



Memorandum to the Danish Public
Accounts Committee on the European
Parliament's discharge decision
regarding the 2007 EU accounts

May
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The European Parliament's discharge decision regarding the 2007 EU accounts

12 May 2009
Translation

I. Introduction

1. On 23 April 2009, the European Parliament ("the Parliament") decided to approve the closing of the accounts regarding the implementation of the EU's general budget for 2007. By its approval, the Parliament granted discharge for the European Commission ("the Commission") and other institutions, agencies, etc. Prior to this, at its meeting on 10 February 2009, the European Council ("the Council") had adopted a positive recommendation regarding discharge to the Commission. The Parliament's decision was accompanied by a number of observations.

2. Like in previous years, as a follow-up to my memorandum to the Public Accounts Committee ("the PAC") issued in January 2009 on the Annual Report for 2007 of the European Court of Auditors ("the ECA"), I will inform the PAC about the Parliament's discharge decision. As usual, my primary focus will be on the Parliament's observations concerning the Commission's management. In this memorandum I will first review the most important elements of the Parliament's decision. Next, in section III, I will review selected observations regarding the reliability of the accounts and the legality of the underlying transactions. The cohesion policy and Common Agricultural Policy ("CAP") observations are reviewed in section IV. Section V contains the Parliament's observations on Community control and audit, and section VI reviews the observations on the part played by Member States in exercising control of Community funds. Section VII briefly concludes this memorandum.

II. Most important elements of the Parliament's decision

The Parliament acknowledges the Commission's progress in several areas and urges the Council to enhance transparency

3. Generally, the Parliament welcomes the improvements made in the Commission's management of significant areas although there is still room to improve the control systems in some areas. This is also the ECA's conclusion in its Annual Report for 2007. However, the Parliament notes with regret that for the 14th consecutive year, the ECA could not issue a positive Statement of Assurance in respect of the audit of the EU accounts for 2007, because a substantial number of errors continue to occur in central areas of the management. The Parliament maintains that working to obtain a positive Statement of Assurance must be a common objective for the three institutions, the Commission, the Parliament and the Council.

4. The Parliament points out that particular progress has been made in the Commission's management of the 7th framework programme compared with previous framework programmes, and that CAP management has been improved. However, it is too early yet to estimate the effect of the Commission's efforts to improve the management of the cohesion funds.

Discharge closes the accounts

The Commission presents accounts for the bulk of the Community's fund management. The accounts of the remaining institutions form part of the overall accounts. The accounts are audited by the ECA. 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 also grants discharge to individual institutions, for example the Council, the ECA and the Court of Justice.

5. The Parliament notes that the areas subject to shared management, i.e. areas in which EU policies are managed in cooperation with Member States, are a particular cause for the high error rate. The Parliament urges the Commission and the Council to ensure that Member States take more responsibility for the nationally managed funds. At the same time, the Commission should work to simplify the legislative base, because complex and ambiguous rules are among the main reasons for the high error rate. The Parliament also urges the Commission to target further control measures at the countries and programmes most prone to risk. Finally, the ECA and the Commission are called upon to make a sharper distinction between errors and intentional fraud.

6. As stated in the press, the Parliament decided to postpone the discharge decision regarding the part of the 2007 accounts that relates to the Council. However, this has not affected the decision regarding discharge for the Commission. The reason for postponing the decision is that, according to the Parliament, the accounts do not sufficiently clearly disclose whether the Council has applied its administrative operational appropriation for regular actions under the Common Foreign and Security Policy (CFSP). By postponing its discharge decision, the Parliament has undertaken to present a new report within six months, after which it will either grant or refuse to grant discharge to the Council, because the decision cannot be postponed again.

7. Together with The Netherlands, Great Britain and Sweden, Denmark is positively singled out in the Parliament's report as a pioneer country that has taken the fore in work on national EU declarations, see section VI below.

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

The accounts give a fair presentation, but the error rate remains high in significant areas

8. The Parliament is gratified that the ECA is of the opinion that the 2007 annual accounts of the EU in all material respects give a fair presentation.

9. The Parliament regrets that the ECA has once more established that the central expense areas, such as the CAP, research, energy and transport, external actions, education and culture, are still materially affected by errors. According to the ECA, as described in my memorandum on the ECA Annual Report for 2007 (January 2009), the high error rate is primarily attributable to imprecise or complicated legislation. This results in erroneous payments to final beneficiaries and thus less effective control systems.

10. However, the Parliament is gratified to note that the areas, including revenue, liabilities and administrative expenses, in which the Commission has set up appropriate control and supervision systems are free from material error.

11. Like in previous years' discharge decision, the Parliament is urging the Commission to intensify Member State control and to more actively use such methods as the suspension of payments and financial corrections to force Member States to fulfil their obligations. The Parliament also criticizes the continued problems relating to recovering unduly paid EU funds. The data available on the relevant amounts are too imprecise, and Member States are not making sufficient efforts to actually recover the money.

IV. The Parliament's observations on the cohesion policy, the CAP and pre-accession aid

Cohesion is characterized by a high error rate and high risk in certain countries

12. Cohesion expenditure (structural funds and the Cohesion Fund) is the second largest expenditure area in the EU budget, accounting for 37% of the total 2007 budget. This is, however, the area with the highest error rate. The Parliament is extremely concerned that the ECA estimates that apparently 11% of the total expenditure should not have been disbursed. The Parliament also criticizes the low utilization rate of Regional Fund and Cohesion

Discharge is political control

Through the discharge procedure, the Parliament exercises the political control of the management of EU funds. The Parliament's review includes the ECA's Annual Report, Statement of Assurance and special reports. On this basis, the Parliament provides a political assessment of the Commission's and the other institutions' management in the year under review.

Fund monies and is urging the Commission to present specific proposals to simplify the rules. Moreover, the Commission has been requested to evaluate the effect of the cohesion policy in individual Member States.

13. The Parliament notes that a large number of the cohesion policy errors can be ascribed to a few countries. Spain, for example, accounts for a significant share of the financial corrections relating to the Regional Fund (59%), Social Fund (46%) and Cohesion Fund (43%) during the period 2000-2006. Consequently, the Parliament suggests that the Commission focus control on the Member States with the highest rate of errors and serious errors and urges the Commission to calculate the yearly error frequency for each fund in individual Member States. The ECA is requested to make a similar calculation on the basis of the audit performed. In addition, the Parliament recommends that the Commission and the ECA distinguish clearly between errors and fraud in future.

14. I agree in the Parliament's recommendation that control and audit should focus more closely on countries and programmes prone to special risk. It would also be desirable if, in future, the ECA and the Commission would distinguish more sharply between systematic errors and fraud on the one hand and accidental or incidental errors on the other.

Continuous, high error rate in rural development aid management

15. The CAP accounted for 45% of total budget expenses in 2007 and is thereby the largest overall expense. The Parliament is concerned about the numerous errors identified in the underlying transactions particularly in rural development. This area accounts for approx. 20% of total CAP funds. The Parliament points out that the controls are inadequate, which can be ascribed to the complex regulations and imprecise eligibility definitions in the national legislation of certain Member States.

16. The integrated administrative control system ("IACS") covers 85% of the remaining CAP expenditure disbursed through the European Agricultural Guarantee Fund (EAGF). The Parliament has established that the IACS continues to function effectively when applied correctly. Therefore, the Parliament finds the persistent problems in Greece's application of the system unacceptable and demands suspension of the payments to Greece, if the Greek authorities fail to solve the problems by the end of 2009.

Problems with aid to Bulgaria and Rumania

17. The Parliament is concerned that the Commission has suspended payments from pre-accession programmes, among others for a total of EUR 200 million to Rumania and EUR 470 million intended for Bulgaria. The reason is unreliable control systems and problems in managing EU funds in the two new Member States. The Parliament has criticized the Commission for not having prepared Rumania and Bulgaria sufficiently in order to secure an effective and proper administration of the CAP and cohesion policy funds and for issuing misleading statements that these two candidate countries were ready for the enlargement.

V. The Parliament's observations on EU control and audit

Still room for internal control improvements

18. The Parliament is gratified to note the progress made by the Commission through the action plan for an integrated internal control framework. The Commission is called upon to evaluate the control systems for all Community expenditure areas in future, including those relating to shared management in each Member State.

19. The Parliament also comments extensively on the concept of "tolerable risk of error", which I referred to briefly in my memorandum on the ECA's annual report for 2007 (January 2009). The concept entails estimating the relationship between the costs and gains of control in a given policy area in order to organise control as cost-effectively as possible.

The Parliament points out that the tolerable risk of error risk discussion is difficult to handle both technically and politically. Nevertheless, with the technical assistance of the ECA, the Commission is urged to continue working on the concept.

20. Moreover, the Parliament is extremely concerned about the working conditions of the European Anti-Fraud Office ("OLAF"). The work of OLAF is hampered by the lack of access to information and the difficulty of cooperating with the Member State authorities. So far, the impact of OLAF investigations and recommendations has been limited. Thus, only 6.7% of OLAF's legal process recommendations have resulted in actual legal action, although in 2007 OLAF recommended legal process in 60% of its investigations. In addition, only 37 out of 222 internal investigations during the period 2006-2008 have resulted in disciplinary proceedings. Only two out of these 37 cases had actual consequences.

21. In my previous memorandum to the PAC about the discharge granted by the Parliament for 2006 (June 2008), I referred to the Commission's so-called "transparency initiative". The initiative resulted in the publication in 2008 of the beneficiaries of EU aid. In connection with the discharge for 2007, the Parliament regrets that there is no vision for the purpose of publishing information about EU aid beneficiaries and that the information still does not form part of a common easily accessible database. In Denmark, the Danish Food Industry Agency has published information about EU agricultural aid beneficiaries on its homepage.

22. As regards the part of the accounts that concerns the ECA, the Parliament notes that the ECA had two new members in the course of 2007 (Rumania and Bulgaria). Accordingly, the organisation is now managed by a panel of 27 Members of the Court. The Parliament is convinced that this structure has reached its limits and that the EU's external audit scheme needs to be thoroughly reformed and strengthened.

VI. Member State involvement in control of EU funds subject to shared management

23. The Member States form part of the EU funds control on two levels: the national authorities are part of the internal control framework in shared management areas, whereas the supreme audit institutions handle the external control on a national level. According to the Parliament, Member States should actively include both levels in the efforts to secure a positive Statement of Assurance in future.

Annual summaries must be improved

24. Since 2008, the national authorities have presented an annual summary of audits and controls performed. Denmark has also issued an annual summary in accordance with the guidelines in 2009. The Danish Food Industry Agency is responsible for preparing the Danish summary in cooperation with the Danish Enterprise and Construction Authority. The Parliament takes a favourable view of the development of the national annual summaries, but regrets that the Commission has failed to conduct an overall qualitative analysis of the summaries' usability for judging the efficiency of national control systems. In addition, the Parliament wants the annual summaries to be public documents.

National declarations should be obligatory

25. The Parliament considers the annual summaries and national declarations that a number of countries prepare as a first step towards a situation in which all Member States issue declarations about the management of Community funds. Consequently, the Parliament urges the Commission to work towards making national declarations mandatory.

In Denmark, Rigsrevisionen is the body that issues an audit opinion about the management of EU funds on the basis of its audit. Rigsrevisionen has cooperated with the Ministry of Finance on grouping the EU account items in a special appendix to the 2008 State Accounts. Rigsrevisionen will audit the management of EU funds in Denmark on the basis of this format and report on the results to the PAC in a separate report on the audit of EU funds, which I expect to issue in November 2009.

Dialogue between the ECA and Rigsrevisionen

26. As I mentioned in the January 2009 memorandum, the ECA took steps in 2008 to consult Rigsrevisionen about the audit of EU funds managed in Denmark. The ECA has selected a number of countries for a provisional evaluation of the potential for strengthening bilateral audit cooperation. The purpose is to evaluate how the overall audit effort can be organized more expediently. Discussions are continuing in 2009, and I will inform the PAC about the results on an ongoing basis. I welcome a strengthened cooperation and look forward to such co-operation being organised to accommodate mutual differences in approach and method.

VII. Conclusion

27. On 23 April 2009, the Parliament approved the closing of the accounts regarding the implementation of the EU's general budget for 2007. The Parliament thereby granted the Commission discharge in respect of its management in the financial year under review. The overall conclusion of the Parliament's observations on the discharge is that in spite of the progress made in some areas, too many errors remain in the management of significant areas.

28. The Parliament emphasizes that a simplified body of rules for EU fund management is essential if the error rate is to be reduced. However, the error rate is particularly high in certain programmes and certain Member States. I therefore agree with the Parliament's request that the Commission target future control initiatives at the areas subject to the highest risk. A risk-based approach should also be applied in the increased involvement of national administrative authorities and supreme audit institutions. The Parliament's observations tally well with Rigsrevisionen's current approach to EU fund audits and my intention to strengthen cooperation with the ECA. I remain convinced that the use of ECA resources can be improved by increasing focus on special risks in individual Member States. In summary, I am of the opinion that these measures are not only necessary but also the most effective in the long term for obtaining a positive Statement of Assurance in respect of EU fund management.

29. In future, I will also inform the PAC about developments in the management and audit of EU funds. In November 2009, I expect to issue a report regarding Rigsrevisionen's opinion on the audit of EU funds in Denmark. In addition, I will inform the PAC about the main conclusions of the ECA's 2008 Annual Report, which will also be published in November 2009.

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