

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 06/09/2012

OBJECTIVE: presentation of the Report of the European Court of Auditors (ECA) on the implementation of the 2011 budget (section III - Commission).

CONTENT: the Court of Auditors published its 35th Annual Report on the implementation of the EU budget for the 2011 financial year. This report has a two-part structure :

- a first part devoted to the work of the Court relating to the reliability of the accounts and the regularity of the operations,
- a second part focusing on the audit findings regarding the revenues and expenditures of the EU (in groups of policies) and on the analysis of the expenditure of the other institutions and bodies of the European Union.

The Statement of Assurance (“DAS”) regarding the reliability of the annual accounts of the EU as well as the legality and regularity of the transactions is the central element of this report.

DAS: payments are still affected by a significant level of errors: the 2011 accounts present fairly the financial position of the European Union and the results of its operations and its cash flows for the year. Revenue and commitments were free from material error. Nevertheless, **payments were affected by material error, with an estimated error rate of 3.9% for the EU budget as a whole**, similar to 2010 when it was 3.7%.

ECA key messages relating to the DAS: in 2011, the European Union spent EUR 129.4 billion, of which almost 80% was devoted to agriculture and cohesion policies, areas where the Commission and the Member States share the task of implementing the EU budget. **The Court also noted cases in which EU funds were insufficient to achieve the objective or were not used optimally.**

Characteristics by policy group: the Court noted that the estimated error rate calculated by policy group was as follows:

- Agriculture: market support and direct aid: 2.9%;
- Rural development, environment, fishing and health: 7.7%;
- Regional policy, energy and transport: 6%;
- Employment and social affairs: 2.2%;
- External relations, external aid and enlargement: 1.1%;
- Research and other internal policies: 3%;
- Administrative and other expenses: 0.1%.

There was an increase in Commission reservations, with the amount the Commission directors-general consider to be at risk rising from EUR 0.4 billion in 2010 to EUR 2 billion in 2011. This reflects the Commission's recognition of a high risk of error in some areas, in particular rural development, cohesion and research.

Legality and regularity of the transactions underlying the accounts: in the Court's opinion, commitments underlying the accounts for 2011 are legal and regular in all material respects. The same applies to revenues.

As in previous years, it is the payments that prevent **the return of a fully satisfactory DAS**. In general, the most likely error rate for payments underlying the accounts is 3.9 %.

Control systems: overall, the control systems examined were **only partially effective in ensuring the regularity of payments** and are not realising their potential to prevent or detect and correct errors. Many instances of control failure were identified. **The Court considers that national authorities should devote greater attention to the management and control of EU funds.**

The Commission's self-assessment of performance is evolving and represents some welcome improvements on previous years. Nevertheless, ECA performance audits in 2011 identified a **lack of good quality needs assessments**, weaknesses in the design of programmes which impair reporting on results and impacts, and a need for the Commission to demonstrate EU added value.

Budgetary management: implementation of the budget overall resulted in a budgetary surplus at the end of 2011 of EUR 1.5 billion euro (as opposed to EUR 4.5 billion in 2010), which shows the extent to which the budget has not been spent. For the three main funds of the multi-annual financial framework "Cohesion for growth and employment" (European Social Fund, European Regional Development Fund and Cohesion Fund), payment requests by Member States increased towards the end of 2011. **Budgetary payments could have been up to EUR 5 billion higher** had this increase been correctly anticipated and sufficient appropriations made available.

Outstanding budgetary commitments (RAL): the total outstanding commitments increased by EUR 13 billion (6.7 %) to **EUR 207 billion in 2011**, representing the equivalent of 2.7 years of payments at the 2011 spending rate. Two-thirds of outstanding budgetary commitments concern cohesion, representing 3.2 years worth of payments – or EUR 136 billion – in that area at the 2011 spending rate. The fact there is a substantially higher level of accumulated outstanding commitments for the 2007-2013 programming period compared with the same point in the previous period is largely due to the late start and implementation of the related spending programmes.

Analysis of budget implementation by expenditure groups and recommendations of the Court:

- **Agriculture** (EUR 43.8 billion): as in 2010, around three-quarters of quantifiable errors are "accuracy" errors, with the most frequent being **over-declaration by beneficiaries of land area when claiming for EU funds**. The majority of errors amount individually to less than 5 % of the claim, although some are more substantial. The effectiveness of the control systems – notably the integrated administration and control system (IACS) – is adversely affected by inaccurate data in the various databases and incorrect administrative treatment of claims by the paying agencies. **Inaccurate land data provided by beneficiaries and by Member States' land registries represent a significant source of error.** Furthermore, some serious systems weaknesses reported in previous annual reports still persist;
- **Rural development, environment, fisheries and health** (EUR 13.9 billion): the European Agricultural Fund for Rural Development (EAFRD) represents 88 % of the payments of this policy

group. The expenditure covers area-related measures (such as agri-environment payments and compensatory payments to farmers in areas with natural handicaps) and non-area-related measures. The majority of the most likely error rate concerned the eligibility of expenditure for non-area related measures. In 10 out of 43 payments for agri-environment schemes, the farmers had not respected the environmental commitments they had given. One or more cross compliance infringements were noted in 26 out of the 73 payments subject to these obligations. In the area of rural development, **the audit of the control systems revealed that administrative and on-the-spot checks are not sufficiently rigorous to mitigate the risk of declaring ineligible expenditure.** In the area of maritime affairs and fisheries, the Court found that unforeseen expenditure resulted from insufficient monitoring of fish catches;

- **Regional policy, energy and transport** (EUR 34.8 billion): this specific assessment covers the audit of regional policy (94% of the spending), which is mostly financed through the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). The ECA found serious failures to respect public procurement rules. Such errors affected one quarter of transactions audited. The combined estimated contract value for these 298 audited public procurements amounted to EUR 6.7 billion. The second most frequent type of error was ineligible payments with projects failing to fulfil the necessary conditions. For 62 % of the transactions affected by error, the ECA considers that **sufficient information was available for the Member State authorities to have detected and corrected at least some of the errors prior to certifying the expenditure to the Commission.** For regional policy, the ECA found weaknesses in management verifications, in particular in the “first level checks” carried out by managing authorities and intermediate bodies. The ECA found that the programme closure procedures for the 2000-2006 programming period were better prepared by the Commission and Member States than for previous multiannual programmes but the ECA also identified weaknesses. More generally, the ECA’s audits have shown that there is **no assurance that financial corrections mechanisms adequately compensate for the detected errors** and resolve all material issues at the closure of the operational programmes. Likewise, there is no evidence that financial correction mechanisms translate into lasting improvements to systems, preventing the recurrence of errors;
- **Employment and social affairs** (EUR 10.3 billion): the main objectives of the spending are to combat unemployment, to develop human resources and to promote integration in the labour market. The European Social Fund (ESF) is the main tool for the implementation of employment and social policy. The majority of errors detected – 73% of the estimated error rate – concerned the reimbursement of ineligible costs, including ineligible training course participants, ineligible beneficiaries, ineligible and overcharged staff costs and incorrectly awarded contracts. The results of the ECA’s audit indicate weaknesses in the management and control systems established in the Member States, in particular in the “first level checks” of the expenditure. The ECA found that sufficient information was available to the Member State authorities for them to have detected and corrected at least some of the errors in 76 % of the ESF transactions affected by error, before certifying the expenditure to the Commission;
- **External relations, aid and enlargement** (EUR 6.2 billion): in this area, all errors were found in interim and final payments. The errors involve ineligible expenditure incurred at final beneficiary level, such as: expenditure incurred outside the eligibility period; inclusion of ineligible expenditure (e.g. VAT, staff costs and unjustified overheads) charged in the project cost claims and expenditure without adequate supporting documents. The fact that ineligible expenditure declared by the final beneficiaries of grants or service providers has been paid by the Commission, shows that the preventive and detective controls applied by the Commission prior to payment are not fully effective. The ECA identified an insufficient number and limited scope of on-the-spot visits and direct testing of expenditure declared, as well as insufficient quality of expenditure verifications subcontracted by the beneficiaries;

- **Research and other internal policies** (EUR 10.6 billion): the main component of the policy group covered by this specific assessment is the framework programmes (FPs) for research and technological development (accounting for 56% of the total operational expenditure). The main source of error is the over-declaration of costs by beneficiaries for projects funded by the research FPs. Errors were found in **personnel costs**, other direct costs and indirect costs. The control systems assessment carried out by the ECA revealed **errors in 81% of the audited projects** that had received a positive audit certificate;
- **Administrative and other expenditure** (EUR 9.8 billion): in this spending sector, errors and weaknesses were detected in the examination of calculations and payments of social allowances, of employment contracts for non-permanent staff. The ECA also noted several weaknesses in procurement procedures namely in the application of selection and award criteria having an impact on the results of the procedure.

Recommendations of the Court of Auditors: for each of these areas of expenditure, the Court made a series of recommendations aimed at improving EU financial management. This improvement is essential given the pressure on the public finances of the Union and the Member States. Expenditure, therefore, must be carried out in a way that is still **more efficient and better targeted**.

For their part, Member States must agree on better rules on the use of EU funds, and the Commission must ensure that these rules are correctly applied to the EU budget, thus providing a true added value for citizens.