



Memorandum to the Danish Public
Accounts Committee on the European
Parliament's decision on discharge for
the implementation of the EU's general
budget for the financial year 2006

June
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The European Parliament's decision on discharge for the implementation of the EU's general budget for the financial year 2006

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Translation**I. Introduction**

1. In my memorandum of December 2007 on the European Court of Auditors' (the ECA) Annual Report and Statement of Assurance on the financial year 2006, I informed the Public Accounts Committee of the results of the audit of the EU accounts. I also stated that I would inform the Public Accounts Committee when the discharge procedure for 2006 was completed which it has been now.

The Parliament's decision on 2006 discharge

2. On 22 April 2008, the Parliament decided on closing the accounts for the implementation of the EU's general budget for the financial year 2006. In doing so, the European Parliament (the Parliament) announced discharge to the European Commission (the Commission) and other EU institutions, including agencies and bodies, for implementation of the budget for the financial year 2006. Prior to that, the European Council had on its meeting on 12 February 2008 approved a recommendation on the discharge.

3. In the Parliament's report on discharge, Denmark is being highlighted as one of the pioneer countries among the member states with respect to exercising control over Community funds, cf. section V.

Discharge procedure

4. The EU budget is approved according to a procedure which involves the Council, the Parliament, and the Commission. The Commission is the executive arm of the EU and is responsible for the implementation of the approved budget. The budget must be implemented within the framework of appropriations granted and in compliance with the financial regulation and the principles of sound financial management.

5. Upon request from the Council, the Parliament may grant discharge to the Commission on the implementation of the budget. To do so, the Parliament reviews the EU accounts and assets and liabilities, the ECA's Annual Report and Statement of Assurance, and the special report prepared by the ECA.

During this year's discharge procedure, hearings were conducted between the European Parliament's Committee on Budgetary Control and the Commission, committing the Commission to improve management of the structural funds.

The Parliament's resolution on discharge includes comments which constitute part of the basis for the Parliament's decision on discharge. In accordance with the EU Treaty, the Commission will take the measures necessary to comply with these comments. Such

measures should also take into consideration the comments accompanying the Commission's recommendation to the plenary regarding discharge.

Outline

6. In this memorandum, I shall review the comments made by the Parliament with respect to the management performed by the Commission. The Parliament's most significant comments to the Commission's implementation of the budget will appear from section II, whereas the Parliament's comments on the reliability of the accounts and the legality of the underlying transactions will appear from section III. In section IV, I shall review comments relating to the EU's revenue, common agricultural policy, and structural funds. Finally, in section V, I shall account for the member states' involvement in exercising control over the Community funds. The memorandum is concluded in section VI.

II. The Parliament's most significant comments to the Commission's implementation of the budget

7. In its comments to the decision on the 2006 discharge, the Parliament welcomes the progress made by the Commission towards an efficient use of Community funds, and the improvements of the overall control environment.

The Parliament also welcomes the significant progress made by the Commission with respect to the management of funds in the agricultural area, which may be attributed to the Integrated Administration and Control System (IACS).

8. In the comments, the Parliament highlights the Commission's new initiative to report on a monthly basis to the Committee on Budgetary Control on the implementation of the follow-up to the 2006 procedure. This means that every month a member of the Commission will present the developments within his or her area of responsibility, including national declarations and annual summaries, and any external actions.

III. The Parliament's comments to the reliability of the accounts and the legality of underlying transactions

Reliability of accounts

9. The Parliament notes that the ECA takes the view that the final annual accounts for 2006 present fairly the financial position of the European Community as of 31 December 2006.

10. However, the Parliament expresses concern at the ECA's observations regarding errors in the amounts registered in the accounting system such as invoices/cost statements, and pre-financing. The effect of these errors is an overstatement of the accounts payable by some 201 million euro and an overstatement of the total amount of long and short term pre-financing by some 656 million euro. The Parliament regrets, particular, the shortcomings of the accounting systems of certain institutions and certain Directorates-General. The reliability of the financial statements concerning in particular cut-off and employee benefits will be affected by these shortcomings.

Legality of underlying transactions

11. Referring to the ECA, the Parliament notes that the underlying transactions as a whole are free from material error in the areas where supervisory and control systems are implemented in a manner which reduces the risk of irregular expenditure.

Within important spending areas, like for instance internal policies and external actions, there are, however, still material errors. In this relation, the Parliament is concerned that the ECA continues to detect weaknesses in the Commission's supervisory and control systems.

12. In my memorandum of June 2007 on the Parliament's resolution on discharge for the implementation of the EU's accounts for 2005, I referred to the Commission's "transparency initiative". In accordance with the objective of this initiative, information on recipients of Community funds will be made public as from 2008, and the Commission intends to establish and launch a – at this stage – voluntary register of lobbyists.

IV. The Parliament's comments to revenue, the common agricultural policy and the structural policies

Revenue

13. The Parliament notes with satisfaction that the ECA considers the supervisory and control systems for customs inspections to be generally satisfactory. The ECA is also of the opinion that the Commission has correctly established and collected VAT and GNI own resources and entered these correctly in the Community accounts. In this relation, the Parliament finds the frequency and quality of the on-the-spot inspections of VAT conducted by the Commission satisfactory. At the same time, however, the Parliament is concerned about the number of reservations still being maintained by the Commission. Reservations are a device for the Commission to keep doubtful elements in the VAT statements submitted by Member States open for correction after the statutory time-limit of four years.

Common agricultural policy

14. Regarding the expenditure for the common agricultural policy, the Parliament welcomes the general improvements which have been implemented in this area in 2006, including the ECA's statement that the Commission's IACS is an effective control system to limit the risk of irregular expenditure, if properly applied. The IACS system is the key management and control tool for the single payment scheme, animal premium schemes, and the general area aid.

The Parliament regrets that the ECA continues to detect problems related to the common agricultural policy. The IACS controls and checks are still not being implemented effectively and are not yet completely reliable in all the Member States. On the other hand, the Parliament welcomes the Commission's initiative to broaden the application of the IACS. The Parliament expects the Commission to ensure that the IACS covers at least 89 per cent of the expenditure for the common agricultural policy by 2010 and at least 91.3 per cent by 2013.

Structural actions

15. The Parliament is concerned that the ECA in its annual report for the financial year 2006 stated that:

- Reimbursement of costs for Structural Policies projects were affected by severe errors.
- The proportion of reimbursements in the ECA's sample affected by error was 44 per cent.
- At least 12% of the total amount reimbursed in connection with Structural Policies projects in the financial year 2006 should not have been reimbursed.

The Parliament takes this opportunity to remind the Commission of the fact that the Community funding for Structural Policies amounted to 32.4 billion euro in 2006, and that this amount for 2007 had increased to 46.4 billion euro, excluding Community co-financing.

16. The Parliament is also concerned about the following comments made by the ECA:

- Only 31 per cent of the projects in the ECA's audit sample were found to
- be free from error, i.e. were correctly reimbursed and were not affected by compliance errors.
- The control systems in the Member States are generally ineffective or only moderately effective.

- Just over half of the Commission's audits examined by the ECA appear to have had all the
- qualities of an effective supervisory instrument.

17. Generally, the ECA considered the control systems in the member States ineffective or moderately effective, and a number of national and regional authorities are not sufficiently focused on the control of EU funding.

18. The Parliament finds it unacceptable that the structural funds have not shown any progress since 2005. The lack of progress is mainly related to insufficient checks by the Member States.

In the discharge procedure, the Commission has committed to recovering all unduly paid funds in the period 2000 – 2006. The Commission has also committed to conducting a policy according to which payments will be suspended if severe weaknesses are detected in the Member States' control systems.

19. The Parliament goes on to emphasize that in the discharge procedure, the Commission has committed to:

- Improve audits, adopt and apply the necessary suspension and correctional procedures, and improve the recovery of unduly paid funds.
- Develop a new reporting system for recovery of funds and implementation of financial corrections in
- close cooperation with the ECA.

20. The Parliament urges therefore the Commission to make use of *ex ante* checks to verify whether supervisory and control systems for the programming period for Structural Policies projects 2007 to 2013 are in place in all Member States, and to regularly follow up on those checks. The Parliament agrees with the ECA that the Member States' authorities have a very important role in the effective implementation of Structural Funds, and that the Commission should reinforce their audits and make additional efforts to supervise the Managing Authorities in the Member States. The Parliament is of the opinion that the Commission should focus on the reliability of national monitoring and reporting systems, on guidance to Member States and on coordination of audit standards, and should always give a breakdown per Member State.

21. However, the Parliament is pleased with the Commission's announcement to the Council, the Parliament and the ECA with respect to the launch of an action plan to strengthen the Commission's supervisory role under shared management of structural actions. The action plan includes a list of the measures required to limit the number of irregular payments made by the Member States.

22. The background of the action plan was that the ECA in its annual report for 2006 criticized the Commission in two areas: 1. the many errors related to the Commission's reimbursement of structural funds, and 2. the ineffectiveness of the Commission's systems with respect to remedying the shortcomings of the Member States' management and control systems.

23. In the discharge procedure, the Commission has committed to reporting quarterly to the Parliament on the progress made regarding the implementation of the action plan.

V. Member States' involvement in the control of Community funds – national declarations

Introduction

24. The parliament has in previous decisions on discharge urged the national responsible administrators and Supreme Audit Institutions to play a more active role in the control of the financial management of Community funds under shared management. Again this year, the Parliament has urged the Member States to get involved in the control of Community funds.

Member States' current involvement in the control of Community funds

25. The current national involvement in the control of Community funds is described in the ECA's "Opinion no. 6/2007 on the annual summaries of Member States; national declarations of Member States; and audit work on Community funds of national audit bodies". According to this Opinion, national involvement in the control of Community funds is implemented in three initiatives:

- Annual summaries
- National declarations
- National audit work.

26. The first initiative concerns the preparation of *annual summaries*. In compliance with the Financial Regulation, the Member States are required to prepare annual summaries of audits and opinions required by sectoral regulations in shared management areas. These audits and opinions are compulsory according to the relevant sectoral EU regulations.

The annual summaries are an additional element of internal control. According to the ECA, the annual summaries may prove useful to the Commission, as they may be applied to identify common problems and propose possible solutions and best practice.

Earlier this year, the Danish Enterprise and Construction Authority submitted the Danish annual summary for 2007 to the Commission which was content with the Danish summary.

27. The second initiative concerns *national declarations* which are voluntary initiatives of certain Member States. They are focused on and demonstrate national accountability for the use of shared management Community funds and are intended to lead to improved management.

The declarations are provided from the highest administrative level and addressed to national parliaments. Depending on their scope and quality, the national declarations may provide the ECA and Commission with useful additional information. The ECA considers the national declarations to be a new element of internal control and should be considered in this respect by the Commission and the ECA.

For instance, the Dutch government submits a declaration concerning Community funds in the agricultural area. This declaration is audited by the Dutch Supreme Audit Institutions. The United Kingdom will also – as from the summer of 2008 – submit a national declaration on Community funds in the same area. Following a re-organisation of internal control, the Swedish government will submit a national declaration on the management of Community funds in the fiscal year 2008.

28. Other Supreme Audit Institutions conduct *national audits* of Community funds with a view to national reporting.

As you may be aware, I work out a declaration on the audit of Danish Community funds which is included in "The Annual Report on the Audit of the Government Accounts". The declaration constitutes my reporting to the Public Accounts Committee, and it is also

submitted to the Commission and the ECA. Moreover, the Ministry of Finance and Rigsrevisionen are currently looking into the possibilities of letting the Ministry of Finance work out an annual report on all Community funds in Denmark.

Parliament's comments in the discharge document from April 2008 on the Member States' current involvement in the control of Community funds

29. In its discharge decision for 2005, the Parliament asked the Commission to submit to the Council before the end of 2007 a proposal for a national declaration covering all Community funds under shared management based on sub-declarations by the various national bodies responsible for the management of expenditure. The Commission's response to this request was that it would not take the recommended action. The Commission emphasized that Community funds under shared management are subjected to different governmental structure and management structures, and therefore the development of a single standard declaration would not yield significant benefits. The Commission, however, also stated that it would continue to support such initiatives taken by national administrations.

In the discharge resolution, the Parliament rejects the Commission's answer and finds the response highly unsatisfactory. The Parliament refers to the fact that more than 80 per cent of the EU's general budget falls under shared management and that the administration of the Structural Funds is unsatisfactory.

30. The Parliament strongly supports the initiatives taken by Denmark, the Netherlands, Sweden, and the United Kingdom to play a more active role in the control of the Community funds.

31. The Parliament recalls that it for the past three years has requested the introduction of national declarations for all Community funds under shared management. The Parliament points out that the national declarations provide the Commission with an opportunity to increase transparency and submit complete and reliable figures for recoveries specifying the exact budget line and year to which the recovery relates.

The Parliament notes that the first annual summaries of sectoral audits and opinions have been submitted by most Member States. The Parliament considers these summaries to be the first step towards national declarations. However, the Parliament also notes the ECA's position on the national audit work. The ECA states in its Opinion no. 6/2007 that "the external auditor wishing to rely on, or use, the opinion or work of others must obtain direct evidence of the sound basis of that work". This statement is based on international audit standards.

32. Against this background, the Parliament is of the opinion that the work of the Contact Committee Working Group, which consists of the ECA and the 27 national audit institutions in the Member States, which is responsible for developing common auditing standards and comparable audit criteria tailored for the EU is essential. The Parliament therefore calls for the Commission to encourage all Member States to participate in the work.

33. I agree with the Parliament that the Member States, including the national audit institutions, have an important task to perform in connection with the control of Community funds under shared management. I also agree with the Parliament that the ECA and the national audit institutions need to work closely together. In my view, standardization of audit standards and other methods is neither necessary nor promoting the cooperation. The cooperation should be characterized by the opportunities it offers rather than the restraints. I am of the opinion that the cooperation between the ECA and the national audit institutions should be based on mutual respect for each other's independence, different mandates and methodologies. In my view, the international audit standards leave room for cooperation in spite of these differences. Therefore, I find that the ECA within the

framework of international audit standards can make use of the audit work conducted on national level and thus improve the control of Community funds in the Member States.

34. Rigsrevisionen's role in the control of Community funds will be discussed at a seminar arranged by the Contact Committee and scheduled for 12 September 2008 in Copenhagen. The seminar is mainly directed to staff from the national audit institutions in the Member States with practical experience within the audit of Community funds. The seminar will also provide staff with an opportunity to exchange experience with their peers.

VI. Conclusion

35. With this memorandum I have informed the Public Accounts Committee of the Parliament's decision on discharge for the implementation of the European Union general budget for the financial year 2006. In doing so, the Parliament gave discharge to the Commission and other EU institutions, including agencies and bodies, for the implementation of the general budget for the financial year 2006. In the discharge resolution, the Parliament has asked the Commission to improve the administration within shared management. The Parliament has again this year, urged the Member States to play an active role in the control of Community funds. Certain Member States, including Denmark, have already taken initiatives towards national declarations. I am of the opinion that the control of Community funds can be improved if the ECA and the national audit institutions in the Member States see opportunities rather than restraints in relation to increased cooperation.

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