2007 discharge: EU general budget, Section III, Commission

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

FOLLOW-UP ON DISCHARGE OF THE COMMISSION 2006: FOLLOW-UP ON THE EUROPEAN PARLIAMENT'S RESOLUTION

Preliminary remark: this Commission report concerns the follow-up of the recommendations and observations made by the European Parliament during the discharge procedure for the 2006 year. The Commission's full responses to each of the recommendations may be found in the Commission's working document (SEC (2008)2579) published at the same time.

CONTENT: this report seeks to respond to each of the recommendations accompanying the Parliament's discharge decisions concerning the implementation of 2006 expenditures (including the expenditure of the decentralised agencies and the EDF). This summary focuses on the recommendations made to the Commission in regard to the its implementation of the budget (to learn more about the content of these recommendations, click on the summary relating to Parliament's opinion of 22 April 2008 in this procedural file).

In this context, the Commission considers that of the 208 recommendations addressed to it by the Parliament in its resolution, the required action has already been taken for 100 of them, though in some cases results of the actions will need to be examined. For another 99 recommendations, the Commission agrees to take the action recommended by Parliament. Lastly, the Commission cannot accept 9 recommendations and will therefore not be taking the requested action.

The Commission's responses may be summarised as follows:

1) Horizontal issues

- **Statement of assurance:** the Commission has continued to improve its accounting practices through efforts such as the Accounting Quality Project, in particular concerning the cut-off exercise. On 30 April 2008, the Commission provided Parliament's Committee on Budgetary Control with the required report on pre-financing as at 31 December 2007. Further efforts are needed to resolve a number of weaknesses in supervisory and control systems, in particular those highlighted in the reservations of the delegated authorising officers, and in relation to budget areas that were not considered satisfactory by the European Court of Auditors. The Commission will take vigorous action to address the causes of reservations in the 2007 Annual Activity Reports and will closely monitor progress;
- **Budgetary management:** the Commission is acting to ensure an effective winding-up procedure concerning the 2000- 2006 programme period for the Structural Funds, through audits of winding-up bodies, raising awareness of the closure guidelines, issued in 2006, and finalising internal procedures. After closures, the Commission will carry out audits to verify the level of residual error, and, if necessary, will apply further financial corrections. Structural Funds payments to EU-10 Member States in 2007 caught up with those in EU-15 countries at the corresponding point in the programme cycle. Cohesion Fund payments in 2007 were still somewhat below forecasts in certain Member States, and at the end of 2007 outstanding commitments overall stood at approximately three years of payments;
- **National management declarations:** the Commission supports the Member States which decide to issue a national declaration on a voluntary basis through the provision of financial reports from its

accounting system and by responding to information requests from national authorities, though there is no legal obligation to do so. In the Inter-Institutional Agreement (paragraph 44), the three institutions agreed that Member States should be required to produce annual summaries of available audits and declarations. This provision was included in the revised Financial Regulation and the summaries were due for the first time in February 2008. The Commission is focussing its attention on rigorous implementation of the provisions for "annual summaries". Overall the outcome of the first round of annual summaries has been positive and the Commission considers this a success that it can build on;

- **Governance:** the Commission's governance model respects the provisions of the Treaty. Directors-General and Heads of Service are assigned management responsibility for the resources that each are allocated by the budgetary authority. Each prepares an end-of-year report and declaration giving assurance on the use of the resources, if necessary with reservations (annual activity report and declaration). The Commission considers that adding further formal declarations of the Secretary-General or the Director-General for Budget would make the lines of responsibility less clear as it would blur the responsibilities of Directors-General and lead to potential interference between the central services and the operational services. The Commission has insight on funds whose management is shared with the Member States. The governance architecture is clear on the share of responsibilities: the Member States have the primary responsibility to take all measures necessary to ensure that the funds are used in accordance with the applicable rules, including the setting-up of efficient control mechanisms. The Commission must supervise the whole system and verify that the Member States are carrying out the tasks entrusted to them correctly. Where it concludes that this is not the case, it must use the available mechanisms to suspend payments and apply financial corrections.In February 2008, the Commission adopted an Action Plan aimed at further strengthening its supervisory role under shared management of structural actions;
- **The Commission's internal control system:** the Commission presented in February 2008 a progress report on the Commission Action Plan towards an integrated internal control 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’;
- **Synthesis Report:** the Synthesis Report reflects all instances where there were qualifications to assurance on the legality and regularity of Commission spending; the Commission has instructed its services to take vigorous action to address the causes of reservations. It requires that, in all instances where there is a difference between the European Court of Auditors' opinion and that of the Director-General, the latter will have to explain it in his/her next year’s Annual Activity Report;
- **Political responsibility and administrative responsibility at the Commission:** the Commission notes that overall progress has been made in the presentation of the Annual Activity Reports. In 2007, internal control templates were introduced, allowing greater comparability between the services' Annual Activity Reports. For the 2008 Annual Activity Reports exercise, the Commission will provide further guidance on the treatment of risks to reputation and on the link between error rates, materiality and reservations. The Commission welcomes the positive reaction of the European Parliament to its suggestion to consider a common approach to registration of lobbyists. Action has also been taken to improve information on beneficiaries of EU funding and members of expert groups. The Commission considers that the existing code of conduct for Members of the Commission already contains comprehensive and appropriate rules on responsibility and ethics. The staff working for Members of the Commission are recruited in accordance with Staff Regulations. As regards ethical rules, an independent studyconcluded that the European Commission’s system is sound, and that the necessary rules and procedures are in place.

b) Sectoral issues

- **Revenue:** the reservations on items in Member States' annual VAT statements are placed by the Commission in its control reports. The Commission will, in co-operation with the Member States, continue its efforts to ensure that reservations are lifted within reasonable time frames. The Commission will, where necessary, make management visits designed to devise – with the Member State concerned - suitable strategies to resolve long-outstanding reservations. Where progress towards the lifting of reservations cannot be shown, the Commission will consider whether starting infringement proceedings will be beneficial;
- **Common Agricultural Policy:** like the European Parliament, the Commission welcomes the fact that the Court found general improvements in the management of CAP expenditure in 2006. The Commission continues through its audits to monitor the full and correct application of the IACS tool. In case of deficiencies, the Commission imposes financial corrections. In 2008, six audit missions on IACS to new Member States are planned. The situation of IACS in Greece is subject to a reservation in the DG AGRI Annual Activity Report and is being addressed by an action plan. 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 part of the Health Check of the CAP the Commission has presented legal proposals in order to prevent agricultural income support being allocated to companies and firms whose business purpose is not or only marginally targeted at exercising an agricultural activity. Under this Regulation, if adopted, Member States may decide not to grant them direct payments;
- **Structural measures, employment and social affairs:** in February 2008, the Commission adopted an Action Plan aimed at further strengthening its supervisory role under shared management of structural actions. The Commission will provide an interim progress report on the Action Plan in October 2008 and a final report in January 2009. The follow-up of the error findings of the Court has been incorporated into the Action Plan. In line with its guidelines on financial corrections for public procurement irregularities, the Commission will make 100% corrections for serious breaches of the public procurement rules, and will apply flat-rate or extrapolated corrections where justified. The Commission informed Parliament of the initial results of the submission of annual summaries of the Directorates-General for Regional Policy and Employment. The Commission provided Parliament with a further update in April 2008, and informed it of the infringement proceedings being brought against Germany. The Commission considers that a key feature of the annual summaries, which contributes to reinforcing the Member State 's accountability for its use of EU funds, is their formal submission by a central body. The Commission will present a revised guidance note to Member States with recommendations to improve the quality of their annual summaries for 2008;
- **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 over a period of four years. In the education and culture area, the Commission is implementing a revised supervision strategy based on the "integrated control framework" approach. This includes ex-ante declarations of assurance for the 2007-2013 period issued by National Authorities and annual ex-post declarations of assurance concerning the use of funds during the previous year. The Commission continues taking appropriate measures to comply with the European Parliament's recommendation and request related to delayed payments to beneficiaries and thus 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:** in keeping with the commitments made during the 2006 discharge procedure, the Commission will provide information on multi-donor trust funds annually and at Parliament's request. For Iraq and Afghanistan, the Commission provides regular updates. The Commission has

taken a series of actions aiming at improving the systems designed to ensure the legality and regularity of external actions expenditures at the level of project implementing organisations. The European Parliament's 2006 discharge resolution also contains recommendations in areas such as pre-accession, humanitarian aid, development policy and external relations. The Commission's replies to these recommendations can be found in the parallel working document mentioned above;

- **Administrative expenditure and issues concerning the agencies:** on 9 July 2008, 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. As regards the community buildings policy, a study was commissioned in 2007 from a specialised company. This study provides a structured approach for the necessary works to be carried out over time in order to ensure sound and efficient management of the Commission's property investments. A second study, on the buildings in usufruct, will be launched towards the end of 2008/beginning of 2009. The results of these studies will be used to support the budget requests in this area.