

# 2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 10/11/2008 - 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 2007 (section III – Commission).

**CONTENT:** the Court of Auditors published its 31<sup>st</sup> annual report on the implementation of the general budget of the European Union, covering the financial year 2007.

**Finally an overall positive Statement of Assurance: the European Court of Auditors' opinion on the EU accounts is now 'unqualified', for the first time** since the introduction of the accruals based accounting rules. The opinion on the underlying transactions remains broadly similar to that of last year, although the Court identifies the need for improvements in supervisory and control systems and recommends the simplification of regulations. The Court also provides a clean (unqualified) opinion on the consolidated accounts. It states that the 2007 annual accounts of the European Communities give a fair presentation, in all material respects, of the financial position of the European Communities and the results of their operations and cash flows. Moreover, the Court gives a clean opinion on the legality and regularity in certain areas, such as the Union's administration.

However, **for most spending areas the Court cannot provide a clean opinion.** Although most of the payments which the Court checks are made in compliance with the rules, the Court still finds that payments made to final beneficiaries, such as farmers and project promoters running EU-funded projects, have a too high level of error (non-compliance with rules). The Court also notes that weaknesses in the accounting systems, which are partly due to the complex legal and financial framework, still put at risk the quality of financial information of certain Directorates-General of the Commission (in particular for pre-financing, the related cut-off and for invoices/cost claims).

**A successful reform program but the costs involved risks being too high:** the Commission has, since 2000, been working on a reform program to improve the management of the EU budget, including an action plan launched in 2006. For 2007, the Court has identified further progress in the Commission's supervisory and control systems, in particular in the area of monitoring and reporting. By the end of the year the Commission had implemented two thirds of the sub-actions in the action plan. It is however too early to assess their impact. Overall, the Court considers that improved high level controls - such as Commission supervision of Member State controls – cannot compensate for inadequate lower level controls, including **on-the-spot-checks**. The benefits of increasing the number of the latter however have to be balanced against the costs. The Court encourages the political authorities of the Union to conclude their analysis of what would be a **tolerable level of risk of error**. Moreover, the Court calls for due consideration to be given to simplification - for example in rural development and research. Well designed rules that are clear to interpret and simple to apply decrease the risk of error.

**Still progress to be made:** as in previous years, the Court examines, on a case by case basis, the policies that still pose problems and makes the following observations:

- **cohesion policies** (EUR 42 billion): cohesion policies are the area most affected by errors. Following the Court's sample estimate, at least 11% of the value of reimbursed cost claims should not have been paid out;
- **agriculture:** overall, in agriculture and natural resources (EUR 51 billion) the estimated overall error rate is still material. Rural development, with its often complex rules, accounts for a

disproportionately large part of this error rate. For European Agricultural Guarantee Fund (EAGF) expenditure, the Court estimates the value of the error rate to be slightly below materiality. The Court concludes that supervisory and control systems are only partially effective in providing assurance as to compliance with EU rules. However, it concludes that the Integrated Administration and Control System (IACS) continues to be effective in limiting the risk of irregular expenditure where properly implemented and if accurate and reliable data are entered into the system;

- **other policies:** the estimated error rates in some spending, notably that previously covered under the headings "internal policies" and "external actions" have fallen - however not enough to affect the overall picture. In "Research, energy and transport", the Court found that payments are affected by a material level of error. The Court concludes that, despite some improvements, the Commission's supervisory and control systems are only partially effective in mitigating the risk of reimbursement of overstated or ineligible cost in these areas. Moreover, in "External aid, development and enlargement", the Court found that transactions underlying the expenditure are affected by a material level of error, mostly at the level of implementing organisations. Lastly, in "Education and citizenship", similar shortcomings were noted by the Court.

In all of these areas of expenditure (agriculture and natural resources, cohesion, research, energy and transport, external aid, development and enlargement, as well as education and citizenship), the Court considers that the Commission and the Member States and other beneficiary states need to make further efforts to implement adequate supervisory and control systems, so as to improve the management of the risk of illegality and irregularity.

**In conclusion**, the Court has identified further progress in the Commission's supervisory and control systems. However, the Court considers that the Commission is not yet able to demonstrate that its actions to improve supervisory and control systems have been effective in mitigating the risk of error in large areas of the budget.