



Report to the Public Accounts  
Committee on the audit of  
EU funds in Denmark in 2008

November  
2009

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## Report on the audit of EU funds in Denmark in 2008

The Public Accounts Committee is forwarding this report with their comments to the Folketing and the ministers concerned, cf. section 3 in the Public Accounts Committee Act and section 18, sub-section 1 in the Audit of State Accounts etc. Act.

*Copenhagen 2009*

This report to the Folketing shall be processed in accordance with section 18 of the Audit of State Accounts etc. Act:  
The Public Accounts Committee shall forward the report to the Folketing and the minister(s) concerned with their comments, if any.  
The Minister of Finance, the Minister of Economic and Business Affairs, the Minister of Taxation, the Minister of Science, Technology and Innovation, the Minister of the Environment, the Minister of Food, Agriculture and Fisheries, the Minister of Transport, and the Minister for Climate and Energy shall present their responses to the report.  
The Auditor General shall submit a memorandum with his comments to the ministers' responses.  
The ministers' responses and the Auditor General's comments to the responses provided by the ministers form part of the Public Accounts Committee's final report to the Folketing, which is due in March 2010.  
The ministers' responses, the Auditor General's comments and the Public Accounts Committee's comments, if any, are all included in the Public Accounts Committee's Final Report on the State Accounts, which is presented to the Folketing in April every year – in this instance it will be the Final Report on the State Accounts for 2008, which is due in 2010.



# The Public Accounts Committee's comments

## REPORT ON THE AUDIT OF EU FUNDS IN DENMARK IN 2008

EU funds are audited by Rigsrevisionen like other government expenditure and revenue included in the state accounts.

**The Public Accounts Committee has established that the 2008 financial statements of EU revenue and EU expenditure have been prepared in accordance with the accounting rules of the government and give 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.**

Rigsrevisionen has issued an opinion on EU funds in Denmark since 2004. This year, Rigsrevisionen is issuing its opinion in this special report, as the state accounts for 2008 for the first time include an overview of the majority of Danish EU revenue and all Danish EU expenditure. Direct subsidies granted by the European Commission to private recipients are not included in the state accounts. In 2008, government institutions have received direct project grants amounting to approximately EUR 82 million. These grants are not included in the state accounts, yet they are audited by Rigsrevisionen when the financial statements of the government institutions are being audited.

The Public Accounts Committee notes that in the last couple of years, the European Commission has opened proceedings against Denmark claiming repayment of previously received EU funding in the amount of EUR 134 million on the grounds that the administration is not entirely up to standard in some areas:

- under the Single Payment Scheme, ineligible or incorrectly measured agricultural areas have been subsidised;
- the quality of cross-compliance control has not been satisfactory (EU support is only granted if the farmers are complying with national requirements).

The claim of EUR 134 million concerns three cases of which the largest, in the amount of EUR 101 million, is related to set-aside areas, which the European Commission claims that Denmark has not maintained in compliance with regulations. The Danish authorities do not agree with the European Commission and have brought the case before the EU Court. Rigsrevisionen is supporting the Danish authorities in this initiative.

The Public Accounts  
Committee,  
25 November 2009

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The Public Accounts Committee also observes that:

- business procedures and internal controls with respect to the European Social Fund can in some areas be improved;
- there are still many, but minor errors in terms of amounts in the customs declarations submitted by the companies, and problems with incomplete customs declarations.

The Public Accounts Committee appreciates Rigsrevisionen's initiative to issue its audit opinion on the audit of EU funds in Denmark in a special report, as this serves to clarify Rigsrevisionen's overall assessment of EU funds in Denmark. The report may thus contribute to the efforts made by the European Commission, the European Court of Auditors, and Supreme Audit Institutions in the EU Member States to improve the administration of and control with EU funds in the EU.



# Report to the Public Accounts Committee on the audit of EU funds in Denmark in 2008

This report is submitted to the Public Accounts Committee in accordance with section 8 (1) and 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 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 28. The Ministry of Transport, section 29. The Ministry of Climate and Energy, and section 38. Taxes and duties.



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The report concerns the following sections of the Fiscal Act: 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 28. The Ministry of Transport, section 29. The Ministry of Climate and Energy, and section 38. Taxes and duties.

The ministers of some of the ministerial areas have been replaced during the fiscal year 2008. 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 mention all the ministers.

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# I. Opinion on the audit of EU funds in Denmark in 2008

## Introduction

1. Rigsrevisionen has issued an opinion and report on the audit of EU funds in Denmark in 2008. The opinion and report have been submitted to clarify Rigsrevisionen's overall assessment of the financial administration of EU funds in Denmark and contribute to increased cooperation on the audit of EU funds. The report includes 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 and the European Parliament. Rigsrevisionen is cooperating and sharing knowledge with the Supreme Audit Institutions of the EU Member States and with the European Court of Auditors in an effort to enhance the control and management of EU funds. This report can contribute to enhance the control and management of EU funds in Denmark.

### OPINION ON THE AUDIT OF EU FUNDS IN DENMARK IN 2008

In the opinion of Rigsrevisionen, the 2008 financial statement of EU revenue and EU expenditure has been prepared in accordance with the accounting rules of the government. 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.

Rigsrevisionen has submitted supplementary information on the audit of customs duties, area support, cross-compliance control and the block system (system used for measurement of farmland in Denmark).

On the basis of the audit findings, Rigsrevisionen is of the opinion that taken as a whole, the transactions underlying the 2008 financial statement of EU revenue and expenditure are legal, regular and in compliance with the provisions laid down by the European Commission (the Commission) and the Council of the European Union (the Council).

Rigsrevisionen is submitting the following supplementary information:

- The audit of customs duties for 2006 and 2007 disclosed many, but minor errors in terms of amounts. Almost all importers are clearing customs electronically, which means that they via the internet report the data required to perform the clearance. The errors were mainly caused by inadequate quality of the data reported by the importers. SKAT (the Danish tax authorities) has in 2007 and 2008 taken various national initiatives to reduce the number of errors, but the registration data are still characterized by many errors. In 2008, total EU expenditure amounted to EUR 2,461.9 million, and customs duties accounted for EUR 311.3 million of this amount.

- In the past couple of years, the Commission has opened proceedings against Denmark in the common agricultural policy area. Denmark may, depending on the outcome of the proceedings, be forced to re-pay previously received EU funding. The three largest cases, in terms of funds involved, concern area support, cross-compliance control, and the block system. In total the claims amount to more than EUR 134 million. At this point, the Commission has proposed to exclude from Community financing EUR 101 million of the expenditure declared by Denmark as area support.

The Commission is of the opinion that the areas declared for set-aside have not been maintained in compliance with the EU regulations and are therefore not eligible for area support. The Danish authorities do not agree with the Commission in this matter, and the case has been referred to the EU Conciliation Body. The EU Conciliation Body was supportive of the arguments put forward by the Danish authorities, according to which the maintenance of the areas set aside had been adequate in the period 2002-2004, and had thereby essentially been in compliance with the EU regulations. Because the Danish authorities disagree with the observations made by the Commission and the subsequent disqualification of the expenditure, the case has now been brought before the European Court of Justice (EU Court). In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area. On the basis hereof, bringing the case before the EU Court is considered justified by Rigsrevisionen.

**A note to the reader:**

Rigsrevisionen's audit of Danish EU funds is conducted in cooperation with the internal auditors/controllers of the three ministries that are responsible for the administration of Danish EU funds, i.e. the Ministry of Food, Agriculture and Fisheries, the Ministry of Taxation, and the Ministry of Economic and Business Affairs. These ministries issue management statements on accounting in the EU areas and the internal auditors/controllers organize their work to ensure that relevant audit findings can be incorporated into Rigsrevisionen's audit opinion.

## II. Introduction and results

2. The report is about the audit of EU funds in Denmark in 2008, that is the audit of revenue received from the EU (EU revenue) and contributions made to the EU (EU expenditure). This definition is in compliance with the definition of revenue and expenditure contained in the Danish state accounts.

Seen from the perspective of the EU, the Danish revenue and expenditure will be considered to be expenditure and revenue, respectively.

3. The audit has in 2008 included EU revenue received through the agricultural subsidy schemes under the Ministry of Food, Agriculture and Fisheries, the European Social Fund, and the European Regional Development Fund (the structural funds) under the Ministry of Economic and Business Affairs, and project support granted directly from the Commission to institutions under five different ministerial remits. The audit has furthermore encompassed EU expenditure under the Ministry of Taxation.

4. 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 2008 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 financial administration of subsidies, and thereby contributing to ensuring that the financial statements are correct?

## MAIN FINDINGS AND CONCLUSIONS

In the opinion of Rigsrevisionen, the 2008 accounts of EU revenue and EU expenditure have been prepared in accordance with the accounting rules of the government. The annual accounts give 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.

Rigsrevisionen has submitted supporting information on the audit of customs duties, area support, cross-compliance control and the block system.

On the basis of the audit findings, Rigsrevisionen is of the opinion that taken as a whole, the transactions underlying the 2008 financial statement of EU revenue and expenditure is legal, regular and in compliance with the provisions laid down by the Commission and the Council.

Rigsrevisionen's assessment is based on the following findings:

**Generally, the financial administration of the agricultural subsidy schemes is satisfactory, whereas the administration of the control of size of farmland and cross-compliance control under the Single Payment Scheme is not entirely satisfactory.**

### *Single Payment Scheme*

- Overall, Rigsrevisionen considers the EU financial statement for the Single Payment Scheme to be correct. In 2008, payments from the Single Payment Scheme amounted to approximately EUR 894 million.
- In several cases, the audit of the control of parcel size disclosed that support had been granted to areas that were not eligible, and to blocks that were not correctly defined. Furthermore, the remote sensing control of parcel size turned out to be inaccurate and included in some instances ineligible fields were included in the measurements. Lastly, several of the on-the-spot measurements performed by inspectors from the Plant Directorate unintentionally included ineligible areas.
- On auditing the cross-compliance control, it was established that the quality of the risk analyses carried out by the supervising authorities was inadequate, and the documentation of the implemented control visits provided by the supervising authorities was not satisfactory and did not meet with the requirements of the EU regulations. Moreover, many of the control results had not been reported to the Danish Food Industry Agency (the Food Agency) within the two-month deadline after the control visit, as required.
- Rigsrevisionen finds it satisfactory that the Ministry of Food, Agriculture and Fisheries has launched several initiatives to improve the cross-compliance control. Several of the initiatives have been launched recently, and the remaining will be launched in 2010. Therefore, the effect of the initiatives cannot be assessed at this point, but Rigsrevisionen will follow the efforts to improve the cross-compliance control closely.

- The scope of the errors and deficiencies relating to the control of parcel size and cross-compliance control is, however, so limited that there is no cause for Rigsrevisionen to change its overall assessment of the financial statement for the Single Payment Scheme as being correct.
- Based on the nature of the weaknesses found and the inadequate control of parcel size, the Danish authorities are concerned that the Commission will apply a so-called flat-rate correction of 2 per cent of the expenditure declared in the period 2005-2006, corresponding to approximately EUR 38 million. To this should be added the risk of a further disqualification of expenditure amounting to approximately EUR 19 million annually, until the weaknesses identified have been remedied.
- The Commission has also opened proceedings against the Danish authorities claiming repayment of approximately EUR 5 million due to deficiencies in the Danish cross-compliance control. The EU Conciliation Body has subsequently proposed a reduction of the correction to approximately EUR 4 million. The Commission has not agreed on the correction at this point.

The Commission has also instructed Denmark to pay back EUR 101 million of the area support received in the period 2002-2004 on the grounds that Denmark has failed to meet with the EU regulations concerning maintenance of set-aside land. However, the Danish authorities do not agree with the Commission in this matter, and the case has been referred to the EU Conciliation Body. The EU Conciliation Body was supportive of the arguments put forward by the Danish authorities, according to which the maintenance of the areas set aside had been adequate in the period 2002-2004, and had thereby essentially been in compliance with the EU regulations. Because the Danish authorities disagree with the observations made by the Commission and the disqualification of the expenditure, the case has now been brought before the European Court of Justice (EU Court). In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area. On the basis hereof, bringing the case before the EU Court is considered justified by Rigsrevisionen.

#### *Other agricultural subsidy schemes*

- In the opinion of Rigsrevisionen, the EU financial statement for the other agricultural subsidy schemes is correct. Subsidies relating to the agricultural schemes amounted to approximately EUR 200 million in 2008.
- The audit performed by Rigsrevisionen of male animal and ewe premiums, the export subsidy on pigmeat, organic conversion subsidies, and environmental cross compliance showed that adequate business procedures and internal controls had been established in the areas under review.

**It is Rigsrevisionen's assessment that the financial administration of funds from the European Social Fund (the Social Fund) and the European Regional Development Fund (the Regional Fund) is generally satisfactory, yet the business procedures and internal controls established to manage Social Fund projects can be improved.**

#### *The Social Fund*

- In the opinion of Rigsrevisionen, the EU financial statement for the European Social Fund is correct. Payments received from the Social Fund amounted to approximately EUR 24 million in 2008.
- A review of a number of Social Fund projects showed that the DEACA did not to the extent required guide applicants on the establishment of operational targets for the projects. Neither did the DEACA ensure that the recommendations of the regional growth forums were prepared according to a fixed standard.
- So far, the DEACA has not charged interest when recipients of structural fund subsidies have been instructed to repay the subsidy and has not formulated a written policy of addition of interest, in spite of the fact that the act on administration of subsidies issued by the Social Fund and the Regional Fund stipulates that ineligible subsidies should be repaid with the addition of interest. In the opinion of Rigsrevisionen, it is not satisfactory that the DEACA has failed to comply with the regulations. The DEACA has noted the comments made by Rigsrevisionen, and will in future charge interest in accordance with the provisions of the act.

#### *The Regional Fund*

- In the opinion of Rigsrevisionen, the EU financial statement of the Regional Fund is correct. Payments received from the fund amounted to approximately EUR 46 million in 2008.

**In the opinion of Rigsrevisionen, the financial administration of project support from the European Commission is generally satisfactory.**

- In the opinion of Rigsrevisionen, the EU project accounts presented under the Ministry of Economic and Commercial Affairs, the Ministry of the Environment, the Ministry of Transport, The Ministry of Climate and Energy, and the Ministry of Science, Technology and Innovation are correct. Project aid disbursed by the Commission amounted to approximately EUR 82 million in 2008.

**In the opinion of Rigsrevisionen, the financial administration of EU expenditure is generally satisfactory. However, there are still problems with errors in customs declarations and incomplete customs declarations.**

- In the opinion of Rigsrevisionen, the financial statement of EU expenditure is correct. Still, the audit disclosed certain problems concerning customs duties and agricultural levies. The EU expenditure, which is Denmark's contribution to the EU, amounted to a total of EUR 2,461.9 million in 2008.

- The audit of customs duties and agricultural levies in 2006 and 2007 disclosed many, but minor errors in terms of amounts in some of the customs declarations. The importers are clearing customs electronically, which means that they via the internet report the data required to perform the clearance. The errors were mainly caused by inadequate quality of the data reported by the importers. The problems with errors in customs declarations and incomplete declarations continued in 2008.
- The vast number of product codes and the fact that the companies are required to report the data themselves add to the risk of errors in the customs declarations. However, the system also has its advantages, and SKAT needs to analyse the nature of the errors and how they emerge in order to improve the system and the quality of data entries and thereby reduce the number of errors.
- Preventing errors in the customs declarations submitted by the companies will require very detailed knowledge of the causes of the errors. Against that background, Rigsrevisionen finds that SKAT's three new projects that are designed to identify the problem areas support the efforts to reduce the number of errors. Rigsrevisionen will follow the effect of the initiatives taken by SKAT.
- Rigsrevisionen is of the opinion that the guidelines for processing incomplete customs declarations are unclear, which means that the declarations are being processed differently. The Ministry of Taxation has stated that efforts are being made to clarify the guidelines further and thereby ensure that all incomplete customs declarations are being processed in the same manner. Among other initiatives, SKAT is currently preparing a detailed guideline for the handling of incomplete declarations. Rigsrevisionen will continue to follow SKAT's initiatives in the area.



## III. Introduction

### A. Background

5. The report is about the audit of EU funds in Denmark in 2008, that is the audit of revenue received from the EU (EU revenue) and the contributions made to the EU (EU expenditure). This definition is in compliance with the definition of revenue and expenditure contained in the Danish state accounts.

Seen from the perspective of the EU, the Danish revenue and expenditure will be considered to be expenditure and revenue, respectively

6. Rigsrevisionen plans and performs the audit of EU funds based on the same materiality and risk considerations that apply to the audit of government funds. Rigsrevisionen complies with good public auditing practice and basically applies the same audit methods as it does when auditing government funds in general, that is, systems-based auditing and sample substantive auditing. The audit of the EU funds is conducted by Rigsrevisionen in cooperation with and through supervision of the internal auditors and in cooperation with controllers and the European Court of Auditors (the Court). Being the external auditor, Rigsrevisionen has the overall responsibility for the audit of EU funds in Denmark.

7. The audit of agricultural and fisheries subsidies, which are both administered by the Food Agency, is conducted 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.

8. The audit of the Social Fund and the Regional Fund is carried out by Rigsrevisionen in cooperation with the controllers of the DEACA. On planning the audit, Rigsrevisionen includes the results of the work carried out by the controllers when assessing materiality and risk.

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

10. Rigsrevisionen also 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 of the opinion that the cooperation between the Court and the national Supreme Audit Institutions needs to be strengthened further.

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

## **B. Objective, methodology and structure of report**

### **Objective**

11. 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 2008 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?

12. 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 I.

13. 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 being audited by Rigsrevisionen.

### **Methodology and structure of report**

14. The examination is based on audit of entities that are responsible for the administration of EU funds. Also the results of controls and audits performed by internal auditors, the controllers of the DEACA, the Court, and the Commission are included in the examination.

15. 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 the Environment, the Ministry of Food, Agriculture and Fisheries, the Ministry of Transportation and the Ministry of Climate and Energy. The comments provided by the ministries have been incorporated in the report to the widest extent possible.

*Structure of report*

16. Chapter IV presents the statement of EU revenue and expenditure in 2008 as included in the state accounts. Chapter V presents background information on the most important EU subsidy schemes.

Chapters VI and VII are dealing with the audit of the agricultural schemes under the Ministry of Food, Agriculture and Fisheries, and the Social Fund and Regional Fund under the Ministry of Economic and Business Affairs. The audit of project support under five ministerial remits is presented in chapter VIII.

The audit of SKAT's settlement of GNI and VAT- based budget contributions, customs duties and agricultural levies can be found in chapter IX.

Appendix 1 is a glossary of relevant terms used in this report.

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

17. In the 2008 state accounts, 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 2008 (EUR millions)**

	Revenue	Expenditure
§ 6. The Ministry of Foreign Affairs	0.0	65.7
§ 8. The Ministry of Economic and Business Affairs	(235.7)	0,0
§ 9. The Ministry of Taxation	0.6	0.0
§ 11. The Ministry of Justice	0.6	0.0
§ 12. The Ministry of Defence	0.5	0.0
§ 15. The Ministry of the Interior and Social Affairs	0,05	0.0
§ 16. The Ministry of Health and Prevention	2.4	0.0
§ 17. The Ministry of Employment	0.3	0.0
§ 18. The Ministry of Refugee, Immigrant and Integration Affairs	0.3	0.0
§ 19. The Ministry of Science, Technology and Innovation	1.5	28.4 <sup>1)</sup>
§ 20. The Ministry of Education	0.6	0.0
§ 21. The Ministry of Culture	0.8	0.0
§ 23. The Ministry of the Environment	9.1	0,03
§ 24. The Ministry of Food, Agriculture and Fisheries	1,112.8	68.1
§ 28. The Ministry of Transportation	2.0	0,03
§ 29. The Ministry of Climate and Energy	0.3	0.0
§ 38. Taxes, duties and levies	0.0	2,299.7
<b>Total</b>	<b>896.1</b>	<b>2,461.9</b>

<sup>1)</sup> There is an error in the statement, as the EUR 28.4 million does not concern EU expenditure, but is expenditure relating to other international organisations.

18. As table 1 shows the total revenue amounts to approximately EUR 896.1 million and the total expenditure to approximately EUR 2,461.9 million.

19. The negative revenue of approximately EUR 235.7 million indicated under the Ministry of Economic and Business Affairs is the result of the correction of an accounting error of approximately EUR 0.3 billion dating back to 2007.

In table 2, the EU revenue has been adjusted for the correction of the error under the Ministry of Economic and Business Affairs.

**Table 2. EU revenue in 2008 adjusted for correction of error relating to 2007 (EUR millions)**

All the ministries mentioned in table 1 with the exception of the ministry of Economic and Business Affairs (section 8)	1,132
Adjusted for correction of error relating to 2007 (section 8)	67
<b>Total after adjustment</b>	<b>1,199</b>

It appears from table 2 that after adjustment of the error, the revenue under the Ministry of Economic and Business Affairs amounts to EUR 67 million, bringing the total EU revenue at EUR 1,199 million, which figure will be used throughout the report.

20. Subsidies to the universities, which belong under the Ministry of Science, Technology and Innovation are not included in the state accounts and therefore not included in the statement presented in table 1 either. According to a statement worked out by the universities at the request of Rigsrevisionen, university subsidies amounted to EUR 67 million in 2008.

#### *EU revenue*

21. It also appears from table 1 that the Ministry of Food, Agriculture and Fisheries is accounting for the largest revenue of EUR 1,112 million. The revenue concerns a number of subsidy schemes concerning foodstuffs, agriculture and fisheries. The Single Payment Scheme is accounting for most of the payments made to approximately 60,000 farmers annually. Payments made from the Single Payment Scheme are accounting for EUR 0.9 billion of the EUR 1,112 million.

22. The second largest revenue is represented by the funds that the Ministry of Economic and Business Affairs is receiving from the Social Fund and the Regional Fund. After the accounting adjustment, this revenue amounts to EUR 67 billion as mentioned above. As regards the other ministerial remits, the funds received from the EU are relatively small and mainly provided as project support.

#### *EU expenditure*

23. According to table 1, expenditure amounts to a total of approximately EUR 2,461.9 million. Taxes and duties (section 38) is accounting for approximately EUR 2,299.7 million or 93 per cent of the expenditure, which can be broken down on three elements, as indicated in table 3.

**Table 3. EU expenditure in 2008 (EUR millions)**

GNI-based contribution	1,421.9
VAT-based contribution	537.3
Customs duties and agricultural fees and levies, excluding administration costs	340.5
<b>Total</b>	<b>2,299.7</b>

24. As table 3 shows, EU expenditure is broken down on three elements; contributions based on gross national income (GNI-based budget contributions), VAT-based contributions and customs duties and agricultural levies. The EUR 340.5 million represents customs duties and agricultural fees and levies less 25 per cent for administration costs.

25. The remaining 7 per cent of the expenditure in table 1 can primarily be referred to two ministerial remits; the expenditure of EUR 65.7 million under the Ministry of Foreign Affairs consists mainly of Denmark's contribution to EU's development support provided through the Regional Fund. Under the Ministry of Food, Agriculture and Fisheries, the expenditure of EUR 68.1 million concerns restructuring of levies relating to sugar.

## V. Significant EU subsidy schemes

26. In 2008, EU revenue amounted to a total of EUR 1,199 million. Approximately EUR 1,179 million of this amount is transferred to Denmark through five EU funds.

27. Agricultural subsidies are financed by the EAGF and the EAFRD. These two funds and the fisheries subsidies granted by the European Fisheries Fund are managed by the Ministry of Food, Agriculture and Fisheries.

The two last funds are the Social Fund and the Regional Fund (the structural funds), which are managed by the DEACA under the Ministry of Economic and Business Affairs. Revenue received from the five funds in 2008 will appear from table 4.

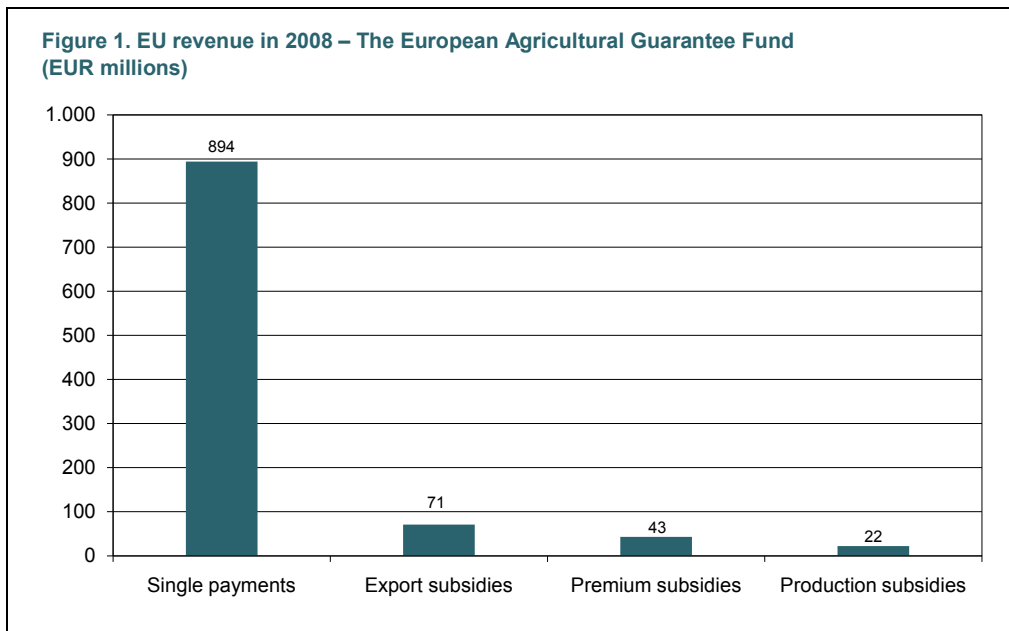
**Table 4. EU revenue received from agricultural and structural funds in 2008 (EUR millions)**

The European Agricultural Guarantee Fund	1,039
The European Agricultural Fund for Rural Development	62
The European Fisheries Fund	8
The European Social Fund	24
The European Regional Development Fund	46
<b>Total</b>	<b>1,179</b>

28. Table 4 shows that revenue from the five funds in 2008 amounted to approximately EUR 1.2 billion, of which approximately EUR 1.0 billion was disbursed by the EAGF. The five funds are described in more detail in the following sections of the report.

### **The European Agricultural Guarantee Fund (EAGF)**

29. As mentioned, Danish farmers received approximately EUR 1.0 billion in subsidies from the EAGF in 2008. The Food Agency under the Ministry of Food, Agriculture and Fisheries is the paying agency in Denmark. The four most significant subsidy schemes that are funded by the EAGF are shown in figure 1.



It appears from figure 1 that the Single Payment Scheme is by far the largest scheme with subsidy payments amounting to EUR 894 million. The other schemes under the EAGF are export subsidies, premium subsidies and production subsidies.

#### *Single Payment Scheme*

30. Around 60,000 farmers received EUR 894 million in support from the Single Payment Scheme in 2008. The amount of support is linked to the size of the farmer's eligible farmland and payment entitlements. The Single Payment Scheme was introduced in 2005 and replaced the former hectare aid scheme.

#### *Export subsidies*

31. Generally, the world market prices of agricultural products are lower than the EU market prices, and the EU is subsidizing the export of certain agricultural products in order to compensate for the price difference. In 2008, Denmark received export subsidies in the amount of EUR 71 million. Subsidies were previously much higher and have over a five-year period dropped from approximately EUR 300 million in 2003 to the current level of EUR 71 million.

Export subsidies are aimed at promoting the export of corn, sugar, dairy products, beef, pigmeat, eggs and poultry, and products composed of several different agricultural products. Exports are being controlled in accordance with EU regulations to ensure that the products are exported and meet the export requirements.

#### *Premium subsidies*

32. These subsidy schemes include protein and energy crops, starch potatoes, ewe and slaughter of male animals (bulls and steers). Premiums for male animals and ewe accounted for EUR 31 million of the support, whereas subsidies for protein and energy crops and starch potatoes amounted to EUR 12 million. Disbursements in these two areas totalled EUR 43 million. In 2008, slaughter premiums for male animals alone accounted for approximately EUR 30 million of this amount.

#### *Production subsidies*

33. Certain agricultural products are subsidized to ensure that they continue to be processed and sold in the EU in competition with imported raw materials and industrial products. Denmark received subsidies in the amount of EUR 22 million in 2008. The production of pigmeat, starch products, dried fodder, dairy products, beef, etc. was subsidized. The single biggest subsidy of EUR 6 million was for private storing of pigmeat.



*Cross compliance*

34. One of the requirements of the EU agricultural policy is that there must be cohesion (cross compliance) between the payment of support to the farmers and the farmers' compliance 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. If the farmers fail to respect the cross-compliance standards, their direct support may be reduced.

35. The Food Agency is responsible for the organisation of the cross-compliance control, whereas the municipalities and several government authorities are conducting the actual control.

36. 1 per cent of all farms receiving direct support are spot checked every year. Direct support includes payments made under the Single Payment Scheme, support for protein and energy crops and starch potatoes, and premiums for male animals and ewe (i.e. support financed by the EAGF). Also farms receiving direct support under the livestock or arable area subsidy schemes financed by the EAFRD are spot checked, as cross-compliance control has been extended to comprise also these schemes.

37. The municipalities and the government authorities report farms failing to comply with the cross-compliance requirements to the Agency, which then follows up the reports.

**The European Agricultural Fund for Rural Development (EAFRD)**

38. Agricultural support is also provided through the EAFRD, and support schemes have been established for the project period 2007-2013. In 2008, the fund supported 19 different projects. Some of the projects were established in the former project period.

39. Member States applying for funds from the EAFRD are required to co-finance projects through grants from public authorities, foundations, etc.

40. The rural development policy is focused on four overall objectives:

- stimulating new and innovative approaches to rural development and creating more local jobs in the rural areas;
- improving the competitiveness of the agricultural and forestry sector;
- improving the environment and the countryside;
- improving the quality of life in rural areas and encouraging diversification of the rural economy.

Various subsidy schemes have been established to achieve the four objectives of the rural development policy, and the three most important schemes are presented in table 5.

**Table 5. EU revenue from the European Agricultural Fund for Rural Development (EUR million)**

Conversion to organic agriculture and agri-environmental subsidies	14
Job creation and attractive quality of life	13
Innovation and development in primary agriculture	12
16 other schemes	23
<b>Total</b>	<b>62</b>

41. It appears from table 5 that total subsidies amount to EUR 62 million with the subsidies for conversion to organic agriculture and agri-environmental measures accounting for approximately EUR 14 million hereof.

42. Conversion subsidies are provided to farmers that are converting their conventional agriculture to organic agriculture. The objective of the subsidy scheme is to improve the environment and nature, promote animal welfare, and adapt to the consumers' demand for organic agricultural products. The agri-environmental support is provided to farmers who have undertaken to limit the use of nitrogen and not use plant protection products other than those approved for organic farming.

43. The second largest subsidy scheme, which paid out EUR 13 million in 2008, is focused on job creation and attractive quality of life in rural areas. The objective of the scheme is to promote projects that will contribute to making it attractive for families with revenue earners to live in areas outside the towns and cities.

44. The third largest scheme is focused on innovation and development in primary agriculture and disbursed subsidies in the amount of approximately EUR 12 million. The objective of the scheme is to promote innovative and sustainable farms.

#### **The European Fisheries Fund**

45. The objective of the European Fisheries Fund is to provide for sustainable exploitation of living aquatic resources and of aquaculture in the context of sustainable regional development.

46. The EU is operating with seven year project periods and has, in compliance with the act on development of fishery and aquaculture, for the project period 2007-2013, established support schemes for the fishing fleet, aquaculture, processing of fish and measures of common interest to the fisheries sector. In 2008, the European Fisheries Fund provided support in the amount of EUR 8 million.

47. Member States applying for funds from the European Fisheries Fund are required to co-finance projects by at least 50 per cent through grants from public authorities, foundations, etc.

#### **The European Social Fund and the European Regional Fund**

48. The DEACA is managing the funds provided through the Social Fund and the Regional Fund (the structural funds). The means from the two funds are earmarked for projects that contribute to sustainable growth, competitiveness and job creation in Denmark. In Denmark, the structural funds are also required to contribute to the government's strategy of globalization. The structural funds typically commit themselves to reimbursing eligible expenditure as it is incurred during the lifetime of the projects.

49. The Member States are required to co-finance projects by minimum 50 per cent in the form of subsidies provided by public authorities, foundations, etc.

50. EU projects run for seven years. The 2008 revenue is relating to both the former project period (2000-2006) and the new period (2007-2013).

51. EU revenue related to the Social Fund amounted to EUR 24 million in 2008 and consisted in a positive revenue of EUR 38 million generated during the new period and a negative revenue of EUR 14 million concerning the former period. The negative revenue represents the net variance between positive and negative revenues, the latter being the result of repayments of subsidies granted to projects that were subsequently not implemented.

In 2008, EU revenue under the Regional Fund made up EUR 46 million, of which EUR 43 million was related to the new project period.

## VI. 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 control of size of farmland and cross-compliance control under the Single Payment Scheme is not entirely satisfactory.

52. In order to assess whether the financial administration of the agricultural schemes is satisfactory, Rigsrevisionen has audited the Single Payment Scheme, which is the largest agricultural scheme accounting for subsidies in the amount of EUR 894 million. Rigsrevisionen has also audited three other schemes, which in total provided subsidies in the amount of EUR 64 million. Support has been provided as premiums for male animals and ewe, export support for pigmeat, subsidies to allow farmers to convert to organic agricultural production, and agri-environmental subsidies.

53. The three subsidy schemes first mentioned above are financed by the EAGF, whereas the latter is financed by the EAFRD.

#### A. Background information on the Single Payment Scheme

54. In 2003, the EU Ministers of Agriculture agreed on a reform of the Common Agricultural Policy that separated support from production and introduced a single payment system per farm. The reform took effect on 1 January 2005. Prior to the reform, hectare aid was linked to production, but with the introduction of the Single Payment Scheme, support is being paid to the farmer irrespective of production.

55. 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 the 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.

56. The farmer must hold entitlements to receive subsidy payments.

#### Cross compliance (applying to both agricultural funds)

57. The reform of the Common Agricultural Policy also introduced cohesion (cross compliance) between payment of support to the farmers and the farmers' compliance with national regulations concerning the environment, health, animal welfare, and the maintenance of all land in good agricultural and environmental condition. If the farmers fail to respect the cross-compliance standards, their direct support may be reduced. The Food Agency is re-

sponsible for the organisation of the cross-compliance control, whereas the municipalities and several government authorities are conducting the actual control.

#### **Administration and control of the Single Payment Scheme**

58. To activate a payment, the farmer sends an application to the Food Agency (deadline is 21 April in the year of application). The farmer is required to provide information on both eligible and ineligible land, because the entire farm and all farmland must comply with the cross-compliance standards.

The Food Agency will compare the information on land size stated in the application with the data included in the Food Agency's block index. Among other things, the Food Agency is also checking whether the farmer is holding the required entitlements.

59. In the course of the year, the Agency performs spot checks of the data provided in the applications. According to EU regulations, at least 5 per cent of the beneficiaries should be subjected to spot checks every year. In 2008, area measurements submitted by 4,500 farmers were spot checked against a mix of physical measurements and remote sensing. Approximately 80 per cent of the measurements (3,600) were checked against remote sensing and the remaining (900) were checked against physical land measurements.

The Faculty of Agricultural Sciences at Aarhus University is in charge of remote sensing, which is less resource intense and faster to perform than physical land measurements.

60. If the results of the remote sensing disclose large deviations in the measurements, the farmland will also be subjected to physical control, which is considered the most reliable measuring method. The Plant Directorate will perform the physical measurement by GPS. The Food Agency has decided that as from 2008, the Plant Directorate must conduct visual inspections of all farmland as a supplement to the remote sensing, which is often inconclusive with respect to determining the eligibility of the land. The visual inspections include an examination of whether the farmer has included ineligible areas in the application, and whether the areas are meeting the standards of good agricultural and environment condition, i.e. are hectares under grassland and hectares under permanent pasture being mown at least once every second year in July or August.

#### **The block index**

61. In Denmark, the size of farmland is computed in blocks, consisting of one or more fields that are clearly 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.

The Food Agency's digital maps have been prepared on the basis of geometrically corrected aerial photographs, i.e. orthophotos, thus ensuring that the scale of distances, areas, etc. are as precise as in an ordinary map. The Food Agency is using the digital field maps for control of the farmers' applications for single payment subsidies.

62. Farmers are required to inform the Food Agency of any changes in the landscape that may influence the size of the eligible areal in the block so that the Food Agency can update its digital field maps and the block index. The digital field maps and block index are being updated in accordance with the results of the on-the-spot checks of the blocks.

As from 2008, also the results of the remote sensing carried out in connection with the visual inspections will be assessed to determine whether the size of the blocks should be adjusted accordingly.

### Sample testing by the Court

63. Once a year, the Court submits to the EU 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".

64. To arrive at its annual assessment, 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.

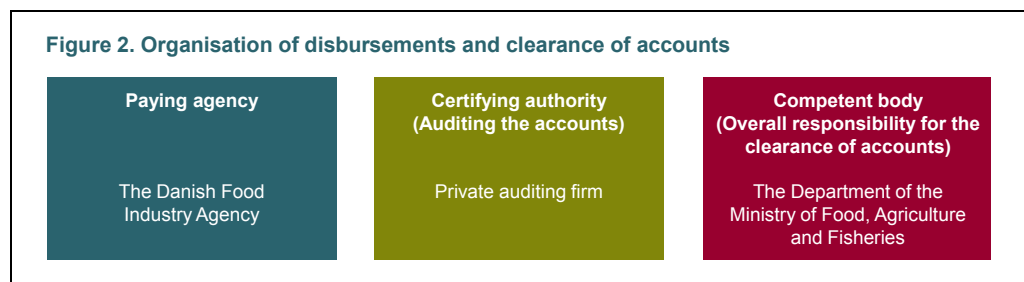
65. The audit includes measuring selected fields and comparing the results with the measurements indicated by the farmers in their applications. If the size of land indicated in an application is exceeding the 2 per cent threshold of technical tolerance (compensation for any inaccuracies of the measuring equipment) by more than 0.5 per cent, it will be classified as a so-called DAS error by the Court.

### Clearance of accounts (both agricultural funds)

66. The Food Agency is the paying agency managing and disbursing subsidies from the EAGF and the EAFRD.

A private auditing firm is acting as the certifying authority and is auditing the accounts of the funds and presenting them to the Commission. The Ministry of Food, Agriculture and Fisheries has the overall responsibility for the accounts.

67. Figure 2 presents the three bodies and their tasks.



68. The clearance of accounts is to a large extent based on the opinion that the private auditing firm – the certifying authority – issues on the financial statement of the paying agency. Since 2007, the Director General of the Food Agency is also required to issue a statement on the correctness of the accounts of the paying agency and on the establishment of business procedures providing reasonable assurance of the legality and regularity of the underlying transactions.

69. The certifying authority and the paying agency have both issued unqualified opinions on the financial statements for 2008.

## B. Significant audit findings concerning the Single Payment Scheme

70. In the next sections, the following subjects will be reviewed:

- area control;
- cross-compliance control (comprising both agricultural funds);
- EU disqualifications of expenditure;
- substantive testing carried out by the Court;
- clearance of accounts (comprising both agricultural funds).

### Area control

*The observations made by the Commission concerning the block index, etc.*

71. On a visit to Denmark in 2006, the Commission detected many errors and inconsistencies in the block index and the digital field maps. Subsequently, in the years 2006 and 2007, the Food Agency reviewed all field blocks and updated the digital field maps and the block index accordingly. Incorrect delimitation of ineligible areas and field blocks lead to corrections of 66 per cent of the blocks reviewed.

72. In September 2008, the Commission returned to check the re-digitised blocks. The Commission also performed on-the-spot checks of a sample of 25 blocks, which were measured and inspected visually.

73. Based on the review carried out in September 2008, the Commission concluded that progress had been made compared to 2006, but neither the digital field maps nor the block index was entirely correct. The Commission's assessment was based on the following findings:

- the Food Agency had not updated the digital field maps and the block index in accordance with the input provided by the Plant Directorate's inspectors;
- the farmers had not – as required – reported to the authorities when fields had become ineligible, for instance when they had been planted with Christmas trees or when lines of trees on the border of a field had not been excluded;
- the Plant Directorate inspectors had not adjusted the block index for ineligible areas. The Commission was of the opinion that the reason for this weakness in the control procedure was the fact that inspectors had no proper instruction on how to assess the type of area they were inspecting, like for instance fields that were not maintained in good agricultural and environmental condition by the farmers.

74. On the basis of the errors detected, the Commission concluded that the Danish control of compliance (cross compliance) between the eligibility of blocks claimed for support and the data contained in the block index and digital field maps was not sufficiently effective and not in accordance with EU Regulation No 796/2004.

75. Subsequently, the Food Agency reviewed the selected cases and rejected some of the claims made by the Commission. The Food Agency did agree, however, with the Commission that ineligible areas were included in the block index.

76. As a matter of principle, the Food Agency pointed out to the Commission that it considered its conclusion that the cross-compliance control was not effective in Denmark unreasonable, on the grounds that according to EU Regulation No 796/2004, the field blocks may to some extent include also ineligible areas. The requirement is that for at least 75 per cent of the reference parcels to be subject to a support application, at least 90 per cent of the respective area must be eligible pursuant to the Single Payment Scheme.

77. The Commission detected only a few isolated errors made by the inspectors, and the Food Agency considered it unreasonable that the Commission made a general conclusion on the basis of a few errors of this nature. The Plant Directorate and the Food Agency have on the basis of the Commission's conclusions decided to arrange workshops on assessment of eligible areas for the inspectors.

78. Rigsrevisionen has noted that neither the Food Agency – nor the Commission – has examined whether Denmark is meeting the requirement that for at least 75 per cent of the blocks, at least 90 per cent of the respective area must be eligible pursuant to the Single Payment System.

*Incorrect measurements performed by the Plan Directorate*

79. In 2008, the internal auditors in the Food Agency found several inconsistencies when they re-measured 10 areas that had previously been measured by the Plan Directorate. The re-check of three farmers disclosed that the inspectors had previously included ineligible areas in their measurements like, for instance waterholes and areas planted with fir trees. The remaining seven re-checks did not disclose any errors with respect to inclusion of ineligible areas. The Food Agency's internal auditors recommended that the Plan Directorate should emphasise to the inspectors the importance of having correct measurements of the areas that were to be excluded.

*Problems related to the application of new GPS equipment*

80. The internal auditors in the Food Agency also found that the Plan Directorate had had problems with its new GPS equipment, which delayed the implementation of the on-the-spot checks in 2008.

81. Furthermore, a couple of the control districts under the Plan Directorate considered the new GPS equipment to be too unreliable and had decided to use the old GPS equipment instead. However, due to the limited number of GPSs available, the inspectors had to take turns using the equipment, which delayed the inspections even further.

*Incorrect remote-sensing control*

82. The internal auditors in the Food Agency assessed the quality of the Plan Directorate's annual checks of applications that have been subjected to remote-sensing control. The remote-sensing control is performed by the Faculty of Agricultural Sciences at Aarhus University. The review of the applications revealed that it was impossible to determine, from the remote sensing, whether the respective block areas included ineligible land.

83. In 2008, the Food Agency decided that all remote-sensing control of areas including pastures and uncultivated land should be supplemented by visual on-the-spot inspections, because remote sensing had proved inadequate to identify areas of this kind.

84. Rigsrevisionen is of the opinion that this initiative has contributed to remedying the weaknesses of remote sensing.

**Cross-compliance control***The quality of risk analyses carried out in connection with the control of cross compliance was not satisfactory*

85. In accordance with EU Regulation No 796/2004, 1 per cent of all farmers claiming direct support must be controlled annually to ensure that they are meeting the standards of cross compliance requirements. The control is performed by the municipalities and certain government institutions.

Twenty to 25 per cent of the farms included in the sample must be selected at random, and the remaining should be selected on the basis of a risk analysis to ensure that the sample includes beneficiaries with the highest probability of infringing the regulations.

86. Also farms receiving direct support under the livestock or arable area subsidy schemes financed by the EAFRD are spot checked, as cross-compliance control has been extended to comprise also these schemes.

87. Rigsrevisionen's review of the risk-based sample from 2007 and 2008 showed that some of the analyses performed were inadequate and not complying with the Food Agency's requirements to risk analyses. For instance, the analyses did not state why the criteria set should be considered particularly risky, and the analyses did not build on experience gained on previous checks.

88. Since then, the Food Agency has launched several initiatives to improve the quality of the risk analyses. The Food Agency has prepared more elaborate instructions as to how risk analyses should be carried out, and as from 2010 the risk assessment of areas that are controlled by the municipalities will be carried out on the basis of a centralized risk analysis. In future, the Food Agency will also assess the quality of the risk analyses prepared by the supervising authorities.

*The quality of the reports on cross-compliance control was not satisfactory*

89. Rigsrevisionen also audited a sample of control reports to assess whether they were up to the standards of EU Regulation No 796/2004. Rigsrevisionen found that a number of control reports failed to include all the information stipulated by the Regulation. In particular the control conducted by the municipalities was inadequately documented.

90. The Food Agency therefore issued an executive order on the cross-compliance control (No 1362 of 19 December 2008) according to which the control must be documented in a control report. Moreover, the Food Agency worked out a control report template, which the municipalities are required to apply as from 2008.

*Slow reporting of the results of the cross-compliance control*

91. In accordance with EU Regulation No 1362, the results of the cross-compliance control must be reported to the Food Agency no later than two months after the visit of the supervising authorities.

92. Rigsrevisionen's examination disclosed that many of the control results relating to both 2006 and 2007 were reported after deadline and in some cases up to five months after the control visit. The Food Agency has emphasized the reporting requirements to the supervising authorities.

**EU disqualification of expenditure**

93. If a Member State fails to comply with the rules attached to EU funding, the Commission may decide to disqualify expenditure on a project from reimbursement, and open a correction procedure against the Member State. The Commission will normally apply a so-called flat-rate correction, which means that a fixed percentage of the grant received will not be reimbursed.

The scales of flat-rate corrections begin at 2 per cent, which is imposed for less serious deficiencies/weaknesses, 5 – 10 per cent is justified if the deficiencies are more serious and of a systemic nature, a 25 per cent correction is applied when the irregularities are very serious and systemic. In exceptional cases the rate of correction may be fixed at 100 per cent.

94. In its annual report for 2008, the Food Agency emphasized that the Commission has taken a tougher line with the administrative bodies managing the agricultural funds in the Member States in recent years. As a consequence, several pending cases may lead to more EU disqualifications of expenditure.

95. In terms of amounts involved, the three most significant cases concern hectare aid, cross-compliance control, and the block system, respectively. The total correction may amount to more than EUR 134 million. So far, expenditure of EUR 101 million concerning the hectare aid has been disqualified from reimbursement. The cases concerning cross-compliance control and the block system have not been settled yet. The Danish authorities are disputing the disqualification and have brought the case concerning the hectare aid before the EU Court. The cases will be described in more detail in the following sections of the report.



*Disqualification of expenditure relating to the block index and area control*

96. Based on the Commission's criticism of the block index and the area control, the Danish authorities are concerned that the Commission will apply a so-called flat-rate correction of 2 per cent of the expenditure declared in the period 2005-2006 under the Single Payment Scheme, corresponding to approximately EUR 38 million. To this should be added the risk of a further disqualification of expenditure amounting to approximately EUR 19 million annually, until the weaknesses identified have been remedied.

97. A bilateral meeting was held with the Commission in April 2008, and the Food Agency has forwarded material relevant to the case to the Commission.

98. In an effort to limit the extent of the possible disqualifications, the Minister of Food, Agriculture and Fisheries has in Instrument No 176 of 16 June 2009 asked the Ministry of Finance for EUR 5 million to enhance the quality of administrative checks and checks performed on-the-spot. The Finance Committee has endorsed the petition in Act No 176/6 2009. The Ministry has subsequently launched various initiatives, including the following:

In consequence of the more rigorous requirements introduced by the Commission, the Ministry has launched various activities to enhance the quality of control and has, for instance increased the number of on-the-spot inspections. Furthermore, the Ministry has made an agreement with a consultancy firm, which has carried out an analysis of the procedures concerning area size control conducted under the EAGF and the EAFRD.

In 2009 and 2010, the Ministry is also planning to review and recalculate 2,000 applications for direct agricultural support.

99. Rigsrevisionen finds it satisfactory that the Food Agency has launched several initiatives to improve the quality of the Danish block index.

*Disqualification of expenditure relating to cross-compliance control in the period 2005-2006*

100. On a control visit in the autumn 2006, the Commission established 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 requirements for good agricultural and environmental condition, as referred to in EU Regulation No 1782/2003. For example, the Danish authorities had not adopted requirements for crop rotation, introduced rules on appropriate machinery use and retention of landscape features. The Danish authorities were of the opinion that the introduction of these requirements should be determined by national natural conditions.

101. The Commission found that the missing requirements and inadequate control procedures warranted a correction of approximately EUR 5 million. The Food Agency contested the conclusions made by the Commission and the case was referred to the EU Conciliation Body, which presented its report in April 2009.

102. Based on the report issued by the EU Conciliation Body, the Commission is now considering reducing the correction to approximately EUR 4 million, but no formal decision has been made by the Commission at this point.

103. On its visit to Denmark, the Commission also established that in particular the municipalities had failed to comply with EU Regulation No 796/2004 concerning requirements to control reports. The municipalities had based their selection of the sample on very general risk criteria that were not relevant for the requirements that were to be checked. Neither of these findings led to corrections.

*Disqualification relating to hectare aid in the period 2002-2004*

104. When the hectare aid was introduced, the EU regulations required that part of the farmland should be set-aside to limit overproduction of corn, etc. The farmland should either be set aside or be used for non-food production.

Furthermore, the land declared as set-aside should be maintained in good agricultural condition. Following the implementation of Agenda 2000 in 1999, the Member States were also required to ensure protection of the environment taking into consideration the special nature of the set-aside areas.

On a control visit in Denmark in the autumn 2004, the Commission found weaknesses in the Danish control of compliance with the regulations concerning maintenance of set-aside farmland. The Commission also held the view that remote sensing checks had not been carried out to the standard required.

The Commission mainly based its opinion on the fact that the Danish supervising authorities had declared set-aside areas eligible in spite of the fact that they had not been maintained in accordance with the EU Regulation, had been returned to nature or were unsuitable for cultivation and therefore used for unauthorised purposes.

The Commission applied corrections in the amount of EUR 102 million relating to part of the hectare aid disbursed in 2002, 2003, and 2004.

In the subsequent bilateral discussions, the Danish authorities maintained that Denmark had acted in full compliance with the EU regulations on hectare aid, whereas the Commission insisted that there had been weaknesses in the control of compliance with the EU regulations concerning set-aside land and weaknesses in the implementation of the remote sensing control.

The Danish authorities did not agree with the Commission's conclusions and the case was therefore referred to the EU Conciliation Body. The EU Conciliation Body is not a court and its decisions are not legally binding for the Commission.

The report of the EU Conciliation Body was released on 9 September 2008. The Body found it impossible to bring together the views of the two parties, but supported the arguments put forward by the Danish authorities that;

- many of the set-aside areas are back in cultivation without significant land preparation, which seems to indicate that the maintenance standard of the areas had been reasonable in the years 2002-2004;
- all of Denmark is a nitrate vulnerable zone, which has required green cover on set-aside land and involved the imposition of a ban on irrigation and the use of pesticides;
- rainfall had been exceptionally heavy in the months preceding the audit, which could account for the condition of some of the areas inspected.

105. On the basis of these arguments, the EU Conciliation Body urged the Commission to re-consider its decision concerning the proposed corrections.

106. On 19 March 2009, the Commission made its final decision in the case and reduced the previously proposed correction from EUR 102 million to EUR 101 million. However, the Danish authorities still do not agree with the correction and has in June 2009 brought the case before the EU Court asking for an annulment, alternatively reduction of the disqualification.

The Ministry of Food, Agriculture and Fisheries has in Instrument No 150 of 19 May 2009 informed the Finance Committee under the Folketing (parliament) of the disqualification.

107. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area. On the basis hereof, bringing the case before the EU Court is considered justified by Rigsrevisionen.

#### **Substantive auditing carried out by the Court**

108. Rigsrevisionen participated in the Court's DAS audit of the financial year 2008. The four samples drawn were all beneficiaries under the Single Payment Scheme. The check of land measurements carried out on-the-spot by the Court revealed deviations on three of the four farms, and the errors were categorized as DAS errors.

109. 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 cases. In this instance, the Food Agency decided to intervene and checked the farms where the errors had been detected. The checks performed on-the-spot showed minor deviations at two of the farms, whereas the third farm had not overstated the parcel size.

110. The combined deviation at the two farms was less than 1 ha. The two farmers were instructed to repay EUR 327 and EUR 202, respectively of the total support received (EUR 24,738 and EUR 40,445, respectively).

111. Rigsrevisionen is satisfied that the Food Agency has conducted a full scale control measurement of the farms where so-called DAS errors were detected.

112. Rigsrevisionen has noted that the control showed no deviation at the one farm, and a total deviation of less than 1 ha at the two other farms, which is considered a minor error.

#### **Clearance of accounts (both agricultural funds)**

113. Rigsrevisionen participated in the Court's audit of the clearance of the agricultural fund accounts in 2008 in Denmark. The Court is performing this audit in the Member States and in the Commission.

114. The Court missed formal documents supporting the certifying body's assessment of the work carried out by the internal auditors. Following a review of the substantive audit conducted by the certifying body, the Court also found that some of the controls were inadequately documented.

115. The Food Agency and the certifying body took note of the Court's comments and recommendations, and the procedures and routines of documentation will be adjusted accordingly. Rigsrevisionen found this satisfactory.

#### **Overall assessment of the Single Payment Scheme in Denmark**

116. Overall, Rigsrevisionen considers the EU financial statement for the Single Payment Scheme to be correct. In 2008, payments from the Single Payment Scheme amounted to approximately EUR 894 million.

117. In several cases, the audit of the control of parcel size disclosed that support had been granted to areas that were not eligible, and to blocks that were not correctly defined. Furthermore, the remote sensing control of parcel size turned out to be inaccurate and included in some instances ineligible fields were included in the measurements. Lastly, several of the on-the-spot measurements performed by inspectors from the Plant Directorate unintentionally included ineligible areas.

118. On auditing the cross-compliance control, it was established that the quality of the risk analyses carried out by the supervising authorities was inadequate, and the documentation of the implemented control visits provided by the supervising authorities was not satisfactory and did not meet with the requirements of the EU regulations. Moreover, many of the control

results had not been reported to the Danish Food Industry Agency (the Food Agency) within the two-month deadline after the control visit, as required.

119. Rigsrevisionen finds it satisfactory that the Ministry of Food, Agriculture and Fisheries has launched several initiatives to improve the cross-compliance control. Several of the initiatives have been launched recently, and the remaining will be launched in 2010. Therefore, the effect of the initiatives cannot be assessed at this point, but Rigsrevisionen will follow the efforts to improve the cross-compliance control closely.

120. The scope of the errors and deficiencies relating to the control of parcel size and cross-compliance control is, however, so limited that there is no cause for Rigsrevisionen to change its overall assessment of the financial statement for the Single Payment Scheme as being correct.

121. Based on the nature of the weaknesses found and the inadequate control of parcel size, the Danish authorities are concerned that the Commission will apply a so-called flat-rate correction of 2 per cent of the expenditure declared in the period 2005-2006, corresponding to approximately EUR 38 million. To this should be added the risk of a further disqualification of expenditure amounting to approximately EUR 19 million annually, until the weaknesses identified have been remedied.

122. The Commission has also opened proceedings against the Danish authorities claiming repayment of approximately EUR 5 million due to deficiencies in the Danish cross-compliance control. The EU Conciliation Body has subsequently proposed a reduction of the correction to approximately EUR 4 million. The Commission has not agreed on the correction at this point.

The Commission has also instructed Denmark to pay back EUR 101 million of the area support received in the period 2002-2004 on the grounds that Denmark has failed to meet with the EU regulations concerning maintenance of set-aside land. However, the Danish authorities do not agree with the Commission in this matter, and the case has been referred to the EU Conciliation Body. The EU Conciliation Body was supportive of the arguments put forward by the Danish authorities, according to which the maintenance of the areas set aside had been adequate in the period 2002-2004, and had thereby essentially been in compliance with the EU regulations. Because the Danish authorities disagree with the observations made by the Commission and the disqualification of the expenditure, the case has now been brought before the European Court of Justice (EU Court). In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area. On the basis hereof, bringing the case before the EU Court is considered justified by Rigsrevisionen.

### C. Background information on other agricultural schemes

123. The following sections of the report are dealing with premiums for male animals and ewe, export support and subsidies for conversion to organic agriculture, and agri-environmental subsidies.

#### **Premiums for male animals and ewe**

124. Subsidies for the slaughter of male animals and for ewe production are quite exceptionally still linking support to production. In 2008, EU subsidised the slaughter of male animals and ewe production by EUR 30 million and EUR 1 million, respectively. In total the scheme subsidised the slaughter of approximately 250,000 bulls and steers, and approximately 66,000 ewes.

125. The Food Agency is responsible for the administrative control in connection with the processing of applications and disbursements, whereas the physical control has been delegated to the Plant Directorate. The control conducted by the inspectors of the Plant Directo-

rate at the farms is based on a sample selected by the Food Agency and it includes a check of all eligible animals (e.g. compliance with the earmarking requirements), and control of documents relating to animals that have been sent to slaughter.

Non-compliance with the regulations detected by the inspectors will be reported to the Food Agency, which will then determine how much of the grant received the beneficiary will have to repay.

#### **Export subsidy for pigmeat**

126. Generally, the world market prices of agricultural products are lower than the EU market prices, and the EU export subsidy (or refund) compensates for the price difference of certain products. In 2008, Denmark received export subsidies in the amount of EUR 71 million, with the pigmeat subsidy accounting for EUR 19 million.

127. The Food Agency is handling the administration and payment of export subsidies. An IT system is processing applications, calculating the subsidy amounts and activating the actual disbursement of the export subsidy. Only applications in which errors have been detected are being processed manually by the Food Agency.

128. Export subsidies are subjected to various kinds of control. SKAT is conducting the control on behalf of the Food Agency. When SKAT detects incidents of non-compliance, a customs report will be prepared and forwarded to the beneficiary and the Food Agency. Subsequently, and on the basis of the report, the Food Agency will impose sanctions on the farmers who will also be instructed to repay part or the entire subsidy received.

#### **Subsidy for conversion to organic agriculture and agri-environmental subsidies**

129. In 2008, subsidies for conversion to organic agriculture and agri-environmental subsidies amounted to EUR 14 million. By the end of 2008, approximately 179,000 ha was encompassed by the subsidy scheme for conversion to organic agriculture and agri-environmental subsidies, corresponding to approximately 7 per cent of Denmark's total farmland of approximately 2.7 million ha.

130. Under both schemes, grants are provided over a five-year period and beneficiaries must meet various requirements both prior to receiving the grants and during the entire project period.

131. The Food Agency is handling the administrative control of compliance with the subsidy terms whereas the Plant Directorate is handling the control on-the-spot. The control includes re-measurement of areas and checking that all grant terms are being complied with. If the results of the control performed by the Plant Directorate deviate considerably from the measurements indicated in applications, the Food Agency will sanction and/or instruct the beneficiaries to repay part or the entire grant received.

### **D. The most significant audit findings relating to other agricultural schemes**

#### **Premiums for male animals and ewe**

132. In 2008, Rigsrevisionen audited slaughter premiums for male animals, and premiums for ewe production. The audit included a sample of 30 control cases from the Plant Directorate (25 male animals and 5 ewes).

133. Rigsrevisionen's audit showed that the Plant Directorate had conducted the checks correctly, and the quality of the control reports was satisfactory. Furthermore, Rigsrevisionen found that business procedures and internal controls established by the Plant Directorate were appropriate.

134. Rigsrevisionen's audit also showed that the Food Agency imposed correct sanctions on the farmers after having reviewed the control reports submitted by the Plant Directorate. Rigsrevisionen was also of the opinion that the business procedures and internal controls established by the Food Agency were appropriate.

#### **Export subsidy for pigmeat**

135. In 2008, Rigsrevisionen audited the export subsidy for pigmeat. The audit encompassed a sample of 22 export refund cases.

136. The audit showed that satisfactory business procedures and internal controls had been established with respect to processing of licenses, applications for export refunds, deposits, calculation of export refunds and disbursement and accounting of export refunds.

#### **Subsidies for conversion to organic agriculture and agri-environmental subsidies**

137. Rigsrevisionen audited subsidies for conversion to organic agriculture and agri-environmental subsidies in 2008. The audit encompassed a sample of 23 cases in which the Food Agency had imposed sanctions on the farmers accompanied by instructions to repay the funds received on the basis of ineligible areas.

138. Rigsrevisionen found that the Food Agency had acted correctly in the cases where the farmers had infringed the conditions attached to receiving EU funding, and moreover the Food Agency had established satisfactory business procedures and internal controls for the processing this type of cases.

139. Rigsrevisionen has not audited whether the objectives of the Danish rural development project have been achieved, but has reviewed the final evaluation report on the Danish rural development project in the period 2000 – 2006, which was conducted at the initiative of the Ministry of Food, Agriculture and Fisheries and presented to the EU. It appears from the evaluation report that the results achieved with respect to conversion to organic agriculture were not entirely satisfactory. In 2003, approximately 165,000 ha was being managed according to organic principles against a target of 230,000 ha. Furthermore, 153,000 ha was covered by financial support agreements on organic farming in 2006 against a target of 250,000 ha. The target set for reduction in nitrogen leaching was 800 tons per year compared to 1999, but the actual reduction was 280 tons nitrogen per year.

140. In the report, the failure to achieve the objectives set for organic farming is attributed to world market trends. Furthermore, the target set was excessively optimistic and based on the positive development that characterized the late 1990s.

#### **Overall assessment of the other agricultural schemes in Denmark**

141. In the opinion of Rigsrevisionen, the EU financial statement for the other agricultural subsidy schemes is correct. Subsidies relating to the agricultural schemes amounted to approximately EUR 200 million in 2008.

142. The audit performed by Rigsrevisionen of male animal and ewe premiums, the export subsidy on pigmeat, organic conversion subsidies, and environmental cross compliance showed that adequate business procedures and internal controls had been established in the areas under review.

## VII. Structural funds under the Ministry of Economic and Business Affairs

### MAIN FINDINGS

It is Rigsrevisionen's assessment that the financial administration of funds from the European Social Fund (the Social Fund) and the European Regional Development Fund (the Regional Fund) is generally satisfactory, yet the business procedures and internal controls established to manage Social Fund projects can be improved.

143. Rigsrevisionen has examined whether the financial administration of funding provided by the Social Fund and the Regional Fund is handled in a satisfactory manner.

Rigsrevisionen has audited the two funds and reviewed the control reports prepared by the Commission and the controllers of the DEACA.

#### A. Background information

144. The Social Fund and the Regional Fund are both designed to promote sustainable growth, competitiveness and employment. In Denmark the structural funds are also required to support the government's strategy of globalization.

The DEACA has defined various focus areas for the two funds, i.e. human resource development, innovation, knowledge accumulation, knowledge sharing, new technology, and entrepreneurship.

#### Grant terms

145. Programmes must be linked to the focus areas mentioned above and meet certain eligibility conditions; they need to be additional meaning that without funding from the structural funds, they would not be implemented.

Moreover, projects must be innovative and it should be possible to mainstream the experience gained during the lifetime of projects. In this context, mainstreaming means that the experience gained can be disseminated and new practices implemented in other areas of society.

146. Grant recipients are required to co-finance at least 50 per cent of the accepted project expenditure. Co-financing can be provided by the state, private enterprises and institutions. The national, public co-financing is mainly provided as unemployment benefits, salaries, municipal and regional subsidies, etc. This means that funding is linked to project participation, which is therefore monitored and registered.

147. Throughout the lifetime of the project, the recipients are required to submit progress reports to the DEACA semi-annually. At the end of the project, in connection with the request for the final payment, the audited financial statement of the project, the audit opinion and an evaluation report are forwarded to the DEACA.

The DEACA has appointed a private auditing firm (in the following referred to as the "appointed auditing firm"), and all grant recipients are required to submit their accounts to the appointed auditing firm who will audit the accounts and issue an audit opinion.

#### **Administration and legality checks**

148. Applications for subsidies are forwarded to the relevant region, and proposed projects are reviewed by the regional growth forums that are composed of regional politicians and representatives of the business community, knowledge and educational institutions and parties in the labour market, etc. The administration of the structural fund projects is handled by secretariats that have been made available by the regions.

149. The regional growth forums submit their recommendations of projects to the DEACA, which will subsequently check the legality of the projects, i.e. is the proposed project in compliance with the extensive EU regulations (like for instance regulations concerning national support). If the project is accepted, the DEACA will commit to the project. The DEACA is also ensuring project follow up, disbursing grants and performing sample-based on-site verification of projects.

#### **EU controlling authorities**

150. The controllers of the Commission and the DEACA are verifying the expenditure of the two funds.

151. The Commission is the overall administrative authority and is regularly checking the administration of the structural funds performed by the DEACA. The Commission is also controlling the quality of the audit conducted by the appointed auditing firm. If the Commission detects irregularities, corrections will be imposed on the projects that have received funds from the structural funds.

152. The controllers will assess the effectiveness of the administration and control systems established by the funds. The controllers are also responsible for the financial auditing of the projects and are required to audit at least 5 per cent of the expenditure reported to the Commission during the lifetime of a project.

#### **Reconciliation errors in 2007**

153. In 2007, the DEACA made a book-keeping error when the support granted from the Social Fund was reconciled between the DEACA's project and finance management system OPUS and the official accounts in Navision Stat (government accounting system). When the counties were abolished on 1 January 2007, many new projects were transferred to the DEACA and the reconciliation exercise became more complicated. As a result of the reconciliation error, a negative revenue variance of EUR 0.03 million was booked as a positive revenue variance of EUR 0.3 million. It has been agreed with the Ministry of Finance to correct the allocation error of in total approximately EUR 0.33 million in the 2008 accounts.

#### **Irregularities**

154. Irregularities are defined as infringements of EU regulations that are prejudicing the budget. Irregularities relating to sums of more than EUR 10,000 must be reported to the European Anti-Fraud Office (OLAF). Depending on the nature and seriousness of the irregularities, financial sanctions will be imposed on the beneficiaries who will also be instructed to repay part or the entire grant received. In 2008, six cases of irregularities, of which five were related to bankruptcies, were reported under the Social Fund. Under the Regional Fund there were three cases of irregularities; in two of the cases, the beneficiaries had included ineligible expenditure and had failed to document time records of staff adequately.



## B. Significant audit findings relating to the Social Fund

### **Inadequate operational targets**

155. Rigsrevisionen reviewed a sample of 28 projects funded by the Social Fund in 2008. The audit of the project applications disclosed that only fairly general targets had been set for some of the projects and the success criteria of target attainment were rather vaguely formulated. Rigsrevisionen therefore recommended that the DEACA should emphasize to the beneficiaries the importance of setting operational targets in order to facilitate the subsequent evaluation of the success of the project.

The DEACA has initiated development work concerning measurement of effect, and a guide to project evaluation is currently being prepared. The DEACA has also arranged a seminar on effect measuring systems for the secretariats that are servicing the regional growth forums. Rigsrevisionen is expecting these initiatives to improve efforts in the area.

### **Varying quality of the recommendations made by the regional growth forums**

156. Rigsrevisionen noted that the recommendations made by the regional growth forums differed significantly in content and quality. For instance, one recommendation did not include an evaluation of whether the application met with the key conditions, i.e. the project should be additional, innovative and mainstreamable. Moreover, the economy, co-funding, targets and sub-targets of the project had not been assessed either. The DEACA was therefore instructed to ask the recipient for additional information.

157. Rigsrevisionen recommended that the DEACA should make it compulsory for the growth forums to include a clear assessment of whether the key conditions of eligibility have been met, as this will make it possible for the DEACA to accept or reject applications on the basis of the recommendations.

158. The DEACA has taken note of Rigsrevisionen's comments and adjusted the checklists. The Authority will also in the future arrange seminars for staff in the regional growth forums. These initiatives are considered satisfactory by Rigsrevisionen.

### **Failure to charge interest on repayment of ineligible support**

159. Rigsrevisionen detected one case where the rules concerning registration of project participants had been violated. The auditor of the project had detected that several of the signatures in the register looked very much alike and seemed to have been written "with excessive care". The auditor examined the matter and concluded that the accounts included support for non-existent participants.

This conclusion and other critical remarks in the auditor's report made it clear that almost every aspect of the project deviated from the accepted application, and the DEACA therefore instructed the beneficiary to repay the entire grant. The beneficiary proposed a repayment scheme and the DEACA agreed to waive interest accrued on the amount owing.

160. It appeared from internal correspondence in the DEACA that the beneficiary had a bad track record and had previously copied signatures which had resulted in disqualification of project expenditure.

Rigsrevisionen therefore asked the DEACA why the application had been accepted when the applicant had previously copied participants' signatures and thereby violated the funding conditions.

161. The DEACA responded that the recipient had in two previous cases acted as subcontractor to another recipient, and the new project had already been accepted when the irregularities were detected.

162. It also appeared from the DEACA's internal correspondence that it had been considered to hand over the case to the police. But the Authority decided not to contact the police when the recipient volunteered to repay the amount owing.

In the opinion of Rigsrevisionen the character of the case was such that the DEACA should have reported the recipient to the police, irrespective of the fact that a settlement could turn out to be less costly.

163. The DEACA also stated that it had no written policy for charging interest on repayments of ineligible structural funds. Generally, beneficiaries are instructed to repay the entire grant at once, unless an instalment plan is agreed with the beneficiary. Whether interest should be charged will therefore be considered and decided in each individual case. Interest has not been charged so far, according to the DEACA.

164. Rigsrevisionen finds that the DEACA, as stipulated in the act on administration of subsidies from the Regional Fund and the Social Fund (Act No 1599 of 20 December 2006), should charge interest and it is therefore not satisfactory that the DEACA has failed to comply with the provisions of the act in this respect.

165. The DEACA has noted the comments made by Rigsrevisionen and will in future charge interest in accordance with the provisions of the act.

#### **The controllers' review did not result in significant points of criticism**

166. In 2008, the controllers visited five projects under the Social Fund. The sample check did not disclose any significant and/or systemic errors. The preliminary total error rate of projects in the programming period 2000 – 2006 has been calculated at 0,58 per cent at the end of 2008. The error rate expresses the ratio between number of errors detected and amount of expenditure examined.

#### **Overall assessment of funding by the Social Fund in Denmark**

167. In the opinion of Rigsrevisionen, the EU financial statement for the European Social Fund is correct. Payments received from the Social Fund amounted to approximately EUR 24 million in 2008.

168. A review of a number of Social Fund projects showed that the DEACA did not to the extent required guide applicants on the establishment of operational targets for the projects. Neither did the DEACA ensure that the recommendations of the regional growth forums were prepared according to a fixed standard.

169. So far, the DEACA has not charged interest when recipients of structural fund subsidies have been instructed to repay the subsidy and has not formulated a written policy of addition of interest, in spite of the fact that the act on administration of subsidies issued by the Social Fund and the Regional Fund stipulates that ineligible subsidies should be repaid with the addition of interest. In the opinion of Rigsrevisionen, it is not satisfactory that the DEACA has failed to comply with the regulations. The DEACA has noted the comments made by Rigsrevisionen, and will in future charge interest in accordance with the provisions of the act.

### **C. Significant audit findings relating to the Regional Fund**

#### **Satisfactory administration of grants provided under the Regional Fund**

170. Rigsrevisionen has audited a sample of eight projects that received funds from the Regional Fund. The audit disclosed that the DEACA had established satisfactory business procedures and internal controls for the administration of project grants from the fund. Overall, the administration of grants was therefore considered satisfactory.

*The Commission's comments to the on-site visits of the DEACA and the work performed by the controllers*

171. The Commission's review of the programming period 2000 – 2006 did not reveal any errors in the expenditure of the projects, yet the Commission called upon the Danish authorities to improve administration and control.

172. For instance, the Commission instructed the DEACA to implement a number of on-site project checks and ensure improved documentation of findings during the control visits. With respect to the work carried out by the controllers, the Commission stated that their work should more extensively build on checklists, and the audit findings should be categorized according to their importance and systemic nature. The Authority and the controllers have taken note of the Commission's recommendations.

**Overall assessment of funding from the Regional Fund in Denmark**

173. In the opinion of Rigsrevisionen, the EU financial statement of the Regional Fund is correct. Payments received from the fund amounted to approximately EUR 46 million in 2008.

## VIII. Project subsidies under five ministries

### MAIN FINDINGS

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

174. Government institutions may receive aid directly from the Commission. However, the Commission has made it a pre-condition of granting aid that the respective institutions submit an audit opinion to the Commission. Rigsrevisionen is issuing audit opinions on the institutions that are receiving project aid.

Institutions under the Ministry of Economic and Business Affairs, the Ministry of the Environment, the Ministry of Transport and the Climate and Energy Ministry have received project aid. Furthermore, the universities under the Ministry of Science, Technology and Innovation have received project aid.

#### **Audit of EU project aid relating to institutions under the Ministry of Economic and Commercial Affairs, the Ministry of the Environment, the Ministry of Transport and the Ministry of Climate and Energy**

175. Rigsrevisionen issued a total of 31 audit opinions on institutions under the Ministry of Economic and Commercial Affairs, the Ministry of the Environment, the Ministry of Transport and the Ministry of Climate and Energy. None of the audit opinions were qualified because the errors detected by Rigsrevisionen during its audit were corrected by the institutions before the audit opinions were issued.

176. All the institutions under the Ministry of Climate and Energy presented satisfactory project accounts. The institutions are participating in many research projects established by the EU and in addition to having detailed knowledge of the rules governing the area, they have also gained experience within management, administration, and quality assurance of projects. As a result, Rigsrevisionen detected only very few errors in the accounts.

177. On the other hand, the institutions under the Ministry of Economic and Commercial Affairs, the Ministry of the Environment and the Ministry of Transport had difficulties presenting correct project accounts for auditing. The difficulties were caused by ignorance of relevant EU provisions, and in particular the rules governing refunding of VAT and fees, documentation of reclaimable expenditure and time records, and errors in salary calculations. However, the errors detected by Rigsrevisionen were all corrected before the accounts were presented.

**Audit of EU project aid under the Ministry of Science, Technology and Innovation**

178. The Commission is granting direct aid to a large number of EU research projects run by the universities.

179. The direct aid received from the Commission is not included in the state accounts. The reason is that 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 aid from the Commission amounting to a total of EUR 67 million in 2008. The total number of projects in progress under the universities has been estimated at just under 1,800. Most of the projects are multi-annual.

180. 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.

181. The internal auditors have provided Rigsrevisionen with information on the number of audit opinions issued, errors detected during the audit and the content of audit opinions issued on EU projects.

182. In 2008, the internal auditors issued a total of 352 audit opinions on project accounts. Most of the errors detected during the audit were corrected prior to the presentation of the accounts. The internal auditors have only qualified their audit opinion or provided supplementary information in a few cases.

183. Generally, the administration of the projects is the cause of the qualified audit opinions and supplementary information. The errors were caused by a variety of factors; time records were not kept for the lifetime of the projects, guidelines for the administration were not coordinated (resulting in different guidelines for overhead calculation, time records, accounts, etc.), and in a few instances, refundable VAT on foreign travel expenses had not been processed correctly.

**Overall assessment of project aid under five ministries**

184. In the opinion of Rigsrevisionen, the EU project accounts presented under the Ministry of Economic and Commercial Affairs, the Ministry of the Environment, the Ministry of Transport, The Ministry of Climate and Energy, and the Ministry of Science, Technology and Innovation are correct. Project aid disbursed by the Commission amounted to approximately EUR 82 million in 2008.

## IX. EU expenditure under the Ministry of Taxation

### MAIN FINDINGS

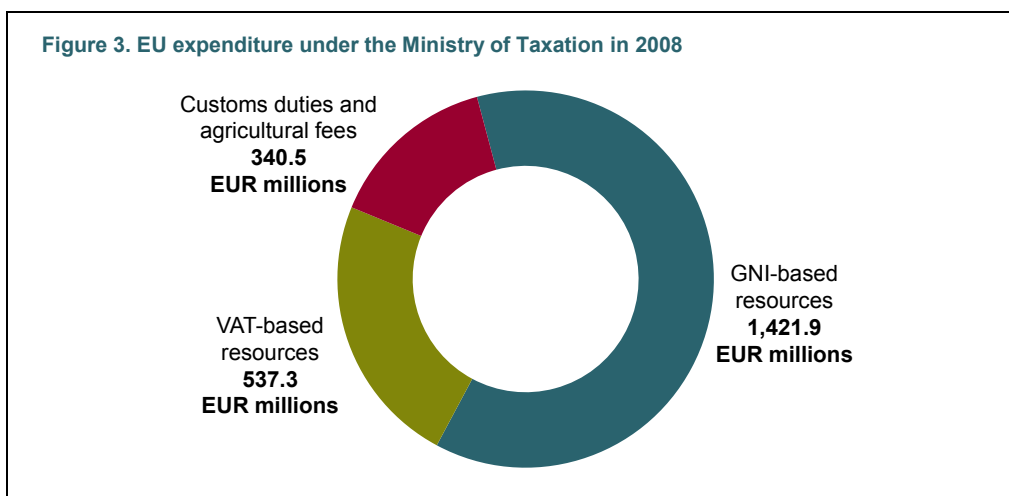
In the opinion of Rigsrevisionen, the financial administration of EU expenditure is generally satisfactory. However, there are still problems with errors in customs declarations and incomplete customs declarations.

185. Rigsrevisionen has examined whether the financial administration of the EU expenditure is satisfactory. The assessment has been based on Rigsrevisionen's own audit of the EU expenditure, review of reports from the internal auditors in the Ministry of Taxation, and the Commission.

### Background information on EU expenditure

186. In 2008, EU expenditure amounted to approximately EUR 2,461.9 million. The Ministry of Taxation is the administrator of EUR 2,299.7 million of this amount.

Figure 3 shows the composition of the EU expenditure under the Ministry of Taxation.



187. As will appear, most of the expenditure, EUR 1,421.9 million, is related to contributions calculated on the basis of the gross national income (GNI contribution). VAT duties account for EUR 537.3 million and customs duties and agricultural fees and levies are accounting for EUR 340.5 million, of which EUR 311.3 million is customs duties, corresponding to 91 per cent of total agricultural fees and levies and customs duties combined.

188. The EUR 340.5 million includes all customs duties and agricultural fees and levies charged excluding 25 per cent to cover Danish administrative expenses.

*GNI- and VAT-based budget contributions*

189. The GNI- and VAT-based budget contributions are a fixed percentage of a harmonisation of gross national income and an alignment of VAT, respectively. The calculations are performed by the Commission. The GNI percentage is determined at a level, which is ensuring balance between EU expenditure and revenue.

The Ministry of Taxation is submitting the data providing the basis for the VAT calculation to the Commission. The GNI-based budget contribution is determined on the basis of an annual statement submitted by Statistics Denmark to the Commission.

190. Both contributions are settled in monthly instalments. The Department of the Ministry of Taxation, and since 1 June 2008 also SKAT, is checking the statements and paying the monthly instalments into an account held by the Commission with Danmarks Nationalbank (the national bank of Denmark).

191. The GNI-based contribution makes up a fixed share of Denmark's gross national income and is determined in conformity with the methods of harmonisation stated in the European System of Accounting (ECA95). The GNI-based contribution of certain Member States is reduced in compliance with various rebate or compensation mechanisms that are financed by the other Member States.

*Customs duties and agricultural fees and levies*

192. On behalf of the EU, SKAT is collecting customs duties on goods imported from countries outside the EU and agricultural fees and levies. The duties and fees collected are entered in the state accounts as revenue.

*Supplementary information on customs duties*

193. Companies importing goods from countries outside the EU (or shipping agents representing such companies) are reporting the data required for customs clearance online to SKAT.

The electronic customs clearance is fulfilling the requirements of the business community with respect to 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.

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

195. The Integrated Tariff of the European Community contains between 10,000 and 20,000 product codes and duty rates. The many product codes are serving clearance purposes, but are also used for statistics. The statistic data are used by various trade organisations and the Commission for monitoring of the trade.

*Disqualification of expenditure under the remit of the Ministry of Taxation*

196. In 2006, the Commission initiated proceedings against Denmark claiming that Denmark had violated its obligations to the EU because it had failed to calculate and pay customs on various equipment for the Danish Defence in the period 1998-2002. The Danish authorities have disputed the claim put forward by the Commission, but has deposited the amount in question to halt the charging of penalty interest should Denmark lose the case.

197. Denmark has deposited EUR 10 million upon approval by the Finance Committee in Act No 111 27/3 2008.

### **Significant audit findings concerning the EU expenditure**

#### *Errors in the customs declarations submitted by the companies*

198. The internal auditors and Rigsrevisionen detected many, but minor errors in terms of amounts in the customs declarations in the accounts for 2006 and 2007. Most of the errors were caused by incorrect declarations submitted by the companies. None of the errors were considered to be intentional.

199. In 2007 as well as in 2008, SKAT ran general information campaigns, implemented increased control and imposed sanctions more frequently on companies in an effort to reduce the high error rate. However, the internal auditors have not detected any significant drop in the number of errors in the declarations submitted by the companies in 2008. This observation is confirmed by SKAT.

200. SKAT subsequently launched three new initiatives: First, a national effort directed at large companies. SKAT has established that 75 per cent of total customs duties payments are contributed by 100 large companies, and the 20 largest companies are accounting for more than 40 per cent of the revenue. According to plan, this project will be running until year-end 2009.

201. Second, a project to determine the level of compliance with current regulations with respect to data in the customs declarations that are of significance for the final settlement of customs duties. The project is intended to shed light on the reasons why the companies are finding it difficult to perform in compliance with the regulations.

On the basis of these data, SKAT will calculate a so-called compliance degree reflecting the companies' ability to follow the rules and focus their efforts to improve compliance.

As part of the project, SKAT will check a statistic sample of approximately 2,000 customs declarations. According to plan, the entire project will be finished by the end of June 2010.

202. The objective of SKAT's third initiative is to reduce the number of errors in customs declarations before they are accepted and the goods released. This will be achieved through the implementation of targeted daily sample-based checks of declarations and follow-up initiatives.

Control results will be reported into a newly established database and the data will be included in the basis for the planning of future efforts in the area. According to SKAT's plan, the control of the declarations will take place in the period 1 September 2009 – 31 December 2009, and the final evaluation report will be available on 1 February 2010.

203. Rigsrevisionen has conducted a general review of the customs declaration system and concluded that there is a large inherent risk of errors in the customs declarations due to the organisation of the customs clearance which is based on self-service, has many users and includes a vast number of product codes, etc.

#### *Incomplete customs declarations*

204. These are declarations that the companies have started to fill out in the customs declaration system, but have not completed. The incomplete declarations may be of no current interest (like for instance duplicate registrations) or concern failure to settle customs duties resulting in loss of EU customs revenue.

205. The extent to which incomplete declarations are relating to imports that have not been declared has not been examined.



206. The Court and Rigsrevisionen audited incomplete declarations in 2007 and on the basis of the audit, the Court concluded that SKAT should work out instructions as to how incomplete customs declarations should be processed. The Commission has, on an earlier occasion, pointed to the same problem, in particular in relation to the years 2005 and 2006. The issue raised by the Commission has not been resolved at this point.

207. In the autumn 2008, the internal auditors stated that the guidance issued by SKAT in June 2008 to its employees concerning the processing of incomplete customs declarations was not clear, and consequently incomplete declarations were still not being processed in a uniform manner.

The internal auditors also established that not all the incomplete declarations were being processed, because they slipped through the filter that created the lists of incomplete declarations. The internal auditors also established that SKAT still had not reported to the Commission on incomplete declarations relating to the years 2005 and 2006.

208. According to the overall assessment made by the internal auditors, SKAT's procedure for processing of incomplete declarations was not considered entirely satisfactory. The internal audit resulted in a number of recommendations, which SKAT is currently implementing.

SKAT submitted a report on procedures etc. to the Commission in January 2008, and is therefore of the opinion that there are no outstanding matters relating to incomplete declarations in 2005 and 2006. The Commission has not commented on the report received from SKAT at this point.

209. Rigsrevisionen raised the issue of incomplete declarations when the electronic customs declarations system was being reviewed and agrees with the assessment of the internal auditors.

*Very satisfactory and satisfactory business procedures for the settlement of EU fees and duties established in the Department of the Ministry of Taxation and in SKAT*

Settlement of EU fees and duties by the Department of the Ministry of Taxation in the period 1 January 2008 – 18 June 2008:

210. Rigsrevisionen has audited the Department of the Ministry of Taxation's settlement of EU fees and duties in the period 1 January 2008 – 18 June 2008 when the assignment was transferred to SKAT. The audit has not comprised the Commission's or Statistics Denmark's settlement of GNI, but only the administration performed by the Ministry of Taxation.

211. The audit showed that the business procedures and internal controls established for the settlement of customs duties and agricultural fees and levies, etc. were very satisfactory and the business procedures and internal controls established for VAT- and GNI-based contributions were satisfactory.

212. According to its business procedures, the Department of the Ministry of Taxation is to reconcile bills received from the Commission and the EU's published budgets when levies and duties are booked and settled. The Department stated that the control was implemented to the extent possible, as adjustments of the EU budgets are not always published made public before the bills are settled.

Settlement of EU fees and duties by SKAT in the period 18 June – 31 December 2008:

213. The internal auditors in the Ministry of Taxation have audited SKAT's settlement of customs and duties and the VAT- and GNI-based contributions in the period commencing 18 June 2008, when SKAT took over the assignment from the Department.

214. The internal auditors stated that the settlement had taken place in compliance with EU regulations, and the amount settled was fully documented and correctly included in SKAT's accounts.

Rigsrevisionen has reviewed the reports prepared by the internal auditors and agrees with their conclusions.

*Recommendations concerning presentation of separate accounts*

215. The internal auditors in the Ministry of Taxation and the Commission have formalized their cooperation by entering a joint audit agreement. According to this agreement, the Commission may base its assessment of the customs revenue on the audit performed by the internal auditors.

216. Every month, SKAT is working out accounts for the Commission on the basis of booked customs revenue, etc. Customs debts, or disputes concerning the amount of customs debt, are entered in the separate accounts if the total amount involved exceeds EUR 10,000. In accordance with the joint audit agreement with the Commission, the internal auditors have conducted an audit of the separate accounts in 2008. The audit findings have been presented to the Commission.

217. Audits of confined parts of the operations showed weaknesses in certain internal procedures and controls relating to the cooperation between the different tax centres and the paying agency. The internal auditors therefore concluded that there was a risk that the authorities might make errors of financial implications.

218. The internal auditors made several recommendations and suggested, for instance that SKAT should define procedures and internal controls concerning the separate accounts to ensure that SKAT is settling customs revenue correctly and in compliance with EU regulations.

The inspectors of the Commission agreed with the conclusions and recommendations of the internal auditors, and SKAT has taken note of the observations made by the auditors.

**Overall assessment of the financial statement of EU expenditure in Denmark**

219. In the opinion of Rigsrevisionen, the financial statement of EU expenditure is correct. Still, the audit disclosed certain problems concerning customs duties and agricultural levies. The EU expenditure, which is Denmark's contribution to the EU, amounted to a total of EUR 2,461.9 million in 2008.

220. The audit of customs duties and agricultural levies in 2006 and 2007 disclosed many, but minor errors in terms of amounts in some of the customs declarations. The importers are clearing customs electronically, which means that they via the internet report the data required to perform the clearance. The errors were mainly caused by inadequate quality of the data reported by the importers. The problems with errors in customs declarations and incomplete declarations continued in 2008.

221. The vast number of product codes and the fact that the companies are required to report the data themselves add to the risk of errors in the customs declarations. However, the system also has its advantages, and SKAT needs to analyse the nature of the errors and how they emerge in order to improve the system and the quality of data entries and thereby reduce the number of errors.

222. Preventing errors in the customs declarations submitted by the companies will require very detailed knowledge of the causes of the errors. Against that background, Rigsrevisionen finds that SKAT's three new projects that are designed to identify the problem areas support the efforts to reduce the number of errors. Rigsrevisionen will follow the effect of the initiatives taken by SKAT.

223. Rigsrevisionen is of the opinion that the guidelines for processing incomplete customs declarations are unclear, which means that the declarations are being processed differently. The Ministry of Taxation has stated that efforts are being made to clarify the guidelines further and thereby ensure that all incomplete customs declarations are being processed in the same manner. Among other initiatives, SKAT is currently preparing a detailed guideline for the handling of incomplete declarations. Rigsrevisionen will continue to follow SKAT's initiatives in the area.

Rigsrevisionen, 13 November 2009

Henrik Otbo

/Yvan Pedersen

## Appendix 1. Glossary

Agenda 2000	Agenda 2000 introduced regulations concerning maintenance and protection of agricultural land.
Area control	Control of the eligibility of the area indicated in the single payment application compared with the data contained in the <u>block index (cross control)</u> .
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.
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).
EU disqualification	If a Member State is not complying with the EU rules, the European Commission may refuse to reimburse project expenditure. This action is referred to as an EU disqualification.
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".
Orthophotos	Digital field maps prepared on the basis of aerial photographs that have been geometrically corrected to ensure that the scale of distances, areas, etc. are as precise as in an ordinary map.
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 payment entitlements determines the size of subsidy.
Premium	Synonym for 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 elsewhere in the glossary.