

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

2007/2037(DEC) - 29/01/2008 - Supplementary non-legislative basic document

**PURPOSE:** presentation of the Council recommendation on the discharge to be given to the Commission on the implementation of the Community budget for the 2006 financial year (Section III – Commission).

**CONTENT:** the Council adopted by qualified majority (the Netherlands delegation voted against it) a draft recommendation regarding the implementation of the Union's budget for the 2006 financial year. The recommendation, first of all, highlights the main amounts for the 2006 financial year:

## **Revenue and expenditure account for the financial year 2006:**

- revenue amounted to EUR 108 423 010 966;
- expenditure disbursed from appropriations amounted to EUR 105 411 911 809;
- cancelled payment appropriations (including earmarked revenue) carried over from 2005 amounted to EUR 263 331 782;
- appropriations for payments carried over to 2007 EUR 1 400 894 862;
- EFTA-payment appropriations carried over from 2005 EUR 67 568;
- the balance of exchange-rate differences amounted to EUR 16 836 906;
- the positive budget balance amounts to EUR 1 856 631 603.

Cancelled payment appropriations for the financial year amount to EUR 1 982 356 283.

EUR 1 163 588 723 (82 %) of the EUR 1 425 304 908 in appropriations for payments carried over to 2006 have been used.

Based on the observations made in the Court of Auditors' report, the Council calls on the European Parliament to give discharge to the Commission in respect of the implementation of the 2006 budget. However, the Council has issued a series of comments in regard to budgetary implementation which will need to be fully taken into account when granting the discharge.

The Council regrets that the Statement of Assurance (DAS) still remains qualified for significant areas of the budget of the 2006 financial year in spite of the substantial efforts devoted in the course of the recent years to the improvement of control and management procedures. Thus, even if the annual accounts provide a reliable picture of the financial situation in practically all the areas covered by the EC budget, the Court was critical regarding the financial implementation of the Common Agricultural Policy (CAP), structural actions, internal actions and external actions.

The Council recalls the great importance it attaches to the protection of the Communities' financial interests, as well as the fight against fraud, and in regard to:

- **the reliability of the accounts:** it calls on the Commission to take measures to strengthen the financial reporting framework and accounting systems in order to address weaknesses affecting the quality of accounting data and the Council and reminds it to pay due attention to the numerous general and specific remarks presented by the Court in order to improve the completeness and accuracy of the Community accounts;
- **legality and regularity of the underlying transactions:** it calls on the Member States and the Commission to continue to improve their supervisory and control systems because without the impact of rural development - errors in CAP expenditure would have been below the materiality threshold;

It calls on all parties involved to work more closely in order to arrive at a positive DAS at an earlier stage and to strengthen their control systems in relation to jointly managed expenditure.

**Improvement of management and control systems at Member State level:** although it respects the different national control systems and specificities, the Council calls on all the actors and levels involved in managing expenditures to demonstrate their good intentions to improve control and supervision systems. It recalls that if the Commission implements the budget in line with the EC Treaty, under its own responsibility, the Member States must cooperate with the Commission to ensure that the funding is used in line with the principles of good financial management. It states, once again, that it is intent on ensuring the regulations on financial discipline and good financial management are respected and calls on the Member States to transmit by the agreed deadline the annual summary of audits and declarations on budgetary implementation under shared management. The Council also encourages the Member States to analyse in detail the results of Court audits and to provide timely reaction to the statements in the Court's observations to remedy the problems highlighted. In particular, the Council calls on the Member States to continue their efforts in the area of Structural Policies by improving the day to day management and implementation of sound closure procedures for the programming period 2000-2006 and by correctly implementing the legal framework relating to the programming period 2007-2013. In the area of agriculture, the Council invites the Member States to give specific attention to compliance with the eligibility conditions to reduce the errors notably in rural development expenditure.

**Commission's internal control:** the Council shares the Court's view that the Commission has improved control and management procedures, particularly in the area of agriculture expenditure. However, while this improvement in control and management procedures has been successful in a certain number of areas, this has not been the case throughout (in particular, structural actions and internal and external policies). Although the measures taken have borne fruit, the Council considers that the controls and assurance should be proportionate and have a good cost-benefit ratio (the Council considers that some measures are very costly and unnecessarily complicated). With regard to the question of **financial corrections**, the Council reminds the Commission of its request (contained in its 2005 discharge recommendation) to present an annual general report on recoveries from the financial year 2000 onwards, including amounts recovered by the Member States. The first of such reports is expected by the Council by September 2008. Furthermore, the Council considers that the application of suspension and correction mechanisms, whenever appropriate, acts as a deterrent and can thus have an important positive impact on the legality and regularity of expenditure.

**Budgetary management:** the Council reminds the Commission that, to guarantee effective budgetary management, a realistic and sufficient budgeting is essential from the stage of the Preliminary Draft Budget onwards to set commitments and payments at the appropriate level, in order to reduce as much as possible the recourse to Amending Budgets which have unexpected financial impact on national budgets. The Council notes that in 2006 the level of outstanding budgetary commitments has further increased. It therefore invites the Commission to keep under close control the implementation of the new programmes in order to avoid increasing the level of outstanding commitments. As structural operations continue to represent the majority share of the increase of the outstanding commitments and of their absolute amount,

the Council invites the Commission and the Member States to further their efforts to improve the implementation rate in this area.

The Council then reviews each of the budgetary areas and makes the following comments:

- **CAP:** Although the Council notes with satisfaction significant improvements in the field of CAP expenditure compared to the previous years, it underlines that CAP expenditure, viewed as a whole, was still affected by errors. Therefore, the Commission and the Member States should continue efforts in strengthening their management and control systems. The Council welcomes the fact that the Integrated Administrative Control System (IACS) continues to be an effective control system for limiting the risk of error or irregular expenditure, if properly applied. However, it regrets the fact that controls and checks under IACS are still not sufficiently implemented in all Member States. The Council notes that the design and implementation of the SPS, which was audited for the first time in 2006, limits the risk of irregular payments to farmers, if correctly applied and welcomes the noticeable decrease in the error rates for the area aid schemes. However, in regard to **rural development**, the Council notes with concern the material incidence of errors, by both nature and amount, affecting the agri-environmental schemes and urges the Member States, in cooperation with the Commission, to step up their controls especially in respect of beneficiaries' compliance with the eligibility conditions.
- **Structural policies:** The Council regrets the Court finding no noticeable progress in the field of Structural Policies expenditure compared to last year despite the continuous efforts by the Member States and the Commission to improve functioning of the management and control systems. The Council notes with great concern the Court's estimate that at least 12% of the total amount reimbursed to Structural Policies projects should not have been reimbursed, according to the Commission. The Council regrets that, as stated by the Court, the control systems in the Member States are generally ineffective or moderately effective. The Council considers that it is essential that the first level controls in the Member States continue to be reinforced and that it is essential that the Commission's audit activity is effective and that it puts in place an effective system to carry out its supervisory role. The Council considers that the Commission should actively encourage and facilitate simplification.
- **Internal policies** (including research): the Council regrets that the Court's audit revealed again, in this area which is under the Commission's direct financial management, a material level of error in payments resulting from weaknesses detected in the Commission's supervisory and control systems. To improve the reliability and accuracy of cost statements and to reduce the risk of errors, the Council encourages the Commission to pursue its efforts to simplify and clarify the guidelines for calculation and reporting of costs, especially regarding average personnel costs and overheads, in order to have a better understanding of the rules by beneficiaries and operational departments within the Commission. The Council calls on the Commission to further increase the proportion of audited contracts substantially, in order to compensate for the remaining weaknesses of the supervisory and control systems. It also urges the Commission to continue to check the management and control systems of the national managing authorities for education and culture projects. It is concerned about the shortcomings identified in the monitoring, analysis and follow-up of audit findings by the Commission's Directorates-General, as well as about the persistent proportion of late payments by the Commission to beneficiaries, outside the stipulated deadlines.
- **External actions:** the Council notes with concern that the Court's audit of external actions expenditure revealed once more that a material level of error was again detected at the level of project implementing organizations. It awaits rapid and concrete results from the Commission's in this area. It acknowledges the efforts made by the Commission regarding the clarification of the terms of reference for tendering and public procurement, the eligibility of costs and the required documentation for the allocation of expenditure but expresses its concern about the stated incompleteness and inconsistency of the external audit information collected. It emphasises the importance of an overall coordination of the various control procedures in force, in order to streamline the audit activities, avoid unnecessary duplication and provide a reliable picture of the

controls undertaken. The Council welcomes the Commission's willingness to review the balance of headquarters and on-the-spot audits of implementing partners, with the aim of obtaining a better view of the reality of project expenditure.

- **Pre-accession strategy:** the Council notes with satisfaction that no significant errors were found in the audited transactions in the fields of the ISPA, Phare and Turkey programmes. However, the Council regrets that the problems identified in the implementation of the Sapard instrument persist and shares the Court's observations about the shortcomings detected in the functioning of supervisory and control systems for the programmes. In regard to Sapard, the Council urges the Commission to further intensify its checks and their follow-up. It asks the Commission to insist on the accredited procedures and on the implementing and paying arrangements agreed with national authorities.
- **Administrative expenditure:** the Council welcomes the fact the Court's audit did not reveal again any material errors affecting the legality and regularity of the administrative expenditure as a whole. However, the Council points out that there are still some weaknesses in the institutions' supervisory and control systems. Most notably, the Council is concerned about the Court's findings of several cases of non-compliance with the general principle of competitive tendering. Procurement management is a cornerstone of well-functioning and efficient administration and contributes significantly to the institutions' credibility. It therefore emphasises that all the institutions are to comply strictly with the existing legal requirements in the field of public procurement. Lastly, the Council is concerned about the risk of potentially high increases in appropriations for pensions and the impact of such increases on the overall growth of administrative expenditure in the future. Therefore, it invites the Commission to provide each year well before the Preliminary Draft Budget an updated estimate of annual Communities' pension expenditure at least up to 2013.