

Disallowance and penalties

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Our funding programme delivers more than £660 million annually in support to Scotland's rural economy through Direct Payments and the Scottish Rural Development Programme.

In 2013, we made payments to more than 21,800 businesses and community groups. This funding maintains and creates many economic, environmental and social benefits, with a large number of people directly employed by these businesses.

And because the funding is all public money – coming from the European Commission and the Scottish Government – it's important to make sure it's being used in the correct way to protect the taxpayer.

To do this, the European Commission has various regulations, which are supported by Scottish legislation. If these rules aren't followed, the Scottish Government can face fines.

This is called disallowance.

Payment of disallowance fines comes directly from the Scottish Government's own funds, meaning taxpayers in Scotland ultimately bear the cost. So, to minimise the risk of being fined, the Scottish Government needs to make sure those receiving payments are complying with the regulations.

If we find you are not complying with regulations and relevant funding scheme rules and guidance, we may impose a penalty. This could mean losing some or all of any funding you have applied for or have already received from us.

European Commission regulations can relate to:

- animal movement
- animal health
- crop and plant health
- aid schemes
- Cross Compliance

Disallowance costs

The level of disallowance for either significant over-claims by farmers or failures by us to enforce the rules could be 10 per cent of our entire rural payments budget.

This could be upwards of £60 million of taxpayers' money.

Inspections

To make sure the regulations and guidance is being followed, we carry out checks in our offices and on-site on a certain number of businesses that have claimed support.

If we discover that a business has not followed the terms and conditions of the funding scheme they are part of or have broken any European and Scottish regulations, we will call this a breach.

You can find out more in our inspections section.

[Inspections](#)

The role of auditors

All Direct Payment and Rural Development grant applications and how we deal with them can also be subject to audit by several bodies.

These include the European Court of Auditors, the European Commission, Audit Scotland and the Scottish Government's Internal Audit staff.

Their auditing involves carrying out checks to make sure the relevant conditions are being met and that public money is not being awarded where it is not due.

The European Commission require Audit Scotland to undertake an annual audit of our work which checks whether we have complied with the various regulations, scheme rules and guidance.

If they find that we have not, they can then apply financial penalties on behalf of the European Commission. If we do not comply with this process, it may result in disallowance and further auditing.

Audit Scotland also send their findings directly to the European Commission, where a decision is made on whether or not we should then be subject to an intensive audit by the Commission's own auditors.

So it's important that we do penalise individual businesses who fail inspections, to make sure the Scottish taxpayer is protected against fines from Europe.