

2007 discharge: EU general budget, Section III, Commission

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The Committee on Budgetary Control adopted the report drawn up by Jean-Pierre AUDY (EPP-ED, FR) recommending that the Parliament grant the Commission discharge for implementation of the European Union general budget for the financial year 2007, as well as the Directors of the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Competitiveness and Innovation and the Executive Agency for the Public Health Programme for implementation of their respective budget for the financial year 2007.

The committee also approves closing the accounts for implementation of the European Union general budget for the financial year 2007 and welcomes the further progress made by the Commission and some of the Member States towards a more efficient use of EU funds and the overall control environment, which is reflected by the **improvements in the European Court of Auditors' (ECA) statement of assurance (DAS)**. MEPs welcome, in particular, the considerable progress made in the management of the 7th Framework Programme and the Common Agricultural Policy (CAP), as well as in terms of the implementation of the action plan to strengthen the Commission's supervisory role under shared management of structural actions.

MEPs regret, however, that in 2007 Greece was still not meeting its obligations to implement the Integrated Administrative Control System (IACS). They also express concern about the lack of EU capacity in **crisis management**. MEPs consider that the Union is losing political guidance, visibility and accountability when using international trust funds which could have been managed by the Commission if it had built up its own post-crisis instrument (in particular, they make reference to the lack of control of EU funds implemented by certain UN agencies and the unwillingness of UN agencies to follow up on fraud cases where EU funds are involved).

Horizontal issues:

DAS: MEPs welcome the improvements in the individual parts which comprise the DAS but regret that, for the fourteenth year in succession, the DAS issued by the ECA in its annual report for 2007 includes a **qualified opinion on the legality and regularity of the transactions underlying the accounts**.

The ECA takes the view that, in a large number of expenditure areas (agriculture and natural resources, cohesion, research, energy and transport, external aid, development and enlargement, education and citizenship), payments are still materially affected by errors.

- **Reliability of the accounts:** while recognising alongside the Court that the annual accounts of the Communities are, on the whole, reliable, MEPs call on the Commission to clarify the issue of Community pension funds in terms of financial commitments to be provided for staff pensions. MEPs also call for clarifications in terms of assets received by the European Communities in connection with the Galileo programme, provisions for major maintenance and refurbishment work on the European Communities' buildings stock and the issue of whether the European Communities' level of political authority in the agencies complies with international public-sector accounting standards;

- **Legality of the underlying transactions:** MEPs regret the fact that in extremely important Community spending areas, the Court noted, once again, that complicated or unclear legal requirements resulted in a large number of errors at final-beneficiary level. They call on the Commission to further step up its monitoring of controls delegated to Member States.

Budgetary management - financial corrections: MEPs consider, with regard to shared or decentralised management, that the Commission must apply Regulation (EC, Euratom) No 1605/2002 in full and assume its ultimate responsibility for budget implementation. They stress the need to make financial corrections as soon as irregularities uncorrected by Member States are detected.

- **Amounts recovered:** MEPs note with concern the problems surrounding recovery of irregularly disbursed Community funds and the poor quality of the data supplied on the correction mechanism applied at Member State level. MEPs call on the Commission to enhance the efficiency and effectiveness of multiannual recovery systems and to carry out an evaluation of the recovery system;
- **Suspension of payments:** MEPs also assure the Commission of their full support in the rigorous application of the legislation on suspension of payments.

Declarations available in the shared-management field: MEPs welcome the fact that annual summaries of audits by the Member States have been made available since 2008, along with the evaluation and declarations presented in the 2007 annual activity reports of the directorates-general dealing with Structural Funds. They note with concern, however, that, owing to disparities in presentation, the ECA considers that those annual summaries do not yet constitute a reliable appraisal of the operation and effectiveness of the control systems. In this context, MEPs call on the Commission to analyse the summaries received in 2009 with the aim of optimising their added value. They also deplore the Commission's failure to act on the call made in the resolution on discharge for the financial year 2006 for a specific document to be drawn up, and forwarded to Parliament and the Council, which analyses, on the basis of the annual summaries received, the strengths and weaknesses of each Member State. MEPs welcome the initiative taken by some Member States (the United Kingdom, the Netherlands, Sweden and Denmark) to approve the adoption of a national declaration on the management of Community funding, but regret the fact that, despite those initiatives, most other Member States are resisting its introduction.

Control systems: MEPs welcome the overall progress made in the development of the **Action Plan for an integrated internal control framework** while regretting the inadequate quality of controls in Member States. They note, in this respect, that control systems are a reflection of the complexity of regulations and rules on the various, sometimes overlapping levels. The Commission must therefore accelerate the **simplification exercise** and review the conditions for using the flat-rate method. MEPs also reiterate the need to reach an appropriate **balance** between the costs and benefits of controls. Once again, they call for the establishment of interinstitutional dialogue on **tolerable risk of error** (in particular, for the Structural Funds and the EAFRD) as well as for an **interinstitutional conference** involving all stakeholders in Community fund management and control (representatives of the Member States, the Commission, the ECA, national audit bodies, national parliaments, the European Parliament and all other relevant actors in the discharge process) in order to obtain a positive DAS as soon as possible.

MEPs also make reference to serious problems of transparency, particularly in terms of data provided on the beneficiaries of EU funding, the cabinet staff of Members of the Commission, etc.

Financial Regulation: MEPs welcome the simplification begun when Regulation (EC, Euratom) No 1605/2002 was last revised as regards public procurement. However, the measures taken on grants have demonstrated their effectiveness only in part. MEPs therefore call on the Commission to present to them by 1 January 2010 proposals for a revised and fully consolidated Financial which bring together all the requirements which a beneficiary of a programme must fulfil in one single comprehensive source.

Sectoral issues: MEPs consider in detail the budgetary implementation of each of the budgetary headings and make the following observations:

- **Agriculture and natural resources:** noting once again the material level of error of legality and/or regularity of expenditure in this sector (particularly in terms of rural development and agri-environmental measures), MEPs urge the Commission to simplify, strengthen and consolidate the control rules. They are concerned at the ECA's criticisms of errors in interpreting the provisions of the regulations and at the finding that the cumulative effect of all such errors, over a number of years, will be significant if they are not corrected. Once again, MEPs call on Greece to implement the IACS and support the Commission's intention to apply current legislation on suspension of payments rigorously if the Greek Government does not remedy the existing problems within the stated time-limits. MEPs deplore the fact, as regards Single Payment Scheme management and control, that the ECA exposed inadequacies, in several 'old' Member States, affecting control systems in this area (in the Netherlands, Portugal, the United Kingdom, France and Spain) as well as a number of systemic shortcomings with regard to area-aid eligibility checks in Greece, Italy, Spain, the United Kingdom, France and the Netherlands. They therefore call on the Commission to step up its checks and to simplify eligibility requirements as far as possible. Moreover, MEPs call for the recovery of irregular payments so that the cost of financial corrections is met by the final beneficiaries and not by the taxpayer;
- **Cohesion:** noting with concern the ECA's estimate that at least 11% of the total amount reimbursed in connection with structural policy projects should not have been reimbursed, MEPs regret that despite Commission's unremitting efforts to improve control systems, the number of errors remains. They note with concern that, under the European Regional Development Fund (ERDF) from 2000 to 2006, 95.47% of financial corrections were accounted for by Spain, Italy and the United Kingdom. Moreover, under the Cohesion Fund, 95.92% of financial corrections were accounted for by Greece and Spain, and, under the European Social Fund (ESF), 84.28% of financial corrections were accounted for by Spain and Italy. MEPs therefore call on the Commission to report to Parliament in early 2010 on the further actions carried out in 2009 and on the initial impact of the actions. Once again, MEPs call on the Commission to **simplify existing regulations** on cohesion funds. Noting the sometimes very large financial corrections affecting (on a frequent basis) certain countries, MEPs call on the Commission to bring its control requirements into line with the frequency and seriousness of errors in the Member States most affected (particularly Spain and Italy). MEPs call on the Commission to produce an **annual grading of Member States, for each European fund**, and to forward it to Parliament, specifying the error rate established. They also call on the Commission to apply strictly the Community rules on the suspension of payments where a Member State fails to provide the guarantees sought. MEPs regret the fact that the most frequent errors concern the European Social Fund and support the new rules under the financial framework for the period 2007-2013 that simplify procedures and allow overheads to be declared on a flat-rate basis as a proportion of direct costs;
- **Internal policies:** MEPs regret that, according to the ECA, the same problems from previous years are persisting (cost reimbursement errors, complexity of the rules applied, and lack of an effective penalising mechanism), and call on the Commission to continue its efforts to simplify, and further clarify, the proportionality rules applicable to shared-cost programmes. The proposal for a resolution also focuses on the sectoral analysis of expenditure and notes that, in terms of **research**, the Commission should be congratulated for reducing its error rate to 2.39% in 2007. They now call on the Commission to analyse further the appropriateness of the rules of the programme on flat-rate payment procedures. In terms of the **environment, public health and food safety**, MEPs are overall satisfied with the implementation rates. They call on the Commission to offer further assistance to applicants in the context of multiannual programmes, especially by providing specific training for applicants and user-friendly guidelines. In terms of the **internal market and consumer protection**, MEPs call on the Member States to further improve their internal control systems to prevent the placing of unauthorised goods on the Community market. They also regret the

implementation rates sometimes below the average for certain budget lines (customs 2007 and consumer protection programme). MEPs stress the low utilisation rate of commitment appropriations for the GNSS Supervisory Authority (33.24 % under Title 3). In terms of **culture and education**, MEPs call for more information on how the various national agencies and executive agencies operate. They call on the ECA to analyse in greater detail the question of the effectiveness and continued existence of the various agencies in this area. They also call on the agencies and national authorities to respect the implementation rules, as regards their respective responsibilities, established by the Commission. Moreover, they call on the Commission to examine ways of making the Youth Programme more capable of reaching new groups of young people, in particular those from disadvantaged backgrounds. In terms of **civil liberties, justice and home affairs**, MEPs regret the low level of implementation of budget lines of the Funds included within the Solidarity and Management of Migration Flows framework. Lastly, in terms of **women's rights and gender equality**, MEPs reiterate their call to the Commission for gender equality to be taken into due consideration as an ongoing priority objective during budgetary planning;

- **External actions:** MEPs deplore deeply the fact that the Commission has failed to create a truly European instrument for the implementation of crisis management, as it had been asked to do in the 2005 and 2006 discharges. According to MEPs, **this should be done urgently**. MEPs also call on the Commission to give itself the possibility of managing multidonor trust funds itself, where appropriate, when it is involved in such funds. Moreover, the Commission is called upon to ensure full financial transparency in external aid and to honour its undertaking to Parliament that any international organisation receiving Community funds will be required to submit the results of all internal and external audits of the use of those Community funds to the ECA and to the Commission's Internal Auditor. They also call for OLAF to be given access to data where fraud is suspected. Noting that the cost of checks relating to the funds administered by the EuropeAid Cooperation Office is estimated by the Commission at some EUR 120 million, MEPs call on the ECA to take account of this in its calculations and to state its position on both this estimate and the cost-effectiveness of the relevant control systems. MEPs note the Court's assessment that the supervisory and control systems for external relations, enlargement and humanitarian aid are partially effective and accept that many of the errors detected concern advance payments (and are then rectified when final payments are made). Nevertheless, they call on the Commission to make the necessary improvements in this area. MEPs also regret the **lack of transparency** concerning the use of Community funds channelled through **United Nations** organisations. Moreover, they call on the Commission to further improve the conditions and performance indicators used for the disbursement of **budgetary support to third countries**, so as to provide for clear, unambiguous and measurable assessment criteria with a specific timetable. MEPs also request to be kept regularly informed about steps taken by the Commission concerning the implementation of the significant pledges made in support of Georgia's post-conflict recovery and future development at the international donors' conference held in Brussels on 22 October 2008. MEPs also take note of the role and growing number of **NGOs** in the administration of Community funds. They call on the Commission to evaluate the effectiveness of operating grants for the NGOs' Brussels headquarters, and to apply strictly the principle of the degressivity of operating grants laid down in the Financial Regulation. They also call on the Commission to compile, by the end of 2009, a comprehensive list of all NGOs which have received EU funds;
- **Pre-accession strategy:** MEPs note with concern the fact that the Commission suspended payments of funds amounting to several hundreds of millions of euros for Romania and Bulgaria. While MEPs are aware of the lack of reliable control systems in these countries, they remain convinced of the urgent need to reform the administrative capacities of these countries. They also call on OLAF to forward to them the findings of its investigations concerning Bulgaria and call on the Commission to submit to them a special report on the state of play of the management and control of EU funds in Romania and on the measures taken and the progress made in the fight against corruption. MEPs therefore consider that the European institutions should apply the principle of **zero tolerance** in connection with cases of misuse of Community funds, fraud and corruption and call on the Commission to ensure that unduly paid amounts are recovered. In terms of Turkey,

Croatia, Serbia, Former Yugoslav Republic of Macedonia, Kosovo and the other Western Balkan countries, MEPs call on the Commission to play a more active role in connection with the expenditure control systems existing in these countries and to introduce in the progress reports a system of traffic lights (green, amber and red lights) to denote the progress made towards achieving the various key objectives. Regretting the cases of fraud and mismanagement of European funds administered by the United Nations identified in connection with EU funding of reconstruction work in Kosovo, MEPs call on the ECA to report on the issue. Moreover, they propose that the Commission ask the Kosovo Government to supply an audit certificate in respect of European funds;

- **Administrative expenditure:** MEPs are satisfied that the ECA's audits brought to light no material errors affecting the legality and regularity of administrative expenditure, but express concern at the fact that close to 32% of the Commission's staff work in administrative support and coordination. They therefore call on the Commission to reorganise its human resources in order to reduce the proportion of staff working in these areas to 20%;
- **Matters relating to the Community's buildings:** lastly, MEPs regret the lack of transparency shown by the Commission in the management of its 61 buildings in Brussels and as regards developments concerning its buildings stock. They call on the Commission to inform them of all new projects concerning its buildings stock prior to their adoption and on OLAF to notify them of any cases of fraud brought to light in the property policy field and to look into possible conflicts of interest. They also call on the Commission to conduct an audit of both its own buildings and the buildings of all the other Community institutions.