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

2004/2040(DEC) - 12/04/2005 - Text adopted by Parliament, single reading

The European Parliament adopted the resolution drafted by Terry **WYNN** (PES, UK) on the 2003 discharge by 563 votes for, 40 against and 38 abstentions. (Please see the summary of 16/03/2005). Parliament grants the discharge for the European Commission's accounts for 2003 but stressed in the attached resolution that it is also firm about the need for Member States' financial control systems to be reviewed swiftly and for the failings to be remedied.

RALs: Parliament regretted the Court's misleading statement as regards the outstanding commitments on the structural funds, which at the end of 2003 represented “five years” worth of payments at the current spending rate. This figure included the years 2004 to 2006, which in 2003 could not be committed. Parliament recalled that unused funds are reimbursed to the Member States at the end of the period. It welcomed the fact that the introduction of the rule n+2 (year of commitment + 2) had largely contributed to solving this problem, such that for the last two years there has been absorption of more than 99% of the structural funds. Also bearing in mind the post-2006 Financial Perspective, the Commission was invited to find a balance between the preparation of policy and the process of accounting for its proper implementation, and calls on it to undertake a critical analysis by reconsidering the distribution of power within the Commission (governance set-up) as well as administrative processes.

Parliament went on to note that the distinction between the financing and the implementation of a Community policy gives rise to the so-called "delegation risk", which concerns matters such as: the fact that Member States and beneficiaries do not always give the same attention to the spending of European money as to the spending of national money; and the heterogeneous quality of Member States' control standards and the notable absence of involvement of most national audit institutions in seeking assurance that European funds are being used regularly and legally for the intended purposes.

Parliament took the view that these problems could not only be resolved by centrally imposed controls, and that the current situation clearly demonstrated the need for new instruments to enhance the Commission's insight into the Member States' management and control systems. Only sufficiently comprehensive ex-ante disclosure in a formal Disclosure Statement and an annual ex-post Declaration of Assurance as regards the legality and regularity of the underlying transactions from each Member State's highest political and managing authority (Finance Minister), as suggested several times by the Commission's Internal Audit, would enable the Commission to fulfil its obligations under Article 274 of the Treaty.

Parliament invited the Commission to present an initial report exploring the road map to a protocol with Member States in which the managing authority (finance minister) would declare, prior to disbursement and on an annual basis, that proper control systems, capable of providing adequate assurance for Commission accountability purposes, are in place. It advised the Commission and the Council of the difficulties involved in concluding an Interinstitutional Agreement on the new Financial Perspective until the principle of disclosure statements from each Member State's highest political and managing authority has been fully accepted and its operational implementation given status as a matter of priority. Progress in the European Union's financial management is not possible without Member States' active participation, and this "participation" must be anchored at political level. Parliament was convinced that a finance minister would prefer to establish properly functioning supervisory systems and controls instead of

running the risk of having to explain to his/her Parliament why the national purse has to repay substantial sums to the European Union.

DAS: Parliament notes that the central question should be whether the supervisory systems and controls that have been implemented at Community and national level provide the Commission with a reasonable assurance as regards the legality and regularity of the underlying transactions. It invited the Court of Auditors to further improve the presentation of the global Statement of Assurance and the specific appraisals by continuing the trend towards a more comprehensive description of the reservations, and to include more explicit and specific information on weaknesses in the different sectors and Member States with a view to establishing an operational listing, drawn up on a risk-based approach, of the reservations which can be monitored over time.

Single audit model: this model demanded by Parliament since 2002 is designed to improve budgetary control mechanisms. Parliament welcomed the Court of Auditors' recommendations for an effective and efficient internal control framework. However, it regrets that the Court has not presented any bold proposals as regards national audit institutions' participation in enhancing transparency and accountability at Member State level. The Commission is invited to initiate discussions with the discharge authority , the Council and - with due respect to its independence - the Court of Auditors as an observer, and to draw up an action plan for the implementation of a Community internal control framework as soon as possible. Furthermore, it invites the Commission to make sure that the detailed proposals setting out the legal framework of the policy proposals made by the Commission as part of the political project for the Union until 2013 take full account of the elements contained in the "Community internal control framework" and the principle of annual disclosure statements by each Member State's highest political and managing authority.

Lastly, MEPs asked the Council to work with Parliament and Commission in setting up an expert group to rethink the functioning of control and audit in the EU, in particular in the areas of shared management between the Commission and the Member States.

Sectoral issues: many points have been examined in this resolution such as:

Agriculture: it notes that the Commission is responsible for having failed to recover, at least, EUR 1 120 million during the period from 1971 to September 2004. It considers this to be an unacceptable situation and that the Member States and the Commission have shown a lack of due diligence. It expects to receive a report, in time for the 2004 discharge procedure, on how and when this money will be recovered. Member States are invited to report cases of irregularities on time every 3 months;

Structural measures: Parliament deplores the failure of some Member States to control and manage taxpayers' money for which they are responsible, and points to the hypocrisy of some Member States in blaming the Commission for failing to control expenditure for which those Member States are responsible. The Commission is asked to inform Parliament of the countries which have failed to rapidly implement agreed improvements in their control systems. Parliament also encourages the Commission to suspend interim payments to Member States in cases of serious irregularity or when serious failings in the Member States' management control systems are found;

Internal policies: Parliament **c**onsiders the overall implementation rates for this heading to be satisfactory even if there were a considerable incidence of errors under the research heading, mainly due to over-declarations of costs which were not detected by the Commission's internal controls;

External Policies: Parliament declares the reform of the management of external aid has been a success. However, the observance of tender and procurement procedures by project management units and NGOs remains an area of concern and Parliament expects the Members of the Commission with responsibility for external aid to submit an action plan by 1 September 2005 in order to bring those problems under

control. Parliament recognises the need to strike a balance between reporting and procedural requirements for NGOs on the one hand and the feasibility of NGOs meeting these on a regular basis on the other hand, and would welcome reflection by the Court on how these interests could be better reconciled. It also finds it unacceptable that only EUR 198 million (2,4%) was earmarked for basic education and EUR 310 million (3,8%) for basic health, therefore, it urges the Commission to increase funding for these sectors and calls for 20% of the European Union's development cooperation expenditure to be earmarked for basic education and health in the developing countries;

Pre-accession aid: Parliament commends the Commission for the efforts it has made so far through the PHARE programme in helping to prepare the candidate countries for managing the structural funds. It is nevertheless concerned by the failure to ensure that the accreditation process for many PHARE and ISPA agencies in the new Member States was completed before accession. It welcomes in principle the proposal for a new single instrument for preparing for management of the structural funds. Moreover, the aims and objectives of SAPARD, as the first pre-accession aid to be fully decentralised, were excellent, even if it did not fully achieve them. Lastly, Parliament acknowledges that the decentralised management system used to implement the programme generally functions well, but urges the Commission to improve it further by learning from the problems encountered so far, providing more support to accession states when problems are found and doing more to follow up the programme.