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

2005/2090(DEC) - 30/11/2005 - Court of Auditors: opinion, report

PURPOSE: to present the Court of Auditor’s report on the 2004 financial year (Section III – Commission).

CONTENT : the Court of Auditors as published its 28th Annual Report on the implementation of the 2004. The Court of Auditors is of the opinion that the 2004 consolidated accounts on the implementation of the EU general budget faithfully reflect the revenue and expenditure of the year and the financial situation at the year end, except in the case of **sundry debtors**. As in the past, in 2004 the accounting system cannot ensure that all assets and liabilities are recorded. The Commission has achieved significant progress towards introducing accrual based accounting for the 2005 financial year, although adaptations and validations necessary to ensure the full implementation of the new accounting framework have been delayed.

**DAS** (Statement of Assurance) : the Court found the supervisory and control systems implemented and operating effectively and the transactions underlying the accounts, taken as a whole, to be legal and regular in respect of revenue, commitments, administrative expenditure and pre-accession strategy, although varying degrees of risk still exist in the implementing organisations in the latter case.

For the remainder of payments' budget:

- **agricultural spending;**
- **structural measures;**
- **internal policies;**
- **external action.**

**The Court is again not in a position to provide an unqualified opinion on the legality and regularity of underlying transactions.** A greater effort is needed to implement the supervisory and control systems effectively and to address the weaknesses in the areas where payments are still materially affected by errors. further progress is still required in terms of operational effectiveness. However, the Court is able to report for the first time, that the efforts made by the Commission and Member States to implement the Integrated Administration and Control System (IACS), covering 59% of the agricultural expenditure, have had a **positive impact**. IACS is in fact effective in limiting the risk of irregular expenditure, where properly applied. The Court found that the vast majority of the payments' budget was again materially affected by errors of legality and regularity in the underlying transactions. This is a result of inherently risky transactions, and supervisory and control systems that are ineffective in terms of limiting the risk of irregularity to an adequate level. However, improvements in systems have been noted, particularly with IACS operated by Member States – the principal supervisory and control system for agricultural expenditure -, and at the level of the Commission - a sound legacy of the administrative and financial reform process started in 2000 -, but considerably more needs to be done, especially within Member States.

For 2004 the payment **budget** increased from EUR 98 billion to EUR 105 billion, largely due to enlargement. The underspending characterising previous years was considerably reduced due to better management and planning, resulting in a surplus of EUR 2.7 billion, around half that in 2003. However, the high level of outstanding budgetary and legal commitments will pose a specific challenge to ensure that spending over the next few years meets the deadlines set, and decommitments are avoided.

In terms of **revenue**, the scope of the Court's work is limited in respect of the VAT and GNI own resources – the underlying data cannot be directly audited by the Court – and traditional own resources, where the audit cannot cover imports that have not been subject to custom supervision. Subject to these limitations, the Court found revenue transactions to be legal and regular. However, weaknesses were identified in systems in respect of the GNI resource both within the Commission and in Member States.

In terms of **external actions** (EUR 4.6 billion), the improvements in the Commission's supervisory and control systems have not had an impact at implementing organisation level – NGOs, recipient government, international organisations – where a relatively high incidence of errors at the level of payments was detected. This was linked to poor internal controls in these organisations, and underlines the necessity for the Commission to have a comprehensive approach to their supervision, control and audit.

Heading by heading : the Court's analysis of contentious issues can be summarised as follows:

- **Common Agricultural Policy** (EUR 43.6 billion) : the Court concludes that expenditure which is not subject to IACS or where IACS has been inadequately applied, is at greater risk because the control systems are not as effective. For example, post-payment checks for CAP subsidies not covered by IACS - 37% of the total - do not provide the Commission with reasonable assurance on compliance of the transactions with Community legislation. The Court concluded that, viewed as a whole, the CAP expenditure was still materially affected by errors;

- **Structural measures** (EUR 34.2 billion) : the Court again found weaknesses in the Member States' management and control systems requiring varying degrees of improvement in order to fully comply with the regulatory requirements and allow effective day-to-day management checks and independent sample checks of operations. For both the current (2000-2006) and previous (1994-1999) programming periods, a high incidence of errors of legality and regularity was detected in the Member States' declarations leading to payments by the Commission;

- **Internal policies** (EUR 7.3 billion) : despite progress made in certain areas, the Court found weaknesses in supervisory and control systems and a material incidence of error in underlying transactions at beneficiary level. It is likely that the risk of errors will persist unless the legal framework is changed so as to simplify cost reimbursement systems and clarify the procedures and instructions governing the different programmes;

- **Pre-accession strategy** (EUR 3.1 billion) :the Court's overall opinion on pre-accession strategy was positive, the underlying transactions being found to be materially legal and regular. Supervisory and control systems at the level of the Commission's central services, delegations and certifying authorities are basically sound and work in practice. However, at national level the Court identified weaknesses in the systems in the implementing organisations in Bulgaria, Romania, Turkey and in other Sapard countries;

- **Administrative expenditure** (EUR 5.9 billion) :similarly, the Court's audit shows that underlying transactions were materially legal and regular, and supervisory and control systems are generally adequate although some weaknesses remain.

In respect of the **European Development Funds**, the report on financial implementation for 2004 reliably reflect the revenue and expenditure for the year, and their financial situation at the year end, except for problems concerning the completeness of assets and of the provisions for doubtful debts, and the unreliability of the balance of Stabex funds. In respect of the legality and regularity of underlying transactions, the Court identified improvements but weakness were found in the application of Internal Control Standards. In the underlying transactions the Court found no material incidence of error of legality and regularity.