

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 16/10/2008 - Document attached to the procedure

FOLLOW-UP REPORT TO THE 2006 DISCHARGE DECISIONS : FOLLOWING THE COUNCIL RECOMMENDATIONS

Preliminary remark: this Commission report concerns the follow-up of the recommendations made by the Council on the 2006 discharge decisions. The Commission's full responses to the 66 recommendations may be found in the Commission's working document (SEC (2008)2580) published at the same time.

CONTENT: the Commission has identified a total of 66 recommendations made by the Council to the Commission in the context of the 2006 discharge. The Commission considers that for 42 recommendations the required action has already been taken, though in some cases results of the actions will need to be examined. For another 24 recommendations the Commission agrees to take the action recommended by the Council:

- **Introduction:** the Commission shares the Council's view on the need for all actors involved in the implementation of the budget to continue to do their best to improve the functioning of the supervisory and control systems and to continue to make progress towards achieving an unqualified DAS in all areas of the budget. It presented in February 2008 a progress report on the Commission [Action plan](#) towards an integrated internal control framework and concluded that most of the "gaps" have been filled. Work will be completed in 2008 and the first impact report will be issued in early 2009. The Commission is completing the assessment of the costs of control in agriculture, the ERDF and direct centralised management. The results will form the basis of a communication by the Commission in autumn 2008 aimed at relaunching the inter-institutional discussion on tolerable risk. As regards simplification little further change is expected under current legislation. The Commission has clarified rules through guidelines on e.g. FP7, the implementing rules for Structural Funds 2007-2013, the Education Policy 2007. It will continue to provide support and further guidance where necessary.
- **The statement of assurance (DAS):** the Commission has taken due note of the accounting related remarks of the Court in its 2006 Annual Report whilst preparing the 2007 Community accounts, including as regards cut-off procedures. The split between the Directorate-General for Education and Culture and the Executive Agency has been made and the annual accounts for 2007 have been prepared separately.
- **Commission Internal Control:** further efforts are needed to resolve weaknesses in the supervisory and control systems. The Commission will take vigorous action to address the causes of reservations in the 2007 annual activity reports and will closely monitor progress. It will make all necessary efforts to demonstrate the effectiveness of its controls and has included in the notes to the annual accounts of the European Communities for the financial year 2007 a new section about the recovery of undue payments following Commission correction decisions. The Commission's accounting system is being extended to allow, from 2008, full reporting on the correction of errors by the Commission, including those relating to payments of earlier years.
- **Budgetary management:** the Commission fully agrees with the importance of realistic budgeting and has taken the recommended action to ensure effective budgetary management throughout the programming period. The PDB 2009 has been drawn up completely in accordance with these principles. Commitments are consistently budgeted higher than payments on account of the longer period for payments than commitments. As commitments are also generally increasing year on year,

the level of outstanding commitments (RAL) will increase as well. The n+2/n+3 rule in Cohesion Policy however ensures that commitments are largely used up within 2-3 years.

As regards the management of different budget headings, the Commission highlights the following:

- **The Common Agricultural Policy:** the Commission and the Member States continue efforts in strengthening the management and control systems notwithstanding the significant improvements already achieved in the management of Common Agricultural Policy (CAP) expenditure. The European Court of Auditors acknowledges that the Integrated Administration and Control System (IACS), where properly applied, is an effective control system to limit the risk of irregular expenditure. IACS currently covers about 84.5% of the EAGF-expenditure. The effects of the different reforms will extend this coverage to about 89% by 2010 and to about 92% by 2013. As regards eligibility conditions for agri-environmental measures in rural development, the Member States are now under the obligation to ensure that all rural development measures, including agri-environmental measures, are verifiable and controllable and that control arrangements at the level of the Member States provide reasonable assurance that eligibility criteria and other commitments are respected. As regards clearance of accounts, the application of the new "50/50 rule" specified in Article 32(5) of Regulation (EC) No. 1290/2005 is based on figures provided by Member States and certified by the certification bodies. The Commission is following-up the application of this rule by means of on-the-spot checks and desk audits, which may lead to financial corrections in case of non-compliant practices.
- **Structural measures:** the Commission is continuing to work closely with the Member States to improve management and control systems for structural actions expenditure. Recent actions include the issue of guidance on good practices in management verifications and checks by certifying authorities and a training seminar for 500 representatives of national managing and certifying authorities in June 2008. The Commission also holds annual coordination meetings with national audit bodies, in addition to regular discussions of management and control issues with Member States in the structural actions management committee and ad hoc technical meetings. The Commission's guidance, training and coordination activities all aim to simplify the day-to-day use of the funds by clarifying requirements and avoiding duplication of controls. The Commission is taking specific actions to encourage use of the provisions for flat rates and partial closure and to provide guidance on eligibility rules. The Commission considers that its audit activity is already effective in bringing about improvements in management and control systems, for example through the implementation of remedial action plans, but is seeking to increase its impact by speeding up the adoption of decisions where appropriate to suspend payments or apply financial corrections. The Commission is now reporting on financial corrections and recoveries resulting from its own or the Court of Auditors' audit work in the structural actions area.
- **Internal policies, including research:** the principal risk to the legality and regularity of research expenditure is that beneficiaries overstate costs in their cost statements, and that this is not subsequently detected and corrected by the Commission. Many errors affecting legality and regularity can only be detected (and therefore corrected) by performing on-the-spot checks. To address this problem, the Commission has shifted the focus of its control strategy towards detection and correction of errors ex-post, after the payment has been made. The Research DGs have implemented their FP6 audit strategy. The audit strategy is being implemented over a period of 4 years. Efforts have also been made to simplify and clarify the guidelines for calculation and reporting of costs for beneficiaries and certifying auditors. In the education and culture area, the Commission is implementing a revised supervision strategy based on the "integrated control framework" approach. The Commission is taking appropriate measures to comply with Council's recommendation related to delayed payments to beneficiaries and the need to comply with the time limits for expenditure operations set out in the Financial Regulation. The efforts made have increased the percentage of payments made on time.

- **External actions:** the Commission has taken a series of actions aimed at improving the systems designed to ensure the legality and regularity of external actions expenditures at the level of project implementing organisations. In the area of humanitarian aid, the balance between headquarter and field audits has been reviewed and should be seen in the context of an overall control strategy. The number of field audits has increased to 37 in 2007 compared to 20 field audits performed in 2006.
- **Pre-accession Strategy:** the Commission continues to monitor closely the national supervisory and control systems for expenditure under the pre-accession programmes, and where necessary, strongly encourages the beneficiary countries to take action to redress unsatisfactory situations. As regards the Sapard programme, the Commission has further intensified its checks and their follow-up as recommended by Council. Closure of Sapard programmes has been made on the basis of the payment application for the final balance, the decision on the clearance of the accounts and the final implementation report.
- **Administrative expenditure:** as regards procurement, the Commission has put in place specific control measures to improve procurement management. For real estate expenditure, negotiated procedures are allowed according to the Commission. As regards the Communities' pension liabilities, the Commission gave the figures and estimates as requested at the time of the PDB presentation in the Council's Budget Committee. As regards the agencies, the Commission adopted the revision of the framework Financial Regulation, which contains provisions reinforcing the agencies' obligation to submit, in their payment requests, rigorous forecasts on their real cash requirements throughout the year in order to avoid unnecessary cash-flows. This should enable the Commission to follow more closely the cash balances of the agencies and hence should lead to more rigorous planning and increased transparency. Moreover, a horizontal evaluation is to be launched in the context of the Commission's Communication "European Agencies: the way forward" of March 2008. The evaluation will also assess the impact of agencies on the Commission's internal organisation and activities. The inter-institutional working group that the Commission proposes to set up with the European Parliament and the Council will contribute inter alia to defining the objectives and the scope of this horizontal evaluation. A report on the results of this evaluation will be ready in 2009-2010.