RIGSREVISIONEN

Memorandum to the Public Accounts Committee on the European Parliament's discharge resolution regarding the 2012 EU accounts

June 2014

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The European Parliament’s discharge resolution regarding the 2012 EU accounts

17 June 2014

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SUMMARY

The memorandum provides a review of the European Parliament’s final approval of the EU accounts for 2012. The European Parliament decided to approve the accounts, but noted with regret that the error rate had gone up for the third consecutive year and had reservations concerning the agricultural and regional policy areas.

The discharge of the accounts is accompanied by extensive comments by the European Parliament to the accounts and the administration of EU funds by the European Commission and the member states. The memorandum highlights the comments that Rigsrevisionen considers most important and of particular interest to the Danish Public Accounts Committee, i.e.

- targeted control;
- strengthened internal and external audit;
- national declarations on the management of EU funds.

The last sections of the memorandum update the Public Accounts Committee on Rigsrevisionen’s cooperation with the European Court of Auditors and Supreme Audit Institutions in the member states.

I. Introduction

1. On 3 April 2014 the European Parliament (the Parliament) decided to grant discharge to the European Commission (the Commission), other institutions, agencies, etc. and thus the Parliament approved that the accounts regarding the implementation of the EU’s general budget for 2012 could be closed.

2. However, the Parliament decided, as in past years, to postpone discharge for the Council of Ministers (the Council), because the Council has yet to answer the Parliament’s questions concerning its management of the budget. The Parliament also postponed discharge for the Body of European Regulators for Electronic Communications due to irregularities in the financial management, etc. The Parliament will re-consider its discharge concerning these two institutions in the autumn 2014.

3. The Parliament's decision to grant discharge was made upon recommendation from the Council. The Netherlands, Great Britain and Sweden have, as in past years, voted against granting discharge and have issued a statement in which they strongly regret and criticize that the management of EU funds is so severely affected by errors.

Background
4. The Commission is responsible for the implementation of the EU's general budget and presents accounts for the majority of the EU policy areas. The management of most of the EU expenditure (approximately 80 per cent) is, however, shared between the Commission and the individual member states who select and check the projects that are eligible for support and effect payments to the final beneficiaries.

5. The EU accounts are subjected to control by three institutions; the Commission performs an internal control of the management of the budget, the European Court of Auditors (the Court) subsequently performs an external audit of budget management and, lastly, the Parliament conducts a political check and approval of the Commission's budget management – the so-called discharge procedure – upon recommendation from the Council. In the course of the discharge procedure, the Parliament and the Council review the Court's annual report, audit statement and special reports as well as the Commission's annual activity reports.

In addition to the above, the Supreme Audit Institutions of a number of member states (including Rigsrevisionen) perform national audits of the administration of EU funds. These audits are not included in the discharge procedure, but part of national political processes.

6. The purpose of the Parliament's discharge is twofold; it represents the political aspect of the assessment and recognition of the Commission's budget management, and it closes the budget, which formally "liberates" the Commission for its management of the implementation of the EU general budget. It is considered a strong vote of no confidence, if the Parliament refuses to grant discharge. The Parliament also grants discharge to individual institutions like, for instance, the Council, the Court and the Court of Justice of the European Union.

7. Rigsrevisionen briefs the Public Accounts Committee on the annual report of the Court and the Parliament's discharge resolution in two annual memorandums in December and June, respectively. Rigsrevisionen submits these memorandums to the Public Accounts Committee to accommodate the committee members' interest in EU matters and to add further perspective to Rigsrevisionen's own reports on the audit of EU funds in Denmark.

Purpose
8. This memorandum follows up on Rigsrevisionen's memorandum to the Public Accounts Committee from December 2013 on the Court's annual report 2012 and briefs the committee members on the Parliament's discharge resolution. The memorandum highlights the elements of the discharge resolution that are considered to be of particular interest to the Public Accounts Committee. In conclusion, we update the committee members on recent developments in the cooperation between the national Supreme Audit Institutions on the audit of EU funds.

II. The Parliament's key conclusions as presented in the discharge resolution

9. Welcomes the fact that the annual accounts of the Union for the financial year 2011 present fairly, and in all material respects, the position of the Union as at 31 December 2011, and notes with satisfaction that revenue and commitments underlying the accounts are legal and regular in all material respects.

10. The Parliament regrets, however, that the payments underlying the accounts remain materially affected by error and that the Court has issued an adverse opinion on the legality and regularity of the payments. The Parliament is concerned about the fact that the error rate for payments has increased for the third consecutive year and is estimated at 4.8 per cent for the financial year 2012. Also the fact that the supervisory and control systems – that are intended to prevent errors – are only partially effective, is a source of concern.

11. The Parliament notes that for the 19th consecutive time, the Court was unable to grant a positive unqualified audit opinion on the legality and regularity of payments. The Parliament is concerned that this may undermine the legitimacy of the EU's expenditure and policies, in particular in the current situation where the economic and financial crisis has led to a scarcity of resources and increased the need to spend funds effectively and economically.

12. The Parliament emphasizes that a distinction must be drawn between error and fraud and states that the vast majority of errors are of an administrative nature caused by the complexity of EU and national rules. The Parliament therefore encourages all those involved in the EU's decision processes to simplify the rules, cut red tape and improve the quality of checks.

13. The Parliament has for the first time made reservations in its discharge resolution. The reservations concern the two policy areas agriculture and regional development. These reservations were originally included in the annual activity reports on the financial year 2012 prepared by the directors-general for Agriculture and Rural Development and Regional and Urban Policy, respectively. The Parliament highlights and endorses these reservations, which concern:

Agriculture and Rural Development Policy:

- serious deficiencies in the direct payments of agricultural support in Bulgaria, France and Portugal;
- all expenditure for rural development
- deficiencies in the supervisory and control systems for organic production.

Regional and Urban Policy:

- administration and control systems for several programmes in various member states.

14. With these reservations, the Parliament has sharpened its criticism of the administration in the two policy areas. Yet, the reservations have not affected the Parliament's decision to grant discharge to the Commission. The reservations are accompanied by strong recommendations to the Commission and the Parliament calls on the Commission to make ”binding commitments” to implement the recommendations.

III. Comments on selected sections in the discharge resolution

15. The Parliament's discharge resolution generally includes comments and recommendations to the Commission and member states on the administration of the EU funds. This memorandum does not address all the comments, but focuses on the issues that are considered of particular interest to the Public Accounts Committee with special emphasis on the comments that concern management of EU funds in the member states.

Effective control

16. In its discharge resolution, the Parliament repeatedly emphasizes that the Commission should direct its control at the member states who are affected by many errors and financial corrections or have previously been suspected of inadequate management. The Parliament welcomes the initial steps taken by the Commission in this direction, which include providing summaries of annual financial corrections imposed on the individual member states, but encourages the Commission to improve the targeted control significantly.

17. The Parliament notes that eight member states – according to the Commission – are responsible for 90 per cent of the financial corrections imposed in the area of shared management, and the Parliament therefore calls on the Commission to direct more attention to these countries. If control efforts are reduced in member states with low error rates, resources can be released to step up controls and perform more audits in selected member states.

18. The Parliament also calls on the Commission to identify the three member states with the highest error rates and financial corrections since this will allow the Parliament to conduct a hearing among these countries as part of the discharge procedure. The Parliament also calls on the Court for special country reports on the member states that are particularly prone to error and to make more use of performance audits to compare the management of EU funds across member states. Naming the member states with the highest error rates might also – according to the Parliament – have a preventive effect.

Strengthening of internal and external audit

19. The Parliament wishes to strengthen internal audit in the Commission and member states as well as the external audit of EU funds that is performed by the Court and Supreme Audit Institutions of the member states.

20. The Parliament also criticises the quality of the audits performed by the Commission's internal auditors of the Directorates General and national institutions accountable for the management of EU funds. The Parliament criticises, among other things, the internal audit of the Directorate General for Agriculture and Rural Development for inadequate planning of the audits and a significant audit backlog. The Parliament is also concerned about the quality of the work performed by independent external auditors who audit EU funds in the member states, and the Parliament calls on the Court to assess their independence.

21. The Parliament is of the opinion that there is room for improving the Court's external audit of EU accounts. The Parliament therefore suggests that the Committee on Budgetary Control and the Court work closely together to improve the effectiveness of audits. As mentioned earlier, the Court should direct more attention to the member states with the highest error rates. The Parliament also calls for closer cooperation between national Supreme Audit Institutions and the Court as regards shared-management controls.

National declarations on EU funds

22. The Parliament emphasises that the member state authorities had access to sufficient information to have detected and corrected most of the errors that were identified by the Court. The Parliament therefore calls on the Commission and member states to address urgently his unacceptably high level of mismanagement. The Parliament wants the member states to assume greater responsibility for the management of EU funds and sees the national declarations issued by the administrative level, the government and/or an independent audit body as a means to achieving this.

23. The Parliament welcomes the fact that the members states' management authorities – in accordance with the new Financial Regulation that took effect in 2013 – are now required to provide their accounts to the Commission along with a *management declaration* confirming the correctness of the information provided, that funds have been used for the purposes intended and that the necessary controls have been in place to ensure the legality and regularity of the underlying payments. These management declarations are to be signed by the managers accountable for the administration (for instance a head of an agency) and must be accompanied by a summary of audits and controls performed and an opinion from an independent audit body.

24. The Parliament would like for the member states to take also the next step and work out actual *national declarations* – to be signed at the appropriate political level – in order to reflect more clearly that the national governments consider themselves accountable for the administration of EU funds in their respective countries. During the negotiations on the new financial regulation, the Parliament very firmly insisted that it should be mandatory for the member states to issue such political declarations. However, several member states were opposed to this idea and a compromise was arrived at in the final version of the financial regulation according to which it became voluntary for the member states to provide the national declarations.

A working group has been set up composed of representatives from the Commission, the Parliament and the governments of the member states to elaborate practical recommendations on how national declarations could be drawn up and establish a template to support the member states that are interested in providing the declarations. The Parliament calls on the Commission to encourage the member states to use the template recommended by the working group. National declarations on EU funds were also on the agenda at a meeting in the Folketing (Danish parliament) between the Finance Committee, the European Affairs Committee, the Public Accounts Committee, the Court and Rigsrevisionen on 13 March 2014.

25. The Parliament also suggests that the Commission considers the possibility for Supreme Audit Institutions to issue national audit opinions on the management of EU funds, which would subsequently be submitted to the member states' governments with a view to being incorporated in the discharge process. The model proposed resembles the situation in Denmark where Rigsrevisionen submits an audit opinion on the EU funds to the Public Accounts Committee, although not as part of the discharge procedure.

IV. Developments in the cooperation between SAIs on the audit of EU funds

26. The Committee on Budgetary Control under the Parliament is responsible for the control of the implementation of the EU budget – the discharge procedure – and provides the basis for the Parliament's discharge resolution. On 8 January 2014, the committee issued a report on how it saw the future role of the Court. The report criticized, among other things, the Court's audit approach and the way in which the members of the Court are appointed. In the report, the Committee on Budgetary Control calls for closer cooperation between the Court and the national Supreme Audit Institutions in the EU on the audit of EU funds under shared management. For instance, the committee expects the Court to integrate more extensively the audit work of the Supreme Audit Institutions into the Court's audits and take steps to coordinate audit planning and audit approach, and share relevant knowledge. The Parliament's proposal to strengthen cooperation will be on the agenda of the annual meeting in the EU Contact Committee in October 2014, where the auditors general and the chair of the Court meet to discuss issues of mutual interest.

27. The Supreme Audit Institutions also exchange knowledge and experiences under the auspices of the EU Contact Committee in various networks and working groups and through participation in joint audits. The cooperation in the EU Contact Committee is coordinated by the EU contact persons. On the 10 and 11 April 2014, Rigsrevisionen hosted a meeting for the contact persons of the member states' Supreme Audit Institutions and the Court. In addition to a discussion of the report issued by the Committee on Budgetary Control, the meeting also addressed the following issues.

- The establishment of an "e*arly warning mechanism*", designed to improve the national Supreme Audit Institutions' access to information on developments within accounting and auditing in the EU. These areas have undergone various changes in consequence of the measures implemented by the EU in response to the financial crisis. The monitoring mechanism is meant to ensure input from the national Supreme Audit Institutions – both before and after the adoption of new EU measures. The monitoring mechanism is expected to take effect after the EU Contact Committee meeting in October 2014 and will be embedded in the Court.
- The Commission's efforts to develop a *single set of accounting standards in the EU – the EPSAS* (European Public Accounting Standards). Rigsrevisionen has informed the Public Accounts Committee about this initiative in an earlier report. No final decision has been made on the issue at this point, but the Commission is expected to issue a statement on the EPSAS before the end of June 2014 and a proposal for an EPSAS regulation towards the end of 2015. Rigsrevisionen follows the development through the EU Contact Committee, which has set up an EPSAS task force, and through the Danish Government Accounts Council, which acts as counsellor to the Danish Ministry of Finance on the development and maintenance of the Danish set of government accounting standards.
- The consequences of the EU Banking Union for the audit of the supervision with banks. On 15 April 2014, the Parliament approved the so-called single resolution mechanism for winding up non-viable banks, which, in combination with the previously adopted single supervisory mechanism, constitutes the basic elements of the Banking Union. The Council endorsed the single resolution mechanism at its meeting on 27 March 2014 and thus the last element of the Banking Union was adopted. Members of the euro area are automatically part of the Banking Union, while other member states may opt in. It has yet to be decided whether Denmark should join.

  The EU Contact Committee has followed the establishment of the Banking Union very carefully. The Supreme Audit Institutions' primary concern has been to ensure that the EU-based supervision with the banks is transparent and subjected to adequate public audit. With the transfer of authority from the national financial supervisory authorities to the Banking Union, the Supreme Audit Institutions' mandate to audit the financial supervisory authorities will be reduced and the Supreme Audit Institutions are anxious to prevent any audit gaps from emerging as a consequence of this change.

28. Rigsrevisionen will keep the Public Accounts Committee informed of developments within audit and administration in the EU and of our cooperation with the Court and Supreme Audit Institutions in other member states.

Lone Strøm