

# 1998 discharge: EC general budget

1999/2050(DEC) - 15/11/1999

**PURPOSE:** presentation of the Court of Auditors' annual report concerning the financial year 1998 and the Statement of Assurance and supporting information. **CONTENT:** The report seeks, as in previous years, to present the revenue and each of the expenditure areas that fall under the headings of the Community's budget for the 1998 financial year and accords an important role to following up measures taken by the Commission in response to various special reports prepared by the Court (reports on skimmed milk and milk powder for use as animal feed, on the CAP reform in the cereals sector, on the management and control of interest rate subsidies, financial aid to overseas countries and territories under the 6th and 7th EDF). It also intervened when the Commission made a proposal to establish an anti-fraud office and a process of reform of financial management, in particular in the context of a fundamental revision of the Financial Regulation. Furthermore, the analysis of the budget heading by heading gives rise to various criticisms on the execution of expenditure, and the Court comes up with a somewhat critical view of the reliability of the Community's accounts and indicates that it is not in a position to give an assurance that the operations relating to the payments for the 1998 financial year are legal and regular. In the remarks that accompany its Statement of Assurance, the Court states that the Commission once again has used as the prime performance indicator of financial control, the extent to which the appropriations allocated in the budget have been utilised, and not whether they were effectively and efficiently spent. The 1998 Annual Report reveals weaknesses in the three layers of the Community's financial control: - at the Commission, - in the Member States' systems, and - in the Commission's supervision of Member States' systems. The Court's main concerns relate to the following: 1) the understatement of fixed assets, essentially buildings, by around EUR 540 Mio (mainly the purchase of buildings for the European Parliament and Court of Justice); 2) a net overstatement of debtors in the region of EUR 1,000 Mio principally resulting from the overstatement of sums likely to be recovered for unpaid customs duties and agricultural duties; 3) an understatement of cash and debtors amounting to at least EUR 600 Mio because some amounts held on bank accounts, or paid as advances to third parties which act as agents for the Commission, have been omitted from the balance sheet; 4) the inaccurate and inadequate presentation of information on advances and payments on account at 31/12/1998 (e.g. Structural Funds); 5) the overstatement of commitments still to be settled by some EUR 660 Mio; 6) the omission of certain commitments (EUR 352.7 Mio) and potential liabilities (at least EUR 2,794 Mio). During 1998, the Commission entered into commitments to a value of EUR 352.7 Mio without having legal authorisation in the form of sufficient budgetary appropriations. The Court's audit revealed an unacceptable incidence of error which affected the amount of the payments made, or the eligibility of the transactions financed by the Community budget ('substantive' errors). The audit showed numerous other failures to comply with regulations, which often indicated a failure to properly apply control procedures, but where no direct effect on payments or on transactions financed by the Community budget was identified ('formal' errors). As in previous years, the majority of the errors occurred in areas of Community expenditure which are essentially managed by authorities in the Member States, and which represent more than 80% of the general budget. But there was also a significant incidence of error in the Commission's directly managed expenditure on internal policies, which represents about 5% of the budget. According to the Court, the Commission's internal control is not forceful enough in preventing incorrect operations and, at the same time, the internal audit function is carried out in an uncoordinated way by several bodies (the Financial Controller, the Inspectorate General and by some units in operating DGs). Member States' control systems are no better in preventing, discovering and correcting errors. The most common errors are financing ineligible transactions, overpayments, breaching tendering or State aid rules and insufficient supporting documentation. According to the Treaty, in those areas where management is shared with the Member States, the Commission has a responsibility to supervise and ensure that the national control systems are adequate. The Commission also needs to step up its supervision of bodies implementing Community funds on its behalf, such as the European Investment Bank and the European Investment Fund. The Court recommends that the role of the various officials

responsible for control should be redefined; in particular, the authorising officer must be responsible for checking the regularity, the quality and the effectiveness of the measures undertaken. At the same time, a genuine independent internal audit function should be introduced; its purpose should be to check the way the control structures set up by the managing departments work and to ensure that they are satisfactory. Management and control of Community programmes are being decentralised from the Commission to national authorities and other intermediaries. This should be accompanied by a development of management information and accounting systems, which would enable the Commission to exercise proper supervision and to detect errors and cases of misadministration promptly. Where national systems of management and control are found inadequate, the flow of funds should be halted until remedial action has been taken. In the context of the global revision of the Financial Regulation, the Commission should increase its efforts to simplify its financial and accounting regulations and procedures; they should be aimed at facilitating and speeding up operations while maintaining the required degree of control. Regulations should be more consistent and respect the budgetary principles (unity, universality, annuality and specificity) and those laid down by the Community Directives on accounting. The financial statements must be reliable, concise and easy to understand. They must provide a more accurate and complete picture of the actions undertaken and of the financial position of the Community. Lastly, according to the Court, the Commission needs to adopt the necessary measures to allow the recruitment and the allocation of staff according to the needs and to sustain the reform.