2013 discharge: EU general budget, European Commission and executive agencies

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FOLLOW-UP TO THE 2012 COMMISSION DISCHARGE: FOLLOW-UP ON THE EUROPEAN PARLIAMENT AND COUNCIL RECOMMENDATIONS

Preliminary comment: this document is the Commission's report to the European Parliament (EP) and the Council on the follow-up to the discharge for the 2012 financial year, pursuant to Article 319(3) of the Treaty on the Functioning of the European Union. The Commission's replies to the key requests from the EP and the Council are available in two Commission Staff Working Documents (SEC(2014)285 and SEC (2014)286 attached to this procedure file). These documents contain replies to 353 EP and 77 (79 in total, but 2 are addressed to the Court of Auditors) Council specific discharge observations (8 from EP) and requests.

This report summarise the Commission's responses to the main requests of the European Parliament and the Council.

CONTENT: the report focuses on the binding commitments highlighted by the European Parliament in its general discharge resolutions.

The Commission agrees to start new actions on **142 requests** (108 from the EP and 34 from the Council). It considers that for 240 requests (199 from the EP and 41 from the Council), the required action has already been taken or is on-going, though in some cases the results of the actions will need to be assessed.

Finally, for reasons related to the existing legal and budgetary framework or its institutional role or prerogatives, the Commission cannot accept 40 requests (38 from the EP and 2 from the Council).

The Commission's replies to requests from the Parliament and the Council may be summarised as follows:

Binding commitments: Parliament specifically highlights a large number of binding commitment of legal, audit, institutional, accountability and financial nature. The Commission showed its formal commitment to implement fully and timely a series of actions and measures related to the issues identified by these commitments.

Amongst these actions, on notes the following salient measures:

Reservations expressed in the annual activity reports (AARs) of several DGs: Parliament considers a priority that the Commission proves that it has taken the necessary measures to overcome the concerns relating to reservations. The Commission has already taken a series of fundamental measures. The Commission reports the serious weaknesses identified in the execution of the EU budget through reservations in the AARs of the Commission's Directors-General and discloses the resulting risk for the EU budget. A reservation always goes hand in hand with a clear action plan to tackle the problem identified in the management of EU funds and, if the regulatory conditions are met, the Commission may interrupt or suspend the respective payments. The Commission follows up these reservations and the corresponding action plans by monitoring the progress of the underlying work to implement them. A reservation will be lifted only once the Commission has obtained reliable evidence that the weaknesses have been addressed through the implementation of appropriate actions by the Member State, the adequate correction procedures have been launched, and the new system has proved its reliability in practice. AARs

show in a transparent way how the Commission fulfils its responsibility in this area in particular as regards DG AGRI and REGIO.

Better definition and application of rules by Member States: the Commission has adopted delegated acts governing areas under shared management under the new Multiannual Financial Framework (MFF) 2014-2020. The delegated act based on the Common Provision's Regulation (CPR) provides detailed rules to enable the mechanism of financial corrections (FC) to work effectively by defining clearly the criteria for determining "serious deficiencies" which trigger the procedure for net financial corrections (NFC).

The European Parliament asked for the 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 Land Parcel Identification System LPIS shortcomings. This type of system of progressively increasing reductions and exclusions of payments is now provided under the European legislation. Member States should apply these provisions without prejudice to financial corrections that the Commission may impose at the level of the Member States. In the area of Agriculture, payments will be suspended in all cases where national remedial actions to address identified serious deficiencies are not carried out in a proper and timely manner.

Step up Member States's first-level checks and render them more stringent: this request is addressed to Member States. The Commission constantly encourages the Member States to strengthen their controls. The set of regulations adopted for the programming period 2014-2020 contains some provisions which should lead to improving the effectiveness of control checks at national level, including the introduction of net financial corrections that aims at creating an incentive for Member States to implement effective management and control systems, and the strengthened use of simplification, in particular concerning simplified cost options, which should result in a reduction of errors. Specific measures are also provided as regards agriculture in terms of clawing back amounts made to France and Portugal in 2006 and 2008.

To resolve the problems occurring in paying agencies whose residual risk of error lies above the materiality threshold of 2% with special focus on France, Bulgaria, Romania, Portugal and Latvia. Under shared management, it is the MS that has to assume the primary responsibility for ensuring that actions financed by the budget are implemented correctly in accordance with the rules. The role of the Commission consists rather in an overall supervision by verifying the effective functioning of Member States's management and control systems through conformity clearance procedures and applying NFC to protect the EU budget. In its 2013 AAR, for PAs with an adjusted residual error rate between 2% and 5%, DG AGRI assessed paying agencies with an adjusted residual error rate between 2% and 5%.

Paying agencies with an adjusted residual error rate above 5% were automatically subject to a reservation. DG AGRI made 62 reservations. In addition, DG AGRI audit activities are driven by a central risk analysis covering all CAP expenditure in all Member States. **Member States, measures and programmes affected by higher risks will be audited as a matter of priority**.

Lastly, the report stressed the need to continue to improve the Annual Activity Reports (AAR) of the different DGs and to strengthen the budget's protection measures. In this respect, the report states that the use of interruptions, suspensions, financial corrections, and recoveries will be detailed in the next annual report on the protection of the Union budget, as well as the results of the Member States' corrective work.

It should be noted that the report mentions the state of play of the procedure against OLAF and the former European Commissioner Mr Dalli.