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

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The Commission report summaries the **Member States' replies** to the European Court of Auditors' (ECA) 2016 annual report.

For the first time since 1994, **ECA issued a qualified (rather than an adverse) opinion** on the regularity of the transactions underlying the 2016 accounts. This reflects an important improvement in the management of EU finances.

A significant part of the 2016 expenditure audited by the **ECA was not affected by a material level of error** and there was a sustained improvement in the estimated level of error in payments made from the EU budget over the past three years: from 4.4 % in 2014, to 3.8 % in 2015 and 3.1 % in 2016.

Cohesion remained the biggest contributor to the overall error rate followed by Natural Resources, Competiveness and Global Europe.

Member States were also invited to reply to a questionnaire focusing on three main themes: (1) Compliance with rules and regulations (2) Reporting on performance (3) Follow-up of ECA recommendations.

1) Compliance with rules and regulations: the vast majority of the Member States agreed with the most **common error classes** identified by ECA in the two major EU shared management spending areas (common agricultural policy and economic, social and territorial cohesion policy). They also mostly confirmed the relative importance of error types identified by ECA.

Some Member States also indicated **other types of error** they frequently encounter in these policy fields, cost overruns, failure to provide evidence of compliance with the market price, double financing of projects and the breach of sound financial management.

Concerning the relative importance of error categories, many Member States (e.g. Bulgaria, Czech Republic, Estonia, Ireland) reported that infringements of **public procurement rules** continue to be the most important deficiency type.

They demonstrate a **continued commitment by Member States to sound financial management** through the use of Simplified Cost Options (SCOs), improved management verifications and efforts to streamline administrative procedures, and strong willingness to follow up on deficiencies found by external auditors and endorsed by national authorities.

In the area of public procurement, Member States tackled issues by offering **tailor-made training programmes and the sharing of best practices** using online networking facilities, and by making expert advice widely available.

The replies show that Member States are in line with the conclusions of the High Level Group on Simplification for the beneficiaries of the European Structural and Investment Funds (ESI Funds) which found that **simplicity and flexibility are key** to ensuring the success of ESI Funds investments in Europe and of Cohesion Policy after 2020.

2) Performance of the EU budget: in the area of performance management, the ECA has found that the Commission makes available a lot of information in comparison to other countries or international organisations.

The replies received from Member States demonstrated that they are aware of the need to have a **performance framework in place** in the 2014-2020 programming period to ensure that resources are allocated to priorities that bring an added value to actions financed through the EU budget.

Member States replied that they rely on a **wide range of data sources** for performance information, including national statistical offices.

Almost all Member States mentioned a **national IT system** operated by the implementing authorities for the management of operational programmes under shared management. In agriculture, the Land Parcel Identification System (LPIS) operated by the paying agencies was mentioned most frequently in this category.

It transpired from the replies from many Member States that they envisage the establishment of an **integrated electronic funds management system**, compliant in design with the relevant EU and national legislations, as the most important preventive means to ensure data quality in both policy areas.

Another such commonly mentioned preventive measure was the establishment of manuals for administrative checks to be conducted by managing authorities and intermediate bodies. Among corrective and detective measures cited, the most important type appeared to be the first level management verifications (involving a proper segregation of duties and the observance of the four-eyes principle).

The Commission will continue working with Member States to improve information on performance data.

3) Follow-up of ECA recommendations: each year ECA examines how the Commission follows up on the recommendations issued by ECA to the Commission. This year's analysis of 108 recommendations published between 2010 and 2013 showed that the **Commission implemented 90 recommendations** fully or in most respects. The ECA found that just six recommendations had not been implemented at all (of which one was not initially accepted by the Commission).