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

2014/2075(DEC) - 30/01/2015

In accordance with Article 319(1) of the Treaty on the Functioning of the European Union (TFEU), the Council approved a recommendation concerning granting discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2013.

Detailed analysis of revenue and expenditure:

- revenue amounted to EUR 149 503 658 993.56;
- expenditure disbursed from appropriations amounted to **-EUR 147 566 887 878.68**;
- cancelled payment appropriations (including earmarked revenue) carried over from year n-1 amounted to EUR 436 586 912.65;
- appropriations for payments carried over to year n+1 amounted to -EUR 1 325 132 086.83;
- the positive budget balance amounted to EUR 1 001 850 135.62;
- cancelled payment appropriations for the financial year amounted to EUR 33 747 914.67;
- EUR 902 060 168.60 (96.39%) of the EUR 935 808 083.27 in appropriations for payments carried over to year n have been used.

Based on the observations in the report by the Court of Auditors for the financial year 2013, the Council recommended the European Parliament to **give a discharge to the Commission** in respect of the implementation of the budget of the European Union for the financial year 2013. However, the Council has issued a series of comments in regard to budgetary implementation which will need to be fully taken into account when granting the discharge.

DAS: the Council welcomes the Court's **Statement of Assurance** (DAS) on the implementation of the budget for the financial year 2013. It noted that the consolidated accounts of the European Union for the financial year 2013, were free from material error and present fairly, in all material aspects, the financial position of the Union and the results of its operations and its cash flows. It also noted with satisfaction that revenue and commitments underlying the accounts for the financial year 2013 were legal and regular in all material aspects.

The Council remained concerned that the Court's estimate for the most likely **error rate for expenditure as a whole in 2013 is 4.7%,** thereby **payments from the budget continued to be materially affected by error**. Moreover, the fact that supervisory and control systems audited by the Court were only partially effective in ensuring the legality and regularity of transactions is also a cause of concern for the Council. It recalled that **better spending and sound financial management of EU funds is of particular importance for the public perception of actions financed from the EU budget**. Thus, the Council firmly supported the recommendations presented by the Court in its annual report.

Management of EU Funds: the Council noted the relative stability in the overall error rate for payments compared to the previous year, although it regretted that the error rate is still well above the Court's materiality threshold of 2% for all policy areas, except administration. Although the error rate is not as such a measure of fraud, inefficiency or waste of funds, the Council called for the improvement of the management and control systems for EU funds and programmes.

Shared management: the Council noted that policies under shared management remain more affected by error. Notwithstanding the continuous efforts made by the Commission and Member States to improve the management and control systems, the **error rate still remains above the materiality threshold**. The

Council is aware that the complex and multiannual nature of some programmes can lead to difficulties in managing them. It called upon the Commission and Member States to undertake **further actions** aiming at strengthening the quality of the management and control systems and making them more efficient, including the first level verifications. It also regretted the fact that an important part of the transactions under shared management were affected by error, national authorities had sufficient information to detect and correct the errors concerned. It calls upon the Commission to continue executing in full its supervisory role in order to ensure the maximum protection of the EU budget.

Eligibility errors: the Council noted with concern that eligibility errors contributed the most to the overall estimated error rate in 2013 and urged the Commission to identify the root causes of the reported irregularities. It noted with concern that breaches of public procurement rules - non-compliance with EU and/or national rules - continued to contribute to the overall error rate for the EU budget as a whole. It encouraged the Member States to simplify and streamline national rules, so that the so-called "gold-plating" does not add complexity and further administrative burden.

Simplification of administrative rules: the Council considered that a simplification of the rules is of paramount importance in achieving an unqualified audit opinion. Simplification of rules, including in delegated and implementing acts, and improved guidance not only reduces the administrative burden on the beneficiaries and respective authorities and thereby reduces the risk of error, but also allows for **more efficient and less costly controls**. Furthermore, the Council emphasised that the balance between risk of error and cost of control and audit, as well as the potential additional administrative burden (be it for beneficiaries, national administrations or the Commission) has to be carefully evaluated, focusing on better controls rather than on more controls.

Corrections and recoveries: the Council noted that in 2013 the Commission reported financial corrections and recoveries for an amount of **EUR 3.3 billion** implemented as a result of the Commission's supervisory role. The Council is aware of the multiannual nature of financial corrections and assessed its overall impact on the protection of the EU budget in that context. The Council is also aware of the different approaches of the Court and of the Commission in evaluating the impact of financial corrections on the error rate. Although the two institutions fulfil different roles, the Council invited the Commission and the Court to reflect on how to provide comparable data in the future, including as regards corrective mechanisms.

RAL: the Council noted with concern the Court's assessment as regards the high amount of outstanding commitments (RAL) at the end of 2013. It called on the Commission to continue monitoring the evolution of the amounts of RAL, and to settle or decommit them in a timely manner and in line with the relevant rules. In this context, the Council invited the Commission to accompany any proposal modifying the agreed level of commitment appropriations with information on the corresponding impact on payment appropriations over the programming period.

The Council made the following comments as regards the DAS and the supporting information:

- **Reliability of the accounts**: the Council welcomed the favourable opinion given by the Court on the reliability of the accounts for the financial year 2013. It noted with satisfaction the Court's statement that the accounts present fairly, in all material respects, the financial position of the Union as at 31 December 2013.
- **Legality and regularity of the underlying transactions**: the Council is concerned that an important share of spending continued to be affected by a material level of error and that the estimated error rate for payments as a whole slightly decreased to 4.7% in 2013. It reiterated its wish to see year-on-year improvements in the financial management systems and in the error rates across all policy areas, with a view to obtaining an unqualified opinion from the Court.
- **Control systems**: the Council regretted the Court's conclusion that overall the supervisory and control systems examined by the Court were only **partially effective** in ensuring the legality and regularity of payments underlying the accounts, and that payments relating to the other policy

groups remained affected by material error. It encouraged the Commission to further reinforce supervision and control structures, to further strengthen its cooperation with Member States.

Revenue: the Council noted with satisfaction the Court's conclusion that the revenue part of the budget is not affected by material error, that the underlying transactions were considered free from error and that the control systems were assessed as being overall effective. It welcomed the progress recently made in lifting long-outstanding reservations regarding GNI-based own resources and called on the Commission to pursue its work in ensuring a high level of exhaustiveness of the GNI data in the GNI-verification process.

The Council analysed **each budget area** and made the following comments:

- **Agriculture - direct support**: the Council is disappointed that the most likely error rate was estimated by the Court at **3.6%** according to estimates. Overall, it urged the Commission and Member States to continue the efforts to improve their supervisory and control systems given that 61% of the audited sample of transactions were affected by error. It also noted that most of the quantifiable errors detected by the Court relate to the accuracy or eligibility of aid payments, in particular the **over-declaration of land**. The Council also noted that the Court included cross-compliance errors in its estimate of the error rate for this policy group and that they had an impact of 0.5% on the overall level of error.
- **Rural development, environment, fisheries and health**: the Council regretted that the most likely error rate for this policy group remained high at **6.7%**. It acknowledged that rural development remains a particularly error prone spending area of the EU budget due to the inherent complexity of the programmes and eligibility conditions, as a consequence of the ambitious objectives of the rural development policy. It called on the Commission to **further enhance its work towards simplification, guidance and training activities** to address the shortcomings identified by the Court. It expected that the simplification measures adopted in the 2014-2020 programmes, such as simplified cost options for the reimbursement of payments, will be used more widely to contribute to a more efficient and correct use of funds.
- **Regional policy, transport and energy**: the Council regretted that the most likely error rate for payments in this policy group remained high at **6.9%.** It recognised the complexity of spending and control structures under this policy group and is concerned about the risk identified by the Court in this policy group resulting from **pressure to spend funds, in particular towards the end of the eligibility period**. It noted that as in previous years, failures to comply with public procurement rules and the declaration of ineligible costs were the most common sources of error identified by the Court for this policy group. The Council encouraged the Commission to continue concentrating its available audit resources on the most risk-prone areas and focussing in particular on preventive measures, in order to better protect the EU budget.
- **Employment and social affairs**: the Council noted that the error rate estimated by the Court for this policy group remained almost unchanged at **3.1%**. It acknowledged the fact that the diversity of the activities financed under this policy group and the involvement of multiple, often small-scale partners increase the risk of non-compliance with the existing legislation, and results in ineligible costs being accepted or in calculation errors affecting the accuracy of claims, as highlighted by the Court. The Council, however, called on the Commission and Member States to further strengthen the checks at all levels and to provide increased and comprehensive guidance to beneficiaries. It pointed out that the main sources of error in this policy group continued to be the **declaration of ineligible projects, the reimbursement of ineligible or inaccurately declared costs, and failures to respect public procurement rules**. It invited the Commission and Member States to consider and take advantage of all other existing simplification opportunities, whenever possible and appropriate.
- **External aid and enlargement**: the Council is encouraged that the most likely error rate for this policy group has decreased by 0.7% to 2.6%. It encouraged the Commission to pursue its efforts to reduce the error rate in a cost-effective manner. It is nevertheless concerned about the Court's conclusion that the **audited supervisory and control systems in the Directorate-General for**

Development and Cooperation (EuropeAid) were only partially effective in ensuring the legality and regularity of payments. It urged the Commission to take the necessary measures to correct the weaknesses identified in its control mechanism.

- **Research and other internal policies**: the Council regretted that the estimated error rate increased significantly to **4.6%** in 2013. The Council is aware that this policy group is **prone to errors due to a high number of beneficiaries**, of which **SMEs are a significant proportion**. These beneficiaries have limited experience and administrative capacity, they are often new to the programme and less familiar with the rules and procedures. The Council urged the Commission to address the deficiencies identified by the Court and to give priority to risk-based checks in its approach, and to provide well-targeted guidance to the beneficiaries. As regards the failure to comply with public procurement procedures, the Council acknowledged that only a limited number of transactions in this policy group are subject to public procurement rules. Nevertheless, the Council invites the Commission to remain vigilant in ensuring that these rules are applied correctly.
- **Administrative and related expenditure**: the Council welcomed the fact that, as in previous years, the administrative and related expenditure of the institutions and bodies of the European Union remained free from material error and that their examined control systems were assessed as effective. However, it pointed out that the estimated error rate of this policy group increased from 0% to 1%.

Conclusion: the **Council regretted that the implementation of the programming period 2007-2013 focused primarily on the disbursement of EU funds in line with the rules, and not on performance**. The new legislative acts adopted for the 2014-2020 programming period include new measures focusing on getting results from the EU budget. Therefore, the Council called on the Commission and Member States to take advantage of the opportunities provided by the 2014-2020 multiannual financial framework (MFF) to **make efforts towards a more result-oriented approach**, based on an objective assessment of the needs, and to develop a performance framework in order to achieve the results and impacts that were laid down in the sector-specific regulations.

Whilst welcoming the Court's findings regarding the achievement of results from the EU budget, the Council considered that progress still needs to be made to **establish a proper performance framework within the EU**. The Council considered that providing **EU added value** is of paramount importance for any EU funding and, in order to achieve this, EU funding should deliver synergies and economies of scale at EU level.