RIGSREVISIONEN

Memorandum to the Public Accounts Committee on the European Parliament's discharge resolution regarding the 2011 EU accounts

May
2013

revision

The European Parliament's discharge resolution regarding the 2011 EU accounts

29 May 2013

RN 1902/13
Translation

SUMMARY

The memorandum provides an account of the European Parliament's final approval of the EU's accounts for 2011. The European Parliament decided to approve the accounts, but deeply regretted that the error rate for large policy areas had increased compared to past years.

The European Parliament's discharge resolution is accompanied by detailed comments to the accounts and to the management of EU funds as performed by the European Commission and the Member States. The memorandum highlights the comments that Rigsrevisionen considers most important; measures to reduce the error rate, increased focus on results achieved and the effectiveness of EU funds absorption, and increased focus on the management of EU revenue.

The last sections of the memorandum are focused on Rigsrevisionen's collaboration with the European Court of Auditors and the other Supreme Audit Institutions in the Member States.

I. Introduction

1. The accounts of the EU for 2011 have now been officially closed and approved. On 17 April 2013, the European Parliament (the Parliament) decided to grant discharge to the European Commission (the Commission), other institutions, agencies, etc., which meant that the Parliament approved that the accounts regarding the implementation of the EU's general budget for 2011 could be closed.

The Parliament decided, however, like in past years, to postpone discharge for the Council of Ministers (the Council), because the Council had yet to answer the Parliament's questions concerning its budget management. The Parliament will address the issue discharge for the Council again in the autumn.

2. The Parliament's decision to grant discharge was made upon recommendation from the Council. As in past years, Council members the Netherlands, Great Britain and Sweden voted against granting discharge to the Commission on account of the fact that the management of EU funds, particular in the Member States, was severely affected by error. The Netherlands, Great Britain and Sweden recommended that the Council should conduct peer reviews of the quality of the Member States' management of EU funds.

Background

3. The Commission is responsible for the management and implementation of the EU's general budget and presents accounts for the majority of the EU policy areas. The EU accounts are controlled by three different institutions; internal control of the management of the budget by the Commission, subsequent external audit of budget management by the European Court of Auditors (the Court), and finally political control and approval of the Commission's budget management, conducted by the Parliament upon recommendation from the Council – the so-called discharge procedure. In the course of the discharge procedure, the Parliament reviews also the Court's annual report, audit statement and special reports.

4. The Parliament's discharge serves two purposes; it represents the political aspect of the external assessment and recognition of the Commission's budget management, and it closes the budget and thus "liberates" the Commission for its management. The Parliament has established a practice according to which discharge is given to the individual institutions, like for instance, the Council, the Court and the Court of Justice of the European Union. It is considered a strong vote of no confidence, if the Parliament refuses to grant discharge.

5. Rigsrevisionen has decided to keep the Public Accounts Committee informed on the annual report of the Court and the Parliament's discharge resolution. We do that in two annual memorandums; one in December (on the annual report) and one in June (on the discharge resolution). Rigsrevisionen prepares these memorandums to accommodate the Public Accounts Committee's interest in EU matters and to add perspective to Rigsrevisionen's annual report on the audit of EU funds in Denmark.

Purpose

6. This memorandum follows up on the Auditor General's memorandum to the Public Accounts Committee from December 2012 on the annual report of the Court for 2011. As in past years, this memorandum serves to inform the Public Accounts Committee on the Parliament's discharge resolution, highlighting the elements that are considered to be of particular interest to the Public Accounts Committee. The memorandum is concluded with a section on the most recent progress of the cooperation on the audit of EU funds.

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

7. The Parliament's discharge was granted on the basis of the Court's Annual Report for 2011, which was published in November 2012. The Public Accounts Committee was informed by Rigsrevisionen of the key points of the Court's annual report in a memorandum in December 2012.

8. In the discharge resolution, the Parliament welcomed the fact that the annual accounts of the EU for the financial year 2011 presented fairly, and in all material respects, the financial position of the EU. The Parliament also noted with satisfaction that revenue and commitments underlying the accounts for the year ended 31 December 2011 were legal and regular in all material respects.

The Parliament deeply regretted, however, that the Court for the 18th consecutive time was unable to issue a positive, unmodified audit opinion on the legality and regularity of payments. The Parliament was also dismayed about the negative trend in the estimated error rate for payments that had increased to 3.9% in 2011 against 3.7% in 2010 and 3.3% in 2009.

9. Table 1 illustrates the Court's assessment of the management of funds in the individual policy areas.

Table 1. The Court's audit findings

Distribution of the majority of EU's expenditure and revenue in 2011	EUR Billions	Error rate	Functionality of supervisor and control systems	Conclusion
Agriculture – market and direct support	43.8	2.9%	**Partially effective**	**Materially affected by error**
Regional development, energy and transport	33.4	6.0%	**Partially effective**	**Materially affected by error**
Rural development, environment, fisheries and health	13.3	7.7%	**Partially effective**	**Materially affected by error**
Research and other internal policies	10.6	3.0%	**Partially effective**	**Materially affected by error**
Employment, social affairs, labour market and equality	10.2	2.2%	**Partially effective**	**Materially affected by error**
Administration and other expenditure	9.8	0.1%	Effective	No significant level of error
External relations, aid and enlarge-ment	6.2	1.1%	**Partially effective**	No significant level of error
Total audited funds	**127.2**	**3.9%**	**Partially effective**	**Materially affected by error**
Revenue	130.0	0.8%	Effective	No significant level of error

Source: The Court's annual report for 2011 and the Court's announcement on the annual reports for 2011.

It appears from the table that the Court estimated that five out of seven of the EU's policy areas were materially affected by error in 2011. The majority of errors were detected in the policy groups, *Rural development, environment, fisheries and health,* with an error rate of 7.7%, and *Regional development, energy and transport,* with an error rate of 6.0%.

10. The Parliament was particularly concerned about the continued high error rate in *Rural development, environment, fisheries and health,* and the fact that the total error rate for the second time since 2009 had increased. The Parliament called on the Commission to take the necessary steps to achieve a trend that shows a consistent decrease in the error rate in order to get full value for EU expenditure in the future.

III. Comments on selected sections of the Parliaments discharge resolution

11. The Parliament's discharge resolution is generally accompanied by detailed comments and recommendations to the Commission and the Member States on the administration of the EU funds. In addition to general comments on cross-cutting areas, the discharge resolution also includes comments on the individual policy areas, as listed in table 1. This memorandum does not provide an exhaustive review of all the comments provided by the Parliament, but is focused on the comments that Rigsrevisionen considers to be of particular interest to the Public Accounts Committee, since they concern the management of EU funds in the Members States and touch upon issues that the members of the Public Accounts Committee have previously discussed, ie

- lower error rate in areas under shared management;
- more focus on the management of EU revenue;
- more focus on results and effectiveness of EU funds.

Lower error rate in areas under shared management

12. 80% of the EU's budget is spent by the Commission and the Member States under the system of shared management, but the Commission retains the overall responsibility for the financial management of the EU funds. The Parliament has in past discharge resolutions addressed the challenges of shared management and also this year called on the Commission and directors general to fulfil their obligations and contribute actively to improving the quality of management in the Members States.

13. The Parliament noted the significant differences in the Member States' administrative performance and the resulting significant differences in error rates. The Parliament called on the Commission to apply the method of trend analysis to identify the areas representing the greatest challenges for the Members States – and thereby also the greatest financial risks. The Parliament also called on the Commission to be more explicit concerning the Member States that are doing well and the ones that are having difficulties. Such focus would enable the Commission to focus on the policy areas and countries that are facing the largest problems, and subsequently proceed to identify and correct systematic errors.

14. The Parliament noted in its discharge resolution that many of the errors were found in areas that are governed by EU as well as national rules. The Parliament called on the Commission to investigate the degree to which national rules in combination with EU rules increase the administrative burden on the support recipients beyond reason. The Parliament urged the Member States to collaborate with the Commission and the Court on identifying – and subsequently simplifying – unduly complex national rules.

15. The Financial Regulation of the EU has been revised and the majority of the new rules took effect on 1 January 2013. According to the revised Regulation, the Member States are now required to provide their accounts to the Commission accompanied with a management declaration and an audit opinion from an external auditor. The Parliament welcomed this initiative, which it has requested repeatedly over the past years. The Parliament is convinced that this measure will result in better and more effective budget execution at national level and thus contribute to more effective use of the EU funds. The Parliament called on the Commission to standardise the form and content of the declarations in order to identify best practices within management of EU funds across the Member States.

More focus on the management of EU revenue

16. The Parliament noted that the Court, in its annual report, found that the revenue calculation was free from material error, cf table 1. This assessment does not cover undeclared imports or imports that have escaped customs surveillance. Thus the annual report does not provide an estimation of losses to the EU budget in that respect, which concerned the Parliament.

The Parliament therefore called on the Commission to focus more on the revenue of the EU. The Parliament was concerned about the fact that the Court had detected weaknesses in national customs supervision, as this has direct consequences for the calculation of the value added tax on imported goods, resulting in loss of revenue in the Member State and the EU. The Parliament called on the Commission – with reference to the financial crisis – to collect reliable data on customs and VAT gaps in the respective countries and implement actions that would improve the efficiency and effectiveness of the collection of customs fees and VAT in the Member States.

17. The Parliament also called on the Commission to identify the channels and schemes allowing for tax evasion and tax avoidance, in particular by multinationals and through post box companies. The Parliament pointed out that effective revenue collection remains an essential feature of sound management of public finances, including the fact that uncollected revenue aspects have an impact on the availability of the EU's own resources, the economic situation of the Member States and the internal market. The Parliament therefore urged the Commission to study potential financial benefits for the Member States, if an equal level playing field against tax evasion and tax avoidance throughout the EU should be created.

More focus on results and effectiveness of EU funds

18. In last year's discharge resolution, the Parliament welcomed the Court's greater focus on the Commission's performance, i.e. results achieved and effectiveness. The Parliament invited the Court and the Commission to continue and expand their reporting on performance and effectiveness.

In this year's discharge resolution, the Parliament once again pointed out the importance of keeping focus on results and effectiveness, and states that the Commission's reporting had improved over last year. This year, the Commission had elaborated a report, which provided summaries of various evaluations relating to different programmes and covering divergent timeframes, but which did not provide a complete overview of results achieved and value added in the course of the year. The Parliament therefore called on the Commission to elaborate a comprehensive assessment of the results achieved by the Commission in the course of the year.

19. The Parliament also emphasised that the reports on objectives, prepared by the directors general, can be improved in some areas, for instance, by reporting on results achieved in relation to economy and by comparing results achieved with the original objectives and targets set. The Parliament called on the Commission to develop a new culture of performance, for instance, by defining targets and indicators in the management plans of the individual administrative units and use these to manage policies and programmes. The Commission should also focus more on added value and only finance measures that could not be carried out without support from the EU.

IV. Progress of the cooperation on the audit of EU funds

20. Through the EU Contact Committee, Rigsrevisionen cooperates with Supreme Audit Institutions in the other Member States on the audit of EU funds. The Committee has agreed that it wants to assume a more proactive role in relation to the development of new EU rules on accounting and auditing. The purpose of this step is to contribute to ensuring that EU and Member State funds are appropriately managed and audited, and to ensure transparency and openness in the administration of national funds and EU funds. The national Supreme Audit Institutions cooperate with the Court – under the auspices of the EU Contact Committee – on establishing a mechanism that can provide enhanced monitoring of the area and ensure that the expertise of the Supreme Audit Institutions is fully utilised.

21. The establishment of a banking union is currently attracting special attention. It is assumed that it will include a joint bank supervisory mechanism, a joint mechanism for winding up distressed banks and possibly, in the longer term, a joint deposit guarantee scheme for participating banks and joint rules on bank capital requirements. The elements of the banking union are currently being debated in the Parliament and Council. In principle, the banking union will comprise only euro-area Member States, but non-euro area Member States may opt to participate. It has yet to be decided whether Denmark should participate in the banking union. It is, in connection with the establishment of a joint bank supervisory mechanism, important to avoid the emergence of audit gaps and to secure appropriate supervision of the banks in the EU.

22. With the establishment of the Banking Union, the overall responsibility for the supervision of the bank sector will be conferred on the European Central Bank, whilst national supervisory authorities will retain responsibility for the daily supervision of a number of banks. It is essential that the Court is given the authority to audit the Bank Supervisory Mechanism in order to avoid audit gaps when functions are transferred from national level to EU level, since the Supreme Audit Institutions are not mandated to audit EU institutions. The European Central Bank may delegate supervisory tasks to national supervisors, which makes it imperative to determine who should have access to audit and ensure that supervisory activities are appropriately audited. Rigsrevisionen will follow the progress of these initiatives.

23. In last year's memorandum to the Public Accounts Committee, we referred to the EU Contact Committee's call on the Parliament, the Council, the Commission and the national parliaments and governments in the EU Members States that had resulted in an agreement on securing external public audit of the European Stability Mechanism. In addition to the initiatives concerning the banking union, the EU Contact Committee follows also the measures implemented in the aftermath of the financial and economic crisis, i.e. the Finance Pact, the European Stability and Growth Pact and the various financial stability mechanisms that provide loans to Member States in distress. The purpose of this monitoring is to ensure appropriate audit of the pacts and mechanisms, and consider how the Supreme Audit Institutions can underpin the development

24. At the EU Contact Committee's latest meeting in May 2013, the heads of the Supreme Audit Institutions agreed on a statement to be forwarded to the Chair of the European Council. The statement emphasises the importance of ensuring appropriate external public audit of EU funds and preventing the emergence of audit gaps, when new institutions are established or formerly national competences and responsibilities are moved to an EU level.

25. The Commission has since 2011 advocated the development of a single set of European Accounting Standards – the EPSAS (European Public Sector Accounting Standards) – based on the IPSAS (International Public Sector Accounting Standards). Rigsrevisionen follows this initiative closely. The current financial debt crisis in the EU has revealed the necessity for comparable and reliable information on the economic position of the Members States, since the economy drives the political decisions. Rigsrevisionen has participated in a European conference arranged by Eurostat (the statistical office of the EU) on the development of a single set of accruals-based accounting standards in the EU.

26. Last year, Rigsrevisionen and the President of the Polish Supreme Audit Institution headed a task force on the cooperation between Supreme Audit Institutions, national statistical institutions and Eurostat. The objective of the cooperation is to ensure the availability of high-quality economic statistics in the EU. Statistical data provide the basis for assessment of the Member States' fulfilment of the convergence criteria and the size of the Member States' public debt. As an offshoot of this initiative, Rigsrevisionen has now entered an agreement with Statistics Denmark concerning quality assurance of the Danish national accounting statements.

Lone Strøm