Basic information

2004/2040(DEC) DEC - Discharge procedure	Procedure completed
2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission **Subject** 8.70.03.07 Previous discharges	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	WYNN Terence (PSE)	22/09/2004

Committee for opinion	Rapporteur for opinion	Appointed
AFET Foreign Affairs	LASCHET Armin (PPE-DE)	20/10/2004
DEVE Development	BUDREIKAITĖ Danutė (ALDE)	06/10/2004
INTA International Trade	The committee decided not to give an opinion.	
BUDG Budgets	The committee decided not to give an opinion.	
ECON Economic and Monetary Affairs	The committee decided not to give an opinion.	
EMPL Employment and Social Affairs	The committee decided not to give an opinion.	
ENVI Environment, Public Health and Food Safety	HAUG Jutta (PSE)	27/07/2004
ITRE Industry, Research and Energy	RÜBIG Paul (PPE-DE)	09/12/2004
IMCO Internal Market and Consumer Protection	WUERMELING Joachim (PPE-DE)	30/11/2004

TRAN	Transport and Tourism	JARZEMBOWSKI Georg (PPE-DE)	18/10/2004
REGI	Regional Development	MORGAN Eluned (PSE)	19/12/2004
AGRI	Agriculture and Rural Development	The committee decided not to give an opinion.	
PECH	Fisheries	The committee decided not to give an opinion.	
CULT	Culture and Education	TRÜPEL Helga (Verts/ALE)	25/11/2004
JURI	Legal Affairs	The committee decided not to give an opinion.	
LIBE	Civil Liberties, Justice and Home Affairs	DEPREZ Gérard (ALDE)	25/10/2004
AFCO	Constitutional Affairs	The committee decided not to give an opinion.	
FEMM	Women's Rights and Gender Equality	ZÁBORSKÁ Anna (PPE-DE)	25/11/2004
PETI	Petitions	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2646	2005-03-08

Key events

Date	Event	Reference	Summary
30/11/2004	Non-legislative basic document published	SEC(2004)1181	Summary
26/01/2005	Committee referral announced in Parliament		
16/03/2005	Vote in committee		Summary
22/03/2005	Committee report tabled for plenary	A6-0070/2005	
12/04/2005	Decision by Parliament	T6-0092/2005	Summary
12/04/2005	Results of vote in Parliament		

12/04/2005	Debate in Parliament		
12/04/2005	End of procedure in Parliament		
27/07/2005	Final act published in Official Journal		

Technical information

Procedure reference	2004/2040(DEC)
Procedure type	DEC - Discharge procedure
Legal basis	Rules of Procedure EP 101
Stage reached in procedure	Procedure completed
Committee dossier	CONT/6/22189

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee opinion	FEMM	PE350.229	27/01/2005	
Committee opinion	CULT	PE350.183	01/02/2005	
Committee opinion	IMCO	PE353.318	03/02/2005	
Committee opinion	LIBE	PE353.260	07/02/2005	
Committee opinion	ITRE	PE350.199	22/02/2005	
Committee opinion	DEVE	PE353.409	10/03/2005	
Committee opinion	TRAN	PE353.281	15/03/2005	
Committee opinion	REGI	PE353.414	15/03/2005	
Committee report tabled for plenary, single reading		A6-0070/2005	22/03/2005	
Text adopted by Parliament, single reading		T6-0092/2005 OJ C 033 09.02.2006, p. 0027-0169 E	12/04/2005	Summary

Council of the EU

Document type	Reference	Date	Summary
Supplementary non-legislative basic document	06850/2005	08/03/2005	Summary

European Commission

Document type	Reference	Date	Summary
Document attached to the procedure	COM(2004)0648	30/09/2004	Summary

Non-legislative basic document	SEC(2004)1181	30/11/2004	Summary
Document attached to the procedure	COM(2004)0859	05/01/2005	Summary
Supplementary non-legislative basic document	SEC(2004)1182	11/01/2005	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Court of Auditors: opinion, report	C293/2004 OJ C 293 30.11.2004, p. 0001-0328	30/11/2004	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Budget 2005/0529
OJ L 196 27.07.2005, p. 0001-0002 Summary

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 30/11/2004

PURPOSE : to present the Court of Auditors' annual report on the implementation of the 2003 budget (Section III – Commission).

CONTENT : the Court of Auditors has published its 27th Annual Report on the implementation of the 2003 EU budget. It is of the opinion that the 2003 consolidated accounts of the European Communities faithfully reflect the revenue and expenditure and the financial situation of the Communities at the year-end, except for one observation related to the recording of the operations concerning the sundry debtors.

The Court notes that the modernisation of the accounting system, due to be operational for the 2005 financial year, still requires considerable efforts before being ready for full implementation. As in previous years, the Court considers that the operations underlying the consolidated accounts are, as a whole, legal and regular in the case of revenue, commitments and administrative expenditure. It also notes the progress made as regards the reform of the Commission's internal control system and its positive impact on the legality and regularity of the Commission's internal management of expenditure. However, in the area of shared or decentralised management, and indirect centralised management, where operations are materially subject to errors, a greater effort must be made to apply the supervisory systems and controls in an effective manner so as to improve the handling of the attendant risks.

As regards the statement of assurance, the Court states that it is not able to give a favourable opinion on the payments to the EAGGF Guarantee Section, structural measures, internal policies, external actions and pre-accession.

The Court analyses the most important issues :

- **agricultural expenditure** : payments were materially affected by errors due to the shortcomings in the supervisory systems and controls. The Integrated Administrative and Control System (IACS), covering approximately 58% of agricultural expenditure, is satisfactorily implemented, although the quality of the on-site inspections should be improved. The other expenditure not covered by IACS presents a higher risk, as it is subject to less effective controls: There are problems in the areas of expenditure where aid is paid according to quantities produced (olive oil, cotton, tobacco and

dried fodder), rural development, export refunds and intervention storage. The process for certifying the agricultural paying agencies' accounts is satisfactory, but the Court is concerned that the financial clearance decision is still pending for 43% of expenditure declared for 2003, and for the accounts of 29 paying agencies in respect of 2001 and 2002.

- **structural measures** : owing to weaknesses in the supervisory systems and controls at the Member State level, payments to beneficiaries were affected by the same type and frequency of errors as in previous years. Progress in closing the 1994-1999 programmes remains limited, largely due to the submission by Member States of inadequately supported final claims. In spite of the reinforcement of the regulatory requirements, the Court's audit confirmed the same type of problems for the 2000-2006 intervention period. The Commission should require Member States to make improvements in the systems and use the possibility to suspend payments in cases of serious systems weaknesses.

- **internal policies** : the improvements made by the Commission in 2003 are not yet sufficient to avoid errors in payments to final beneficiaries, mainly due to over-declaration of costs. Shortcomings were identified in the European Refugee Fund, in the field of freedom, security and justice, and in the 6 th Framework Programme for Research. In particular, the rules governing the research framework programmes should be revised.

- **external actions** : the Court's audit revealed only a few errors at the Commission's headquarters and Delegations. However, weaknesses in the internal controls, together with a relatively large number of errors, were detected both at the level of the project implementing organisations and at the projects themselves. It is essential that in the framework of management decentralisation the tools needed to supervise and control systems and expenditure become effectively operational.

- **pre-accession strategy** : in spite of the improvements noted, there are still shortcomings in the audits carried out by the Commission as well as in the internal control systems in the candidate countries, which result in errors and greater risks affecting legality and regularity in the 2003 payments .

- **administrative expenditure** : considerable efforts have been made by the EU institutions to adapt their supervisory and control systems to the requirements of the new Financial Regulation. Nevertheless, most of the institutions had not achieved all the required changes. The Court's audit did not reveal any significant problems affecting the legality and regularity of the transactions examined.

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 30/11/2004 - Non-legislative basic document

PURPOSE : to present the revenue and expenditure accounts and the financial statement concerning the 2003 budget - Section III - Commission : policy analysis of expenditure.

CONTENT : this document presents a summary of the use of the appropriations of the Commission in 2003. A separate summary (dated 11/01/2005) deals with the expenditure of each financial heading which should be read in parallel with this summary.

The EU budget 2003 was the first to be established, implemented and controlled according to the new Financial Regulation. This new regulation entered into force in January. It provides a comprehensive rulebook for modern financial management in all aspects of the EU budget.

For the budget year 2003, EUR 99.8 billion was committed from total available appropriations of EUR 101.2 billion, an implementation rate of 99 %, slightly better than the outcome for 2002. Payments amounted to EUR 90.6 billion from total available appropriations of EUR 98.3 billion, an implementation rate of 92 % compared with 86 % in 2002.

About EUR 5.4 billion more payments were made than last year, relating mostly to Structural Funds. Of the appropriations not used in 2003, the Commission decided to carry forward to 2004 EUR 155 million for commitments and EUR 348 million for payments.

This budget successfully combined budgetary rigour while meeting European policy priorities. The funds were used to prepare for enlargement, to foster stability and security in the EU and outside, as well as to encourage sustainable and inclusive economic development.

As in previous years specific new demands occurred in the field of foreign policy. Funding was secured for humanitarian aid and a first tranche of reconstruction aid for Iraq after the war. The role of the EU in foreign policy was strengthened when the EU budget took over financing of a joint European police force in Bosnia-Herzegovina, asserting the Community aspects of joint actions to ensure stability.

Moreover, the exceptional heat and drought in summer 2003 had an impact on spending on agriculture. To help farmers, payments normally scheduled for 2004 were advanced to 2003. The climatic conditions also caused major forest fires in Portugal, Spain and France. The new Solidarity Fund instrument, only created in 2002, provided Union aid for the affected regions.

At the end of 2003 a total of EUR 90.6 billion had been spent. EUR 5 billion was already handed back to Member States during the year, EUR 2.2 billion was carried over to 2004, and a surplus of EUR 5.5 billion entered into the 2004 budget thus lowering the contributions from Member States to that budget. Important steps for the preparation of enlargement to 10 new Member States were taken in 2003. In December 2002 agreement was reached at the Copenhagen European Summit on amounts for the new Member States for the period 2004-06. In spring 2003 the Financial Perspective was adjusted accordingly, to have all necessary preparations ready in time for the signing of the Accession Treaties in April 2003 in Athens as planned. The adjusted Financial Perspective also includes budgetary provisions for the Turkish Cypriot Community in the event of the settlement of the de facto division of the country.

In 2003 the Commission started to prepare the next financial framework for the years 2007-13 as the current financial perspective, decided at the 1999 Berlin Summit will expire at the end of 2006. The Commission has focussed on the objectives that the Union wishes to achieve in the next years. The EU is aiming to become the most competitive and dynamic knowledge-based economy in the world by 2010. It aims to create an area of freedom,

security and justice. Europe has decided to take on more responsibilities in the wider world and the integration of the new Member States should make a success of enlargement. At the same time, the

proposal must respect budgetary discipline and rigour.

The Commission's proposed figures are both ambitious and sensible. Despite enlargement and a reorientation towards new priorities, they fully respect the ceiling for the size of the EU budget that currently applies, and which the Member States agreed for a Union of 15 several years ago. They even stay well below this maximum of 1.24 % of EU national income with an average of 1.14 % of EU GNI over the period.

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 30/09/2004

PURPOSE : to present the Commission's report on the follow-up to 2002 Discharges.

CONTENT : according to Article 276 of the EC Treaty and Article 180b of the EAEC, the Commission shall take all appropriate steps to act on the observations in the decisions giving discharge and on other observations by the European Parliament relating to the execution of expenditure (Section III-Commission). This report summarizes each sector or themes raised by the European Parliament and the Council, the actions that the Commission intends to take or has already taken:

- Reform of the Commission: this Reform was initiated in 2000 with the aim of improving the service culture of the Commission, more clearly identifying the Commission's political priorities, instituting a modern human resources policy and overhauling the Commission's systems of financial management and control. Two of the key elements in the Reform process are the new Financial Regulation and the modernised Staff Regulation. The Commission agrees with the European Parliament that the Reform is a continuous process which does not end with the adoption of the legislative texts. It has therefore taken good note of the recommendations included in the resolution on the 2002 discharge and is to a very large extent in agreement with the ideas presented. However, the Commission does not agree with the European Parliament that it is appropriate already now to propose changes to the key elements of the financial reform introduced in the recast Financial Regulation.

- Corruption : The Commission agrees with the European Parliament that anti-corruption strategies of the accession countries, candidate countries and Member States shall be supported. For the new Member States, several measures were initiated already during the pre-accession phase.

Furthermore, following the request of the European Parliament, a new budget line amounting to 3 million € was created in the 2004 Budget for special support to NGOs in the new Member States to act as watchdogs for civil society and uncover corruption practice in public administration.

The European Parliament has recommended that NGOs meet certain standards as regards accounts and audits as well as transparency. The Commission agrees but must recall that it is not entitled to monitor or intervene in the internal management of NGOs.

- Shared Management: The Commission agrees with the European Parliament that shared management is an issue that deserves – and already today is given – high priority. The European Parliament has stressed the need for the Commission to lay down common standards and offer Member States the necessary guidance. The Commission's strategy for ensuring sound financial management already follows the approach of setting common basic standards for management in Member States, supervising their application and providing guidance in the form of manuals and practice notes. The lessons learned will be taken into account in the legislation for the new period. The Commission is grateful for the European Parliament's support as regards the use of sunset clauses and financial corrections. Time limits such as the rule providing for decommitment at year n + 2 have proved to be effective instruments to improve levels of implementation and the Commission will therefore propose to maintain and reinforce such clauses in the future. Financial corrections and suspension of payments can also be effective in getting Member States to correct weaknesses in management and will therefore likewise be maintained.

However, the Commission does not agree with the European Parliament that a Member State should lose its right to agricultural support from the EAGGF Guarantee Fund if it fails to implement IACS. The fact is that no Member State entirely fails to implement IACS but rather some component may not be (fully) in place. In light of this, the Commission has opted for the strategy of imposing ex post financial corrections. Finally, the Commission welcomes the support of the European Parliament for application of the single audit approach, which can help to maximise the effectiveness of the overall audit effort by the Commission and Member States.

- Eurostat: The European Parliament has raised several concerns in the framework of the Discharge procedure on the Eurostat case. It is particularly the case when European Parliament requested that Commission should establish safeguards against concealment of critical information or when it asked for the review of relations between the different actors and the individual Commissioners as well as the College itself in the functioning of the accountability chain.

Furthermore, the problem of informing the political level is recognised, identifying the reasons of this situation and committed the Commission to finding a solution in the context of the Action Plan which was adopted by the Commission on 10 February 2004. This Action Plan and the adopted measures aim to make more explicit the existing rules on the communication of sensitive information and insist on active information.

However, in some cases, the Commission could not follow the requests of the European Parliament, for example the publication of the IAS and IAC reports or the creation of central management supervision of the control systems operating in individual departments.

As far as the revision of the Financial Regulation is concerned, the Commission has not identified any weaknesses in the new Financial Regulation which may expose the Community Budget to the risk of fraud. In any case, the Commission will assess carefully the fraud-proofing of financial rules in the first review of the Financial Regulation that will be carried out in 2005.

- Own Resources: The Commission is ready to fulfil most of the requests of the European Parliament. Concerning the Community's transit system, the Commission has in June 2004 presented a survey showing the implementation of the 38 recommendations made by the first temporary committee of inquiry in 1997. Furthermore the Commission continues to promote the transition to phase 3.2 of the New Computerized Transit System (NCTS) which should take place in all Member States by 31 December 2005. However, the Commission considers that an amendment to the Customs Code concerning the need to put an end to the practice of regarding incorrectly or falsely declared goods as not being involved in the transit procedure would be inappropriate. Otherwise, it would make the guarantor of transit operations liable for a customs debt which has already been incurred prior to the transit operation and would put at risk the balance of the existing legislation.

- Agriculture: on the main issues raised in the Parliament Resolution, the Commission has already taken or planned corrective actions. Concerning the setting of export subsidy rates, this has been done in the context of the implementation of the Commission's comprehensive action plan. However, the Commission is not able to submit documentation for the information selected when setting the export subsidy rates as this information is too commercially sensitive to be released. On the prefinancing of export refunds, the Commission carried out a review of the system, and decided to retain prefinancing but limit the scope of its application. The effectiveness of these new rules will be assessed before any new decision. The effective implementation of the management, control and sanctions system by the Member States is assessed during audits by the Commission's services. The Commission will follow up on this issue, as deemed appropriate.

- Structural Funds: the Commission regularly informs the Discharge Authority of the measures taken for better budget implementation. The preparation of the next Structural Funds Regulations will incorporate the lessons learnt and any measure like the n + 2 rule that accelerates the implementation will be continued with the improvements required when applicable.

The Commission considers that sanctions mechanisms on Member States for poor budgetary estimates, provision of SAPARD notes in all languages of the acceding countries and a quarterly breakdown of the situation as regards the application of the n + 2 rule are inappropriate. It already informs Parliament each year of the actual application of n + 2 rule as soon as the final figures are known.

- Internal Policies and Research : on internal control, the Commission regularly reviews its internal control framework in view of making the implementation of internal control standards more effective. In this context, the Research DGs contribute to the self-assessment exercises aimed at identifying areas where the implementation effort must be intensified.

Measures to reinforce the process of recovering amounts unduly paid is already being set up: the Commission has taken stock of the improvements decided in the field of recoveries at the Cocobu meeting of 3 November 2003.

- External policies : the Commission has taken due note of the European Parliament's recommendations concerning controls relating to external measures. Furthermore, the Commission is taking or has taken the recommended actions regarding the Neighbourhood and the PHARE Programmes as well as the aid allocated to education and health. It has systematically been reviewing outstanding commitments in order to reduce the amount of old or dormant RAL.

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 11/01/2005 - Supplementary non-legislative basic document

PURPOSE : to present the revenue and expenditure accounts and the financial statement concerning the 2003 budget - Section III - Commission : analysis of the budget headings.

CONTENT : this document presents an detailed summary of the payment appropriations used by the Commission in 2003. This document should be read in parallel with the summary (dated 30/11/2004) of the analysis of the Commission's expenditure.

GENERAL AMOUNTS : for the budget year 2003, EUR 99.8 billion was committed from total available appropriations of EUR 101.2 billion, an implementation rate of 99 %, slightly better than the outcome for 2002. Payments amounted to EUR 90.6 billion from total available appropriations of EUR 98.3 billion, an implementation rate of 92 % compared with 86 % in 2002.

The implementation rates by heading were as follows:

- Agriculture : 98%

- Structural operations : 90%;

- Internal policies : 9% ;

- External action : 88% ;

- Administration : 87%

- Reserves : 41%

- Pre-accession aid : 80%.

That is a total of 92% implementation rate.

ANALYSIS OF EXPENDITURE 2003 HEADING BY HEADING :

Heading 1 - Agriculture : Agricultural expenditure for the year was EUR 44.4 billion, or 98 % of total available appropriations, compared with 97 % in 2002. For common agriculture policy-related expenditure, underutilisation mainly concerned: the beef and veal sector (EUR 417 million); the sugar sector (EUR 205 million); the wine sector (EUR 168 million). For rural development, the implementation of commitments was 99 %.

Heading 2 - Structural operations : Payment appropriations in the 2003 budget for the pre-2000 programmes of the Structural Funds were reduced by EUR 5 billion following the approval of an amending budget (AB). This amount was based on the estimated needs and decommitments in 2003 relating to the pre-2000 programmes, as the Member States' payment claims were considerably lower than the outstanding commitments (RAL).

Total payments for the heading amounted to EUR 28.5 billion, or 90 % of available appropriations, an underutilisation of around EUR3.3 billion. For the Structural Funds in 2003, the unused appropriations mainly concerned Objective 1 (EUR 1 billion) and Objective 3 (EUR 800 million) programmes, as well as Community initiatives (EUR 880 million) because payment requests from the Member States were lower than initially envisaged. The unused appropriations in 2003 mainly related to the earlier programmes 1994-99, where payments amounted to EUR 3.5 billion of the EUR 5.9 billion available, whereas for the new Structural Fund programmes 2000-06, payments of EUR 22.7 billion were made, an implementation rate of 96 %, compared with 91 % in 2002. After a steep increase of outstanding commitments (RAL) in previous years, the situation in the Structural Funds almost stabilised in 2003, with an increase of around 3 %, from EUR 60.5 billion at end-2002 to EUR 62.4 billion at end-2003.

Heading 3 - Internal Policies : Commitments made amounted to EUR 7.2 billion, or 93 %. The EUR 550 million not used was spread across the heading, with EUR 400 million concerning ‘other appropriations' mainly for research and technological development (B6). These appropriations are, as a rule, carried over to the next financial year. EUR 105 million was transferred from the EU Solidarity Fund to cover emergency aid following natural disasters in Italy, Spain and Portugal.

Payments made amounted to EUR 5.6 billion, an implementation rate of 78 % as against 83 % in 2002. Excluding ‘other appropriations', which, as a rule, are carried over to the next financial year, the unused appropriations for the heading were in the region of EUR 700 million, dispersed across the heading but mainly concerning: EUR 200 million for research and development, mostly related to completion of programmes prior to 1999 and the fifth framework programme; EUR 56 million for the EU Solidarity Fund; EUR 50 million (excluding current reserve) for area for freedom, security and justice, mainly EUR 18 million for the European Refugee Fund, of which EUR 10 million was to be carried over to 2004.

Heading 4 - External Action : Under this heading EUR 5.1 billion was committed, an implementation rate of 97 %, similar to last year. Unused appropriations mainly concern EUR 50 million for macrofinancial assistance for cooperation with the Balkan countries. Payments Payments made in 2003 totalled EUR 4.3 billion, an implementation rate of 88 %. Unused appropriations amounted to EUR 600 million.

Almost half of this amount related to the programme for cooperation with the western Balkans. This chapter faces the transition from fast disbursing reconstruction aid to more traditional cooperation programmes which renders the payments forecasts more difficult during that period. An impressive increase in payments (+ 60 % or + EUR 108 million) was recorded in the budget lines for the benefit of Latin America.

Heading 5 - Administration : The commitment appropriations for administrative expenditure were practically fully implemented. EUR 562 million of payment appropriations were automatically carried over to 2004.

Heading 7- Pre-accession : An implementation rate of 98 % was achieved for this heading, similar to the result in 2002. Payments amounting to EUR 2.8 billion were made, an implementation rate of 80 %, compared with EUR 1.7 billion or 67 % last year. This represents an underutilisation of around EUR 480 million, made up of EUR 288 million for ISPA and EUR 170 million for Sapard due to late payment requests.

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 08/03/2005 - Supplementary non-legislative basic document

This document presents the Council’s recommendation on the discharge to be given to the Commission on the implementation of the Community budget for the financial year 2003 (Section III – Commission).

The recommendation recalls that according to the revenue and expenditure account for the financial year 2003:

- revenue amounted to EUR 93 468 554 436;

- expenditure disbursed from appropriations amounted to EUR 88 394 813 758;

- cancelled payment appropriations (including earmarked revenue) carried over from 2002 amounted to EUR 2 765 220 289;

- appropriations for payments carried forward from 2003 to 2004 EUR 2 246 023 739;

- the negative balance of exchange-rate differences amounted to EUR 108 988 964;

- the positive budget balance amounts to EUR 5 483 948 264;

- cancelled appropriations for the financial year amount to EUR 5 535 238 460;

- EUR 2 081 756 100 (50%) of the EUR 4 155 854 793 in appropriations for payments carried forward from 2002 to 2003 have been used;

Based on the observations made in the Curt of Auditors' report, the Council recommends that the European Parliament give a discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2003.

Firstly, it should be noted that the Council is disappointed that the Court was still unable to give a Statement of Assurance (DAS) in relation to most of the expenditure.

The Council appreciates the Court's continued work for improving its audit methodology and tools, in order to better fulfill its mission to contribute to improving the financial management of the Union at all levels. It looks forward to being regularly informed on the DAS methodology applied by the Court globally and within each sector, in particular regarding concepts, methods, indicators, appraisals and presentation of the results.

It shares the Court's consideration relating to further improving the design of control systems by establishing clear and consistent objectives and responsibilities. In this context, the Council notes with great interest the Court's proposal for the development of a Community internal control framework as presented in its opinion on the single audit model.

The Council takes note of the progress achieved by the Commission in designing the new regulatory control framework and its positive impact on the legality and regularity of operations subject to direct management of the Commission. In the framework of the administrative reform, the Council notes that the annual activity reports required by the Financial Regulation have been of some usefulness for the Court's audit work. However, further improvements are needed to make them into a reliable indicator of the Commission's performance in order to enable the Court to use them as a basis for its statement of assurance.

The Council expresses great concern regarding the continued increase of outstanding commitments for differentiated expenditure. The Council finds it unacceptable that at the end of 2003 outstanding commitments represented 2.5 years payments at the current spending rate.

As this trend affects the credibility and sound management of the Community budget, the Commission should, with Member States' assistance, endeavour to give budget estimates closer to capacity for use of appropriations and corresponding to real needs. The Council will monitor closely how the Commission and Member States progress in coming years to avoid over-ambitious budgeting and the inability of Member and beneficiary States to absorb EU funds, which result in the low spending rate.

As regards the expenditure plan on a heading by heading basis, the Council has made the following comments:

- **Common agricultural policy**: the Council regrets that CAP expenditure was materially affected by errors. It endorses the Court's view that the Commission should work more actively with Member States in order to improve the control systems, especially for those categories of CAP spending with higher risk (animal premium schemes and subsidies paid on the basis of quantity produced) or those subject to recurrent errors. The Council calls on the Commission to review certain control procedures, identify subsidies that are particularly subject to fraud and error, improve the supervisory checks and use these checks as a tool for comparison and have their results included in the annual activity report of the Director-General for Agriculture and if relevant in the Synthesis report.

- **Structural measures**: the Council welcomes the reinforcement of the Commission internal control system for the financial year 2003 and invites the Commission to improve on the basis of the principle of proportionality the effectiveness of the financial control framework for structural measures.

Concerning the closure of programmes for the 1994-1999 period, the Council regrets the fact that progress in 2003 remained limited, because of delays in the Member States and problems for the Commission's examination of files. The Council is concerned by the fact that the Commission's checks on the compliance of the Member States' control system for the 2000-2006 programming period are not yet complete. The Council urges both the Commission and the Member States to implement all the necessary improvements, in order to avoid the repetition of the problems encountered at the closure of the 1994-1999 period.

- **Internal policies**: the Council regrets that the late approval of the FP6 model contracts and the incomplete deployment of the common information technology (IT) system during 2003 affected the implementation of FP6. It notes that an analysis of the ex-post financial audits in the field of RDT expenditure shows a considerable incidence of errors in the declarations of costs by final beneficiaries, which were not detected by the Commission's internal controls at the time of payments. The Council shares the Court's concerns about the weaknesses in the management and control systems for the European Refugee Fund in the area of freedom, security and justice. Moreover, the Commission did not give clear instructions to national intermediate managing bodies during the starting phase of the programme. It urges the Commission to remedy the internal control weaknesses in this field and to provide direction to Member States on how to achieve a harmonised control environment at national level.

- **External actions**: the Council regrets the relatively high number of irregularities detected in the transactions of implementing organisations and shares the Court's view on the necessity for a comprehensive approach to the supervision, controls and audit of these organisations.

- **Pre-accession aid**: the Council welcomes the progress achieved in the field of the pre-accession instruments Phare, ISPA and

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 05/01/2005 - Document attached to the procedure

PURPOSE :to present the report from the Commission on theMember States' replies to the Court of Auditors' 2002 Annual Report.

CONTENT : since the 1996 Dublin European Council, and in line with its conclusions on sound and efficient financial management, the Commission had requested Member States to reply to the observations made by the Court of Auditors in its Annual Report and special reports and to provide information on any corrective measures they have adopted. Article 143 (6) of Council Regulation 1605/2002/EC, Euratom has taken over this practice by requiring the Commission to inform the Member States concerned immediately of the details of that report which relate to management of the funds for which they are responsible under the rules applicable. The present report, which is transmitted to the Court of Auditors, the Council and the European Parliament, summarizes the Member States' replies to the Court of Auditors' 2002 Annual Report.

CONTEXT : in its 2002 Annual Report, the Court of Auditors has once more pointed out that the areas of the budget for which management is shared between the Commission and the Member States pose particular challenge due to their complexity and the many layers of administration involved. For its part, the Commission has taken steps to ensure that weaknesses are corrected. The 2001 Synthesis Report action has been achieved and will be complemented by concrete steps to promote a convergence of audit methodologies. Besides, in its 2002 Synthesis Report, the Commission has committed itself to making all appropriate recommendations to clarify the respective responsibilities of Member States and of the Commission in case of shared management.

Furthermore, given the importance of shared management and subsequently the place it occupies in the Court of Auditors' reports, it is particularly necessary to know the Member States' positions on the problems raised by the external auditor. Firstly, it allows the Member States to give their opinion on the observations and recommendations drawn up by the Court. Secondly, Member States can present the corrective measures they have implemented or are planning to implement. Lastly, It should also give the Commission a general picture of various problems encountered at national level and allow it to take proper remedial action.

RELEVANT INFORMATION : this report is based on the contributions from the Member States. It should be pointed out that despite the creation of the general framework, these contributions remain fairly heterogeneous both in form and especially in substance. The Member States thus replied in full or in part to the points or DAS errors submitted to them and in a few cases made recommendations or more general observations. The time limits set by the Financial Regulation were not fully complied with and some contributions arrived several weeks late. In so far as some Member States either fail to reply to specific observations concerning them or give only fragmentary information related to the failures highlighted by the Court of Auditors, it is sometimes difficult to get a complete picture of Member States' positions regarding important findings. Only 4 Member States made general comments on specific matters dealt with in the Court's Annual Report. One Member State did not transmit any reply at all.

OPERATIONAL CONCLUSIONS : the first part of the report concerns the own resource sectors, from agriculture to structural funds. The second part deals with the areas of agreement and disagreement between the Member States and the Court of Auditors.

The report concludes that there was a relatively limited number of conclusions, lessons and recommendations may be drawn from an analysis of the Member States' replies to the Court of Auditors' Annual Report for 2002.

These replies principally defend the validity of their management and the controls they carry out. This approach occurs at a number of levels: formal disagreement with the Court of Auditors, playing down the significance of its findings and the conclusions it draws, and presentation of specific or structural corrective measures to remedy the shortcomings detected. This stratification of arguments presented in their defence varies from one Member State to another; some are more inclined to question the Court's critical observations against them.

This attitude is not particularly surprising, since the Member States - apart from their replies to sector letters - do not have the possibility to defend contradictorily their point of view before the Court of Auditors when the latter question their management of EU funds.

The number of structural corrective measures announced is limited. For instance, in the Own Resources area, Member States have taken steps to improve the accounting and control procedures. As regards Agriculture, the need for better legislation and good control systems is expressed. Several Member States also expect more input from the Commission in the Agriculture and Structural funds areas, as regards simplification of legislation, timely issuing of guidance and better monitoring of management and control systems.

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 12/04/2005 - Final act

PURPOSE : to grant discharge to the Commission for the implementation of the 2003 general budget.

LEGISLATIVE ACT : Decision 2005/529/EC, Euratom and 2005/530/EC, Euratom of the European Parliament on the discharge for implementing the general budget of the European Union for the financial year 2003 and the closing of the accounts of the same budget (Section III – Commission).

CONTENT : with the present decisions, the European Parliament grants a discharge to the Commission for the implementation of the general budget for 2003 and closes the accounts for the year.

This decision is in line with the European Parliament’s resolution adopted on 12 April 2005 and comprises a series of observations that form an integral part of the discharge decision (please refer to the summary of the opinion of 12/04/2005).

2003 discharge and follow-up of the 2002 discharge: EC general budget, section III Commission

2004/2040(DEC) - 12/04/2005 - Text adopted by Parliament, single reading

The European Parliament adopted the resolution drafted by Terry **WYNN** (PES, UK) on the 2003 discharge by 563 votes for, 40 against and 38 abstentions. (Please see the summary of 16/03/2005). Parliament grants the discharge for the European Commission's accounts for 2003 but stressed in the attached resolution that it is also firm about the need for Member States' financial control systems to be reviewed swiftly and for the failings to be remedied.

RALs: Parliament regretted the Court's misleading statement as regards the outstanding commitments on the structural funds, which at the end of 2003 represented “five years” worth of payments at the current spending rate. This figure included the years 2004 to 2006, which in 2003 could not be committed. Parliament recalled that unused funds are reimbursed to the Member States at the end of the period. It welcomed the fact that the introduction of the rule n+2 (year of commitment + 2) had largely contributed to solving this problem, such that for the last two years there has been absorption of more than 99% of the structural funds. Also bearing in mind the post-2006 Financial Perspective, the Commission was invited to find a balance between the preparation of policy and the process of accounting for its proper implementation, and calls on it to undertake a critical analysis by reconsidering the distribution of power within the Commission (governance set-up) as well as administrative processes.

Parliament went on to note that the distinction between the financing and the implementation of a Community policy gives rise to the so-called "delegation risk", which concerns matters such as: the fact that Member States and beneficiaries do not always give the same attention to the spending of European money as to the spending of national money; and the heterogeneous quality of Member States' control standards and the notable absence of involvement of most national audit institutions in seeking assurance that European funds are being used regularly and legally for the intended purposes.

Parliament took the view that these problems could not only be resolved by centrally imposed controls, and that the current situation clearly demonstrated the need for new instruments to enhance the Commission's insight into the Member States' management and control systems. Only sufficiently comprehensive ex-ante disclosure in a formal Disclosure Statement and an annual ex-post Declaration of Assurance as regards the legality and regularity of the underlying transactions from each Member State's highest political and managing authority (Finance Minister), as suggested several times by the Commission's Internal Audit, would enable the Commission to fulfil its obligations under Article 274 of the Treaty.

Parliament invited the Commission to present an initial report exploring the road map to a protocol with Member States in which the managing authority (finance minister) would declare, prior to disbursement and on an annual basis, that proper control systems, capable of providing adequate assurance for Commission accountability purposes, are in place. It advised the Commission and the Council of the difficulties involved in concluding an Interinstitutional Agreement on the new Financial Perspective until the principle of disclosure statements from each Member State's highest political and managing authority has been fully accepted and its operational implementation given status as a matter of priority. Progress in the European Union's financial management is not possible without Member States' active participation, and this "participation" must be anchored at political level. Parliament was convinced that a finance minister would prefer to establish properly functioning supervisory systems and controls instead of running the risk of having to explain to his/her Parliament why the national purse has to repay substantial sums to the European Union.

DAS: Parliament notes that the central question should be whether the supervisory systems and controls that have been implemented at Community and national level provide the Commission with a reasonable assurance as regards the legality and regularity of the underlying transactions. It invited the Court of Auditors to further improve the presentation of the global Statement of Assurance and the specific appraisals by continuing the trend towards a more comprehensive description of the reservations, and to include more explicit and specific information on weaknesses in the different sectors and Member States with a view to establishing an operational listing, drawn up on a risk-based approach, of the reservations which can be monitored over time.

Single audit model: this model demanded by Parliament since 2002 is designed to improve budgetary control mechanisms. Parliament welcomed the Court of Auditors' recommendations for an effective and efficient internal control framework. However, it regrets that the Court has not presented any bold proposals as regards national audit institutions' participation in enhancing transparency and accountability at Member State level. The Commission is invited to initiate discussions with the discharge authority , the Council and - with due respect to its independence - the Court of Auditors as an observer, and to draw up an action plan for the implementation of a Community internal control framework as soon as possible. Furthermore, it invites the Commission to make sure that the detailed proposals setting out the legal framework of the policy proposals made by the Commission as part of the political project for the Union until 2013 take full account of the elements contained in the "Community internal control framework" and the principle of annual disclosure statements by each Member State's highest political and managing authority.

Lastly, MEPs asked the Council to work with Parliament and Commission in setting up an expert group to rethink the functioning of control and audit in the EU, in particular in the areas of shared management between the Commission and the Member States.

Sectoral issues: many points have been examined in this resolution such as:

Agriculture: it notes that the Commission is responsible for having failed to recover, at least, EUR 1 120 million during the period from 1971 to September 2004. It considers this to be an unacceptable situation and that the Member States and the Commission have shown a lack of due diligence. It expects to receive a report, in time for the 2004 discharge procedure, on how and when this money will be recovered. Member States are invited to report cases of irregularities on time every 3 months;

Structural measures: Parliament deplores the failure of some Member States to control and manage taxpayers' money for which they are responsible, and points to the hypocrisy of some Member States in blaming the Commission for failing to control expenditure for which those Member States are responsible. The Commission is asked to inform Parliament of the countries which have failed to rapidly implement agreed improvements in their control systems. Parliament also encourages the Commission to suspend interim payments to Member States in cases of serious irregularity or when serious failings in the Member States' management control systems are found;

Internal policies: Parliament considers the overall implementation rates for this heading to be satisfactory even if there were a considerable incidence of errors under the research heading, mainly due to over-declarations of costs which were not detected by the Commission's internal controls;

External Policies: Parliament declares the reform of the management of external aid has been a success. However, the observance of tender and procurement procedures by project management units and NGOs remains an area of concern and Parliament expects the Members of the Commission with responsibility for external aid to submit an action plan by 1 September 2005 in order to bring those problems under control. Parliament recognises the need to strike a balance between reporting and procedural requirements for NGOs on the one hand and the feasibility of NGOs meeting these on a regular basis on the other hand, and would welcome reflection by the Court on how these interests could be better reconciled. It also finds it unacceptable that only EUR 198 million (2,4%) was earmarked for basic education and EUR 310 million (3,8%) for basic health, therefore, it urges the Commission to increase funding for these sectors and calls for 20% of the European Union's development cooperation expenditure to be earmarked for basic education and health in the developing countries;

Pre-accession aid: Parliament commends the Commission for the efforts it has made so far through the PHARE programme in helping to prepare the candidate countries for managing the structural funds. It is nevertheless concerned by the failure to ensure that the accreditation process for many PHARE and ISPA agencies in the new Member States was completed before accession. It welcomes in principle the proposal for a new single instrument for preparing for management of the structural funds. Moreover, the aims and objectives of SAPARD, as the first pre-accession aid to be fully decentralised, were excellent, even if it did not fully achieve them. Lastly, Parliament acknowledges that the decentralised management system used to implement the programme generally functions well, but urges the Commission to improve it further by learning from the problems encountered so far, providing more support to accession states when problems are found and doing more to follow up the programme.