Discharges 2001: Commission's follow-up report on the general budget, EDF and ECSC budgets, Agencies budgets

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PURPOSE : to present the report from the Commission on the follow-up to 2001 discharges. CONTENT : at the request of the European Parliament or the Council, the Commission shall report on the measures taken in the light of the observations and comments made on the general budget procedure of the 2001 discharge (refer to DEC/2002/2101 for the general discharge). It also responds to the recommendations made by the Council on 7 March 2003. Compared with the previous years this follow-up Report also relates to the Discharges given in respect of implementation of the budget of the sixth, seventh and eighth European Development Funds (DEC/2002/2185) and the ECSC (DEC/2002/2087) for the 2001 financial year. The Report also deals with the follow-up to recommendations to the Commission relating to Discharges given to the European Coal and Steel Community (ECSC) and to the following agencies: CEDEFOP, EUROFOUND & EAR. The report responds, point by point, to all of the observations and recommendations given by the European Parliament and/or the Council in their respective resolutions. The Commission's recommendations concern, amongst others, the following issues : A) Accounting, Treasury, Recovery : improvements have been made to the accounting system. The principle of double-entry accounting is accepted and has been used for the general accounts for many years. Although the use of double-entry bookkeeping in the budgetary accounts is not required by Article 137 of the Financial Regulation, nor under the International Public Sector Accounting Standards (IPSAS), the Commission is examining whether it is feasible to introduce it within its project for the modernisation of its accounting system. If it proves feasible, and of demonstrated added value, it will also be introduced in 2005. As regards the reform of financial management in the Commission, the standards expected of the internal control systems are clearly established and a major effort is being made to achieve full compliance as far as possible with the baseline requirements of the 24 Internal Control Standards by the end of 2003. The Commission attaches the utmost importance to the achievement of a positive DAS. It is at the Commission level that such an assurance is to be given. For this purpose, remedial measures to all detected weaknesses are being carried out. B) Eurostat, the fight against fraud : in specific response to Parliament's request, on 11 June 2003 the Commission tasked its Internal Audit Service with an examination of the awarding of contracts and grants in Eurostat or on the recommendation of Eurostat in other Commission services. A series of measures have been taken to follow up the recommendations made following Parliament's misgivings and to try and find solutions to the problems (the manual on calls for tenders is regularly updated; tighter check of the financial statements provided by companies, clear instructions and rules on management of externalised projects and of staff recruitment). The Commission has resolved a series of issues in connection with a libel action against the contractor Eurogramme. C) Externalisation : two problems were highlighted by the Parliament in its resolution : - establish a code of conduct for its personnel that ensures transparency and separation between private and public interests;- outsourcing policy in general : since 1999, the Commission has undertaken a reorganisation of its externalisation policy, refocusing on its core tasks and activities and reassuming effective control of executive and support activities by means of more closely controlled structures endowed with the necessary skilled staff. New externalisation instruments have been designed to implement this policy and take over tasks performed by TAOs. The tasks entrusted to external private-sector entities or bodies other than those, which have a public-service mission, are technical expertise tasks and administrative, preparatory or ancillary tasks involving neither the exercise of public authority nor the use of discretionary powers of judgement. The related aggregate annual expenditure was estimated at some EUR 133.6 million. TAOs could be kept on if the tasks subcontracted are strictly limited to technical expertise and administrative, preparatory or ancillary tasks involving neither the exercise of public authority nor the use of discretionary powers of judgement. For TAOs failing to meet the minimum criteria for the delegation

of responsibilities in acceptable conditions, the Commission proposed alternative solutions. For most of the TAOs, the identified long-term solution proved to be the setting-up of executive agencies. Pending the adoption of the regulation on executive agencies, which only came at end-2002, the Commission devised an orderly transitional scheme to allow a speedy phasing out of TAOs, as requested by the budgetary authority. This implied a progressive re-incorporation of tasks in the Commission's departments, while preserving programme continuity and minimising the risk of contractual conflicts. D) Underimplementation of the Structural Funds : the Commission regrets the delay in negotiating the programming documents at the start of the 2000-2006 programming period and the resulting consequences for the start of implementation. This is the reason why the Commission will be presenting its legislative proposals for the period after 2006 as early as possible in 2004 so that all the legislation will be introduced before the start of the next programming period (1 January 2007). The Commission is considering a new system of implementation based on a more decentralised, more simple and more effective system of programming, management and control. It is also planning a substantial simplification of the number of stages in the programming. To ensure a smoother transition to the future programming period, the Structural Funds and Cohesion Fund regulations, the implementing rules, and the multiannual financial framework for the period after 2006 must be adopted early enough to ensure that the preparations for the adoption of measures, allocation of funds, adoption of guidelines, presentation of proposals, etc., are virtually completed by the end of 2006. It is true that so far Member States' forecasts have been very inaccurate and have tended to overestimate expenditure. The Commission corrects the forecasts received from Member States in the light of its own information; E) Enlargement : as far as ISPA is concerned, the implementation rate of 58% was relatively high for an instrument that has only been available since 2000. Projects that have been prepared during the last two years for ISPA, are now reaching theimplementation stage; therefore the Commission is confident that the implementation rate for the forthcoming years will improve (in 2002, the rate increased to 78%). F) Agriculture : in this context, the Commission is seeking to harmonise and simplify administration, control and sanctions when necessary and possible. The development of verifiable indicators of Good Farming Practices has been difficult. Nevertheless, updated guidelines, worked out with the Member States, were issued in 2002 and the system is now up and running. One of the purposes of Agenda 2000 was to allow the CAP to adapt better to local circumstances or priorities. Thus, the criteria for Good Farming Practice, and controllable indicators, are set at national or regional level. Considering the huge variety of situations between and within Member States, the Commission does not wish to propose harmonised, Community wide criteria or indicators as it would not allow local conditions to be taken into account. G) European Social Fund : achieving ESF objectives while avoiding inefficient procedures, fraud and mismanagement was one of the aims of the simplification exercise the Commission has launched in 2002. The Commission believes that the simplification packagewill contribute to a better management of the Funds, reducing the risk of inefficiencies and mismanagement. Since the structural funds rely on a shared management system, based on the principle of decentralisation. Member States themselves must make an effort to streamline their internal procedures and simplify the programming at national and/or regional level; - Gender budgeting : the European Parliament requested, for the 2004 budget, a clear breakdown of financial management, detailing the overall amounts earmarked for promotion of equal gender opportunities under all budget headings. The Commission's efforts on gender budgeting have not yet got very far consideing the fact that producing tailor-made statistics and specific information sources is an extremely complex and expensive process which is not easy to put in motion politically and materially in times of limited resources. For the European Commission the situation is made all the more difficult by the fact that in many policy areas it depends on information from the Member States; - OLAF and the collaboration with the EP : OLAF is planning to provide an equivalent level of information on external investigations as is currently the case for internal investigations, while respecting the need to protect the confidentiality of investigations. The Commission systematically informs OLAF of the action taken. As regards judicial follow-up, OLAF is the interlocutor with the judicial authorities. As far as implementation of the General Budget for the 2001 financial year is concerned, the Commission accordingly produces this report. The aim of this report is to present the action taken by the Commission or action it intends to take in response to the comments contained in the discharge resolutions in respect of implementation of the general budget of the European Union for the financial year 2001, the budget of the sixth, seventh and eighth European Development

Funds and the ECSC for the 2001 financial year. Lastly, the Report also deals with the follow-up to recommendations to the Commission relating to Discharges given to the European Coal and Steel Community (ECSC) and to the following agencies. EDF DISCHARGE : the issue here was to stress the importance given by the discharge authority to sound management of budget execution in the negotiations with authorities in the ACP countries. In order to improve the monitoring of the quality of public finance and to guarantee the quality of the mechanism for the management and control of public finance in the ACP countries concerned, the Commission is introducing a procedure based on the following aspects: - Public Finance analysis; Public Finance Management monitoring and Public Finance Management performance indicators. The Commission, working with beneficiary governments and other donors, puts a high emphasis on development of national action plans through a policy dialogue and on supporting its Implementation and measuring progress in Public Finance Management (PFM) improvements over time. ECSC DISCHARGE : on the issue of outstanding commitments (RAL), the Commission states that it undertakes to review all outstanding commitments related to ECSC coal and steel research on a semestrial basis. As every year the Commission reviews in 2003 the outstanding commitments. The Commission ensures that the various deadlines are respected. Cancellations are also executed if the examination of a final payment request or other information supplied by the Member State reveals that part or all of the aid awarded can not be paid. DECENTRALISED AGENCIES DISCHARGE : regarding the issue of the duplication of tasks : the possible overlap or duplication between the work of the ETF and CEDEFOP has been assessed both in the external evaluation of Cedefop carried out in 2001 as well as in the external evaluation of the ETF. The external evaluations have confirmed what the Commission has always underlined, that there is no overlap between the two Agencies which have a separate geographical coverage and quite different missions and tasks. Concerning the latter, Cedefop contributes to the Community's vocational training policy through transnational cooperation within the EU, while the ETF supports the Commission in the design and implementation of VET reform activities in third countries as part of the Community's external policies' framework. The Commission in recent years has ensured that tools are in place for the Agencies to achieve maximum synergy and complementarity (e.g. a framework for cooperation decided in 2001, a joint annex to each Agency's annual work programme, establishment of an ETF/CEDEFOP working group, etc). The Commission states that Decentralised Community bodies have specific missions according to their respective founding regulations, which are adopted by the legislative body of the EU, that is the Council and in several cases, the Council in codecision with the European Parliament. There is a list of Community bodies currently operating, out of which four would be the more obvious candidates for examination for possible overlapping, that is the European Centre for the Development of Vocational Training (CEDEFOP) in Thessaloniki and the European Training Foundation (ETF) in Turin, as well as the European Foundation for the Improvement of Living and Working Conditions in Dublin and the European Agency for Safety and Health at work in Bilbao. As regards the European Foundation for the Improvement of Living and Working Conditions and the European Agency for Safety and Health at work, the two Agencies have already signed a Memorandum of Understanding concerning their areas of collaboration and agreed on an action plan with concrete actions and activities for cooperation, in a spirit of maximising the synergies and removing the possibilities of duplication of activities. In a series of cases the legislator has foreseen that these Agencies are to carry out labour intensive tasks, and no or few tasks involving the implementation of operational appropriations. Whenever the tasks given to the Agency mainly involve manpower, and therefore the respective salaries and office space, these costs fall under Titles 1 and 2 'staff and administrative expenditure' of the Agencies' budgets. It would be misleading to compare administrative expenditures to the so-called 'operating expenditure' (title 3 of the Agencies' budget), and conclude that Agencies, which have a higher percentage of 'Administrative expenditure' are less efficient and productive then those with a higher percentage of 'Operating expenditure', as such a comparison can only indicate that the nature of the work differs. As indicated, it is neither in the Agencies' nor the Commission's competence to chose the tasks to be carried out by the Agencies, but the will of the legislator is being transposed via the annual work programme and the corresponding budget. The Commission report concludes with a series of general remarks in response to the Council's recommendations. The main criticisms made by the Council concern the weakness of the implementation of the Structural Funds. The Commission has consistently proposed appropriations below Member States' forecasts.So far, implementation of the Structural Funds programmes has indeed trailed

below expectations. The Commission will take this into consideration in its future proposals and has already done so in the PDB 2004. The Commission has presented a Communication on the budgetary implementation of the Structural Funds indicating the normal trend expected for outstanding commitments. The outstanding commitments for the Structural Funds at the end of 2002 amounted to EUR 60 373 million, which represents 2 years of commitment appropriations, of which around 1/4 concerned pre-2000 programmes. The Commission considers that this level of outstanding commitments is not alarming. However, it is worried about "bad" (oldest) outstanding commitments. Outstanding commitments for programmes from before 1994 were greatly reduced from EUR 532 million at the beginning of 2002 to EUR 128 million at the end of 2002. Despite considerable efforts devoted to the clearance of the outstanding commitments associated with the 1994-99 period, they only decreased marginally in 2002 (from EUR 16 607 million to EUR 15 437 million). For 2000-2006, the outstanding commitments are expected to increase until 2006, and to decrease until the end of the payment period.