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

2005/2090(DEC) - 23/02/2006

PURPOSE : to present the Council recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Communities for the financial year 2004 (Section III – Commission).

CONTENT : the Council approved this recommendation by qualified majority with the Dutch delegation voting against.

The Council recommendation recalls the principal amounts of the 2004 financial year:

- Revenue amounted to EUR 103 511 946 247;
- Expenditure disbursed from appropriations amounted to EUR 99 195 366 915;
- Cancelled payment appropriations (including earmarked revenue) carried over from 2003 amounted to EUR 1 302 286 952;
- Appropriations for payments carried forward from 2004 to 2005 EUR 2 829 903 395;
- EFTA-payment appropriations carried over from 2003 EUR 338 136;
- The negative balance of exchange-rate differences amounted to EUR 50 047 046;
- the positive budget balance amounts to EUR 2 738 577 707;
- Cancelled payment appropriations for the financial year amount to EUR 2 062 708 460;
- EUR 944 074 922 (77 %) of the EUR 1 220 026 565 in appropriations for payments carried forward from 2003 to 2004 have been used.

Having regard to the observations made by the Court of Auditors, the Council calls on the European Parliament to give a discharge to the Commission in respect of the implementation of the budget of the European Communities for the financial year 2004. However, the observations in the report by the Court of Auditors for the financial year 2004 call for certain comments by the Council which should be followed up.

DAS partially negative : the Council regrets that the Court was still unable to give, in the eleventh year in a row, a Statement of Assurance (DAS) for a large part of the transactions underlying the EU accounts. However, it takes note that the Court finds that transactions taken as a whole are legal and regular for revenue, commitments, administrative expenditure and pre-accession strategy. Moreover, it notes with satisfaction that the Court has been able to identify progress regarding the supervisory and control systems relating to pre-accession strategy and to the parts of common agriculture policy where the integrated administration and control systems (IACS) are properly applied.

The Council notes that in the Court's opinion the accounts of the European Communities are reliable except for one reservation, as they faithfully reflect the revenue, expenditure and the financial position at the end of 2004.

The Council regrets that the Court's opinion remains qualified by the reservation concerning miscellaneous revenue and advances due to the uncertainty of the transactions relating to the various debtors item. It expects that full implementation of the action plan for the modernisation of the European Communities' accounting system will enable the Commission to record these transactions correctly and completely.

Improvement of the financial management : the Council recalls the importance of continuing to improve financial management and of having controls working correctly and effectively so that for all transactions underlying the EU accounts a DAS should be achieved in the medium term. It emphasizes the need to continue working towards the achievement of an effective integrated internal control framework and recalls that the Council's position on a roadmap towards an integrated internal control framework is already set out in the Council conclusions of 8 November 2005. The Council notes the recent Commission Communication on an Action Plan towards an Integrated Internal Control framework and intends to undertake its examination when and where appropriate.

Regarding controls, the Council stresses the importance of taking further measures and improvements along the lines recommended by the Court. It underlines that it is important to continue with the identification of weaknesses in the design and the operation of schemes and to introduce appropriate remedial actions in the areas of direct, shared and joint management. Improvements regarding the clarity of the Commission’s Directors-General's formulation of reservations should also be pursued.

Budgetary management : the Council notes with satisfaction the overall progress in the Commission's budgetary management that has led to an increased level of spending within the major expenditure programmes, in particular as regards Structural Funds, and therefore to a reduced surplus. As in previous years, the Council regrets that the level of outstanding commitments continued to increase overall, in particular regarding Structural Funds in comparison with the Commission's forecasts, although it notes that much of the increase is understandably due for technical reasons to enlargement. Therefore it invites the Commission to update its analysis on outstanding budgetary commitments for Structural Funds in order to identify the implications for the current and future programming.

Accounting system : the Council agrees that the timely introduction of the full accrual-based accounting system in January 2005 gives an encouraging signal as to enhanced financial management of the Community funds and expects the Commission to complete the reform by establishing the opening balances for the preparation of the 2005 annual accounts and thus ensuring the accuracy of accounting information. The Council considers that the use and presentation of indicators need further improvements, in order to strengthen the quality and transparency of the internal control system, resulting in a better comparability of year to year developments. It therefore underlines the need for

further development by the Commission of reliable, cost-effective and easily understandable indicators to be audited on an annual comparable basis by the Court. The Council recalls the importance of the protection of the Communities' financial interests, as well as the fight against fraud and any other illegal activities detrimental to the Communities' financial interests, and of strengthening cooperation between Member States and between them and the Commission in this field.

The Council made the following comments on :

- **CAP** : the Council welcomes the Court's statement that the Integrated Administrative Control System (IACS), which covers 59 % of CAP expenditure and about EUR 25 billion, is an effective

control system to limit the risk of irregular expenditure, if properly applied. However, the Council regrets that, as in previous years, CAP expenditure was still materially affected by errors. It also notes that controls and checks implemented under IACS are effectively enforced in 14 Member States and that the system was not yet applicable in the 10 new Member States in 2004. Moreover, it requests further progress to be made concerning the control system in areas that are not checked through IACS (e.g. subsidies paid on the basis of quantities produced) where recurrent errors still occur. The Council is pleased that for area aid as a whole (arable crop subsidies) the majority of payments were consistent with Community rules. It also notes with satisfaction the relatively low error rates confirmed by IACS checks of the animal premium schemes (20% of CAP expenditure);

§ **Structural measures** : the Council shares the Court's concern about the inherent risks to the legality and regularity of expenditure for structural measures arising from the variety of bodies and authorities which intervene in the management process, from the great number of programmes with a multitude of projects, from potential weaknesses in the management and control systems and from the risk of different interpretations as far as eligibility is concerned. The Council considers that the Commission and the Member States should seek to optimize the effectiveness, economy and efficiency of the current control systems. Concerning the implementation of operational programmes, the Council underlines that, in spite of new measures by the Commission aiming at more effective management and control, improvements are still required to achieve compliance with the Community regulations in the current period. The Council agrees with the Court's observation that, as a whole, the legislative framework provides a sound basis for the management and control of structural measures expenditure. It urges the Commission to ensure that the management and control systems meet the regulatory standards, to regularly review the operation of the systems and, in cooperation with the Member States, that the financial control objectives set out in the Regulations are achieved. The Council notes with dissatisfaction the weaknesses and delays identified by the Court in the closing of the ERDF programmes, the ESF programmes and the EAGGF for 1994-1999;

§ **Internal policies including research :**the Council is concerned by the fact that it did not obtain sufficient assurance as regards the legality and regularity of payments. It shares the Court's view on the need for changing the legal framework so as to simplify cost reimbursement systems, and for clarifying the procedures and instructions governing the different programmes. It regrets that the implementation of the Internal Control Standards (ICS) is not yet fully operational. It is also concerned about the fact that the testing carried out by the Court has led it to conclude that no major improvement has been noted in this area and that the incidence of errors remains high. As regards the management and control procedures of the 6th RTD Framework Programme, the Council endorses the Court's view relating to the importance of a common IT system for the management of indirect RTD actions. It urges the Commission also to accelerate the process of improving the effectiveness of audit certificates in detecting errors in the costs declared by beneficiaries;

§ **External actions :**the Council notes that the Commission has continued to improve its supervisory and control systems and that both Directorate-General Humanitarian Aid (ECHO) and EuropeAid Cooperation Office (EuropeAid) completed the implementation of internal control standards (ICS). The Council notes the progress achieved by EuropeAid by ensuring that ex post verifications were carried out following a new standardised methodology. As regards the supervisory and control systems at Delegations' level, the Council notes with satisfaction that the procedures were generally sufficient to ensure that the commitments and payments processed by the Commission were legal and regular. It considers, however, that results of project audits should be systematically communicated to and followed up by headquarters;

§ **Pre-accession strategy :** the Council welcomes the Court's statement that supervisory and control systems at the level of the Commission's central services, Delegations and certifying

authorities are basically sound and worked in practice for all pre-accession instruments (Phare, Turkey, ISPA and Sapard) and that no material errors in the underlying transactions tested were identified. Nevertheless, for Bulgaria, Romania and Turkey the Council invites the Commission to continue to ensure the effective performance of its ex ante approval by the EC Delegations as the national supervisory and control systems in those countries are not satisfactory. As far as Phare and Turkey programmes are concerned, the Council finds it encouraging that the Court was able to see improvements in the Commission's internal control environment and invites the Commission to continue the work towards clearer instructions to the contracted auditors, appropriateness of expenditure declared and more successful transfer of experience gained from the implementation of the decentralised system of management (DIS);

§ **Administrative expenditure :** the Council welcomes the fact that the errors identified by the Court did not materially affect the legality and regularity of administrative expenditure as a whole (please refer to the discharge procedures of the other institutions).