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 DECISIONS : EUROPEAN PARLIAMENT RESOLUTIONS

Preliminary remark: this Commission report concerns the follow-up to the observations and recommendations made by the EP on the 2003 discharge procedure. The Commission replies to each of the recommendations formulated by the EP. These replies can be found in the Commission's working document (SEC(2005)1161) published in parallel.

CONTENT : this report aims to reply to each of the recommendations accompanying the European Parliament discharge decisions on the implementation of the 2003 budget (including the decentralised agencies and EDF expenditure). The report presents the recommendations made to the Commission on its budget implementation (for a more detailed account of the recommendations, please refer to the summary of 12 April 2005 : procedure reference DEC/2004/2040).

In this context, the Commission has identified a total of 113 recommendations made by the European Parliament to the Commission. The Commission considers that for 45 recommendations the required action has already been taken. For another 52 recommendations the Commission agrees to take the action recommended by Parliament. Finally, the Commission cannot accept 16 recommendations and will therefore not be taking the requested action.

A summary follows of the Commission's replies to the specific requests made by Parliament in its

2003 Discharge Resolutions:

1) Horizontal issues

- *Reliability of the accounts:* it has been proposed to amend the Financial Regulation in order to require the Accounting Officer to sign off the Commission's accounts and therefore to certify that they are reliable. To this end, in the declarations of assurance annexed to annual activity reports, Directors-General should certify that the accounts for which they are responsible are accurate and exhaustive;
- *Delegation risk to Member States:* the Commission considers that the introduction of formal Disclosure Statements and annual expost Declarations of Assurance on the legality and regularity of underlying transactions from each Member State's highest level would enhance the Commission's insight into Member States' management and control systems. To this end, the Commission suggested that the Council establish a High-Level Interinstitutional Trialogue responsible for negotiating and reaching an agreement on a common understanding of what would constitute an adequate and satisfactory Community integrated control framework. On 13 July 2005 the Council asked COREPER to examine this issue;
- *Single audit:* the Commission intends to reach an agreement with the Parliament (as discharge authority) and the Council on how the current internal control 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 Commission will present in October 2005 an initial report proposing a basis for an understanding with Member States;

- *Improvement of annual activity reports by Directors-General:* the new guidelines for the Annual Activity Reports for 2004 (SEC(2004)1562), address Parliament's concern about the risk in underlying transactions. They constitute a more solid and transparent basis for the assurance to be given by authorising officers by delegation, and provide a more coherent framework for the Commission departments' declarations to be taken into account for the Court of Auditors' declaration of assurance;

Furthermore, the Commission has stated that it cannot produce estimates of error rates for all sectors every year. Its audit strategy is based on a multi-annual approach and audits are system-based. A review of the Financial Regulation is under-way and aims at improving the efficiency and transparency of provisions and the simplification of procurement procedures. The Commission has already established a number of principles regulating Cabinets' activities which are considered sufficient to mitigate the risk of insufficient exchange of information regarding audit matters.

2) Sectoral issues

- *Own resources:* the Commission continues its usual thorough verification of the GNI data and the sources and methods used by Member States to compile it. It is also currently examining ways to carry out more direct verification. A pilot project is planned for 2005;
- *Agriculture, animal health and measures to combat fraud:* the Commission is going to report to Parliament on progress made in Member States' reporting of irregularities by September 2005. The Commission has undertaken to produce a report on how the EUR 1.12 billion not yet recovered from 1971 to 2004 will be recovered in time for the 2004 discharge procedure. As to the monitoring of paying agencies, the new Council regulation requires the head of each paying agency to sign a declaration of assurance. The Commission is confident that the Taskforce Recovery will make significant progress in the recoveries' backlog problem and will keep the responsible Committee informed;
- *Structural measures:* the Commission mentions in its annual activity reports the countries and regions that have been slow to implement improvements. It uses its power to suspend payments where Member States' systems display persistent weaknesses representing a serious risk to Community funds and the Member State has failed to correct the weaknesses;
- *Internal policies:* the Commission aims to simplify the 7th Framework Programme. Community research activity has for many years been the subject of *ex post* evaluation which includes the scientific results and impact. Value-for-money criteria are among the issues that are addressed through the evaluations, especially in terms of providing European Added Value. It is now using all-electronic proposal submission for calls for proposals, which simplifies and reduces the costs for applicants. It has also indicated that it will put in place an electronic registration procedure, allowing applicants to submit their administrative details only once, at the time of their first proposal submission. The Commission has indicated in its proposals for FP7 its intention to "externalise" the management of a significant proportion of the activities to an executive structure. The extra resources that will thus be dedicated to the administration of the projects will allow the Commission staff to concentrate better on the scientific follow-up of projects and on feeding the lessons learned back into policy;
- *External policies:* as regards the recommendation to conduct a qualitative assessment of EC external assistance separate from the Annual Report, the Commission produced the requested report in July 2005. The Commission will also provide an interim report on the progress with implementing information management systems and a system of supervision of the work of the Delegations regarding the evaluation of financial risks. The Commission will provide a report on the control structures in place in Delegations before the next discharge exercise. As regards the observance of tender and procurement procedures by project implementing organisations, in June 2003 the Commission took remedial action through the introduction of a revised standard contract for grants, including the introduction of an audit certificate according to which auditors are required to check the respect by the beneficiaries of applicable procurement rules. The Commission is

currently revising the template of the audit certificate and developing improved terms of reference for the auditors. In view of this, the Commission does not see the need for an action plan as recommended by Parliament. As regards a comparison of the efficiency of various international aid donors, the Commission is already participating, in various frameworks, in initiatives aimed at comparing the efficiency of international aid donors. The Commission therefore does not consider any additional initiatives to be justified for the time being;

- *Pre-accession aid:* concerning PHARE, the Commission intends to take measures to ensure that the accreditation process for many PHARE and ISPA agencies in Bulgaria, Romania and the future acceding countries is completed before accession. Corrective action includes ensuring that those countries have appropriately staffed Phare fund management systems in place by end 2005. Reassessment of the allocation of funds for the period 2004-2006 is based on a management system assessment to be carried out during 2005 and its follow-up. The draft framework-instrument (IPA) has been presented to Parliament and the Council. The regional development component of IPA will concentrate on development priorities in a limited number of key sectors and implementing bodies, and provide capacity building for the implementation of Structural Funds. The Commission adopted on 27 May 2004 the new IPA draft regulation together with the RELEX package and negotiation is since ongoing in the Council and Parliament. As regards SAPARD, the Commission believes that it has already put great emphasis on projects which increased quality, health and environmental standards. Their promotion is an integral part of the support given to the most important measures, which cover 49% of the programmes. All investments must meet Community standards and will inevitably lead to improvements in these areas. It has planned, and implements, a system to audit the expenditure and the management and control systems of the SAPARD programmes.