



Report to the Public Accounts
Committee on the audit of
EU funds in Denmark in 2010

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

The report concerns the following sections of the Fiscal Act: section 7 – The Ministry of Finance, section 8 – The Ministry of Economic and Business Affairs, section 9 - The Ministry of Taxation, section 15 – The Ministry of Interior and Health, 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 several of the ministerial areas have been replaced during the fiscal year 2010, and in connection with the change of government in 2011, certain ministries were reorganised and remits transferred to other ministers. To this should be added that several audit cases referred to in this report have their source in previous accounting years and in the Final report on the state accounts. Rigsrevisionen has therefore decided not to list all the ministers.

I. Opinion on the audit of EU funds in Denmark in 2010

Introduction

1. Rigsrevisionen has issued an opinion and report on the audit of EU funds in Denmark in 2010. The opinion and the report have been submitted to clarify Rigsrevisionen's overall assessment of the financial administration of EU funds in Denmark.

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

OPINION ON THE AUDIT OF EU FUNDS IN DENMARK IN 2010

In the opinion of Rigsrevisionen, the 2010 financial statement of EU revenue and EU expenditure has been prepared in accordance with the government accounting rules. The financial statement gives a true and fair view of revenue and expenditure in the financial year under review and of the financial position at the end of the financial year.

On the basis of the audit findings, Rigsrevisionen is of the opinion that, taken as a whole, the transactions underlying the 2010 financial statement of EU revenue and expenditure are legal, regular and in compliance with the provisions laid down by the Commission and the Council of the European Union (the Council).

Emphasis of matter was made concerning area control and financial corrections:

- The quality of remote sensing was not satisfactory in 2010, as irregularities were identified in just under half of the remote-sensing measurements that were performed by the Ministry of Food, Agriculture and Fisheries together with the Faculty of Agricultural Sciences at Aarhus University. Some of the errors were caused by a mid-process change of the digitalization procedure for remote sensing. The inadequate digitalization and subsequent re-examination and correction of errors in approximately 1,200 cases increased the workload on FødevarerErhverv (the Food Agency) and Plantedirektoratet (the Plant Directorate) considerably. In 2009, the Food Agency and the Plant Directorate decided to transfer back in-house the remote sensing activities from the Faculty of Agricultural Sciences as from 2012. The decision to terminate the collaboration was made as a response to repeated criticism raised by the Commission in combination with a wish to streamline processes. Some activities were transferred back in-house in 2011 and the transaction will be fully completed in 2012. The Ministry of Food, Agriculture and Fisheries has decided that the control of the stipulated five per cent of the area support applications in the future will be performed solely as remote-sensing control.
- The Commission has in the last couple of years opened proceedings against Denmark in the common agricultural policy area concerning exclusion of expenditure (repayment of previously received EU funding). The weaknesses identified in the controls have led to financial corrections amounting to approximately EUR 134.2 million in the period 2002-2011. This amount equals 1.3 per cent of funds received which is slightly below the average for all Member States. A considerable part of the amount, i.e. EUR 101 million, concerns the Commission's decision from 2009 to exclude expenditure relating to hectare aid received in the period 2002-2004. The Ministry of Food, Agriculture and Fisheries does not agree with the premise of the Commission's decision and has therefore brought the case before the EU Court of Justice. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area, and bringing the case before the EU Court of Justice is considered justified by Rigsrevisionen. The case is expected to be settled in 2012.

II. Introduction

2. This report is about the audit of EU funds in Denmark in 2010, i.e. the audit of revenue received from the EU (EU revenue) and contributions made to the EU (EU expenditure).

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

3. The audit performed in 2010 included EU revenue received through agricultural subsidy schemes under the Ministry of Food, Agriculture and Fisheries, the structural funds under the Ministry of Economic and Business Affairs and project subsidies granted directly from the Commission to institutions under seven ministries. The audit also included EU expenditure under the Ministry of Taxation.

4. The objective of the audit was to assess whether the administration of EU funds in Denmark is generally handled in a satisfactory manner.

5. Based on an assessment of materiality and risk, Rigsrevisionen has in this report decided to focus on three sub-objectives:

- Has the financial administration of the agricultural subsidy schemes under the Ministry of Food, Agriculture and Fisheries been satisfactory, and is the area control contributing to ensuring financially sound administration in the area?
- Are the initiatives launched by the Ministry of Food, Agriculture and Fisheries to reduce the amounts of the financial corrections imposed on Denmark satisfactory?
- Has the Danish Enterprise and Construction Agency (DECA) handled the financial administration of the project subsidies received from the European Social Fund in a satisfactory manner?

6. Rigsrevisionen's opinion on the audit of EU funds in 2010 is included in chapter I. Chapter III includes an overview of the most significant audit findings providing the basis for the opinion, and chapter IV presents the statement of EU revenue and EU expenditure as included in the state accounts. Rigsrevisionen's examination of the area control under the agricultural subsidy schemes managed by the Ministry of Food, Agriculture and Fisheries is outlined in chapter V, whereas the financial corrections imposed on Denmark by the Commission are referred to in chapter VI. DECA's administration of subsidies received from the European Social Fund is referred to in chapter VII. Chapter VII includes a brief mention of other audit findings.

III. The most significant audit findings

THE MAIN CONCLUSION OF THE AUDIT

In the opinion of Rigsrevisionen, the administration of EU funds in 2010 has generally been satisfactory.

However, the administration still faces considerable challenges.

The area control performed by the Ministry of Food, Agriculture and Fisheries in 2010 did not progress entirely satisfactory, mainly due to errors in the remote-sensing measurements that were performed in collaboration with the Faculty of Agricultural Sciences at Aarhus University. Some of the errors were caused by a mid-process change of the digitalization procedure for remote sensing. The inadequate digitalization increased the workload on the Food Agency and the Plant Directorate considerably in 2010 in respect to remote-sensing control.

The quality assurance performed by the ministry showed an error rate of 24 per cent in the cases that were checked which, in the opinion of Rigsrevisionen, is excessive.

Finally the audit showed that more than 20 per cent of the farmers that were selected for the five per cent sample check, had over-stated size of land to an extent that triggered sanctions by the ministry.

In recent years, the area control has been under continuous change in response to criticism raised by the Commission and others. The ministry has therefore launched a project, "Enhanced control", in order to enhance the quality of the control and make it more efficient. The ministry has decided to focus more on quality than on efficiency to avoid future financial corrections. In the opinion of Rigsrevisionen this is a justified decision taking into consideration the financial corrections that have been imposed on Denmark in recent years. Rigsrevisionen has established that the initiatives included in the project "Enhanced control" are progressing as planned.

Rigsrevisionen has also established that the EU regulations governing area control are very complicated, and the Commission and the Danish authorities have disagreed on the interpretation of the regulations on several occasions. In 2010, the ministry launched various initiatives to ensure that the implementation of the regulations in Denmark is in compliance with the EU regulations, and the regulations are made easier to use for the inspectors and farmers. Rigsrevisionen welcomes these initiatives and recommends that the ministry should continue its efforts to simplify the rules within the framework of the EU regulations.

Rigsrevisionen finds the initiatives launched by the Ministry of Food, Agriculture and Fisheries to reduce the amounts of the financial corrections satisfactory.

The main conclusion is based on the following audit findings:

EU funds in Denmark as reported in the state accounts

The statement of EU funds in Denmark, as included in the state accounts, shows EU revenue of EUR 1.2 billion and EU expenditure of EUR 2.5 billion.

Rigsrevisionen is satisfied that the Ministry of Finance has prioritized the development of the EU accounts. The Ministry of Finance expects to publish consolidated EU accounts for all revenue and expenditure included in the state accounts for the fiscal year 2013.

The agricultural subsidy schemes under the Ministry of Food, Agriculture and Fisheries

Rigsrevisionen is of the opinion that the administration of the agricultural subsidy schemes is generally satisfactory, but the administration of area control is not entirely satisfactory.

Emphasis of matter was made concerning the performance of remote-sensing control in 2010. The implementation of the remote-sensing control was not up to standard, as errors were detected in almost 50 per cent of the remote-sensing controls performed in collaboration with the Faculty of Agricultural Sciences at Aarhus University. Some of the errors were caused by a mid-process change of the digitalization procedure. The inadequate digitalization increased the workload on the Food Agency and the Plant Directorate considerably, as they were required to correct errors in approximately 1,200 cases.

- In 2010, 95 per cent of all remote-sensing controls were followed up by physical inspections. The Ministry of Food, Agriculture and Fisheries has stated that they prioritize reducing the risk of exclusions higher than improving the efficiency of control. Achieving an objective of reducing the number of follow-up inspections considerably is therefore not realistic. In the opinion of Rigsrevisionen this is a fair prioritization taking into consideration the financial corrections that the Commission has imposed on Denmark in recent years.

- The actual amount of time spent on performing physical inspections grossly exceeded expectations, because the Plant Directorate wanted to enhance the quality of the area control. But other factors also increased the amount of time spent on the task, i.e. the generally increasing complexity of the regulations, and in 2010 the digitalization errors relating to remote-sensing control and a decline in productivity concerning area control in the regions monitored by the Plant Directorate.
- According to a review of 145 cases concerning the Plant Directorate's administrative quality assurance and its quality control of remote-sensing control and re-checks, errors were detected in 35 of the cases which equals an error rate of 24 per cent. This is considered excessive by Rigsrevisionen which expects to see a favourable development in the error rate following the initiatives launched by the Food Agency and the Plant Directorate to make the guidance on control more user-friendly.
- The audit also showed that more than 20 per cent of the farmers that were selected for the five per cent sample check had overstated size of land to an extent that triggered sanctions by the ministry. Rigsrevisionen is of the opinion that the rules governing the area schemes need to be made more accessible for the individual farmer.
- In 2010, the Food Agency did not follow up systematically on all the recommendations to change the blocks that were made by the Plant Directorate inspectors. This is not considered entirely satisfactory by Rigsrevisionen, as inadequate follow-up increases the risk of errors. The Food Agency has implemented a procedure which Rigsrevisionen expects will ensure that recommendations to change the blocks made by the Plant Directorate are being considered in the future.
- The Commission launched a new concept for the assessment of the field block system in 2010. The concept was tested for the first time in 2010, and the Commission has stated that the requirements will be changed as largely no Member Countries were able to meet the quality criteria of the concept. However, the Food Agency has launched several initiatives to ensure greater compliance with the quality requirements set by the Commission. Rigsrevisionen considers the steps taken by the Food Agency satisfactory.
- Rigsrevisionen is satisfied that approximately 50 per cent of the initiatives included in the project "Enhanced control" have been implemented as at 1 January 2011, and that the overall project plan is being followed. Rigsrevisionen considers the initiatives essential for the success of the Danish authorities' efforts to reduce the risk of expenditure exclusions under the area scheme.

Financial corrections

In the opinion of Rigsrevisionen, the initiatives launched by the Ministry of Food, Agriculture and Fisheries to reduce the amounts of the financial corrections imposed on Denmark are satisfactory. The ministry has been in contact with the Commission on all significant cases and has launched several initiatives under the project “Enhanced control” to counter future financial corrections.

Rigsrevisionen has inserted an emphasis of matter section in the opinion concerning the weaknesses in the administration of the agricultural policy area that have led to financial corrections of approximately EUR 134.2 million in the period 2002-2011. EUR 101 million of this amount concerns a financial correction that was imposed on Denmark in 2009, but has been disputed and brought before the EU Court of Justice by the ministry.

- In the period 2002-2011, the Commission excluded expenditure of approximately EUR 134.2 million or 1.3 per cent of the total agricultural subsidies of approximately EUR 11.2 billion received by Denmark. This is slightly below the EU average of 1.4 per cent. The Commission decided in 2009 to exclude payments made under the hectare aid scheme of EUR 101 million in the period 2002-2004. The Ministry of Food, Agriculture and Fisheries has appealed the decision to the EU Court of Justice on the grounds that it does not agree with the premise of the Commission's decision. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area, and bringing the case before the EU Court of Justice is considered justified by Rigsrevisionen. The case is expected to be settled in 2012.
- Financial corrections are a measure used by the Commission to ensure that EU funds are spent in compliance with the regulations. The financial corrections also serve as an incentive for the Member States to correct errors and continuously improve their administration. The procedure is thus a fixed component part of the certification of the accounts.
- The Ministry of Food, Agriculture and Fisheries has in all significant cases concerning exclusions sought dialogue with the Commission and, for instance, submitted new control data.
- The Ministry of Food, Agriculture and Fisheries succeeded in getting the financial correction concerning the field block index and the area control in the period 2005-2006 reduced from EUR 39.7 million to EUR 20.3 million; on the basis of new statistical material, the ministry was able to document that the EU funds in the area were exposed to considerably less risk than indicated by the Commission's original calculations.
- On the basis of this case, the Ministry of Food, Agriculture and Fisheries has developed a strategy for handling financial corrections that includes initiatives to reduce the amount of the financial corrections imposed and initiatives to counter future financial corrections.
- Rigsrevisionen has established that the EU regulations are complicated and the Commission and the Danish authorities have disagreed on their interpretation on several occasions.

- In 2010, the Ministry of Food, Agriculture and Fisheries launched a number of initiatives under the project "Enhanced control" to ensure that the implementation of the regulations in Denmark is in compliance with the EU regulations and the regulations are made easier to apply for the inspectors and farmers. Rigsrevisionen considers the initiatives satisfactory and recommends that the ministry should continue its efforts to simplify the rules within the framework of the EU regulations.

The structural funds

Rigsrevisionen finds that DECA has handled the administration of EU's structural funds, including the European Social Fund (the Social Fund), in a satisfactory manner.

- Generally, the projects met the documentation and reporting requirements. Calculation of salary and subsistence for the participants was largely performed in compliance with the rules, and the expenditure was correctly booked in the accounts.
- Yet, errors in the salary statements were detected in one third of the projects under review, but they were of no significant consequence in terms of value. Rigsrevisionen also detected a couple of incidents where the EU documentation requirements were not met.
- Against this background, Rigsrevisionen concluded that more emphasis should be put on accounting and documentation issues in the general case processing. DECA has noted the comments made by Rigsrevisionen and has for instance specified the guidance material further.

Other audit findings

In the opinion of Rigsrevisionen, the administration of schemes outside the agricultural and structural funds, including EU expenditure under the Ministry of Taxation, is handled in a satisfactory manner.

- The quality of the EU project accounts has improved in 2010. Yet, Rigsrevisionen is of the opinion that certain government institutions need to improve their accounting management of EU projects.
- Several ministries, including the Ministry of the Environment, have launched initiatives to improve administration of EU projects. These initiatives are welcomed by Rigsrevisionen.
- Only very few of the opinions issued on the audit of EU project accounts in the university area were qualified or included emphasis of matter sections.
- The accounts for the GNI-based resources under the Ministry of Taxation are true and fair and the transactions underlying the accounts are legal, regular and in compliance with the provisions determined by the Commission and the Council.

IV. EU funds in Denmark as included in the state accounts

The statement of EU funds in Denmark, as included in the state accounts, shows EU revenue of EUR 1.2 billion and EU expenditure of EUR 2.5 billion.

Rigsrevisionen is satisfied that the Ministry of Finance has prioritised the development of EU accounts. The Ministry of Finance expects to publish consolidated EU accounts for all revenue and expenditure included in the state accounts for the fiscal year 2013.

7. In the state accounts for 2010, 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 is presented in table 1.

Table 1. EU revenue and EU expenditure 2010¹⁾
(EUR million)

EU REVENUE		
Agricultural and structural funds		1,098.5
The European Agricultural Guarantee Fund	973.3	
The European Social Fund	18.7	
The European Regional Fund	54.2	
The European Agricultural Fund for Rural Development	31.5	
The European Fisheries Fund	20.8	
Schemes outside the agricultural and structural funds		10.5
Research and innovation	2.6	
Transport infrastructure	5.6	
Education and training	2.3	
Other EU revenue		37.3
Total EU revenue		1,146.3
EU EXPENDITURE		
Earmarked funds		65.7
Contributions to the European Development Fund	59.9	
Contributions to the European Environmental Bureau	0.04	
Co-responsibility levy (milk)	5.7	
Other expenditure	0.08	
Taxes and levies		2,386.3
Share of custom duties and agricultural fees and levies less collection costs	314.2	
Contributions in accordance with the joint basis of calculation for value added tax	351.8	
Contributions calculated on the basis of the gross national income	1,720.4	
Total EU expenditure		2,452.0

¹⁾ The decimal numbers do not add up due to the rounding off practice pursued in the state accounts.

In the above table 1, revenue is divided into agricultural and structural funds, schemes outside these funds and other EU revenue, whereas expenditure is divided into earmarked expenditure and taxes, fees and levies.

EU revenue

8. EU revenue from agricultural and structural funds of EUR 1,098.6 million accounts for the majority of the total EU revenue. The government serves as the connecting link in financial transfers between the EU and the final beneficiaries. Payments made from the European Agricultural Guarantee Fund (the Agricultural Guarantee Fund), the European Agricultural Fund for Rural Development (the Rural Development Fund) and the European Fisheries Fund (the Fisheries Fund) are handled by the Food Agency under the Ministry of Food, Agriculture and Fisheries: DECA under the Ministry of Economic and Business Affairs is responsible for payments from the European Social Fund (the Social Fund) and the European Regional Fund (the Regional Fund).

9. The Agricultural Guarantee Fund made subsidy payments of EURO 973.3 million to various schemes in 2010 which makes it the largest EU fund in Denmark. The Single Payment Scheme, which made payments of approximately EUR 890.9 million in 2010, is the largest scheme under the fund. Important other schemes are the premiums for male animals and ewes amounting to approximately EUR 32.1 million, production subsidies of approximately EUR 19.2 million and export subsidies of approximately EUR 17.8 million.

10. The second-largest sources of EU revenue are the Social Fund and the Regional Fund, generally referred to as the structural funds. In 2010, Denmark received total subsidies of approximately EUR 72.9 million from the structural funds, of which EUR 18.7 million was provided by the Social Fund, and EUR 54.2 million was provided by the Regional Fund. The funds go into projects working towards sustainable growth, increased competitiveness and increased employment.

11. EU subsidies are also provided through the Rural Development Fund and the Fisheries Fund. In 2010, EU subsidy payments made from these two funds amounted to EUR 31.5 million and EUR 20.8 million, respectively. In 2010, the Rural Development Fund provided support to various programmes aiming to, for instance, improve the competitiveness of the agricultural and forestry sector, improve conditions for innovation and create local jobs in rural areas, and ensure diverse landscapes, rich nature and a clean environment. Also the Fisheries Fund provided support to various programmes designed to promote sustainable fishery and aquaculture in 2010.

12. EU programmes outside the agricultural and structural funds are mainly operating on funds that have been paid directly from the EU to the final beneficiary. It appears from the table that in 2010 providing support to EU projects on infrastructure was a focal point. It should, however, be noted that EU revenue relating to independent institutions like, for instance, universities, is not included in the table; the universities are included in the fiscal act as subsidized institutions, and therefore only the government grant is included in the fiscal act and subsequently in the state accounts. According to information provided by the universities they have received EUR 56.8 million in direct support from the Commission in 2010.

13. Other EU revenue of EUR 37.2 million in the form of transfers from the EU is not entered in the accounts under the two previously mentioned revenue categories. This revenue is provided to a wide spectrum of EU programmes and projects. The largest revenue concerns EU subsidies from the European Globalisation Adjustment Fund totalling EUR 17.4 million. Other EU revenue concerns, for instance, subsidies to the Danish authorities' administration of the EU programmes (technical support), travelling expenses in relation with Commission meetings and subsidies to various EU projects.

14. The Ministry of Food, Agriculture and Fisheries has informed Rigsrevisionen that the table included in the state accounts, which was developed by the Ministry of Finance, should be corrected; the technical assistance provided to the administration of the Fisheries Fund and the Rural Development Fund of EUR 0.27 million and EUR 3.5 million, respectively, is included under other EU revenue in table 1, but should rightly have been included under the two funds. Moreover, negative revenue of EUR (0.07) million concerning subsidies to decommissioning schemes in the agricultural and forestry sector has by mistake been included under the Rural Development Fund. Revenue related to the latter is thus EUR 35.1 million, whereas the Fisheries Fund accounts for revenue of EUR 21.1 million.

The Ministry of Food, Agriculture and Fisheries has also stated that revenue from the Agricultural Guarantee Fund should be EUR 968.9 million and not EUR 973.3 million as stated; certain ministries have included revenue provided by the Food Agency to institutions under the ministries as EU revenue and thus the amounts appear twice in the statement. Issues relating to the statement of EU revenue and expenditure will be addressed in connection with the work on consolidating the EU accounts.

EU expenditure

15. It appears from table 1 that EU expenditure totals approximately EUR 2.5 billion. Section 38 - Taxes and duties accounts for approximately EUR 2.4 billion or 97 per cent of the expenditure.

16. The earmarked expenditure of approximately three per cent of the expenditure included in the table can primarily be referred to two items of expenditure; EUR 59.9 million concerns Denmark's contribution to development assistance provided by the EU through the European Development Fund, and EUR 5.7 million concerns the co-responsibility milk levy on the sale of dairy products from the agricultural sector.

17. EU expenditure under section 38 - Taxes and duties has been broken down on three elements in the state accounts. As indicated in the table, expenditure of approximately EUR 2.5 billion consists of contributions based on gross national income (GNI-based budget resources), VAT-based resources and customs duties and agricultural fees and levies. The latter includes fees and levies less 25 per cent for administrative expenditure.

Development of consolidated EU accounts in Denmark

18. Rigsrevisionen has in the past couple of years discussed with the Ministry of Finance the possibility of publishing a consolidated financial statement on EU funds in Denmark. Initially, the discussions led to the inclusion of a statement of EU funds (EU revenue and EU expenditure) in the state accounts for 2008. Rigsrevisionen has since been in dialogue with the Ministry of Finance in order to develop the financial reporting of EU funds even further.

Rigsrevisionen is aiming to ensure that the Ministry of Finance presents a consolidated EU financial statement. Also other countries are working towards this objective, and since 2008 Great Britain and other countries have presented audited, consolidated accounts on their EU revenue.

19. Presenting consolidated EU accounts will be a step in the right direction for two reasons; first because all financial information on the government's accounts with the EU will be brought together and thereby, on national level, increase the transparency of the financial transactions relating to EU funds. Secondly, Rigsrevisionen will get an opportunity to audit and issue an opinion on a complete EU financial statement which the Commission and ECA may subsequently include in their assessments of the administration and financial reporting on EU funds in Denmark.

20. The consolidated EU financial statement will include a profit and loss account, balance sheet, cash flow statement and clarifying notes, and will thus shed light on the various financial aspects of the government's accounts with the EU.

The EU accounts will comprise all EU funds in Denmark with certain exceptions as some EU revenue is not included in the state accounts. For instance, the Danish government does not serve as the connecting link in financial transfers between the EU and the beneficiaries when the Commission is providing direct subsidies to private companies and organisations, independent institutions, municipalities, etc. These EU subsidies are not included in the state accounts and therefore not included in the consolidated EU accounts either.

21. To be able to produce a consolidated EU financial statement based on well-defined and clear rules, the Ministry of Finance needs to modify rules and systems and clarify the government's chart of accounts. In respect to the consolidation of EU accounts on the agricultural area, these changes need to be fully implemented in the autumn of 2011 to allow, for instance, the Danish AgriFish Agency (merger of the Food Agency, the Plant Directorate and the Directorate of Fisheries effective as from 2012) to make entries in the accounts in compliance with the updated rules as from 1 January 2012, and to ensure that consolidated EU accounts on the agricultural area can be published for the fiscal year 2012. The Ministry of Finance must also change the current governmental structure of accounting, as this is not designed to embrace the elaboration of a separate balance sheet on EU funds. According to the time schedule, full consolidated EU accounts are to be published for 2013, and for 2012 the Ministry of Finance will publish consolidated EU accounts on the agricultural area.

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

In the opinion of Rigsrevisionen the administration of the agricultural subsidy schemes is generally satisfactory, but the administration of area control is not entirely satisfactory.

Emphasis of matter was made by Rigsrevisionen concerning the remote sensing performed in 2010. The control did not progress entirely satisfactory, as errors were detected in almost 50 per cent of the remote-sensing controls that were performed in collaboration with the Faculty of Agricultural Sciences at Aarhus University. Some of the errors were caused by a mid-process change of the digitalization procedure for remote sensing. The inadequate digitalization of the process increased the workload on the Food Agency and the Plant Directorate considerably, as they were responsible for correcting the digitalization errors in approximately 1,200 cases.

22. The Ministry of Food, Agriculture and Fisheries accounts for approximately EUR 1.0 billion of the total EU revenue of approximately EUR 1.2 billion.

23. The majority of the EU revenue is transferred to the ministry through three EU funds; the Agricultural Guarantee Fund, the Rural Development Fund and the Fisheries Fund. Revenue received from the three EU funds appears from table 2.

Table 2. EU revenue received from the agricultural funds and the Fisheries Fund in 2010 (EUR million)

The Agricultural Guarantee Fund	968.9
The Rural Development Fund	35.1
The Fisheries Fund	21.1
Total	1,025.1

Source: Ministry of Food, Agriculture and Fisheries.

It appears from table 2 that the Agricultural Guarantee Fund is the largest source of subsidy payments totalling approximately EUR 968.9 million in 2010. The Single Payment Scheme is the largest scheme under the Agricultural Guarantee Fund making annual payments to approximately 48,000 farmers. In 2010, subsidy payments from the Single Payment Scheme amounted to approximately EUR 891 million, corresponding to approximately 92 per cent of total payments made by the Agricultural Guarantee Fund.

It also appears from the table that the EU subsidies from the Rural Development Fund and the Fisheries Fund amounted to approximately EUR 35 million and EUR 21 million, respectively, in 2010.

24. Rigsrevisionen has audited the Single Payment Scheme and the area schemes under the Rural Development Fund, which account for the majority of the agricultural subsidies, to assess whether the administration of the agricultural subsidy schemes is satisfactory.

The audit was focused on the control performed by the Food Agency, the Plant Directorate and the Faculty of Agricultural Sciences at Aarhus University to determine whether farmland is eligible for support under the Single Payment Scheme and the area schemes under the Rural Development Scheme. This control is referred to as area control and is essential for the administration of these schemes.

25. Rigsrevisionen has examined whether the area control was performed in a satisfactory manner in 2010, including whether the quality of the area control and the field block index was satisfactory. Rigsrevisionen has also assessed whether the initiatives launched by the ministry under the project "Enhanced control" have been implemented in a satisfactory manner.

The assessment is based on a review of the following documents:

- memoranda and reports from the Plant Directorate and the Food Agency, and from the internal audit of the Food Agency concerning area control performed in 2010;
- cases relating to area control and quality assurance of area control performed in 2010;
- data concerning area control performed in 2010;
- documents concerning the progress of the project "Enhanced control".

26. The examination showed the following:

- 95 per cent of all remote-sensing controls were followed up by physical inspections in 2010. The Ministry of Food, Agriculture and Fisheries has stated that they prioritize reducing the risk of exclusions higher than improving the efficiency of control. Achieving an objective of reducing the number of follow-up inspections considerably is therefore not realistic. In the opinion of Rigsrevisionen this is a fair prioritization taking into consideration the financial corrections that the Commission has imposed on Denmark in recent years.
- The actual amount of time spent on performing the physical inspections was considerably higher than estimated, partly because the Plant Directorate also wanted to enhance the quality of the area control. But other factors also increased the amount of time spent on the task, i.e. the generally increasing complexity of the regulations, and in 2010 the digitalization errors relating to remote-sensing control and a decline in productivity concerning area control in the regions monitored by the Plant Directorate.
- A review of 145 cases concerning the administrative quality assurance performed by the Plant Directorate, quality control of the remote-sensing control and re-checks showed, that the subsequent quality control identified errors in 35 of the cases that were checked, corresponding to an error rate of 24 per cent which Rigsrevisionen considers excessive. The initiatives launched by the Food Agency and the Plant Directorate to make the guidance on control more user-friendly are therefore expected to reduce the error rate in the future.
- The audit also showed that more than 20 per cent of the farmers that were selected for the five per cent sample check had overstated size of land to an extent that triggered sanctions by the ministry. Rigsrevisionen is of the opinion that the rules governing the area schemes need to be made more accessible for the individual farmer.

- In 2010 the Food Agency did not follow up systematically on all the recommendations to change the blocks that were made by the Plant Directorate inspectors. This is not considered entirely satisfactory by Rigsrevisionen, as inadequate follow-up increases the risk of errors. The Food Agency has implemented a procedure which Rigsrevisionen expects will ensure that recommendations to change the blocks made by the Plant Directorate are being considered.
- The Commission launched a new concept for the assessment of the field block system in 2010. The concept was tested for the first time in 2010, but as largely no Member Countries were able to meet the criteria set, the Commission has stated that the quality criteria will be changed. However, the Food Agency has launched several initiatives to ensure that the field block index in the future achieve greater compliance with the quality criteria set by the Commission. Rigsrevisionen considers the initiatives launched by the Food Agency satisfactory.
- Rigsrevisionen is satisfied that approximately 50 per cent of the initiatives included in the project "Enhanced control" have been implemented as per 1 January 2011, and the overall project plan is being followed. Rigsrevisionen considers the initiatives essential for the success of the Danish authorities' efforts to reduce the risk of expenditure exclusions under the area scheme.

A. Area control

Framework of area control

27. Support from the Single Payment Scheme and the Rural Development Scheme is applied for in a joint application which must be submitted to the Food Agency every year in April. The administrative control of eligibility for support is combined with on-the-spot checks when required.

28. On the basis of the field block index, the Food Agency performs a cross control of all applications. The Food Agency checks the data provided in the applications with the data held in the field block index. The purpose of the cross control is to ensure that support is only provided to eligible areas in a block, and that more applicants do not receive support for the same area.

29. According to the EU regulations, minimum five per cent of all applications (farmers) should be subjected to on-the-spot checks. The control on-the-spot is performed either by remote sensing carried out by the Faculty of Agricultural Sciences or as physical inspections carried out by the Plant Directorate. A number of remote-sensing zones are selected for control. Satellite photos provide the basis for measurements of the farmers' fields. Two elements are digitalized in the remote-sensing process; the outer circumference of the fields which provides the basis for correct calculation and deduction of ineligible areas. If the photo material does not suffice to ensure correct control, the inspectors from the Plant Directorate will follow up the control with physical inspections of the respective fields. Inspections are made mainly of grazing land, non-agricultural land and other areas for which the farmer has received subsidy payments under the Rural Development Scheme.

30. The physical inspection of the farmer's fields includes visual inspection and measurement of all fields by the Plant Directorate inspectors. Measurements are carried out on the basis of ortho images (aerial photos). If the aerial images are not providing an adequate basis for correct measurements, they will be supplemented by GPS-based measurements. Irrespective of the equipment used, the land size stated in the farmer's application will be compared with the measurement of the area.

31. The control on-the-spot of five per cent of all applications must be finalized before payments under the Single Payment Scheme and the Rural Development Scheme can be executed. Payments are executed in the period 1 December to 30 June which means that all five per cent sample checks should be finalized before 1 December. Payment to the individual farmer will not be executed before the application has been fully processed and the size of the eligible area determined.

32. The organisation of area control has in recent years been changed regularly in response to criticism raised by the Commission, ECA and the internal auditor of the Food Agency. In the early summer of 2009, the Ministry of Food, Agriculture and Fisheries commissioned a private consultancy firm to provide input and guidance on how to enhance the quality of area control. The consultancy firm finished its report in the autumn 2009. The report pointed to parts of the control process where the risk of exclusions was considered high and recommended various initiatives to counter future financial corrections.

33. The consultancy firm recommended introducing an entirely new concept of control according to which remote sensing should be strengthened in order to reduce the number of expensive physical inspections. The strengthening of remote-sensing controls would involve efforts to improve planning, management and quality assurance of the remote-sensing controls; for instance, fixed core processes should be defined in relation to development and planning of the controls, the technology should be upgraded and a fixed procedure for quality assurance of the controls should be implemented. These measures would make it possible to close more control cases in the remote-sensing phase and thereby reduce the need for subsequent physical on-the-spot checks.

In respect to the physical on-the-spot checks, the recommendations made by the consultancy firm included introducing a joint concept for planning and management, clarifying the technical basis for the control method, initiatives to raise the professional level of the inspectors, and introducing a fixed procedure for quality assurance of the controls.

34. On the basis of these recommendations, the Food Agency and Plant Directorate on 1 December 2009 launched the project "Enhanced control" to ensure systematic implementation of the recommendations made in the report. The project is expected to be finished by the end of 2011.

Remote-sensing control in 2010

35. As mentioned earlier five per cent of all applications must be checked. In 2010, 5.5 per cent of all farmers were checked, corresponding to 2,812 controls. 2,457 of these were carried out as remote-sensing controls and 355 as physical inspections, i.e. a distribution between the two types of control of 87 per cent and 13 per cent. The Food Agency has thus followed the recommendations made by the consultancy firm and increased the number of remote-sensing controls at the expense of physical controls. The distribution between physical controls and remote-sensing controls was previously 20 per cent against 80 per cent. The strategy will be fully implemented in 2011 when only remote-sensing controls will be carried out.

36. The Food Agency has stated that the process of remote-sensing control did not progress entirely satisfactory in 2010; errors were detected in approximately 1,200 of the 2,457 remote-sensing controls that were performed in collaboration with the Faculty of Agricultural Sciences.

37. The Faculty of Agricultural Sciences has stated that some of the errors were caused by a mid-process change of the digitalization procedure reflecting changes in the EU regulations and the efforts made to prepare the transfer of the remote-sensing control to the Food Agency and Plant Directorate.

38. The digitalization problems increased the workload on the Food Agency and the Plant Directorate considerably in respect to remote-sensing control in 2010. The Food Agency had to re-examine and correct digitalization errors in approximately 1,200 applications. As the results of the remote sensing were delayed, the inspectors from the Plant Directorate fell behind with follow-up inspections and closing of control cases. Moreover, the Plant Directorate was compelled to correct the errors that the Food Agency had not had time to correct in major and more complicated cases concerning rural development subsidies.

39. On the basis of the Commission's long-standing criticism of the quality of remote-sensing control and in order to streamline processes, the Food Agency decided to transfer back in-house the remote-sensing activities from the Faculty of Agricultural Sciences as per 2012. Some activities were transferred back in-house in 2011 and the transaction will be completed in 2012. The Food Agency and the Plant Directorate have in 2010 assisted the Faculty of Agricultural Sciences with the first phase of the remote-sensing control, which comprised digitalization of blocks and fields. The Food Agency and the Plant Directorate have furthermore taken over the second phase of the remote-sensing exercise, which includes error tracing in the data on digitalized blocks and fields, and digitalization of ineligible areas.

As from 2012, all remote-sensing control activities will be transferred to the Food Agency and the Plant Directorate which by then, together with the Directorate of Fisheries, will have been merged into the Danish AgriFish Agency. The two agencies are expecting to gain better control of the quality of the digitalization of fields and increase the flexibility of the work processes. The change will enable the case workers in the new agency to sign off remote-sensing cases on an on-going basis, and thereby allow the inspectors to initiate physical inspections of the fields where the photo material available does not suffice to confirm eligibility.

Countering financial corrections versus streamlining area control

40. The consultancy report on the area control from 2009 was based on the assumption that it would be possible to reduce costs for remote-sensing control if the number of subsequent physical inspections could be reduced; streamlining of processes and technological achievements within remote-sensing control were assumed to facilitate a reduction of physical inspections from 2,332 to 1,355. This would mean that 58 per cent of all remote-sensing controls would be followed up with physical inspections.

Table 3 shows the actual percentage of controls that were followed up by physical inspections. In 2010, 95 per cent of all remote-sensing controls were followed up by physical inspections. This means that only five per cent of the remote-sensing controls could be finalised without physical inspection. In comparison, approximately 92 per cent and 90 per cent of all remote-sensing controls were subjected to follow-up inspections in 2009 and 2008, respectively.

Table 3. Share of remote-sensing controls that were followed up by physical inspection

2010	2009	2008
95 %	92 %	90 %

41. The Food Agency has explained that there are several reasons for the many follow-up physical inspections. First, research and development of remote-sensing control have not reached a level that justifies closing cases without physical follow-up inspections, taking into consideration the risk of exclusions.

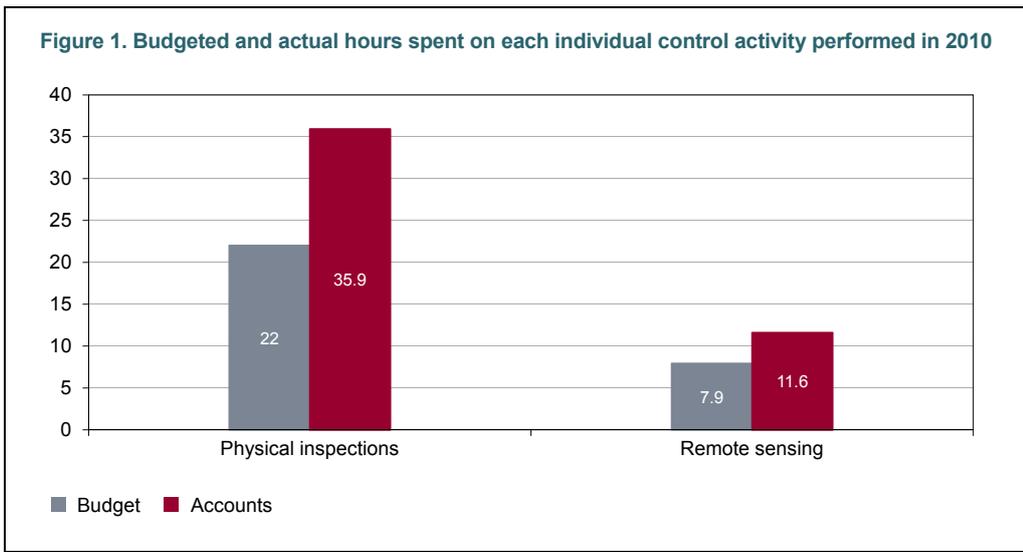
Secondly, an increasing number of farmers are now also applying for funds under the Rural Development Fund, and checking compliance with the eligibility criteria of the Rural Development Scheme always involves physical inspection.

Thirdly, the Food Agency has prioritized risk analysis and farmers applying for funds concerning pastures are therefore often selected for control, and this control generally involves physical follow-up inspections. This was not taken into consideration in the consultancy report. The controlling authorities have increased their control of pastures because they wish to reduce the risk of more financial corrections in this area being imposed on Denmark by the Commission, cf. the exclusion of expenditure of EUR 101 million concerning hectare aid received in the period 2002 to 2004.

42. The Ministry of Food, Agriculture and Fisheries has stated that reducing the risk of exclusions will always be prioritized over improving the efficiency of the control. Achieving an objective of finalizing the majority of controls without follow-up inspections is therefore not realistic. Yet, in the long term, when relevant research in the area has been concluded, the Ministry of Food, Agriculture and Fisheries expects to improve the efficiency of controls further.

Time spent on physical inspections

43. The audit showed that considerably more time was spent on each individual control activity than estimated. Figure 1 compares the budget with the actual number of hours spent on physical control by the regional offices under the Plant Directorate.



It appears from figure 1 that time spent on each individual control exceeded the estimate for physical controls as well as for remote-sensing controls. In particular the physical controls took up much more time than expected; estimated expenditure of time was 22 hours per control activity against the actual number of hours spent which was 35.9. Remote-sensing control was estimated to take 7.9 hours per control activity, but the actual amount of time spent was 11.6 hours.

44. The Plant Directorate has explained that there were many causes for the increase in expenditure of time; many of the cases that were selected for control turned out to be complicated and involved rural development support as well as single payment support. Because the eligibility criteria are not the same for the two schemes, the inspectors had to perform a time-consuming exercise of parcelling out the fields. The inadequate digitalization of remote-sensing placed an extraordinarily heavy workload on the inspectors from the Plant Directorate; they participated in the remote-sensing digitalization activities at the Faculty of Agricultural Sciences, but were subsequently also responsible for correcting errors in approximately 1,200 cases. To this should be added that the many new quality requirements that were derived from the project "Enhanced control" have increased the amount of time needed to perform area control, i.e. manning on certain cases has been doubled, increased requirements to photo documentation and improved quality of documentation of the control performed. Lastly, the Plant Directorate has implemented a new planning system and changed the structure of its regions. These changes were not, however, fully implemented in 2010. Parts of the planning system were in operation in 2010, but the positive impact hereof was balanced by a general drop in productivity; due to concern among staff in the organisation at the prospect of a mileage scheme being changed and the potential move of departments as a consequence of the changed structure of the regions, the productivity of area control dropped in the regional offices.

45. The Ministry of Food, Agriculture and Fisheries has stated that it has launched various initiatives to ensure that the control becomes more efficient in the future and the amount of time spent on physical inspections reduced. As from 2011, the very time-consuming physical control involving measurement of all land belonging to a farmer will no longer be performed, and in the future remote sensing will take over as the sole control measure. Two sets of photos will be used to confirm the eligibility of pastures to ensure that more remote-sensing control cases can be closed without being followed up by physical inspections. The Ministry is also of the opinion that the on-going merger of the Food Agency and the Plant Directorate will provide a platform for further streamlining of the control activities, as many of the current control coordination challenges are expected to be resolved with the merger.

However, the Food Agency emphasises that constantly changing rules and tightening of procedures following from the initiatives launched under the project "Enhanced control" to enhance the quality of control, often offset the benefits of streamlining

46. In addition to the five per cent sample checks, the Food Agency also, as mentioned earlier, performs administrative cross control of the information provided in the applications and the data held in the field block index. In 2010, the cross control revealed 18,360 errors concerning overstatement of land size. The Food Agency has managed to reduce the number of errors that require issue of a letter to the individual farmer. The Food Agency has, for instance, applied a Commission derogation that allows administrative expansion of an eligible block by up to 0.2 hectare. This exercise has reduced the number of letters sent on account of overstated blocks to 7,547 in 2010. The Food Agency has also acquired improved photo material, which has considerably reduced the number of cases that could not be settled administratively. In 2010, cross control produced only 12 cases that required physical follow-up inspections by the Plant Directorate.

Sanctions imposed on farmers

47. Rigsrevisionen has also examined the number of sanctions imposed on farmers in connection with the five per cent sample check.

48. According to the EU regulations, the authorities must impose sanctions on the farmers if significant deviations are detected between the area stated in their application and the area measured by the inspector.

Sanctions are imposed according to a tiered scale:

- Deviations in field sizes exceeding three per cent up to and including 20 per cent (or more than two hectare) between the application and the measured area within one single crop group will reduce aid by an amount corresponding to twice the size of the deviation.
- If the deviation exceeds more than 20 per cent of the measured area (confirmed area), the farmer will not receive any support that year for the crop group in question.
- Applications where the deviation exceeds 50 per cent are refused by the Food Agency. This means that the farmer will not receive any support that year, and support provided in the subsequent three years will be reduced.

49. Box 1 exemplifies the calculation of a sanction and its implications for the support provided to the farmer.

BOX 1. CALCULATION OF SANCTION AND AMOUNT OF SUPPORT

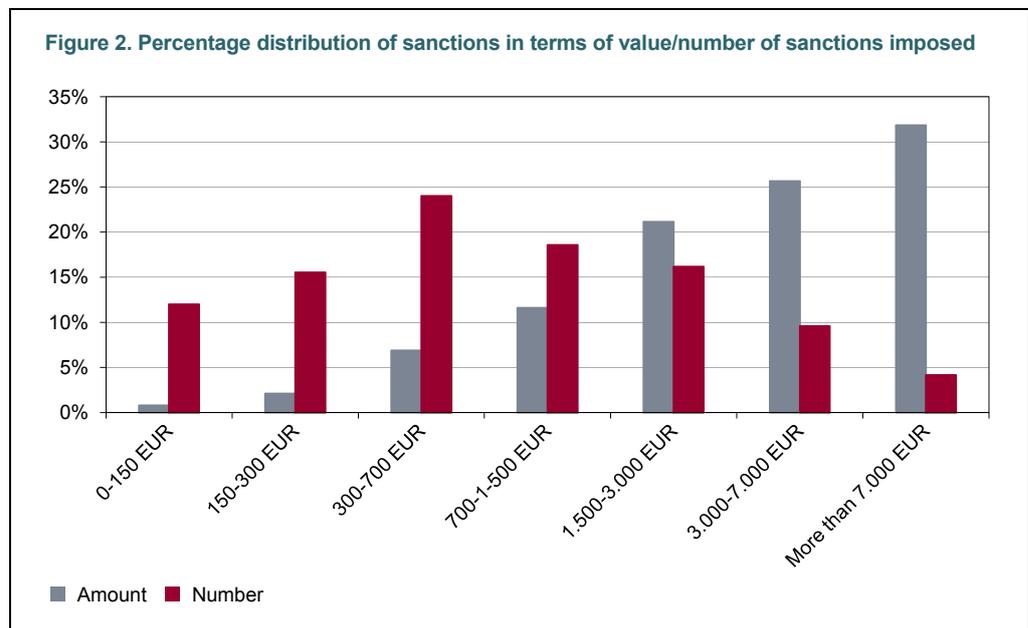
If sanctioned, the support provided to the farmer will be reduced.

A farmer has stated an area size of 100 hectare in his/her application. According to a control measurement, the area of the eligible land is only 95 hectare. The deviation of five hectare corresponds to 5.3 per cent of the measured area. The area will thus be reduced by twice the size of the deviation, corresponding to 10 hectare. At a rate of EUR 299 per hectare, the sanction will be calculated at EURO 2,990.

The size of the area that is providing the basis for the payment of support will thus be 85 hectare (95 hectare minus 10 hectare) and the farmer will therefore receive support corresponding to the measured area minus the sanction, i.e. EUR 25,415 (95 hectare x EUR 299 minus 10 hectare x 299 = EUR 28,405 minus EUR 2,990).

50. Rigsrevisionen's audit shows that 625 (22.2 per cent) of the 2,812 farmers, that were controlled, were sanctioned. The sanctions imposed on the 625 farmers totalled approximately EUR 1 million.

51. Rigsrevisionen has also examined the distribution of the sanctions in terms of value cf. figure 2.



The majority of the sanctions imposed range between EUR 150 and EUR 3,000. It also appears from figure 2 that only around five per cent of the farmers are sanctioned more than EUR 7,000. Yet the sanctions imposed on these farmers are very heavy and account for 32 per cent, or EUR 328,355 of the total sanctions of approximately EUR 1 million. The sanctions in this category are often imposed for considerable area deviations that have led to a complete loss of support, cf. the rules governing calculation of sanctions referred to in item 48.

52. Rigsrevisionen is of the opinion that the rules governing the area schemes should be made more accessible for the individual farmer.

B. Quality assurance of area control in 2010

Administrative control of the quality of physical inspections

53. In March 2010, the Plant Directorate established a quality assurance unit in order to strengthen the quality of control. Among the tasks assigned to the new quality assurance unit is reviewing three per cent of all on-the-spot checks.

54. A random sample of 89 cases was selected for quality control in 2010. The quality control detected errors and deficiencies in 21 of the 89 cases reviewed, corresponding to an error rate of 24 per cent. Errors were detected in a wide range of areas, i.e. errors and/or deficiencies in control reports, errors in the size of eligible areas compared to ortho images and area sizes plotted in applications, and irregularities in documents on file.

Quality control of remote-sensing controls as performed by the Plant Directorate

55. Annually, 40 applications, whose eligibility has previously been confirmed by remote sensing, are being subjected to quality assurance by the Plant Directorate. The control is performed as physical inspections including measurement and visual inspection of all land. In five of the 40 applications, corresponding to 13 per cent, the status of the application was changed from eligible to ineligible because the size of land had been overstated, which had not been detected during the remote-sensing control. Overstatements in the five cases ranged between 0,14 ha and 0,91 ha, or 0,96 per cent and 3,58 per cent.

In its report on the quality assurance of remote sensing in 2010, the Plant Directorate concludes that the quality of remote-sensing control has improved considerably over a period of years. In the years 2006 to 2008, 37 – 50 per cent of the remote-sensing cases changed status from eligible to ineligible as a result of the subsequent quality control. In 2009 only three per cent of the eligibility decisions were reversed.

However, the Food Agency is of the opinion that the increase in the reversal rate from 2009 to 2010 is not a reflection of deteriorating quality of remote sensing. The Food Agency and the Plant Directorate have in 2010 made a special effort to rectify the digitalisation errors and this work has in their opinion enhanced the quality of remote sensing in 2010 compared to 2009.

16 farmers were rechecked

56. The Plant Directorate rechecked 16 farmers in 2010 in collaboration with the internal auditors of the Food Agency. The recheck included GPS-based measurements or ortho images of all land belonging to the holdings. The rechecks concerned applications for area support under the Single Payment Scheme and the area schemes under the Rural Development Scheme. Deviations in field sizes compared to the original control results were detected in nine of the 16 rechecked applications. In six of the applications, the deviations had financial implications. It should be noted, however, that the deviations detected in the nine cases corresponded to only 0.5 per cent of the total area included in the 16 applications.

57. The errors and irregularities concerned primarily areas that should have been excluded during the ordinary control on account of the regulations that exclude permanent pastures where less than 50 per cent can be grazed, pastures of shrubs and trees, and areas that are not encompassed by the allocated entitlements. Box 2 illustrates the complexity of the rules governing measurement of permanent pastures.

BOX 2. CONTROL OF PERMANENT PASTURES

Many of the deviations in area sizes are related to permanent pastures, and there are two main explanations for that: the inspectors misjudge the vegetation and boundaries of the pastures. Determining whether an area should be deducted due to its vegetation is particularly difficult in relation to grazing pastures. The reason is that not all species of grass are eligible for support, and the vegetation of ineligible species must not exceed 50 per cent of the area. In addition, it must be determined whether the height of certain species of grass is below or above 40 centimeters and whether the land is dryland or wetland. All of which requires thorough inspection.

58. Rigsrevisionen is of the opinion that the guidance on control used by the Plant Directorate should be made more user-friendly. It should be considered to supplement the instructions with easy-to-use guidance that can readily be applied by the inspectors during physical inspections.

The Food Agency and the Plant Directorate have stated that they have made extensive efforts in 2011 to make the guidance on area control more accessible and easy to use as a work of reference for the inspectors. These efforts included also the control of pastures and land set aside, which is very complex and based on various criteria (approved species of plants, rules on trees and clumps of trees, requirements for good agricultural and environmental condition, etc.). The efforts to make the description of this complex control as user-friendly as possible will be continued in 2012, and the possibilities of inserting the control criteria in an auxiliary form for easy reference will be considered. Rigsrevisionen is satisfied with these initiatives.

C. The field block system and quality assurance of the field block system

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

60. The Food Agency checks applications against the data in the field block index and checks, for instance, whether the stated total eligible area of a block exceeds the area of the block as registered in the index.

61. The field block index is updated by the Food Agency. Thus the Agency has made a huge effort in 2010 to exclude ineligible areas and delimit field blocks correctly. In 2010, the Food Agency updated approximately 116,000 of the approximately 310,000 field blocks registered in the index.

62. The index is updated on the basis of, for instance, reports submitted by the farmers and the Plant Directorate inspectors, and the results of the Food Agency's subsequent consideration of applications. Some field blocks are also updated at the initiative of the Food Agency. As from 2012, all field blocks should be updated at three-year intervals.

63. For the updating of the field blocks, the Food Agency has developed a web-based field map system (IMK), allowing farmers to plot changes to their field blocks online. The Plant Directorate inspectors also use the system for reporting of control results.

The Food Agency's internal auditor's review of the field block index

64. In 2010, the internal auditor of the Food Agency reviewed a sample of requests for field block corrections in the IMK system submitted by farmers and Plant Directorate inspectors. The internal auditor detected a few cases where the Food Agency had not acted on the Plant Directorate inspectors' proposals, either because they were overlooked or were not considered relevant by the Food Agency. The internal auditor also noticed the absence of a fixed business procedure ensuring that the Plant Directorate responds to all the proposals that are plotted by the inspectors and transferred to the IMK. The internal auditor concluded that overlooking proposals submitted by the Plant Directorate could be the cause of serious errors, if the size of field blocks was subsequently incorrectly registered.

This is not considered entirely satisfactory by Rigsrevisionen, as inadequate follow-up routines increase the risk of errors.

65. The Food Agency has stated that it has introduced a procedure ensuring that all changes proposed by the Plant Directorate are acted upon, and if some of these are not implemented, the reason will be stated in the field block index. The process was fully implemented in 2011. The Food Agency and the Plant Directorate have also exchanged experiences more frequently than in the past to ensure that they are on the same page in respect to their interpretation of the control guidance. Rigsrevisionen expects the procedure introduced by the Food Agency to ensure systematic processing of all future proposals made by the Plant Directorate to change field blocks.

The Commission's quality assurance system

66. The Commission has implemented a new concept for evaluation of the quality of field blocks. The concept allows the Member States to evaluate the quality of the field blocks and subsequently, if necessary, implement appropriate measures. The concept is based on seven quality criteria.

67. However, the majority of the Member States have not been able to meet all seven quality criteria and the Commission has stated that 2010 should be considered a trial year for the new quality criteria.

68. The Food Agency has tested 800 field blocks sampled by the Commission for compliance with the criteria. The test showed that the Danish field block system met three of the seven criteria. The Food Agency therefore concluded in its report to the Commission that the quality of the Danish field block system is still inadequate, and that the system needed to be enhanced. However, the Commission also stated in its report that the poor result also reflects that a large number of field blocks in the sample had not yet been updated by the Food Agency.

69. The area of 271 of 800 field blocks in the Danish test sample was incorrectly registered in the field block index. In addition hereto farmers had on 34 occasions failed to report changes in the landscape as required and 128 farmers had overstated the eligible area.

70. The Food Agency has implemented various measures to ensure that the quality of the field block system will meet the quality criteria of the Commission in the future. Updated field blocks are now tested for compliance with the Commission's quality criteria. Staff of the Agency is trained to update the field block system, and the importance of reporting changes in the field blocks is impressed on the farmers. The number of changes reported by the farmers has thus already increased considerably. Finally, all incorrect field blocks detected in the 2010 test have now been updated, and the Food Agency has acquired new, improved ortho images. For 2010 the test will be performed in accordance with the Commission's new quality specifications.

D. Follow-up on initiatives launched under the project "Enhanced control"

71. In December 2009, the Food Agency and the Plant Directorate launched the project "Enhanced control". The purpose of the project is to strengthen area control and reduce the risk of financial corrections being imposed on Denmark by the Commission. The project includes 102 initiatives organised under seven headlines: improvement of IT structure, improvement of data on field blocks and remote sensing, legal quality assurance, improvement of process for handling control cases, enhancing the quality of control, centralization of risk-based sampling and management, and management of cross-compliance.

The Food Agency has stated that the project "Enhanced control" is progressing as planned. As per 1 January 2011, approximately 50 per cent of the tasks planned under the project have been implemented and activities are following the overall project plan. Much focus is still devoted to resolving the issues in the areas that have been severely criticized by the Commission and are assumed to pose the largest risk in terms of financial corrections being imposed on Denmark.

72. The preceding sections have referred to some of the initiatives that have been implemented under the project "Enhanced control", i.e. improving risk analyses, updating and maintenance of field blocks, imagery support of control, transferring remote sensing back in-house, organisation of control and quality assurance of physical inspections and remote-sensing control. The following sections describe in more detail the activities relating to field block data and remote sensing, and enhancement of the quality of control. The Commission has on its visits in 2006, 2008 and 2009 had much focus on these areas. The initiatives launched under the project "Enhanced control" have moreover also been a contributory factor behind the Commission's decision not to audit control in 2010 and 2011.

73. Various activities have been launched to enhance the quality of field block data and remote sensing, including the development of an actual quality policy for the field block system, which is based on the Commission requirements. The seven criteria of quality concerning the field block system are included in the quality policy. Moreover the Food Agency has initiated activities to update the field block system. In 2010, 116,060 field blocks were updated, and 30,789 field blocks were updated during the first half of 2011. The Food Agency expects to achieve the target set for this activity and have all 310,000 field blocks updated by the end of 2011. Imagery support of control has also been extended, and to ensure that the control is based on the latest imagery, nationwide ortho images are now acquired annually instead of biennially as in the past. Finally, an agreement has been made to transfer remote sensing back in-house as from 2012, and certain tasks are already at this point being transferred to the Food Agency and the Plant Directorate from the Faculty of Agricultural Sciences at Aarhus University.

74. The following activities have been launched to enhance the quality of control: in March 2010 a centralised control unit with overall responsibility for planning and implementation of control was established in the Plant Directorate. Several tools have been developed to enhance the quality of control, including a new system that facilitates planning across the regions and tools for on-going monitoring of controls. Moreover, technical training programmes have been made available to the inspectors, and fixed guidelines for the supervision of all inspectors have been established. Also fixed procedures for the development and updating of the guidance on control have been implemented and the inspectors now have access to a hotline that can provide them with assistance in critical and difficult situations. In the summer of 2010, manning on all inspections was doubled to increase uniformity of task performance. Finally, as per 1 March 2010, a special quality unit was established to ensure a fixed procedure for quality assurance and perform sample-based checks of the physical inspections, cf. item 53.

75. The Ministry has informed Rigsrevisionen that it has established yet another sub-project under the project "Enhanced control" in 2011: the project is focused on performance indicators to measure the combined effect of the "Enhanced control" project. Rigsrevisionen welcomes the ministry's initiative.

VI. Financial corrections

In the opinion of Rigsrevisionen, the initiatives launched by the Ministry of Food, Agriculture and Fisheries to reduce the amounts of the financial corrections imposed on Denmark are satisfactory. The ministry has been in contact with the Commission on all significant cases and has launched several initiatives under the project "Enhanced control" to counter future financial corrections.

Rigsrevisionen has inserted an emphasis of matter section in the opinion concerning the weaknesses in the administration of the agricultural policy area that have led to financial corrections of approximately EUR 134.2 million in the period 2002-2011. EUR 101 million of this amount concerns a financial correction that was imposed on Denmark in 2009, but has been disputed and brought before the EU Court of Justice by the ministry.

76. Rigsrevisionen has examined whether the Ministry of Food, Agriculture and Fisheries handled recently closed and pending cases concerning financial corrections imposed on Denmark in the common agricultural policy area in a satisfactory manner.

The examination is focused on the following aspects:

- the distribution of financial corrections among the Member States, including Denmark;
- pending cases (16) concerning financial corrections imposed on Denmark in the common agricultural policy area;
- the Danish authorities' negotiations with the Commission to have the amount of the financial correction concerning the field block index and area control in the period 2005-2006 reduced (Single Payment Scheme, etc. and area aid provided under the Rural Development Fund);
- the initiatives launched by the Ministry of Food, Agriculture and Fisheries to counter future financial corrections, i.e. the "Legal quality assurance" activity established under the project "Enhanced control".

77. The results of the examination were the following:

- In the period 2002-2011, the Commission excluded expenditure of approximately EUR 134.2 million or 1.3 per cent of the total agricultural subsidies of approximately EUR 11.2 billion received by Denmark. This is slightly below the EU average of 1.4 per cent. The Commission decided in 2009 to exclude payments made under the hectare aid scheme of EUR 101 million in the period 2002-2004. The Ministry of Food, Agriculture and Fisheries has appealed the decision to the EU Court of Justice on the grounds that it does not agree with the premise of the Commission's decision. In the opinion of Rigsrevisionen, the Danish authorities have argued well for their handling of the administration in the area, and bringing the case before the EU Court of Justice is considered justified by Rigsrevisionen. The case is expected to be settled in 2012.
- Imposing financial corrections is a measure used by the Commission to ensure that EU funds are used in compliance with the regulations. The financial corrections also serve as an incentive for the Member States to correct errors and continuously improve their administration. The procedure is thus a fixed component part of the certification of the accounts.
- The Ministry of Food, Agriculture and Fisheries has in all significant correction cases sought dialogue with the Commission and, for instance, submitted new control data.
- The Ministry of Food, Agriculture and Fisheries succeeded in getting the financial correction concerning the field block index and the area control in the period 2005-2006 reduced from EUR 39.7 million to EUR 20.3 million; on the basis of new statistical material, the ministry was able to document that the EU funds in the area were exposed to considerably less risk than indicated by the Commission's original calculations.
- On the basis of this case, the Ministry of Food, Agriculture and Fisheries has developed a strategy for handling financial corrections that includes initiatives to reduce the amount of the financial corrections imposed and initiatives to counter future financial corrections.
- Rigsrevisionen has established that the EU regulations are complex and the Commission and the Danish authorities have disagreed on their interpretation on several occasions.
- In 2010, the Ministry of Food, Agriculture and Fisheries launched a number of initiatives under the project "Enhanced control" to ensure that the implementation of the regulations in Denmark is in compliance with the EU regulations and the regulations are made easier to apply for the inspectors and farmers. Rigsrevisionen is satisfied with the initiatives and recommends that the ministry should continue its efforts to simplify the rules within the framework of the EU regulations.

A. Financial corrections in the common agricultural policy area prior to 2011

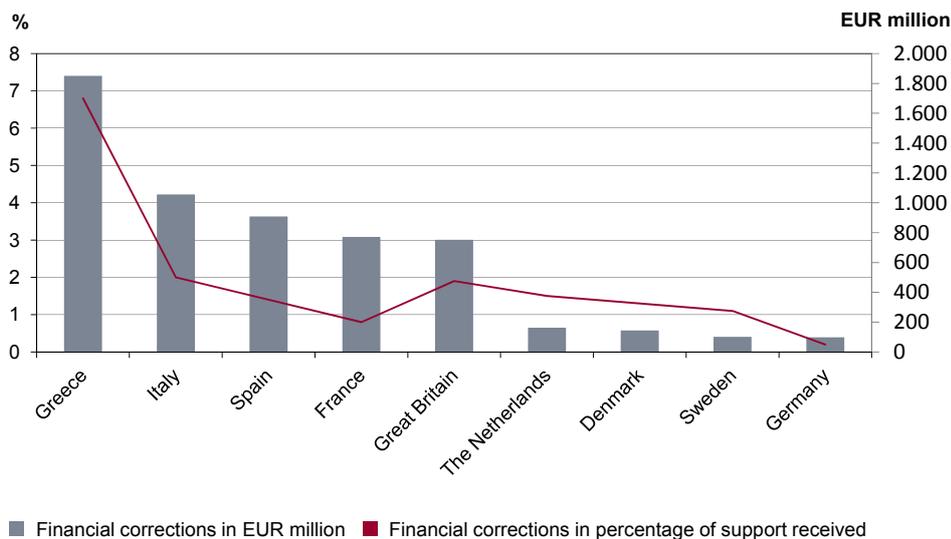
78. Financial corrections may comprise payments made in up to two fiscal years before the time of the audit. Experience shows that several years elapse from the time when the Commission opens proceedings against a Member State and until the case is finally settled. The cases referred to in this report therefore concern several fiscal years prior to 2010. The principles governing the Commission's calculation of financial corrections appear from box 3.

BOX 3. THE COMMISSION'S CALCULATION OF FINANCIAL CORRECTIONS

The Commission determines the amounts of financial corrections or exclusions of expenditure on the basis of an evaluation of three factors: the *nature* and *gravity* of the infringement and the *financial loss* suffered by the EU budget. Whenever possible, a financial correction will be calculated on the basis of the actual financial loss or on the basis of an assessment of the total financial loss suffered by the EU budget. If it is impossible to determine the actual financial loss, a financial correction will be calculated as a flat-rate of the total amount spent by the Member State on the scheme in question. Depending on the nature and gravity of infringements, flat-rate corrections range between two per cent to five per cent, 10 per cent or even 25 per cent of funds received under the respective scheme. The Commission distinguishes between infringements relating to two types of checks; *key checks* or *ancillary checks*. Key checks are the physical and administrative checks that are required to verify the eligibility of the claim made by the beneficiary. Ancillary checks involve the administrative operations required to process claims correctly and include verifying, for instance, that deadlines are observed and risk analyses performed in accordance with the EU regulations. For instance, a correction of two per cent is imposed if a Member State has failed to improve the application of ancillary checks. A five per cent correction will be imposed if the Member State has implemented all key checks, but not in the number, frequency or depth required. Financial corrections of 10 per cent or 25 per cent may be imposed if key checks are gravely deficient.

79. The Commission is not publishing statistics on the distribution of financial corrections imposed on the Member States. The Ministry of Food, Agriculture and Fisheries has calculated the distribution of financial corrections imposed on Member States in the period 2002-2011 on the basis of Commission Decisions nos. 10 to 36. The calculation includes financial corrections imposed in various currencies over 10 years. The financial corrections stated as a percentage of support received, include payments executed under the Rural Development Fund up to 30 June 2011. Financial corrections imposed on selected countries stated in EUR millions and as a percentage of support received will appear from figure 3.

Figure 3. Financial corrections imposed on selected countries in EUR millions and as a percentage of support received in the period 2002 to September 2011



It appears from figure 3 that the majority of financial corrections have been imposed on Greece in terms of value as well as percentage of support received (6.8 per cent). Thus financial corrections imposed on Greece total EURO 1,85 billion. Next in line are Italy, Spain, France, Great Britain and Holland. Denmark is so far in seventh place and holds a mid-position among the 14 countries that have been members of the Community for the entire period. On average, 1.3 per cent of the expenditure claimed by Denmark has been excluded, which is slightly below the estimated average for all Member States of 1.4 per cent. In terms of value, the Commission has refused to reimburse payments of EUR 134.2 million made by Denmark. Total support received by Denmark in the period was approximately EUR 11.2 billion. France stands out because the exclusion of approximately EUR 778 million accounts for only 0.8 per cent of the total support received by France. The financial corrections imposed on Holland, which is one of the countries that Denmark generally compares itself with, are slightly larger than those imposed on Denmark, i.e. approximately EUR 161 million or 1.5 per cent of total support received. Financial corrections imposed on Sweden are so far amounting to EUR 99.2 million, or 1.1 per cent of total support received in the period. Financial corrections imposed on Germany amount to a total of EUR 95.9 million in the period, corresponding to 0.2 per cent of support received.

Financial corrections imposed in 2010 and 2011 broken down by sector

80. Rigsrevisionen has gone through the Commission's announcements concerning financial corrections imposed in the Community in 2010 and 2011. Area aid is the largest scheme in the common agricultural policy area and inadequate controls in this area led to exclusions of expenditure from Community funding in 2010 and 2011 of approximately EUR 805 million. Financial corrections were imposed on Spain, Germany and Great Britain in 2010 due to errors and deficiencies in the systems used for identification and measurement of fields. These errors and deficiencies are similar to those that affected Denmark in 2009. Moreover, in 2011 the Commission decided to impose financial corrections concerning the administration of entitlements in Greece, Great Britain and Denmark, among others. The weaknesses in the controls concerning development of rural areas have in the period led to financial corrections totalling approximately EUR 84.4 million. Schemes concerning fruit and vegetables were in 2010 and 2011 the cause of financial corrections totalling approximately EUR 150.3 million. Several countries have thus according to the Commission recognised producer organisations on an inadequate basis, and several countries have had difficulties determining the value of products marketed. The Commission has proposed that a financial correction should be charged to Denmark in this respect. This case is described in more detail in section B below. Financial corrections concerning livestock premiums totalled approximately EUR 175 million in 2010 and 2011. To this should be added that the Commission during its financial audit of the accounts in the Member States keep detecting irregularities, which, however, generally lead to only minor financial corrections.

Causes of financial corrections in the individual Member States

81. The Commission detects infringements of the EU rules relating both to the purpose of the aid schemes, eligibility, and organisation and application of ancillary controls. Other countries, including Holland and Great Britain, have indicated that the complexity of the rules and disagreement over their interpretation have been major causes of the financial corrections that have been imposed on them. Finally, problems relating to the technical implementation of the regulations like, for instance, the field block system in Denmark, seem to have been a major contributing factor in the financial corrections charged to Germany, Great Britain and Spain, among others.

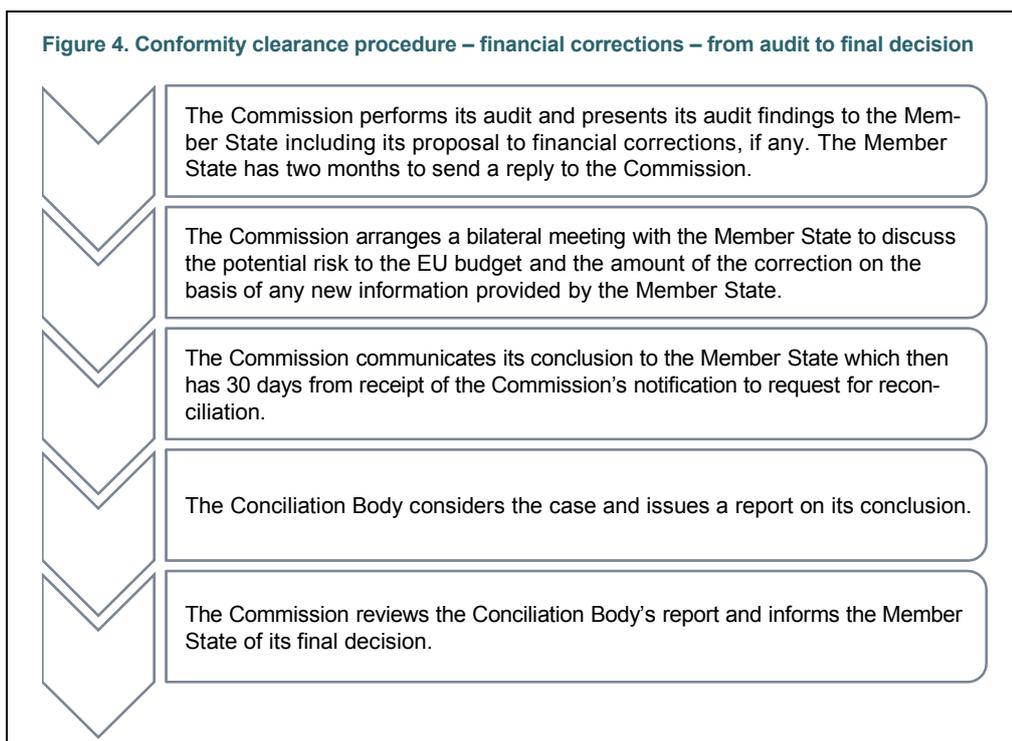
82. Arriving at a reliable assessment of the quality of administration in the individual Member States based solely on the relative distribution of financial corrections is not possible. The financial corrections are broken down on the many aid schemes and the Commission's focus vary over time depending on its cycle of audits and inspections among the Member States. There is no doubt that not all the countries have been equally skilful in arguing their case to the Commission. Rigsrevisionen is of the opinion that financial corrections constituting a high percentage of total aid received indicate that more and/or higher rates of corrections have been imposed on the respective Member State. Flat-rate corrections are imposed when the actual financial loss cannot be determined, but is instead calculated as a reflection of the financial risk for the EU funds caused by general deficiencies in the control systems.

B. Current financial corrections charged to Denmark and the Ministry of Food, Agriculture and Fisheries' handling of the financial corrections

83. According to the Ministry of Food, Agriculture and Fisheries, 16 cases are pending in Denmark concerning concrete and potential financial corrections as per 10 June 2011. The 16 cases relate to deficiencies detected by the Commission during its audits performed in the period 2004-2010. The 16 cases are at different stages of the clearance procedure. Six of the cases have been settled by the Commission and are therefore included in the statistics on financial corrections presented in figure 3 above. The Ministry has recently briefed the Danish parliament of selected cases in document no. 16 of 26 October 2010.

84. The Ministry of Food, Agriculture and Fisheries has in all the cases raised against Denmark been in dialogue with the Commission and, for instance, submitted new control data or argued for its interpretation of the EU regulations. In a few cases involving smaller amounts and where the prospects of a satisfactory outcome of reconciliation were considered marginal, the Ministry of Food, Agriculture and Fisheries has accepted the Commission's proposed financial corrections.

85. Figure 4 illustrates the procedure for imposing financial corrections from the time when the Commission has completed its audit to the final decision on the amount of the financial correction is made.



Area-based schemes

86. Five of the 16 cases concern area-based schemes. The two most significant financial corrections, in terms of value, imposed on Denmark have been settled and submitted to the Finance Committee and are referred to in report no. 17/2009 to the Public Accounts Committee on the audit of EU funds in Denmark in 2009.

The most significant case in terms of value is the repayment of EUR 101 million concerning hectare aid and land set aside in the period 2002-2004. As mentioned earlier, Denmark has brought the case before the EU Court of Justice to have the decision of the Commission reversed. In September 2011 the EU Court of Justice arranged an oral hearing of the case, but the Ministry of Food, Agriculture and Fisheries is not expecting a final settlement of the case before 2012.

The other case concerns a financial correction applied for irregularities in the field block index and area control in the period 2005-2006. The ministry managed to get this correction reduced from the original EUR 39.7 million to EUR 20.3 million. The Commission's final decision was officially announced in October 2011 and the amount will be set off against reimbursements in 2011. According to the ministry, this is the first time that a financial correction has been determined after close negotiations with the Commission and on the basis of joint calculations of the potential financial risk for the fund. According to the ministry, the Commission has in this case been more favourable than in the past towards using statistical analyses to determine the risk as an alternative to the flat-rate corrections. The negotiation strategy pursued by the ministry is therefore described in more detail in items 94-97. Also a case concerning exclusion of expenditure amounting to EUR 1.5 million was settled in September 2011.

87. The other two pending cases within area support concern payments received under the Single Payment Scheme in 2007, 2008 and possibly 2009, and cross compliance in 2008 and onwards. The final correction amounts have not yet been determined. The Commission has recognized that the Danish administration of the Single Payment Scheme has improved considerably over the past years, but the Commission still finds that, for instance, the field block index should be further improved. The Danish authorities have produced evidence that the risk of loss to the EU budget in their opinion is lower than originally assumed by the Commission, and therefore the amount of correction should be reduced. The cross compliance case concerns mainly interpretation of the EU regulations. Denmark maintains that implementing certain regulations concerning the requirements to keep land "in good agricultural condition" was voluntary, whereas the Commission insists that implementation was compulsory in 2008. In one instance, the minimum requirements for the use of fertilisers and pesticides derived from the EU regulations on rural development, were not subject to cross compliance in Denmark. The parties are also discussing various methodology issues concerning control measures like, for instance, sampling, risk analyses and reporting by supervisory authorities.

Schemes that are not area based

88. 11 cases concern schemes that are not area based. The Commission has decided on three of these cases in 2011. One case, concerning failure to observe time limits for payments, was decided as late as 2011, despite the fact that the financial correction of EUR 0,34 million was set off against reimbursements in 2008. The two other financial corrections relate to weaknesses in controls of dry fodder in the period 2006-2008 totalling EUR 0,12 million and aid for producer organisations in 2007 and 2008, totalling EUR 0.07 million. The remaining outstanding cases in this category include support for operation of producer organisations, production of animals and fodder, and investments and issues detected when the Commission performed its financial audit of the financial statements for the agricultural schemes in Denmark.

It is currently not possible to determine the amounts of the corrections relating to the remaining eight cases, but the Ministry of Food, Agriculture and Fisheries estimates that the correction amounts will be considerably lower than those imposed in the area support cases that have been settled. The Danish authorities have in each individual case sought dialogue with the Commission. The Danish authorities have accepted the Commission's decision on financial corrections only in a few cases, i.e. those involving minor financial corrections where the prospects of having the correction amounts reduced through reconciliation were considered marginal.

89. One of the pending cases concerns recognition of producer organisations in the fruit and vegetable sector. The Commission claims that Denmark has not implemented the required criteria for recognition of the organisations nor ensured adequate control of the organisations' compliance with the criteria. The Ministry is required to supervise the basis upon which producer organisations are being established, conditions of membership, outsourcing of activities, value of products marketed and audit performed. The ministry has, in the light of this case, suspended payment of support to the producer organisations and carried out a second control based on revised criteria of recognition. The ministry's assessment of the results of this second control is that six of the nine organisations now meet the new criteria of recognition, and payment of support to these organisations has been resumed. Three organisations will not be recognized and two organisations have been instructed to repay aid already received. The Danish authorities acknowledge that the on-going control of the criteria of recognition has been partly inadequate, but are of the opinion that they can repudiate the Commission's criticism in all other areas. At this point it is not possible to estimate the financial outcome of the case.

90. Among the remaining cases is one where the Commission during its audit of the Danish financial accounts for the EU funds questioned the Ministry of Taxation's handling of Danish enterprises and farmers who owe funds to the EU because they have, for instance, received irregular payments. The Danish tax authorities (SKAT) is responsible for recovering debts on behalf of approximately 700 government enterprises, including also enterprises under the Ministry of Food, Agriculture and Fisheries. SKAT's organisation of debt collection activities is based on an overall assessment of all public debt cases in Denmark. By the end of 2010, EU related cases accounted for only 150 claims totalling approximately EUR 1 million. Unless instructed by the authorities that special requirements should apply to the debt collection in their particular fields of responsibility, all arrears will be handled in the same manner. According to the Danish rules, SKAT has the option to enter voluntary compositions with the debtors. A composition is a voluntary payment agreement prescribing that, for instance, the time for payment should be extended or the debt be written down.

The Ministry of Taxation estimates that voluntary compositions have in some instances generated more proceeds for the EU than than would have been the case if the ordinary obligatory procedure had been followed. Taking into consideration the Commission's focus on debt handling, SKAT has, in collaboration with the Danish Agri/Fish Agency, taken measures to change the process governing voluntary compositions, debt cancellation and write-downs related to EU funds. SKAT is also considering letting all authorities review the claims that are referred to collection to ensure that claims to which special terms should be applied have not slipped through the system.

91. The cases reviewed by Rigsrevisionen deal with key controls as well as ancillary controls. The EU regulations are complex and constantly changing, and therefore new questions of interpretation continually pop up. Rigsrevisionen has established that disagreement over the interpretation of the EU regulations between the Commission and the Danish authorities is the cause of many of the cases. To this should be added that it is apparently difficult to implement the provisions of the regulations in the systems supporting the different activities, which the problems experienced in relation to the field block index illustrate. Finally, several examples indicate that the Food Agency personnel and farmers find it difficult to put the regulations into practice.

92. Financial corrections are a measure used by the Commission to ensure that EU funds are spent in compliance with the regulations. The financial corrections also serve as an incentive for the Member States to correct errors and continuously improve their administration. The procedure is thus a fixed component part of the certification of accounts.

93. In the opinion of Rigsrevisionen, the Commission's questions about the Ministry of Taxation's handling of debtors reflect the complexity attached to implementing EU legislation and highlights the importance of coordination and legal quality assurance across ministerial remits. The Ministry of Taxation agrees with Rigsrevisionen and intends to sustain close contact with the Danish Agri/Fish Agency in the future to ensure the best possible conditions for debt collection in the EU area. Rigsrevisionen is satisfied with the initiatives taken by the Ministry of Taxation.

C. The negotiation strategy pursued by the Ministry of Food, Agriculture and Fisheries in respect to the financial corrections applied for irregularities in the field block index and area control in the period 2005-2006

94. Rigsrevisionen also referred to this case in its report to the Public Accounts Committee no. 17/2009 on the audit of EU funds in Denmark in 2009. In October 2011, the Commission officially announced the financial correction of in total EUR 20.3 million. As mentioned earlier, the Ministry of Food, Agriculture and Fisheries managed to get the financial correction reduced from the original EUR 39.7 million. According to the ministry this is the first time that clearance of accounts has taken place so close to negotiations with the Commission concerning the calculation of the risk to the EU budget.

The case has its source in the Commission's audit of the Single Payment Scheme in Denmark in 2006. The Commission detected irregularities in the field block system and criticized the inspections on-the-spot for having approved areas that were in fact not eligible. The problems concerned mainly non-agricultural land, permanent grazing areas and areas that had been set aside, for instance, for roads or development. The Danish authorities had also during the performance of cross controls applied an unauthorised tolerance. The Commission therefore proposed a financial correction of in total EUR 39.7 million, i.e. a flat rate of five per cent of the aid received for the types of areas referred to above and a flat rate of two per cent of the remaining area aid received in 2005 and 2006. The latter was by far the largest amount.

95. The ministry followed up on the Commission's audit visit and launched several initiatives to correct the errors that had been detected during the audit. The initiatives launched by the ministry included a review of the entire field block system and implementation of physical inspections of all permanent grazing areas. With the assistance of external consultants, the ministry also worked out statistical analyses for more accurate calculation of the risk to the EU budget. These analyses showed that the ineligible area added up to approximately 4,000 hectare, which was considerably less than the two per cent flat rate proposed by the Commission. Furthermore, the ministry demonstrated that the cost of going through all the applications submitted in 2005 and 2006 would exceed by far the amount that had potentially been irregularly paid to the farmers. Thus the ministry has sought to document the actual implications of the case and maintained dialogue with the Commission throughout the process in order to promote Denmark's views. Thus the basis for the Commission's final decision to impose a financial correction of approximately EUR 20.3 million was calculated by the ministry and the Commission jointly despite the fact that the Danish authorities do not agree with the Commission in all aspects. The ministry has obtained a mandate to sign an agreement from the Danish government's Economic Committee and the Danish parliament's Financial Committee, among others.

96. According to the ministry, several Member States, the European Parliament and ECA have criticized the Commission's excessive use of flat-rate corrections and failure to take national viewpoints into consideration. The Commission can counter this criticism by communicating with the Member States and by allowing the use of statistical analyses to determine the risk of loss to the EU budget. The Danish authorities have attached great importance to promoting an understanding of the Danish viewpoints throughout the process, because the Commission is not under any obligation to consider the observations made by the Reconciliation Body. Pursuant to the Commission's proposed lower correction, the Danish authorities therefore revoked their request for reconciliation.

97. This case has prompted the ministry to develop an actual strategy for handling financial corrections. The strategy includes retrospective measures to reduce the amount of financial corrections imposed as well as prospective initiatives to prevent future exclusions of expenditure from Community funding. Preventive measures include rectifying weaknesses in controls, but also proactive initiatives to strengthen the administration. The project "Enhanced control" is a significant element in the implementation of the strategy for area-based schemes.

D. "Legal quality assurance" under the project "Enhanced control"

Background, purpose and project progress

98. The external private consultancy firm, which in 2009 carried out an analysis of the area control, cf. item 32, identified the interpretation of the EU regulations as a major risk area in respect to financial corrections. The consultants pointed to the need for clarification of roles and responsibilities concerning the interpretation of the EU regulations, and establishment of a uniform set of practices defining how regulations should be interpreted. Improving legal quality assurance of the formulation of provisions and treatment of issues of interpretation emerging during the actual processing of cases is therefore an important component in the Food Agency's efforts to strengthen area control.

99. "Legal quality assurance" is part of the project "Enhanced control". It addresses issues like improved collaboration on interpretation, development of a knowledge database for systematic knowledge sharing and review of current guidance to ensure compliance with the EU rules. The objective is to ensure that issues concerning interpretation of the provisions do not result in financial corrections. Achievement of the objective will be secured through the launch of four products, as described in box 4. One man-year has been allocated to management of the project.

BOX 4. LEGAL QUALITY ASSURANCE CONTRIBUTING TO IMPROVING CONTROL

The project "Legal quality assurance" will produce four products:

1. *Design of a cross-sectoral process governing the elaboration of rules and risk management in the field of area control*: analysis of the current process governing the elaboration of rules and identification of risks on the background hereof. Description of optimal work processes supporting knowledge sharing on the interpretation and elaboration of rules.
2. *Quality assurance of the implementation of the EU requirements*: mapping of the rules governing area control and defining good practice for interpretation, documentation and cross-sectoral coordination of rules.
3. *EU-knowledge database/knowledge logging*: expanding the IT system "Captia" with functionality for systematic knowledge sharing on interpretation of the rules.
4. *Communication*: separate objectives set for communication of project progress and results in relation to project products and in relation to stakeholders in- and outside the project organisation.

100. The Food Agency is of the opinion that the performance goals set for 2010 have been achieved, and that the activities that were launched under the project have effectively involved the staff and made better use of the resources available. The performance goals included review of the regulations governing control of direct payments and direct payments executed in the rural development policy area, the establishment of various work groups across the organisation and the incorporation of a knowledge database in the Agency's central case-processing system. The Food Agency also expects to achieve the estimated efficiency gains of approximately EUR 0.4 million as from 2012.

101. The guidance to the farmers on the Single Payment Scheme has been reviewed as part of the project to ensure that the contents of the guidance are in compliance with the EU regulations. Besides, the quality of the written communication has been enhanced, and the guidance has been made available also in an electronic version and in a more user-friendly format.

102. An increasing number of farmers receive support from other schemes besides the Single Payment Scheme like, for example, the Rural Development Programme. In consequence hereof the regulations must be assumed to become even more complex, which will increase the demands on legal quality assurance.

103. Rigsrevisionen has established that the project "Legal quality assurance" is progressing as planned. Rigsrevisionen is satisfied that the project encompasses a number of initiatives designed to ensure that the Danish interpretation of the rules is in compliance with the EU regulations, and that the rules will become more accessible for the Food Agency personnel and farmers. Rigsrevisionen considers these initiatives necessary to minimise the risk of financial corrections.

VII. The structural funds

Rigsrevisionen finds that DECA has handled the administration of EU's structural funds, including the European Social Fund (the Social Fund), in a satisfactory manner.

104. Rigsrevisionen has in 2010 decided to focus its audit of the structural funds on the Social Fund.

105. Rigsrevisionen has audited 15 Social Fund projects managed by DECA. In 2010, a total of 138 projects received approximately EUR 18.7 million in support from the Social Fund. In order to prevent misuse of funds, the Commission's documentation requirements are extensive as is the audit of the structural funds. In many projects, salary costs and subsistence for participants account for the largest part of expenditure. EU reimburses 50 per cent of this expenditure and it is therefore relevant to examine whether the projects meet with the documentation requirements and the rules governing calculation of this expenditure in the accounts.

106. The results of the examination were as follows:

- Generally the projects met the documentation and reporting requirements. In most cases the rules governing calculation of salaries and subsistence for the participants had been complied with and the expenditure had been correctly booked.
- However, errors were detected in calculation of salary costs in one third of the audited projects, but none of the errors were significant in terms of value. Rigsrevisionen also detected a number of incidents where the EU documentation requirements were not met.
- On the basis hereof, Rigsrevisionen concluded that the general case-handling process needed to be strengthened in respect to accounting and documentation. DECA has noted the comments made by Rigsrevisionen and has specified the guidance in relevant areas.

A. Background

107. The objective of the Social Fund appears from box 5.

BOX 5. THE SOCIAL FUND IN DENMARK

The Social Fund and the Regional Fund are both European structural funds that are supplementing national efforts within industrial promotion and growth based on the national globalisation strategy and the regional development strategies. Thus the structural funds contribute to achievement of the joint European goals of the Lisbon Agenda concerning sustainable growth and education.

The objective of the Social Fund is to reinforce regional competitiveness and employment in Denmark by securing better and more jobs. The funds of the Social Fund are generally allocated to skills and competencies development and expansion of the workforce. In 2010, 138 projects received approximately EUR 18.7 million in support from the Social Fund. The projects must be innovative to be eligible for support. In Denmark, the regional growth forums recommend projects for funding to the Social Fund. DECA manages the grants and report annually to the Commission on financial statements and progress made.

108. The projects receiving support from the Social Fund for development of competencies and skills generally include teaching or periods of practical experience. Salary costs for the employees that are participating in Social Fund projects are reimbursed to the employer. The participants in the projects are therefore monitored and registered, and the teachers and project staff are required to keep time records. This documentation serves as confirmation that the activities have actually taken place and that ineligible expenditure has not been included in the project accounts. The projects are audited locally by a private audit firm appointed by DECA.

B. The results of the audit

109. The audit showed that the majority of the projects met the requirements, but irregularities were detected in the statements of salary and subsistence to participants in five projects, reflecting that the project staff found it difficult to distinguish between eligible and ineligible salary costs. DECA has stated that it has clarified the guidance on salary costs and specified the allowances that can be included in the accounts.

110. The audit also showed that the documentation failed to serve its purpose as a controlling measure in a number of cases; for instance, when participants had not signed in or dates were incorrect. In order to facilitate administration and documentation for the companies, DECA has developed standard templates for various purposes, including participant lists and evaluations. Rigsrevisionen found that the quality of documentation and reports was generally higher when the companies used the Agency's templates, which must therefore be concluded to contribute significantly to reducing the risk of errors in the reporting.

111. The requirements of the Social Fund also stipulate that project partners with overlapping interests must settle expenditure at cost price. This rule applies if, for instance, a consultant cooperates with an educational institution on setting up a course where the consultant will also be the teacher. The cost price covers only the actual net costs and the consultant is therefore not allowed to make a profit on his/her fee. In one instance, this rule was not observed, and the consultant who was responsible for teaching was also chairman of the board of the educational institution that provided the course. The educational institution had failed to inform DECA in this respect and the fee for the consultant had not been fixed at cost price. Nor had the educational institution explained that the fee for the consultant had been fixed in accordance with the provisions of the Public Tenders Act. The Agency has subsequently asked the educational institution to account for its compliance with the rules, and the Agency is considering to withdraw the project support altogether. Rigsrevisionen is satisfied with DECA's response.

112. Beneficiaries are required to report to DECA annually on project progress and activities implemented. In addition, the beneficiaries must document that the participants in the projects are as prescribed in the applications. Rigsrevisionen established that the target groups of the projects were as specified in the applications, and that the beneficiaries' reporting on progress and activities implemented was generally satisfactory. The Agency's templates for reports must therefore be considered appropriate and well structured.

113. Projects receiving support from the Social Fund must also meet an additionality requirement, which means that the beneficiary must document that the project would not be implemented without funding from the Social Fund. Rigsrevisionen concluded that all the beneficiaries had accounted for the additionality of their projects in a satisfactory manner. Finally, projects must also comprise elements of innovation, i.e. in relation to methodology or contents. Examples of innovative contents could be involvement of research-based knowledge on development of innovative competencies, building regional networks between companies and development of new courses of education. Rigsrevisionen has established that the majority of the projects meet this requirement.

In 2010, the Social Fund supported the training of bus drivers, development of innovative abilities in staff of Post Danmark (national postal service), focus on entrepreneurship at the colleges of professional education, language courses for foreign doctors and education of nature guides at Bornholm.

VIII. Other audit findings

In the opinion of Rigsrevisionen, the administration of schemes outside the agricultural and structural funds, including EU expenditure under the Ministry of Taxation, is handled in a satisfactory manner.

114. Rigsrevisionen has examined whether the administration of schemes outside the agricultural and structural funds, including EU expenditure under the Ministry of Taxation, is handled in a satisfactory manner. The examination is based on the following material:

- Rigsrevisionen's audit opinions issued on 37 EU project accounts in seven ministerial remits;
- memoranda on various ministerial remits concerning measures to improve the administration of EU projects;
- information provided by the auditors of the universities on their audit of EU projects;
- payment requests from the Commission, the GNI Regulation and ECA's annual report for 2009.

115. The results of the examination were as follows:

- Generally, the quality of accounts for EU projects was better in 2010 than in past years. Yet a few government institutions still need to improve their accounting management of EU projects.
- Several ministries, and among them the Ministry of the Environment, have taken steps to improve the administration of EU projects. Rigsrevisionen welcomes these initiatives.
- The audit of university EU project accounts triggered qualifications or insertion of emphasis of matter sections in the audit opinions in only a few instances.
- The accounts for the GNI-based resources under the Ministry of Taxation are true and fair and the transactions underlying the accounts are legal, regular and in compliance with the provisions determined by the Commission and the Council.

A. Schemes outside the EU agricultural policy area and structural funds

Audit of EU project grants to institutions under seven ministerial remits

116. The Commission has established various programmes like, for instance the 7th Programme Framework and LIFE, providing funding to government institutions for projects dealing with research and environmental improvements. The support is provided on the condition that the institutions submit an audit opinion to the Commission. Rigsrevisionen issues audit opinions on the government institutions that receive this particular type of project support.

In the course of 2010, Rigsrevisionen has contributed to enhancing the quality of the EU accounts submitted by government institutions. For instance, Rigsrevisionen has impressed upon all ministries and enterprises its quality requirements concerning the EU project accounts and has drawn attention to the time limits set by the Commission. Rigsrevisionen has moreover provided the enterprises with an overview of the errors that are typically found in the financial statements.

117. In 2010, Rigsrevisionen issued 37 audit opinions in seven ministerial remits: the Ministry of Foreign Affairs, the Ministry of Economic and Business Affairs, the Ministry of Interior and Health, the Ministry of Science, Technology and Innovation, the Ministry of the Environment, the Ministry of Transport and the Ministry of Climate and Energy. None of the audit opinions are qualified, as the errors detected by Rigsrevisionen were corrected by the institutions before the audit opinions were issued. Rigsrevisionen is of the opinion that the quality of the underlying documentation has generally increased over the past years due to increased guidance and information provided to the enterprises on the presentation of project accounts.

118. Yet the quality of the accounts presented by a couple of the institutions under the Ministry of Foreign Affairs and the Ministry of Climate and Energy is still not entirely satisfactory; VAT was incorrectly deducted, the purpose of travels was not specified and documentation was inadequate, etc. The respective institutions have noted Rigsrevisionen's comments and have stated that they have taken steps to improve the financial administration of EU projects.

119. The Ministry of the Environment has in its response to the report to the Public Accounts Committee no. 17/2009 on the audit of EU funds in Denmark in 2009, stated that the ministry has implemented a project in 2010 to improve staff's competencies within project accounting. As a result of this project, it has been decided to centralise competencies in the EU area, and when the project contract is entered appoint special contact persons who will act as sounding boards for the project managers. Rigsrevisionen welcomes these steps. Preliminary experience also shows that centralising competencies has contributed to enhancing the quality of the accounts, and the time limits set for the presentation of accounts and for the audit are increasingly being observed by the institutions.

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

120. The universities receive funds from the Commission for a large number of projects. The support received from the Commission is not included in the state accounts, because the universities are included in the fiscal act as subsidised institutions, and therefore only the government grant is included in the fiscal act and subsequently also in the state accounts. According to information provided by the universities, they have received direct support from the Commission amounting to EUR 56.8 million. The total number of projects in progress under the universities has been estimated at 1,498. Most of these are multi-year projects.

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

122. In 2010, the internal auditors issued a total of 304 audit opinions on project accounts. Most of the errors were corrected in connection with the submission and audit of the accounts. The internal auditors have only qualified their opinion or inserted emphasis of matter paragraphs in a few of the audit opinions.

Generally, qualifications and inclusion of emphasis of matter paragraphs were caused by irregularities in the administration of the projects, such as errors in booked salaries in connection with vacationing and refunding of holiday allowances, incorrect hourly rates and blank time sheets. In other projects, VAT on foreign travel expenses had been incorrectly processed. The Ministry of Science has informed Rigsrevisionen that it has followed up on the universities' presentation of EU project accounts in 2010 in order to reduce the error rate.

B. EU expenditure under the Ministry of Taxation

123. The largest EU expenditure is Denmark's contribution calculated on the basis of the gross national income – the so-called GNI-based resources. In 2010 the GNI-based resources accounted for EUR 1.7 billion of Denmark's total expenditure of EUR 2.5 billion. Rigsrevisionen's audit of EU expenditure in 2010 has been focused on the calculation of the GNI-based resources.

The audit performed by Rigsrevisionen answers the following questions:

- Are the accounts for the GNI-based resources under the Ministry of Taxation true and fair and the transactions underlying the accounts legal, regular and in compliance with the provisions determined by the Commission and the Council?
- Are the Member States' GNI-based resources subject to control by the EU and does this control contribute to ensuring that the GNI-based resources for Denmark are correct?

124. The GNI-based contribution results from the application of a uniform rate to Member States' GNI bases relative to the total GNI for the EU. In principle each Member State should contribute the same percentage of their GNI, but a correction mechanism can be applied. It is therefore crucial that the calculation of the GNI is reliable and uniform across Member States.

125. The total GNI-based resources from the Member States ensure the balance of the EU budget, and the resources therefore also finance the budgeted expenditure that is not covered by customs duties, VAT-based payments, etc. When budgeted income generated from these resources and the budgeted expenditure are determined, the rate that should be applied to the Member States will be calculated as a percentage of the estimated total GNI for the Community. Statistics Denmark calculates the GNI for the national state accounts.

126. The national state accounts are not available till after the fiscal year has been closed, and the GNI-based resources are therefore settled on account and adjusted when the actual calculations of the individual Member States' GNI are available. Budget adjustments may be made in the course of the year resulting in recalculation of the payments made on account by the Member States. The national statistics agencies are thus providing preliminary as well as final GNI statements, and the adjustments calculated on the basis hereof are subsequently claimed from or repaid to the Member States.

The financial statement of Danish GNI-based resources

127. SKAT is responsible for settling the GNI-based resources with the EU. SKAT pays the monthly instalments into an account held by the Commission with Nationalbanken (the national bank of Denmark).

128. In the opinion of Rigsrevisionen, the accounts for the GNI-based resources under the Ministry of Taxation are true and fair and the transactions underlying the accounts are legal, regular and in compliance with the provisions determined by the Commission and the Council.

129. The internal auditors of the Ministry of Taxation perform an annual audit of all aspects concerning the settlement of the GNI-based resources. Rigsrevisionen has, as part of its supervision, concluded that the internal auditors have performed a satisfactory audit and has based its assessment of the accounts on the results of the audit performed by the internal auditors. For 2010, the internal auditors concluded that the resources are documented and correctly recognized in SKAT's financial statement.

Control as performed by the EU

130. The Commission monitors that the statements of the Member States' GNI are reliable and uniform, and therefore checks the statistical sources and methods applied by the Member States.

A special committee on statistics and calculation of GNI, established as part of the Commission's control policy, is responsible for coordinating and improving the methodology applied by the Member States to calculate GNI. The committee is also responsible for disseminating best practice in the area. Statistics Denmark is representing Denmark on the committee.

131. To ensure uniformity of statements, the Commission has issued a Regulation on the European system of accounts in the Community (ESA-95). The control policy of the Commission prescribes that all Member States must calculate their GNI in compliance with ESA-95 and produce an overview of the methods and basic statistics used for the calculation of the GNI. Moreover, this overview must be supplemented by annual reports from the Member States on the quality of the GNI data, including information on any significant changes.

132. ECA audits the income of the EU, including income from the GNI-based resources. The audit also includes an assessment of the system applied by the Commission to process the data, and ECA also checks the correctness of the resources provided by the Member States.

Rigsrevisionen has established that the procedures established in the EU contribute to ensuring that the Danish GNI-based contribution is correctly determined.

Rigsrevisionen, 9 November 2011

Henrik Otbo

/Michala Krakauer