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

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This document presents the Council’s recommendation on the discharge to be given to the Commission on the implementation of the Community budget for the financial year 2003 (Section III – Commission).

The recommendation recalls that according to the revenue and expenditure account for the financial year 2003:

- revenue amounted to EUR 93 468 554 436;

- expenditure disbursed from appropriations amounted to EUR 88 394 813 758;

- cancelled payment appropriations (including earmarked revenue) carried over from 2002 amounted to EUR 2 765 220 289;

- appropriations for payments carried forward from 2003 to 2004 EUR 2 246 023 739;

- the negative balance of exchange-rate differences amounted to EUR 108 988 964;

- the positive budget balance amounts to EUR 5 483 948 264;

- cancelled appropriations for the financial year amount to EUR 5 535 238 460;

- EUR 2 081 756 100 (50%) of the EUR 4 155 854 793 in appropriations for payments carried forward from 2002 to 2003 have been used;

Based on the observations made in the Curt of Auditors’ report, the Council recommends that the European Parliament give a discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2003.

Firstly, it should be noted that the Council is disappointed that the Court was still unable to give a Statement of Assurance (DAS) in relation to most of the expenditure.

The Council appreciates the Court's continued work for improving its audit methodology and tools, in order to better fulfill its mission to contribute to improving the financial management of the Union at all levels. It looks forward to being regularly informed on the DAS methodology applied by the Court globally and within each sector, in particular regarding concepts, methods, indicators, appraisals and presentation of the results.

It shares the Court's consideration relating to further improving the design of control systems by establishing clear and consistent objectives and responsibilities. In this context, the Council notes with great interest the Court's proposal for the development of a Community internal control framework as presented in its opinion on the single audit model.

The Council takes note of the progress achieved by the Commission in designing the new regulatory control framework and its positive impact on the legality and regularity of operations subject to direct management of the Commission. In the framework of the administrative reform, the Council notes that the annual activity reports required by the Financial Regulation have been of some usefulness for the Court's audit work. However, further improvements are needed to make them into a reliable indicator of the Commission's performance in order to enable the Court to use them as a basis for its statement of assurance.

The Council expresses great concern regarding the continued increase of outstanding commitments for differentiated expenditure. The Council finds it unacceptable that at the end of 2003 outstanding commitments represented 2.5 years payments at the current spending rate.

As this trend affects the credibility and sound management of the Community budget, the Commission should, with Member States' assistance, endeavour to give budget estimates closer to capacity for use of appropriations and corresponding to real needs. The Council will monitor closely how the Commission and Member States progress in coming years to avoid over-ambitious budgeting and the inability of Member and beneficiary States to absorb EU funds, which result in the low spending rate.

As regards the expenditure plan on a heading by heading basis, the Council has made the following comments:

- **Common agricultural policy**: the Council regrets that CAP expenditure was materially affected by errors. It endorses the Court's view that the Commission should work more actively with Member States in order to improve the control systems, especially for those categories of CAP spending with higher risk (animal premium schemes and subsidies paid on the basis of quantity produced) or those subject to recurrent errors. The Council calls on the Commission to review certain control procedures, identify subsidies that are particularly subject to fraud and error, improve the supervisory checks and use these checks as a tool for comparison and have their results included in the annual activity report of the Director-General for Agriculture and if relevant in the Synthesis report.

- **Structural measures**: the Council welcomes the reinforcement of the Commission internal control system for the financial year 2003 and invites the Commission to improve on the basis of the principle of proportionality the effectiveness of the financial control framework for structural measures.

Concerning the closure of programmes for the 1994-1999 period, the Council regrets the fact that progress in 2003 remained limited, because of delays in the Member States and problems for the Commission's examination of files. The Council is concerned by the fact that the Commission's checks on the compliance of the Member States' control system for the 2000-2006 programming period are not yet complete. The Council urges both the Commission and the Member States to implement all the necessary improvements, in order to avoid the repetition of the problems encountered at the closure of the 1994-1999 period.

- **Internal policies**: the Council regrets that the late approval of the FP6 model contracts and the incomplete deployment of the common information technology (IT) system during 2003 affected the implementation of FP6. It notes that an analysis of the ex-post financial audits in the field of RDT expenditure shows a considerable incidence of errors in the declarations of costs by final beneficiaries, which were not detected by the Commission's internal controls at the time of payments. The Council shares the Court's concerns about the weaknesses in the management and control systems for the European Refugee Fund in the area of freedom, security and justice. Moreover, the Commission did not give clear instructions to national intermediate managing bodies during the starting phase of the programme. It urges the Commission to remedy the internal control weaknesses in this field and to provide direction to Member States on how to achieve a harmonised control environment at national level.

- **External actions**: the Council regrets the relatively high number of irregularities detected in the transactions of implementing organisations and shares the Court's view on the necessity for a comprehensive approach to the supervision, controls and audit of these organisations.

- **Pre-accession aid**: the Council welcomes the progress achieved in the field of the pre-accession instruments Phare, ISPA and