1999 discharge: EC general budget, section III Commission

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PURPOSE: presentation of the Annual Report of the Court of Auditors on the implementation of the 1999 General Budget and the respective Statement of Assurance. CONTENT: This 1999 Annual Report follows the format used for the past two years with chapters dealing with revenue and each of the expenditure areas that fall under the headings of the financial perspectives. 1999 was an important year for financia management in the Community. A crisis of confidence in the Commission's management which had developed over previous years came to a head with the two reports of the Committee of Independent Experts, after the first of which the Commission resigned. The new Commission which began work in September 1999 immediately set about a new reform programme. Many of the important weaknesses which the reform programme is seeking to address are points on which the Court in its reports over the years has emphasises on many occasions: the inadequacy of the Community's contractual arrangements, fundamental and structural weaknesses in internal control which diminish the responsibility of authorising officers, persistent shortages in resources for the management of some programmes. The Court encourages the Commission to proceed with the implementation of its reform proposals as soon as possible, bearing in mind that some of the reforms require changes to the Financial and Staff Regulations. It is only when structures and procedures are in place and actually functioning that it will be possible to assess whether the intended improvements in financial management are being obtained. Changing the management culture of an organisation like the Commission is difficult, and will take time, but it is only with such changes that the reform proposals will work. However, the Court believes that improvements in financial management constitute but a part of what is needed to improve the overall management of Community funds. Member States are responsible for the day-to-day management of the bulk of the funds from the Community budget, in the areas of the CAP and Structural Funds. Important initiatives have been taken to improve matters by means of stengthening the financial controls that the Member States themselves are required to maintain over Community-financed (or co-financed) operations. Separately from any consideration of the Commission's reform proposals, this annual report shows that some progress has been made in specific areas: action has been taken by the Commission to remedy specific weaknesses in some projects and programmes (aid to South Africa, reforms to the measures for the subsidised use of skimmed milk and skimmed milk powder for animal feed, etc.). In other areas, however, such as the reform of the wine market organisation, and the taking of corrective action following the detection of errors or irregularities in the ERDF field, the response has been slow or partial. In its Statement of Assurance on the 1999 accounts, the Court again draws attention to problems with the Community's financial statements similar to those found in previous years. Weaknesses in accounting systems and procedures mean that the information presented is in some cases incorrect or incomplete. The problems in management and control systems covering operational expenditure, both at the Commission and in the Member States, continue to give rise to a significant incidence of errors,mainly at the level of the final beneficiary. In view of these observations, the Court cannot provide assurances that the transactions underlying the financial statements are legal and regular except as regards own resources, the commitments and the Institutions' staff expenditure. The Court lists a number of cases regarding which it is of the opinion that the accounts for the 1999 financial year do not reflect reliably the Communities' revenue and expenditure for the year and the financial situation at the end of the year: - a net understatement of fixed assets by around EUR 240 million; - a material understatement of short-term amounts receivable from Member States; - a material understatement of sundry debtors; - a lack of information on advances and payments on account at the year end; - an understatement of commitments by some EUR 2.600 million; - an overstatement of commitments still to be settled by some EUR 1.270 million; - a material overstatement of potential receivable amounts. Lastly, attention is drawn to the danger of misinterpreting or misrepresenting the errors found by the Court as an indication of the level of fraud affecting the Community budget. The references in the Court's report to payments whose amounts

are wrong because of error and irregularity concern primarily problems of inadequate financial management and control. The bulk of the errors occur in the main expenditure programmes managed by the public authorities in the Member States, and concern particularly such things as small overpayments to farmers and payments for expenditure by public authorities which is not eligible for EU co-financing. Only a small proportion of the breaches of the regulations found by the Court have justified further investigation by OLAF or the authorities of the Member States with criminal jurisdiction. The extent of the fraud was the subject of an Annual Report on the protection of the Community's financial interests which brings together the data provided by the Commission and the Member States (please refer to COS /2001/2036). The Court considers that much remains to be done to improve co-operation between OLAF and the Member States in the investigation and prosecution of fraud and corruption involving the EU budget.