

2006 discharge: EC general budget, Section III, Commission

2007/2037(DEC) - 19/09/2007 - Document attached to the procedure

EUROPEAN COMMISSION RESPONSES TO THE RECOMMENDATIONS MADE BY THE EP IN THE GENERAL BUDGET DISCHARGE RESOLUTION

Opening remarks: the Commission's report deals with the follow-up to the European Parliament Discharges given for the 2005 financial year. The Commission's full answers to each of the recommendations are also available in a Commission working document (SEC(2007)1185).

Content: the present report aims to respond to each of the recommendations accompanying the decisions giving discharge by the European Parliament relating to the execution of expenditure in 2004 (including expenditure of decentralised agencies and EDF expenses). The current summary focuses on the recommendations made at the Commission with regard to its implementation of the budget (for the terms of its recommendations, refer to the European Parliament opinion summary 24/04/2007: see procedure [DEC/2006/2070](#)).

In this context, the Commission has identified that from the 163 recommendations made by the European Parliament to the Commission, action has already been taken for 52 recommendations, though the results still must be evaluated. For another 99 recommendations the Commission agrees to take the action recommended by Parliament. Finally, the Commission deems 12 recommendations to be unacceptable and will therefore not be taking the requested action. The responses of the Commission can be summarised as follows:

1) **Horizontal issues:**

- **Statement of assurance:** regarding the accounts, the Commission indicates that it has corrected, where possible, the errors highlighted by the Court during its 2005 audit. The Commission has also considered these errors and their causes so as to try to avoid their recurrence. In shared management the Commission has asked Member States to ensure that beneficiaries of Structural Funds are made aware of controls and the risk of cancellation of funding. Further guidance was published regarding information that Member States will have to send to the Commission on recoveries and withdrawals of funding following irregularities. Guidelines on the closure of 2000-2006 programmes were issued by the Commission, as well as guidance illustrating good practice in first-level management controls and the checking of payment authorities;
- **National management declarations:** given that the 27 Member States have different governmental and management structures for EU funds under shared management, the Commission considers that the development of a single standard declaration would not yield significant benefits. The Commission will, however, continue to support such initiatives taken by national administrators while they remain;
- **Suspension of payments and financial corrections:** the Commission will continue its practice of suspending payments and imposing financial corrections when errors stemming from serious system deficiencies are detected in Member States in programmes under shared management. The Commission has also presented a proposal to the Council to amend the Council Regulation (EC) No 1290/2005 on the financing of the Common Agricultural Policy, which will allow it to further simplify the existing possibility to reduce or suspend payments to a Member State with ambiguous control systems. In addition, the Commission indicates that the 2006 annual accounts of the EC

already include information about the financial corrections made by the Commission. For 2007, it is foreseen to add further information concerning the financial corrections made by the Member States;

- The Commission's internal control system: the Commission will publish a final report on the implementation of the action plan towards an Integrated Internal Control Framework in 2008. This report will make an initial examination of the impact of the different actions on assurance and will draw conclusions concerning the future consolidation of the Integrated Internal Control Framework;
- Political responsibility and administrative responsibility of the Commission: regarding annual activity reports, the Commission will continue to work towards harmonising the presentation of management and internal control systems and better explaining the consequences of the reservations expressed by the Director-Generals. It will also continue developing indicators on legality, regularity and sound financial management by "families" of services (also see SEC(2007)1185 summary). Furthermore, the Commission indicates that by adopting the synthesis report, the Commission assumes its political responsibility for management by its Director-Generals, on the basis of the assurances and reservations issued by them in their annual activity report. A synthesis report signed by the Secretary General of the Commission, as recommended by the European Parliament, would not increase the accountability of the Commission but would rather create confusion and possible overlapping in the different tasks and responsibilities. The Commission will continue the implementation of its Transparency Initiative.

b) Sectoral Issues

- Revenue: the Commission continues to examine with the Member States, both individually and in the Advisory Committee of Own Resources, how Member States may be helped to provide the information, required by the Commission in order to lift restrictions, more quickly. Regarding the GNI own resource, the Commission will perform more direct verification of selected national aggregates during the period 2007-2009 of GNI verification missions;
- CAP: like the European Parliament, the Commission welcomes the Court's acknowledgement that the Integrated Administrative Control System (IACS), when correctly applied, constitutes an effective monitoring system for reducing the risk of error or of irregular expenditure within the Common Agricultural Policy (CAP). The Commission is continuing its efforts to monitor the full and correct application of the IACS in all Member States. In case of deficiencies, the Commission will not hesitate to impose financial corrections. The Commission has taken steps to correct the problems identified in checks relating to the rural development and the export refund sectors. The Commission has notably addressed the deficiencies found in the olive oil sector, and the auditing procedures are underway;
- Structural measures: in this sector the Commission is implementing all recommendations by the European Parliament. The Commission continues to exercise its supervisory role on an ongoing basis through auditing, coordination of activities and the dissemination of guidance and good practice guidelines. Where the Commission finds inadequacies in the Member States' systems, it makes recommendations and, in serious cases, agrees remedial action plans which it closely monitors. If the inadequacies persist, the Commission will suspend payments to the programme or Member State concerned (by way of example, in April 2007 the Commission suspended ERDF payments to certain programmes in England). In keeping with its supervisory role, the Commission is focusing on improving the effectiveness of the control system as a whole (see above). For Member States and programmes on which reservations are entered in the Director-General's annual declarations, and for other systems showing serious deficiencies, the Commission monitors closely the implementation of agreed action plans;
- Internal policies, including research: the Commission continues to improve its control systems in the context of the action plan towards an Integrated Internal Control Framework. A multi-annual approach to mitigating the inherent risk of reimbursement of overstated costs has been introduced in the research area, including a substantial increase in the number of ex-post audits. Furthermore, "agreed upon procedures" have been developed to provide a compulsory set of procedures for the certification of the financial statements and the certification of the methodology described in the

model grant agreement for the Seventh Research Framework Programme (FP7). These actions are expected to lead to a reduction in the rate of errors. In the context of the FP7, steps have also been taken to simplify the rules for the reimbursement of costs. In relation to national agencies, the decisions relating to the new generation of programmes in the fields of education, training and youth provide for a comprehensive set of checks and controls regarding the respect of procedures and internal control mechanisms in order to ensure and verify the regularity and legality of transactions as well as the reality and eligibility of activities;

- External actions: the Commission is aware of the risks at the project-implementing level in an organisation and has taken a number of measures over the past years to reduce the potential effects, by foreseeing the usage and improvement of standard contract provisions. In early 2006, the standard grant and fee-based service contracts were revised. New specifications have been established so as to reinforce the verification of compliance with the conditions defined in the contract, including those relating to public procurement procedures. EuropeAid's Common Relex Information System (CRIS) allows relevant analysis to be carried out to further improve management;
- Pre-accession strategy: as recommended by the European Parliament, the Commission will continue to monitor the functioning of the national supervisory and control systems for programme expenditure under the pre-accession strategy, in particular within the SAPARD/IPARD paying agencies. Moreover, when establishing joint projects with international institutions, the Commission is particularly attentive to the expertise and the added value that those institutions can provide to the full respect of the financial regulation;

Administrative expenditure and agencies: in this domain, the Commission indicates that the Court's audits found no significant error affecting the legality and regularity of administrative expenditure. As regards the cost of maintaining its buildings, the Commission will prepare a renovation-planning forecast, which will be transmitted to the European Parliament and the Council. The Commission will also examine if it has fallen victim to the elevators cartel mentioned by the European Parliament. Moreover, the Commission confirms that invalidity pensions are granted and extended on medical grounds only. Furthermore, the Commission shares the European Parliament's concerns about good governance and better regulation of the agencies. It considers that the adoption of the draft inter-institutional agreement on the operating framework for the European Regulatory Agencies (see procedure reference [ACI/2005/2035](#)) would help to satisfy the recommendations of the Parliament on this issue. Whilst fully respecting the autonomy of the regulatory agencies, the Commission continues to provide extensive guidance and support to these agencies in the mean time. The Service Level Agreements drawn up with many regulatory agencies in 2006 in different areas of administration and training are an example of this.