



Audit of EU funds in Denmark

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A note to the reader:

Rigsrevisionen's audit of Danish EU funds takes place in collaboration between the internal auditors/controllers in the three ministries that are responsible for the administration of Danish EU funds, i.e. the Ministry of Foods, Agriculture and Fisheries, the Ministry of Taxation, and the Ministry of Economic and Business Affairs. These ministries contribute management statements on accounting in the EU areas, and the internal auditors/controllers organise their work to ensure that audit findings may be incorporated into Rigsrevisionen's audit opinion.

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RIGSREVISIONEN'S AUDIT OPINION REGARDING EU FUNDS IN DENMARK

Reliability of accounts

In Rigsrevisionen's opinion, the 2006 accounts of the EU areas: the European Social Fund, the European Regional Development Fund, agricultural subsidies, the VAT contribution and the GNI contribution have been prepared in compliance with the government's accounting rules. The accounts give a true and fair view of EU grants, duties, levies and contributions for the year under review and of the financial position at the end of the financial year. As regards settlement of customs duties and agricultural levies, etc., Rigsrevisionen's preliminary opinion is that the settlements are not true and fair, as they seem to contain a substantial number of errors.

Legality and regularity of underlying transactions

On the basis of the audit findings, Rigsrevisionen is of the opinion that taken as a whole, the transactions underlying the 2006 accounts for the EU area are legal, regular and in compliance with the provisions laid down by the European Commission ("the Commission") and the Council of the European Union ("the Council"), with the exception of customs duties and agricultural levies, where the transactions consisting of information provided by enterprises may be incorrect.

a. Introduction

1. Each year Denmark receives funds from the EU and likewise settles duties, levies and contributions to the EU's own resources. EU funds consist of grants from the EU structural funds, including the European Social Fund (the Social Fund) and the European Regional Development Fund (the Regional Fund), and grants from the European Agriculture Guidance and Guarantee Fund (agricultural subsidies). Settlements include customs duties and agricultural levies, etc., (traditionally the EU's own resources) and contributions calculated on the basis of the VAT base (VAT contribution) and gross national income (GNI contribution).

Rigsrevisionen plans and performs the audit of EU funds based on the same materiality and risk considerations that apply to the audit of government funds. Rigsrevisionen complies with Good Public Auditing Practice and basically applies the same audit methods as it does when auditing government funds in general, that is, systems-based auditing and sample substantive auditing.

2. Rigsrevisionen has conducted an audit of the duties, levies and contributions to the EU's own resources, an audit of the grants awarded by the Regional Fund and Social Fund under the National Agency for Enterprise and Construction ("the Agency"), and an audit of the grants for agricultural subsidies under the Directorate for Food, Fisheries and Agri Business ("the

Directorate"). On the basis of these audits, Rigsrevisionen issued the above opinion on EU funds in Denmark.

b. Audit of duties, levies and contributions to the EU's own resources

3. The Ministry of Taxation is responsible for settling duties, levies and contributions to the EU on the basis of SKAT's calculation of customs duties and agricultural levies, etc., and on the basis of the EU's calculation of the VAT and GNI contributions.

The EU partly bases its calculation of the VAT contribution on a statement of the Danish VAT base prepared by the Ministry of Taxation. The Ministry calculates the Danish VAT base in part on the basis of SKAT's calculation of VAT receipts.

The EU's calculation of the GNI contribution is based partly on Danmarks Statistik's calculation of Denmark's Gross National Income (GNI).

SKAT's collection of customs duties, agricultural levies, etc., and VAT is to a large extent based on information provided by the enterprises liable to duties, levies and tax.

Rigsrevisionen's audit of the duties, levies and contributions includes neither the EU's management nor Danmarks Statistik's calculation of the GNI, but solely the Ministry of Taxation's management.

4. Rigsrevisionen's audit of the Ministry of Taxation's management in the EU area included an audit of the Ministry's calculation and settlement of duties, levies and contributions to the EU's own resources and an audit of SKAT's calculations of customs duties, agricultural levies, etc., and VAT receipts.

Audit of the Ministry of Taxation's calculation and settlement of duties, levies and contributions to the EU's own resources

5. In 2006, the Ministry of Taxation settled duties, levies and contributions to the EU's own resources of DKK 16.3 billion, of which customs duties and agricultural levies, etc., amounted to DKK 2.4 billion, the VAT contribution to DKK 3.5 billion, and the GNI contribution to DKK 10.4 billion.

The audit included an audit of the ministry's procedures and internal controls. In addition, Rigsrevisionen audited all entries in the accounts regarding settlement of duties, levies and contributions to the EU's own resources in the ministry's 2006 accounts.

The audit showed that taken as a whole, the ministry has calculated and settled duties, levies and contributions correctly on the basis of SKAT's calculations; that the settlement of duties, levies and contributions is correctly stated in the ministry's accounts; and that the ministry has established procedures and internal controls which have ensured this to the widest possible extent. However, the audit of SKAT also showed that SKAT's calculations of customs duties and agricultural levies, etc., which are based on information from enterprises, may be incorrect, see below.

Audit of SKAT's calculation of customs duties and agricultural levies, etc.

6. The audit of SKAT's calculation of customs duties and agricultural levies, etc., is performed in collaboration between Rigsrevisionen and SKAT's internal audit department.

The audit was performed as a systems-based audit supplemented by a representative sample examination.

The audit showed that taken as a whole, SKAT calculated customs duties and agricultural levies, etc., correctly on the basis of the information provided by the enterprises liable to

duties, levies and tax and that SKAT has established procedures and internal controls which to the widest possible extent ensure this.

However, SKAT's IT system, Importsystemet, may have held transactions that had not been finally processed. Towards the end of 2006, the Commission asked the Danish authorities to perform an additional check of Importsystemet to identify any transactions not yet finalised for the 2005-2006 period and report on their findings to the Commission. SKAT has not yet completed the examination and the related report to the Commission.

The sample examination included checks of the information provided by the enterprises liable to duties, levies and tax. The sample examination has not yet been finally processed because information is still being collected. SKAT's internal audit department expects to conclude the sample examination of the information provided by enterprises liable to duties, levies and tax in mid-November 2007, but initial findings suggest that the information provided by enterprises liable to duties, levies and tax for the purpose of settlement of customs duties and agricultural levies, etc., are incorrect to a considerable extent. Thus, 65 errors were identified in the 300 sample items which translate into a total underpayment of approx. DKK 236,000 and an overpayment of approx. DKK 218,000. This corresponds to a likely underpayment by all enterprises combined of some DKK 97 million and a likely overpayment of some DKK 73 million, or some 3% in underpayment and 2% in overpayment, respectively, relative to the enterprises' total settlement of DKK 3.2 billion to SKAT in 2006 (including the EU's administrative contribution to Denmark for collecting duties and levies). The likely net underpayment is thus some DKK 24 million, or 1%. In addition to the 65 financially significant errors, several formal errors have been identified which may also have financial significance.

According to EU rules, enterprises may apply for adjustment of amounts settled within a period of three years of SKAT's acceptance of the enterprises' returns, and SKAT may and must make such adjustment pursuant to the same rules if it establishes a reason for doing so. This implies that within a three-year period, amounts settled may be adjusted both as a result of errors established by the enterprises themselves and as a result of errors identified by SKAT.

The 65 errors can be broken down as follows, see table 1.

Table 1. Incorrect information provided by enterprises for the purpose of settling customs duties and agricultural levies, etc.

Type of error	Underdeclaration		Excess declaration	
	Number of items	Amount (DKK)	Number of items	Amount (DKK)
Incorrect product code	4	2,806.90	1	8,347.40
Incorrect preferential customs duty	6	198,457.11	1	124,558.50
Incorrect customs value	4	12,756.80	4	53,612.10
Incorrect freight rate, etc.	24	9,953.33	7	14,586.70
Incorrect exchange rate	10	11,718.20	4	17,171.20
Total	48	235,692.34	17	218,275.90

According to SKAT, the five types of error cannot be detected by existing input controls or SKAT analyses based on specific risk profiles.

As the table shows, there are several reasons for the errors, and the total financial impact of the errors is distributed fairly evenly between underdeclaration and excess declaration.

The most significant type of error in money terms is incorrect preferential customs duty, while the most frequent is incorrect freight rate, etc.

The internal audit department's sample examination did not reveal examples of intentionally incorrect declaration.

SKAT finds that the EU's set of rules for customs duties and agricultural levies, etc., is complicated in some areas and therefore may be difficult to understand. In the course of the past few years, SKAT has initiated various measures to enhance the quality of the information provided by enterprises liable to duties, levies and tax.

SKAT launched a nationwide initiative in 2007 called "Quality customs clearance". The result of this initiative will be assessed at the end of 2007. SKAT's Action Plan 2008 includes a campaign targeted at professionals (forwarding agents, etc.) to ensure continued focus on "Quality customs clearance".

Rigsrevisionen finds the number of errors high and recommends that SKAT makes a targeted effort to bring down the number.

Rigsrevisionen will inform the Public Accounts Committee about the ultimate results of the sample examination.

Audit of SKAT's calculation of VAT receipts

7. The audit of SKAT's calculation of VAT receipts was also performed in collaboration between Rigsrevisionen and SKAT's internal audit department, and the audit of the calculation of VAT receipts was similarly performed as a systems-based audit and representative sample examinations.

The audit showed that taken as a whole, SKAT has calculated the VAT receipts correctly on the basis of the information provided by enterprises liable to duties, levies and tax, and that SKAT has established procedures and internal controls which have ensured this to the widest possible extent.

c. Audit of grants awarded by the Regional Fund and Social Fund under the National Agency for Enterprise and Construction

8. Regional Fund and Social Fund grants are administered by the National Agency for Enterprise and Construction under the Ministry of Economic and Business Affairs. The audit comprised grants awarded by the offices of the National Agency for Enterprise and Construction in Silkeborg and Copenhagen.

Regional and Social Fund grants, etc., amounted to DKK 0.2 billion in 2006.

Regional Fund grants

Rigsrevisionen's opinion regarding the audited area

9. The audit showed that the financial reporting in the area of grants was correct and that grant recipients applied the funds according to the basic assumptions. The audit also showed that the Agency's procedures and internal controls helped to ensure that grants were calculated and disbursed correctly, that reliable accounts were presented and that the transactions comprised by the financial reporting complied with appropriations granted, the legislation, other regulations and the provisions laid down by the Commission and the Council. Rigsrevisionen found that the Agency's grant management was satisfactory.

Special audit finding and the Agency's subsequent initiative

10. The audit showed that the Agency's case processing guidelines on irregularities lacked instructions ensuring that all irregularities were reported in due time to the responsible case officer. Similarly, the bookkeeping of outstanding amounts was inadequate. The Agency

has taken the necessary initiatives to follow-up on the audit, which Rigsrevisionen finds satisfactory.

Scope of the audit

11. Rigsrevisionen reviewed the Agency's case processing guidelines, case processing guidelines on irregularities, internal controls, reconciliations, accounting instructions, the TAS IT system and the controller's recommendations. Furthermore, Rigsrevisionen reviewed 18 projects and five irregularity cases.

Rigsrevisionen also followed up on the Commission's comments. The Commission's most significant comment related to the Agency's lack of self-regulation in connection with projects. As a follow-up on the criticism, the Agency has drawn up control instructions for project visits and an implementation plan ensuring that these project visits will be completed before the end of the programme period.

The Agency's controller

12. The Agency's Regional Fund controller was hired as a result of Commission regulation no. 438/2001 on provisions implementing Council regulation no. 1260/1999 regarding management and control systems for structural fund interventions. The controller made sample checks in 2006 for the 2000-2006 programme period.

The sample checks prompted the controller to comment on several minor errors.

As a result of criticism previously levelled by the controller, the Agency has introduced a procedure according to which a copy of the transaction trail must be submitted for all ongoing projects on completion of the projects. This means that project managers have to actively check reconciliations and ensure that the documentation is complete. Rigsrevisionen finds this satisfactory.

The controller concluded that taken as a whole the management and control systems for the expenses reported to the Commission in 2006 worked satisfactorily.

Social Fund grants

13. The audit of grants at the Agency comprised grants provided to prevent and combat unemployment, develop human resources, promote social integration in the labour market and achieve equality between men and women.

Rigsrevisionen's opinion regarding the audited area

14. The audit showed that the financial reporting in the area of grants was correct and that grant recipients applied the funds according to the basic assumptions. The audit also showed that the Agency's procedures and internal controls helped to ensure that grants were calculated and disbursed correctly, that reliable accounts were presented and that the transactions comprised by the financial reporting complied with appropriations granted, the legislation, other regulations and the provisions laid down by the Commission and the Council. Rigsrevisionen found that the Agency's grant management was satisfactory.

Scope of the audit

15. Rigsrevisionen reviewed the Agency's case processing guidelines, case processing guidelines for irregularities, internal controls, reconciliations, accounting instructions, the OPUS IT system and the controller's comments and recommendations.

Rigsrevisionen also followed up on the Commission's comments. Furthermore, Rigsrevisionen reviewed 15 projects, all of which had started up in the counties but had been transferred to the Agency as of 1 January 2007.

The Agency's controller

16. The Agency's Social Fund controller was hired as a result of Commission regulation no. 438/2001 on provisions implementing Council regulation no. 1260/1999 regarding management and control systems for structural fund interventions.

The controller made sample checks in 2006 for the 2000-2006 programme period. The sample checks prompted the controller to comment on a few errors of minor significance.

The controller concluded that taken as a whole, the management and control systems for the expenses reported to the Commission in 2006 worked satisfactorily.

d. Audit of grants for agricultural subsidies under the Directorate for Food, Fisheries and Agri Business

17. Agricultural subsidies are administered by the Directorate. In 2006, the Directorate made grants, etc., of DKK 10.1 billion.

The audit is handled in collaboration between Rigsrevisionen and an internal audit department at the Directorate.

Rigsrevisionen's opinion regarding the audited area

18. The internal audit department is of the opinion that taken as a whole, the transactions underlying the 2006 accounts for the EU area are legal and regular. They comply with the provisions laid down by the Commission and the Council, and the accounts give a true and fair view of grants, etc., for the EU area for this financial year and of the financial position at the end of the financial year.

Rigsrevisionen is of the opinion that taken as a whole, the Directorate's administration of EU grants is correct pursuant to the rules in force. This opinion is based on the audit performed by Rigsrevisionen and the internal audit department.

As regards Common Agricultural Policy subsidies, Rigsrevisionen is of the opinion that the Integrated Administration and Control System (IACS) in Denmark is applied correctly and works as intended.

Audit of grants

19. Rigsrevisionen's audit of grants included an audit of cross-compliance control – that is, compliance with requirements for responsible farming, etc. – under the single area payment scheme. In the audit performed, Rigsrevisionen analysed and evaluated the procedures and internal controls of the Directorate's control office on the basis of case officer instructions, the Directorate's control system and information obtained from interviews with control office staff. Furthermore, Rigsrevisionen reviewed a sample of 41 control cases to test whether the procedures described had been followed and internal controls performed correctly.

It is Rigsrevisionen's opinion that taken as a whole, the Directorate has generally established a satisfactory control system for cross-compliance, including satisfactory procedures and internal controls regarding collaboration on control although Rigsrevisionen's examination showed that there is room for improvement in several areas.

Audit of the Directorate's IT system for grant administration

20. Rigsrevisionen has audited the Directorate's IT system for grant administration. The audit was mainly based on the work performed by the internal audit department. The audit concerned the "CAP short-term" IT system which, as a consequence of the most recent agricultural reform, will be used for a transitional period to administer grants under the single area payment scheme. In the course of a couple of years, a new system will be commissioned.

In the audit performed, Rigsrevisionen reviewed the internal audit department's reports regarding audit of the single area payment scheme in 2005 and 2006 and the Certifying Body's report on general IT controls of October 2006.

The Ministry of Food, Agriculture and Fisheries has appointed the Certifying Body, and the Certifying Body reports to the Commission. A private firm of accountants has been appointed Certifying Body.

21. The reports of the internal audit department and the Certifying Body identified a few serious errors and inadequacies in the IT environment and in the application of "CAP short-term". The errors established included lack of transaction and audit trails in modules, numerous instances of lack of reconciliation, and several instances of ineffective IT controls. These errors and inadequacies have been reported to the Commission. The Directorate has stated that these conditions have essentially been remedied in 2007.

Moreover, the management of the Directorate has initiated a number of supplementary controls with a view to ensuring correct financial reporting. Rigsrevisionen and the internal control department are of the opinion that the supplementary controls have compensated for the inadequate IT controls, as Rigsrevisionen, the internal audit department and the Certifying Body have not established material errors in the 2006 payments.

22. Payments are made on the basis of a calculation of the payment rights exercised. Prior to approval, calculations are subject to sample verification by experienced case officers. Pursuant to Commission regulation no. 796/2004, physical control measurements of 5% of the grant recipients are made either through field visits or remote-sensing. Major systematic discrepancies between the single area payment scheme, the registered data of the Land Parcel Identification System and the actual acreage of recipients will be detected by means of these control measures.

In connection with its financial audit of the 2006 accounts, the Certifying Body reviewed 284 individual cases, including 232 cases under the single area payment scheme. As already mentioned, none of these cases revealed payment errors. Accordingly, the Certifying Body and the internal audit department found that the 2006 accounts were true and fair and had no material misstatements and omissions.

Local audit together with the European Court of Auditors

23. Together with the European Court of Auditors, Rigsrevisionen performed a local audit of the ultimate recipients of EU grants for 2006. Special attention was paid to auditing the single area payment scheme and export sugar subsidies. The audit showed that payments had been made in compliance with the rules in force.

Together with the European Court of Auditors, Rigsrevisionen also performed an audit of the physical control of agricultural product exports, which qualify for export subsidies. The audit showed that a large number of goods in transit to the final destination lacked sealing. The Danish authorities agreed that this was unacceptable. SKAT has stated that it will take steps to remedy this problem.

The audit also showed that the Danish authorities had only received two replies from other member states to 280 letters regarding irregularities, see Commission regulation 2090/2002. There was agreement that the mutual information system apparently does not work, and Rigsrevisionen called on the Court of Auditors to follow up generally on the system to make it work as intended.

Finally, the audit showed that reconciliation problems existed in relation to reporting pursuant to Council regulation no. 595/91, Article 3, for 2003 and 2004. To remedy these reconciliation problems, the Directorate has specified the criteria according to which data must be reported as from 2005.