Financial rules applicable to the general budget of the Union: simplification

2016/0282A(COD) - 26/01/2017 - Court of Auditors: opinion, report

OPINION No 1/2017 of the Court of Auditors.

On 9 December 2016, the Council requested an opinion from the Court on the Commission proposal to revise the financial rules applicable to the general budget of the Union. The Financial Regulation (FR) sets out the principles and procedures governing the establishment and spending of the European Union (EU) budget and the control of the EU funds.

The Court made the following observations and recommendations:

Governance: the Court suggested that the Commission should use the revision of the FR as an opportunity to **update** its governance arrangements in order to comply with international best practice. The Commission should in particular:

- further **streamline** reporting, by issuing a single accountability report or a suite of reports;
- publish as part of the annual accounts or accompanying information an **estimate of the level of error** based on a consistent methodology and present this information together with the provisional accounts;
- introduce specific requirements for the creation and functioning of an **audit committee** within EU institutions with a spending role.

Annual report and special reports: the Court opposed the Commission proposal as regards the way in which the Court presents its special reports, considering that this would undermine the legitimate administrative autonomy of the Court.

Simplification for recipients of EU funds: the Court supported the measures introduced by the Commission although it does not see the need to remove the “no-profit” principle for grant recipients.

It suggested that the Commission should clarify: (i) proposals on **combining methods of implementation or budget implementation instruments** by putting in place adequate safeguards to address the risks linked to combining funding sources; (ii) the proposed amendment on the financial instruments, in particular by defining in the FR proposal, the basis for the operation of the common provisioning fund and calculation of the effective provisioning rate.

Budget flexibility: the Court considered that it is possible to **considerably simplify** the budgetary provisions. It suggested rejecting the change proposed for the “flexibility cushion”, “negative reserve” and carry-overs as it introduces further complexity. It considered that budgetary flexibility should not be achieved by holding more funds in reserve and that a new approach to the carry-over procedure would be simpler, more flexible and promote efficiency. The Court did not support the proposed changes to the use of **assigned revenue**. It recommended that there should be no expansion in the use of internal assigned revenue and that all internally generated revenue should be accounted for as general revenue.

Trust funds: the proposal would enable trust funds to operate within the EU funded through internal policy instruments. The Court considered that the premature extension of the use of trust funds to internal policies raised issues of administration, cost, audit and accountability in relation to the creation of trust funds for external actions. The Court, therefore, did not support the proposal to extend the use of trust funds.

Payment based on conditions fulfilled or results achieved: the Court supported the increased use of payments based on conditions fulfilled or results achieved. It called for a clear definition of performance in relation to sound financial management and not to reduce the number of criteria that need to be covered by *ex ante* evaluations.

Streamlining of reporting: the Court welcomed the consolidation of the reports prepared by the Commission but considered that the implications of such changes have not been fully assessed. The Court considered the proposals on reporting to be inappropriate. The Court suggested that if changes were made, they would constitute a complete reporting package, and include the information from the annual activity reports (AARs) that is significant to external stakeholders. In this way, a significant simplification in reporting would be achieved.

Audit arrangements: the Court shared the Commission's opinion that it should **simplify its relationship with international organisations** by relying upon their existing audit arrangements wherever possible. This could avoid a multiplication of audit examination of the same projects and allow for a more adequate use of financial and human resources. It recommend requiring the Commission to consolidate all information concerning recoveries and corrections into one document presented to us together with the provisional accounts.

Lastly, the Court addressed other proposed changes, including certain issues such as changes in sectoral rules.