



Memorandum to the Public Accounts
Committee on briefing on the European
Parliament's discharge decision regard-
ing the 2013 EU accounts

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Briefing on the European Parliament's discharge decision regarding the 2013 EU accounts

29 May 2015

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SUMMARY

In this memorandum Rigsrevisionen reports on the European Parliament's final approval of the 2013 EU accounts.

The European Parliament has approved the 2013 EU accounts, but has expressed reservations regarding three areas in the accounts. In connection with its approval, the European Parliament comments on the accounts and on the European Commission's and the Member States' administration of EU funds. The memorandum highlights the comments that Rigsrevisionen considers most important and of particular interest to the Danish Public Accounts Committee:

- Pressure on the EU budget
- Is the money being properly spent?
- Better control of EU funds.

I. Introduction and background to the discharge decision issued in April 2015

1. Rigsrevisionen briefs the Public Accounts Committee on the European Court of Auditors' (the ECA) annual report and the European Parliament's (the Parliament) discharge decision in two annual memoranda issued in December (on the annual report) and in June (on the discharge decision). Rigsrevisionen prepares these memoranda to accommodate the Public Accounts Committee's strong interest in EU matters and to add perspective to Rigsrevisionen's EU audit opinion and audit.

2. On 29 April 2015 the Parliament decided to grant discharge to the European Commission (the Commission), other EU institutions, agencies, etc, indicating that the Parliament approves the closing of the accounts regarding the implementation of the EU's general budget for 2013.

3. However, as in previous years, the Parliament chose to postpone discharge to the Council of Ministers (the Council) and the European Council. The Parliament also postponed discharge to the European Institute of Innovation and Technology (EIT) and four out of seven EU/private technology collaborative programmes. The Parliament will re-consider its discharge decision in the autumn 2015.

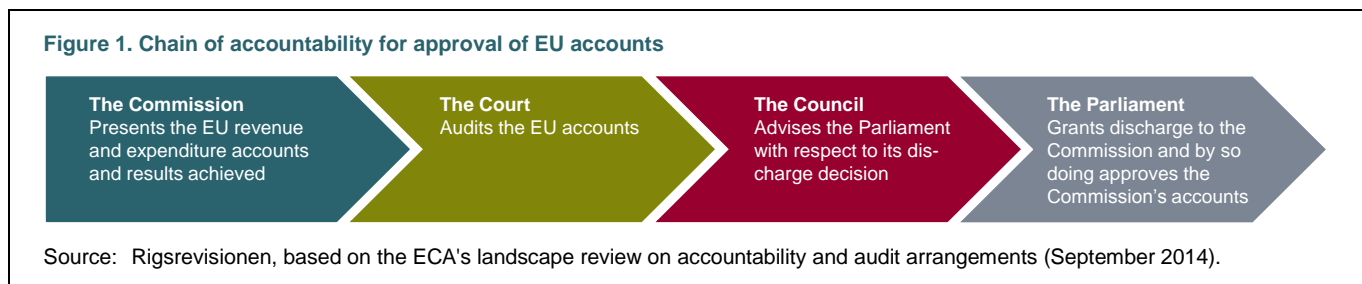
This memorandum follows up on Rigsrevisionen's memorandum to the Public Accounts Committee from December 2014 on the Court of Auditors' annual report 2013 and Rigsrevisionen's EU cooperation.

4. The Parliament's discharge decision was made on the basis of a favourable recommendation from Member State governments in the Council. As in previous years, the Netherlands, the UK and Sweden voted against granting discharge and issued a separate opinion in which they strongly regretted and criticised the high level of error affecting the management of the EU funds.

5. The Commission and the individual Member States cooperate on and share the management of the bulk of EU expenditure. However, the Commission has overall responsibility for correct implementation of the EU budget. In addition to the control systems in place in the individual Member States, the EU accounts are subject to the control of three different institutions:

- The Commission performs internal control in connection with the budget management.
- The ECA subsequently carries out an external audit of the budget management.
- On the Council's recommendation, the Parliament carries out political control and approval of the Commission's and the other EU institutions' management of the EU budget – the so-called discharge procedure.

The Parliament's discharge constitutes the final part of the accountability chain that leads to final approval of the EU budget and accounts; see figure 1.



6. In the course of the discharge procedure, the Parliament and the Council review the ECA's annual report, audit statement and special reports, as well as the Commission's annual activity reports.

Rigsrevisionen audits the national authorities' management of EU funds as do the supreme audit institutions of a number of other Member States. These audits are not included in the discharge procedure, but are part of national political processes.

7. The discharge granted by the Parliament serves two purposes: First, it represents a political assessment and approval of the Commission's management, and second, it closes the accounts and thus formally 'discharges' the Commission of its management responsibilities. According to Parliament practice, it also grants discharge to the individual institutions, for example the Council, the ECA and the Court of Justice of the European Union.

II. Main conclusions of the Parliament's discharge decision

8. The Parliament concludes that the 2013 annual accounts of the European Union in all material respects give a fair presentation and voices its satisfaction that the revenue and commitments underlying the accounts in all material respects are legal and regular.

9. The Parliament stresses that for the 20th consecutive time, the Court was unable to issue an unqualified opinion on the legality and regularity of payments. The Parliament finds this unacceptable. The Parliament notes that the ECA has issued an adverse opinion on the legality and regularity of payments based on an error rate of 4.7 in the financial year 2013, and that the supervisory and control systems intended to prevent errors are only partially effective.

*An **adverse opinion** means that the auditor disagrees with the information disclosed in the accounts by management, or that the accounts include information for whose regularity the auditors could not obtain sufficient evidence.*

10. The Parliament also stresses that the estimated rate of error for areas under shared management between the Commission and the Member States is 5.2. The rate of error for areas managed by the Commission exclusively is 3.7. In light of this, the Parliament emphasises the importance of improving the management and control systems in the Member States to ensure better administration during the next framework programme period (2014-2020). The Parliament therefore calls on all those involved in the EU decision process to simplify rules, cut red tape and make controls more efficient.

A distinction must be drawn between administrative errors and fraud. The vast majority of errors will be administrative errors caused by the complexity of EU and national rules.

11. For the second consecutive year, the Parliament made reservations concerning expenditure areas in the EU accounts. These reservations were originally made by the Directors-General of the respective areas and reflect the Parliament's increasing criticism of the management in these areas. However, the reservations do not question the Parliament's overall decision to grant discharge to the Commission.

Inadequate control procedures that fail to secure the legality and regularity of payments in the expenditure areas 'Agriculture' and 'Rural Development', led the Parliament to express reservation about market intervention projects (EUR 198.3 million), direct payments (EUR 652 million), rural development expenditure (EUR 599 million) and the IPARD (instrument for pre-accession assistance in rural development) in Turkey (EUR 2.6 million). The figures in parentheses are the funds at risk of being affected by error.

In the 'Regional Policy' expenditure area the Parliament makes reservations regarding the control procedures that fail to secure the legality and regularity of the payments. Of 322 programmes, 73 have been suspended temporarily because the reliability of the administration and control systems is uncertain. An amount of EUR 440.2 million is estimated to be at risk of being affected by error. The same applies to programmes in the 'Employment and Social Affairs' expenditure area, where an amount of EUR 123.2 million is estimated to be at risk of being affected by error.

12. As in previous years, in its annual report the ECA points out that in many cases the Member State authorities had enough information to enable them to detect and correct the errors. The Parliament calls on the Commission to secure improvements in this area.

III. Selected comments from the Parliament's discharge decision

13. The Parliament's discharge decision includes comments on and recommendations for the Commission's and the Member States' management of EU funds. This memorandum does not exhaustively review all comments, but is focused on those which Rigsrevisionen considers will be of particular interest to the Public Accounts Committee, notably those relating to the management of EU funds in the Member States.

Pressure on the EU budget

14. Based on the ECA's annual report, the Parliament is extremely concerned about the Commission's large backlog of payment obligations. The structure of the EU's spending programmes means a lengthy period may elapse from the time an obligation is incurred, ie, support for a project is granted, until it is paid, ie, the payment is made to the recipient. The Parliament points out that at year-end 2013, the payment obligation amounted to EUR 322 billion and that this amount is expected to increase in 2014. At the end of 2013, the payment obligation was more than twice the expenditure budget for the year.

The ECA and the Parliament highlight particularly on this area, because many payments will typically be made at the end of a programme period, putting additional pressure on the budget. Consequently, the Parliament calls on the Commission to prepare a cash budget to ensure the Commission has the necessary payment appropriations in individual years to enable it to pay its bills and expenses.

Is the money being properly spent?

15. The Parliament is also concerned about ensuring that the EU money is being spent according to the purpose for which it was granted. Against this background the Parliament criticises that some EU funds never reach the intended end-users, either because the projects or programmes for which the money was granted were not initiated or because the projects were so delayed that the money has to be returned to the EU (funds granted to a project must be spent within two years of disbursement).

However, the Parliament underlines that there is too much focus on simply spending money rather than on producing results. This is due to the structure of the multiannual financial framework, under which the funds are distributed among the Member States in yearly allocations. If the Member States are unable to absorb the money, ie, spend it through projects, the money will be returned to the EU. According to the ECA this means that there is excessive focus on 'use it or lose it' rather than producing results for the money spent. Rigsrevisionen also considered the question of absorption (repatriation) in its report on Denmark's absorption of Community fund grants issued to the Public Accounts Committee in August 2014.

16. The Parliament takes a positive view of the accumulation of experience from these areas during the preceding programme period (2007-2013) and of the steps taken by the Commission, which, it is hoped, will lead to improvements in the current programme period (2014-2020).

17. However, the Parliament also points out that the Commission's reporting to the Parliament is not particularly useful for determining which results were achieved by means of the EU funding. Accordingly, for the fourth consecutive year, the Parliament calls on the Commission to improve its reporting in this area and extend it to include reporting on the effects and results achieved through the EU budget.

Better control of EU funds

18. In its discharge decision the Parliament stressed that the Commission will have to assist the Member States in improving their management of EU funds in the areas where management is shared between the Commission and the Member States. The Parliament points to a number of areas in which, in its opinion, improvements must be made.

19. Generally, the Parliament finds the Commission should investigate areas in which the rules governing the various programmes could be simplified. The Parliament emphasises that onerous rules – either for applying for support or for the programme participants – make implementation unnecessarily cumbersome. Moreover, the Parliament agrees with the ECA that some of the existing errors reflect extremely complex sets of rules and that the Commission could profit by investigating which sets of rules can be simplified to ensure better and more correct administration.

20. The Parliament is concerned that the ECA's audit has shown that the error rate of the Member States' independent certification bodies is too high. Moreover, there is a discrepancy between the Member States' estimated error rate and that of the Commission. The Commission estimates that the error rate in several Member States is higher than indicated by the Member States themselves. This conclusion is supported by the ECA's special report on 'single audit' (Special Report No. 16/2013), in which the ECA concludes that the Commission should strengthen its verification of the accuracy and reliability of the error rates reported by the Member States.

21. Through its audits Rigsrevisionen has also identified shortcomings in the administration of agricultural expenditure in Denmark. In its report on the audit of EU funds in Denmark in 2013, issued to the Public Accounts Committee in September 2014, Rigsrevisionen identified errors in the area control and in the accounts relating to the Rural Development Fund's project aid schemes, among others. At the same time, Rigsrevisionen also pointed out that the Danish authorities could profit by simplifying the Danish rules governing the aid schemes.

22. The ECA has prepared a special report on the Member States' checks of the agricultural expenditure (Special Report No. 18/2013), which arrives at the same conclusion. According to the special report, the ECA's and the Commission's audits show that the Member States' paying agencies' control systems were only partly effective in terms of detecting irregular expenditure. This seriously undermines the reliability of the information submitted to the Commission by the Member States. In addition, the ECA concludes that the work performed by the Member States' certification bodies does not give the Commission sufficient certainty of the quality of controls or the reliability of statistical reports.

23. Further to the above, the Parliament calls on the Commission and the ECA to increasingly apply 'name and shame', that is, point out the Member States with the greatest problems in order to focus efforts where they are needed most and to learn from the best performers.

24. The Parliament welcomes the national declarations prepared by four Member States (Denmark, the Netherlands, Sweden and the UK) on EU funds in the Member States concerned. However, the Parliament also points out that the value of the four declarations to the ECA is limited, as the ECA cannot use them in its work because they differ in form and content and are issued at different times that are not coordinated with the ECA's reporting cycle. However, the Parliament calls on the Commission and the Council to take steps to spread the use of national declarations.

25. Rigsrevisionen will continue to keep the Public Accounts Committee informed of the development of the EU's audits and management.

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