

2006 discharge: EC general budget, Section III, Commission

2007/2037(DEC) - 15/11/2007 - Court of Auditors: opinion, report

PURPOSE: to present the report of the Court of Auditors on the implementation of the budget concerning the financial year 2006 (section III – Commission).

CONTENT: the Court of Auditors published its 30th annual report on the implementation of the general budget of the European Union, covering the financial year 2006.

Overall, the Court notes that certain progress has been made by the Commission to improve the control of EU expenditure. The Court therefore recognises the **considerable efforts** made by the Commission to correct the level of error affecting Common Agricultural Policy (CAP) transactions, even though this level remains high. This positive development reflects the effectiveness of the integrated administrative and control system (IACS) and the simplification of procedures for requesting aid and payment procedures within the framework of the Single Payment Scheme. However, **errors** continue to affect the legality and regularity of **most EU expenditure** due to weaknesses in the internal control systems of both the Commission and Member States. That is why, once again, the Court has drawn up a negative statement of assurance.

Statement of Assurance: the adverse opinion of the Court: the Court provides an adverse opinion concerning the legality and regularity of a large part of EU expenditure, particularly the agricultural expenditure not covered by the IACS, structural measures, internal policies and a large proportion of external actions. In these areas, a significant level of error continues to affect the payments to beneficiaries, although to varying degrees.

At the same time, the Court notes the improvements introduced by the Commission as regards its internal control framework and the positive impact they have on the declarations of the Commission's Directors-General.

Legality and regularity of underlying transactions: in the Court's opinion, revenue, commitments and payments for administrative expenditure, pre-accession strategy, with the exception of the SAPARD Programme, and external actions, for those payments managed and controlled directly by Commission delegations, are free from material error. In these areas, the supervisory and control systems have been implemented satisfactorily. It is therefore mainly CAP expenditure that is marred with errors when it is not controlled by the IACS (in the Single Payment Scheme). In addition, the Court notes that, in the area of pre-accession strategy, significant risks still exist at the level of the implementing organisations in the newly acceded and candidate countries. In the Court's opinion, in the other areas of expenditure, payments are still materially affected by errors, although to different levels, and the Commission, Member States and other beneficiary states need to make further efforts to implement adequate supervisory and control systems linked to the CAP, structural measures, internal policies and external actions.

Reliability of accounts: the 'Final annual accounts of the European Communities' present fairly, in all material respects, the financial position of the Communities as of 31 December 2006, and the results of their operations and cash flows for the year then ended. However, The Court's audit has identified errors in amounts registered in the accounting system as invoices/cost statements and pre-financing which have the effect of overstating the accounts payable by some EUR 201 million and the total amount of long and short term pre-financing by some EUR 656 million. In addition, the Court notes that weaknesses in the accounting systems of certain institutions and Directorates-General of the Commission, still put at risk the

quality of financial information (in particular for cut-off and employee benefits). This led to a number of corrections after the presentation of the provisional accounts.

Budgetary management: in 2006, the EU made payments amounting to EUR 106.6 billion. For each of the budgetary headings analysed by the Court, this is expressed as follows:

CAP: overall (EUR 49.8 billion in 2006), the Court notes a marked decrease in the estimated level of error, although it still remains just above the materiality threshold. Agricultural expenditure is characterised by different types of transactions, with different risks and control systems. When properly applied, the IACS, which covers around 70% of CAP expenditure, effectively limits the risk of irregular expenditure. The Court notes that, although the Single Payment Scheme simplifies application procedures for aid and payment procedures, it causes secondary effects, such as granting rights to landowners who have never undertaken agricultural activity, resulting in a large redistribution of EU aid to the detriment of farmers and to the benefit of landowners. Railway companies, horse riding clubs, golf and leisure clubs, as well as local councils are among the new beneficiaries of EU agricultural aid.

Structural measures: (EUR 32.4 billion): in this area, the situation remains similar to previous years. The Court's audit uncovered a level of material error that, according to estimates, represents at least 12% of the total amount reimbursed to beneficiaries. The most frequent errors concerned ineligible expenditure, non respect of procurement procedures, inadequate supporting evidence to justify general costs and costs for personnel. Supervisory and control systems in the Member States were generally ineffective or moderately effective, and supervision of their functioning by the Commission was only moderately effective.

Internal policies: (EUR 9 billion): the Court noted a level of material error in terms of legality and regularity of underlying transactions, mainly attributable to refunds granted by the Commission to beneficiaries who had overvalued the costs generated for projects. Overall, the Court's audit indicated that the internal control systems were only partially satisfactory.

External actions: (EUR 5.2 billion): the Court notes that the situation was satisfactory in terms of the transactions managed and controlled by the delegations but that this was not true for those inspected within organisations responsible for implementation on the ground. Errors detected included, for example, the declaration of ineligible expenditure or the non respect of procurement procedures.

Pre-accession strategy: (EUR 2.3 billion): the Court's audit shows that, on the whole, payments were legal and regular; however, material errors were, once again, revealed in operations of the SAPARD programme.

Recoveries: over recent years, the Commission has taken measures to speed up recoveries and to improve the protection of the financial interests of the EU. However, due to the complexity of the shared management of EU funds with Member States, the Commission does not always have reliable information on the recovery of late payments (amounts and beneficiaries concerned) nor on their financial impact on the EU budget.

Conclusion: in conclusion, the Court considers that the Commission must set an example by paying particular attention to the design and functioning of its own internal control systems in the area of EU funds under direct management (internal policies and external actions). According to the Court, this example would create a model for and act as encouragement to Member States in terms of systems in place within the framework of shared management.

Lastly, the Court considers that the key to effective management of EU funds is the establishment of effective and reliable internal control systems at all levels of administration.