on all projects established under the European Regional Fund in the current programming period.

Rigsrevisionen established that the project database contained updated information on the 15 environmental projects. Rigsrevisionen finds the database informative as well as easy to use and therefore well suited to disseminate information on the projects and ensure transparency of the funding allocation procedure.

123. The project database on DECA's website was highlighted as an example of good practice in the joint Polish/Danish audit for the reasons listed above.

Enhancements relating to the management of the projects

124. In connection with its audit of the former programming period (2000 to 2006), Rigsrevisionen recommended that DECA should emphasize further the need to include objectives and defined measurable criteria of success in the applications, as this will enhance management of the projects.

125. Rigsrevisionen found that progress had been made in this area. Project applicants are now required to supplement information on the objective of the project with data on main activities and milestones (interim results/impacts) and include a time schedule. DECA has also included questions on impact in the application form, and applicants are now asked to provide information on the assessed impact of the project in a number of areas.

With the adjustment of the application form and underlying guidance material emphasizing the importance of including concrete objectives and data on assessed impacts in the project applications, DECA has made a huge effort to enhance the management of projects. Rigsrevisionen finds the progress made in the area very satisfactory.

Based on its review of the 15 project applications, Rigsrevisionen is of the opinion that the efforts made by DECA have enhanced the quality of the information provided by the applicants on objectives and impacts.

Overall assessment of funds received from the Regional Fund

126. In the opinion of Rigsrevisionen, the EU financial statement of the European Regional Fund in 2009 is correct. Payments made by the fund amounted to approximately EUR 67 million.

127. Rigsrevisionen finds DECA's financial administration, business procedures and internal controls satisfactory. Rigsrevisionen also finds DECA's administration of environmental project subsidies granted under the Regional Fund programme in the period 2007 to 2013 satisfactory.

128. Rigsrevisionen has with the Gdansk office of the Polish Supreme Audit Office, conducted a joint audit of environmental projects in the region of Pomerania and Denmark, respectively. The audit showed that the Regional Fund programme provides Member States with the opportunity to pursue different objectives, which explains the different approaches taken to environmental issues in Denmark and Pomerania.

In Pomerania, the objective of the projects established under the Regional Fund programme's goal 2 "The environment and risk prevention" is to achieve a positive effect on the environment. In Denmark, on the other hand, environmental issues were considered horizontally across all Regional Fund projects.

In the Pomeranian region measurable and concrete environmental indicators were linked to the implementation of each individual project, whereas the Danish environmental indicators were not based on specific projects, but were more broadly formulated and aimed at all projects that were receiving funds from the Regional Fund. In the joint audit, the approach adopted by the region of Pomerania was emphasized as an example of good practice.

129. The joint audit also identified other examples of good practice:

- In Denmark, the electronic grant administration system, TAS, contributes to ensuring administrative efficiency, as the system is used by the regional growth fora, DECA as well as the appointed private auditing firm that is certifying the accounts.
- In Denmark, DECA has developed a project database for its website providing information on all the projects that are receiving funds from the European Regional Development Fund. Rigsrevisionen finds the database informative as well as easy to use, and therefore well suited to disseminate information on the projects and ensure transparency of the funds allocation procedure.

130. As regards the Danish audit, Rigsrevisionen is not finding it satisfactory that DECA, neither in the application nor in the underlying guidance material, has explained how the indicators should be interpreted and defined. Nor has DECA provided details on the assessed impact of the indicators on the environment.

B. The European Social Fund

131. Rigsrevisionen intends to monitor the impact of the initiatives launched by the Minister of Economic and Business Affairs to improve certain business procedures and internal controls concerning the administration of the European Social Fund, cf. Final report on the state accounts for 2008, page 262, items 15-19.

132. The initiatives launched by the Minister concerned mainly operational objectives set for the Social Fund projects and the consistency of the recommendations that the regional growth fora are submitting to DECA.

These initiatives were launched quite recently and Rigsrevisionen has therefore decided to postpone the review of progress made to 2010. Rigsrevisionen's decision to do so is founded on the fact that the financial administration of the European Social Fund in the programming period 2007-2013 is following the overall guidelines that are applying to the administration of the European Regional Fund, and that Rigsrevisionen, as indicated above, has audited the guidelines in 2009.

133. In accordance with the EC Treaty, the Court submits a Statement of Assurance on the legality and regularity of the EU consolidated financial statements to the Parliament and Council one a year. The statement is called "DAS", which is short for "Déclaration d'Assurance". In april 2010, the Court performed a DAS audit of the European Social Fund for the programming period 2007-2013.

On the basis of its audit, the Court concluded that the following areas are well administered:

- performance control in the DECA office in Silkeborg, which is responsible for the administration of the structural funds;
- certifications made by the paying unit under DECA in Copenhagen;
- systems audit performed by the DECA controllers.

The Court reviewed eight cases and detected errors in one; EUR 9,400 had been paid for a service that was never delivered, and the amount was included in the accounts as eligible expenditure.

Overall assessment of funds received from the Social Fund

134. In the opinion of Rigsrevisionen, the EU financial statement of the European Social Fund for 2009 is generally correct. Payments made from the fund amounted to approximately EUR 31 million in 2009.

Rigsrevisionen's opinion is based on the Court's conclusion that performance control in DECA and the systems-based audits performed by the DECA controllers are handled in a satisfactory manner. Rigsrevisionen has also taken into account that the administration of the European Social Fund in the current programming period follows the administrative guidelines that are applying to the European Regional Fund, and Rigsrevisionen is of the opinion that administration of subsidies allocated to projects under the Regional Fund is handled in a satisfactory manner.

VII. Project subsidies under four ministries

MAIN FINDINGS

In the opinion of Rigsrevisionen, the financial administration of project subsidies from the Commission is generally satisfactory.

135. Government institutions may receive support directly from the Commission on the condition that they submit an audit opinion to the Commission. Rigsrevisionen is issuing audit opinions on the institutions that are receiving this type of project subsidies.

Four ministries received project subsidies in 2009: the Ministry of Economic and Business Affairs, the Ministry of Science, Technology and Innovation, the Ministry of the Environment and the Ministry of Climate and Energy.

Audit of EU project subsidies provided to institutions under the Ministry of Economic and Business Affairs, the Ministry of Science, Technology and Innovation, the Ministry of the Environment and the Ministry of Climate and Energy

136. In 2009, Rigsrevisionen issued a total of 37 audit opinions on institutions under the Ministry of Economic and Business Affairs, the Ministry of Science, Technology and Innovation, the Ministry of the Environment and the Ministry of Climate and Energy. None of the audit opinions were qualified, because the errors detected by Rigsrevisionen in the course of its audit were corrected by the institutions before the audit opinions were issued.

137. Generally, the institutions under the Ministry of Economic and Business Affairs have presented satisfactory project accounts. However, Rigsrevisionen established that some of the institutions were not sufficiently updated on the EU regulations, including the requirements to documentation and refunding of VAT in relation to project accounts. Rigsrevisionen detected a number of errors of this character, which were corrected before the accounts were submitted.

138. The institutions under the Ministry of Science, Technology and Innovations did not submit satisfactory project accounts. The accounts initially received by Rigsrevisionen were inadequate and of a quality that did not allow Rigsrevisionen to base its audit opinion on the material. Among the errors detected in the accounts were incorrect phrasing, missing deduction of VAT/taxes and errors in the salary calculations. The errors were detected by Rigsrevisionen and corrected before the accounts were submitted.

139. Also the institutions under the Ministry of the Environment had difficulties presenting correct project accounts for auditing. The difficulties were caused by ignorance of relevant EU regulations, and in particular of the regulations governing refunding of VAT and taxes, requirements to documentation of reclaimable expenditure and time records. However, Rigsrevisionen detected the errors before the accounts were submitted.

The Ministry of the Environment has stated that it is planning to implement a project in 2010 to improve staff's competencies within project accounting, cf. Final report on the state accounts for 2008, page 263, item 19. Rigsrevisionen finds this satisfactory, as the audits performed in 2008 and 2009 showed that the institutions under the Ministry of the Environment are having difficulties submitting correct project accounts because they do not have the required knowledge of the EU regulations.

140. Institutions under the Ministry of Climate and Energy have project accounts of varying quality. The institutions that have participated in many EU research projects have gained the experience necessary to establish sound and reliable administrative procedures for the handling of projects subsidies, and Rigsrevisionen detected only a few errors in these institutions. Other institutions are less experienced and therefore find it difficult to submit correct accounts for auditing; their difficulties were reflected mainly in errors in statements of cost prices that were used for salary calculations, VAT and tax refunding and phasing of expenditure. The errors were corrected before the accounts were submitted.

Audit of EU project subsidies to the universities under the Ministry of Science, Technology and Innovation

141. The universities are receiving funds from the Commission to a large number of EU research projects.

The direct support received from the Commission is not included in the state accounts because the universities are included in the fiscal act as subsidized institutions, and therefore only the government grant is included in the fiscal act and the state accounts. According to information provided by the universities, they have received direct support from the Commission amounting to approximately EUR 62.6 million in 2009. The total number of projects in progress under the universities has been estimated at just under 1,454. Most of the projects are multi-annual.

142. Rigsrevisionen's audit of the universities showed that they had all established procedures to ensure correct registration of subsidies received from the EU. A review of selected projects showed that they were administered in compliance with the EU regulations and the project accounts were submitted in compliance with the EU regulations.

143. The universities are encompassed by a section 9 agreement made between the Minister of Science and the Auditor General concerning internal audit. In compliance with the agreement, the boards of the universities have employed private auditors to conduct the internal audit. Rigsrevisionen is cooperating with the internal auditors on the audit and is supervising their work. Rigsrevisionen has obtained information from the internal auditors on the number of audit opinions issued, the nature of the errors detected during the audit and the content of the audit opinions issued on the EU projects.

144. In 2009, the internal auditors issued a total of 343 audit opinions on project accounts. Most of the errors were corrected in connection with the submission and audit of the accounts. The internal auditors have only qualified their opinion or inserted emphasis of matter paragraphs in a few of the audit opinions. Generally, the cause of the qualifications and inclusion of emphasis of matter paragraphs was irregularities in the administration of the projects, such as missing recognition of expenditure and incorrect processing of VAT on foreign travel expenses.

Overall assessment of project subsidies under four ministries

145. In the opinion of Rigsrevisionen, the EU project accounts submitted under the Ministry of Economic and Business Affairs, the Ministry of the Environment, the Ministry of Climate and Energy and the Ministry of Science, Technology and Innovation are correct. Project subsidies disbursed by the Commission amounted to approximately EUR 73.5 million in 2009.

VIII. EU expenditure under the Ministry of Taxation

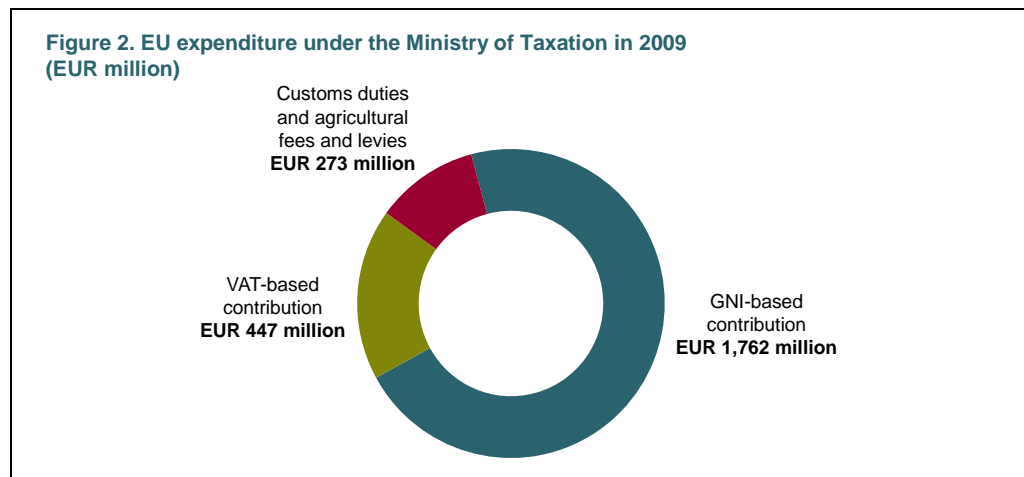
MAIN FINDINGS

In the opinion of Rigsrevisionen, the financial administration of EU expenditure under the Ministry of Taxation is generally satisfactory. However, there are still errors in the customs declarations, but the errors are minor in terms of amounts and the companies are settling too much as well as too little duty.

146. Rigsrevisionen has examined whether the administration of EU expenditure is satisfactory. Rigsrevisionen has also considered reports prepared by the internal auditors of the Ministry and the Commission.

147. In 2009, EU expenditure amounted to approximately EUR 2.6 billion. The Ministry of Taxation is the administrator of approximately EUR 2.5 billion of this amount, cf. chapter IV. The statement of EU revenue and EU expenditure as included in the state accounts.

Figure 2 shows the composition of the EU expenditure of approximately EUR 2.5 billion under the Ministry of Taxation.



As will appear, most of the expenditure – approximately EUR 1,762 million – is related to contributions calculated on the basis of the gross national income (GNI-based contribution). The two other items of expenditure represent contributions in accordance with the joint basis of calculation for value added tax (VAT-based duties), accounting for approximately EUR 447 million, and customs duties and agricultural fees and levies that are accounting for approximately EUR 273 million with agricultural fees and levies alone accounting for EUR 5.1 million of this amount in 2009.

148. The EUR 273 million includes all customs duties and agricultural fees and levies charged excluding a 25 per cent refund to SKAT (Danish tax authorities) to cover the Danish administrative expenses. In 2009, the refund amounted to EUR 94 million.

Statement and settlement of VAT-based contribution and GNI-based contribution in compliance with the regulations

149. The GNI- and VAT-based budget contributions are calculated by the Commission as a fixed percentage of a harmonisation of gross national income and an alignment of VAT, respectively. The Commission's calculation of the VAT-based contribution is based on data submitted by the Ministry of Taxation, and the calculation of the GNI-based contribution is based on an annual statement submitted by Statistics Denmark.

Both contributions are settled in monthly instalments which SKAT is paying into an account held by the Commission with Danmarks Nationalbank (the national bank of Denmark).

150. The internal auditors of the Ministry of Taxation have audited the settlement and statement of the VAT- and GNI-based contributions, and had no comments to either. The internal auditors concluded that the contributions had been settled in compliance with EU's material and formal regulations and were documented and correctly recognized in SKAT's financial statement.

151. Rigsrevisionen's supervision included an assessment of the review performed by the internal auditors of the Ministry of Taxation of the data provided for the calculation of the VAT contribution. Rigsrevisionen concluded that the review performed by the internal auditors was satisfactory.

152. The Commission performs specific examinations of the statements and settlements at regular intervals, and any questions arising from these examinations are subsequently discussed with the Ministry of Taxation.

153. Rigsrevisionen established that the statement and settlement of VAT- and GNI-based contributions are in compliance with the regulations. The assessment is based on the results of the audit performed by the internal auditors of the Ministry of Taxation and the results of Rigsrevisionen's supervision.

Satisfactory business procedures and internal controls established for the financial reporting, etc. of customs duties and agricultural fees and levies

154. The EU Member States form a customs union and SKAT is collecting customs duties on imports from countries outside the EU on behalf of the EU. SKAT is also collecting a number of special agricultural fees and levies. The duties and fees collected are recognized as income in the state accounts.

155. Rigsrevisionen has audited the financial statement, the certification of the accounts and the accounting of revenue relating to customs duties and agricultural fees and levies in cooperation with the internal auditors of the Ministry of Taxation. Rigsrevisionen focused on issues pertaining to the state accounts, whereas the internal auditors focused their attention on the settlements to the EU.

156. On the basis of the audit performed, Rigsrevisionen assessed that business procedures and internal controls have generally been established in the areas concerned and contribute to ensuring that customs duties and agricultural fees and levies are correctly stated in the state accounts.

Need to disseminate staff's skills and expertise

157. The internal auditors of the Ministry of Taxation have established that only two members of staff are responsible for preparing statements and settling customs duties and agricultural fees and levies, GNI contributions and VAT contributions. Their presence is required if SKAT is to meet the deadlines set for submission of statements and settling of EU expenditure and thereby avoid being charged overdue payments. The internal auditors concluded that disseminating the skills and expertise held by these two staff members to their colleagues would make SKAT less exposed during sickness and holiday periods.

Rigsrevisionen agrees with this assessment.

158. The Ministry of Taxation has informed Rigsrevisionen that mid-year 2010 the number of staff working with these specific tasks was increased from two to four.

159. Rigsrevisionen finds it positive that SKAT has become less exposed during sickness and holiday periods.

Initiatives to prevent errors in customs declarations submitted by the companies

160. Companies importing goods from countries outside the EU (or shipping agents representing such companies) are submitting the data required for customs clearance via the internet or other online solutions.

The electronic customs clearance is fulfilling the business community's need for fast and flexible customs clearance routines. Thus the customs declarations can be prepared before the goods arrive in Denmark, and the imported goods can be released immediately after having crossed the border.

161. The companies are required to keep the documentation relating to the customs clearance on file, but SKAT will only require access to the documentation if a customs declaration is sampled for control. SKAT's customs unit performs sample-based physical checks of imported goods and documents.

162. Audits performed in recent years have disclosed many errors in the customs declarations. The errors are minor in terms of amounts and the companies are settling too much as well as too little duty. The errors are caused by inadequate quality of the data reported by the companies.

163. The Integrated Tariff of the European Community contains approximately 20,000 commodity codes and duty rates. The many commodity codes are serving clearance purposes, but are also used for statistics. The statistical data are used by various trade organizations and the Commission for monitoring of the trade.

A customs clearance process based on self-service, involving many users and a vast number of commodity codes, etc. is bound to increase the risk of errors in the customs declarations. SKAT has therefore also over time launched several initiatives to enhance the quality of the customs clearance; in 2007 SKAT launched the project "Clearance quality" and in 2008 the projects "Operation observing the rules" and "Quality of customs clearance performed by shipping agents". The projects resulted in improvements, but did not reduce the level of error sufficiently.

164. The Minister of Taxation has launched more initiatives to enhance the customs clearance quality and Rigsrevisionen will monitor the progress of these initiatives, cf. Final report on the state accounts for 2008, page 263, items 25-27.

165. In 2009, the Minister of Taxation launched three major projects all designed to bring down the error rate in the customs declarations; 1. "Large companies" involving direct communication with the 20 companies that are responsible for the largest payments of customs duties, 2. "MoFia" involving sample-based monitoring and correction of errors made in customs declarations and 3. "Compliance customs duty" including sample-based checks of the extent to which the companies are complying with rules and regulations.

166. Rigsrevisionen has together with the internal auditors of the Ministry of Taxation monitored the three projects.

"Large companies"

167. The project was implemented as an information and guidance campaign directed at the 20 companies that are accounting for approximately 40 per cent of total customs payments, etc. The key objective of the project was to establish a positive dialogue with the companies concerning the importance of the quality of customs clearance.

168. It was a three-phase project. First, SKAT arranged a preliminary meeting to inform the company of the objective of the project and give the company an opportunity to ask questions pertaining to customs clearance. Subsequently, three to four of the respective company's customs clearance cases from the period immediately after the preliminary meeting were sampled for substance auditing. After completion of the substance audit, SKAT set up a second meeting with the company to discuss how the company could avoid making errors in the declarations in the future.

Depending on the extent and character of the problems encountered, SKAT has had up to three meetings with each company. In the opinion of SKAT, the business community has welcomed the information and guidance campaign and has considered SKAT's involvement and presence an advantage rather than a liability.

"MoFia" (Monitoring team for import transactions)

169. Under this project, selected members of staff in the customs clearance offices performed countrywide and coordinated sample checks of customs declarations. The checks were performed in the period September to December 2009 and comprised well over 1,000 customs declarations including a total of 3,000 commodity items. SKAT checked whether the customs declaration form had been completed correctly and whether the underlying documents could be approved. The checks were performed when the goods crossed the Danish border, and the goods were not released before the paperwork was in order.

170. The objective of the project was to give SKAT a general view of the nature of the errors in the customs declarations. At the same time the checks were meant to make the companies focus on providing correct customs declarations along with the relevant documentation. The checks and the errors that were identified were registered in an IT programme developed for the purpose to ensure that the data collected can be used in future risk-based sample checks of errors in customs declarations.

171. According to the checks performed, the two most frequent errors were relating to commodity codes and customs value. Stating the correct commodity code is essential, as the commodity code determines the rate of duty and any restrictions or additional requirements. Incorrect commodity codes may therefore have a financial impact as the application of the correct rate of duty determines the amount of customs duties to be settled. The second most frequent error made in the customs declarations had to do with the customs value, on the basis of which the customs duties are calculated. Most duty rates are ad valorem customs duties, meaning that the customs duties are calculated as a percentage share of the value of the imported goods. The customs value therefore has a direct impact on the calculation of correct customs duties.

172. There were errors in 10 per cent of all commodity codes. As part of the project, the monitoring team, which was responsible for the implementation of the project, carried out a sample-based review of the quality of the checks performed; the monitoring team agreed with all the errors reported by the customs clearance offices, but the review also disclosed that the customs clearance offices had failed to detect all errors. The actual error rate was therefore higher than 10 per cent.

173. On the basis of the experience gained from the project, the monitoring team made a number of recommendations; targeted training to improve the competencies of staff in the individual customs clearance offices and development of special tools for the controllers to help them determine whether the customs regulations have been infringed.

174. SKAT has decided to make the sample checks introduced under the "MoFia" project, and performed by the customs clearance offices, permanent.

"Compliance customs duty"

175. "Compliance customs duty" included also sample-based checks of customs declarations. Contrary to the checks performed under the "MoFia" project, these checks were not performed at the border, but after the goods had been imported into Denmark (post-events). The objective of the project was to determine, on the basis of pre-defined criteria and weights, the extent to which the companies were complying with the customs regulations. The criteria included five factors that have a direct influence on the customs duty charged. To underpin the objective of the project, the requirements to sampling, size and quality of the review were particularly strict.

176. Based on the sample check, the degree of compliance with the regulations was estimated at 4.9, with 6 representing full compliance. The degree of compliance is meant to serve as a baseline measurement, against which SKAT will subsequently be able to assess the effect of various initiatives launched to improve the quality of customs clearance.

Audit findings relating to the three projects

177. Rigsrevisionen has monitored the projects "Large companies", "MoFia" and "Compliance customs duty". In the opinion of Rigsrevisionen they have all been carefully thought through and have each their specific objective. Rigsrevisionen finds that SKAT has made a thorough and targeted effort to enhance the quality of customs clearance with these projects.

178. In the opinion of Rigsrevisionen, SKAT should continue its efforts to reduce the number of errors in customs clearance, and Rigsrevisionen is satisfied that SKAT will make the "MoFia" project permanent and follow the recommendation of the monitoring team to raise the competence level of staff in the individual customs clearance offices through training.

179. Rigsrevisionen has noted that SKAT has not completed the management review of the "Compliance customs duty" project at this point. If it is decided to repeat the project, Rigsrevisionen recommends that SKAT should consider integrating the control that is performed under the projects "MoFia" and "Compliance customs duty", respectively.

According to the Commission, the Danish customs duties control strategy is satisfactory

180. The Commission has decided that the control strategies of all Member States in the custom areas must be mapped and reviewed, and in the spring of 2010 the Commission reviewed the Danish strategy including the three projects launched to enhance the quality of customs clearance. Seven clearance cases that had been checked by SKAT in the period 2007 to 2009, were included in the review.

181. The Commission concluded that the Danish customs control strategy is generally satisfactory and made only a few recommendations. SKAT must submit its comments to the Commission before mid-December 2010.

Conclusion of the case raised by the Commission concerning incomplete customs declarations and prevention of future problems in this area

182. Rigsrevisionen monitors the effect of the initiatives launched by the Minister of Taxation to improve the processing of incomplete customs declarations, cf. Final report on the state accounts for 2008, page 264, items 28-31.

183. Incomplete customs declarations are declarations that the companies have started to fill out in the customs declaration system, but have not completed for various reasons; the declarations are no longer of any interest (draft versions or duplicate registrations), but the company has failed to delete them, or the company has omitted to settle customs duties, which is resulting in a loss of EU customs revenue.

184. SKAT's procedures for the processing of incomplete declarations in the period 2005 to 2009 allowed incomplete declarations to serve as a cover for companies that had failed to settle customs duties. The Commission therefore had reason to believe that not all customs revenues relating to the period had been calculated and settled.

185. Rigsrevisionen has followed the Commission's and SKAT's discussion of the scope of the problem and estimation of customs revenues involved. In April 2010, SKAT approached the Commission with a proposal to settle the case through payment of approximately EUR 16,130 for the period 2005 to 2007. SKAT is now awaiting the Commission's response, before the case can be closed.

186. On the basis of the recommendations made by the internal auditors of the Ministry of Taxation, SKAT has since 2008 focused on forward-looking measures and actions to ensure that it is applying uniform and risk-based procedures to follow up on incomplete customs declarations. At the same time, SKAT has called upon the companies to delete irrelevant declarations (draft versions and duplicate registrations) and incomplete declarations in order to reduce the total number of incomplete declarations that SKAT will need to follow up on.

187. Rigsrevisionen finds the initiatives launched by SKAT, including the steps taken to prevent incomplete declarations, satisfactory. In a future audit, when the initiatives launched have had time to take effect, Rigsrevisionen will assess their impact.

Overall assessment of the financial statement of EU expenditure under the Ministry of Taxation

188. In the opinion of Rigsrevisionen, the financial statement of EU expenditure under the Ministry of Taxation is generally correct. However, the audit disclosed certain problems relating to customs. The EU expenditure, which is Denmark's contribution to the EU, amounted to a total of approximately EUR 2.5 billion in 2009.

189. Audits performed in the past couple of years have disclosed many errors in the customs declarations. The errors are minor in terms of amounts and the companies are settling too much as well as too little duty. The companies are clearing customs electronically, which means that they via the internet report the data required to perform the clearance. The errors identified are caused by inadequate quality of the data reported by the companies.

190. Rigsrevisionen is satisfied that SKAT has implemented three projects, which through a mix of information and guidance directed at the companies, are designed to reduce the risk of error and improve the quality of the customs declarations. The three projects are as follows: "Large companies" involving direct communication with the 20 companies that are responsible for most of the errors in the customs declarations; "MoFia" involving spot-check monitoring and correction of errors in customs declarations, and "Compliance customs duty" involving spot checks of the extent to which the companies are complying with the rules. Rigsrevisionen finds that the focus areas of the three projects have contributed to enhancing the quality of customs declarations.

191. Rigsrevisionen is of the opinion that SKAT needs to continue its efforts to reduce the error rate in the customs declarations. Rigsrevisionen finds that the decision to make spot-check monitoring and correction of errors in the customs declarations in the form introduced under the MoFia project, a permanent feature will contribute positively to the process.

Rigsrevisionen, 4 November 2010

Henrik Otbo

/Michala Krakauer

Appendix – Glossary

Area control	Area control includes administrative control as well as physical inspections. The objective of the control is to ensure compliance with the eligibility terms.
Certifying authority	The certifying authority is a private auditing firm auditing and approving the financial statements of subsidies granted by the <u>European Agricultural Guarantee Fund</u> and the <u>European Agricultural Fund for Rural Development</u> .
Conciliation Body	The EU Conciliation Body has five members who are independent experts recruited among the Member States. The Conciliation Body is reconciling budgetary differences between the Commission and Member States. The conclusions of the Conciliation Body are published in a report.
Controllers of the European Social Fund and the European Regional Fund	The controllers of the two funds have been employed in compliance with EU Commission regulations.
Controlling authority	The cross-compliance control is exercised by the municipalities and various government authorities like, for instance the Danish Plant Directorate and the Danish Forest and Nature Agency.
Cross compliance	<p>The farmer must comply with a number of national requirements concerning the environment, health, animal welfare, and the maintenance of all agricultural land in good agricultural and environmental condition to be eligible to receive single payments and direct aid for protein and energy crops, starch potatoes, and premiums for male animals and ewe (i.e. support financed by the European Agricultural Guarantee Fund). The cross-compliance requirements are also applying to direct aid received under the livestock or arable area subsidy schemes that are financed by the European Agricultural Fund for Rural Development.</p> <p>This cohesion between payment of subsidies and compliance with requirements is called cross compliance.</p>
Cross control	Control of the eligibility of the area indicated in the single payment application compared with the data contained in the block index.
Digital field maps	The Food Agency has worked out digital field maps on the basis of aerial photos that have been geometrically corrected to ensure that the scale of distances, areas, etc. are as precise as in ordinary maps.
Direct agricultural aid	Direct agricultural aid includes the Single Payment Scheme, premiums for protein and energy crops, starch potatoes, ewe and slaughter of male animals (bulls and steers).
Disqualified from reimbursement	If a Member State is not complying with the EU rules, the European Commission may refuse to reimburse project expenditure.
EU funds	The EU funds contributing EU revenue to Denmark are: the <u>European Agricultural Guarantee Fund</u> , the <u>European Agricultural Fund for Rural Development</u> , the <u>European Fisheries Fund</u> , the <u>European Social Fund</u> , and the <u>European Regional Fund</u> . The EU funds are part of the EU budget and are not funds in the traditional legal sense of the word.
EU revenue and expenditure	Revenue, which Denmark receives from the EU, is referred to as EU revenue, whereas the Danish contributions to the EU are referred to as EU expenditure.
The European Agricultural Fund for Rural Development	EU fund financing support granted under the Rural Development Programme.

The European Agricultural Guarantee Fund	EU fund financing <u>direct agricultural aid</u> .
Field block index	The block index contains data on the size of individual field blocks.
Flat rate	The Commission generally applies a flat-rate penalty when project expenditure has been disqualified from reimbursement, which means that EU funding of the respective programme will be reduced by a fixed percentage.
Incomplete declarations	Customs declarations that the company has started on, but not completed.
Irregularities	Irregularities are defined in EU Regulation No 2988/95 of 18 December 1995, Article 1, 2.: "Irregularity" shall mean any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure".
Paying authority under the Ministry of Food, Agriculture and Fisheries	The Danish Food Industry Agency is the paying authority administering and disbursing subsidies under the <u>European Agricultural Guarantee Fund</u> and the <u>European Agricultural Fund for Rural Development</u> .
Payment entitlements	To be eligible for direct aid under the Single Payment Scheme, a farmer requires payment entitlements. Entitlements for agricultural and non agricultural land were allotted in 2005. In 2008, permanent fruit and vegetables crops and nursery crops also became entitled to direct aid and entitlements were allotted accordingly. The value of the payment entitlements is included in the calculation of the size of subsidy.
Regional growth forum	Project applications for subsidies from the European Social Fund and the European Regional Fund are processed by the regional growth forums that are composed of regional politicians and representatives of the business community, knowledge and educational institutions and the parties in the labour market.
Remote sensing	Measurement of agricultural land performed by satellite.
Responsible authority in the Ministry of Food, Agriculture and Fisheries	The Department under the Ministry is responsible for the financial statements concerning <u>the European Agricultural Guarantee Fund</u> and the <u>European Agricultural Fund for Rural Development</u> .
Set-aside land	As a condition of receiving hectare aid for areas with corn, oil seeds and protein crops, the farmers are required to set aside part of their land to limit overproduction of corn and other produce.
Single payments	Aid paid to farmers under the <u>European Agricultural Guarantee Fund</u> .
Structural funds	The European Social fund and the European Regional Fund.
Subsidy	Subsidy is a synonym for <u>support</u> .
Support	Support is a synonym for <u>subsidy</u> .

Note: Words underlined are explained under another entry in the glossary.