

2009 discharge: EU general budget, Section III, Commission

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PURPOSE: to present the Court of Auditor's report on the implementation of the budget concerning the financial year 2009 (section III - Commission).

CONTENT: the Court of Auditors published its 33rd annual report on the implementation of the general budget of the EU for the financial year 2009.

The report is presented in two parts:

1. the first part is taken up with the Court's work on the reliability of the annual accounts and on the regularity of transactions;
2. the second part concerns audit findings of EU revenue and expenditure (arranged by groups of policy areas which correspond broadly to the headings used in the 2007-13 Financial Framework).

The statement of assurance (the 'DAS') on the reliability of the annual accounts and on the regularity of transactions makes up the central part of the report.

It should be noted that the Court is this year, for the first time, forwarding its Annual Report to national parliaments at the same time as to the Council and the European Parliament, as provided for in the Treaty of Lisbon.

DAS: the Court states an unfavourable opinion regarding payments: overall, the Court considers that payments are materially affected by error (the most likely error rate is between 2 % and 5 % of payments made) and concludes that the supervisory and control systems are generally partially effective.

Accounts: : generally, the Court considers that the Annual Accounts of the EU present fairly, in all material respects the financial position of the Union as of 31 December 2009, and the results of their operations and cash flows for the year then ended. Without calling into question this opinion, the Court notes that weaknesses in the accounting systems of certain Directorates-General of the Commission (in particular accounting for pre-financing and the related cut-off as well as for invoices/cost claims) still need to be resolved.

Legality and regularity of the transactions underlying the accounts: in the Court's opinion, 'Revenue', commitments for all policy groups and payments underlying the accounts for the policy groups 'Economic and financial affairs' and 'Administrative and other expenditure' for the year ended 31 December 2009 in all material respects are legal and regular.

However, payments underlying the accounts for the policy groups (i) agriculture and natural resources; (ii) cohesion; (iii) research, energy and transport; (iv) external aid, development and enlargement; and (v) education and citizenship are materially affected by error. The supervisory and control systems are partially effective in preventing or detecting and correcting the reimbursement of overstated or ineligible costs.

Analysis of budget implementation by policy group and Court's recommendations:

- **Agriculture and natural resources** (EUR 56.3 million): the Court specifies that out of 241 transactions examined, 27 % were affected by error. Whilst some quantifiable errors concerned the eligibility of payments, most were accuracy errors and most of the latter were over-declarations of eligible land. In view of the significant number of material errors, the Court recommends that the systems weaknesses identified are resolved, regarding deficiencies in the Single Payment Scheme (SPS) and the Single Area Payment Schemes (SAPS). It discusses the following measures: (i) to overcome the systems weaknesses leading to errors relating to ineligible land or over-declarations of land as well as inaccurate entitlements; (ii) to ensure that all IACS databases provide a reliable and full audit trail for all modifications made; (iii) to clarify and enforce further the rules so that EU direct aid is not paid to claimants who have neither used the land for farming nor maintained it in GAEC; (iv) to set at EU level minimum annual maintenance requirements for grassland to be eligible for EU direct aid. Further efforts are also required in the area of Rural Development to simplify the rules and conditions.
- **Cohesion** (EUR 35.5 million): the Court notes that in 2009 this policy group, where the level of material error has been significantly higher than other policy groups for some years, has shown a decrease in the error rate (36% instead of 43% in 2008). However, it is the area most affected by errors. Audited weaknesses were noted with regard to verifications carried out by Managing Authorities and/or systems audits undertaken by Audit Authorities. The Court recommends that the Commission : (i) encourage national authorities rigorously to apply the corrective mechanisms prior to certification of the expenditure to the Commission; (ii) ensure that the substitution of ineligible with new expenditure (withdrawal) does not result in new irregular expenditure being declared by Member States; (iii) ensure effective functioning of the national management and control systems for the 2007-2013 programming period; (iv) monitor closely the correct application of the EU Directives on public procurement in Member States.
- **Research, energy, transport** (EUR 8 million): the principal source of errors for this policy group concerns the reimbursement of overstated personnel and indirect costs in research projects. The Commission's control system for research expenditure also appears inefficient. The Court encourages the Commission to continue its efforts to ensure rigorous application of effective control systems. In this context the Commission should: (i) review the operation of the system for the certification of beneficiaries' costing methodologies; (ii) reduce the backlog in recovering undue amounts paid, **imposing sanctions where necessary**. The Court notes the complex funding mechanisms for research, and welcomes the Commission's proposals for further simplification of the research funding rules.
- **External aid, development, enlargement** (EUR6.6 million): the most significant errors identified concern quantifiable eligibility errors and non-quantifiable errors. Eligibility errors include inclusion of ineligible expenditure in the project cost claims and irregularities in the tendering and contract award procedures. Non-quantifiable errors concern irregularities in procurement procedures, non-compliance with the contract award criteria, and lack of an adequate audit trail. In general, the supervisory and control systems of the different DGs were ineffective. The Court recommends that the relevant DGs: (i) put in place mechanisms to facilitate the analysis and follow up of the results of the monitoring missions carried out; (ii) devote sufficient resources to the analysis of the outstanding final declarations submitted under PHARE and the Transition Facility in the new Member States; (iii) improve the documentation of assessments of proposals for humanitarian aid actions.
- **Education and Citizenship** (EUR 2.2 million): the Court found that 24% of the closures audited contained quantifiable errors. The most common type of quantifiable error found was errors of eligibility, the most widespread being eligibility errors at national level. The Court concludes that the supervisory and control systems were partially effective and recommends checks on closures to ensure that errors are corrected.
- **Other policies**: the Court considers that payments of policy groups including 'Economic and Financial Affairs' (EUR 0.7 million) and 'Administrative and other expenditure'(EUR 9.1 million) were free from material error.

