

2005 discharge: EC general budget, section III, Commission

2006/2070(DEC) - 24/04/2007 - Text adopted by Parliament, single reading

The European Parliament adopted the resolution drafted by Salvador **GARRIGA POLLEDO** (EPP-ED, ES) by 605 votes for, 57 against and 26 abstentions, and generally agreed with the opinion of its Budgetary Control Committee. It expressed concern about errors in the management of the Union's accounts, and called for national management declarations to be given by the Member States.

Reliability of the accounts : whilst Parliament welcomed the efforts made by the Commission to adopt the accounts for the financial year within the Financial Regulation deadlines for the production of the financial statements, it expressed concern, nonetheless, at the Court's observations regarding errors in amounts registered in the accounting system (overstatement of the accounts payable and of the total amount of long-term and short-term pre-financings) and errors in the local accounting systems of some directorates-general, calling on the Commission to take urgent steps to remedy the shortcomings noted by the Court.

Budgetary management: the House was concerned at the renewed increase in outstanding commitments and called for a higher rate of utilisation over the next three years. The majority of the cancellations relate to the European Social Fund (ESF), and Member States must ensure that requests for payments were submitted to the Commission more rapidly since the measures funded by the ESF were crucial for the attainment of the Lisbon objectives. A slow rate of utilisation was extremely worrying particularly in the light of the objectives of the newly created European Globalisation Fund.

Legality of the underlying transactions: noting the Court's observations to the effect that in areas in which the Commission has applied appropriate supervisory and control systems, there were no significant findings as to the legality and regularity of the underlying transactions, Parliament deplored, nonetheless, that in extremely important Community spending areas (CAP spending that does not come under the Integrated Administration and Control System (IACS), Structural Funds, internal policies, external actions, Sapard), the supervisory and control systems needed to become more efficient, given that there remained shortcomings that prevent a positive DAS being given in those areas. Members expressed grave concern at the large number of errors in transactions at final beneficiary level. Where there is a shared management arrangement, responsibility for preventing, identifying and correcting errors at final beneficiary level lies with the Member States whilst at the same time the Commission is responsible for giving clear, efficient and effective guidelines to Member States on how to prevent and correct these errors. The Commission must further improve its effective supervision of controls delegated to the Member States. Where Member States' control systems were still insufficient, the Commission should impose clear deadlines and apply sanctions where those deadlines were not met. The central issue that needed to be addressed in connection with the DAS was whether supervisory and control systems were being properly applied at both Community and national levels and whether they ensured the legality and regularity of the underlying operations.

National management declarations: Parliament pointed out that, in accordance with Article 274 of the EC Treaty, each and every one of the Member States must fully shoulder its management responsibilities and take appropriate steps to minimise the risk of errors arising in the underlying transactions. Accordingly, it drew attention to the urgent need to introduce national declarations at an appropriate political level, covering all Community funds coming under the shared management arrangement, as proposed by Parliament in its 2003 and 2004 discharge resolutions. Such declarations could take the form of comprising several declarations within a national framework, rather than one alone, in order to

acknowledge the federal and decentralised political systems in existence in some Member States. Whilst welcoming the initiatives of the Dutch, UK and Swedish governments, Members expressed concern at the fact that most Member States were resisting their introduction. They called nonetheless on the Commission to submit before the end of 2007 a proposal for a national (management) declaration covering all Community funds under shared management, based on sub-declarations by the various national bodies responsible for the management of expenditure. Parliament called on the Council to reopen the debate on the matter urgently, and also called on the national parliaments to discuss the introduction of national declarations and to inform the house of the outcome of this discussion.

Point 44 of the IIA: Parliament stressed that point 44 of the IIA required the relevant audit authorities in the Member States to produce an assessment concerning the compliance of management and control systems with the regulations of the Community. It called on the Commission to ask Member States for the information referred to in point 44 of the IIA and to draw up, on the basis of that information, a document analysing the strengths and weaknesses of each Member State's national system for the administration and control of Community funds and the results of the audits conducted. It would be extremely useful for the ECOFIN Council to use the final document drawn up by the Commission as the basis for a comparative analysis and a debate on the suitability of the systems used by Member States for control of the funds they receive from the Community budget.

Suspension of payments: Parliament assured the Commission of its full support in the rigorous application of the legislation on suspension of payments, and welcomes the measures already initiated in this context. It believed that, in the case of recurrent reserves for expenditure programmes in a particular Member State, suspension of payments, as a means of pressure, would contribute to the greater involvement of the Member States in the correct use of Community funds received. The Commission was asked to simplify the rules and apply the existing legislation on suspension of payments in the cases where it is necessary, and to inform the Council, Parliament and the Court of Auditors in good time concerning the suspensions of payments and their results. In an amendment sponsored by the EPP-ED group, Parliament insisted that payments should be fully or partly suspended in the case where Member States were not complying with basic requirements, as in the case of the IACS system in Greece, and where the Greek authorities did not remedy the existing problems within the time limits set.

Financial corrections: Parliament noted with concern that the Court of Auditors was extremely critical of the financial corrections applied by the Commission, which did not ensure the prevention and timely identification and correction of errors, did not take sufficient account of the deficiencies identified in the underlying operations, that is, at the level of the final beneficiary, and did not encourage Member States to take action to prevent irregularities or to improve their management and control systems. It stressed the great importance of the Member States having appropriate systems for improving the prevention and identification of errors at the level of the final beneficiary, thus reducing the need for the Commission to apply final corrective measures. An improvement in the recovery rate could be achieved by revealing the identities of debtors who had been found liable by the courts and could no longer appeal, but were unwilling to make payment. The Commission was asked to supply an explicit definition of the different concepts grouped under the term 'financial correction mechanisms', as well as a detailed annual report including the amounts actually involved in the financial corrections.

The Commission's internal control system: Parliament discussed the analysis of the existing balance between operational expenditure and the cost of the control system. Whilst it welcomed the improvements made by the Commission in internal control, Parliament felt that that the relationship between tolerable risk levels and the cost-benefit ratio of controls had yet to be established and that, even though it was a vital concept for the integrated control system, it had not yet been clarified how an 'acceptable risk level' was to be determined. The Commission should evaluate the relationship between, on the one hand, the resources available for each particular policy, and, on the other, the part of those resources dedicated to the control systems broken down by area of expenditure, and any resources lost thanks to errors thus detected. With regard to the administrative responsibility of the Commission, Parliament asked the

Commission to ensure that its annual activity reports and statements go into much greater detail - where possible on the level of the individual Member States - in the evaluation of the existing systems, the shortcomings detected by them and their financial impact. It asked the Commission once again to ensure that its Secretary-General, when preparing the synthesis report, drew up a statement of assurance which included reference to the statements of each of the directors-general, with the aim of making express mention of their assistance to the Commissioners in the adoption of that report.

Ethics: Members warmly welcomed the Commission's European Transparency Initiative, which proposed launching a debate with the other European institutions on the rules and standards on professional ethics of public office holders in the European institutions. They called for the debate to be launched quickly so that any necessary measures became effective at the start of Parliament's new term in June 2009 and the Commission's new term in November 2009. In an amendment sponsored by the Green/ALE group and adopted in Plenary, Parliament called on the Commission to propose solutions for, in the framework of the Transparency initiative, the fact that a substantial number of former and actual high ranking members of staff in sensitive positions had left the Commission, sometimes on unpaid leave, to join lobbyists and law firms for example representing clients who are either under investigation by DG Competition or appeal against fines imposed on them.

Transparency: Parliament strongly urged the Commission to do its utmost to encourage Member States to allow public access to information concerning projects and recipients of all EU funds which were subject to joint management. A simple and transparent system should be set up to access all this information via a central and easily accessible website. Welcoming the Commission's initiatives to ensure that the funds paid out under the Community's agricultural support schemes would be made public, Parliament expected the Commission to instruct the Member States to standardise the information concerning agricultural funding placed on the internet. Welcoming also the fact that the Commission had recognised the need to allow access to information about the various forms of expert groups which it uses in its work, the Commission was urged to allow easy access to information on who is represented in these groups and what their tasks are. Parliament called on the Commission to publish the names of those people who take part in these groups, and the names of the special advisers which the individual Commissioners and/or Directorates-General and/or 'cabinets' have engaged.

Sectoral issues: Parliament moved on to discuss criticisms and proposed improvements to the management of sectoral issues.

- **CAP:** Parliament stated once again that cooperation between the Member States and the Commission for the purpose of providing guarantees in respect of operations relating to final beneficiaries was essential and urged the Commission to step up post-payment checks and to ensure that irregular payments were recovered. It regretted the fact that the Court continued to detect problems in the implementation of the IACS in Greece, and supported the Commission's intention to ensure that current legislation on the suspension of payments was strictly enforced if the Greek Government did not remedy the existing problems within the time-limits set. Parliament also noted the serious shortcomings reported by the Court in the checks relating to rural development, in export refunds and especially in the olive-oil sector in Spain, Greece and Italy, and called upon the Commission to carry out before the end of 2007 more stringent checks in those areas.
- **Structural measures:** Members were particularly pleased at the fact that, in connection with the European Transparency Initiative and pursuant to the new rules governing the Structural Funds for the 2007-2013 period, Member States would be required to provide information concerning the beneficiaries of Community funding. They called on the Commission to publish all this information and information on beneficiaries from all other Union's policies in such a way that it was easily accessible, including for the wider public, and to ensure that information from different Member-States could be compared. The House regretted the fact that, for yet another year, the Court had detected shortcomings in the Member States' control systems. It pointed out that, for the purposes of sound financial management and the DAS, the main issue was not so much the errors detected as

the existence of adequate supervision systems which would enable the Commission to carry out proper monitoring of the risks to the Community budget. It regretted the fact that within a small group of Member States there continued to be known problems which gave rise to recurrent reservations. The Commission was urged to do all in its power to ensure that the Member States complied correctly with requirements and not to make any payment unless the Member States' authorities had supplied the requisite information.

- **Internal policies:** the House regretted the fact that there were still within the field of direct management by the Commission the same problems as in earlier years (errors in expenditure reimbursed, complexity of applicable rules and lack of an effective penalty system). It called upon the Commission to continue its efforts to simplify and further clarify the rules for shared-cost programmes, and to do its utmost to clarify the rules, manuals and forms applicable and to ensure that the existing penalty system is applied whenever necessary. It was also important to improve the scope and quality of and follow-up to the audits of national agencies' systems though improved information and mutual exchanges. Parliament returned to this on several questions relating to sectoral issues (tourism, education, justice and home affairs) and proposed improved control measures.
- **External actions:** Members noted that the Court did not detect any errors in its examination of a sample of delegation payments, although it did do so in its sample of bids and its sample of operations carried out by the implementing bodies. They considered that priority must be attached to ensuring that Community policies which had an impact on developing countries were consistent, for which purpose the division of labour within the Directorates-General responsible for running external actions must be clarified. Parliament noted with concern that the risk analyses carried out by EuropeAid did not take into account the risks represented by the various types of implementing body (NGO, international organisation, government institution, etc.) and the financing methods used (subsidy, budget support, trust fund, etc.). It called on the Commission to establish greater clarity, through more discriminating reporting, as to the effectiveness of individual assistance instruments. It proposed with regard to the issue of aid for developing countries, that the introduction of a system of stages be looked into. The aim would be that at the first stage, by assisting individual projects, the basic preconditions for granting budget aid, i.e. a form of democratic budgetary control plus independent auditing structures, were also established.

As regards the effectiveness of TACIS programme expenditure, Parliament was concerned at the fact that the Commission was unable to determine how the programme had contributed to improving the safety of nuclear power stations. Such a criticism was extremely serious, since it revealed a lack of guarantees as regards the fundamental, priority aspect of Community action - i.e. value for money. It also noted criticisms concerning the limited use made of the Common Relex Information System (CRIS), and criticised the fact that, in the case of the fraud and corruption case on Lesotho Highlands Water Project, the Commission had evidently not taken any decision regarding exclusion from the award of contracts. Parliament expected the Commission now to take and announce the appropriate decisions and to submit a comprehensive report on the affair to Parliament, together with the European Investment Bank, in September 2007 at the latest, making clear what efforts had been made to recover monies.

- **Pre-accession strategy:** noting the significant errors in the Sapard transactions, Parliament recommended that the Commission should improve its monitoring of Member States' systems, devote particular attention to final expenditure declarations relating to the programmes in general and ensure that the Sapard paying bodies in particular are closely monitored. It was also concerned by the delays in the EDIS accreditation for Phare and ISPA in Bulgaria, and urged the Commission to continue to cooperate with the Bulgarian and Romanian authorities in order to support them in further adapting to the requirements of EDIS. In addition, while recognising the importance of cooperating with international financial institutions, Parliament insisted that the Commission should decide to participate in joint projects only if they ensured an effective use of funds.

- **Administrative expenditure:** Parliament noted with satisfaction that the Court's audits brought to light no significant error affecting the legality of administrative expenditure. It expressed concern, however, at the growing cost of invalidity pensions and considered the use of mandatory invalidity pensions based on psychological disorders to resolve any conflicting relationship with Commission personnel as unacceptable. Lastly, Parliament discusses questions in connection with the Community's buildings and noted the complaint on the structural deficit generated by the cost of maintaining the Berlaymont building following its refurbishment. The structural-deficit problems highlighted should be resolved as a matter of urgency and Parliament indicated that it would also return to other questions in connection with the Berlaymont building as soon as the Court of Auditors' special report on buildings policy was available.