

# 2006 discharge: EC general budget, Section III, Commission

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

## **FOLLOW-UP TO THE COMMISSION'S 2005 DISCHARGE: FOLLOW-UP TO THE COUNCIL'S RECOMMENDATIONS**

*Preliminary remark:* this report by the Commission relates to the follow-up to the Council recommendations on the 2005 discharge decisions. The full responses of the Commission to each of the 87 recommendations proposed by the Council can be found in the Commission's parallel Working Document [SEC(2007)1186].

**CONTENT:** this report aims to respond to the 87 recommendations proposed by the Council on the 2005 Commission discharge procedure (for the content of these recommendations, refer to the Council's summary of recommendations of 7 February 2007: procedure file DEC/2006/2070). Overall, the Commission considers that the necessary measures have already been taken for 32 of the recommendations. For 54 other recommendations, the Commission agrees to take the measures recommended by the Council. Finally, the Commission considers one recommendation to be unacceptable and will, therefore, not take the measures recommended by the Council:

- **General points regarding the internal control of the Commission:** the Commission fully agrees with the Council on the importance of continuing to improve financial management and of having controls working correctly and effectively. It provided a mid-term scoreboard on the implementation of the Action Plan towards an Integrated Internal Control Framework in July 2007. In addition, a number of actions under the Action Plan have been refined to strengthen the cost-benefit-risk balance for controls. The foundations will be in place by the end of 2007 for the Integrated Internal Control Framework to begin to have the planned impact. In terms of the internal control of the Commission, it indicates that it continues its efforts to improve financial management. The Commission is gradually implementing a better structured and homogeneous presentation of the internal control systems of the Directorates-General. The structures created by the Financial Reform since the year 2000 have for the most part been implemented and the Commission-wide achievement of a very high level of compliance with the baseline requirements of the Internal Control Standards marked the beginning of a new phase which aims to improve the effectiveness of the Commission's internal control systems;
- **DAS: statement of assurance:** as regards the accounts, the Commission has corrected, where possible, the errors that were highlighted by the Court during its 2005 audit. The Commission has examined these errors and their causes, so as to try to avoid their recurrence. It will provide the Council with information on recoveries, including amounts recovered by Member States under shared management;
- **Budgetary management:** the Commission notes that the Council has welcomed the improvement in the management of the budget in 2005. It considers that the increase in outstanding commitments in 2005, in particular in the Structural Funds, was not unexpected. This was mostly due to the large increase in commitments for the EU-10 countries, while payments made to these programmes and projects were still relatively slow in their start-up phase. Payments for EU-15 programmes increased again in 2005. Like the Council, the Commission attaches high importance to the swift adoption of the programmes for the 2007-13 period and has put in place mechanisms with this aim in mind. The budget forecast alert tool established in 2006 contributes to the good management of the budget.

As regards the management of the different categories of the Community budget, the Commission presents the following review:

- **CAP:** the Commission is continuing its efforts to monitor the full and correct application of the Integrated Administrative Control System (IACS) in all Member States. In case of deficiencies, the Commission will not hesitate to impose financial corrections. It has addressed the deficiencies found in the olive oil sector and the clearance of accounts procedures are ongoing. As regards rural development, the Commission has also taken action to correct the weaknesses identified. Concerning the temporary rural development instrument for some new Member States, the Commission will present a working document, inviting new Member States to wind up the implementation of these programmes by October 2007 in order to proceed with the final closure of the programme following the 2007 clearance of accounts decision in May 2008;
- **Structural measures:** For the Financial Framework period 2007-13, a number of changes should reduce the administrative burden associated with structural expenditure. Member States will mainly determine eligibility conditions, and for smaller programmes with a greater percentage of national funding they will be able to apply national rather than EU requirements and procedures in some instances. At the same time, the control framework and the Commission's ability to supervise its operation will be strengthened. The Commission endorses the principle of controls being proportionate to the risks and costs involved. The Commission is also asking Member States to provide regular information on the error rates they find in their audit work. In addition, the cooperation between the Commission and Member States is continuing to be developed favourably. In early 2007, it asked all Member States to supply complete information on recoveries, withdrawals and pending recoveries for 2006 and cumulatively for the whole period 2000-06;
- **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, the Commission has developed "agreed upon procedures" for the model grant agreement for the Seventh Research Framework Programme (FP7). These actions are expected to lead to a reduction in the error rate through improved prevention, detection and correction. Under FP7, steps have also been taken to simplify the rules for reimbursement of costs. The requirements for time recording of researchers have been more clearly specified and the terms of reference for the certificates strengthened. As regards the new generation of programmes in the fields of education, training and youth, a comprehensive set of checks and controls has been planned in order to ensure the regularity and legality of transactions;
- **External actions:** the Commission continues to improve the functioning of both internal and external audits. It will endeavour to further reinforce the current risk analysis and better communicate the basis for its analysis. It is aware of the risks at project implementing organisation level and has taken a number of measures to mitigate its potential effects. These include the use and improvement of standard contract provisions. In early 2006, the standard grant and fee-based service contracts were revised. They now include standard terms of reference for auditors. These new terms of reference have been revised so as to reinforce the verification of compliance with the contract terms, including those relating to public procurement procedures;

- **Pre-accession Strategy:** the Commission will continue to monitor closely the effective functioning of the national supervisory and control systems for programme expenditure under the pre-accession strategy, in particular within the SAPARD/IPARD paying agencies. Under the Phare programme, the Commission has taken action to clarify the eligibility of VAT expenditure and has dealt with most of the final declarations from the national authorities. The Commission shares the Council's regret at the delays in the Extended Decentralised Information System (EDIS) accreditation process for Phare and ISPA, and insists on further improvements of the national administrative structures before granting EDIS;
- **Administrative expenditure:** the Commission has taken due note of the Council's recommendations concerning administrative expenditure. As regards the NAP (New Payroll System), all reports are available, upon request, to every authorising officer. As regards the reimbursement of mission costs, the Guide to missions is currently under review to take due account of the remarks of the Court. Adoption of the new rules is scheduled for the beginning of 2008. As regards the regulatory agencies, the Commission shares the concerns about good governance and better regulation of the agencies expressed by both the Council and the European Parliament. It considers that the adoption of the draft interinstitutional agreement on the operating framework for the European Regulatory Agencies ([ACI/2005/2035](#)) would go a long way towards addressing the issues raised and awaits the rapid adoption of this instrument.