2008 discharge: EU general budget, section III, Commission

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PURPOSE: to present the report of the Court of Auditors on the implementation of the budget concerning the financial year 2008 (section III – Commission).

CONTENT: the Court of Auditors published its 32nd annual report on the implementation of the general budget of the European Union, covering the financial year 2008.

Statement of Assurance: unqualified opinion on the reliability of the 2008 accounts: the Court concludes that the 2008 annual accounts of the European Communities present fairly, in all material respects, the financial position of the European Communities and the results of their operations and cash flows. It also states that the revenue transactions are free from material error. The related supervisory and control systems are assessed as effective, although the Court draws attention to certain weaknesses. They are, however, not material to the effectiveness of the systems as a whole.

Without calling this opinion into question the Court notes that **weaknesses in the accounting systems** of certain Directorates-General of the Commission as well as in the accounting system for the fixed assets of the European Satellite Programme **Galileo** put the quality of financial information at risk. This is partly due to the complex legal and financial framework.

Steps taken to strengthen the accruals-based accounting system: the measures introduced by the Commission's Accounting Officer in 2007, to improve the accounting control environment at the level of individual Directorates-General, have had an impact in 2008 and have contributed to a strengthening of the financial reporting framework and accounting systems. However, certain weaknesses still exist which put at risk the quality of accounting data.

When it comes to **legality and regularity of transactions**, the overall results for 2008 reflect the improvements in the management of the budget in recent years. The Court's opinion can be summarised as follows:

- **Unqualified opinions**: for 2008 the Court gives unqualified opinions for "Revenue", commitments for all policy groups and payments for the policy groups "Education and Citizenship" and "Administrative and other expenditure".

- **Qualified opinions**: payments for the policy group "Agriculture and natural resources", except for Rural Development are in all material respects legal and regular. Payments for the policy group "Economic and financial affairs", except for expenditure in this policy group concerning the Sixth Framework Programme for research and technological development (FP6), are in all material respects legal and regular.

- **Adverse opinions**: the Court gives adverse opinions for policy groups "Cohesion", "Research, energy and transport", as well as "External aid, development and enlargement". Payments in these policy groups are materially affected by errors, although at different levels.

Court's analysis of main policy sectors:

- **Agriculture and natural resources** (EUR 55 billion): for the policy group taken as a whole, the Court estimates the value of the overall error rate to be slightly below 2%. The Court found eligibility errors of Single Area Payment Scheme (SAPS) payments to beneficiaries not meeting the farmer definition as they had not carried out any agricultural activity nor maintained the land in good agricultural and environmental condition (GAEC). Rural development, which represents 19% of all spending, is still affected by a higher level of errors than the rest of agricultural expenditure (EAGF), although the estimated error level is lower than in previous years and relatively small in financial terms.

- **Cohesion** (EUR 36.6 billion): the Court concludes that the reimbursement of expenditure to Cohesion projects is affected by a material level of error of legality and/or regularity. In 2008 again a large number of reimbursements to the Cohesion projects were affected by errors, i.e. a large number of projects were over-reimbursed. The Court has established a sample estimate, based on which it concludes that **at least 11% of the total amount reimbursed should not have been paid out**. In the cases audited by the Court this year the most frequent causes of incorrect expenditure reimbursements in the Structural Funds were related to eligibility of funding, such as projects or beneficiaries not meeting specific fund conditions, serious failure to respect procurement rules and inclusion of costs which are not reimbursable.

- **Research, energy and transport** (EUR 7.5 billion): the Court concludes that payments in 2008 for this policy group are affected by a material level of error, although the remedial measures taken by the Commission have contributed to a reduction in the level of error in comparison to previous years. Errors mainly concern the reimbursement of ineligible personnel and indirect costs for FP6 research projects.

- **External aid, development and enlargement** (EUR 6.2 billion): the Court concludes that transactions underlying the expenditure in this policy group are affected by a material level of error of legality and/or regularity. Its assessment of the supervisory and control systems is that they are only partially effective in ensuring the regularity of payments. The Court found eligibility errors, such as not meeting essential conditions required for expenditure and inclusion of VAT and other ineligible taxes. In other cases the supporting evidence (e.g. invoices, receipts and bank statements) for payments was not provided, time limits were not respected and procurement procedures presented irregularities.

- **Other policies**: the Court considers that the payments of other policy groups including "Education and citizenship" (EUR 1.7 billion); "Economic and financial affairs" (EUR 600 000 million); "Administrative and other expenditure (EUR 8.5 billion) did not show significant errors.

Improvements to the supervisory and control systems: the Court states that past recommendations made to improve supervisory and control systems still remain valid. They must be seen as parts of an **ongoing process**, where the relevant measures will take time before they can be deemed to be effective. Particular and additional attention needs to be directed at those expenditure areas where the Court continues to report a high level of error. In many situations the errors are a consequence of too complex rules and regulations. **Simplification, therefore, remains a priority**.