2010 discharge: EU general budget, Section III, Commission

2011/2201(DEC) - 17/02/2012

In accordance with Article 319 of the Treaty on the Functioning of the European Union, the Council approved a recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2010.

Breakdown of the expenditure:

- revenue amounted to EUR 127 795 326 628.52
- expenditure disbursed from appropriations amounted to **EUR 121 212 689 332.56**
- cancelled payment appropriations amounted to EUR 740 844 913.80
- appropriations for payments carried over from 2010 to 2011 amounted to EUR 2 792 592 118.31
- the positive budget balance amounted to EUR 4 548 703 222.91

Cancelled payment appropriations for the financial year amounted to EUR 740 844 913.80.

EUR 1 018 014 697.57 (58 %) of the EUR 1 758 859 611.37 in appropriations for payments carried over have been used.

Based on the observations contained in the report by the Court of Auditors, the Council calls on the European Parliament to **grant discharge to the Commission** in respect of the implementation of the 2010 budget. However, the Council issues a series of comments that need to be fully taken on board when granting discharge.

Statement of assurance (DAS): the Council notes that for the fourth consecutive year, the annual accounts of the EU gave a fair presentation of the financial position of the Union and the results of its operations and cash flows. Nevertheless, it draws attention to the **implications of the substantial increase in pre-financing payments**, in particular to create or to contribute to financial engineering instruments, and the need to record their establishment and clearance properly in the accounts. It recalls the importance of having comprehensive, consistent and timely information on the actual use of pre-financed amounts available. It asks the Commission to continue to improve its supervision of the use of pre-financed amounts, to revisit the relevant accounting rules, and to systematically collect the necessary data from Member States in a timely manner.

The Council regrets that, in the overall assessment made by the Court of Auditors, **payments from the budget continued to be materially affected by error** and that supervisory and control systems for payments audited by the Court remained only partially effective in ensuring the legality and regularity of transactions. However, it welcomes the Court of Auditors' Statement of Assurance (DAS) on the implementation of the budget for the financial year 2010 which shows evidence of a **generally stable quality in the implementation of the budget** compared to the financial year 2009, and of a most likely error rate level considerably lower than found in years prior to 2009. It deduces from the Court's findings that there has been an improvement in the evolution of financial management by the Commission and Member States over recent years. It nevertheless reaffirms its wish to see year-on-year improvements creating the **basis for an unqualified audit opinion from the Court**.

The Council urges the Commission to i) fully assume its responsibilities in the implementation of the budget, and to carefully exercise its supervisory role within the existing legal provisions in order to limit

the risks to the legality and regularity of transactions, notably through the interruption and suspension of payments whenever significant deficiencies in the functioning of management and control systems are identified; ii) correct identified errors without delay through the recovery of amounts unduly paid and through financial corrections ; and iii) report about the progress made in the implementation of corrective action.

The Council also encourages the Commission to **thoroughly evaluate the functioning of existing regulations**, to identify weaknesses and possibilities for improvement, and to propose the necessary modifications in the context of the ongoing revision of the Financial Regulation. The Council recalls the importance of **simplifying policy objectives**, thus enabling a subsequent simplification of programme structures and management systems at the level of beneficiaries. In this regard, Council underlines the need to modernise the rules relating to public procurement.

The Council takes note of the considerable increase in the volume of **outstanding budgetary commitments** and calls on the Commission to settle or decommit them as soon as possible.

It also makes the following remarks:

- **Reliability of the accounts**: the Council welcomes the favourable opinion given by the Court on the reliability of the accounts for the financial year 2010. It takes note of the change in the Commission's accounting policy concerning pre-financing payments establishing or contributing to financial engineering instruments, which required the Commission to review the accounts for the financial year 2009. It encourages the Commission to continue to assure that the high quality of the accounts is also maintained in the coming years;
- **Legality and regularity of the underlying transactions**: the Council notes that the Court's audit findings, based on the audited sample of underlying transactions and of supervisory and control systems, is consistent with the **positive evolution observed in recent years** and expresses its wish to see year-on-year improvements in error rates and financial management systems. It regrets the higher frequency of errors and the increase in the most likely error rate for payments as a whole from 3.3 % in 2009 to **3.7 % in 2010**. It therefore encourages the Commission to **further reinforce supervision and control structures**, to further strengthen its cooperation with Member States and to continue to improve guidance to national managing authorities, in order to bring down the level of error in Union spending in the years to come.

Revenue: the Council notes with satisfaction the Court's conclusions that EU revenue was free from material error and that overall the related supervisory and control systems were assessed as effective in ensuring the regularity of transactions. It encourages the Commission to continue to improve its management in order to reduce the risk of budget losses from waivers of amounts to be recovered. It encourages the Commission to further improve the management of reservations, in order to pursue lifting VAT reservations.

The Council then returns to each of the **budget areas** and makes the following comments:

- **Agriculture and natural resources:** the Council regrets that the payments examined by the Court in this policy group were still affected by material error and that the most likely error rate amounted to 2.3 %. It also regrets that still 37 % of the transactions audited by the Court in 2010 were affected by error and that, despite some improvement, "Rural Development" expenditure still suffered from a higher incidence of error. In this context, it requests that efforts of remedial action should be focused on this area. It notes that a large part of quantifiable errors in 2010 were related to problems of eligibility and accuracy, the latter mainly due to **over-declarations of eligible land**. It encourages the Commission and Member States to continue their efforts to ensure the reliability and completeness of data. It also notes that **weaknesses detected in the Integrated Administration and Control System (IACS) and in the Land Parcel Identification System (LPIS)** and calls for

more controls on the ground. It highlights the significant work already made by the Commission, in collaboration with Member States, to decrease the error rate through more effective supervisory and control systems. It insists on the need for additional measures of simplification which should notably reduce the complexity of eligibility criteria. Lastly, in the context of the reform of the Common Agricultural Policy after 2013, it asks the Commission, when proposing measures to improve the systems, to avoid unnecessary administrative burden and to simplify procedures as much as possible;

- **Cohesion, energy and transport**: in this area, the Council regrets the significant levels of error even if notable progress has been made over the past two years: this level is at 7.7%. It notes, moreover, that for 58% of the transactions affected by error, Member States should have been in a position to detect at least some of them prior to certification of expenditure to the Commission. More effective management verifications must therefore be put in place by national managing authorities. It recalls the importance of applying a **strict policy of interruption and suspension of payment**s whenever significant deficiencies in the functioning of management and control systems are identified. The incorrect application of eligibility criteria and failures to comply with public procurement rules being the most common errors identified by the Court over the period 2006-2010, the Council invites the Commission and Member States to continue their efforts in monitoring compliance with EU and national eligibility requirements and public procurement rules. At the same time, the Council encourages Member States to simplify as much as possible the eligibility rules set out at national level and to actively promote the use of the existing simplified cost options. The Council welcomes the Court's specific evaluation of **contributions to Financial Engineering Instruments (FEI)** but is concerned about the deficiencies it has identified. The Council invites the Commission to continue to take corrective action, whenever appropriate, in order to ensure that national Audit Authorities deliver high quality audit results in a timely manner ;
- **External aid, development and enlargement**: the Council notes with satisfaction that the Court's audit revealed that payments in this area were free from material error. However, it is concerned about the significant level of errors found in interim and final payments which had not been detected by the Commission's controls. In addition, it recalls that the inclusion of pre-financing /advance payments in the Court's audit sample also in this policy group affects the comparability between policy areas. It is concerned that supervisory and control systems in this policy group were only partially effective in ensuring the legality and regularity of payments. More specifically, concerning **DG ELARG**, the Council asks the Commission to take the necessary measures to correct the shortcomings identified by the Court concerning **tendering procedures** and the definition of more detailed criteria for lifting ex-ante controls and suspending the "conferral of management" to third countries;
- **Research and other internal policies**: the Council regrets that interim and final payments relating to the 6th and 7th Research Framework Programmes (RFP) were subject to material error. Although it notes that the Commission has adopted measures to simplify the implementation of the 7th RFP, it calls for new measures to further simplify the existing framework. As regards the regularity of transactions, the Council notes that the main source of error in interim and final payments was the **reimbursement of ineligible or inaccurately declared costs** to projects funded from the RFP. It regrets the recurrence of the principal source of error, the incorrect calculation of personnel and indirect costs, but also the other types of error which included ineligible indirect taxes, the incorrect application of the depreciation of non-current assets methodology, and under-declared interest on bank accounts. It also regrets that the supervisory and control systems remained only partially effective in ensuring the regularity of payments. For what specifically concerns the **RFPs**, it notes that the amounts to be recovered have significantly increased. It welcomes the Commission's more extensive use of corrective measures and the Court's positive assessment of the procedures ensuring that ineligible costs are recovered. As regards the other internal policies, the Council invites the Commission to continue to strengthen the implementation of primary controls in close collaboration with national agencies;
- **Administrative and other expenditure**: lastly, the Council notes with satisfaction that, again in 2010, the administrative expenditure of EU institutions and bodies continued to remain free from

material error and that their supervisory and control systems continued to be effective in ensuring compliance with the requirements of the Financial Regulation.