

2005 discharge: EC general budget, section III, Commission

2006/2070(DEC) - 26/10/2006 - Document attached to the procedure

FOLLOW-UP REPORT TO THE 2004 DISCHARGE DECISIONS : FOLLOWING THE COUNCIL RECOMMENDATIONS

Preliminary remark: this document is complemented by a Commission working document which entails the detailed answers to the Council's recommendations (SEC(2006)1377).

CONTENT: in the context of the 2004 discharge, the Commission has identified a total of 79 recommendations made by the Council to the Commission (refer to [DEC/2005/2090](#)). The Commission considers that for 38 recommendations the required action has already been taken. For another 39 recommendations the Commission agrees to take the action recommended by Council. Finally, the Commission cannot accept 2 recommendations and will therefore not be taking the requested action.

- **Introduction:** the Commission regrets that in 2004 the Court of Auditors was again unable to give a Statement of Assurance (DAS) in relation to most of the expenditure. For this reason, the Commission has launched its "Action plan towards an Integrated Internal Control Framework" (see COM(2006)9) which aims to ensure that supervisory systems and controls are in place to keep the risk of illegality or irregularity in underlying transactions within reasonable limits and to provide the Court of Auditors with reasonable assurance to that effect. The Action Plan includes 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.
- **The statement of assurance (DAS):** the Commission's "Action Plan towards an Integrated Internal Control Framework" sets simplification as a goal for the next programming period (2007-2013). The Commission's proposal for the Rules for Participation for the 7th Framework Programme foresees that greater recourse would be made to the use of flat rates (including scale of unit costs) and lump sums within the terms of the Financial Regulation. As regards low-value contracts and grants, the Commission proposes to let the authorising officer decide on the need to verify exclusion criteria depending on his/her risk assessment. The legislative authority should pay the necessary attention to the feasibility of expected controls and their cost/benefit, so that the correct application of controls is as straightforward as possible. As regards the Commission's new accounting system, which became operational in January 2005, the Commission established its opening balance sheet and it 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.
- **Budgetary management:** the Commission always aims to provide accurate and realistic budget estimates, on the basis of the best available information. In 2005, more accurate budget estimates were reflected in a significant improvement in the implementation rate of payment appropriations, which rose to 98% (100% for structural operations). It regularly updates its analysis of outstanding budgetary commitments for Structural Funds and will continue to do so. In the present programme period the n+2 rule provides a powerful incentive to Member States to ensure that implementation proceeds at a sufficiently high rate.
- **Revenue:** the Commission is pleased that the Court again in 2004 considered the overall results satisfactory concerning the reliability of the accounts and the legality and regularity of underlying transactions for revenue. As regards the control mechanisms for sugar levies, audits have taken

place in twelve Member States since 2004. No serious problems were found apart from in one Member State. Furthermore, the Commission is in constant contact with Member States with a view to lifting reservations on Member States' VAT statements as rapidly as possible. However, the pace of this work depends on the ability of national administrations to find and use better data, indeed any data at all in certain cases, or a suitable or more suitable methodology. The Commission provides regular advice to Member States on these matters. As regards the GNI resources, the Commission will discuss the issue of supervisory and control systems related to national accounts with the Member States in the GNI Committee in 2006. The Commission will then make suggestions for promoting best practices in 2007.

- **The Common Agricultural Policy:** the Commission is committed to addressing the remaining shortcomings in the control system in the different areas of the CAP that are not checked through IACS. As regards the Annual Activity Report of the Director-General the Commission does not intend to indicate separately in the Director-General's declaration verified expenditure and expenditure subject to further checks. Given the multi-annual nature of the conformity clearance process, such a distinction would be largely arbitrary; it would also prejudice the Member States' right of defence in the context of the clearance of accounts procedure. The weaknesses identified by the Court of Auditors in the area of spending on animal premiums do not concern the effectiveness of the IACS control system in itself. Indeed the direct testing performed by the Court did not reveal any significant errors. The problem identified consists mainly in high percentages of errors identified at farmers' level by the IACS inspections, particularly in certain Member States. The Commission will continue to identify more precisely the reasons why IACS statistics show high rates of mis-declaration or over-declaration of animals for certain Member States and will recommend appropriate actions. Although the use of the prefinancing system has become economically insignificant, with the exception of the beef sector, predominantly for its control function, the Commission is working on the necessary steps to abolish the system of prefinancing export refunds, while for the beef sector an alternative production and storage control system will be introduced. These measures should be in place by the end of 2006.
- **Structural measures:** a review of the control systems for the Structural Funds was carried out in 2005 in preparation for the Action Plan. In early 2006 the Commission issued notes on good practices in day-to-day checks by management and in paying authorities' work before certifying payment claims, which by setting benchmarks should help Member States to make the controls more effective and avoid overlap. Moreover, the Commission's audit work, monitoring of the audit results of national audit bodies, and dissemination of good practice are all designed to bring about the necessary improvements in systems so that the objective of financial control - that the expenditure reimbursed is as free of error and irregularity as reasonably possible - is achieved.
- **Internal Policies, including research:** the Commission is continuously working on the development and adaptation of its internal control system in order to manage the risks linked to its environment. Major steps were taken in 2005 to introduce a systematic approach for risk analysis, assessment and management. Simplification of the procedures with a growing use of IT tools has also been implemented. The main areas of work will be ex-post control strategy, the use of audit results to develop management and control systems, the financial circuits, the overall system of supervision put in place in the financial domain and the monitoring and reporting systems.
- **External actions:** the Commission has continued its efforts to improve its supervisory and control systems in the field of external actions and, in particular, it has further strengthened external audits as recommended by Council. EuropeAid has introduced measures to improve the follow-up of audits and this year produced an analysis of audit reports finalised in 2005. It intends to further improve its operation with a view to allowing a better exploitation of the system at both Headquarters and Delegations.
- **Pre-accession aid:** the Court invited the Commission to continue its efforts to ensure sound financial management of the pre-accession instruments. The Commission has already taken action on these recommendations, e.g. by drawing the attention of the national authorities to the need to take urgent corrective measures in relation to the present Decentralised Implementation System (DIS) with ex ante control on procurement and award decisions.

- **Administrative expenditure:** according to self-assessments of the Commission's services, in 2005 95% of the baseline requirements were complied with compared to 93% in 2004, which – in an ever changing environment – could be considered as being practically fully implemented. Under this heading Council has also included two recommendations concerning the regulatory agencies. 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.