

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

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The Committee on Budgetary Control adopted the report by Jens GEIER (S&D, DE) recommending to Parliament to grant discharge to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2011, Section III – Commission and the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Competitiveness and Innovation, the Executive Agency for Health and Consumers, the European Research Council Executive Agency and the research Executive Agency.

The committee also recommends that the European Parliament closes the accounts of the general budget of the European Union for the financial year 2011.

In a series of general observations, Members call for the introduction of **priority actions** dealing with the following:

- **protection of the Union budget:** the Commission should adopt annually, and for the first time in September 2013, a communication to Parliament, the Council and the Court of Auditors with a view to making the impact of its preventive and corrective actions as regards the protection of the Union budget public (all suspensions, interruptions and retentions which aimed to prevent errors and all the amounts recovered per Member-State...); the Commission should demonstrate as far as possible that the **financial corrections adequately compensated for errors made;**
- **error rate in shared management:** the Commission is urged to harmonise the practice of its services concerning the interruption/suspension of payments when significant deficiencies are detected at the level of the supervisory and control systems of Member States in regard to the areas of agriculture, cohesion and research. More specific demands are made to:
 - **DG AGRI:** this Directorate-General (DG) should systematically interrupt and suspend payments when the prime level controls reveal that they are materially affected by error;
 - **DG REGIO:** this DG should fully align its payment practices with the best practices of other directorates-general or services, and continue making direct and full use of the legal instruments provided for by the regulations, especially the interruption of payments or whenever necessary by the **suspension of operational programmes.**
- **enhanced use of performance audits:** the Commission should develop a **new culture of performance**, defining in its management plan a number of targets and indicators in terms of relevance, comparability and reliability. It is also urged to carry out a review of the programmes with the aim of avoiding national and regional displacement effects and only finance measures which could not be carried out without impetus from the Union, thus promoting the European added value of projects;
- **revenues and traditional own resources:** in order to ensure proper protection of the Union's financial interests, and with a view to equipping the Union with sufficient own resources for growth, the Commission should, among other things, identify the channels and schemes allowing for tax evasion and tax avoidance, and raise the Member States' and public awareness, in the context of the negotiations on the Multiannual Financial Framework, that effective revenue collection remains an essential feature of sound management of public finances.

I. Court of Auditors' Statement of assurance:

- **Reliability of the accounts – favourable opinion:** Members note that the annual accounts of the Union for the 2011 financial year

present fairly, and in all material respects, the position of the Union as at 31 December 2011, and the results of its operations and its cash flows for the then completed year;

- **Legality and regularity of revenue – adverse opinion:** Members regret however, that, once again, the payments are affected by a most likely error rate of 3.9%. They note with concern that the policy groups agriculture; market and direct support; rural development, environment, fisheries and health; regional policy, energy and transport; employment and social affairs, as well as research and other internal policies, are materially affected by error. They are dismayed in the increase in the rate of error in comparison with 2010.

Members note in passing that the Netherlands, Sweden and the United Kingdom have voted **against granting discharge to the Commission** for the execution of the Union's budget because for the 18th consecutive year, the Court of Auditors was unable to grant a positive unqualified statement of assurance. According to Members, credibility has to underpin the Union's expenditures.

Members highlight, moreover, the high number of the Commission's reservations concerning the ERDF /CF management and control systems for the period 2007-2013, amongst others in the Netherlands and the United Kingdom, and call for the conduct of a peer review of each of the Member States' financial management and quality of performance.

II. Horizontal issues:

Responsibilities of the Commission and the Member States in shared management: once again, Members expect that Member States are fully aware of their obligations, pursuant to Article 4(3) of the Treaty on European Union and pursuant to the principle of sincere cooperation, to assist in an active and effective way the Union in carrying out tasks which flow from the Treaties with a view to preventing, detecting and correcting irregularities and fraud. The current system does not ensure a full transparency of the beneficiaries of certain support (ERDF, for example). They consider that national management organisations should make a binding declaration, in combination with the introduction of self-critical deliberation, which would arrive at an **even-handed, honest and open peer review among Member States resulting in better and more effective budget execution**. This would improve the performance of policies, programmes and projects and which will help to reinforce the solidarity between Member-States and restore the confidence of European citizens.

For its part, the Commission is urged to make progress in disclosing more precise and reliable data concerning recoveries and financial corrections and to strengthen transparency measures *vis-à-vis* the European Parliament in this regard.

Fingers are pointed at the Member States in regard to the two policy areas prone to the highest error rates (rural development, environment, fisheries and health as well as regional policy, energy and transport) with likely error rates amounting to 7.7 % and 6 % respectively. In this context, Members call on the national authorities to issue an **opinion on the independence of the national audit authorities in the context of shared management**.

Public procurement: as regards the responsibility of Member States, Members note that numerous errors derive from the incorrect application of national rules (in particular, as regards the ESF errors in 2011, breaches of national rules have contributed 86% of the error rate), and that eligibility error (especially for grant beneficiaries) and **breaches of public procurement rules** (in particular for shared and indirectly

managed funds) are the two main sources of errors. They deplore the fact that errors can also derive from the addition to Union rules of **national rules which are unnecessarily complex** and therefore difficult to implement and verify by the Member States themselves, while creating an additional and artificial burden for the beneficiaries ("**gold plating**"). Such rules not only increase error rates unnecessarily, but could also lead to the Commission issuing recovery claims.

Budgetary management and outstanding budgetary commitments: Members recall that outstanding budget commitments are commitment appropriations that are open but not yet paid and that they mainly relate to multiannual programmes (Cohesion, for example). They note the record level of outstanding budgetary commitments at **EUR 207 billion** (mostly in cohesion policy).

III. Specific points: Members then return point by point to the implementation of the budget and highlight the following:

Revenue: Members recall that the potential cost of tax evasion and avoidance for Member States is estimated to amount to EUR 1 trillion every year while in comparison, the Union budget for 2011 in terms of appropriations for commitments amounted only to EUR 142.5 billion. They therefore propose a whole battery of measures to strengthen customs controls and to collect customs duties and VAT more effectively. They call on the Commission, in particular, to strengthen its coordination with the Member States in order to collect reliable data on the customs and VAT gap in the respective countries and to report on a regular basis to Parliament in that regard.

Agriculture: Members deplore the increase of the error rate to 4.0% in the policy area 'Agriculture and rural development' covering the expenditures of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) and of the policy groups environment, fisheries and health. They criticise strongly the fact that **beneficiaries who very often are not farmers receive direct payments**. In regard to **direct support**, Members call on the Commission to take all necessary measures so that paying agencies remedy weaknesses detected in their administration and control system in order to avoid the most classic errors which are the incorrect classification of land use and the overstatement of eligible land.

Rural development: Members regret that payments in the policy sector 'rural development, environment, fisheries and health' are not free from material error in 2011, the most likely error being estimated at 7.7%, this rate being linked to the eligibility of non-area related measures such as modernisation of agricultural holdings and the setting up of basic services for the economy and rural population. Particular criticism is directed at DG AGRI in this context, which did not bring to light the fact that the supervisory and control systems in Denmark, Finland, Hungary, Italy and Spain were not effective or only partially effective.

Environment, public health and food safety/Fisheries: overall, Members are satisfied with the implementation of these policies. However, Members encourage the Commission to strengthen the cooperation with Member States in order to receive the best and most accurate data for the forecasts in this policy area.

Regional policy; energy and transport: Members deplore the fact that the Court of Auditors estimated the most likely error rate in this spending area at **6%** : 62% of the regional policy transactions affected by error. They call on the Member States to improve their management and control systems in order to detect and correct errors at national level as this is imposed by the principle of sound financial management. They regret the fact that according to the 2011 Annual Activity Report of DG REGIO, the countries with the highest risk of incorrect payments for the 2007-2013 programming period are the Czech Republic (11.4%), Romania (11.2%) and Italy (8.6%). Members call on the Commission to use all available instruments over the next programming period 2014-2020, in particular by means of delegated acts and implementing acts, with a view to setting out conditions which the national audit authorities shall fulfil. They call on the Commission, in consultation with the Court of Auditors, to establish a transparent

system which allows, on the one hand, taking into consideration **annual financial corrections** but also, on the other, financial corrections during the life span of a programming period. Members call on the Commission to assist Member States in rendering first-level controls and national audit authorities more effective by exchange of best practice and closer cooperation between the Commission, the Court of Auditors and national authorities.

Employment and social affairs: overall, these policies were implemented satisfactorily. However, they regret that despite reinforcements of ESF budget lines by means of transfers between budget lines and via the Amending Budget, EUR 2.7 billion of outstanding payments to the beneficiaries could not be paid **due to insufficient payments appropriations**. Members reiterate their call to ensure, in the light of implementation, an orderly progression of the total appropriations for payments in relation to the appropriations for commitments, so as to avoid any abnormal evolution of outstanding commitments ('RAL').

Members also make a series of specific observations as regards the implementation of aid to Bulgaria, Romania and the Czech Republic.

External relations, aid and enlargement: Members point out the specific nature of the financing of the Union's external assistance, which, although it must be subject to the same rules and oversight requirements as the rest of the Union budget, is put in place partly by persons and entities external to the Union under sometimes difficult conditions. They are concerned that EuropeAid's and DG ECHO's supervisory and control systems were again found to be only partially effective. They call on the Commission to set aside sufficient resources for delegation staff to perform monitoring and supervision activities in a timely and satisfactory manner.

Members urge the Commission and the EEAS to focus more on results and impact measurement in the design of the new spending programmes under the next Multiannual Financial Framework (MFF) for the period 2014-2020, inter alia by using pre-defined, countryspecific, clear, transparent and measurable indicators adapted to the specificities and objectives of each instrument.

Members call for a detailed summary of the **allocation of funding in Libya** and on the implementation of actions carried out in Haiti.

Research and other internal policies: Members are concerned that the research framework programmes are implemented under centralised direct and centralised indirect management involving six Commission directorates-general and two executive agencies and that parts of the budget are implemented under indirect centralised management by joint undertakings and the European Investment Bank. They regret that the **large number of Commission services involved in that policy area renders decision-making and the lines of responsibilities opaque**. They are also concerned about the delay in dismantling the Ignalina Nuclear Power Plant (INPP) in Lithuania, due to conflicts between the authorities and the contractors.

In general, Members urge the Commission to improve cooperation among all the directorates-general and other bodies involved, and render the division of labour, decision-making procedures and lines of responsibility between them more transparent.

Administrative and other expenditure: lastly, Members call on the Commission not to reimburse any more travel costs of advisors to Commissioners whose work has not produced any tangible findings until an added value of their work can be proven. They also call on it to execute an in-depth study on the differences in required qualifications and the granted privileges, working conditions, allowances, entitled vacation days as well as pay levels for positions for civil servants and foreign services between Union and Member States located in the same working place.

Conclusions: Members ask the Commission to outline in time for the discharge procedure 2012 a new system of management and performance information including the design and the role of the evaluation report taking on board the recommendations of the European Parliament as developed in this resolution and to present it to the discharge authority.