2016 discharge: EU general budget, European Commission and executive agencies

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Having regard to Article 319 (1) of the Treaty on the Functioning of the European Union (TFEU), the Council approved a **recommendation on the discharge to be given to the Commission** in respect of the implementation of the general budget of the European Union for the financial year 2016.

Detailed analysis of expenditure:

- revenue amounted to EUR 144 716 765 816.23;
- expenditure disbursed from appropriations amounted to EUR 135 180 335 947.92;
- cancelled payment appropriations (including earmarked revenue) carried over from year n-1 amounted to EUR 1 304 221 566.46;
- appropriations for payments carried over to year n+1 amounted to EUR 1 651 142 565.23;
- the positive budget balance amounted to EUR 6 404 567 996.26;
- cancelled payment appropriations for the financial year amounted to EUR 62 856 186.60;
- EUR 1 236 042 148.87 (95.16 %) of the EUR 1 298 898 335.47 in appropriations for payments carried over to year n have been used.

Based on the observations in the Court's report, the Council recommends that the **European Parliament give a discharge to the Commission** in respect of the implementation of the budget of the European Union for the financial year 2016.

Statement of assurance: the Council welcomes the gradual reduction of the overall estimated level of error reported by the Court (from 4.4 % in 2014 and 3.8 % in 2015 to 3.1 % in 2016), taking note that about half of the 2016 expenditure is free from material error. It regrets that the estimated level of error reported by the Court for payments is still above the materiality threshold.

The Council welcomes the fact that for the first time since the Court started providing a statement of assurance in 1994, the Court gives a **qualified opinion, rather than an adverse one**, on the legality and regularity of payments underlying the accounts based on the material but not pervasive estimated level of error. It welcomes the clean opinion given by the Court on the reliability of the annual accounts of the European Union for the financial year 2016.

Stressing the importance of **financial corrections and recoveries** for the protection of the EU budget, the Council called on the Commission to continue, where appropriate, the implementation of all available corrective measures. The Council encourages the Court and the Commission to continue working together in order to converge their approaches in the evaluation of the impact of financial correction on the estimated amount at risk at closure and to provide comparable data.

Budget and financial management: the Council called on the Commission to:

- improve its **capacity to anticipate and predict expected needs** thereby limiting, when possible, the recourse to amending budgets or the mobilisation of special instruments in full compliance with the legal framework;
- anticipate an orderly disbursement of payments in order to avoid any shortage of appropriations;

- continue the monitoring of this matter and the presentation of a long-term and transparent forecast, including needs and potential decommitments, and to ensure an orderly balance between commitment and payment appropriations;
- closely monitor their development and the associated **financial risk** due to long-term liabilities, guarantees and legal obligations;
- establish a comprehensive reporting structure on the use of funds tackling the **refugee and migration crisis**;
- improve the **transparency, simplicity and accountability** of all the EU budgetary instruments.

Getting results: the Council acknowledges that setting a solid performance framework within the EU institutions and Member States contributes to the sound financial management of EU funds and to the reliable evaluation of the functioning of the programmes under the current MFF. It aligns with the Court's recommendation on the need to **streamline performance reporting and** encourage the Commission to improve its reporting capacity on performance.

Revenue: the Council notes with satisfaction that in 2016 the revenue part of the budget was not affected by material error, that the underlying transactions tested were found to be free from error and that the examined GNI- and VAT-based own resources systems were assessed as being effective. However, the Council recalled that accurate GNI figures are essential for a fair distribution of the contributions between Member States.

Competitiveness for growth and employment: the Council welcomes the fact that the estimated level of error reported by the Court for payments in this policy area steadily decreased in the last years (5.6 % in 2014, 4.4 % in 2015 and 4.1 % in 2016). However, the Council regrets that the estimated level of error remains well above the materiality threshold of 2 %.

The Commission is called on to continue its efforts to **address the causes of error** with a particular focus on the programmes that are subject to persistently high error levels.

The Council takes note of the Court's analysis that the **root causes for most errors** are the misinterpretation of complex eligibility rules, in particular, under the Seventh Research Framework Programme.

In that regard, the Council supports the Court's recommendation for the Commission to **further streamline the Horizon 2020 rules and procedures** by extending the use of simplified cost options.

Economic, social and territorial cohesion: the Council welcomes the fact that the estimated level of error reported by the Court for payments in this policy area steadily decreased in the last years (5.7 % in 2014, 5.2 % in 2015 and 4.8 % in 2016). However, the Council regrets that the estimated level of error remains significantly above the materiality threshold of 2 %.

The Council underlines that simplification of state aid rules, broader use of simplified cost options, improvement of use of public procurement rules and modifications of the design of the 2014-2020 programmes should lead to a further decrease of error rates in coming years.

The Council calls on the Commission and Member States' authorities to make additional efforts to ensure the regularity and sound financial management of EU funds, to **take full advantage of all possibilities of simplification** and to avoid unnecessary layers of complexity or administrative burden that do not add value to the results set to be achieved.

The Council urges the Commission to follow up on the cases of errors identified by the Court, to set up an integrated monitoring system covering both preventive and corrective measures taking into account the principle of proportionality, and to strengthen cooperation within the Commission, as well as with Member States.

Natural resources: the Council welcomes the fact that the estimated level of error reported by the Court for payments in the "Natural Resources" policy area steadily decreased in the last years (3.6 % in 2014, 2.9 % in 2015 and 2.5 % in 2016). However, the Council regrets that the estimated level of error remains above the materiality threshold of 2 %.

The Council notes that the Court and the Commission acknowledge the improvements on the **Land Parcel Identification System** (LPIS) as the biggest factor for the reduction of the error levels. It calls upon Member States to continuously update the information contained in the LPIS databases, while keeping an appropriate balance between the administrative costs and the benefit resulting from the controls.

As regards **rural development**, the Council called on the Commission to continue its support to Member States to take all necessary actions to prevent, detect and correct errors, while keeping an appropriate balance between the administrative costs and the benefit resulting from the controls.

The Commission should provide **guidance** and disseminate best practices among national authorities to ensure that their checks identify links between applicants and other stakeholders involved in the supported projects.

Security and citizenship: the Council encourages the Court to consider **increasing its audit scope** in this policy area to a representative sample in order to provide an error rate, recommendations and performance information for next years. Given the increased spending in the area of Asylum, Migration and Integration Fund and the Internal Security Fund, the time is ripe to increase the audit intensity accordingly.

Global Europe: the Council welcomes the fact that the estimated level of error reported by the Court for payments in the "Global Europe" policy area decreased by 0.7 percentage points to 2.1 % in 2016. The Council takes note that the estimated level of error remains very close to the materiality threshold of 2 %.

The Council notes that the Court detected some **control weaknesses** in the Commission's systems at the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) and at the Directorate-General for International Development and Cooperation (DG DEVCO) which led to the acceptance of ineligible costs. The Council welcomes the Court's recommendations in this respect.

Administration: the Council notes with satisfaction that the estimated level of error reported by the Court for payments in the "Administration" policy area further decreased by 0.6 percentage points to 0.2 % in 2016, well below the materiality threshold of 2 %.

The Council also regrets the Court's observation in relation to the **management of funds within the European Parliament** and more particularly to the control of allocations for political groups. It underlines that respect of the principle of transparency is instrumental to the Union's accountability towards its citizens and the importance of strengthening the control framework and providing better guidance to the political groups through reinforced monitoring of the application of the rules of the Financial Regulation.

The Council regrets that not all the EU institutions, bodies and agencies have achieved the **5 % reduction** of posts in the establishment plan by the end of 2017 and urges these institutions, bodies and agencies to carry out the remaining reduction as soon as possible in order to achieve this target fully.