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

2013/2195(DEC) - 03/04/2014 - Text adopted by Parliament, single reading

The European Parliament adopted by 488 votes to 121, with 10 abstentions, a decision to grant discharge to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2012, as well 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 European Parliament also approved the closure of the accounts of the general budget of the European Union for 2012.

In its resolution accompanying the granting of the discharge, adopted by 504 votes to 96, with 11 abstentions, Parliament recalled that for the 19th consecutive year, 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.

Agriculture and regional policy: deficiencies in the Commission's and Member States' management: noting the repeated error concentration in a few Member States, Parliament called on the Commission to assume greater and more substantial responsibility for safeguarding the Union budget against financial losses and urged all relevant actors involved in Union decision-making to simplify further, notably by drafting eligibility rules that are simple and verifiable, cutting red tape and devising appropriate and effective controls.

Observing that in the 2012 financial year the error rate rose for the third time in succession, Parliament 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, Parliament stressed that the application of net financial corrections in the field of agriculture does not yet constitute the anticipated progress.

Commission's Reservations, reasons for binding commitments: revealing that 8 Member States (out of 28) are responsible for 90% of the financial corrections in the area of shared management, the plenary acknowledged, as the Commission has frequently indicated, that around 80% of the funds are being spend under shared management. Parliament recalled, nevertheless, that Article 317 TFEU stipulates that the Commission bears the ultimate responsibility for the implementation of the budget but that it expects full cooperation from Member States, however, in ensuring that they fully apply the rules on sound financial management and controls.

In this context, Parliament underlined that **it 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**. It 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. It 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.

Parliament endorsed reservations on two major EU policies and underlined that:

- as regards agriculture, the Commission observed that the error rate in the field of rural development, environment, fisheries and health is 7.9 %. It regretted that due to the delay between payment claims, payments, controls and reported statistics, no significant impact on reducing the error rate can be expected before 2014 at the earliest, although an action plan was adopted in 2012. Parliament calls on the Commission to strengthen its controls, in particular for errors detected in France and Portugal (these countries have been cited as problematic by the Court of Auditors since 2006);

- 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, Parliament called for the introduction of priority actions dealing with the following:

- to remedy shortcomings in the Land Parcel Identification System (LPIS), for action plans to be implemented promptly, which would include proportional net financial corrections as part of the conformity clearance procedure where deadlines set in the action plans are not met, and adversarial procedures to be completed in general in two years;
- 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.

Parliament 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.

Newly elected Parliament: Parliament called for the new assembly that is elected to (i) forward the above list of actions to the President of the Commission and to obtain a commitment that they will be delivered following the 2014 Parliament elections; (ii) include the above commitments in the written procedure at the hearings of the designated members of the new Commission; (iii) demand appropriate pledges in order to improve protection of the Union budget; (iv) ensure, through the relevant committees, that the respective Commissioners commit themselves formally, in the written procedure prior to the hearings, to take remedial action within the defined timeframe in time for the 2013 discharge procedure; (v) probe all legal means of achieving further legislative improvements, if appropriate, in the context of the mid-term review of the Multiannual Financial Framework.

I. Court of Auditors' Statement of assurance:

Reliability of the accounts – favourable opinion: Parliament 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: Parliament 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%. Parliament deeply regretted that payments remain materially affected by error. It reminded the Commission that Parliament has a zero-tolerance approach to errors.

Although Parliament noted that the financial corrections reported as implemented in 2012 were more than three times the figure for 2011, it considered that these measures have still had **too little impact on the Union budget**. It 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: Parliament 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. It 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. It 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, Parliament requested the Member States to urgently reinforce the primary controls to address this unacceptably high level of mismanagement. It 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 on the Member States and the Commission to **urgently reinforce first-level checks** to address this unacceptably high level of mismanagement.

Council discharge recommendations: Parliament called for the Council to adopt a more critical position on the discharge and the ultimate use made of Union tax revenue in the Member States. It notes in this connection the critical stance taken by Sweden, the United Kingdom and the Netherlands on the discharge for 2012. It hopes that during their respective Presidencies, they will provide the necessary information, as requested by Parliament, on the execution of the Council's budget, preventing a further refusal by Parliament to grant discharge.

II. Budget implementation by policy: Parliament then returned point by point to the implementation of the budget and highlighted the following:

Revenue: Parliament 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: Parliament 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. It was 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. It 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: Parliament 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. It 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. It 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: Parliament stressed that the findings of the Court of Auditors' audit indicate weaknesses in the 'first-level checks' on expenditure. It considered it unacceptable that, for years, errors of the same kind continue to be identified, often in the same Member States. It 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. It 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. It 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.

The plenary raised the problem of European funding for investment which would lead to job losses in those same firms in another region of the EU. It urged the Commission to launch an investigation into the scale of such improper use of EU funding in connection with projects involving less than EUR 50 million. It also looked to the Commission to make sure that EU funding which is disbursed in contravention of the rules is paid back.

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

Employment and social affairs: Parliament 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. It observed furthermore that the main source of error is payment of ineligible costs and breaches of public procurement rules. It called for a **policy to reduce youth unemployment which possesses Union added value**. In this regard, it 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. Parliament is 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: Parliament 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. It 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. It 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. It 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: Parliament considered it incomprehensible that the Court of Auditors still finds a significant error rate in the cost statements drawn up by independent auditors. It 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: Parliament 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. It 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, it 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. It 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.