Basic information

2005/2090(DEC) DEC - Discharge procedure	Procedure completed
2004 discharge: EC general budget, section III, Commission and ECSC in liquidation **Subject** 8.70.03.07 Previous discharges	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	MULDER Jan (ALDE)	20/04/2005

Committee for opinion	Rapporteur for opinion	Appointed
AFET Foreign Affairs	VAN HECKE Johan (ALDE)	29/08/2005
DEVE Development	BUDREIKAITĖ Danutė (ALDE)	30/08/2005
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.	06/06/2005
EMPL Employment and Social Affairs	WEILER Barbara (PSE)	27/10/2005
ENVI Environment, Public Health and Food Safety	HAUG Jutta (PSE)	21/06/2005
ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO Internal Market and Consumer Protection	MUSCAT Joseph (PSE)	04/07/2005

TRAN	Transport and Tourism	CRAMER Michael (Verts /ALE)	07/12/2005
REGI	Regional Development	The committee decided not to give an opinion.	
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)	12/07/2005
JURI	Legal Affairs	The committee decided not to give an opinion.	
LIBE	Civil Liberties, Justice and Home Affairs	DEPREZ Gérard (ALDE)	04/07/2005
AFCO	Constitutional Affairs	The committee decided not to give an opinion.	
FEMM	Women's Rights and Gender Equality	KAUPPI Piia-Noora (PPE-DE)	30/11/2005
PETI	Petitions	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2716	2006-03-14

European Commission

Commission DG	Commissioner
Budget	

Key events

Date	Event	Reference	Summary
07/10/2005	Non-legislative basic document published	SEC(2005)1158	Summary

15/11/2005	Committee referral announced in Parliament		
21/03/2006	Vote in committee		Summary
27/03/2006	Committee report tabled for plenary	A6-0108/2006	
26/04/2006	Debate in Parliament		
27/04/2006	Decision by Parliament	T6-0157/2006	Summary
27/04/2006	Results of vote in Parliament		
27/04/2006	End of procedure in Parliament		
06/12/2006	Final act published in Official Journal		

Technical information

Procedure reference	2005/2090(DEC)
Procedure type	DEC - Discharge procedure
Legal basis	Rules of Procedure EP 101
Stage reached in procedure	Procedure completed
Committee dossier	CONT/6/28760

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee opinion	FEMM	PE367.674	23/01/2006	
Committee opinion	CULT	PE365.108	27/01/2006	
Committee opinion	EMPL	PE367.625	31/01/2006	
Committee opinion	DEVE	PE367.893	01/02/2006	
Committee draft report		PE369.882	08/02/2006	
Committee opinion	IMCO	PE367.907	21/02/2006	
Committee opinion	TRAN	PE367.829	23/02/2006	
Committee opinion	LIBE	PE367.664	24/02/2006	
Committee opinion	AFET	PE367.912	24/02/2006	
Amendments tabled in committee		PE370.212	27/02/2006	
Committee opinion	ENVI	PE360.060	07/03/2006	
Committee report tabled for plenary, single reading		A6-0108/2006	27/03/2006	
Text adopted by Parliament, single reading		T6-0157/2006	27/04/2006	Summary

Council of the EU

Document type	Reference	Date	Summary
Supplementary non-legislative basic document	05971/2006	23/02/2006	Summary

European Commission

Document type	Reference	Date	Summary
Document attached to the procedure	COM(2005)0257	15/06/2005	Summary
Document attached to the procedure	COM(2005)0448	19/09/2005	Summary
Document attached to the procedure	COM(2005)0449	19/09/2005	Summary
Document attached to the procedure	SEC(2005)1160	19/09/2005	Summary
Document attached to the procedure	SEC(2005)1161	19/09/2005	Summary
Non-legislative basic document	SEC(2005)1158	07/10/2005	Summary
Supplementary non-legislative basic document	SEC(2005)1159	07/10/2005	Summary
Document attached to the procedure	COM(2005)0506	17/10/2005	Summary
Document attached to the procedure	COM(2006)0184	20/04/2006	Summary
Document attached to the procedure	SEC(2006)0524	20/04/2006	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Court of Auditors: opinion, report	N6-0032/2005 OJ C 301 30.11.2005, p. 0001	30/11/2005	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Budget 2006/0808
OJ L 340 06.12.2006, p. 0001-0002 Summary

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

2005/2090(DEC) - 14/03/2006

FOLLOW-UP TO THE DISCHARGE FOR 2003 – COUNCIL CONCLUSIONS

First if all, the Council takes note of the Commission's report on the actions taken in response to the Council's recommendation on the 2003 discharge. It notes with satisfaction the improvements in the presentation of this report (the inclusion of cross-references and links between the report itself and the related working document). The Council acknowledges the Commission's work, together with Member States, to improve controls over funds in shared management and encourages it to pursue its efforts. The Council notes the publication of the Commission's communication on a "Roadmap to an integrated internal control framework", as well as the actions taken to improve sound financial management. It underlines the need for additional work to be done by the Commission regarding in particular the management of risk assessment.

As regards the new accounting system of the Commission, the Council will carefully check that there are no significant delays or problems in meeting the remaining objectives of the modernisation. In this context, it invites the Commission to provide more adequate financial information on multi-annual projects.

More specifically, the Council wishes to make the following comments on the various sectors of activity:

- **Budgetary management :** the Council notes the actions taken to improve budget estimates and to eliminate "abnormal RAL". In this context, it recalls the importance of providing three times a year to the Budgetary Authority clear analytical information on the cumulative state of implementation of the most important Community programmes in comparison to the initial implementation plan;

- **Own resources :** the Council takes note that the Commission is working on proposals aiming at simplifying the procedural framework of agricultural tariff quotas and that it has adopted guidelines to have more efficient procedures governing the system of the rules of origin in preferential arrangements;

- **CAP :** the Council welcomes the progress made in the control system for those categories of CAP expenditure with higher risk (animal premium schemes), as well as the fact that the Commission amended the IACS regulation in order to oblige Member States to review annually the efficiency of the risk factors used. In this context, the Council encourages the Commission to take further steps to strengthen its control systems in areas that are not checked through IACS, as well as in the area of export refunds;

- **Structural measures :** the Council acknowledges the Commission's actions to remedy the weaknesses in the supervisory and control system for structural measures. In this context, it reminds the Commission of the importance of strengthening collaboration with Member States, in order to optimize the effectiveness of the current control system through simplification and streamlining of the rules. The Council notes the Commission's intention to propose a management and control framework for the 2007-13 period built on the experience of the past;

- **Internal policies :** the Council takes note of the measures taken on board by the Commission to reinforce financial information regarding payment delays and to improve monitoring of budgetary implementation. However, it notes with concern that insufficient action has been taken to develop an integrated IT system for the management and control system for the 6th Research and Technological (RDT) Framework Programme, even if it acknowledges that some IT tools have been deployed to provide the full range of support from evaluations of proposals through to contract payments and project monitoring. The Council notes that the Commission has put in place a reporting system to assist the financial services in monitoring its recovery of undue payments, as well as further corrective actions to establish a coherent audit approach;

- **External action :** the Council welcomes the measures taken to reform the External Aid management and takes note of the introduction of new tools (such as CRIS audit) to further improve the flow of information on audit results at central level. In this context, the Council continues to support the reform of the management of EU external assistance with the decentralisation of responsibilities to the EU delegations and encourages the Commission to work in a consistent way with the reform process;

- **Pre-accession aid :** the Council takes note that the Commission is pursuing the full implementation of the Extended Decentralised Implementation System (EDIS), both in new Member States and candidate countries. It notes that for Phare the EDIS has been introduced in all ten new Member States and its introduction in 2006 remains an objective for the Romanian und Bulgarian administration. As regards ISPA, the Council supports all measures aiming at preventing risks regarding tendering and contracting procedures and welcomes the initiatives taken by the Commission in this respect;

- **Administrative expenditure :** the Council welcomes the actions foreseen to continue the effective implementation of the administrative and financial reform, including internal control standards, development of a common risk evaluation methodology, ex-post controls and internal audit, and invites the Commission to carry on in this way.

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

2005/2090(DEC) - 15/06/2005 - Document attached to the procedure

PURPOSE : to present the Commission’s third annual report to the discharge authority on internal audits carried out in 2004.

CONTENT : the aim of this third annual report on internal audit is to inform the Discharge Authority about the work carried out by the Commission's Internal Audit Service (IAS) in 2004. The present report is a shortened version of the Internal Auditor's Annual Internal Audit Report to the Commission. It is based to a large extent on the results of work conducted by the IAS to complete Action 87 of the Reform White Paper but it also takes into account other audits finalised in 2004, including follow-up audits to earlier engagements and other relevant sources such as the overview of the Relex family DGs, the first summary report on the work of the DG's own Internal Audit Capabilities (IACs) and the follow-up to systemic recommendations made by the Internal Auditor in 2003.

The in-depth audits and follow-up audits undertaken by the IAS resulted in recommendations addressed to the appropriate Director-General who is responsible for taking action. This report concentrates on recommendations that are of Commission-wide interest, often crosscutting in nature and that could also concern other DGs besides the ones audited.

The acceptance by audited services of IAS audit findings and recommendations is high with 84% of all recommendations issued being accepted and another 10% accepted with comments. In one case a critical recommendations was rejected by the auditee as it was felt that follow-up action was not manageable at the DG level.

The report highlights both issues/control weaknesses and related recommendations that were brought to the attention of the College, either because they are of sufficient importance (materiality), because they provide insight into the state of the Commission internal controls or because they cannot easily be resolved at the DG level.

The report concludes by stating that in 2004 several milestones were reached in terms of the Commission's ongoing effort to modernise and strengthen its management and control systems. The new staff regulation entered into force and Directorates-General continued their effort to improve the internal control systems put in place under the Commission Reform. The Internal Audit Service (IAS) completed the so-called Action 87 of the Reform White Paper by carrying out audit work (including desk reviews and risk assessments) in 33 Commission services. Taking a more strategic perspective, audit work and recommendations have lead the Internal Auditor to a series of conclusions where the Commission could make considerable gains in terms of improved governance and performance.

The Internal Control System : the DGs indicated in a self-assessment exercise that they had reached a high level of compliance with the Internal Control Standards (ICS). Major progress is also confirmed by the IAS audits. However, these audits also revealed that there are still critical control weaknesses and that important improvements are still needed in key areas such as grant management and public tendering, management supervision and ex-post controls (both in terms of funds managed by the Commission and in shared management with Member States) and that the Commission is still exposed to potential control breakdowns. The present report (as do the individual audit reports) includes recommendations designed to strengthen related controls.

Conclusion 1: despite important progress in internal control, important weaknesses still exist in areas such as grant management and tendering, management supervision and ex-post controls. These weaknesses should be addressed with urgency. But the challenge goes even further and is twofold: first, compliance with the Internal Control Standards is not an end in itself. What is important is that the internal control systems are effective in giving reasonable assurance that the Commission's objectives are being achieved, that laws and regulations are complied with and that the financial reporting from the Commission is reliable. Second, the answer is not necessarily more controls, but better and more cost-effective controls. Newly established rules and regulations now need to go through the natural next step, i.e. they need to be refined on the basis of lessons learnt, taking into account simplification and proportionality in terms of costs and risks.

- **Shared management**: in order to be efficient, assurance has to come primarily from the Member States and not through more Commission on-the-spot controls. This is why the IAS proposed in its last Annual Report to introduce disclosure and assurance statements from Member States management. Additional steps need to be taken to embed controls into standard management processes, in order to facilitate DG management and for DGs to obtain a return on their "investment".

Conclusion 2: Directorates-General have to strive for effectiveness of their control systems – beyond compliance. Cost-effectiveness and risks should be taken more into account in designing controls; for shared management this means that more assurance has to come from Member States.

- **Horizontal Functions**: the College has collective political and budget responsibility for the Communities' budget (including funds under shared management). However, the Commission's financial management and control architecture is primarily focused on the individual Directorates-General and the accountability/assurance statements come from DGs. A pre-dominantly DGlevel perspective means there is an increased likelihood that important, notably "crosscutting" control issues/risks, are not sufficiently covered or mitigated. Certain of these horizontal functions are well established, e.g. the establishing of the Commission's budget. The Commission also has made important improvements to strengthen policy coordination and coherence such as establishing high-level networks and the creation of DIGIT. But certain horizontal functions are not yet adequately covered.

The Financial Regulation as revised in 2002 does not explicitly provide for the Accounting Officer to certify the integrity, consistency and reliability ("true and fair view") of the accounts. However, such a step strengthens the control system. It ensures the consistency and reliability of the Commission's accounts and therefore provides adequate protection to the College.

Signing off the accounts is also a natural complement to the Accounting Officer's authority to set accounting standards: being able to sign off means for instance having undertaken plausibility and coherence checks in order to minimise differences in application or misapplication of rules. This is why the IAS recommends a sign-off on the accounts by the Accounting Officer. This systemic responsibility in no way reduces the responsibility of Authorising Officers to guarantee the reliability of information made available to the Accounting Officer. It is now timely to introduce this central oversight, as the new accruals accounting system increases the level of accounting expertise required throughout the Commission.

Conclusion 3: in order to ensure the integrity, consistency and reliability of the accounts, the Accounting Officer should sign off the Commission's accounts certifying that they present a true and fair view. The Accounting Officer should be adequately empowered in order to be able to exercise this responsibility without modifying the responsibility of Director-Generals for the underlying transactions and the reliability of the information made available to the Accountant.

- **Risk management**: another area of concern is risk management. When effectively utilised, risk management serves as a proactive management tool for identifying obstacles to achieving policy and operational objectives and assisting in taking political decisions, including in prioritisation and allocation of resources. As set out in this report, risk management in the Commission is still in a rather embryonic state. DGs focus largely on risk analysis, and risk management is not embedded in regular management processes. This situation persists despite the fact that BUDG has recently launched very welcome initiatives in this field (these are detailed in the body of this report). A Commission-wide approach to risk management, including methodology and tools, has yet to be implemented and should result in a consolidated risk overview at the Commission level.

Conclusion 4: a Commission-wide risk overview process should be implemented (allowing for a complete top down view of key risks). This would facilitate pro-active risk management related to the key objectives of the Commission and more informed resource allocation decisions.

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

2005/2090(DEC) - 23/02/2006

PURPOSE : to present the Council recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Communities for the financial year 2004 (Section III – Commission).

CONTENT : the Council approved this recommendation by qualified majority with the Dutch delegation voting against.

The Council recommendation recalls the principal amounts of the 2004 financial year:

§ Revenue amounted to EUR 103 511 946 247;

§ Expenditure disbursed from appropriations amounted to EUR 99 195 366 915;

§ Cancelled payment appropriations (including earmarked revenue) carried over from 2003 amounted to EUR 1 302 286 952;

§ Appropriations for payments carried forward from 2004 to 2005 EUR 2 829 903 395;

§ EFTA-payment appropriations carried over from 2003 EUR 338 136;

§ The negative balance of exchange-rate differences amounted to EUR 50 047 046;

§ the positive budget balance amounts to EUR 2 738 577 707;

§ Cancelled payment appropriations for the financial year amount to EUR 2 062 708 460;

§ EUR 944 074 922 (77 %) of the EUR 1 220 026 565 in appropriations for payments carried forward from 2003 to 2004 have been used.

Having regard to the observations made by the Court of Auditors, the Council calls on the European Parliament to give a discharge to the Commission in respect of the implementation of the budget of the European Communities for the financial year 2004. However, the observations in the report by the Court of Auditors for the financial year 2004 call for certain comments by the Council which should be followed up.

DAS partially negative : the Council regrets that the Court was still unable to give, in the eleventh year in a row, a Statement of Assurance (DAS) for a large part of the transactions underlying the EU accounts. However, it takes note that the Court finds that transactions taken as a whole are legal and regular for revenue, commitments, administrative expenditure and pre-accession strategy. Moreover, it notes with satisfaction that the Court has been able to identify progress regarding the supervisory and control systems relating to pre-accession strategy and to the parts of common agriculture policy where the integrated administration and control systems (IACS) are properly applied.

The Council notes that in the Court's opinion the accounts of the European Communities are reliable except for one reservation, as they faithfully reflect the revenue, expenditure and the financial position at the end of 2004.

The Council regrets that the Court's opinion remains qualified by the reservation concerning miscellaneous revenue and advances due to the uncertainty of the transactions relating to the various debtors item. It expects that full implementation of the action plan for the modernisation of the European Communities' accounting system will enable the Commission to record these transactions correctly and completely.

Improvement of the financial management : the Council recalls the importance of continuing to improve financial management and of having controls working correctly and effectively so that for all transactions underlying the EU accounts a DAS should be achieved in the medium term. It emphasizes the need to continue working towards the achievement of an effective integrated internal control framework and recalls that the Council's position on a roadmap towards an integrated internal control framework is already set out in the Council conclusions of 8 November 2005. The Council notes the recent Commission Communication on an Action Plan towards an Integrated Internal Control framework and intends to undertake its examination when and where appropriate.

Regarding controls, the Council stresses the importance of taking further measures and improvements along the lines recommended by the Court. It underlines that it is important to continue with the identification of weaknesses in the design and the operation of schemes and to introduce appropriate remedial actions in the areas of direct, shared and joint management. Improvements regarding the clarity of the Commission's Directors-General's formulation of reservations should also be pursued.

Budgetary management : the Council notes with satisfaction the overall progress in the Commission's budgetary management that has led to an increased level of spending within the major expenditure programmes, in particular as regards Structural Funds, and therefore to a reduced surplus. As in previous years, the Council regrets that the level of outstanding commitments continued to increase overall, in particular regarding Structural Funds in comparison with the Commission's forecasts, although it notes that much of the increase is understandably due for technical reasons to enlargement. Therefore it invites the Commission to update its analysis on outstanding budgetary commitments for Structural Funds in order to identify the implications for the current and future programming.

Accounting system : the Council agrees that the timely introduction of the full accrual-based accounting system in January 2005 gives an encouraging signal as to enhanced financial management of the Community funds and expects the Commission to complete the reform by establishing the opening balances for the preparation of the 2005 annual accounts and thus ensuring the accuracy of accounting information. The Council considers that the use and presentation of indicators need further improvements, in order to strengthen the quality and transparency of the internal control system, resulting in a better comparability of year to year developments. It therefore underlines the need for

further development by the Commission of reliable, cost-effective and easily understandable indicators to be audited on an annual comparable basis by the Court. The Council recalls the importance of the protection of the Communities' financial interests, as well as the fight against fraud and any other illegal activities detrimental to the Communities' financial interests, and of strengthening cooperation between Member States and between them and the Commission in this field.

The Council made the following comments on :

- **CAP** : the Council welcomes the Court's statement that the Integrated Administrative Control System (IACS), which covers 59 % of CAP expenditure and about EUR 25 billion, is an effective control system to limit the risk of irregular expenditure, if properly applied. However, the Council regrets that, as in previous years, CAP expenditure was still materially affected by errors. It also notes that controls and checks implemented under IACS are effectively enforced in 14 Member States and that the system was not yet applicable in the 10 new Member States in 2004. Moreover, it requests further progress to be made concerning the control system in areas that are not checked through IACS (e.g. subsidies paid on the basis of quantities produced) where recurrent errors still occur. The Council is pleased that for area aid as a whole (arable crop subsidies) the majority of payments were consistent with Community rules. It also notes with satisfaction the relatively low error rates confirmed by IACS checks of the animal premium schemes (20% of CAP expenditure);

- **Structural measures** : the Council shares the Court's concern about the inherent risks to the legality and regularity of expenditure for structural measures arising from the variety of bodies and authorities which intervene in the management process, from the great number of programmes with a multitude of projects, from potential weaknesses in the management and control systems and from the risk of different interpretations as far as eligibility is concerned. The Council considers that the Commission and the Member States should seek to optimize the effectiveness, economy and efficiency of the current control systems. Concerning the implementation of operational programmes, the Council underlines that, in spite of new measures by the Commission aiming at more effective management and control, improvements are still required to achieve compliance with the Community regulations in the current period. The Council agrees with the Court's observation that, as a whole, the legislative framework provides a sound basis for the management and control of structural measures expenditure. It urges the Commission to ensure that the management and control systems meet the regulatory standards, to regularly review the operation of the systems and, in cooperation with the Member States, that the financial control objectives set out in the Regulations are achieved. The Council notes with dissatisfaction the weaknesses and delays identified by the Court in the closing of the ERDF programmes, the ESF programmes and the EAGGF for 1994-1999;

- **Internal policies including research :**the Council is concerned by the fact that it did not obtain sufficient assurance as regards the legality and regularity of payments. It shares the Court's view on the need for changing the legal framework so as to simplify cost reimbursement systems, and for clarifying the procedures and instructions governing the different programmes. It regrets that the implementation of the Internal Control Standards (ICS) is not yet fully operational. It is also concerned about the fact that the testing carried out by the Court has led it to conclude that no major improvement has been noted in this area and that the incidence of errors remains high. As regards the management and control procedures of the 6th RTD Framework Programme, the Council endorses the Court's view relating to the importance of a common IT system for the management of indirect RTD actions. It urges the Commission also to accelerate the process of improving the effectiveness of audit certificates in detecting errors in the costs declared by beneficiaries;

- **External actions :**the Council notes that the Commission has continued to improve its supervisory and control systems and that both Directorate-General Humanitarian Aid (ECHO) and EuropeAid Cooperation Office (EuropeAid) completed the implementation of internal control standards (ICS). The Council notes the progress achieved by EuropeAid by ensuring that ex post verifications were carried out following a new standardised methodology. As regards the supervisory and control systems at Delegations' level, the Council notes with satisfaction that the procedures were generally sufficient to ensure that the commitments and payments processed by the Commission were legal and regular. It considers, however, that results of project audits should be systematically communicated to and followed up by headquarters;

- **Pre-accession strategy :** the Council welcomes the Court's statement that supervisory and control systems at the level of the Commission's central services, Delegations and certifying authorities are basically sound and worked in practice for all pre-accession instruments (Phare, Turkey, ISPA and Sapard) and that no material errors in the underlying transactions tested were identified. Nevertheless, for Bulgaria, Romania and Turkey the Council invites the Commission to continue to ensure the effective performance of its ex ante approval by the EC Delegations as the national supervisory and control systems in those countries are not satisfactory. As far as

Phare and Turkey programmes are concerned, the Council finds it encouraging that the Court was able to see improvements in the Commission's internal control environment and invites the Commission to continue the work towards clearer instructions to the contracted auditors, appropriateness of expenditure declared and more successful transfer of experience gained from the implementation of the decentralised system of management (DIS);

§ **Administrative expenditure :** the Council welcomes the fact that the errors identified by the Court did not materially affect the legality and regularity of administrative expenditure as a whole (please refer to the discharge procedures of the other institutions).

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

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

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

This document complements the Commission's synthesis report on the Member States' replies to the Court of Auditors' 2004 annual report {COM (2006)0184}.

It sets out a detailed and analytical presentation of the replies from the Member States. An overview of these replies can be found in the summary of COM(2006)0184 (please refer to the summary in question).

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

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

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

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

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

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

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

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

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

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

§ Some Member States found it unsatisfactory that their **replies were not reflected** in the Court of Auditors' 2004 Annual report. This is partly due to the tight deadline which must be respected by the Court of Auditors when preparing its Annual report. In the considerations on how to make better use of the expertise of the national Supreme Audit Institutions and on how to achieve a single audit approach, this particular problem should be addressed.

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

§ The **more qualitative analysis** of substantive findings within the areas of agriculture policy and structural actions has been made with the objective of identifying patterns across Member States. The analysis shows that there is a need to resolve or clarify issues such as: 1) what

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

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

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

2005/2090(DEC) - 19/09/2005 - Document attached to the procedure

COMMISSION REPORT ON THE 2003 DISCHARGE :

DETAILED REPLIES TO THE EP ON ITS RESOLUTION

This report from the Commission concerns the follow-up to the discharge decisions given by the European Parliament for the financial year 2003. It includes the replies from the Commission on each of the recommendations formulated by the European Parliament in its resolution dated 12 April 2005.

An overview of these replies is contained in the summary of COM(2005)0449 (please refer to the document in question).

On a technical note, this Commission working document aims to further detail the answers already given in the main COM document.

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

2005/2090(DEC) - 27/04/2006 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution drafted by Jan MULDER (ALDE, NL) recommending that the Commission be granted discharge for its 2004 budget. (Please see the summary of 21/03/2006.) Parliament insisted on better management of Community funds where these are jointly managed by the Commission and the Member States. It also welcomed the steps taken by the Commission in strengthening its internal control, but felt that there was room for improvement.

Shared management: Parliament recognised that whilst the Commission has sole responsibility under the Treaty for implementing the budget, four out of every five euros in the budget are in reality handled by the Member States under shared management. It was essential that Member States take an active part in the initiative and that the Council made it first priority and include it as a separate subject in their semi-annual working programmes. Parliament stressed that the shortcomings in the EU's financial management cannot simply be reduced to a question about a positive or negative DAS (Declaration of Assurance). It warned, therefore, against obtaining a positive DAS without a corresponding improvement in the quality of the financial management. The responsibility for financial management lies with the Commission and the Member States and it is for the Commission and the Member States together to ensure that the Court will be able to find audit evidence of progress towards an adequate management of the risk of error. Member States must be held accountable for their use of EU funds and the primary means of accountability must be their national parliaments and media. Parliament went on to suggest the introduction of "national management declarations", to be signed by the relevant bodies of the Member States. The latter are responsible for joint management of the Community budget with the Commission and would, therefore, have to take their share of responsibility if errors occur.

A declaration at political level covering all Community funds in shared management and signed by finance ministers, as proposed in the 2003 discharge resolution, would be a big step forward. However, Parliament noted with satisfaction that the Council and the Commission agree on the importance of strengthening internal control. To achieve a positive DAS, priority should be given to sound financial management for funds under shared management. Parliament noted that as part of their enhanced responsibilities for structural funds and in accordance with national constitutional requirements, the relevant audit authorities in the Member States will produce an assessment concerning the compliance of management and control systems with the regulations of the Community. It welcomed the fact that Member States have therefore undertaken to produce an annual summary at the appropriate national level of the available audits and declarations. It drew attention to the fact that the level of a possible signature at Member State level is not mainly a matter of form but a signal showing the expected quality of the supervisory and control systems operating under the signature. National declarations might comprise 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. Parliament noted Member States' resistance and stated that it wanted to be pragmatic and constructive. The important thing is to find a way of identifying the weaknesses in the current control and supervisory systems and to undertake appropriate remedial action with a view to achieving better financial management of EU funds. Parliament welcomed a discussion about which authority might be the best for the purpose. It proposed a slightly modified approach to that for the 2003 discharge: a series of sectoral

declarations signed by bodies selected by the Member States themselves. Until such a system is in place, it invited the Commission to set up a more intense programme of *ex post* clearance-of-accounts audits and fully to make use of suspension of payments or financial corrections whenever it cannot obtain assurance from the Member States.

Parliament went on to state that national audit institutions could audit the internal control systems set up by the national administration as well as the regularity and legality of the underlying transactions effected in their own country. It called on national audit bodies to assume responsibility for controlling the local use of EU funds, so as to make any consideration of establishing national offices of the Court of Auditors unnecessary.

It should be pointed out that the Court of Auditors, for the eleventh consecutive year, has been unable to establish that "underlying transactions" (all the operations underlying the implementation of the Community budget) are free of irregularities. Under the EU Treaty, the Commission and the Member States are required to ensure "sound financial management" (Article 274), something which cannot be verified completely with the existing control systems.

Review of Commission's internal control systems needed: the other main part of the 2004 discharge relates to the accountability of the Commission under the same Article 274, which requires it to manage the Community budget properly. Parliament underlined that whilst ultimate responsibility for transactionsafterthe reform lies now - and rightly so - with line managers (Directors-General), final responsibility for controlsystems must be anchored in the centre, not in the periphery. It noted that the Court of Auditors supports this view and made a clear recommendation in that respect. Parliament felt that the quality of information contained in the reports is not checked and no one is accountable for it. It made certain recommendations:

- the Director-General of the Directorate-General for Budget should give a formal opinion on the quality and efficiency of the internal control systems;

- since the Synthesis report is drawn up by the Secretary-General of the Commission, the Secretary General, who has ultimate operational executive responsibility for the bureaucracy, should give a formal declaration of assurance as regards the quality of the individual declarations from the line managers (Directors-General);

- the internal auditor of the Commission should give his assessment of the quality and effectiveness of the controls as described in the management's annual activity reports and Synthesis report in the form of an audit opinion as regards the adequacy of the Secretary-General's assurance statement;

- the responsible Commissioner should co-sign the declaration given by the Director-General, as this would bridge the gap between the Director-General's individual assurance declarations and the College's institutional assurance declaration.

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

2005/2090(DEC) - 07/10/2005 - Supplementary non-legislative basic document

PURPOSE : to present the revenue and expenditure accounts and the financial statement concerning the 2004 budget - Section III - Commission : **detailed synthesis of 2004 expenditure.**

CONTENT : this document presents a detailed breakdown of Commission expenditure in 2004. A more succinct political analysis can be found in summary (SEC(2005)1158) which should be read in parallel to this document. Moreover, the figures mentioned are also presented in the Commission Financial Report 2004.

DETAILED SYNTHESIS OF 2004 EXPENDITURE : this detailed synthesis analyses EU expenditure by heading and sub-category of expenditure. It highlights the main issues contributing to the underutilisation of budget appropriations (including, for EU-25, the initial budget appropriations, the initial reserve, amending budgets, transfers and carry-overs). Bearing in mind that the new Member States joined the EU on 1 May 2004, the budget includes the amounts for the EU-10 until April 2004 and EU-25 from 1 May.

Implementation of commitment and payment appropriations - Commission 2004 :

Commitments : **EUR 106.982.666.860,92** weremade out of a total of EUR109.025.085.582,01, that is a **98,13%** implementation rate.

Payments : **EUR 98.003.860.526,12** paid from a total of EUR 102.328.369.478,45, that is a **95,77%** implementation rate.

The 2004 implementation rates by heading (payment appropriations):

- Agriculture : 98% : EUR 43.6 billion;
- Structural operations: 99% : EUR 34.2 billion;

- Internal policies : 81% : EUR 7.3 billion;
- External action : 90% : EUR 4.6 billion;
- Administration : 85% : EUR 5.8 billion (all institutions);
- Reserves : 41% : EUR 182 million;
- Pre-accession strategy: 95% : EUR 3 billion;
- Compensation : 100% : EUR 1.4 billion.

Total : 95%.

Gross National Income (GNI) : compared with national budgets, which take an average of around 45 % of national income, the EU budget is tiny, only a little over 1 % of EU gross national income (GNI). The total appropriations for payments were EUR 9.7 billion below the 2004 financial perspective ceiling and represented 1.01 % of the gross national income of the EU-25, well under the Community ceiling of 1.24 % and even below the corresponding percentage in the 2003 budget (1.04 % of the GNI of the EU-15 when voted). The revenue required to finance the budget for 2004, representing 0.95 % of EU GNI, was below the level of payments because of the balance left over from the 2003 budget that reduced the budget resources needed from Member States in 2004.

Analysis of expenditure 2004, heading by heading :

Agriculture (Heading 1) : agricultural commitments made were EUR 44.8 billion, or in percentage terms similar to the 99 % outcome for the same period last year. For CAP-related expenditure (heading 1a), an underutilisation of EUR 270 million mainly concerns:

- EUR 140 million for plant products, primarily the cereals sector as the bad harvest in 2003 resulted in higher world prices in relation to the forecasts used at the time of establishing the 2004 budget, and export refunds for the sugar sector as less quantities were exported than provided for in the budget;
- EUR 60 million for animalproducts, due to various factors affecting the dairy and meat sectors.

For rural development, subheading 1b, underspending amounted to EUR 95 million, slightly higher than last year. Of the unused appropriations for the heading, EUR 49.5 million for rural development programmes is carried forward to 2005.

Structural operations (Heading 2) : almost full implementation of commitment appropriations was reached for this heading, with EUR 213 million unutilised that mainly relate to Structural Fund programmes under Objective 1 (EUR 70 million) and the Cohesion Fund (EUR 64 million). Of the unused appropriations in 2004, EUR 115.2 million is carried forward to 2005.

Regarding payments, in November, an amending budget (AB10/2004) increased the payment appropriations for the Structural Funds by EUR 3.7 billion to cover expected additional needs for the remainder of the year. This was funded by transfers of EUR 1.7 billion from agriculture (heading 1a), an increase of EUR 1.5 billion in the revenue forecast and a call on the Member States for new resources of EUR 500 million.

Total payments for the heading amounted to EUR 34.2 billion, or 99 % of available appropriations, an underutilisation of around EUR 435 million, of which- and excluding earmarked revenue - EUR 294 million relates to the Structural Funds mainly for programmes under Objective 1 (EUR 150 million). For the Cohesion Fund, EUR 135 million in payment appropriations was not used.

Of the unused payment appropriations under this heading in 2004, EUR 184.2 million is carried forward to 2005.

Internal policies (Heading 3) : from the initial reserve of EUR 151 million, EUR 132 million was released during the year to various budget lines within the heading. In addition, through AB 3/2004, EUR 21 million was transferred from the EU Solidarity Fund to cover emergency aid following the floods in France and Malta, and the forest fires in Spain. Commitments made amounted to EUR 9 billion, or 92 % of the total available appropriations, an underutilisation of aroundEUR 850 million. This compares with 93% for the same period last year. Of the unused appropriations, EUR 600 million relates to earmarked revenue, and mostly concerns the completion of previous framework programmes under research and technological development. Payments made amounted to EUR 7.3 billion from available appropriations of EUR 9 billion, an implementation rate of 81 %. This compares with EUR 5.7 billion, an implementation rate of 79 % in 2003. The under-implementation is mainly accounted for by EUR 980 million for earmarked revenue that mostly relates to:

- payments for the completion of earlier programmes under research and technological development;
- the remaining unused appropriations of around EUR 730 million are budget appropriations spread across the heading.

Of the total unused appropriations for the heading in 2004, EUR 36.4 million for payments is carried forward to 2005.

External actions (Heading 4) :of the initial EUR 177 million placed in reserve, EUR 176 million was transferred to the heading. Almost full implementation of commitment appropriations was reached for this heading. For total available appropriations of EUR 5.4 billion, EUR 5.2 billion commitments were made. This compares with EUR 4.9 billion in 2003, with a similar implementation rate. Earmarked revenue of around EUR 112 million accounted for most of the underutilisation and is spread across the heading. Of the budget appropriations that could not be used before end-year 2004, EUR 8.9 million is carried forward to 2005. Concerning the payments, of the initial EUR 118 million placed in reserve, EUR 117 million was transferred to the heading. EUR 4.6 billion payments were made in 2004 from total available appropriations of EUR 5.1 billion, an implementation rate of 90 %, an all-time record and a continuing improvement on the previous record levels of 87 % in 2003 and 89 % in 2002. Of the unused appropriations, almost EUR 120 million concerned earmarked revenue that is spread across the heading.

Of the remaining appropriations in 2004, EUR 6 million is carried forward to 2005. Through a combination of a sustained high level of payments and a continued effort in screening old and dormant commitments, RAL (*reste à liquider*) has again been stable for this heading as has been the case for the last several consecutive years, despite the continuous increase in commitment appropriations.

Administration (all institutions) :commitment appropriations for administrative expenditure had an implementation of 96% with 85% actually paid.

Pre-accession aid (Heading 7):of the initial EUR 40 million commitment appropriations placed in reserve for preaccession instruments under Phare, EUR 25 million was released to the heading. Almost full utilisation of commitment appropriations was achieved for the heading. From total available appropriations of EUR 1.8 billion, EUR 1.7 billion was committed, or 94 % implementation compared with 98 % for 2003. The EUR 120 million unused appropriations mainly concern earmarked revenue (EUR 90 million, essentially from programme closure). Payments amounting to EUR 3 billion were made, an implementation rate of 95 %, compared with EUR 2.3 billion or 80 % last year. Of the EUR 167 million unused appropriations, EUR 47 million

concern earmarked revenue and the remainder EUR 120 million mainly relates to Phare programmes. Based on initial forecasts of the implementing authorities of the beneficiary countries, an additional EUR 113 million was transferred to this chapter during the global transfer procedure. RAL for this heading has started a downward trend, from EUR 10.3 billion at the start of 2004 to EUR 8.2 billion for the year-end, a decrease of EUR 2 billion.

ECSC LIQUIDATION: the European Coal and Steel Community (ECSC) was set up in 1951 and expired on 23 July 2002. The Treaty of Nice provided a special protocol, annexed to the Treaty of Nice, which set out provisions for the end of the ECSC, in particular :

- a protocol on the financial consequences of the expiry of the ECSC Treaty;
- the creation of a research fund for coal and steel.

Financial mechanism : the assets of the ECSC in liquidation, following expiry of the

Treaty, were reverted to the European Community and European Coal and Steel Research Fund as follows : assets managed directly by the Commission in the framework of financial liquidation procedures and reinvested in various investments for a maximum return; the revenue from the financial returns are reinvested in the EU budget and are used to fund research projects which are allocated as follows : 27% for coal and 72,8% for steel.

ECSC detailed synthesis for 2004 (figures rounded) :

2004 results of the financial liquidation: EUR 73 million;

2004 revenue (profits from ECSC assets which were reinvested) : EUR 53 million;

Implementation of coal and steel research commitments : - EUR 53 million.

TOTAL : EUR 72,953 million.

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

2005/2090(DEC) - 17/10/2005 - Document attached to the procedure

COMMISSION FOLLOW-UP REPORT ON THE 2003 DISCHARGE : MEMBER STATES' REPLIES TO THE COURT OF AUDITORS' 2003 ANNUAL REPORT

Preliminary remark: this synthesis report from the Commission concerning the Member States' replies to the Court of Auditors' 2003 Annual Report should have been transmitted to the Court of Auditors, the Council and the European Parliament before 15 February. Due to the late receipt of some replies, as well as the time needed for translation of the replies and of the report itself, this deadline was not met.

Member States' views on a Community internal control framework: theCourt of Auditors published its CICF opinion in April 2004 where it set out some general principles for a Community internal control framework. As Member States are involved in shared management of around 80% of EU funds, the Commission considered that an appropriate follow-up to the Court's opinion should be based on input from the Member States as well. The Commission therefore invited Member States to answer two general questions relating to issues raised in the Court's opinion.

Question no. 1: in the areas of shared management, the Court is proposing that a chain of tasks and responsibilities be developed, stretching from the immediate managers of the funds (primary controls to the Commission (supervisory controls) via a central Member State control function. This model presupposes that each level can rely and use (i.e. has access to) the results of the other control bodies. Do you support this chain-based model in general and would you support the development of such a chain-based model in the areas where it does not already exist? What can be done in practice to improve the co-ordination of controls?

19 Member States have replied. None reject the idea of a Community internal control framework but several Member States made the following comments:

- Responsibilities of all involved should be clearly defined. The Commission shall remain responsible for the implementation of the EU budget;
- Several Member States stress that an internal control framework already exists to some extent;
- Common standards for financial control and internal audit must exist at all levels for the control chain. Such standards should be developed in full cooperation between the Commission and Member States. They should be based on already existing international standards;
- Costs and benefits must be reasonably balanced. Any changes to the Community internal control framework should make the system simpler and not increase the administrative burden. One Member State proposes that the EU budget should bear the costs of Member State controls. Another argues that support for audit and control activities within Structural Funds and the Cohesion Fund should continue to be financed under technical assistance measures. One Member State notes that accurate estimates of the costs of controls by national authorities are difficult to obtain because of the complex range of control activities for a given type of expenditure;
- Several Member States say that differences in national administrative cultures and practices must be taken into account;
- Some Member States indicate that reporting documents should be harmonized and pooled while others find that reports of national bodies cannot be considered the property of the Union. In a few cases, Member States foresee legal complications if such reports should be directly accessible to other control levels;
- Some Member States point out that imprecise legislation and lack of guidelines cause irregularities;

- Lastly, some Member States argue that a change in the role of Member States in the internal control framework should be counterbalanced by a different approach in the audit and control activities of the Court of Auditors and the Commission, such as by reducing control activities in Member States in general and focusing on systems audits instead of doing on-the-spot controls.

Question no. 2: until 2001, the Court of Auditors based its statements of assurance on the errors found in a limited sample of payments charged to a year's EU budget. The Court is now moving towards basing its statement of assurance on its assessment of the supervisory and control systems put into place to manage the risk of irregularity in claims, rather than on individual errors found during its audits.

How can Member States best provide evidence that supervisory and control systems are in place which keep the risk of irregularity in EU funds to within reasonable limits?

19 Member States have replied. Very few Member States have presented ideas on how the Member States at an operational level should provide evidence that the risk of irregularity in EU funds is within reasonable limits. One proposes that each Member State should have a central coordination body carrying out effective and constant supervision. Another proposes to introduce a principle of one audit authority for each Member State . And a third proposes that each Member States should provide the Commission with an annual report and a declaration, based on the same model as is used by the Commission internally.

Member States' views on specific observations made by the Court of Auditors : 22 Member States have replied to the Court's specific observations. Almost all provide feedback on a majority of the specific observations where a reply is expected. In more than one in four cases, Member States indicate that they either disagree with the observations of the Court or they consider the issue still open for discussion. Disagreements between the Court and the Member States do vary in nature, but among the recurring issues are:

- the eligibility of expenditure;
- the structure of checks (i.e. sampling methods, risk analysis and extrapolation);
- the estimated effect on the Community budget when taking into account that corrections have been made or will be made in later payments.

Several Member States point out that the Court has not taken their replies into account in the 2003 Annual Report. Some point out, that the Court's observations are based on findings in individual

transactions and do not necessarily indicate systematic irregularities within e.g. a Structural Funds programme. One stresses that the current procedure makes it impossible for Member States to profit from the exercise. Instead, the Court should present a qualitative examination of the systems it has examined as such input would be of more value to the Member States. Another proposes that the Court includes a brief summary of specific recommendations for clearly identified Commission follow-up actions, together with deadlines. This would reinforce the multi-annual aspect of the Commission's work and provide a baseline for subsequent reports.

DAS ERRORS : the Court of Auditors bases its statement of assurance on four elements: an examination of the way in which the supervisory systems and controls set up in both the Community institutions and in the Member States and third countries work; an examination of samples of transactions for each major area by carrying out checks down to the final beneficiary level;an analysis of the annual activity reports and declarations of the Directors-General and of the procedures applied in drawing them up; where necessary, an examination of the work of other auditors who are independent of Community management procedures.

The Court identifies errors which are either attributed to the Commission itself or to the Member States. Errors are classified as either substantive or formal, with substantive errors having direct financial consequences and formal errors not.

About one third of the errors identified by the Court in 2003 were classified as substantive. Of these, almost one in three were cases with an error rate (i.e. the amount in error as a share of the total amount involved in the transaction) less than 2%. In the cases with error rates higher than 2%, more than 2/3 were attributed to areas of shared management. On the basis of the replies received, it is not possible to present a global estimate of how many errors the Member States accept or contest. However, the Commission follows up on all error findings made by the Court of Auditors in cooperation with the Member States concerned. If the Court's observations are confirmed, the necessary financial corrections and recoveries are made. Based on the results so far achieved in the follow-up, the Commission's analysis of the errors indicates that about half of the substantive errors with an error rate higher than 2% can be accepted. For the remaining half, the errors are either rejected or it is not yet possible to accept/reject the error because the cases have not been closed yet.

In the vast majority of the cases with accepted errors, the Commission/Member States agree with the Court of Auditors on the amount which is considered to be in error. However, it should be noted that the amount in error (as a share of the total transaction amount) is usually in the lower range; thus, in more than 60% of the cases, the amount in error is less than 10% of the total transaction amount.

Conclusion : theCommission welcomes the Member States' replies which in many cases are full and comprehensive. The 2003 exercise has provided the Commission with valuable information on Member States' preliminary reactions to the Court of Auditors' CICF opinion. The Commission will continue to make further efforts along with the Court of Auditors to ensure that Member States can more easily identify and thereby comment on DAS errors. It will also continue to make efforts to ensure that Member States' replies to the Court's observations are taken into account in the Court's annual report and in the discharge process but must acknowledge that this is often difficult due to the timing of the procedure.

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

2005/2090(DEC) - 07/10/2005 - Non-legislative basic document

PURPOSE : to present the revenue and expenditure accounts and the financial statement concerning the 2004 budget - Section III - Commission : **political presentation**.

CONTENT : this document presents a political analysis of the Commission's expenditure. It should be read in parallel with the summary of SEC(2005) 1159 which entails a detailed synthesis, heading by heading, of the Commission's expenditure in 2004.

Main axes of the budget expenditure policy in 2004 :

1) **The first EU-25 budget** :the 2004 budget - the first enlarged budget to include the 10 new Member States - did its job well, ensuring the smooth integration of the 10 new members and creating the conditions to fulfil expectations for the enlargement. It was also the first based on new principles set out entirely according to policy activities, which makes it possible to link clearly objectives and means, and shows how money is spent to meet citizens' expectations and to maximise added value for Europe.

2) **An improved budgetary implementation** : the 2004 budget was the most fully executed budget in the recent past. Through close monitoring of requests for structural funding in the Member States and an active management of the budget right until the end of the year — a reinforcement of EUR 3.7 billion in payments was voted for this sector in the last weeks of the year — overall results showed close to a balanced budget. Remembering that the EU budget cannot go into deficit, ending the year with a small surplus is prudent and inevitable. The end result will show a surplus of about EUR 2.8 billion, largely from other earmarked revenues for internal policies and agriculture, which has been entered into the 2005 budget, so reducing the Member States' contributions for the 2005 budgetary year. It was the lowest surplus since 1997. For the 2004 budget year, EUR 109 billion was committed from total available appropriations of EUR 111 billion, an implementation rate of 98 %. Payments made amounted to EUR 100 billion from total available appropriations of EUR 105 billion, an implementation rate of 95 % compared with EUR 91 billion or 92 % in 2003.

3) **Expenditure towards a competitive Europe** :compared to 2003, increased expenditure was given to drive the European economy to become an attractive, competitive, knowledge-based economy by the end of the decade. In addition, increased expenditure was also highlighted in the area of structural operations (from EUR 28.5 billion in 2003 to EUR 34.1 billion in 2004 (+19.8%). An increase can also be seen within the internal policies heading, including the internal market and research. 2004 was also an important year in terms of the reform of the Commission. It carried out an intensive recruiting campaign in light of enlargement. National contributions (including VAT and GNI contributions) amounted to the largest source of revenue for the EU budget, reaching a total of EUR 82.9 billion in 2004. The rest emanates from traditional own resources (agricultural duties, sugar levies and customs duties) and other sources.

4) **Towards a new financial framework and a further enlargement** : 2004 was a year rich in historical events such as : the accession of 10 new Member States on 1 May 2004; adoption of the draft Constitutional Treaty; the delivery of the proposal on the new financial perspective for the period 2007–13; in December 2004, the European Council pursued further enlargement of the Union by agreeing that Romania and Bulgaria could join the EU from January 2007, if accession preparations were complete, and that accession negotiations could start with Croatia and Turkey subject to certain conditions.

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

2005/2090(DEC) - 19/09/2005 - Document attached to the procedure

COMMISSION FOLLOW-UP REPORT ON THE 2003 DISCHARGE:

DETAILED REPLIES TO COUNCIL RECOMMENDATIONS

This Commission working paper to the Council concerns the follow-up to the 2003 discharge decisions {COM(2005)0448}. It presents detailed replies to the 66 Council Recommendations set out in a summary dated 8 March 2005.

An overview of these replies is contained in the summary of COM(2005)0448 (please refer to the document in question).

On a technical note, this Commission working document presents more detailed answers to those already given in the main COM document.

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

2005/2090(DEC) - 30/11/2005 - Court of Auditors: opinion, report

PURPOSE: to present the Court of Auditor's report on the 2004 financial year (Section III – Commission).

CONTENT : the Court of Auditors as published its 28th Annual Report on the implementation of the 2004. The Court of Auditors is of the opinion that the 2004 consolidated accounts on the implementation of the EU general budget faithfully reflect the revenue and expenditure of the year and the financial situation at the year end, except in the case of **sundry debtors**. As in the past, in 2004 the accounting system cannot ensure that all assets and liabilities are recorded. The Commission has achieved significant progress towards introducing accrual based accounting for the 2005 financial year, although adaptations and validations necessary to ensure the full implementation of the new accounting framework have been delayed.

DAS (Statement of Assurance) : the Court found the supervisory and control systems implemented and operating effectively and the transactions underlying the accounts, taken as a whole, to be legal and regular in respect of revenue, commitments, administrative expenditure and pre-accession strategy, although varying degrees of risk still exist in the implementing organisations in the latter case.

For the remainder of payments' budget:

- **agricultural spending;**
- **structural measures;**
- **internal policies;**
- **external action.**

The Court is again not in a position to provide an unqualified opinion on the legality and regularity of underlying transactions. A greater effort is needed to implement the supervisory and control systems effectively and to address the weaknesses in the areas where payments are still materially affected by errors. further progress is still required in terms of operational effectiveness. However, the Court is able to report for the first time, that the efforts made by the Commission and Member States to implement the Integrated Administration and Control System (IACS), covering 59% of the agricultural expenditure, have had a **positive impact**. IACS is in fact effective in limiting the risk of irregular expenditure, where properly applied. The Court found that the vast majority of the payments' budget was again materially affected by errors of legality and regularity in the underlying transactions. This is a result of inherently risky transactions, and supervisory and control systems that are ineffective in terms of limiting the risk of irregularity to an adequate level. However, improvements in systems have been noted, particularly with IACS operated by Member States – the principal supervisory and control system for agricultural expenditure -, and at the level of the Commission - a sound legacy of the administrative and financial reform process started in 2000 -, but considerably more needs to be done, especially within Member States.

For 2004 the payment **budget** increased from EUR 98 billion to EUR 105 billion, largely due to enlargement. The underspending characterising previous years was considerably reduced due to better management and planning, resulting in a surplus of EUR 2.7 billion, around half that in 2003. However, the high level of outstanding budgetary and legal commitments will pose a specific challenge to ensure that spending over the next few years meets the deadlines set, and decommitments are avoided.

In terms of **revenue**, the scope of the Court's work is limited in respect of the VAT and GNI own resources – the underlying data cannot be directly audited by the Court – and traditional own resources, where the audit cannot cover imports that have not been subject to custom supervision. Subject to these limitations, the Court found revenue transactions to be legal and regular. However, weaknesses were identified in systems in respect of the GNI resource both within the Commission and in Member States.

In terms of **external actions** (EUR 4.6 billion), the improvements in the Commission's supervisory and control systems have not had an impact at implementing organisation level – NGOs, recipient government, international organisations – where a relatively high incidence of errors at the level of payments was detected. This was linked to poor internal controls in these organisations, and underlines the necessity for the Commission to have a comprehensive approach to their supervision, control and audit.

Heading by heading : the Court's analysis of contentious issues can be summarised as follows:

§ **Common Agricultural Policy** (EUR 43.6 billion) : the Court concludes that expenditure which is not subject to IACS or where IACS has been inadequately applied, is at greater risk because the control systems are not as effective. For example, post-payment checks for CAP subsidies not covered by IACS - 37% of the total - do not provide the Commission with reasonable assurance on compliance of the transactions with Community legislation. The Court concluded that, viewed as a whole, the CAP expenditure was still materially affected by errors;

§ **Structural measures** (EUR 34.2 billion) : the Court again found weaknesses in the Member States' management and control systems requiring varying degrees of improvement in order to fully comply with the regulatory requirements and allow effective day-to-day management checks and independent sample checks of operations. For both the current (2000-2006) and previous (1994-1999) programming periods, a high incidence of errors of legality and regularity was detected in the Member States' declarations leading to payments by the Commission;

§ **Internal policies** (EUR 7.3 billion) : despite progress made in certain areas, the Court found weaknesses in supervisory and control systems and a material incidence of error in underlying transactions at beneficiary level. It is likely that the risk of errors will persist unless the legal framework is changed so as to simplify cost reimbursement systems and clarify the procedures and instructions governing the different programmes;

§ **Pre-accession strategy** (EUR 3.1 billion) :the Court's overall opinion on pre-accession strategy was positive, the underlying transactions being found to be materially legal and regular. Supervisory and control systems at the level of the Commission's central services, delegations and certifying authorities are basically sound and work in practice. However, at national level the Court identified weaknesses in the systems in the implementing organisations in Bulgaria, Romania, Turkey and in other Sapard countries;

§ **Administrative expenditure** (EUR 5.9 billion) :similarly, the Court's audit shows that underlying transactions were materially legal and regular, and supervisory and control systems are generally adequate although some weaknesses remain.

In respect of the **European Development Funds**, the report on financial implementation for 2004 reliably reflect the revenue and expenditure for the year, and their financial situation at the year end, except for problems concerning the completeness of assets and of the provisions for doubtful debts, and the unreliability of the balance of Stabex funds. In respect of the legality and regularity of underlying transactions, the Court identified improvements but weakness were found in the application of Internal Control Standards. In the underlying transactions the Court found no material incidence of error of legality and regularity.

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

2005/2090(DEC) - 27/04/2006 - Final act

PURPOSE: to give discharge to the Commission for the implementation of the European Union general budget for the financial year 2004.

LEGISLATIVE ACTS: Decisions 2006/808/EC, Euratom and 2006/809/EC, Euratom of the European Parliament on the discharge for implementation of the European Union general budget for the financial year 2004 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 2004 and definitively closes the accounts for the year 2004. This being said, the European Parliament asks the Commission to commit itself to obtain a positive DAS as soon as possible and welcomes the initiatives taken by the Council to reinforce the responsibility of the Member States for improving the control of actions under shared management, with the aim of achieving a positive DAS, and especially the commitment by the Council to producing an annual summary at the appropriate national level of the available audits and declarations.

This decision is in line with the European Parliament's resolution adopted on 27 April 2006 and comprises a series of observations that form an integral part of the discharge decision (please refer to the summary of the opinion of 27/04/2006).

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

2005/2090(DEC) - 19/09/2005 - Document attached to the procedure

COMMISSION REPORT ON THE FOLLOW-UP TO THE 2003 DISCHARGE DECISIONS : EUROPEAN PARLIAMENT RESOLUTIONS

Preliminary remark: this Commission report concerns the follow-up to the observations and recommendations made by the EP on the 2003 discharge procedure. The Commission replies to each of the recommendations formulated by the EP. These replies can be found in the Commission's working document (SEC(2005)1161) published in parallel.

CONTENT : this report aims to reply to each of the recommendations accompanying the European Parliament discharge decisions on the implementation of the 2003 budget (including the decentralised agencies and EDF expenditure). The report presents the recommendations made to the Commission on its budget implementation (for a more detailed account of the recommendations, please refer to the summary of 12 April 2005 : procedure reference DEC/2004/2040).

In this context, the Commission has identified a total of 113 recommendations made by the European Parliament to the Commission. The Commission considers that for 45 recommendations the required action has already been taken. For another 52 recommendations the Commission agrees to take the action recommended by Parliament. Finally, the Commission cannot accept 16 recommendations and will therefore not be taking the requested action.

A summary follows of the Commission's replies to the specific requests made by Parliament in its

2003 Discharge Resolutions:

1) Horizontal issues

- *Reliability of the accounts:* it has been proposed to amend the Financial Regulation in order to require the Accounting Officer to sign off the Commission's accounts and therefore to certify that they are reliable. To this end, in the declarations of assurance annexed to annual activity reports, Directors-General should certify that the accounts for which they are responsible are accurate and exhaustive;
- *Delegation risk to Member States:* the Commission considers that the introduction of formal Disclosure Statements and annual expost Declarations of Assurance on the legality and regularity of underlying transactions from each Member State's highest level would enhance the Commission's insight into Member States' management and control systems. To this end, the Commission suggested that the Council establish a High-Level Interinstitutional Trialogue responsible for negotiating and reaching an agreement on a common understanding of what would constitute an adequate and satisfactory Community integrated control framework. On 13 July 2005 the Council asked COREPER to examine this issue;
- *Single audit:* the Commission intends to reach an agreement with the Parliament (as discharge authority) and the Council on how the current internal control framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of underlying transactions. The Commission will present in October 2005 an initial report proposing a basis for an understanding with Member States;
- *Improvement of annual activity reports by Directors-General:* the new guidelines for the Annual Activity Reports for 2004 (SEC(2004)1562), address Parliament's concern about the risk in underlying transactions. They constitute a more solid and transparent basis for the assurance to be given by authorising officers by delegation, and provide a more coherent framework for the Commission departments' declarations to be taken into account for the Court of Auditors' declaration of assurance;

Furthermore, the Commission has stated that it cannot produce estimates of error rates for all sectors every year. Its audit strategy is based on a multi-annual approach and audits are system-based. A review of the Financial Regulation is under-way and aims at improving the efficiency and

transparency of provisions and the simplification of procurement procedures. The Commission has already established a number of principles regulating Cabinets' activities which are considered sufficient to mitigate the risk of insufficient exchange of information regarding audit matters.

2) Sectoral issues

- *Own resources:* the Commission continues its usual thorough verification of the GNI data and the sources and methods used by Member States to compile it. It is also currently examining ways to carry out more direct verification. A pilot project is planned for 2005;
- *Agriculture, animal health and measures to combat fraud:* the Commission is going to report to Parliament on progress made in Member States' reporting of irregularities by September 2005. The Commission has undertaken to produce a report on how the EUR 1.12 billion not yet recovered from 1971 to 2004 will be recovered in time for the 2004 discharge procedure. As to the monitoring of paying agencies, the new Council regulation requires the head of each paying agency to sign a declaration of assurance. The Commission is confident that the Taskforce Recovery will make significant progress in the recoveries' backlog problem and will keep the responsible Committee informed;
- *Structural measures:* the Commission mentions in its annual activity reports the countries and regions that have been slow to implement improvements. It uses its power to suspend payments where Member States' systems display persistent weaknesses representing a serious risk to Community funds and the Member State has failed to correct the weaknesses;
- *Internal policies:* the Commission aims to simplify the 7th Framework Programme. Community research activity has for many years been the subject of *ex post* evaluation which includes the scientific results and impact. Value-for-money criteria are among the issues that are addressed through the evaluations, especially in terms of providing European Added Value. It is now using all-electronic proposal submission for calls for proposals, which simplifies and reduces the costs for applicants. It has also indicated that it will put in place an electronic registration procedure, allowing applicants to submit their administrative details only once, at the time of their first proposal submission. The Commission has indicated in its proposals for FP7 its intention to "externalise" the management of a significant proportion of the activities to an executive structure. The extra resources that will thus be dedicated to the administration of the projects will allow the Commission staff to concentrate better on the scientific follow-up of projects and on feeding the lessons learned back into policy;
- *External policies:* as regards the recommendation to conduct a qualitative assessment of EC external assistance separate from the Annual Report, the Commission produced the requested report in July 2005. The Commission will also provide an interim report on the progress with implementing information management systems and a system of supervision of the work of the Delegations regarding the evaluation of financial risks. The Commission will provide a report on the control structures in place in Delegations before the next discharge exercise. As regards the observance of tender and procurement procedures by project implementing organisations, in June 2003 the Commission took remedial action through the introduction of a revised standard contract for grants, including the introduction of an audit certificate according to which auditors are required to check the respect by the beneficiaries of applicable procurement rules. The Commission is currently revising the template of the audit certificate and developing improved terms of reference for the auditors. In view of this, the Commission does not see the need for an action plan as recommended by Parliament. As regards a comparison of the efficiency of various international aid donors, the Commission is already participating, in various frameworks, in initiatives aimed at comparing the efficiency of international aid donors. The Commission therefore does not consider any additional initiatives to be justified for the time being;
- *Pre-accession aid:* concerning PHARE, the Commission intends to take measures to ensure that the accreditation process for many PHARE and ISPA agencies in Bulgaria, Romania and the future acceding countries is completed before accession. Corrective action includes ensuring that those countries have appropriately staffed Phare fund management systems in place by end 2005. Reassessment of the allocation of funds for the period 2004-2006 is based on a management system assessment to be carried out during 2005 and its follow-up. The draft framework-instrument (IPA) has been presented to Parliament and the Council. The regional development component of IPA will concentrate on development priorities in a limited number of key sectors and implementing bodies, and provide capacity building for the implementation of Structural Funds. The Commission adopted on 27 May 2004 the new IPA draft regulation together with the RELEX package and negotiation is since ongoing in the Council and Parliament. As regards SAPARD, the Commission believes that it has already put great emphasis on projects which increased quality, health and environmental standards. Their promotion is an integral part of the support given to the most important measures, which cover 49% of the programmes. All investments must meet Community standards and will inevitably lead to improvements in these areas. It has planned, and implements, a system to audit the expenditure and the management and control systems of the SAPARD programmes.

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

2005/2090(DEC) - 19/09/2005 - Document attached to the procedure

COMMISSION REPORT ON THE FOLLOW-UP TO THE 2003 DISCHARGE :

COUNCIL RECOMMENDATIONS

Peliminary remark: this Commission report concerns the follow-up to the Council's recommendations on the 2003 discharge. The detailed answers from the Commission on each of the 66 recommendations made by the Council are presented in a Commission working document (SEC(2005)1160.

CONTENT : this report intends to reply to the recommendations made by the Council on each of the 2003 discharge procedures (including the decentralised agencies and EDF expenditure). This summary concerns in particular the recommendations on the Commission's budget implementation (for further details of these recommendations, please refer to the summary of the Council recommendation dated 8 March 2005 : procedure reference DEC/2004/2040).

The report concerns the following issues:

- **Road Map :** theCommission shares the Council's disappointment that in 2003 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 announced its intention to set out in 2005 a

roadmap to an integrated internal control framework. The aim is to establish, in close collaboration with Parliament and the Council, how the current internal framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of underlying transactions. The integrated internal control framework will build on the positive results achieved by the reform of the internal control framework of the Commission. The vast majority of the actions in the White Paper have been completed, in particular as regards the internal control standards. The Commission will continue its work to implement effective internal control systems and to improve the Annual Activity Reports and the declarations and reservations made by the Directors-General. The Commission will further work with Member States to improve controls over funds under shared management.

- **Statement of Assurance (DAS) and supporting information:** in June 2005 the Commission adopted a communication setting-out the abovementioned roadmap to an integrated internal control framework. The Commission services are also currently identifying the gaps which, in their view, lie between the control framework in place for each area of all budgetary expenditure and the general principles defined by the Court of Auditors in its opinion No 2/2004, with particular emphasis on the controls which limit the risks concerning the legality and regularity of the underlying transactions. It will propose the action required to address each gap, and the timetable for implementing this action, and discuss this with the Court, Council and Parliament. The Commission intends to come to an agreement by November 2005 with Parliament and the Council on how the current internal framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of underlying transactions. To that end, the Commission will undertake discussion with the appropriate Council Committees, and by October 2005 present the initial report exploring the road map to a protocol with Member States. As regards the new accounting system of the Commission, which became operational in January 2005 and is currently being used by all Directorates-General, work is ongoing to meet the remaining objectives and to date there are no significant delays or problems noted in meeting these objectives.
- **Budgetary management:** the Commission has taken due note of Council's request for more accurate and updated budget estimates and more information on outstanding commitments and budgetary implementation. Budget estimates have improved overall and in particular for structural operations. The Commission also provides an annual report on the evolution of outstanding commitments (RAL) and the successful efforts to eliminate "abnormal RAL". Moreover, the 2004 report on Budgetary and Financial Management analyses the cumulative state of implementation of the Communities' main multi-annual programmes.
- **Own Resources:** the Commission agrees with the Council that further progress should be made concerning the management of agricultural tariff quotas. It continues to work on proposals to simplify the procedural framework, including the development of a central, integrated IT system (AMIS Quota).
- **The Common Agricultural Policy (CAP):** the Commission will work more actively with Member States in order to improve the control systems in areas that are not checked through IACS and where serious problems such as high risks and recurrent errors still occur. For example, the Commission will follow up instances where information supplied by Member States appears to be erroneous. Audit activity on ex-post controls has been reinforced in 2005. The Commission effectively addresses the issues of revision of certain control procedures, of identifying subsidies that are particularly subject to fraud and error, of improving the supervisory checks and of using these checks as a tool for comparison by performing detailed analyses when establishing the annual work plan. It believes that the current system of statistical reporting is sufficient. Furthermore, the results of the IACS checks made by Member States have been included in the 2004 Annual Activity Report of the Director General for Agriculture. As on the need to ensure that both limited audit evidence and supervision receive sufficient attention by certifying bodies, during 2004, the Commission provided further guidance and arranged bilateral meetings with Certifying bodies and Paying agencies of several Member States in which the issues of supervision and audit evidence were discussed. Consequently, the Certifying Bodies paid much more attention to these issues in the 2004 certification exercise. As a result, for the financial year 2004, the accounts of only 5 paying agencies were disjoined, compared to 29 accounts in the 2003 financial year. The Commission drew up an action plan to lessen the risk of fraud in this area and implemented it. The management of the risks involved has significantly improved.
- **Structural measures:** the Commission is pursuing its efforts to remedy the weaknesses in the supervisory and control system for structural expenditure. It is continuing its audits of the systems in 2000-06 programmes. It makes recommendations to the Member State to remedy any weaknesses found, follows up the action taken, suspends payments if the problems represent a serious risk to Community funds, and applies financial corrections. The management and control framework for the 2007-13 period proposed by the Commission builds on the experience of the past by further reinforcing and clarifying the control responsibilities of the Member States whilst respecting the requirements of proportionality.
- **Internal Policies:** as regards supervisory systems and Controls, the Commission has taken the recommended action to reinforce financial information regarding payment delays and to improve monitoring of budgetary implementation for example by regularly producing and monitoring financial scoreboards. As regards management and control systems for the 6th Research and Technological (RDT) Framework Programme (FP6), IT tools have been deployed and are being upgraded to provide the full range of support for proposal evaluations through to contract payments and project monitoring. As regards the European Refugee Fund, action has been taken to remedy internal control weaknesses. Moreover, the Commission will continue to work with Member States in order to further harmonise the control environment at national level. As regards the follow-up to findings of the ex-post financial audits and the recovery of undue payments, the Commission has put in place a reporting system to assist the financial services in monitoring their recoveries. Moreover, "A common audit policy of the Research DGs for FP6" was defined and agreed, and audit databases for the audit follow-up will be put in place.
- **External actions:** the Commission has taken due note of the Council's invitation to continue the reform of external management. Thus the recent reorganisation of EuropeAid services aims at further strengthening its role which has progressively evolved towards supervision, coordination and support to devolved management in the Commission delegations. Moreover, the Commission's monitoring and control systems aim at ensuring the compliance by contract partners, such as NGOs, with the contractual requirements. The introduction of new tools (such as CRIS Audit) will contribute to further improve the flow of information on audit results at central level.
- **Pre-accession aid:** the Commission continues to pursue the aim to fully implement the Extended Decentralised Implementation System (EDIS), both in the new Member States and the Candidate Countries. All new Member States had received accreditation decisions for PHARE funds by early 2005 and could rely on the (albeit phasing out) assistance of the PHARE Transition Teams in the local Commission Representations. Within HQ, at DG Enlargement, the Financial Assistance Follow-up Unit will provide further punctual monitoring-driven assistance. As for the Candidate Countries, the assistance towards the implementation of EDIS is pursued by means of several initiatives and measures, including high level working groups, training seminars and systems reviews.