2004 discharge: EC general budget, section III, Commission and ECSC in liquidation

2005/2090(DEC) - 19/09/2005 - Document attached to the procedure

COMMISSION REPORT ON THE FOLLOW-UP TO THE 2003 DISCHARGE :

COUNCIL RECOMMENDATIONS

Peliminary remark: this Commission report concerns the follow-up to the Council's recommendations on the 2003 discharge. The detailed answers from the Commission on each of the 66 recommendations made by the Council are presented in a Commission working document (SEC(2005)1160.

CONTENT : this report intends to reply to the recommendations made by the Council on each of the 2003 discharge procedures (including the decentralised agencies and EDF expenditure). This summary concerns in particular the recommendations on the Commission's budget implementation (for further details of these recommendations, please refer to the summary of the Council recommendation dated 8 March 2005 : procedure reference DEC/2004/2040).

The report concerns the following issues:

- **Road Map :** theCommission shares the Council's disappointment that in 2003 the Court of Auditors was again unable to give a Statement of Assurance (DAS) in relation to most of the expenditure. For this reason, the Commission has announced its intention to set out in 2005 a roadmap to an integrated internal control framework. The aim is to establish, in close collaboration with Parliament and the Council, how the current internal framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of underlying transactions. The integrated internal control framework will build on the positive results achieved by the reform of the internal control framework of the Commission. The vast majority of the actions in the White Paper have been completed, in particular as regards the internal control standards. The Commission will continue its work to implement effective internal control systems and to improve the Annual Activity Reports and the declarations and reservations made by the Directors-General. The Commission will further work with Member States to improve controls over funds under shared management.
- **Statement of Assurance (DAS) and supporting information:** in June 2005 the Commission adopted a communication setting-out the abovementioned roadmap to an integrated internal control framework. The Commission services are also currently identifying the gaps which, in their view, lie between the control framework in place for each area of all budgetary expenditure and the general principles defined by the Court of Auditors in its opinion No 2/2004, with particular emphasis on the controls which limit the risks concerning the legality and regularity of the underlying transactions. It will propose the action required to address each gap, and the timetable for implementing this action, and discuss this with the Court, Council and Parliament. The Commission intends to come to an agreement by November 2005 with Parliament and the Council on how the current internal framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of underlying transactions. To that end, the Commission will undertake discussion with the appropriate Council Committees, and by October 2005 present the initial report exploring the road map to a protocol with Member States. As regards the new accounting system of the

Commission, which became operational in January 2005 and is currently being used by all Directorates-General, work is ongoing to meet the remaining objectives and to date there are no significant delays or problems noted in meeting these objectives.

- **Budgetary management:** the Commission has taken due note of Council's request for more accurate and updated budget estimates and more information on outstanding commitments and budgetary implementation. Budget estimates have improved overall and in particular for structural operations. The Commission also provides an annual report on the evolution of outstanding commitments (RAL) and the successful efforts to eliminate "abnormal RAL". Moreover, the 2004 report on Budgetary and Financial Management analyses the cumulative state of implementation of the Communities' main multi-annual programmes.
- **Own Resources:** the Commission agrees with the Council that further progress should be made concerning the management of agricultural tariff quotas. It continues to work on proposals to simplify the procedural framework, including the development of a central, integrated IT system (AMIS Quota).
- **The Common Agricultural Policy (CAP):** the Commission will work more actively with Member States in order to improve the control systems in areas that are not checked through IACS and where serious problems such as high risks and recurrent errors still occur. For example, the Commission will follow up instances where information supplied by Member States appears to be erroneous. Audit activity on ex-post controls has been reinforced in 2005. The Commission effectively addresses the issues of revision of certain control procedures, of identifying subsidies that are particularly subject to fraud and error, of improving the supervisory checks and of using these checks as a tool for comparison by performing detailed analyses when establishing the annual work plan. It believes that the current system of statistical reporting is sufficient. Furthermore, the results of the IACS checks made by Member States have been included in the 2004 Annual Activity Report of the Director General for Agriculture. As on the need to ensure that both limited audit evidence and supervision receive sufficient attention by certifying bodies, during 2004, the Commission provided further guidance and arranged bilateral meetings with Certifying bodies and Paying agencies of several Member States in which the issues of supervision and audit evidence were discussed. Consequently, the Certifying Bodies paid much more attention to these issues in the 2004 certification exercise. As a result, for the financial year 2004, the accounts of only 5 paying agencies were disjoined, compared to 29 accounts in the 2003 financial year. The Commission drew up an action plan to lessen the risk of fraud in this area and implemented it. The management of the risks involved has significantly improved.
- **Structural measures:** the Commission is pursuing its efforts to remedy the weaknesses in the supervisory and control system for structural expenditure. It is continuing its audits of the systems in 2000-06 programmes. It makes recommendations to the Member State to remedy any weaknesses found, follows up the action taken, suspends payments if the problems represent a serious risk to Community funds, and applies financial corrections. The management and control framework for the 2007-13 period proposed by the Commission builds on the experience of the past by further reinforcing and clarifying the control responsibilities of the Member States whilst respecting the requirements of proportionality.
- **Internal Policies:** as regards supervisory systems and Controls, the Commission has taken the recommended action to reinforce financial information regarding payment delays and to improve monitoring of budgetary implementation for example by regularly producing and monitoring financial scoreboards. As regards management and control systems for the 6th Research and Technological (RDT) Framework Programme (FP6), IT tools have been deployed and are being upgraded to provide the full range of support for proposal evaluations through to contract payments and project monitoring. As regards the European Refugee Fund, action has been taken to remedy internal control weaknesses. Moreover, the Commission will continue to work with Member States in order to further harmonise the control environment at national level. As regards the follow-up to findings of the ex-post financial audits and the recovery of undue payments, the Commission has

put in place a reporting system to assist the financial services in monitoring their recoveries. Moreover, "A common audit policy of the Research DGs for FP6" was defined and agreed, and audit databases for the audit follow-up will be put in place.

- **External actions:** the Commission has taken due note of the Council's invitation to continue the reform of external management. Thus the recent reorganisation of EuropeAid services aims at further strengthening its role which has progressively evolved towards supervision, coordination and support to devolved management in the Commission delegations. Moreover, the Commission's monitoring and control systems aim at ensuring the compliance by contract partners, such as NGOs, with the contractual requirements. The introduction of new tools (such as CRIS Audit) will contribute to further improve the flow of information on audit results at central level.
- **Pre-accession aid:** the Commission continues to pursue the aim to fully implement the Extended Decentralised Implementation System (EDIS), both in the new Member States and the Candidate Countries. All new Member States had received accreditation decisions for PHARE funds by early 2005 and could rely on the (albeit phasing out) assistance of the PHARE Transition Teams in the local Commission Representations. Within HQ, at DG Enlargement, the Financial Assistance Follow-up Unit will provide further punctual monitoring-driven assistance. As for the Candidate Countries, the assistance towards the implementation of EDIS is pursued by means of several initiatives and measures, including high level working groups, training seminars and systems reviews.