2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 11/12/2009 - Document attached to the procedure

FOLLOW-UP REPORT TO THE 2007 COMMISSION DISCHARGE DECISION : FOLLOWING THE COUNCIL RECOMMENDATIONS

Preliminary remark: this Commission report concerns the follow-up of the recommendations made by the Council on the 2007 discharge decisions. The Commission's full responses to the 90 recommendations may be found in the Commission's working document (SEC(2009)1700).

CONTENT: the Commission has identified a total of 90 recommendations made by the Council to the Commission in the context of the 2007 discharge. The Commission considers that for 44 recommendations the required action has already been taken, though in some cases results of the actions will need to be examined. For another 46 recommendations the Commission agrees to take the action recommended by the Council:

- **Introduction**: simplification of eligibility rules: the Commission agrees that simplification has a key role to play in reducing errors occurring in the implementation of EU policies. However, a certain degree of complexity in rules and eligibility criteria is unavoidable. Improvements have been incorporated into the 2007-2013 legal bases. Further simplification measures for Structural Funds, such as the possibility to declare costs on the basis of flat rates, unit costs and lump sums, were decided in May 2009. The impact of simplification of eligibility rules on the rate of error is expected to become visible in the medium- to long-term. Moreover, the Commission notes that the degree of complexity of the eligibility rules has a direct link with the intensity and cost of controls required to gain reasonable assurance on the legality and regularity of transactions. If simplified eligibility rules are decided and effectively implemented the underlying transactions will be less prone to error, which will allow to perform less extensive controls (controls can be focussed on output rather than input) and ultimately reduce the cost of controls.

- **The statement of assurance (DAS)**: with regard to the information on financial recoveries, a new IT tool was put in place during 2008 to improve the reliability and completeness of information on the correction of errors, including those relating to payments of earlier years.

- **Commission Internal Control**: an impact report on the action plan towards an integrated internal control framework was adopted by the Commission in early 2009 (COM(2009)43). The Commission took further steps to ensure that reports and declarations present a consistent assessment of supervisory and control systems, with clear explanations made of the reasons and control processes leading to the absence, presence or removal of reservations. As regards funds managed by the Member States under shared management, the Commission will continue to work with Member States to add value to the Annual Summaries. For the financial year 2008, all Member States were able to comply with the legal obligations. The Commission considers that the concept of a tolerable risk of error will provide a clear view on the cost-effectiveness of the overall control system, and is taking this forward in the light of the positive reaction in the 2007 Discharge resolution. The nature of the work required and timing will vary according to the different policy areas and their multi-annual execution. The Commission will make concrete proposals for tolerable risk in the areas of research, energy and transport and rural development in the first half of 2010 and on external aid, development and enlargement and administrative expenditure in the latter half of 2010.

- **Budgetary management**: the Commission continues striving towards realistic and sufficient budgeting already from the stage of the preliminary draft budget. This includes careful analysis of Member States' expenditure forecasts in order to improve their usefulness for budgeting purposes. In the Cohesion policy area, it is also examining the Member States' descriptions of their management and control systems for the 2007-2013 period. The Commission has further improved its reporting on implementation of Community programmes and outstanding commitments (RAL).

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

- **Agriculture and Natural Resources**: the Commission concentrated on the case of Greece which posed a particular problem in 2006. Regarding IACS, Greece has complied with its action plan and has created a new, operational LPIS. The new system will be used by the Greek authorities for the first time during the 2009 claims procedure. The Commission will continue to closely monitor the IACS procedure in Greece. The Commission recalls that the Member States are required to recover from the final beneficiaries irregular payments identified. However, recovery from the final beneficiaries is often not possible because the problems identified relate to deficiencies in the Member States' management and control systems. Member States should improve these systems and prevent or detect and recover irregular payments to final beneficiaries. The Commission welcomes the Council's support for the application of the 50/50 rule, which provides a strong incentive for Member States to ensure an expeditious and effective recovery of irregular payments from the final beneficiaries.

- **Cohesion**: improving the effectiveness of the control system for Cohesion Policy continues through both preventive and corrective action. For the closure of the 2000-2006 programmes the focus is on removing irregular expenditure through financial corrections and on the work of winding-up bodies to ensure that the residual risk of irregular expenditure in closed programmes is low. For the 2007-2013 period the preventive phase is continuing with the completion of the compliance assessment procedure for the new programmes, the provision of guidance and training, and simplification of operating conditions. A number of simplifications have been introduced, e.g. concerning revenue-generating projects and the use of flat rates and lump sums for certain outputs. Further simplifications were introduced to allow quicker disbursement of Cohesion policy funds in response to the economic downturn. Lastly, the Commission has taken action to speed up its procedures and reduce unnecessary delays in the application of payment suspensions and financial corrections following detection of significant deficiencies during audits. This has been reflected in a large increase in the number of suspension decisions and in the volume of financial corrections in 2008 compared to 2007.

- **Research, Energy and Transport**: the Commission has devised a control and audit strategy aimed to ensure the legality and regularity of expenditure under the research Framework Programmes on a multiannual basis. It is based on the detection and correction of errors which could not be identified before making the payment. The seventh Framework Programme (FP7) has brought about a number of important simplifications, in particular the introduction of the "participants guarantee fund" which allowed a considerable reduction in the numbers of ex-ante financial checks and the use of protective measures. The Commission agrees to the general need for more profound simplifications and asks the legislator to support the adaptations to the legal basis that would be necessary (revision of the Financial Regulation, Framework programme participation rules) for the preparation of the 8th Framework Programme (FP8).

- **External aid, Development and Enlargement**: the Commission has started further work on measures to support implementing organisations and beneficiaries of EC external aid projects in the management of EC funds. The Terms of Reference for verification missions were agreed between the UN and the Commission in April 2009, and the Commission also believes that the

efforts made to explain the operation of the verification clause in Contribution Agreements with the UN - including through training - will help to ensure that misunderstandings are avoided in UN country offices and delegations. As regards budget support, guidelines are currently being revised to improve the design and assessment of eligibility conditions and of specific results oriented indicators in order to achieve a more rigorous results oriented approach.

- **Education and Citizenship**: the design of the new programmes 2007-2013 has taken into account the recommendations of previous years to simplify the rules and allows extensive use of lump sum financing. The necessary steps have been taken to improve ex-ante control for communication expenditure, including the development of appropriate check-lists.

- **Administrative and other expenditure**: as requested by the Council, the Commission offers wide-ranging assistance to decentralised agencies in several areas, such as financial management, accounting and training, and agencies are encouraged to sign service-level agreements with the horizontal Commission Directorates-General for support services. The Commission will take into account the results of the Interinstitutional Working Group in order to adjust its assistance further. The Council and the European Parliament are also involved in the evaluation of EU decentralised agencies through the Reference Group. The results of the evaluation should be available by end 2009.