



Memorandum to the Public Accounts  
Committee on the European Parlia-  
ment's discharge resolution regarding  
the 2009 EU accounts

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## The European Parliament's discharge resolution regarding the 2009 EU accounts

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### I. Introduction

1. As a follow-up to my memorandum to the Public Accounts Committee issued in December 2010 on the Annual Report for 2009 of the European Court of Auditors ("the Court"), I will inform the Public Accounts Committee about the European Parliament's ("the Parliament") 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 European Commission's ("the Commission") 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.

2. On 10 May 2011, the Parliament decided to approve the closing of the accounts regarding the implementation of the EU's general budget for 2009. Prior to this, at its meeting on 15 February 2011 the Council had adopted a positive recommendation regarding discharge to the Commission. By this approval the Parliament granted discharge to the Commission and other institutions, agencies, etc., but decided to postpone approval for the budgets of the Council, the European Police College and the European Medicines Agency. The discharge resolution is accompanied by the Parliament's observations.

3. The Netherlands, Great Britain and Sweden abstained from voting on the Council decision for discharge and instead issued a joint declaration. The three countries are concerned about the fact that the Court for sixteen consecutive years has issued a qualified opinion on the EU accounts. The three countries are also concerned about the slow pace of reforms to the financial management of EU funds which they consider detrimental to the credibility of the EU budget as a whole.

4. In this memorandum I will initially present the Parliament's main conclusions concerning the discharge resolution and its observations regarding the reliability of the accounts and the legality of the underlying transactions. I will then summarise the Parliament's observations regarding the two largest areas of expenditure and its recommendations to improve the management and control of EU funds. Finally, I will present my own comments to the discharge resolution.

#### 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.

### 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.

## II. The Parliament's main conclusions concerning the discharge resolution

5. In its discharge resolution, the Parliament initially states that the EU accounts, in all material respects, present fairly the financial position of the EU, but that the Court's annual report highlights material errors in several areas and only partially effective supervisory and control systems.

6. The Parliament notes, as in past years, high error rates in payments made in large and important areas of expenditure. Due to error rates between two and five percent and above five percent in areas accounting for 91.7 percent of the EU budget, the Court has thus issued an adverse opinion. Only the areas "Economic and financial affairs" and "Administration and other expenditure" have error rates that are lower than two percent and have received unqualified opinions. These areas account for only 8.3 percent of the total EU budget. For further information on this subject, please see item 11.

7. The Parliament is also concerned about the problems relating to the recovery of irregularly disbursed EU funds. The Parliament is also asking for more reliable information from the Commission on recovery of funds and financial corrections imposed on individual Member States and individual policy groups.

8. The Parliament's discharge resolution presents a number of proposals to the Commission on how it can improve the management of EU funds, including a proposal to introduce mandatory national management declarations.

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

9. The Parliament notes with satisfaction that the Court also considers the EU 2009 accounts reliable. As regards the legality of the underlying transactions, the Court has, as in past years, detected various weaknesses in the management of the EU expenditure.

10. Table 1 provides an overview of the Court's assessment of the reliability of the management of the bulk of the EU expenditure and income in 2009.

**Table 1. The Court's assessment of the reliability of the management of the bulk of EU expenditure and income in 2009**

Distribution of EU expenditure and income in 2009	EUR billions	Functionality of supervisory and control systems
Agriculture and natural resources	56.3	Partly effective
Cohesion	35.5	Partly effective
Research, energy and transport	8.0	Partly effective
External aid, development and enlargement	6.6	Partly effective
Education and citizenship	2.2	Partly effective
Economic and financial affairs	0.7	Partly effective
Administration and other expenditure	9.1	Effective
Income	117.3	Effective

Source: Annual Report of the Court for 2009.

It appears from table 1 that the supervisory and control systems in all areas of expenditure with the exception of "Administration and other expenditure" are considered only partly effective in the Court's annual report. The Court arrived at the same conclusion in 2008 and in previous years. The Parliament regrets in its discharge resolution that this seems to be a recurring problem. Like last year, the functionality of the supervisory and control systems in the area "Income" is considered effective by the Court.

11. Table 2 shows the Court's assessment of the error rates within the EU policy groups. An error rate of more than two percent results in an adverse opinion from the Court.

**Table 2. The Court's assessment of error rates in the management of the bulk of EU expenditure in 2008 and 2009**

Areas of expenditure	Error rate 2008	Error rate 2009
Economic and financial affairs	2-5 %	< 2 %
Administration and other expenditure	< 2 %	< 2 %
Education and citizenship	< 2 %	2-5 %
Research, energy and transport	2-5 %	2-5 %
External aid, development and enlargement	2-5 %	2-5 %
Agriculture and natural resources	< 2 %	2-5 %
Cohesion	> 5 %	> 5 %

Source: The Annual Reports of the Court for 2008 and 2009.

The Parliament welcomes the unqualified opinion given by the Court on the policy groups "Administration and other expenditure" and "Economic and financial affairs". As will appear from table 2, the Court has estimated that the error rates relating to expenditure within the policy groups "Education and citizenship", "Research, energy and transport", "External aid, development and enlargement", "Agriculture and natural resources" and "Cohesion" are higher than two percent. The Parliament notes with satisfaction that the error rate within the policy group "Cohesion" has decreased compared to last year, but notes also that the Court again this year estimated the error rate to be above five percent. The Parliament also emphasizes that the error rate within the policy group "Agriculture and natural resources" has increased since last year.

Overall the improvement over 2008 is marginal, as the error rates within most policy groups are still high. At the same time, the Parliament has noted that adverse opinions have been issued on many areas. The Parliament calls on the Commission and the Member States to reduce the error rates to secure unqualified opinions from the Court on all policy areas.

12. As a consequence of the high error rates in most policy areas detected by the Court, the Parliament once again comments on the Commission's efforts to identify the most cost effective level of control in the Commission and Member States in relation to the concept of "tolerable risk of error". The benefits of control should exceed the costs related to conducting control. Considering that the Court for many years in a row has deemed controls only partly effective, the Parliament invites the Commission to identify the weaknesses of the current management and control systems and analyse the cost and benefits of implementing various changes, for instance in circumstances where it seems difficult to obtain a sufficiently high level of compliance with scheme rules. The nature of such changes could be: simplification of the rules, re-designing programmes, tightening controls or terminating programmes.

13. The Parliament is of the opinion that the Commission's approach to the tolerable risk of error should be more forward-looking. The Parliament suggests that the new Financial Regulation should include a requirement according to which the Commission should match the spending proposal with the assessed risk and thereby ensure that the tolerable risk of error becomes instrumental in establishing effective controls and reducing the error rates in the administration of EU funds.

#### **IV. The Parliament's observations on the cohesion policy and the agricultural policy**

14. The policy group "Cohesion" (the structural funds and the Cohesion Fund) is the area with the highest error rate. It is the second largest expenditure area and accounted for 30 per cent of EU spending in 2009. The Parliament notes that the Court estimates that the error rate for this policy group is above five per cent, but that the frequency of errors continues to decrease for the third consecutive year. The Parliament notes also that a major proportion of the estimated error rate is attributable to eligibility errors and serious failures to respect public procurement rules. The Parliament calls on the Commission to analyse the causes of the infringements of the public procurement rules and cooperate decisively with the Member States to overcome the difficulties identified.

15. The Parliament notes that the Member States had the information required to correct at least 30 per cent of the errors found by the Court, before the Member States certified the expenditure to the Commission. The Parliament believes that this finding brings seriously into question the efficiency of a system in which the Member States hold the main responsibility for the accuracy of the declared expenditure.

16. The Parliament is also very concerned about the standard of the management and control systems in some Member States and the slow pace of improvements to these systems. The Parliament calls on the Commission to further improve the cooperation with the Member States and thereby ultimately improve also the joint management of EU programmes.

17. "Agriculture and natural resources" is the largest area of expenditure in the EU and accounted for 48 per cent of total EU expenditure in 2009. The Parliament notes with satisfaction that the Commission has succeeded in bringing down the error rate to approximately two per cent in recent years, although it has increased marginally from 2008 to 2009. The Parliament notes, however, that most of the errors concerned eligibility and accuracy errors, resulting from over-declaration of eligible land, and deplores the fact that the Member States' practice of defining used farmland independently results in substantial misallocation of area payments.

18. The Parliament has also noted that the supervisory and control systems in this policy area are at best partially effective in ensuring the regularity of payments.

19. The Parliament invites the Commission to implement measures to improve the management within the area of "Agriculture and natural resources" and, for instance, clarify the rules, reduce bureaucracy and simplify procedures.

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

##### *National management declarations*

20. In the discharge resolution, the Parliament repeatedly requests the Commission to introduce national management declarations in order to facilitate greater national accountability. The Parliament draws attention to the fact that the EU and the national managers should be held to account for the spending in as far as approximately 80 per cent of the budget is implemented by national authorities. The Parliament recalls that since 2005 it has asked the Commission to present a proposal for the introduction of mandatory national management declarations.

21. As mentioned under items 9 and 10, the Parliament is very concerned about the standard of the management and control systems in some Member States and the slow pace of improvements to these systems. The Parliament believes that if the national management declarations are not introduced, the Commission will be unable to fulfil its obligation in respect to supervising the Member States and ensuring the effectiveness of the national management and control systems. The introduction of national management declarations will also provide national parliaments and national supreme audit institutions with an opportunity to ensuring the legality and regularity and performance of EU spending.

22. According to the proposal of the Parliament, the national management declarations on EU spending should be signed by the national finance minister and audited by the national supreme audit institution or another independent auditor. The Parliament also suggests that the content of the national management declarations is included in the Court's audit in accordance with the "single audit principle".

23. The Parliament welcomes that four countries, including Denmark, deliver national management declarations, but notes that they differ in quality and clarity. The fact that these countries are issuing national management declarations is by the Parliament considered a reflection that it is feasible to do so. The Parliament also notes with satisfaction that the Commission's proposal on the financial rules includes a proposal to introduce management declarations at managerial level. Although this proposal is less comprehensive than the proposal put forward by the Parliament in that it does not call for an overall national declaration signed by the finance minister, the Parliament considers it a step in the right direction.

*Recovery, corrective mechanisms and suspension of payments*

24. In the discharge resolution, the Parliament draws attention to the fact that ineligible costs, i.e. amounts that have been incorrectly paid to recipients, should be recovered as quickly as possible. Moreover, weaknesses in the management and control systems of the Member States should also be corrected as quickly as possible. The Parliament invites the Member States to improve their systems for controlling, detecting and reporting corrections to the Commission.

25. The Parliament believes that under the present system the Member States seem to have limited interest in developing efficient control systems and thereby prevent or detect and recover sums incorrectly received by the final recipients. The Parliament welcomes that the Commission is making use of the new possibility to immediately suspend payments.

26. On the basis of the many financial corrections implemented in 2009, the Parliament calls on the Commission to introduce systematic activation of interruption and suspension of payments as soon as evidence suggests a significant deficiency in the functioning of the management and control systems. The Parliament also calls on the Commission to ensure that future rules applicable to the EU budget and programmes provide that unspent EU funds are not returned to a Member State if it has not paid back to the EU amounts incorrectly received. The Commission is asked to take into account any financial correction not yet paid by the Member States before returning unspent annual budget appropriations to the Member States.

## **VI. Conclusion**

27. The Parliament has decided to grant discharge to the Commission and thereby approve the closing of the EU 2009 accounts. It should be noted, however, that the Netherlands, Great Britain and Sweden during the discharge debate in the Council abstained from voting in favour of discharge on account of the high error rates. In my view it is imperative that the efforts to ensure the reliability of the accounts and the legality of transactions are continued.

### **Single audit**

An audit model whereby audits are carried out, recorded and reported to a common standard which makes it possible for each level of control to build on the preceding one and thereby avoid duplication of work. As an example, the opinion on the implementation of the EU budget that is issued by the European Court of Auditors could be partly based on audits performed by national supreme audit institutions.

28. I have noted that the Parliament believes that one of the reasons for the many errors in the policy groups "Cohesion" and "Agriculture and natural resources" is the complexity of the rules governing these areas. I agree that a simplification of the rules and regulations could contribute to reducing the incidence of errors. I shall with interest follow the initiatives taken by the EU to simplify the regulations and establish more effective controls without compromising the cost-effectiveness of the controls.

29. I am of the opinion that more effective controls, activities to strengthen the accountability of the Member States with respect to the management of EU funds, and the opportunity to impose sanctions where necessary and, for instance, retain funds when errors have been detected, could enhance the management of accounts.

30. I have noted that according to the Parliament's discharge resolution, the Member States are responsible for the majority of errors, and I therefore agree with the Parliament's invitation to the Member States to step up their efforts in this area. The national supreme audit institutions in the EU have an important role to play in this connection and are keen to increase the commitment and cooperation on the audit of the EU funds. I shall also continue to support initiatives that may strengthen the cooperation between the Court and the national supreme audit institutions.

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Henrik Otbo  
Auditor General