2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

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PURPOSE : to present the Commission's report on the follow-up to 2002 Discharges.

CONTENT : according to Article 276 of the EC Treaty and Article 180b of the EAEC, the Commission shall take all appropriate steps to act on the observations in the decisions giving discharge and on other observations by the European Parliament relating to the execution of expenditure (Section III-Commission). This report summarizes each sector or themes raised by the European Parliament and the Council, the actions that the Commission intends to take or has already taken:

- Reform of the Commission: this Reform was initiated in 2000 with the aim of improving the service culture of the Commission, more clearly identifying the Commission's political priorities, instituting a modern human resources policy and overhauling the Commission's systems of financial management and control. Two of the key elements in the Reform process are the new Financial Regulation and the modernised Staff Regulation. The Commission agrees with the European Parliament that the Reform is a continuous process which does not end with the adoption of the legislative texts. It has therefore taken good note of the recommendations included in the resolution on the 2002 discharge and is to a very large extent in agreement with the ideas presented. However, the Commission does not agree with the European Parliament that it is appropriate already now to propose changes to the key elements of the financial reform introduced in the recast Financial Regulation.

- Corruption : The Commission agrees with the European Parliament that anti-corruption strategies of the accession countries, candidate countries and Member States shall be supported. For the new Member States, several measures were initiated already during the pre-accession phase.

Furthermore, following the request of the European Parliament, a new budget line amounting to 3 million € was created in the 2004 Budget for special support to NGOs in the new Member States to act as watchdogs for civil society and uncover corruption practice in public administration.

The European Parliament has recommended that NGOs meet certain standards as regards accounts and audits as well as transparency. The Commission agrees but must recall that it is not entitled to monitor or intervene in the internal management of NGOs.

- Shared Management: The Commission agrees with the European Parliament that shared management is an issue that deserves – and already today is given – high priority. The European Parliament has stressed the need for the Commission to lay down common standards and offer Member States the necessary guidance. The Commission's strategy for ensuring sound financial management already follows the approach of setting common basic standards for management in Member States, supervising their application and providing guidance in the form of manuals and practice notes. The lessons learned will be taken into account in the legislation for the new period. The Commission is grateful for the European Parliament's support as regards the use of sunset clauses and financial corrections. Time limits such as the rule providing for decommitment at year n + 2 have proved to be effective instruments to improve levels of implementation and the Commission will therefore propose to maintain and reinforce such clauses in the future. Financial corrections and suspension of payments can also be effective in getting Member States to correct weaknesses in management and will therefore likewise be maintained.

However, the Commission does not agree with the European Parliament that a Member State should lose its right to agricultural support from the EAGGF Guarantee Fund if it fails to implement IACS. The fact is that no Member State entirely fails to implement IACS but rather some component may not be (fully) in place. In light of this, the Commission has opted for the strategy of imposing ex post financial corrections. Finally, the Commission welcomes the support of the European Parliament for application of the single audit approach, which can help to maximise the effectiveness of the overall audit effort by the Commission and Member States.

- Eurostat: The European Parliament has raised several concerns in the framework of the Discharge procedure on the Eurostat case. It is particularly the case when European Parliament requested that Commission should establish safeguards against concealment of critical information or when it asked for the review of relations between the different actors and the individual Commissioners as well as the College itself in the functioning of the accountability chain.

Furthermore, the problem of informing the political level is recognised, identifying the reasons of this situation and committed the Commission to finding a solution in the context of the Action Plan which was adopted by the Commission on 10 February 2004. This Action Plan and the adopted measures aim to make more explicit the existing rules on the communication of sensitive information and insist on active information.

However, in some cases, the Commission could not follow the requests of the European Parliament, for example the publication of the IAS and IAC reports or the creation of central management supervision of the control systems operating in individual departments.

As far as the revision of the Financial Regulation is concerned, the Commission has not identified any weaknesses in the new Financial Regulation which may expose the Community Budget to the risk of fraud. In any case, the Commission will assess carefully the fraud-proofing of financial rules in the first review of the Financial Regulation that will be carried out in 2005.

- Own Resources: The Commission is ready to fulfil most of the requests of the European Parliament. Concerning the Community's transit system, the Commission has in June 2004 presented a survey showing the implementation of the 38 recommendations made by the first temporary committee of inquiry in 1997. Furthermore the Commission continues to promote the transition to phase 3.2 of the New Computerized Transit System (NCTS) which should take place in all Member States by 31 December 2005. However, the Commission considers that an amendment to the Customs Code concerning the need to put an end to the practice of regarding incorrectly or falsely declared goods as not being involved in the transit procedure would be inappropriate. Otherwise, it would make the guarantor of transit operations liable for a customs debt which has already been incurred prior to the transit operation and would put at risk the balance of the existing legislation.

- Agriculture: on the main issues raised in the Parliament Resolution, the Commission has already taken or planned corrective actions. Concerning the setting of export subsidy rates, this has been done in the context of the implementation of the Commission's comprehensive action plan. However, the Commission is not able to submit documentation for the information selected when setting the export subsidy rates as this information is too commercially sensitive to be released. On the prefinancing of export refunds, the Commission carried out a review of the system, and decided to retain prefinancing but limit the scope of its application. The effectiveness of these new rules will be assessed before any new decision. The effective implementation of the management, control and sanctions system by the Member States is assessed during audits by the Commission's services. The Commission will follow up on this issue, as deemed appropriate.

- Structural Funds: the Commission regularly informs the Discharge Authority of the measures taken for better budget implementation. The preparation of the next Structural Funds Regulations will incorporate

the lessons learnt and any measure like the n + 2 rule that accelerates the implementation will be continued with the improvements required when applicable.

The Commission considers that sanctions mechanisms on Member States for poor budgetary estimates, provision of SAPARD notes in all languages of the acceding countries and a quarterly breakdown of the situation as regards the application of the n + 2 rule are inappropriate. It already informs Parliament each year of the actual application of n + 2 rule as soon as the final figures are known.

- Internal Policies and Research : on internal control, the Commission regularly reviews its internal control framework in view of making the implementation of internal control standards more effective. In this context, the Research DGs contribute to the self-assessment exercises aimed at identifying areas where the implementation effort must be intensified.

Measures to reinforce the process of recovering amounts unduly paid is already being set up: the Commission has taken stock of the improvements decided in the field of recoveries at the Cocobu meeting of 3 November 2003.

- External policies : the Commission has taken due note of the European Parliament's recommendations concerning controls relating to external measures. Furthermore, the Commission is taking or has taken the recommended actions regarding the Neighbourhood and the PHARE Programmes as well as the aid allocated to education and health. It has systematically been reviewing outstanding commitments in order to reduce the amount of old or dormant RAL.