

# 2005 discharge: EC general budget, section III, Commission

2006/2070(DEC) - 24/10/2006 - Document attached to the procedure

## FOLLOW-UP TO THE COMMISSION'S 2004 DISCHARGE : FOLLOWING THE EP'S RESOLUTION

*Preliminary remark:* this Working Document completes the Report from the Commission to the Parliament on the Follow-up to 2004 Discharge Decisions. It presents in detail the answers to the 150 specific recommendations made by the European Parliament in the Commission's working document (SEC(2006)1376) published in parallel.

**CONTENT:** this report intends to give detailed answers to each specific recommendation by the Parliament as regards the Commission's 2004 discharge (including expenditure by the decentralised agencies and the EDF). This summary concentrates on the recommendation made by the Parliament to the Commission on the implementation of its budget.

The Commission has identified a total of 150 recommendations made by the European Parliament to the Commission. It considers that for 51 recommendations the required action has already been taken, though in some cases results of the actions will need to be examined. For another 85 recommendations the Commission agrees to take the action recommended by Parliament. Finally, it cannot accept 14 recommendations and will therefore not be taking the requested action.

The following is a summary of the Commission's replies to the specific requests made by Parliament in its 2004 Discharge Resolutions:

### Horizontal issues:

- **Reliability of the accounts:** the authorising officers validated their opening balance sheet figures and the Commission established its opening balance sheet, which was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation.
- **Integrated internal control framework:** the Commission Action Plan towards an Integrated Internal Control Framework" foresees 16 actions under four broad themes aimed at simplifying and harmonising control practices, via information sharing and the use of a 'single-audit' approach to better target the limited control resources available. At this stage, priority actions have been launched, while others which depend on the results of prior actions will be developed during 2007. Sufficient progress is expected to be made by the beginning of 2009.
- **Declarations:** as part of the Action Plan, the Commission has promoted operational level management declarations and synthesis reports at national level. For agriculture, the envisaged management declarations and national synthesis reports are already foreseen in the new rules. With the adoption of the Inter-institutional Agreement, an important step forward was achieved. Member States shall undertake to produce an annual summary at the national level of the available audits and declarations. The Commission has proposed further provisions to this extent in the revised Financial Regulation and Implementing Rules.
- **Transparency:** with the European Transparency Initiative, the Commission also expects that the results of the open debate covering a broad spectrum of issues will gain support for the Commission'

s commitment to better account for the use of public money. In its revised proposal to modify the Financial Regulation, the Commission puts forward a new overall obligation on Member States to disclose information on beneficiaries of Community Funds spent under shared management.

- **Annual activity reports:** under the existing accountability architecture established by the reform, the implementation of Parliament's proposed measures regarding assurances at Commissioner, Secretary-General, Internal Auditor and Director General for Budget levels would call into question Directors'-General individual responsibility and blur the distinction between political (College) and management responsibilities/accountabilities (Director General). The adoption of the synthesis report is the major act whereby the Commission fully assumes its political responsibility for the implementation of the budget under the Treaty and through which the Commission's political accountability to the discharge authority is expressed.
- **Further horizontal recommendations:** the Commission's proposal for amending the Financial Regulation provides that the responsibilities of the accounting officer will be adapted. It will require that, before the adoption of the accounts by the institution, the accounting officer shall sign them off, certifying that they present a reasonable true and fair view of the financial situation of the institution.

## Sectoral issues

- **Revenue:** the Commission has been working in close co-operation with Member States to improve the reliability, comparability and exhaustiveness of national accounts. The Commission is willing to inform directly the competent European Parliament committee about these measures.
- **Common Agricultural Policy:** the Commission is prepared to implement the Court's recommendation that the certifying bodies should do more work to verify and validate inspections statistics and post-payment checks. To this end, the certifying bodies will be required in the new guideline on reporting to review more in detail the administrative capacity of the paying agency as regards on-the-spot checks. The Commission has responded to the recommendation of tabling proposals to avoid that the premiums of the major instrument for afforestation largely exceed the funds allocated by proposing a reduction of the aid ceilings and a shortening of the maximum period to compensate income foregone resulting from the afforestation of agricultural land from 20 to 10 years.
- **Structural measures:** the Commission recently issued notes of good practice for day-to-day checks by the management in the Member States and for performance of the certification function by paying authorities. It has also published detailed audit manuals, and it discusses control and audit issues with Member States at regular bilateral and multilateral coordination meetings. The regulations for the 2007-2013 period require the Member States to submit to the Commission, a description of the management and control system and an assessment of its compliance with requirements before lodging the first interim payment claim and at the latest within 12 months of the approval of programmes. The Commission has already issued a detailed guidance document for the 2000-06 period closure. In the legislation for the 2007-13 programme period existing control requirements have been clarified and the framework has been strengthened with a number of new provisions, including, in the Structural Funds, an annual audit opinion and an ex ante compliance assessment. In agriculture, rural development expenditure will fall largely under Guarantee rules (for example accredited paying agencies, annual certification and clearance of accounts procedures). These elements, with the envisaged management declarations and national synthesis reports, are already foreseen in the new rules. This will ensure that the supervisory and control systems can operate effectively from the beginning. The provisions on partial closure should also achieve an even more significant improvement in the closure arrangements.
- **Internal policies, including research:** in order to work towards a maximum number of standardised procedures in internal policies, the Commission has established an Action Plan for the Rationalisation and Acceleration of FP6. In the Commission's Staff Working Paper on FP7 adopted on April 2005, a first set of 10 measures is proposed. These include more extended use of flat-rate financing and lump sum financing; a single common electronic registration desk for participants to

submit their basic legal, administrative and financial data; consistent application of ex-ante controls guaranteeing the protection of Community's financial interests; full operational autonomy entrusted to consortia avoiding micro-management by the Commission's services; simplification of eligible costs based on contractors' usual accounting and management practices and principles. In addition, the workshop of June 2005 on simplification, with participation of the Court of Auditors, representatives of Member States and stakeholders, helped to consolidate these proposals and to identify further actions. Simplification of the internal procedures with a growing use of IT tools has also been implemented. Simplification measures have also been foreseen in the Commission's proposals for the new generation of programmes in the framework of education, youth and culture.

- **External actions:** the Commission has continued its efforts to improve its supervisory and control systems and the management of risk in the field of external actions. It has further strengthened external audits and the already extensive control checks of implementing organisations as recommended by Parliament. Clear instructions to the external auditors are established in terms of reference and audit results are monitored and followed up. EuropeAid has introduced measures to improve the follow-up of audits and this year produced an analysis of audit reports finalised in 2005. As regards CRIS-Audit, a specific module of EuropeAid's Common Relex Information System (CRIS), aiming at providing a database on audit information, the Commission intends to further improve its operation with a view to allowing a better exploitation of the system at both Headquarters and Delegations. Furthermore, the European Parliament also recommends a simplification of contractual procedures and of procedures for grants, as regards in particular small-scale projects, so that flexibility may be achieved in the application of the rules, along with efficiency and sound financial management. This recommendation is fully in line with the Commission's legislative proposals in the context of the revision of the Financial Regulation and implementing rules. For low-value contracts and grants, the Commission proposes to let the authorising officer decide whether or not exclusion criteria need to be verified, depending on his/her risk assessment. The European Parliament's 2004 discharge resolution also contains a number of recommendations on development policy, relations with the United Nations, as well as on the Court of Auditors' special reports concerning the devolution of EC external aid management to the Commission Delegations, concerning EDF budget aid to ACP countries and concerning the Commission's management of economic cooperation in Asia.
- **Pre-accession strategy:** the Parliament invited the Commission to reduce the risk of errors in implementation of pre-accession instruments by rethinking the design of pre-accession projects. It also urged the Commission to improve its management and targeting of funds for Bulgaria and Romania. The Commission has already taken action to improve project design in the Phare guidelines. Improvements should also result from the replacement of the five current instruments by a single Instrument of Pre-Accession. In the specific cases of Bulgaria and Romania, the Commission has also taken action by issuing guidelines, reinforcing reporting, spreading best practices and providing information and training, and carrying out regular systems and project audits.
- **Administrative expenditure and issues concerning the agencies:** the European Parliament has made a number of recommendations to the Commission concerning the regulatory agencies in the discharge resolution for the general budget as well as in the discharge resolutions for the individual agencies. The Commission would like to highlight the following horizontal points:
  1. The Commission accepts Parliament's recommendation to ensure that the needs of the agencies are properly addressed in the current reform of the Financial Regulation (FR). The objective has been to assure, among the Institutions and the bodies, the homogeneity of budgetary and financial management rules. This aim for homogeneity has had as a consequence the consolidation of the accounts of the Institutions and bodies. The framework FR has been prepared by the Commission in close cooperation with the bodies concerned. Once adopted, the revised general FR will require a parallel adjustment of the agencies' framework FR. This will be the occasion to proceed to a more extended scrutiny of applicable provisions to take account of past experience and of these bodies' special characteristics, notably their size and the size of their budget. However, as agencies receiving grants charged

to the general budget are already accountable to the European Parliament through the discharge procedure, the Commission does not agree that the agencies also have to be accountable to Parliament's respective committees. Any extension of Parliament's discharge authority to other Community bodies not currently subject to this would require legislative changes.

2. The agencies are independent institutions and it is their responsibility to comply with the relevant rules and procedures for staff recruitment, public procurement and accounting. Nevertheless, the Commission gives guidance and support to the agencies, e.g. on accounting, procurement, staff policy and audit and, where the agencies request it, the Commission provides specific assistance, e.g. to help them to understand and interpret the rules. The agencies should also be encouraged to further develop their inter-agency cooperation whenever appropriate in order to share costs and knowledge.
3. As requested by Parliament, the Commission will issue a report on internal audit in the agencies before the end of 2006, at the end of a cycle of agency audits undertaken by the IAS.