2006 discharge: EC general budget, Section III, Commission

2007/2037(DEC) - 28/02/2008 - Document attached to the procedure

SUMMARY REPORT OF THE COMMISSION: MEMBER STATES' REPLIES TO THE 2006 COURT OF AUDITORS' REPORT

Preliminary remark: each year, the Court of Auditors provides its Statement of Assurance concerning the reliability of the accounts of the European Communities and the legality and regularity of the underlying transactions. This Statement of Assurance is essentially based on the results of the Court's audits. A large proportion of these audits take place in Member States since, in reality, they implement more than three quarters of the total payments from the general budget of the European Communities.

Following the publication of the Court of Auditor's annual report for the financial year 2006 (refer to the summary of the Court's report dated 15/11/2007), the Commission – as required by the Financial Regulation – immediately communicated to Member States a list of all the observations made and the errors identified by the Court concerning their country. Member States were invited to fill in a questionnaire on how they had followed up the Court's observations/findings. They were also asked to indicate what they found to be the main reasons for the most common errors in the area of structural actions.

This report presents a summary of the replies submitted by Member States to the Commission. It concerns only areas where management is shared between the Commission and the Member States, i.e. the collection of revenue, expenditure for the Common Agricultural Policy and structural actions.

The Commission should submit this summary report to the Council, the European Court of Auditors and the European Parliament by 28 February 2008. Within that deadline**, it is not possible for the Commission to verify the content of the Member States' replies**, which must therefore be considered as representing the Member States' views only.

The report is accompanied by a Commission Working Document (see SEC(2008)0269) which provides additional details on the member States' replies.

The **Court of Auditor's 2006 DAS findings in shared management**: in the 2006 Annual Report, the Court found that, in 2006, supervisory and control systems were satisfactory for revenue and for almost 70 % of common agricultural policy expenditure controlled under the Integrated Administration and Control System (IACS). For the remainder of agricultural expenditure, supervisory and control systems were considered to be only partially satisfactory.

The Court considered control systems within structural actions to be generally ineffective or only moderately effective in Member States; it also took the view that the Commission maintained only moderately effective supervision to mitigate the risk that the control systems in Member States might not prevent overstated or ineligible expenditure.

The substantive errors (i.e. errors with financial impact) found by the Court within own resources were so few and so small that the overall error rate in this area was estimated to be lower than the materiality threshold of 2 % adopted by the Court. Substantive errors differed somewhat between common agricultural policy and structural actions in 2006.

In agriculture, the Court estimated that market measures and direct aid combined covering 85 % of EAGGF Guarantee expenditure (including IACS) were below the 2 % threshold. For payments to rural development schemes, the Court highlighted agri-environmental measures as being prone to a high incidence of errors because farmers did not meet the (often complex) eligibility conditions. The overall error rate for agricultural payments was nevertheless estimated to be just above 2 %.

Errors in structural actions tended to have a significantly higher financial impact than errors in agricultural policy. The Court stated that it was reasonably confident that, in the 2006 budget year, at least 12 % of the total amount reimbursed to Structural Policies projects should not have been reimbursed. The Court's findings were based on the audit of a sample of 177 projects that had received interim payments from the Commission in 2006.

Both the Commission and the Court have identified structural actions as a sector of the EC budget where errors seem to be persistently frequent and with a higher financial impact than in other sectors of the EC budget. The same types of errors are repeated from year to year - although their relative importance may vary – which indicates that control systems are not working well.

The Court presented its assessment of 19 control systems in nine Member States in the 2006 Annual Report. In each case, the Court assessed whether the relevant level in the control structure was satisfactory, partially satisfactory or unsatisfactory. The Court identified the main problems to be at the first levels of control in Member States (slightly more than half of the managing and paying authorities examined were considered unsatisfactory), whereas the final control level was working relatively well (no winding-up bodies were considered to be unsatisfactory).

Operational conclusions: almost all Member States replied to the Commission's questionnaire concerning the European Court of Auditors' 2006 Annual Report, although some Member States submitted partial replies.

The replies indicate that:

- in **structural actions**, Member States consider EU legislation to be complex and staff involved in day-to-day management of projects to have insufficient knowledge of the rules. Archives are sometimes not properly organised or documents are not kept long enough. These problems lead to repetition of the same types of errors. Member States must address these key issues in an effective and efficient manner – as early as during the legislative process - if the level of error in structural actions is to be reduced;
- the Court works to a very tight timetable, making it difficult for Member States to provide their reaction to a significant number of the errors identified before the Court adopts its DAS. The Court has already increased its efforts to inform Member States more quickly of errors identified. Currently, the Court informs Member States of its findings by sending a letter to the relevant national supreme audit institution. Member States might be able to provide replies faster if the Court extended its use of electronic communication. The Court already presents each finding in a standardised format (a DAS error form). Further developing this form to also include a standardised reply section to be completed by the auditee could also be considered, if Member States find that this might help them provide the right information to the Court (and the Commission) more quickly;
- the Commission should improve its own follow-up of the Court's findings in Member States to help ensure that Member States provide replies on time and of good quality. The Commission therefore intends to step up its monitoring of Member States' replies by providing regular overviews to Member States of findings where input from Member States will be important to the Commission during the contradictory procedure. The Commission will also continue to discuss with Member States and the Court the reasons for the most common errors and the practical steps that need to be taken to prevent them;

- when Member States accept the errors identified by the Court, they appear to take appropriate action – often by recovering the funds concerned or withdrawing ineligible expenditure when errors have a financial impact;
- Member States do not always agree with the errors identified by the Court. This is a particular problem for errors with a financial impact in structural actions. The Commission and the Court are currently discussing how to minimise disagreements on interpretation of rules in the future.

The Commission welcomes the many and prompt replies received from Member States. They are an important contribution to the Commission's follow-up of the Court’s findings. When Member States agree with the Court’s findings, they do seem to follow up in an appropriate manner, including recovering funds. **Nevertheless, prevention of errors must be improved** by ensuring that those involved in day-to-day management are aware of the rules and procedures to be followed and have the appropriate resources.