

The statement on the audit of EU funds in Denmark

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The National Audit Office of Denmark

I. Audit of EU funds in Denmark

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a. Introduction

1. Each year Denmark receives funds from the EU and likewise settles duties, levies and contributions to the EU's own resources. Community 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 and the gross national income (GNI).

The NAOD plans and performs the audit of Community funds based on the same materiality and risk considerations that apply to the audit of government funds. The NAOD applies the same audit methods as it does when auditing government funds in general, that is, systems-based auditing and sample substantive auditing.

The annual audit did not include evasion of taxes and duties. Over the past few years, the NAOD has conducted two major examinations in this field: Public Accounts Committee report no. 2/05 on the measures of the Danish tax administration to counter the black economy and

Public Accounts Committee report no. 17/05 on the measures to counter VAT carousel fraud.

2. On the basis of the audit of the Regional Fund and Social Fund grants; the audit of the Ministry of Taxation's settlement of duties, levies and contributions to the EU; the audit of the Ministry of Taxation's Import System; the audit of the Danish tax administration's (SKAT's) calculations of customs duties, agricultural levies, etc., and VAT receipts; and the audit of grants under the Directorate for Food, Fisheries and Agri Business that are wholly or partly Community-financed; the NAOD issues the following opinion on EU funds in Denmark:

b. Overall opinion regarding EU funds in Denmark

Reliability of accounts

3. In the NAOD's opinion, the 2005 accounts for the EU areas 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.

The legality and regularity of the underlying transactions

4. On the basis of the audit findings, the NAOD is of the opinion that taken as a whole, the transactions underlying the 2005 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").

Agricultural subsidies

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

Settlement of customs duties, agricultural levies, etc., and VAT contributions

6. The sample substantive audit gives the auditors reason to assume that the 2005 accounts have been prepared in

compliance with the government's accounting rules and that they give a true and fair view of the settlement of duties, levies and contributions and that taken as a whole, the transactions underlying the 2005 accounts are legal, regular and in compliance with the provisions laid down by the Commission and the Council.

c. Audit of grants at the National Agency for Enterprise and Construction (structural funds)

7. Regional and Social Fund grants are administered by the Ministry of Economic and Business Affairs, and the audit comprised grants relating to the offices of the National Agency for Enterprise and Construction in Silkeborg and Copenhagen.

Regional and Social Fund grants, etc., financed wholly or partly by the EU, etc., amounted to DKK 0.5 billion in 2005.

8. The audit of grants at the National Agency for Enterprise and Construction in Silkeborg comprised regional development grants from *the Regional Fund*. The NAOD reviewed the Agency's case processing guidelines, internal controls and accounting instructions. The NAOD also reviewed the Agency's use of the recently introduced TAS IT system. The NAOD also reviewed 11 projects.

The audit showed that the financial reporting in the area of grants was correct and that grant recipients applied the funds in compliance with 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 the appropriations granted, the legislation, other regulations and the provisions laid down by the Commission and the Council.

The NAOD found that the Agency's grant management was satisfactory.

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 Agency hired a controller for the Regional Fund.

In 2005, the controller sample-checked 25% of the costs eligible for aid for the 2000-2006 programme period for objective 2.

The sample check gave rise to comments regarding inadequacies in the transaction trail, the project auditors' work, voucher control, internal hours, information and tender rules. A relatively large number of observations stating that the transaction trail was not clearly intact were made. A lot of time and effort was required to verify the transaction trail. Similarly, it was observed that the project auditors' work, in particular for projects having more than one grant recipient, was inadequate.

The controller concluded that taken as a whole the management and control systems for the expenses reported to the Commission in 2005 worked satisfactorily.

9. The audit of grants at the National Agency for Enterprise and Construction comprised *Social Fund* grants for measures to prevent and combat unemployment, to develop human resources, for social integration in the labour market and for equality between men and women, etc.

The NAOD reviewed the Agency's case processing guidelines, internal controls and accounting instructions. The NAOD also reviewed the Agency's use of the OPUS IT system. The NAOD also reviewed 18 projects.

The audit showed that the financial reporting in the area of grants was correct and that the grant recipient 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.

The NAOD found that the Agency's grant management was satisfactory.

As with the Regional Fund, the Agency also hired a controller for the Social Fund. The controller concluded that taken as a whole, the management and control systems for the expenses reported to the Commission in 2005 worked satisfactorily.

d. Audit of wholly or partly Community-financed grants (agricultural subsidies) at the Directorate for Food, Fisheries and Agri Business

10. Agricultural subsidies are administered by the Directorate for Food, Fisheries and Agri Business. In 2005, the Directorate granted subsidies, wholly or partly financed by the EU, amounting to DKK 9.5 billion.

The NAOD is responsible for the audit in collaboration with the internal audit department of the Directorate.

11. According to the audit report of the internal audit department issued in connection with the Directorate's annual accounts, the internal audit department is of the opinion that taken as a whole, the transactions underlying the 2005 accounts in 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 Community grants, etc., for the financial year under review and the financial position at the end of the financial year.

The NAOD's audit of grants included two schemes. First, FIGG (the Financial Instrument for Fisheries Guidance) subsidies concerning the modernisation scheme. The Directorate for Food, Fisheries and Agri Business is responsible for administering this scheme, while the Directorate of Fisheries is responsible for the physical control.

The NAOD reviewed the case processing and control systems of the Directorate for Food, Fisheries and Agri Business and a number of cases.

The review showed, with one exception (late payment of grants to an applicant), that procedures had been followed and that internal controls had been performed correctly in the audited period.

Second, the audit comprised the school milk subsidy scheme. The NAOD reviewed the case processing and control systems of the Directorate for Food, Fisheries and Agri Business and a number of cases. The NAOD also examined whether the Danish Plant Directorate, the supervisory authority of the scheme, had checked whether the terms for receiving the subsidy had been complied with and whether recipients had used the funds for the intended purpose.

The case review showed that both directorates had followed the procedures and performed the internal controls correctly during the audited period.

Together with the European Court of Auditors, the NAOD performed a local audit with the ultimate recipients of EU grants for 2005. Special attention was paid to auditing the aid per hectare system, aid for field seeds and premiums in respect of male bovine animals.

The audit showed that payments had been made in compliance with the rules in force.

In view of the audit performed, it is the NAOD's opinion that taken as a whole, the Directorate for Food, Fisheries and Agri Business' administration of EU funds is correct according to the rules in force.

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

12. The Ministry of Taxation is responsible for administration of the GNI contribution and co-operates with SKAT to administer the settlement of customs duties, agricultural levies, etc., and the VAT contribution. In 2005, Denmark settled duties, levies and contributions to the Community's own resources amounting to DKK 15.1 billion.

13. The NAOD audited the ministry's settlement of duties, levies and contributions to the EU's own resources. The settlement includes customs duties, agricultural levies, etc., and contributions according to the common VAT base (VAT contribution) and common GNI base (GNI contribution).

SKAT collects the EU's *customs duties and agricultural levies, etc.*, in Denmark and recognises the amounts collected as income in the government accounts. SKAT sends a monthly statement of the amounts collected to the Ministry of Taxation, after which, on the basis of SKAT's calculations, the ministry settles the revenues to the EU on a monthly basis less a 25% deduction for administration. The ministry settles these amounts with the EU by payment into an EU account with Danmarks Nationalbank.

The VAT contribution is calculated by the EU as a specific percentage of the common VAT base. The ministry checks the EU's calculations and pays the monthly amounts into an EU account with Danmarks Nationalbank.

Similarly, the EU calculates the *GNI contribution* as a specific percentage of an EU harmonised GNI. In this case too, the ministry checks the EU's calculations and pays the monthly amounts into an EU account with Danmarks Nationalbank.

14. The audit included an audit of the ministry's procedures and internal controls. In addition, the NAOD audited all entries in the accounts for settlement of duties, levies and contributions to the EU's own resources in the ministry's 2005 accounts.

On the basis of the audit performed, the NAOD is of the opinion that taken as a whole, the ministry has calculated and settled duties, levies and contributions in compliance with the EU's procedural and substantive rules, that the settlement of duties, levies and contributions is correctly documented and stated in the ministry's accounts and that the ministry established procedures and internal controls which have ensured this to the widest possible extent.

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

15. The NAOD is responsible for SKAT's audit of customs duties, agricultural levies, etc., and VAT receipts in collaboration with SKAT's internal audit department.

Accordingly, in March 2006, the NAOD involved SKAT's internal audit department in the work of drafting a separate opinion on the audit of the settlement of duties, levies and contributions to the EU.

The internal audit department has commenced its part of the work, but as regards the tax year 2005, the department has not had sufficient resources or time to plan an audit which fully complies with the NAOD's requirements for a separate opinion in the EU area. The internal audit department will only be able to fully perform such an audit starting as of the tax year 2006.

On the basis of the audit of SKAT's calculation of *customs duties and agricultural levies, etc.*, for the tax year 2005, the internal audit department concluded that SKAT has established procedures and internal controls which ensure that SKAT calculated customs duties and agricultural levies, etc., correctly. The internal audit department did not perform a substantive audit of the area based on statistic sampling, but did perform a sample substantive audit together with the Commission in connection with a follow-up on previously detected errors and inexpediency of the Import System. The internal audit department repeated its criticism of the reliability of the Import System in connection with correct settlement of customs duties and agricultural levies, etc. However, in the internal audit department's opinion, these risks are limited to specific areas.

On the basis of the audit for tax year 2005 of SKAT's calculation of *VAT receipts*, the internal audit department concluded that SKAT has established procedures and internal controls which ensure that SKAT calculates VAT receipts correctly. However, the internal audit department made one qualification because SKAT was unable to satisfactorily explain, before the conclusion of the audit, the drop in the VAT on customs duties account from some DKK 286 million to some DKK 112 million. The internal audit department further states that only a limited substantive audit was performed for the tax year 2005, because it was unable to perform a substantive audit of declarations and payments regarding computerized transactions for example in the D/R system (IT system for debtor and arrears administration). This is due to the fact that SKAT's data warehouse is not sufficiently updated and detailed to monitor computerized entries in the D/R system. The internal audit department has stated that SKAT will try to solve this problem before initiating the audit of VAT receipts for the tax year 2006.