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

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The Committee on Budgetary Control adopted the report by Ingeborg GRÄßLE (EPP, DE) and recommended that Parliament grant the Commission discharge in respect of the implementation of the general budget of the European Union for the financial year 2013, and also grant discharge to the Directors of the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Small and Medium-sized Enterprises (formerly the Executive Agency for Competitiveness and Innovation), the **Consumers, Health, Agriculture and Food Executive Agency, and European Research Council Executive Agency** in respect of the implementation of their respective Agencies' budgets for the financial year 2013.

The committee recommended that Parliament close the accounts of the general budget of the Union for 2013.

Strengthening the Commission's monitoring role: recalling that for **the twentieth year in a row**, the Court of Auditors was not in a position to give a Statement of Assurance, Members believed **it was unacceptable that payments remained materially affected by error**.

1. The Court of Auditors' Statement of Assurance:

- **Accounts and legality and regularity of revenue – clean opinions:** Members noted that the annual accounts of the Union for the financial year 2013 presented fairly, and in all material respects, the position of the Union as of 31 December 2013 and revenue underlying the accounts for the year ended 31 December 2013 was legal and regular in all material respects.

- **Legality and regularity of payments – adverse opinion:** Members regretted, however, the fact that the most likely error rate for payments was **estimated at 4.8 %, being above the materiality threshold of 2%**. They drew attention to the need for the continuous improvement of the management and control systems in Member States in order to guarantee the better financial management of Union funds and a decrease in the error rate in the respective policy sectors in the course of the programming period 2014-2020.

Reservations in agriculture and rural development, regional policy and employment and social affairs: in the general context, Members put a series of reservations on some major EU expenditure, in the areas of agriculture, regional policy and employment and social affairs.

Financial corrections and recoveries: Members noted that the financial corrections reported as implemented dropped to EUR 2.5 billion in 2013, compensated by an increase of 27 % of recoveries implemented in 2013 (from EUR 0.7 billion to EUR 0.9 billion). They reminded the Commission and the Member States that they have a duty to take corrective measures to protect the Union budget in cases of ineffective control systems or irregular expenditures. They stressed that the Court of Auditors found that in a number of transactions affected by error, especially in the shared management areas, **authorities had sufficient information available to detect and correct the errors**. Members demanded that the Court of Auditors therefore estimated in its future annual reports the level of error in the event that all corrective measures had been taken. They regretted, furthermore, the fact that those measures had still a limited financial impact on the Union budget since more than 40 % of the financial corrections implemented in 2013 were not considered as assigned revenue, but might be used by the same Member States having

caused these corrections in cohesion policy, **thus undermining the preventive effect of financial corrections**.

Unacceptable pressure on the EU budget: the committee was concerned by the fact that due to the unacceptable position of the Council during the negotiations of the annual Union budget and despite the high level of payments, the accounts showed that **outstanding financial commitments stood at EUR 322 billion** and the figure is likely to rise in 2014, which was at odds with Treaty provisions. It stressed that in times of economic crisis, financial resources were scarce and that the way funds were absorbed by Member States often became the main policy objective ('use it or lose it'). It called on the Commission and Member States to promote a shift from spending to a performance culture focussing on the results achieved.

On the matter of certain EU financial instruments, Members regretted their complexity and the lack of democratic accountability involved in their use. They called on the Commission to be more transparent and to give a full overview of the number of projects financed under each of the financial engineering instruments.

Shared management: again, Members recalled the fact that in accordance with Article 317 TFEU, **the Commission was ultimately responsible for the implementation of the Union budget**, but that where the Commission implemented the budget under shared management, implementation tasks were delegated to Member States, thereby engaging their political and financial responsibility. Therefore Member States should act strictly in accordance with the principle of sound financial management and should not undermine their own responsibility in managing Union funds. Members called therefore on the Commission and the Council to take concrete and meaningful steps to enable the necessary progress in sound financial management, including the increased use of the instrument of national declarations, which in **practice did not require much extra effort**. They called on the Commission and the Member States to publish not only the national declarations but also the annual summaries and management declarations in order to give more insight in and achieve a real improvement of the financial management.

The committee also pointed out the figures provided by the Court of Auditors as regards the amounts and percentage of funds at risk as to the European Regional Development Funds, the European Social Funds and the Cohesion Funds, **Slovakia, the United Kingdom and Spain** had the highest error rates. The figures provided by the Court of Auditors as regards the amounts and percentage of funds at risk as to the European Agricultural Guarantee Funds and the European Agricultural Funds for Regional Development show that **Romania, Bulgaria an Portugal** had the highest error rates.

II. Budgetary implementation by policy area – measures to be taken: Members discussed budgetary implementation and made the following observations:

Revenue: the committee noted that the Court of Auditors' audit did not find any substantial error in the Commission's calculation of Member States' contributions and their payment, most of which are based on forecast Gross National Income (GNI) data for 2013. They regretted that the Council had not been able to make any progress so far on the **reform of the own resources system** on the basis of those legislative proposals, despite a proposed global reform of the own resources system that was welcomed by Parliament. Measures in this matter were needed.

Agriculture: the committee regretted that the most likely error rate at the European Agricultural Guarantee Fund (EAGF) payments were estimated at 3.6 % (3.8% in 2012). It was worried about the fact that the error rate with regards to agricultural market measures stood at 7.44%, with reservations on the restructuring of vineyards in Spain. Members wanted to see recovery and corrective action.

Rural development, environment, fisheries and health: Members noted that the payments in rural development, environment, fisheries and health were not free from material error in 2013, with a reduction

in the most likely error rate to 6.7 % from 7.9 % in 2012. They noted that the errors found by the Court of Auditors occurred mainly because beneficiaries did not respect the eligibility requirements, the procurement rules were not properly applied and agri-environmental commitments were not respected.

Members asked for:

- a calculation of separate error rates for market measures and direct payments in the CAP first pillar;

- remedial actions with regard to the deficiencies in the control system applicable to Union aid for producer groups for fruits and vegetables in Poland, Austria, the Netherlands and the United Kingdom;

- demonstration of the **Union added value of the agricultural market measures bearing in mind the risk of potential losses affecting the budget of the Union**: Members asked the Commission to consider their suppression if this risk was too high (e.g. poultry export refunds in France);

- draft proposals with a view to sanctioning false or incorrect reporting by paying agencies including the three following dimensions, namely (i) inspection statistics, (ii) statements by the paying agencies, and (iii) the work carried out by the certification bodies.

Regional policy, energy and transport: Members stressed that from the total amount of payments in 2013 under this policy group (EUR 45 311 million), 96 % were for regional policy, mostly implemented through the ERDF and the Cohesion Fund, EUR 1 059 million were for mobility and transport and EUR 758 million were for energy. They pointed out that for ERDF and CF expenditure the main compliance risks relate to: errors in public procurement (39 %), ineligible projects/activities or beneficiaries (22 %), ineligible costs included in expenditure declarations (21 %) and the non-compliance with state aid rules. They wanted to see new guidelines to assist Member States implement procedures. They requested that the Commission and Member States paid particular attention to **simplifying procedures**, including those for beneficiaries, which could have benefits for both auditing and decreasing error rates, while in parallel increasing the effectiveness of the management and control systems. The committee wanted to see specific measures for the **Czech Republic, Italy and Greece**, which were affected by high levels of ineligible expenditure.

In more horizontal terms, Members wanted to see Member States **move to a performance culture in order to strengthen the efficiency, efficacy and impact of cohesion policy** as well as strengthening first level checks. Employment and social affairs: Members emphasised that the reduction of youth unemployment was particularly urgent (more than EUR 12,4 billion from the ESF and the Youth Employment Initiative have been earmarked). They noted the Court estimated the most likely error rate to be 3.1 % (slightly less than 2012) and he errors in this policy area concerned, as in previous years, ineligible expenditure (93 % concerning overcharging of overhead costs, over-declaration of personnel costs, and costs calculated incorrectly) and failures to comply with public procurement rules). They encouraged DG EMPL to pursue its aim with regard to ESF to move further from the need to correct errors to a situation where errors are avoided. The committee also recommended measures for setting up projects for Roma in Member States.

External relations: Members were gravely concerned that in the 2013 budget, payment appropriations managed by the Commission's Directorate-General for Development and Cooperation (DG DEVCO) were short by EUR 293 million, and that the late approval of necessary reinforcements caused a roll-over to the following year, thus putting more pressure on the already tight payment appropriations for 2014. This situation entailed not only a high political and reputational risk for the Union's credibility as the world's first donor but might also **endanger the fiscal stability of partner countries** by leaving financial gaps in

their budgets. Members emphasised that 2013 was the second consecutive year that humanitarian aid through the Union budget exceeded EUR 1.3 billion in commitments due to the occurrence of a high number of humanitarian crises. They deplored the impact that the lack of payment appropriations had in this crisis year on DG ECHO's activities, which could only be maintained through rearranging payment schedules, resulting in a **carry-over of EUR 160 million in payment arrears at year end**. Members called on the Council to comply with the payment plan agreed with Parliament.

They also noted that the most likely error rate of the Court of Auditors was 2.6 % and that the residual error rate as determined by the second study carried out by EuropeAid was estimated at 3.35 %. The committee observed that the nature of the instruments and payment conditions in budget support and Union contributions to multi-donor projects carried out by international organisations limited the extent to which transactions were prone to errors. It asked the Commission to submit a report on the **added value of budget support** and, in particular, on the way it had helped developing countries in achieving the Millennium Development Goals.

At the same time, Members took note that OLAF had drafted a report on the humanitarian aid granted to the Saharawi refugee camp of Tindouf in Algeria and called on the Commission to clarify the measures taken in response to the findings of that report. They urged the Commission to ensure that the Algerian or Sahrawi individuals incriminated by the OLAF report no longer had access to aid funded by Union taxpayers.

Research and other internal policies: Members observed that the spending in this policy group covered a wide range of policy objectives, such as research and innovation, education, security, migration and measures to combat the effects of the financial crisis; the principal risk to regularity remained that beneficiaries included ineligible or unsubstantiated costs in their cost statements, which were neither detected nor corrected by the Commission or Member States' control systems. They called on the Commission to report comprehensively on the increasing "policy-orientation" of the Directorate-General for Research and Innovation which was triggered by outsourcing the management of two-thirds of the FP7's operational costs to non-Commission bodies. They also asked the Commission to provide an overview listing the policy progress between FP7 and HORIZON 2020 for researchers and SMEs.

Administration: Members noted that the differences in pay levels for civil servants working for Union institutions and for those working for national administrations, remained very high, leading, inter alia, to a lack of mobility between staff at a Union level and at national levels. They called on the Commission to carry out an in-depth study on the reasons for these differences and to develop a long-term strategy to **reduce these differences**.

They considered that in times of crisis and general budget cuts, expenditure on away days for Union staff should be reduced and that such activities should, as far as possible, be confined to the places of work of the institutions, since the resulting added value does not justify such high costs.

Getting results from the Union budget: lastly, the committee observed that in its 2013 report, the Court of Auditors concluded that Member States, when selecting projects under shared management, had focused first on the need to spend the Union money available, rather than on their expected performance. It requested that in order to reverse this incentive and to change towards a culture of good performance, an **independent high-level working group on the performance of the Union budget** be convened in order to make recommendations to structurally shift the incentive from spending to good performance, based on an assessment of Union added value. It also demanded that the Commission included in the next evaluation reports provided for in Article 318 TFEU an analysis of the efficiency, the effectiveness and the results achieved in terms of growth and jobs by the investment plan of EUR 315 billion.

Lastly, Members called on the Commission to manage its budget in such a way that there are no thematic policy overlaps and duplications amongst its various DGs with similar or nearly identical competences.