



Memorandum to the Danish Public Accounts
Committee on the European Parliament's
decision on discharge for the implementation
of the EU's annual accounts for the financial
year 2005

June
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**The European Parliament's decision on discharge for the implementation of the
EU's annual accounts for the financial year 2005**

1 June 2007

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Translation

I. Summary

1. On 24 April 2007, the European Parliament (the Parliament) decided on the discharge (approval) for implementation of the European Union general budget for the financial year 2005. In doing so, the Parliament complied with the recommendation made by the Council concerning discharge of 27 February 2007 with respect to all of the 26 reports presented.

2. In the memorandum, I inform the Danish Public Accounts Committee about the background for the discharge, the Parliament's comments on the European Commission's (the Commission) management of revenue, agricultural policy and structural measures and about the Parliament's remarks to a number of initiatives concerning national declarations on EU funds.

3. In connection with the announcement of discharge to the Commission for implementation of the EU's general annual accounts for the financial year 2005, the Parliament referred to the European Court of Auditors' (the Court) Statement of Assurance on the EU's accounts. The Parliament made the following comments in this connection:

- The Court found the EU's final annual accounts for 2005 true and fair with a number of exceptions which amongst other deal with errors in the Commission's accounting systems.
- The Court's audit did not reveal material irregularities in Member States' VAT payments and GDP income.
- The Court's audit also showed that the administration and control system (IACS) in the agricultural area is effective when applied correctly. The audit also revealed weaknesses in the national control systems in the area of structural measures.
- A number of countries have taken different initiatives to work out declarations on EU funds. Rigsrevisionen submits a statement on the audit of EU funds.

Denmark is not mentioned in the Parliament's discharge comments.

II. Introduction and background of discharge

4. The purpose of this memorandum is to inform the Danish Public Accounts Committee about the Parliament's discharge for implementation of the EU's annual accounts for the financial year 2005. On 24 April 2007, the Parliament decided to grant discharge and

thereby complied with the recommendation made by the Council concerning all 26 reports presented by the European Parliament's Committee on Budgetary Control (EP-Committee on Budgetary Control).

5. In this memorandum, I will inform the Danish Public Accounts Committee of the Parliament's approval of and comments to the Commission's discharge for implementation of the EU's annual accounts. Denmark is not mentioned in the Parliament's remarks.

I hope the Danish Public Accounts Committee will find the information in the memorandum useful in the preparations for the EU trip scheduled for September 2007.

6. In the memorandum, I refer to and comment on selected parts of the Parliament's announcement of discharge to the Commission. The memorandum includes the following:

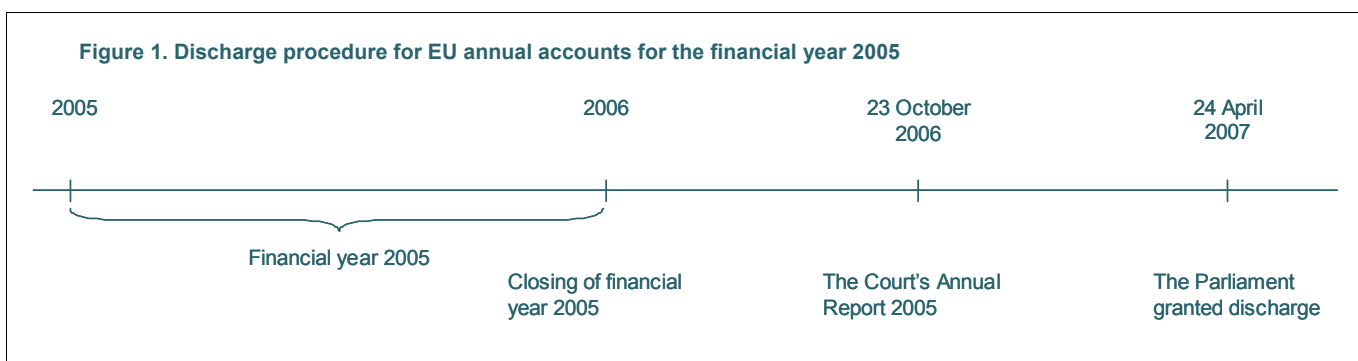
- The Parliament's comments to the Commission's management (chapter III).
- The Parliament's comments to management within the most significant sectors (chapter IV).
- The Parliament's comments concerning national declarations on EU funds (chapter V).

7. The purpose of EU's discharge procedure is:

- to determine accountability for the EU's financial management which rests partly on the Commission and the individual commissioners and partly on the other significant players in the EU's financial management, including the Member States
- to follow an annual procedure which provides the Parliament with an opportunity to get in direct contact with the most significant individuals responsible for the EU's financial management, i.e. primarily the EU commissioners
- to improve EU financial management in order to create a more solid foundation for the discharge decision.

The discharge also represents the final closing of accounts, formally exempting the Commission from the management responsibility for the accounts. The Parliament may also decide to reject to grant discharge or postpone its decision, until the Commission or another EU institution has remedied material weaknesses. It is considered a vote of no confidence in the Commission if the Parliament refuses to grant discharge. In 1984 and 1998, the Parliament refused to grant discharge regarding the financial years 1982 and 1996, respectively. The Parliament's refusal to give discharge in 1998 had the consequence that the entire Commission, chaired by Mr Jacques Santer, stepped down in March 1999.

8. The Parliament's approval of the EU annual accounts concludes an approximately 15 months long process running from closing of the accounts in question to final discharge for implementation of the annual accounts. Figure 1 shows the discharge procedure for the EU's annual accounts for the financial year 2005.



9. In the course of 2005 and the spring of 2006, the Court performed its audit of the 2005 accounts. The Court reported on audit findings in its Annual Report in October 2006. The Court's submission of the Annual Report initiated the Parliament's discharge procedure which was concluded with the final adoption of the EU's annual accounts on 24 April 2007.

There are many similarities between the approval procedure applying to EU accounts and the procedure for approval of the Danish state accounts. In the autumn of 2006, when the Court submitted its Annual Report, Rigsrevisionen submitted its report on the audit of the 2005 state accounts. In April 2007, the EP-Committee on Budgetary Control submitted its recommendation to approval and closing of the accounts for 2005 and the Danish Public Accounts Committee submitted its final report to the Danish parliament (the Folketing). The Parliament is required to conclude the discharge procedure no later than 16 months after closing of the accounting year in question. Similarly, the state accounts including the Danish Public Accounts Committee's comments should be submitted to the Folketing no later than 18 months after closing of the accounting year concerned. Subsequently, the Folketing will vote on adoption.

10. The EP-Committee on Budgetary Control is conducting the discharge procedure and presents its recommendation to the Parliament which subsequently makes a decision on discharge. The EP-Committee on Budgetary Control's work with the discharge procedure will appear from figure 2.

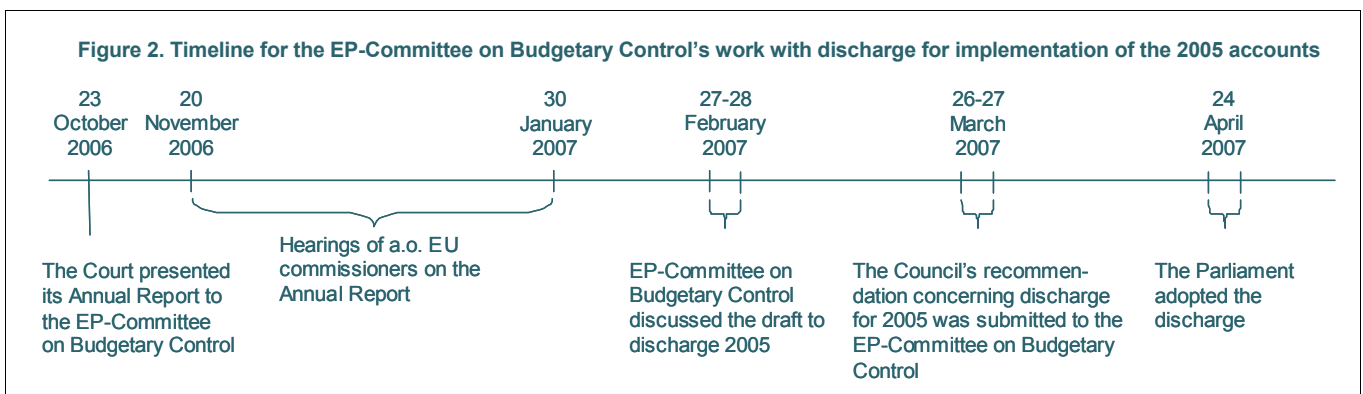


Figure 2 shows the most significant activities of this year's discharge procedure which started when the Court published its Annual Report in October 2006. This was followed by the EP-Committee on Budgetary Control's hearings of selected EU commissioners and other representatives of the Commission and other EU institutions. Then the EP-Committee on Budgetary Control discussed the draft discharge, the Council submitted its recommendation concerning discharge and finally on 24 April 2007, the Parliament adopted the EU annual accounts for 2005.

When the Parliament made the decision to grant discharge, it also adopted a number of comments to the budget and a selection of these comments will appear from this memorandum. The Commission is under obligation to act on the comments and to issue a report on initiatives launched to follow up on Parliament's recommendations by 15 December this year.

III. The Parliament's comments to the Commission's management

11. The Parliament notes that the Court in its Statement of Assurance found that the EU's final annual accounts for the financial year 2005 were true and fair with a few exceptions, including a number of errors in the Commission's accounting systems. The Parliament calls upon the Commission to remedy these shortcomings immediately to prevent them from affecting the reliability of the financial statements for 2006.

12. The Parliament is concerned about the significant level of errors in connection with payment of EU funds to beneficiaries. The Parliament points out that the responsibility for prevention, identification and correction of errors at the level of the final beneficiary lies with the Member States within the areas of policy where the Commission and the Member States practice shared management of EU funds. The so-called "shared management" requires Member States to check that the beneficiaries state project expenditure correctly and comply with the eligibility rules. The Commission's task in relation to "shared management" is to supervise the Member States' control systems and ensure that they comply with the requirements of EU regulations. The majority of the EU's expenditure is under "shared management", including agricultural funds and structural funds. The remaining part of the EU's expenditure is managed by the Commission. The Commission has the overall final responsibility for the management of the EU budget, including the areas under "shared management".

The Parliament emphasises that the Commission is responsible for giving sufficient guidelines to Member States on how to prevent, identify and correct errors at final beneficiary level. The Parliament calls upon the Commission to improve supervision of the Member States' control and insists that the Commission apply sanctions if the control systems are insufficient.

13. The Parliament welcomes the Commission's new transparency initiative, aimed to create more openness and accountability to the citizens. As part of the transparency initiative, Member States are required to communicate information on the recipients of EU funds to the Commission which is subsequently making the information accessible to the public. The Parliament expects access to be simple and transparent via a central website. The Parliament also expects the Commission to instruct Member States to standardise the information to ensure that it may be compared across Member States.

IV. The Parliament's comments to management within significant sectors

14. The Parliament has the following comments to management within the sectors revenue, agricultural policy and structural measures:

- *Revenue:* The Parliament notes with satisfaction that the Court's audit did not reveal any significant irregularities in Member States' payment of VAT and GDP income.
- *Agricultural policy:* The Parliament welcomes the Court's acknowledgement that, suitably applied, the integrated administration and control system (IACS) constitutes an effective system for reducing the risk of error and irregular expenditure. The Parliament states once again that cooperation between the Commission and the Member States for the purpose of providing guarantees in respect of the legality and regularity of operations relating to final beneficiaries is essential. The Commission is urged to intensify post-payment checks and to ensure that irregular payments are recovered.
- *Structural measures:* The Parliament regrets, that the Court again this year detected shortcomings in the national control systems and a significant level of errors. The Parliament also regrets that the Commission, according to the Court, does not maintain effective supervision of the checks conducted by the Member States. The Parliament emphasises the importance of the supervision systems as a means of ensuring sound financial management. The supervision systems provide the Commission with an opportunity to monitor management of EU funds in the Member States and take corrective action in the event of irregularities. If a Member State fails to do its utmost to minimise the risk of errors, the Commission should suspend payments and claim reimbursement of EU funds.

V. The Parliament's comments concerning national declarations on EU funds.

15. The Parliament welcomes recent years' national initiatives to introduce declarations on the management of EU funds. The governments of the Netherlands, United Kingdom and Sweden have all taken independent initiatives to adopt national declarations on the management of Community funding. The Parliament also mentions that Rigsrevisionen will submit an audit statement on the management of Community funding under "shared management".

16. The control and audit of the EU's budget take place on EU level and national level. Internal control is part of the management of EU funds, whereas external audit is conducted by independent bodies with no affiliation to the management of the Danish EU funds. Rigsrevisionen's audit statement is based on an external audit of the Danish Community funding.

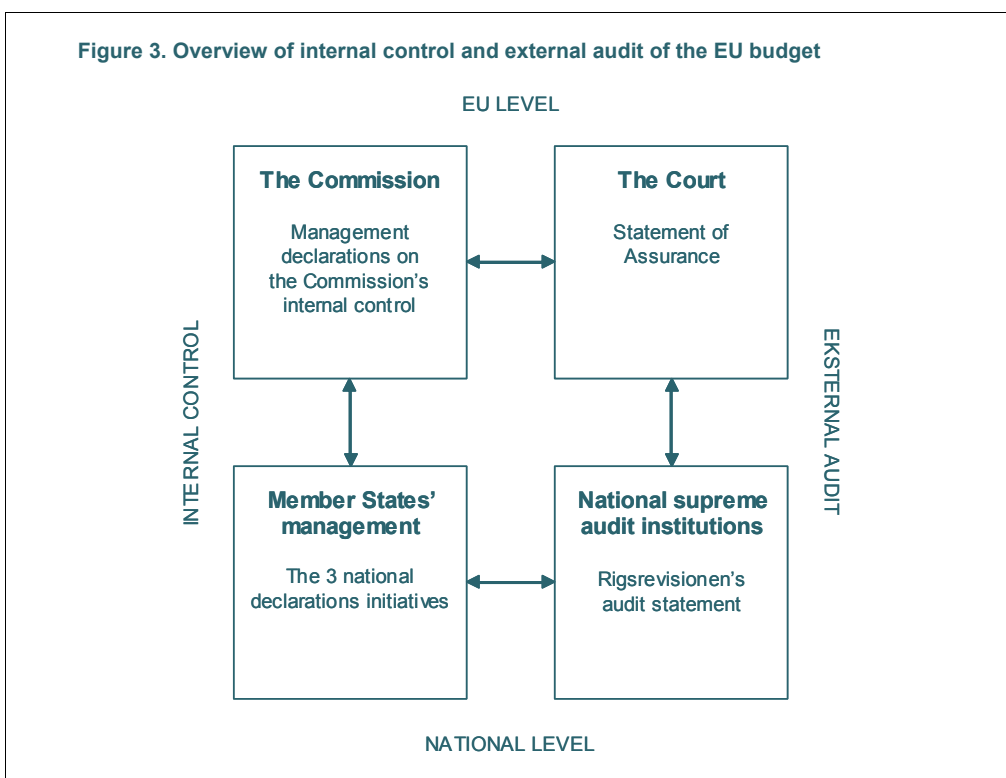


Figure 3 shows the players carrying out internal control and external audit of Community funds on EU and national level. The bodies which are submitting declarations and statements, or are planning to do so, also appear from the figure.

17. The Parliament calls on the Commission to submit before the end of 2007 proposals to the Council concerning national declarations, comprising all Community funding under "shared management" and based on sub-declarations provided by the various national supreme audit institutions. The Parliament is of the opinion that a common approach towards the implementation and construction of national declarations, applying the same principles and if possible ensuring participation from the national supreme audit institutions, is necessary to assure that national declarations are of value to the Commission and the Court.

The Parliament calls on the national parliaments and in particular the national public accounts committees to discuss the introduction of national declarations and to keep the Parliament informed of the progress of these discussions.

18. As regards the Parliament's proposal for a common approach towards the implementation and construction of national declarations, applying the same principles and if possible ensuring participation from national supreme audit institutions, I would like to remind you that Rigsrevisionen made its statement on the audit of the EU funds on its own initiative. The purpose of the statement is partly to report on the audit of the Danish EU funding accounts and partly to keep the Danish Public Accounts Committee informed. As in 2006, Rigsrevisionen will continue to submit a statement on the audit of EU funds in Denmark. Naturally, I would be pleased if the Court and Commission find the information in the statement useful, but that was not the overall purpose of the statement.

VI. Conclusion

19. With this memorandum I have informed the Danish Public Accounts Committee of the background for the Parliament's discharge and I have communicated a selection of the comments made by the Parliament on the Commission's management and the management within the sectors revenue, agricultural policy and structural measures. Finally, I have informed the Committee of a number of initiatives concerning national declarations on Community funding.

Henrik Otbo