



Memorandum to the Danish Public  
Accounts Committee on administration  
and audit of EU funds in Denmark and  
the European Court of Auditors' Annual  
Report on 2007

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**Administration and audit of EU funds in Denmark and the European Court of Auditors' Annual Report on 2007**19 January 2009  
Translation**I. Introduction**

1. The audit of EU funds in Denmark and the EU has developed significantly in recent years. Since 2005, Rigsrevisionen has issued an audit opinion on the Danish EU funds. Supreme audit institutions of other Member States have also played a greater role in the audit of EU funds, and also the cooperation between the supreme audit institutions and the European Court of Auditors (the Court) has undergone changes.

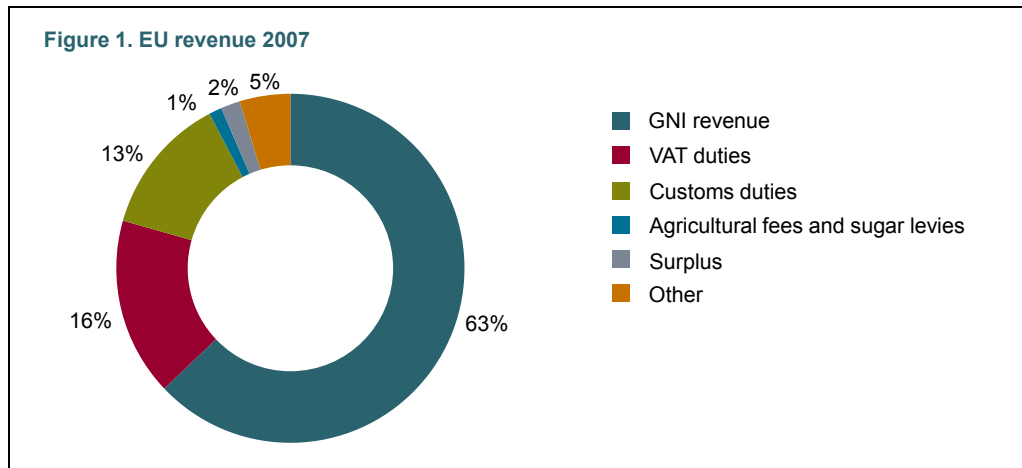
In this memorandum, I shall provide the Public Accounts Committee with an overview of the most significant problems and trends characterising the management and audit of EU funds at the European and Danish level, respectively. Finally, I shall inform the Public Accounts Committee of the most important conclusions made by the Court in its Annual Report on 2007 and provide my comments on these conclusions. I have adopted a broad perspective in this memorandum to ensure that the members of the Public Accounts Committee can include the memorandum in their preparations for the visit to the United Kingdom in June 2009.

2. The first pages of the memorandum present a brief summary of the EU's revenue and expenditure in 2007, including Denmark's contributions and receipts, which will provide the basis for the subsequent information on the planning of the administration and audit of EU funds in Denmark, and the Court's Annual Report on 2007. The memorandum is divided into the following six sections:

- II. Background – the EU's revenue and expenditure in 2007, including Denmark's contributions and receipts.
- III. Administration and audit of EU funds under shared management in Denmark.
- IV. The Court's Annual Report and Statement of Assurance for the financial year 2007.
- V. Development of the cooperation on the audit of EU funds.
- VI. Conclusion.

**II. Background – the EU's revenue and expenditure in 2007, including Denmark's contributions and receipts****The EU's revenue in 2007**

3. In 2007, EU revenue totalled approximately 117.6 billion euro (approximately DKK 880 billion). The EU revenue broken down on the various sources of income will appear from figure 1.



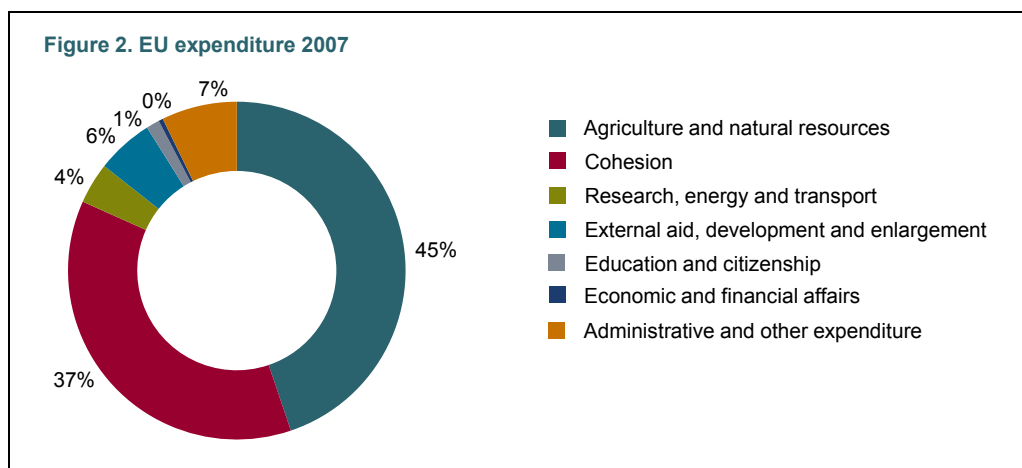
It appears from figure 1 that 63 percent of the EU revenue comes from Member State contributions calculated as a fixed percentage of the gross national income (GNI). VAT (16 percent) and customs duties (13 percent) represent the second and third largest income sources.

#### The EU's expenditure in 2007

4. In 2007, EU expenditure totalled approximately 114 billion euro (approximately DKK 850 billion).

The European Commission's (the Commission) implementation of activity-based budgeting (ABB) and administration has led to a change in the distribution of revenue on policy areas. Consequently, the budget now includes two new policy areas, i.e. "Education and citizenship" and "Economic and financial affairs". In addition, the areas "Pre-accession strategy" and "External actions" have been merged under the headline "External aid, development and enlargement". Finally, the area of "Structural policies" is now called "Cohesion".

The EU expenditure broken down on the various areas of expenditure will appear from figure 2.



As will appear from figure 2, "Agriculture and natural resources" (45 percent) and "Cohesion" (37 percent) are the largest expenditure areas. The expenditure area "Agriculture and natural resources" consists mainly of the EU's expenditure for the common agricultural policy (CAP) and development of rural areas. The expenditure area "Cohesion" consists of the EU's structural policies, i.e. the Regional Development Fund, Social Fund, etc.

"Agriculture and natural resources" and "Cohesion" account for more than 80 percent of the EU expenditure and are under shared management in cooperation between the Commission and the individual Member States. This means that the Commission holds the overall responsibility for the correct implementation of the budget, whereas the Member States select and exercise control over eligible projects and disburse funds to the final beneficiaries.

#### **Denmark's EU contributions and receipts**

5. According to the Danish Governmental Accounting System, Denmark contributed approximately DKK 17.9 billion (approximately DKK 2.4 billion euro) to the EU budget in 2007. In return, Denmark received approximately DKK 10.8 billion (approximately 1.5 billion euro) which the Danish authorities distributed to the final beneficiaries in Denmark.

The greater part of the payments made to Denmark was related to the expenditure area "Agriculture and natural resources" (CAP and development of rural areas) and made up approximately DKK 8.3 billion. Payments in the "Cohesion" area (mainly from the Social Fund) accounted for the second largest amount, i.e. approximately DKK 2.3 billion. "Agriculture and natural resources" and "Cohesion" combined accounted for approximately 97 percent of the payments made to Denmark.

In addition, Denmark also received funds for research and development, education and transport infrastructure.

Beneficiaries in Denmark have also received EU funds directly from the Commission. This direct support mainly concerns support for projects within research and technological development under the so-called framework programmes, but Denmark also received EU funds for projects under other schemes.

In the report to the Danish Public Accounts Committee on the audit of the state accounts for 2007, which was submitted for the Public Account Committee's meeting in November 2008, Rigsrevisionen had mapped the size of EU grants allocated to Danish government institutions in the period 2004-2007. In 2007, government institutions received DKK 585.1 billion as direct grants from the Commission.

### **III. Administration and audit of EU funds under shared management in Denmark**

6. The administration of EU funds distinguishes between internal control and external audit. Internal control includes the control measures that are integrated in the administrative system, and is performed by the national authorities and the Commission. External audit is performed by the independent audit authorities, which report directly to the legislative authorities. In the EU, external audit of Member States is performed by the respective supreme audit institutions and the Court is responsible for the audit on European level.

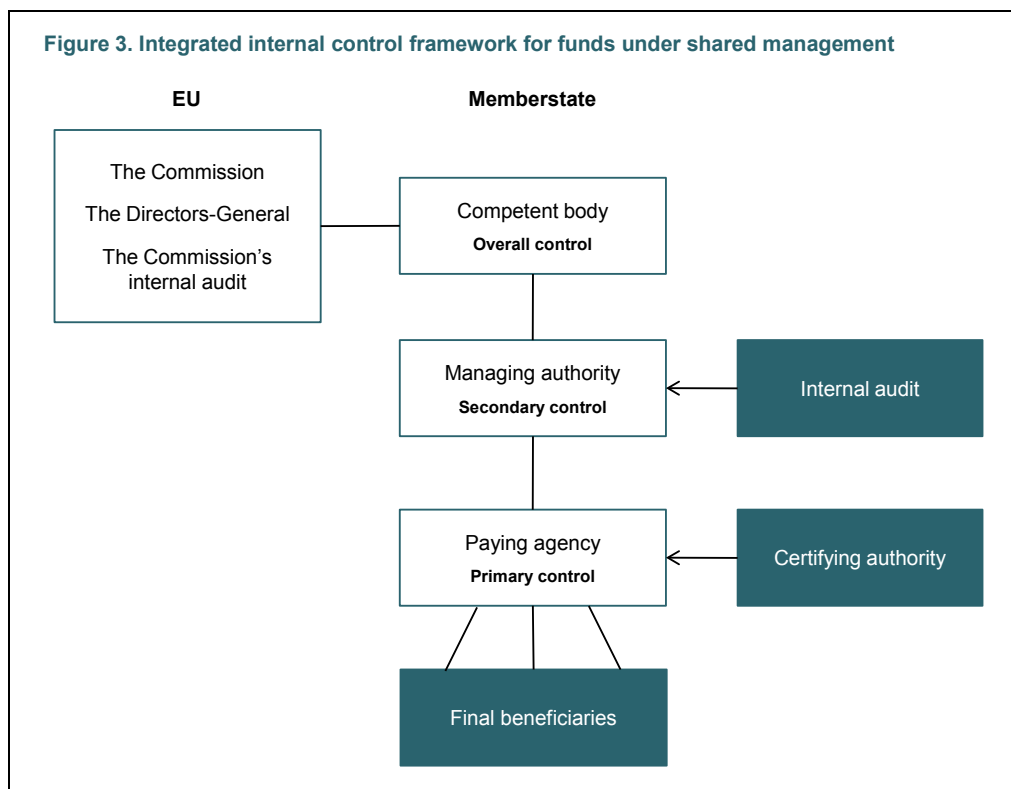
#### **Internal control and external audit in the EU**

7. The Commission's action plan from 2001 which called for an improvement of administration has led to the establishment of audit units under the different Directorates-General and a cross-sectoral internal audit service unit. The de-centralised audit units conduct audits at all administrative levels, including on-the-spot checks at the premises of the final beneficiaries in the Member States. The cross-sectoral internal audit service unit is under the authority of the Commissioner of Administrative Affairs, Audit and Anti-Fraud, and conducts independent audits of the Directorates-General's management and auditing. In its capacity as external auditor, the Court audits the overall effectiveness of the Commission's control systems and conducts substantive audit in the form of on-the-spot checks at the premises of the final beneficiaries.

### An integrated internal control framework for shared management

8. The Commission has in recent years developed an integrated administrative control system for EU funds under shared management. It is structured as a chain of control measures to ensure that checks made on the various levels can build on the conclusions made on preceding levels. The Member States organise their own administration at national level to ensure that the competencies held by the individual administrative units meet current provisions.

Figure 3 presents the principal authorities and their functions in the Commission's integrated internal control framework.



As it appears from figure 3, the Commission holds the overall responsibility for the administration at EU level. The other functions of the integrated internal control framework are distributed between national authorities. The objective is to attain control at three levels in each Member State. First, the final beneficiaries must be subjected to control, for instance in the form as on-the-spot inspections. This is called primary control and it is performed by the authorities disbursing the funds. Secondly, the effectiveness of the primary control must be subjected to systems based control which is conducted at a higher administrative level and is called secondary control. Thirdly, the entire administrative system must be subjected to principal control on ministerial level. Finally, as will appear from the figure, the internal auditors in the overall managing authority and the certifying authority, respectively will conduct the internal audit required by the Commission.

### Internal control in Denmark

9. Table 1 shows the authorities in charge of the various functions of the integrated internal control framework for the EU CAP and the Cohesion policy in Denmark, respectively.

**Table 1. Administration and internal control of EU funds in Denmark**

Control level/control authority	CAP	Cohesion
1. Competent body	Ministry for Food, Agriculture and Fisheries	The Ministry of Economic and Business Affairs
2. Managing authority	The Danish Food Industry Agency	The Danish Enterprise and Construction Authority
3. Paying agency	The Danish Food Industry Agency	The Danish Enterprise and Construction Authority
4. Certifying authority	Private audit firm	The Danish Enterprise and Construction Authority
5. Internal audit/controlling	Internal audit unit in the Danish Food Industry Agency	Controller unit in the Danish Enterprise and Construction Authority

In Denmark, the Danish Food Industry Agency and the Danish Enterprise and Construction Authority are responsible for the primary control, including on-the-spot inspections, of the final beneficiaries. They may empower other authorities, for instance local councils, to undertake part of this control. The secondary control is exercised by other specialist units in the two agencies. The relevant EU regulations have determined the exact form and scope of the controls.

### External audit in Denmark

10. Rigsrevisionen is responsible for the external audit of the administration of the EU funds included in the Danish state accounts. The audit is organized in accordance with the so-called principles of single audit. A significant part of the auditing of CAP is conducted by the internal audit unit in the Danish Food Industry Agency in compliance with a section 9 agreement with Rigsrevisionen, cf. the Auditor General's Act. Consequently, the work performed by the internal auditors provides the basis for most of the audit work conducted by Rigsrevisionen. In the Cohesion policy area, Rigsrevisionen's planning of the audit also includes the work performed by the controlling unit. Rigsrevisionen's own audit provides the basis for the audit opinion on the EU funds which I have submitted together with the report on the audit of the state accounts since 2005. Rigsrevisionen considers the audit of the EU fund a high-priority area and special resources have been reserved for this audit which is more extensive than the audit of similar areas of government administration. The audit is planned on the basis of the considerations concerning materiality and risk, which are applying to Rigsrevisionen's audits performed in other areas, and audit planning includes systems based auditing and substantive auditing.

11. The Court is required to issue a statement of assurance on the overall administration of the EU policy areas. The Court is thereby authorized to conduct its own audit at all administrative levels of the Commission and the Member States. A significant part of the Court's work is carried out as on-the-spot checks made at the level of the final beneficiaries. Rigsrevisionen participates in all the Court's visits in Denmark and follows cases from start to finish.

12. As appears from this summary, the EU funds are subjected to considerable control. The structure of control is quite complex, and considerable resources are used for internal control measures and external auditing. The Council of the European Union (the Council) and the European Parliament (the Parliament) have called upon the Court and the supreme audit institutions in the Member States to work closely together to allow the institutions to build upon each other's conclusions. I am also of the opinion that a strengthened cooperation between the supreme audit institutions and the Court will enhance the quality of auditing and optimize the use of available resources.

#### IV. The Court's Annual Report and Statement of Assurance on 2007

##### The Court's audit methodology

13. On 10 November 2008, the Court submitted its Annual Report and Statement of Assurance for the financial year 2007 to the Parliament and the Council. The Court's Annual Report on 2007 presents the results of the Court's financial audit, whereas the results of the Court's performance audit are published in separate special reports in the course of the year. Since publication of the previous Annual Report, the Court has issued the following 13 special reports on the results of the performance audit, cf. table 2.

**Table 2. The Court's special reports issued since publication of the Annual Report on 2006**

No.	Title
11/2008	The management of the European Union support for the public storage operations of cereals
10/2008	EC Development Assistance to health services in sub-Saharan Africa
9/2008	The effectiveness of EU support in the area of freedom, security and justice for Belarus, Moldova and Ukraine
8/2008	Is cross compliance an effective policy?
7/2008	Intelligent Energy 2003-2006
6/2008	The European Commission Rehabilitation Aid following the Tsunami and Hurricane Mitch
5/2008	The European Union's agencies: Getting results
4/2008	Implementation of milk quotas in the Member States which joined the European Union on 1 May 2006
3/2008	The European Union Solidarity Fund: how rapid, efficient and flexible is it?
2/2008	Binding Tariff Information (BTI)
1/2008	Procedures for the preliminary examination and evaluation of major investment projects for the 1994-1999 and 2000-2006 programming periods.
9/2007	Evaluating the EU Research and Technological Development framework programmes – could the Commission's approach be improved?
8/2007	The administrative cooperation in the field of value added tax

14. The Court's Annual Report is part of the Parliament's discharge procedure which is a political assessment and approval of the Commission's and other EU institutions' management of the EU funds. This year's Annual Report is the 31st issued by the Court. Since 1994, the Annual Report has also included a Statement of Assurance (Déclaration d'Assurance, or DAS). The Statement of Assurance includes the Court's overall opinion concerning the EU's income and expenditure:

- The reliability of the accounts.
- The legality and regularity of underlying transactions.

15. The audit methodology applied by the Court is called DAS. The core element of the methodology is an assurance model, indicating the level of assurance which can be achieved on the basis of the following two principal sources of evidence:

- *Systems based audit* of the supervisory and control systems applied by the Commission, Member States and Third Countries. The purpose is to examine whether the systems function as intended and prevent, detect and correct errors in relation to collection and disbursement of EU funds.
- *Substantive audit* of payments made to and by the Commission which the Court checks down to the level of the final beneficiary.

To achieve further assurance concerning the legality of collection and disbursement of EU funds, the Court may apply two complementing sources: 1. The Annual Activity Reports and declarations on internal control which are prepared by the Commission's Directors-General. 2. An examination of the work performed by other auditors, e.g. the supreme audit institutions' audits of EU funds.

16. In my opinion, the methodology applied by the Court is suitable for the identification of general problems and assessment of the administration of EU funds across Member States. Thus the Commission's direct management of EU funds has improved significantly over the years due to the Court's recommendations. However, this is not the methodology best suited to pinpoint concrete problems and solutions related to issues of shared management in the individual Member States. The supreme audit institutions in the Member States have profound knowledge of the national administration and are daily in contact with the executive authorities, and are therefore important players in the efforts to improve administration and control. I am therefore of the opinion that both the Court and the supreme audit institutions can optimize the use of resources if they work closer together on the audit.

I have noted that again this year the Court has not included the results of the work performed by the supreme audit institutions in the Member States. Yet, the Court emphasizes in its Annual Report, that it will endeavour to make use of the audit work of supreme audit institutions, and also aims to improve the cooperation with the supreme audit institutions in general. I am pleased with this statement and I intend to encourage the Court to pursue this objective.

#### **The Court's Statement of Assurance on 2007**

17. The key elements of the Court's Statement of Assurance, which is based on the audit of the EU budget for 2007, are:

The reliability of the accounts:

- The final annual accounts of the European Communities for 2007 present fairly, in all material respects, the financial position of the Communities, and the Court's reservations concerning the Statement of Assurance on the financial year 2006 are not repeated for the financial year 2007.

The legality and regularity of the transactions underlying the accounts:

- The areas "Revenue", "Economic and financial affairs" and "Administrative and other expenditure" are free from material error, and the error rate for expenditure under the European Agricultural Guarantee Fund (EAGF) is below the materiality threshold. In total, these areas of expenditure account for approximately 46 percent of all payments made in 2007.



- The Court has found that expenditure declared for the policy groups "Cohesion", "Research, energy and transport", "External aid, development and enlargement", and "Education and citizenship" is affected by a material level of error. The Court's Statement of Assurance on the policy group "Agriculture and natural resources" has, taken as a whole, a material level of error because aid for development of rural districts account for a disproportionately large part of the overall error rate. EAGF expenditure, which accounts for approximately 85 percent of the total CAP expenditure, is thus not affected by a material level of errors.
- The Court has also noted improvements in supervisory and control systems, in particular at the level of the Commission and in the area of "Cohesion". The Court has also identified further progress in the annual activity reports and declarations prepared by the Directors General of the Commission.

I have noted that the Court for the first time since 1994 has issued an unqualified Statement of Assurance on the EU accounts. However, the Court has identified material errors in the underlying transactions relating to more than half of the expenditure, and has therefore for fourteen years in a row approved the EU accounts with a qualified Statement of Assurance for several areas.

Table 3 shows the distribution of the majority of the EU expenditure and revenue in 2007 and the Court's assessment of the legality and regularity of the underlying transactions.

**Table 3. The Court's assessment of the legality and regularity of the underlying transactions in 2007**

Distribution of EU expenditure and revenue 2007	Billions euro	Functioning of supervisory and control systems	Error rate
Agriculture and natural resources	51.0	Partially effective	Between 2% and 5%
Cohesion (Structural and Social Fund, etc.)	42.0	Partially effective	Over 5%
Research, energy and transport	4.5	Partially effective	Between 2% and 5%
External aid, development and enlargement	6.2	Partially effective	Between 2% and 5%
Education and citizenship	1.5	Partially effective	Between 2% and 5%
Economic and financial affairs	0.5	Effective	Under 2%
Administrative and other expenditure	8.2	Effective	Under 2%
Revenue	117.6	Effective	Under 2%

Source: The Court's Annual Report 2007.

18. The qualified part of the Court's opinion includes areas under shared management ("Agricultural and natural resources" and "Cohesion") and areas subject to direct management ("Research, energy and transport", "External aid, development and enlargement" and "Education and citizenship"), and the Court's critical comments are therefore directed towards both the Commission and the Member States.

Yet, the Court emphasizes that complicated and unclear eligibility criteria or complex legal requirements have a considerable impact on the error rate relating to in particular "Agriculture and natural resources", "Cohesion", "Research, energy and transport" and "Education and citizenship". Therefore, the Court generally recommends a simplification of the rules governing administration of EU funds.

19. With respect to the policy groups "Research, energy and transport", "External aid, development and enlargement" and "Education and citizenship", the Court's audit showed material error rates affecting underlying payments, and the Commission's supervisory and

control systems are only – despite improvements – considered partially effective. These areas of expenditure account for a total of approximately 12.2 billion euro, or 10 percent of the EU's total expenditure.

### **The Court's comments on the administration of the expenditure for "Cohesion" and "Agricultural and natural resources"**

#### *Cohesion*

20. The area most affected by error is "Cohesion" which is accounting for approximately 37 percent of the EU expenditure (the second largest policy area).

There were errors in 54 percent of the "Cohesion" projects in the Court's sample. Still, this is an improvement over 2006 when the error rate was 69 percent, but the amount of expenses that were affected by the errors is largely the same. Thus the Court concludes that at least 11 percent of the 2007 expenditure – or approximately DKK 4.6 billion euro – should not have been disbursed. In 2006, 12 percent of the expenditure should not have been disbursed.

However, the Court states that the Commission's and Member States' systems for supervision and control of payments which were previously rated "not effective", have now improved and are rated "partially effective".

21. As last year, the Court recommends close cooperation with the project promoters to reinforce the prevention of errors in the early stages of the projects and to ensure the effectiveness of the primary controls performed at the premises of the beneficiaries. The Court also recommends the Commission to take full advantage of the audit work conducted in the Member States, but at the same time, the Commission should monitor the audit work to ensure that it is up to standard. Summing up, the Court recommends an increase in the amount of field work performed in the Member States which will require additional resources.

I agree with the Court that the overall error rate in the "Cohesion" area is too high and the Court's assessment of this policy area is therefore fair. On the other hand, I do not agree with the Court's general recommendation to reinforce control. Instead, the effort should be directed toward Members States or programmes exposed to particularly high risk.

#### *Agriculture and natural resources*

22. "Agriculture and natural resources" is the largest policy area in terms of expenditure on the EU budget (approximately 45 percent). The Court concludes that taken as a whole, the area is affected by a material level of error and the supervisory and control systems are only partially effective.

The Court concludes that expenditure covered by the integrated administrative control system (IACS) has significantly increased in 2007 and now includes approximately 85 percent of the EAGF expenditure. The Court's audit has shown that IACS is effective in limiting the risk of irregular expenditure. The error rate for EAGF expenditure is thus slightly below the materiality threshold of 2 percent. The supervisory and control systems covering the expenditure that is not subject to IACS are, on the other hand, only partially effective.

23. According to the Court, "Rural development" accounts for disproportionately many of the errors identified within "Agriculture and natural resources" (over 5 percent). The Court concludes that the control of the farmers' compliance with relevant requirements (cross-compliance) is inadequate. But the high error rate may also be ascribed to imprecise definitions of eligibility in national legislation and complex regulations, in particular in relation with agri-environmental measures. The Court therefore recommends further efforts to ensure that the beneficiaries respect their obligations.

### **The Court's comments on the Commission's internal control system**

24. The Court concludes that the Commission's supervisory and control systems have been further improved in 2007. The Court emphasizes the Annual Activity Reports and declarations prepared by the Directors General. The Court is of the opinion that the Directors General's reservations are now generally more in line with the Court's own assessments and the criteria for setting reservations in the declarations have become more consistent across departments.

In regard to the Action Plan towards an Integrated Internal Control Framework, the Court concludes that the Commission has made progress. At the same time, however, the Court states that it has not yet identified any evidence of the effectiveness of the actions implemented by the Commission.

The Court recommends that the Commission continues its efforts to follow up on the measures of the action plan and demonstrate the effectiveness of the measures. The Court also recommends that the Commission and the legislative authorities simplify the rules governing future expenditure programmes.

#### *Tolerable risk of error*

25. The Court has consistently called upon the Council and Parliament to address the issue of tolerable risk of error, i.e. what is the acceptable level of error in EU budget areas. The Court uses a 2 percent threshold as a tolerable level of error for the Statement of Assurance. The Commission points out that this threshold is not appropriate for all policy areas, as the cost of controlling up to that level will in some areas exceed the benefits. The Commission therefore recommends that the acceptable error level is increased to 5 percent, for instance for the "Cohesion" policy area. The issue is complicated by disagreement over the definition of errors due to obscurities in legislation.

I agree with the Court that a simplification of the rules and regulations is imperative if the error level is to be reduced. But I am also of the opinion that the Court, Commission and Member States need to agree on a definition of errors to ensure a clear distinction between random and accidental errors, and systematic and intentional errors.

#### *Annual summaries*

26. As mentioned in my memorandum to the Public Accounts Committee on the Parliament's discharge (June 2008), the Member States were – in accordance with the Commission's action plan - required to submit annual summaries of audits conducted in the accounting year 2007 to the Commission in 2008. The annual summaries provide information on the audits conducted at national level in the course of the year, and the results of the audits of the various policy areas.

The Court concludes that the summaries do not yet provide a reliable assessment of the functioning and effectiveness of the Member States' supervisory and control systems due to the disparity in presentation and content of the summaries. The Court points out that the Commission has supervised the process adequately, and encourages the Commission to add value to the process by identifying common problems and best practices. In 2008, the Commission will present a revised guidance note to the Member States with recommendations aimed at improving the quality of the summaries.

#### *The Commission's budgetary management*

27. With respect to the Commission's budgetary management, the Court finds that the budgetary commitment appropriations are now better utilised. This means that the budget reflects more accurately the actual expenditure in the respective financial year, and that payments can be effected earlier. Yet, the Court recommends the Commission to improve its efforts to develop effective corrective measures and to ensure documentation of the effectiveness of these measures.

### The Court's mention of Denmark

28. Table 4 shows that in 2007, the Court visited Denmark seven times to perform six audits.

**Table 4. The Court's visits to Denmark 2007**

Audits	Dates of visit
Audit of the Single Payment Scheme and IACS controls and inspections	3 - 9 March 2007
Audit of the Social Fund (DAS 2007)	18 - 29 June 2007 3 - 7 September 2007
DAS 2007	27 - 30 August 2007
University of Southern Denmark – project audit	29 - 30 August 2007
CIRIUS – project audit	13 - 14 November 2007
Audit of traditional own resources 2007	10 - 14 December 2007

The Court's visits to Denmark only gave rise to comments in the Annual Report on one occasion, namely in relation to the audit of traditional own resources, i.e. customs and agricultural duties and sugar levies. I am referring to this case also in the report to the Public Accounts Committee on the audit of the state accounts for 2007, and I will follow the case closely.

The EU's traditional own resources are collected by the Member States and subsequently made available to the Commission. Based on a sample taken on the occasion of the visit in December 2007, the Court concluded that the data input provided by the economic operators in the electronic clearance system frequently did not reflect the reality of the import and therefore were not reliable. In the Annual Report, the Court concludes that this has led to a net underpayment to the Commission. Therefore, the Court calls upon the Danish authorities to make a greater effort to reduce the level of errors in the economic operators' data input.

In relation with the above, SKAT (the Danish tax authorities) has stated that the performance strategy laid down for the control is based on an assessment of risk and materiality and is designed to ensure follow-up on the economic operators who fail to correct the errors they have made.

29. Rigsrevisionen is of the opinion that the Court's comment primarily concerns formal issues relating to the basis of the customs declaration, and the errors are considered minor in terms of financial impact.

### V. Development of the cooperation on audit of EU funds

30. The Parliament and the Commission consistently encourage the supreme audit institutions of the Member States to be more active in their efforts to promote effective and reliable management on national level.

#### Rigsrevisionen's opinion on the audit of the EU funds

31. Rigsrevisionen has since 2005 issued a declaration on the audit of the EU funds. The audit opinion is included in the annual report on the audit of the state accounts which is submitted to the Public Accounts Committee. Rigsrevisionen's opinion on the audit of the EU funds covers the reliability of the accounts and the legality and regularity of underlying transactions.

In my report to the Public Accounts Committee on the audit of the state accounts for 2007, I concluded that the 2007 accounts of the EU areas: the European Social Fund, the European Regional Development Fund, agricultural and fisheries subsidies, VAT contribution and GNI contribution had been prepared in compliance with national accounting rules, and presented fairly in all material aspects EU grants, duties, levies and contributions and the financial position at the end of the year. Still, Rigsrevisionen made reservations with regard to the settlement of customs duties and agricultural levies etc. which were not considered true and fair, as Rigsrevisionen had identified errors which had financial impact.

#### **National EU declarations and audit opinions**

32. Since I submitted my memorandum on the Parliament's discharge (June 2008) to the Public Accounts Committee, also the United Kingdom has issued a national declaration on the EU funds. In the United Kingdom, as in the Netherlands, the Ministry of Finance (HM Treasury) has issued the declaration on the EU funds which consolidates the EU funds accounted for by the individual central government entities. Subsequently, the National Audit Office has audited the declaration. The Swedish Ministry of Finance is expected to issue its first national declaration in April 2009. This declaration will be audited by the Swedish National Audit Office.

33. In Denmark, Rigsrevisionen issues its audit opinion on the use of EU funds on the basis of its own audit. However, Rigsrevisionen is having constructive discussions with the Ministry of Finance concerning possible templates for the presentation of the items related to the EU in the state accounts.

34. The Court still considers the national declarations and audit opinions an additional element of internal control, cf. the Court's opinion no. 6/2007, but the Court is currently also planning to cooperate with supreme audit institutions in the Member States on how the declarations and audit opinions may be used. With regard to Denmark, and other countries, the Court has taken initiative to bilateral discussions of audit procedures and audit findings concerning EU funds. I expect the outcome of these discussions to be positive.

35. Also the supreme audit institutions in the EU are becoming increasingly interested in the issue of voluntary audit opinions. On 12 September 2008, Rigsrevisionen and colleagues from the Dutch and British audit institutions hosted a seminar on national declarations and audit opinions. The primary objective of the seminar was to exchange experiences among the 24 participating supreme audit institutions and the Court. Participants discussed the overall objective of national declarations and audit opinions as well as specific audit procedures and challenges encountered when cooperating with other authorities on national and EU level. The seminar led to an invitation to Rigsrevisionen to present its work with the audit opinion at an internal seminar arranged by the Court in November 2008. Several members of the Court and more than 100 employees attended the seminar and Rigsrevisionen's presentation was well received.

#### **Other supreme audit institutions' reports to their respective parliaments on the audit of EU funds**

36. A number of supreme audit institutions audit the management of EU funds and report separately on their audit findings. The British National Audit Office publishes an annual report on the developments in financial management of EU funds in the United Kingdom and the EU. The Dutch supreme audit institution – Algemene Rekenkamer – also publishes an annual report which includes an assessment of how the Commission on EU level has endeavoured to strengthen the management of EU funds and make management more effective. The supreme audit institutions in the Czech Republic, Hungary and Lithuania have also recently published reports on their audit of EU funds. All the supreme audit institutions present recommendations to strengthen the financial management of EU funds. The Austrian supreme audit institution issued a report on the financial relations between

Austria and the EU in 2007. In some of the Member States, reports on the audit of EU funds are included in the general reporting on the respective financial year.

I find it satisfactory that more supreme audit institutions in the Member States are now focusing on the audit of EU funds.

#### **Cooperation in the EU Contact Committee**

37. The cooperation between the supreme audit institutions in the EU Member States and the Court takes place within the framework of the Contact Committee where the heads of EU supreme audit institutions (including the President of the Court) meet once a year. The EU Contact Committee includes various working groups on specific topics, like for instance audit of EU structural funds, audit of public procurement, agricultural experts network, etc. Rigsrevisionen participates in all relevant working groups and networks. Rigsrevisionen is, for instance involved in the working group on "Supreme SAI Reports on EU Financial Management" which provides Rigsrevisionen with knowledge of the topics which the legislators and the public of the other Member States consider to be of special interest.

38. Since 2006, a working group, headed by the Court, has worked on the development of common auditing standards for the audit of EU funds. Recently, the working group has agreed that the generally accepted international auditing standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI) and the private auditors' global organisation, IFAC, respectively, in combination provide an adequate basis for the achievement of more convergence and synergy within the different audit levels in the EU. There is therefore no need to develop separate EU auditing standards which would entail considerable duplicate work.

#### **Peer review of the Court**

39. Just like Rigsrevisionen and other supreme audit institutions in the Member States, the Court has recently subjected to a peer review. A peer review is the process of subjecting the organisation, work processes and methodologies to the scrutiny of colleagues. The supreme audit institutions of Austria, Canada, Norway, and Portugal participated in the peer review of the Court. The team focused on three areas: planning and examination process, reporting of audit findings, and the internal services provided to support and help the Court achieve its objectives.

40. The evaluators conclude that the planning and examination process is in accordance with international auditing standards. The peer review team also emphasized the high level of confidence in the Court's reports which are considered to be fair, factual and objective. The audit team also set out a number of recommendations: the Court should develop a culture that emphasizes the Court as a single audit institution by sharing information across the organization and strengthening strategic management. The Court should also develop risk-based strategies for the planning and examination process in order to optimize the use of resources.

I shall also in the future follow the Court's development of audit strategies and audit procedures.

#### **VI. Conclusion**

41. With this memorandum, I have informed the Public Accounts Committee of the distribution of the EU's revenue and expenditure, the administration and audit of EU funds in Denmark, and the Court's Annual Report on 2007. Finally, I have summarized the developments related to national EU declarations and audit opinions and the cooperation in the EU Contact Committee.

In regard to the Court's Annual Report, the most significant conclusions are that the Court, for the first time ever, was able to issue an unqualified opinion on the EU accounts, although

the opinion on the legality and regularity of the underlying transactions in the most important areas is also qualified this year.

In my opinion, the audit methodology applied by the Court is well suited for identification of general problems and assessments of the administration of EU funds across Member States. However, the Court's methodology is not optimized for identification of specific problems and solutions in areas under shared management. For instance, the Court's recommendation concerning "Cohesion" sets forth a general requirement for more control in the Member States, and in my opinion that is not appropriate. Instead the audit effort should be directed towards programmes or Member States that are exposed to high risk.

In Denmark, the administration of EU funds is characterised by a high level of control, and increasing the level of control will not, per se, be effective. I therefore support the Court's recommendation to simplify rules and regulations in order to make administration more efficient and effective. Yet, I also consider it necessary that the Court, together with the Commission and the Member States, work on the definition of errors to ensure a clear distinction between random and accidental errors, and systematic and intentional errors.

The supreme audit institutions have profound knowledge of the administration in their respective countries, and in my opinion, the Court as well as the supreme audit institutions in the Member States will be able to optimize their use of resources if they work closely together.

I consider it satisfactory that more supreme audit institutions have increased their focus on the audit of EU funds and participate actively in the efforts to improve administration and control on national level. Several countries are working with national declarations and audit opinions, and several supreme audit institutions report separately to their respective parliaments on the audit of EU funds.

Rigsrevisionen will also in the future prioritize the audit of EU funds and through cooperation with the Court and other supreme audit institutions in the EU, I shall follow the development at the European level closely.

Henrik Otbo