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

2005/2090(DEC) - 20/04/2006 - Document attached to the procedure

COMMISSION'S SYNTHESIS REPORT - MEMBER STATES' REPLIES TO THE COURT OF AUDITORS' 2004 ANNUAL REPORT

CONTENT : following the publication of the Court of Auditor's Annual Report concerning the financial year 2004, the Commission informed the Member States of the findings and the observations made by the Court during its audits. Member States were invited to submit their replies by 15 December 2005. The vast majority of Member States replied within or shortly after the very tight deadline, in many cases submitting very detailed comments.

As time was needed for translation and thorough analysis of the replies received, the Commission was not able to present its summary report by 15 February 2005, but Vice-President KALLAS informed the European Parliament and the Council (ECOFIN) of the preliminary findings. 2006 brings two challenges in the area of external audit and discharge:

- challenge 1 : to implement the Action Plan towards an Integrated Internal Control Framework (Action Plan) adopted by the Commission on 17 January 2006. The objective is to provide the Court with reasonable assurance that EU funds are spent in a legal and regular manner. However, the Action Plan will not deliver the expected results unless all relevant actors, i.e. the European Parliament, the Court of Auditors, the Member States and the Commission - taking into account their respective responsibilities and independence - each contribute to the implementation of the 16 actions;

- challenge 2 : the new and tighter deadline for preparing the Court's Annual report. As set out by the Financial Regulation, the Annual report must from now on be published by 31 October at the latest, i.e. one month earlier than so far. This increases the demands on all involved parties in the preparation of the report – i.e. the Court, the Commission and Member States – to ensure that the preceding exchange of views on preliminary findings of the Court is done in an efficient manner.

The report states that the time available for preparing the 2005 Annual report was one month less than in earlier years due to the obligation to publish the report already by 31 October. This had implications for the Court as well as for the Commission and Member States.

In addition, this report summarises comments made on findings concerning agriculture policy and structural actions. Sections on own resources and pre-accession aid have not been included as very few substantive findings have been identified for these two areas, reflecting the fact that these two sectors received a positive statement of assurance from the Court in 2004.

Operational conclusions: the Commission welcomes the many full replies received from Member States. This annual feedback from Member States provides a valuable opportunity to pick up on horizontal issues linked to the Court of Auditors' Annual report. Based on the replies to the 2004 exercise, the Commission would like to drawn attention to 4 issues:

§ Some Member States found it unsatisfactory that their **replies were not reflected** in the Court of Auditors' 2004 Annual report. This is partly due to the tight deadline which must be respected by

the Court of Auditors when preparing its Annual report. In the considerations on how to make better use of the expertise of the national Supreme Audit Institutions and on how to achieve a single audit approach, this particular problem should be addressed.

§ Some Member States made comments on the control structure as well as the **DAS** method itself, indicating that – in their opinion – the benefits did not match costs. This issue should be addressed at an operational level when estimating the costs of controls but also the strategic level when discussing risks to be tolerated.

§ The **more qualitative analysis** of substantive findings within the areas of agriculture policy and structural actions has been made with the objective of identifying patterns across Member States. The analysis shows that there is a need to resolve or clarify issues such as: 1) what is the right method to measure the size of a field, 2) what is eligible expenditure within structural actions, 3) when shall the so-called 5% checks for structural actions be made. Due to this uncertainty, the Commission in its follow-up may not be able to confirm the Court's findings. These issues are to a larger extent sector-specific gaps that are also intended to be addressed by the Action Plan. Member States tended to disagree more with the Court's findings in the structural actions area than within agriculture policy. The reason for this may be that Member States and the Court disagreed on what should be considered to be a wrongdoing in this area. Or it may be that the Member States and the Court disagreed on the level of risk to be accepted within structural actions. As the Court's sample was designed to check individual transactions – not verify if systems were in place and working – reasons for the disagreement could not be established. This highlights the need to undertake an interinstitutional dialogue on risks to be tolerated in the underlying transactions and the effects this may have on the Court's DAS method.

§ Lastly, not only the Commission and Member States but also the Court of Auditors and to some extent the **national Supreme Audit Institutions** need to engage in order to resolve the issues raised by Member States. A framework for this cooperation is set out by the Action Plan which defines 16 specific actions to be implemented during 2006 and 2007 - of course in full respect of the roles, responsibilities and independence of all concerned.