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

2004/2040(DEC) - 30/11/2004

PURPOSE : to present the Court of Auditors' annual report on the implementation of the 2003 budget (Section III – Commission).

CONTENT : the Court of Auditors has published its 27th Annual Report on the implementation of the 2003 EU budget. It is of the opinion that the 2003 consolidated accounts of the European Communities faithfully reflect the revenue and expenditure and the financial situation of the Communities at the year-end, except for one observation related to the recording of the operations concerning the sundry debtors.

The Court notes that the modernisation of the accounting system, due to be operational for the 2005 financial year, still requires considerable efforts before being ready for full implementation. As in previous years, the Court considers that the operations underlying the consolidated accounts are, as a whole, legal and regular in the case of revenue, commitments and administrative expenditure. It also notes the progress made as regards the reform of the Commission's internal control system and its positive impact on the legality and regularity of the Commission's internal management of expenditure. However, in the area of shared or decentralised management, and indirect centralised management, where operations are materially subject to errors, a greater effort must be made to apply the supervisory systems and controls in an effective manner so as to improve the handling of the attendant risks.

As regards the statement of assurance, the Court states that it is not able to give a favourable opinion on the payments to the EAGGF Guarantee Section, structural measures, internal policies, external actions and pre-accession.

The Court analyses the most important issues :

- **agricultural expenditure** : payments were materially affected by errors due to the shortcomings in the supervisory systems and controls. The Integrated Administrative and Control System (IACS), covering approximately 58% of agricultural expenditure, is satisfactorily implemented, although the quality of the on-site inspections should be improved. The other expenditure not covered by IACS presents a higher risk, as it is subject to less effective controls: There are problems in the areas of expenditure where aid is paid according to quantities produced (olive oil, cotton, tobacco and dried fodder), rural development, export refunds and intervention storage. The process for certifying the agricultural paying agencies' accounts is satisfactory, but the Court is concerned that the financial clearance decision is still pending for 43% of expenditure declared for 2003, and for the accounts of 29 paying agencies in respect of 2001 and 2002.

- **structural measures** : owing to weaknesses in the supervisory systems and controls at the Member State level, payments to beneficiaries were affected by the same type and frequency of errors as in previous years. Progress in closing the 1994-1999 programmes remains limited, largely due to the submission by Member States of inadequately supported final claims. In spite of the reinforcement of the regulatory requirements, the Court's audit confirmed the same type of problems for the 2000-2006 intervention period. The Commission should require Member States to make improvements in the systems and use the possibility to suspend payments in cases of serious systems weaknesses.

- **internal policies** : the improvements made by the Commission in 2003 are not yet sufficient to avoid errors in payments to final beneficiaries, mainly due to over-declaration of costs. Shortcomings were identified in the European Refugee Fund, in the field of freedom, security and justice, and in the 6th Framework Programme for Research. In particular, the rules governing the research framework programmes should be revised.

- **external actions** : the Court's audit revealed only a few errors at the Commission's headquarters and Delegations. However, weaknesses in the internal controls, together with a relatively large number of errors, were detected both at the level of the project implementing organisations and at the projects themselves. It is essential that in the framework of management decentralisation the tools needed to supervise and control systems and expenditure become effectively operational.

- **pre-accession strategy** : in spite of the improvements noted, there are still shortcomings in the audits carried out by the Commission as well as in the internal control systems in the candidate countries, which result in errors and greater risks affecting legality and regularity in the 2003 payments .

- **administrative expenditure** : considerable efforts have been made by the EU institutions to adapt their supervisory and control systems to the requirements of the new Financial Regulation. Nevertheless, most of the institutions had not achieved all the required changes. The Court's audit did not reveal any significant problems affecting the legality and regularity of the transactions examined.