2012 discharge: EU general budget, European Commission and executive agencies

2013/2195(DEC) - 24/03/2014 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the report by Markus PIEPER (EPP, DE) in which it recommended the European Parliament to grant the Commission discharge in respect of the implementation of the general budget of the European Union for the financial year 2012 as well as to the Directors of the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Small and Medium-sized Enterprises, the Consumers, Health and Food Executive Agency, the Research Executive Agency, the Innovation and

Networks Executive Agency, on the implementation of their respective budgets for the financial year 2012

The Commission also recommends that the European Parliament gives closure to the accounts of the general budget of the European Union for 2012.

Strengthen the supervisory role of the Commission: recalling that for the 19th time in succession, the Court of Auditors was unable to grant a positive statement of assurance regarding the legality and regularity of the payments underlying the 2012 accounts, Members called on the Co**mmission to assume greater and more substantial responsibility for safeguarding the Union budget against financial losses** and called furthermore for a better coordination of public procurement rules at the level of all stakeholders and a simplification and harmonisation of rules and financial corrections.

Observing that in the 2012 financial year the error rate rose for the third time in succession, Members recalled that the rapporteur and the shadow rapporteurs for the discharge to the Commission for the financial year 2012 called for more stringent financial corrections to be imposed on those Member States whose management and monitoring systems display persistent and systematic weaknesses. Although the Commission was committed to strengthening controls in this area and had submitted a Communication to strengthen financial corrections, Members noted that it awaits the delegated act laying down detailed rules for the criteria for the assessment of the functioning of management and control systems, for establishing the level of financial corrections to be applied and for applying flat-rate corrections.

Parliamentary reserve on agricultural and cohesion: revealing that 8 Members States (out of 28) are responsible for 90% of the financial corrections in the area of shared management, Members called on the Commission, in light of repeated error concentration in a few Member States, to assume greater and more substantial responsibility for safeguarding the Union budget against financial losses.

In this context, Members underlined that **Parliament only issues reservation in areas for which it has not received adequate assurance from the Commission and/or the Court of Auditors to refute its concerns**, deems it a priority that the Commission proves to Parliament in the case of reservations in which way convincing remedial measures have been taken to overcome the latter's concerns. They regarded reservations as a **new and effective budgetary control instrument**, being a commitment by Parliament to monitor closely the measures taken by the Commission and Member States to eliminate these problems, so as to justify in the eyes of the public in particular the decision to grant discharge.

Members endorsed reservations on two major EU policies:

- as regards agriculture, the Commission should strengthen its controls in particular as regards the errors in the Land Parcel Identification System (LPIS) in France and Portugal since 2006. Members endorsed the

reservations issued by the Director-General of DG AGRI with regard to serious deficiencies in the direct payment systems in Bulgaria, France and Portugal;

- as regards regional policy, some audit authorities of Member States are not carrying out their audits with the requisite thoroughness and that it is not sufficiently apparent whether and in what respect they are permanently improving their supervisory and control systems. In this respect, the Commission should conduct more audits of the final beneficiaries and Member States who repeatedly show signs of management weakness.

Measures to be taken: in a series of general observations, Members call for the introduction of priority actions dealing with the following:

- the DGs concerned should build up a new and reinforced audit strategy to counter weaknesses found in some Member States;
- intensification of quality checks on Member-States audit and control reports;
- **application of progressively increasing payment reductions and administrative sanctions** where eligibility criteria have not been respected by the final beneficiary receiving direct payments or rural development support and recurrent LPIS shortcomings;
- suspension mechanism to be used as an ex ante instrument for protection of the Union budget;
- for France and Portugal, comprehensive action plans should be established in the field of agriculture in among other the updating of their LPIS systems;
- limit the option of replacing projects affected by error with new projects;
- making better use of RAL and limiting the period covered by pre-financing;
- the **Commission should reach binding bilateral agreements with Member States which have attracted particular attention**, along the lines of the European Semester.

Members called for the above commitments to be sent, by the newly elected President of Parliament, to the President of the Commission calling for binding commitments for the delivery of the above following the 2014 European parliament elections.

I. Court of Auditors' Statement of assurance:

- **Reliability of the accounts – favourable opinion**: Members welcomed the fact that the annual accounts of the Union for the financial year 2012 present fairly, and in all material respects, the position of the Union as at 31 December 2012 and the results of its operations, its cash flows and the changes in net assets for the then completed year.
- **Legality and regularity of revenue – adverse opinion**: Members noted with concern that all areas of operational expenditure contributed to this increase, with the rural development, environment, fisheries and health remaining the most errorprone policy group with an estimated error rate of 7.9%. Members deeply regretted that payments remain materially affected by error. They reminded the Commission that Parliament has a zero-tolerance approach to errors.

Although Members noted that the financial corrections reported as implemented in 2012 were more than three times the figure for 2011, they considered that these measures have still had **too little impact on the Union budget**. They asked the Commission to provide Parliament and the Council with precise amounts and the use made thereof in this regard in the next communication on the protection of the Union budget for the financial year 2013.

RAL: Members stressed that the recurrent shortages of payment appropriations have been the main cause of the unprecedentedly high level of RALs especially in the last years of the 2007-2013 MFF. They noted with deep concern that the Commission is finding it increasingly difficult to meet all requests for payments in the year within the budget appropriations for payment and that the cumulative total of commitment appropriations available for payments over the period 2007-2013 has exceeded the

cumulative total of payment appropriations available over the same period by EUR 114 billon. They also expressed concern over the fact that the Commission's outstanding budgetary commitments for which payments and/or decommitments have not yet been made increased by EUR 10 billion to **EUR 217 billion** . The Commission is urged to prepare and publish a 'long-range cash flow forecast', projecting future payment requirements to ensure that necessary payments can be met from approved annual budgets.

Shared management: once again, Members requested the Member States to urgently reinforce the primary controls to address this unacceptably high level of mismanagement. They called on the Commission to shield the Union budget from the resulting risk of irregular payment by applying financial corrections in the event that such weaknesses in Member States' management and control systems are found and n the Member States and the Commission to **urgently reinforce first-level checks** to address this unacceptably high level of mismanagement.

II. Budget implementation by policy: Members then return point by point to the implementation of the budget and highlight the following:

Revenue: Members expressed its concern about the weaknesses of the Value Added Tax (VAT) systems of the Member States (findings of a study estimated losses of VAT revenue in 2011 due to infringements or failure to collect the tax at EUR 193 billion for public finances in the Member States) and called for improvements in certain Member States, such as Belgium, Finland and Poland.

Agriculture: Members pointed out that the most frequent accuracy errors relate to overstated area declarations and administrative errors, and that the bigger accuracy errors relate mostly to excessive payments for permanent grassland. Members were deeply concerned about the fact that the critical observations made in the annual report of the Court of Auditors for the financial year 2012 and the systematic weaknesses detected by the latter have already been reported by the Court of Auditors in its previous reports, and in particular, as regards the eligibility of permanent pasture, since 2007. They called on the Commission and the Court of Auditors, in the context of the adversarial procedure, to reach agreement on the **eligibility criteria for permanent pasture**.

Rural development, environment, fisheries and health: Members pointed out that, as in 2011, the major component (65%) of the most likely error rate reported by the Court of Auditors concerns non-area-related measures, and stressed that the reason for most quantifiable errors was that the beneficiaries did not respect the eligibility requirements, in particular those concerning agri-environment commitments, special requirements for investment projects and public procurement rules. They called on the Commission to continue to provide guidance and assistance to Member States by means of best practice, through systematic interruptions of payments, financial corrections according to the severity of the error and also, in addition, by drawing up short term and ad hoc action plans. They also asked for **structural changes leading to long-term solutions** such as a permanent knowledge-sharing platform among managing authorities and paying agencies across the Union so that EAFRD specific bodies can learn by examples and best practices.

Regional policy, energy and transport: Members stressed that the findings of the Court of Auditors' audit indicate weaknesses in the 'first-level checks' on expenditure. They considered it unacceptable that, for years, errors of the same kind continue to be identified, often in the same Member States. They acknowledged that suspension and interruptions of payments by the Commission ensures that corrective actions are carried out in cases where deficiencies were identified and called on the Commission to step up monitoring of national and regional management and control systems in the light of this finding. They called on the newly elected Parliament to establish action to remedy the weaknesses detected in the fields of agriculture and regional policy as urgent tasks in the new European Commission's work programme. They also raised the issue of the weaknesses in the fields of agricultural and regional policy indicated here at the hearings of the designated members of the new Commission and to demand appropriate pledges in order to improve protection of the Union budget.

A follow-up is needed as regards the weaknesses identified in Greece.

Employment and social affairs: Members noted that, as in previous years, the Court of Auditors considers that for 67% of the transactions affected by error sufficient information was available for the Member State authorities to have detected and corrected at least one or more of the errors prior to certifying the expenditure to the Commission. They observed furthermore that the main source of error is payment of ineligible costs and breaches of public procurement rules. They called for a **policy to reduce youth unemployment which possesses Union added value**. In this regard, they called for an 'honest' European subsidy policy which focuses far more on transfers of know-how from Member States with low youth unemployment rates to Member States where those rates are high, but without further arousing false expectations and without further making promises on matters for which the Union cannot assume primary responsibility. Members are critical of the fact that the Commission has failed to act on repeated calls from Parliament to indicate the sums of Union funding, in both absolute and proportional terms, which have been used to improve training schemes for the 2007-2013 funding period.

External relations, aid and enlargement: Members regretted that shortcomings persist in EuropeAid's ex ante checks and in the supervisory and control system and that, according to the findings of the Court of Auditors, the Commission's 2011 reorganisation continues adversely to affect the activity of its Internal Audit Capacity. They also regretted that the supervisory and control systems of EuropeAid are only partially effective, which means that they fail to detect and correct material errors. They supported the Commission's continuing efforts to shift from an input-based to a **performance- and impact-oriented approach** and urged the adoption of specific, measurable, achievable, relevant and timed benchmarks for all programmes in Heading 4 of the Union budget. They noted with concern that the number of cases OLAF started investigating in relation to EuropeAid/DG DEVCO managed projects has increased from 33 (in 2011) to 45 in 2012.

Research and other internal policies: Members considered it incomprehensible that the Court of Auditors still finds a significant error rate in the cost statements drawn up by independent auditors. They considered, therefore, that the Commission and Member States should supply auditors with all the necessary background material and training material to facilitate correct auditing of cost statements.

OLAF: **Members observed** that the President of the Commission still has not accounted to Parliament in plenary for the loss of office of Health Commissioner John Dalli on 16 October 2012. They insisted on the necessity of respecting the presumption of innocence and noted that the serious accusations of corruption levelled at the Commissioner by the tobacco industry, which he has always rejected, remain unproven to this day.

Lastly, they recalled that in order to ensure the sound financial management of Union funds, the Commission administers the Central Exclusion Database–a database of entities excluded from Union funding for reasons such as insolvency, final court judgments for fraud, corruption, decisions of a contracting authority for grave professional misconduct and conflict of interest. They regretted that **this central database is not accessible to the public or to the Members of Parliament** and called on the Commission to make the Central Exclusion Database public.