

2002 discharge: EC general budget, section III

Commission

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PURPOSE : to present the Annual Report from the Court of Auditors concerning the financial year 2002 including the Statement of Assurance. (Section III - Commission). **CONTENT** : in recent years the Statement of Assurance has become an increasingly important element of the Court's Annual Report. This year's Report places the Statement, together with the information supporting it, in chapter 1. For the first time the Statement is also published with the consolidated accounts of the European Community in a separate edition of the Official Journal of the European Union. A further change to the Report is the consolidation of the Court's observations on budgetary management into a separate chapter. In previous years these observations were presented in the individual chapters dealing with the European Union's revenue and spending. This 26th Annual Report is being published at a time when there are two major developments affecting the financial management of the European Union. The first is the continuing reform of the Commission in general, and of financial management in particular, and the second is the accession in May 2004 of 10 new Member States. The Court welcomes the action plan for the modernisation of the accounting system adopted by the Commission at the end of 2002, which is expected to become fully effective in 2005. However, if the Commission is to implement all the in-depth reforms necessary, this timing may be over-ambitious. In view of the results of its audits, the Court is of the opinion that the transactions underlying the consolidated annual accounts of the European Communities, taken as a whole, are legal and regular in respect of the revenue, commitments, administrative expenditure and pre-accession aid, although in the latter case the supervisory systems and controls are particularly in need of strengthening. The report highlights problematic elements of the budget implementation: - In the case of agricultural policy, payments were affected by significant errors, which mostly occurred at the level of the final beneficiary. In the 14 Member States which have satisfactorily implemented the Integrated Administrative and Control System (IACS), expenditure on arable crops is the lowest risk category of CAP spending and is subject to the most effective control system. However, payments of animal premiums to farmers, although IACS checks are satisfactory, show a higher risk of error due to animal movements and complex regulations. The other categories of expenditure not subject to IACS are exposed to greater risk, and controls are less efficient. These categories amount to 42% of total agriculture payments and include subsidies for olive oil, cotton, tobacco and dried fodder, rural development, intervention measures and export refunds. - For structural measures, an improvement was noted in the supervisory systems and controls operated by the Commission. However, there are persistent deficiencies in the control systems operated by Member States, who administer the bulk of the funds. Problems were found with the regulatory control systems certifying the final expenditure declarations covering the period 1994-1999, due largely to the late introduction of the governing regulation. The systems covering the 2000-2006 period are more effective; however, the Court found the same type of errors as in previous years, in particular declarations of ineligible costs. - As regards internal policies, the payments are still affected by significant errors. The Commission undertook a considerable number of audits of projects, which identified errors such as over-declaration of costs by final beneficiaries. However, the follow-up corrective action was not rigorous and the recovery of undue payments was slow. The errors in the research field stem to a great extent from the existing rules governing the Research Framework Programmes, which need, therefore, to be modified. - In the case of pre-accession aid, the errors identified did not have a significant impact. Nevertheless, as the date for accession approaches, it is necessary to further improve the supervisory systems and controls. Concerning Ispa (structural measures), the Commission should improve the methodology for its audits; for Sapard (rural development programme), the Commission should step up checks in the beneficiary countries to verify that systems are working as approved. The implementation of the Sapard programme was still slow: after three years of operation, only 2% of the available funds had been transferred to final beneficiaries. - In respect of external actions, the Commission's control systems were found to be adequate both in the central services and at the

Delegation offices in third countries. However, the problems noted in the past are still persisting at local level and errors of regularity were found in the bodies responsible for carrying out development projects. These errors usually involve contravention of contract provisions, particularly tendering rules, a lack of supporting documentation and funding of ineligible expenditure. - Implementation of the European Development Funds continued to be slow; the 3-year delay in the entry into force of the Cotonou agreement will cause further delays. One alternative might be to include the EDF in the Community General Budget. The EDF accounts were found to be reliable and the underlying transactions were legal and regular; however the Court cannot give an opinion on the use of direct budgetary aid by the ACP countries, which is controlled according to national, rather than EDF, procedures. The Court's audit found no important failures in the control systems or material errors affecting the legality or regularity of administrative expenditure. The European Parliament has made significant progress as regards the management of the political groups' expenditure; however, it is necessary to clarify the legal status of the groups and to improve the management of the employment contracts. - When examining Community revenue, the Court found that the VAT and GNP resources were being correctly calculated. However, the Commission should strengthen its control of the reliability of the data communicated by the Member States. As in the previous two years, there was a significant surplus of revenue over expenditure; it amounted to EUR 7.4 billion, compared with EUR 15.0 billion in 2001. The surplus was mainly due to under-use of appropriations in structural measures, where Member States systematically overestimated the funds required for implementing programmes. The Commission should introduce appropriate budget modifications before the year-end to enable revenue to be adjusted to expenditure. The Court notes substantial progress in the Commission's implementation of administrative reform. The annual activity reports and declarations of the Directorates-General have improved; however Directors-General should provide more precision on their reserves on the effectiveness of internal control systems and better describe the deficiencies detected. Although progress has been made, the standards for internal control were still not being fully applied to the minimum level throughout all Directorates-General by the end of 2002; to reach this level is a matter of urgency. Difficulties are being encountered in the implementation of the reform in the areas of expenditure where the Commission and Member State administrations share management. This concerns more than 80% of the budget and involves agricultural policy and structural measures. Progress in these areas depends on making improvements in the administrative and control systems set up by the Member States.