RIGSREVISIONEN

Memorandum to the Public Accounts Committee on the European Parliament's discharge resolution regarding the 2008 EU accounts

June 2010

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The European Parliament's discharge resolution regarding the 2008 EU accounts

8 June 2010

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Translation

I. Introduction

1. On 5 May 2010, the European Parliament ("the Parliament") decided to approve the closing of the accounts regarding the implementation of the EU's general budget for 2008. By its approval, the Parliament granted discharge to the European Commission ("the Commission") and other institutions, agencies, etc. Prior to this, at its meeting on 16 February 2010, the European Council ("the Council") had adopted a positive recommendation regarding discharge to the Commission. The Parliament's decision was accompanied by a number of observations.

2. As a follow-up to my memorandum to the Public Accounts Committee issued in December 2009 on the Annual Report for 2008 of the European Court of Auditors ("the Court"), I will inform the Public Accounts Committee about the Parliament's discharge resolution. The Annual Report and Statement of Assurance issued by the Court constitute an important part of the basis for the Parliament's discharge resolution. In this memorandum, I will primarily focus on the Parliament's observations concerning the Commission's management. The Commission is responsible for the implementation of the EU's general budget and is thus managing the bulk of EU expenditure. Approximately 80 per cent of this expenditure is under shared management by the Commission and the Member States.

Discharge closes the accounts
The Commission presents accounts for the bulk of the Community's funds. The accounts of the other institutions form part of the overall accounts. The accounts are audited by the Court. Subject to recommendation by the Council, the Parliament may then grant discharge to the Commission and thereby approve the closing of the accounts. The Parliament is also granting discharge to the individual institutions, like for example the Council, the Court and the Court of Justice. This year the Parliament decided to postpone Council discharge and consequently the accounts were not approved until 19 May 2010.

II. Most important elements of the Parliament's resolution

3. In its discharge resolution, the Parliament initially expresses its concern regarding a number of issues accumulating from previous years, including in particular:

- continuing high error rates in payments;
- slow recovery of funds unduly paid;
- large transfers of funds to subsequent financial years.

4. The Parliament is concerned about the continuing high error rates in payments made in large and important areas of expenditure. The Court has thus issued an adverse opinion due to error rates above five per cent in areas accounting for 31 per cent of the EU budget. Areas with an error rate below two per cent, resulting in an unqualified opinion, account for only 47 per cent of the total budget. The Parliament recognizes that management of EU funds has improved in recent years, but according to the Parliament the improvements have been inadequate, and the high error rates make it more difficult to achieve the targets set for the EU. The Parliament therefore calls upon the Commission to submit a new Agenda for 2010 onwards providing for acceleration in the reduction of error rates.

5. The Parliament is also worried about the problems relating to the recovery of irregularly disbursed funds. And the Parliament is asking for more reliable information from the Commission on recovery of funds and financial corrections imposed on the individual Member States and in the individual areas of expenditure.

Discharge is political control
Through the discharge procedure, the Parliament exercises political control with the management of EU funds. The Parliament's review includes the Court's Annual Report, Statement of Assurance and special reports. On the basis hereof, the Parliament provides a political assessment of the Commission's and other institutions' management in the year under review.

6. The Parliament is concerned about the fact that the share of unused commitments carried forward to be used in future years has increased by 11.8 per cent to EUR 155 billion in 2008. In comparison, the total expenditure of the EU was approximately EUR 116.5 billion. The outstanding budgetary commitments are due in certain cases to delays in the start-up phase of new programmes, and in others to poor budget planning.

III. Parliament's observations on the reliability of the accounts and the legality and regularity of the underlying transactions

7. The Parliament notes with satisfaction the Court's positive opinion concerning the reliability of the annual accounts. The Parliament also notes with satisfaction the positive opinion issued by the Court on the policy groups "Revenue", "Administration and other expenditure", and "Education and citizenship", and that the efforts made by the Commission to improve management has reduced the error rates in the policy areas "Agriculture and natural resources", "Research, energy and transport" and "Education and citizenship". However, the Parliament regrets that the Court has qualified its opinion in important policy areas. Table 1 shows the Court's assessment of error rates in the EU expenditure areas. An error rate of more than two percent results in an adverse opinion from the Court.

Table 1. The Court's assessment of error rates in the management of the bulk of EU expenditure in 2008

Area of expenditure	EUR billions
Error rate < 2%	
Agriculture and natural resources (reservations for Rural development)	55.1
Administration and other expenditure	8.6
Education and citizenship	1.7
Error rate between 2% and 5%	
Research, energy and transport	7.5
External aid, development and enlargement	6.3
Economic and financial affairs (reservations for the 6th Framework programme for research and technological development)	0.6
Error > 5%	
Cohesion	36.6

Source: Court Annual Report 2008.

8. It appears from the table that the Court has established that the error rates are above two per cent in the areas of "Cohesion", "Research, energy and transport", "External aid, development and enlargement", and "Economic and financial affairs". The Court has issued adverse opinions on these areas. In addition, the Court has expressed reservations for "Rural development" under the policy area "Agriculture and natural resources" and for the 6th Framework programme for research and technological development under the policy group "Economic and financial affairs".

9. The Parliament believes that the Commission’s action plan for internal control should have had a bigger and more visible positive impact on the error rates. However, the Parliament notes that the Court has assessed that it is not yet possible to determine whether the action plan has had a measurable impact.

10. The Parliament once more comments on the Commission’s efforts to identify the most cost effective level of control in the Commission and Members States in relation to the concept of ”tolerable risk of error”. The benefits of the control should exceed the costs related to conducting control. In some areas this means that the requirements to the control can be relaxed whereas other areas will be subjected to more thorough control. The Parliament has no clear-cut opinion on the concept, but points out that defining a tolerable risk level is only one of several elements to be explored to improve financial management in the EU. The Parliament also emphasizes that the quality of the information available from the Member States on the costs of control is not sufficient as a basis for establishment of an acceptable tolerable risk of error.

11. The Parliament also calls upon the Commission to shorten the period involved in the discharge process to enable the Parliament to take a decision on discharge in the year following the financial year under review. According to current practice, the Parliament is not discharging the 2008 accounts till 2010.

IV. The Parliament’s observations on the cohesion policy and the agricultural policy

12. ”Cohesion” (the structural funds and the Cohesion Fund) is the expenditure area with the highest error rate in the EU. It is the second largest expenditure area and accounted for 31 per cent of the EU expenditure in 2008. The Parliament is concerned that the Court has assessed that at least 11 per cent of the reimbursed funds should not have been reimbursed. The Parliament considers it an absolute priority to reduce the error rates and observes that no improvements have been recorded in this area since 2007. The Parliament finds the system of sanctions for Member States returning high error rates inefficient. The Member States are repaying only between 3-5 per cent of the total appropriations, and according to the Parliament the cost of implementing effective control measures exceeds this amount. The Parliament reiterates its request to the Commission to submit an overview of the efficiency of the control systems in the individual Member States and calls upon the Court to produce a similar overview based on its audit.

13. ”Agriculture and natural resources” is the largest area of expenditure in the EU and accounted for 47 per cent of total EU expenditure in 2008. The Parliament welcomes the unqualified opinion given for the first time by the Court on the policy group Agriculture and natural resources, although the policy sub area of Rural development is still characterized by high error rates. However, the Parliament is concerned about the spread of errors in the Member States. For instance, the error rate was 0.3 per cent or lower in France, the United Kingdom and Germany, whereas the error rate was 3.7 per cent in Greece, 6 per cent in Bulgaria and 12.6 per cent in Romania.

14. The Parliament insists on a simplification of the complex rules in both the agricultural policy area and the cohesion area, on Member State level as well as on Commission level. The Parliament expects the simplification to result in a reduction of error rates.

V. The Parliament's observations on the Member States' involvement in the control of the use of EU funds

15. The Parliament calls upon the 27 Member States to show a greater commitment to improving the spending of EU funds. The largest areas of expenditure in the EU, like for instance agriculture and cohesion, are under shared management by the Commission and the Member States, and approximately 80 per cent of all EU expenditure is thus managed by the Member States.

16. In continuation hereof the Parliament refers to the statement by the Interparliamentary Conference on 'Improving National Accountability of EU funds' – in which the Public Accounts Committee also participated – held in The Hague on 28-29 January 2010, recommending that national policy instruments be implemented or strengthened to contribute to the improvement of the control and management of EU expenditure in Member States.

17. Since 2008, the Member States have presented annual summaries of audits conducted and the control of EU funds. The Parliament welcomes the annual summaries, but stresses the need to improve the quality and comparability of the data presented. The Parliament also calls upon the Commission to make the annual summaries public.

18. According to the Parliament, the introduction of national declarations on the management of EU funds in the individual Member States would increase accountability. The Parliament has emphasized this point in its last five discharge resolutions.

19. The Parliament welcomes the voluntary initiatives taken by Denmark, the United Kingdom, the Netherlands and Sweden to draw up national declarations. The Parliament also reiterates its request to the Commission to make national management declarations mandatory for all Member States. The Parliament draws attention to the fact that the role of the Member States in the administration of the EU funds has been stressed in article 317 of the Lisbon Treaty, and the Parliament is of the opinion that the amendment of the Treaty mandates the Commission to introduce mandatory national management declarations. According to the Parliament, the national management declarations should be certified by the national audit body of the respective Member State.

20. However, there are differences between the national management declaration worked out by Rigsrevisionen and the other national management declarations; in the United Kingdom, Sweden and the Netherlands, the Ministry of Finance is issuing the statement on the management of EU funds, and the declaration is subsequently certified by the national supreme audit body of the Member State.

In Denmark, the Ministry of Finance is not working out a declaration on the management of EU funds, but is drawing up an overview of the contributions made by Denmark to the EU and income received from the EU, which is included in the state accounts. The overview is worked out on the basis of a dialogue with Rigsrevisionen, and since its inclusion in the state accounts for 2008, it has provided Rigsrevisionen with a better platform for its audit and issue of the national declaration on the EU funds. Yet, the overview included in the state accounts cannot be considered an actual national management declaration in the sense requested by the Parliament.

21. Up to 2008, Rigsrevisionen's declaration was included in the Report to the Public Accounts Committee on the Audit of the State Accounts, but in November 2009, the declaration was accompanied by a separate report on the audit of EU funds in Denmark.

22. In its discharge resolution, the Parliament calls for a closer cooperation between the Court and the national audit bodies on the administration of the EU funds under shared management by the Commission and the Member States. Rigsrevisionen will continue the efforts to expand its cooperation with the Court.

VI. Conclusion

23. On 5 May 2010, the Parliament approved the closing of the accounts regarding the implementation of the EU's general budget for 2008 and granted the Commission discharge in respect of its management in the financial year under review. The overall conclusion of the Parliament's observations on the discharge is that – like last year – and in spite of progress being made in some areas, there are too many errors in several important areas, including among others, the cohesion area.

24. In order to reduce the error rates, the Parliament calls upon the Member States to take greater responsibility for the management of the EU funds. The Parliament sees the national declarations issued by Denmark, the United Kingdom, the Netherlands and Sweden as a way forward and calls upon the Commission to make such declarations mandatory for all Member States. At the same time, the Parliament calls for closer cooperation between the Court and national audit bodies to improve the audit of EU funds.

25. Most errors occur in the Member States and I therefore agree with the Parliament's call for a greater commitment by the Member States. The supreme audit bodies have an important role to play in this connection. The supreme audit bodies in the EU are keen to increase commitment and are already cooperating on the audit of EU funds in selected areas. Certain supreme audit bodies – including Rigsrevisionen – have also developed declarations on the audit of EU funds.

26. I agree with the Parliament's call for closer cooperation between the Court and the national supreme audit bodies.

27. In future, I will also inform the Public Accounts Committee on the development in the management and audit of EU funds, and I will keep the Committee informed of progress in the cooperation between Rigsrevisionen and the Court.

Henrik Otbo
Auditor General