

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

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**PURPOSE:** to present the Council's recommendation on the discharge to be given to the Commission in respect of the implementation of the Community budget for the financial year 2007 (Section III – Commission).

**CONTENT:** the Council adopted by qualified majority a draft recommendation regarding the implementation of the Union's budget for the financial year 2007. The recommendation highlights, first of all, the main figures for the financial year 2007:

## **Revenue and expenditure account for the financial year 2007:**

- revenue amounted to EUR 117 562 980 129.91;
- expenditure disbursed from appropriations amounted to **EUR 113 027 971 812.19**;
- cancelled payment appropriations (including earmarked revenue) carried over from 2006 amounted to EUR 246 263 210.47;
- appropriations for payments carried over from 2007 to 2008 amounted to EUR 3 114 011 336.73;
- the positive budget balance amounts to EUR 1 541 645 648.65.

Cancelled payment appropriations for the financial year amount to EUR 1 464 804 208.59. EUR 925 290 724.60 (79%) of the EUR 1 174 039 065.74 in appropriations for payments carried over from 2006 to 2007 have been used.

Based on the observations made in the Court of Auditors' report, the Council calls on the European Parliament to **give discharge to the Commission** in respect of the implementation of the 2007 budget. However, the Council has issued a series of comments in regard to budgetary implementation which will need to be fully taken into account when granting the discharge.

**DAS: the Court of Auditors delivers an overall favourable opinion:** while the Council regrets that the Statement of Assurance (DAS) remains qualified for a significant part of the budget for the financial year 2007, it welcomes the fact that the annual accounts of the European Communities present, **for the first time without a reservation**, fairly in all material respects the financial position of the European Communities. The Council regrets that the Court's opinion for "Cohesion", "Research, energy and transport", "External aid, development and enlargement", "Education and citizenship" and "Agriculture and natural resources" remains qualified, while noting with satisfaction that the Integrated Administration and Control System (IACS) continues to be effective, where properly implemented. In this context, the Council stresses the importance of further simplification of legislation in order to continue to make progress towards achieving an unqualified DAS in all areas of the budget. The Council also calls for simpler rules governing the programmes.

The Council recalls the great importance it attaches to the protection of the Communities' financial interests, as well as the fight against fraud, and in regard to:

1. **the reliability of the accounts**, calls on the Commission to remove the weaknesses in the accounting system and improve the information in the notes in the accounts on the correction mechanisms concerning undue payments, as well as the completeness and accuracy of the basic accounting data;

2. **the legality and regularity of the underlying transactions**, calls for efforts to be made to ensure that, in future, there are no reservations in any of the aforementioned budgetary areas. The Council notes in particular that, with regard to cohesion, the qualified statement of the Court's audit estimated that the transactions were affected by a material level of error of at least 11% (which remains difficult to accept).

**Shared management:** the Council recalls that the Commission shall implement the budget on its own responsibility and within the limits of the appropriations. The Council recalls, in this respect, the key role of Member States in improving financial management.

**Commission internal control system:** the Council welcomes the fact that the Court, in its statement, concludes that the Commission made further progress in its supervisory and control system. It notes, however, that the Commission itself acknowledges that further efforts are needed to resolve a number of weaknesses. The Council regrets, in particular, that there is still **no evidence that actions undertaken to improve supervisory and control systems have been effective in mitigating the risk of error** in policy areas related to "Agriculture and natural resources", "Cohesion", "Research, Energy and Transport", "External aid, development and enlargement" and "Education and citizenship". It therefore calls on the Commission to take all the necessary measures for a further improvement of control systems including all control levels. The Council reiterates the fact that it is essential that **the whole process aimed at reducing the level of error should not necessarily mean that, as a result, there is an increase in administrative and control costs**.

**Budgetary management:** the Council notes a considerable improvement compared to the first year of the previous programming period. It calls on the Commission to make every effort to avoid delays in the examination of major projects and the management and control systems which could have an adverse impact on the future implementation of the budget. While noting that the budgetary surplus continues to decrease, the Council reiterates that a realistic and sufficient budgeting from the stage of the preliminary draft budget onwards remains an essential element of good budgetary management.

**RAL:** notwithstanding that 2007 is the first year of the new programming period, the Council notes with great concern that the overall level of outstanding budgetary commitments (RAL) continues to increase. Nevertheless, it notes with satisfaction a decrease of RAL for Structural Funds for the 2000-2006 programming period and calls on the Commission to continue with its efforts so as to avoid any delays in the closure of these programmes. The Council acknowledges that the "n+2" rule has had the intended effect and calls on the Member States to give additional attention to ensuring timely liquidation of commitments.

**Financial corrections and recoveries:** the Council acknowledges the substantial efforts made by the Member States and the Commission in providing complete, accurate and timely information on financial corrections and recoveries. However, it notes the Court's observations on the remaining deficiencies and encourages the Member States and the Commission to further improve the completeness and accuracy of information with the aim of providing reliable evidence allowing the Court to assess the effectiveness of the multiannual correction mechanisms for EU spending.

The Council also makes a number of observations on each of the **budgetary areas**:

- **Agriculture and natural resources:** the Council notes with concern that the transactions underlying the expenditure declared for this policy area, taken as a whole, are affected by a material level of error. Therefore, the Commission and the Member States should continue to make efforts in strengthening their supervisory and control systems. It welcomes the Court's conclusion that the Integrated Administrative Control System (IACS), when properly implemented, continues to prove effective in limiting the risk of error, but regrets the fact that calculation and allocation of Single Payment Scheme (SPS) entitlements by national authorities are still not correct in all Member

States. The Council urges the full implementation of controls and checks under IACS in all Member States. With regard to rural development, the Council regrets that this sector is accountable for a disproportionately large part of the overall error rate. It calls for a simplification of complex rules and more precise definitions of eligibility criteria (especially for agri-environmental schemes). Moreover, with regard to the environment, fisheries, health and consumer protection, the Council calls for more thorough audits (including an ex-post audit for the LIFE instrument);

- **Cohesion:** the Council notes with great concern the Court's estimate that at least 11% of the total amount reimbursed to Cohesion policy projects should not have been reimbursed. According to the Council, such a rate is a clear indicator of high inherent and control risk, mainly due to the complexity of rules and conditions to comply with. It points out that the mitigation of high inherent risk requires **further simplification of rules** as well as both effective control systems in the Member States and **effective supervision by the Commission**. It therefore urges the Commission and the Member States to work closely together at all stages in the control chain to improve the situation;
- **Research, energy and transport:** the Council regrets the material level of error in payments as well as the weaknesses in supervisory and control systems identified by the Court's audit of this area. The Council stresses the importance of a substantial simplification of the legal framework, which should be regarded as a general guidance principle for the new programming period (by making more extensive use of financing methods which are based on lump sums, where possible). The Council also urges the Commission to ensure timely payments to beneficiaries. Moreover, it calls for the improvement of monitoring tools;
- **External aid, development and enlargement:** the Council regrets that a material level of error was once again detected, mostly at the level of **project implementing organisations**. While acknowledging the Commission's continuous efforts to mitigate the problems identified in this area, the Council calls on it to enhance its efforts and take all the necessary measures to decrease the material level of error significantly. In this context, the Council is aware that, due to the multiannual nature of the programmes, the errors detected during the course of a project can be remedied in a year later than the one under examination. The Council considers that the Commission should enhance its audit strategy and monitor the **beneficiary countries' systems**. Regarding **budget support**, the Council expresses its concerns about the fact that the performance indicators used to provide assessments were not in all the cases examined time-bound, sufficiently clear and unambiguous and achievable. With regard to the monitoring of implementing organisations, the Council encourages the Commission to further enhance its action and urges it to provide for more training and support to project finance staff and to increase the active monitoring of their work by Commission's delegations. As regards the funds channelled through United Nations organisations, the Council insists on the need for a closer control by the Commission. As far as the **Enlargement policies** are concerned, the Council regrets weaknesses detected in some implementing organisations, while taking note of the improvements made in the course of 2008. Lastly, the Council underlines the importance of **field audits for all types of partners** and notes that the Commission has increased them in 2007. It therefore underlines the need to achieve a better balance between headquarter and on-the-spot audits of the implementing partners;
- **Education and citizenship:** the Council regrets that this policy area was affected by a material level of error in payments. It calls on the Commission to enhance the simplification of the often complicated legal framework by establishing clearer eligibility criteria and easier rules for the calculation of eligible expenditure. The Council is aware of the fact that many programmes are multiannual and that their execution has just started and calls on the Commission to verify in further detail the **certification of management structures** carried out by national entities;
- **Administrative expenditure:** the Council is seriously concerned about the lack of uniform application of rules affecting the staff across the institutions. Most notably, the Court's audit revealed significant differences in the application of the multiplication factor applicable to salaries. Such differences are not in line with the principle of equality of treatment for all staff since staff of some institutions may benefit from an advantage the others do not. Therefore, the Council encourages all the institutions to agree on a uniform approach to the application of the Staff

Regulations. It is equally concerned by the Court's observation on the absence of any formal selection procedures for contract staff for auxiliary tasks in some institutions and urges all the institutions to comply fully with the provisions of the Conditions of employment of other servants of the European Communities. Lastly, with regard to the EU agencies, the Council regrets serious problems identified by the Court in respect of the European Police College and the European GNSS Supervisory Authority (refer to the relevant discharges for these agencies). It regrets, in particular, the persistently unrealistic requirements for funds (which translate into high carry-over and cancellation rates). It therefore urges the Commission to carefully check the requirements of funds and posts as proposed by the agencies, with the aim of presenting a realistic budget proposal.