

Basic information**2008/2186(DEC)**

DEC - Discharge procedure

2007 discharge: EU general budget, Section III, Commission

Subject

8.70.03.07 Previous discharges

Procedure completed

Key playersEuropean
Parliament**Committee responsible****CONT**

Budgetary Control

Rapporteur

AUDY Jean-Pierre (PPE-DE)

Appointed

26/03/2008

Committee for opinion**AFET**

Foreign Affairs

Rapporteur for opinionSZENT-IVÁNYI István
(ALDE)**Appointed**

07/10/2008

DEVE

Development

BERMAN Thijs (PSE)

25/06/2008

INTA

International Trade

The committee decided not
to give an opinion.**BUDG**

Budgets

The committee decided not
to give an opinion.**ECON**

Economic and Monetary Affairs

The committee decided not
to give an opinion.**EMPL**

Employment and Social Affairs

ANDERSSON Jan (PSE)

06/10/2008

ENVI

Environment, Public Health and Food Safety

OLAJOS Péter (PPE-DE)

29/01/2008

ITRE

Industry, Research and Energy

The committee decided not
to give an opinion.**IMCO**

Internal Market and Consumer Protection

NEWTON DUNN Bill (ALDE)

07/10/2008

TRAN

Transport and Tourism

ROMAGNOLI Luca (NI)

08/09/2008

	REGI Regional Development	OLBRYCHT Jan (PPE-DE)	05/11/2008
	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)	09/09/2008
	JURI Legal Affairs	The committee decided not to give an opinion.	
	LIBE Civil Liberties, Justice and Home Affairs	DÜHRKOP DÜHRKOP Bárbara (PSE)	20/02/2008
	AFCO Constitutional Affairs	The committee decided not to give an opinion.	
	FEMM Women's Rights and Gender Equality	GRÖNER Lissy (PSE)	23/10/2008
	PETI Petitions	The committee decided not to give an opinion.	
Council of the European Union	Council configuration	Meetings	Date
	Economic and Financial Affairs ECOFIN	2922	2009-02-10
European Commission	Commission DG	Commissioner	
	Budget	KALLAS Siim	

Key events			
Date	Event	Reference	Summary
23/07/2008	Non-legislative basic document published	SEC(2008)2359 	Summary
20/11/2008	Committee referral announced in Parliament		
16/03/2009	Vote in committee		Summary
23/03/2009	Committee report tabled for plenary	A6-0168/2009	

21/04/2009	Debate in Parliament		
23/04/2009	Decision by Parliament	T6-0289/2009	Summary
23/04/2009	Results of vote in Parliament		
23/04/2009	End of procedure in Parliament		
26/09/2009	Final act published in Official Journal		

Technical information	
Procedure reference	2008/2186(DEC)
Procedure type	DEC - Discharge procedure
Legal basis	Rules of Procedure EP 101
Stage reached in procedure	Procedure completed
Committee dossier	CONT/6/65817

Documentation gateway				
European Parliament				
Document type	Committee	Reference	Date	Summary
Committee opinion	LIBE	PE416.411	02/02/2009	
Committee draft report		PE416.563	04/02/2009	
Committee opinion	AFET	PE418.100	11/02/2009	
Committee opinion	IMCO	PE418.292	11/02/2009	
Committee opinion	EMPL	PE415.269	12/02/2009	
Committee opinion	ENVI	PE416.683	12/02/2009	
Committee opinion	FEMM	PE418.106	12/02/2009	
Committee opinion	CULT	PE418.046	17/02/2009	
Committee opinion	TRAN	PE416.324	18/02/2009	
Committee opinion	DEVE	PE416.691	18/02/2009	
Committee opinion	REGI	PE416.370	25/02/2009	
Amendments tabled in committee		PE421.099	25/02/2009	
Committee report tabled for plenary, single reading		A6-0168/2009	23/03/2009	
Text adopted by Parliament, single reading		T6-0289/2009	23/04/2009	Summary
Council of the EU				
Document type	Reference	Date	Summary	

Supplementary non-legislative basic document	05589/2009	23/01/2009	Summary
Supplementary non-legislative basic document	05587/2009	30/01/2009	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	SEC(2008)2359 	23/07/2008	Summary
Document attached to the procedure	COM(2008)0499 	30/07/2008	Summary
Document attached to the procedure	SEC(2008)2361 	30/07/2008	Summary
Document attached to the procedure	COM(2008)0628 	16/10/2008	Summary
Document attached to the procedure	COM(2008)0629 	16/10/2008	Summary
Document attached to the procedure	SEC(2008)2579 	16/10/2008	Summary
Document attached to the procedure	SEC(2008)2580 	16/10/2008	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Court of Auditors: opinion, report	N6-0003/2009 OJ C 286 10.11.2008, p. 0001	10/11/2008	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Budget 2009/0630 OJ L 255 26.09.2009, p. 0024	Summary
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2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 23/04/2009 - Final act

PURPOSE: to grant discharge to the Commission for the implementation of the European Union general budget for the financial year 2007.

LEGISLATIVE ACTS: Decisions 2009/630/EC, Euratom and 2009/634/EC, Euratom of the European Parliament on the discharge for implementation of the European Union general budget for the financial year 2007 and the closing of the accounts of the same budget (Section III – Commission).

CONTENT: with the present decisions, the European Parliament grants the European Commission discharge for the implementation of the general budget for 2007 and definitively closes the accounts for the year 2007.

Parliament notes the improvements in the individual parts which comprise the Statement of Assurance (DAS) compared to previous years. It regrets, however, that, for the 14th year in succession, the DAS issued by the ECA in its annual report for 2007 includes a **qualified opinion** on the legality and regularity of the transactions underlying the accounts. The Court notes that, in a large number of expenditure areas (agriculture and natural resources, cohesion, research, energy and transport, external aid, development and enlargement, education and citizenship), payments are still materially affected by errors, albeit to differing degrees. Moreover, Parliament notes with concern the problems surrounding **recovery of irregularly disbursed Community funds** and the poor quality of the data supplied on the correction mechanism applied at Member State level.

The Parliament also makes a number of other observations in a resolution annexed to the discharge decision (please refer to the summary of the opinion of 23/04/2009).

It should also be noted that the Parliament also grants discharge to the directors of the Commission's Education, Audiovisual and Culture Executive Agency (Decision 2009/631/EC, Euratom), the Executive Agency for Competitiveness and Innovation (Decision 2009/632/EC, Euratom) and the Executive Agency for the Public Health Programme (Decision 2009/633/EC, Euratom) for implementation of their respective budget for the financial year 2007.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 30/01/2009 - Supplementary non-legislative basic document

PURPOSE: to present the Council's recommendation on the discharge to be given to the Commission in respect of the implementation of the Community budget for the financial year 2007 (Section III – Commission).

CONTENT: the Council adopted by qualified majority a draft recommendation regarding the implementation of the Union's budget for the financial year 2007. The recommendation highlights, first of all, the main figures for the financial year 2007:

Revenue and expenditure account for the financial year 2007:

- revenue amounted to EUR 117 562 980 129.91;
- expenditure disbursed from appropriations amounted to **EUR 113 027 971 812.19**;
- cancelled payment appropriations (including earmarked revenue) carried over from 2006 amounted to EUR 246 263 210.47;
- appropriations for payments carried over from 2007 to 2008 amounted to EUR 3 114 011 336.73;
- the positive budget balance amounts to EUR 1 541 645 648.65.

Cancelled payment appropriations for the financial year amount to EUR 1 464 804 208.59. EUR 925 290 724.60 (79%) of the EUR 1 174 039 065.74 in appropriations for payments carried over from 2006 to 2007 have been used.

Based on the observations made in the Court of Auditors' report, the Council calls on the European Parliament to **give discharge to the Commission** in respect of the implementation of the 2007 budget. However, the Council has issued a series of comments in regard to budgetary implementation which will need to be fully taken into account when granting the discharge.

DAS: the Court of Auditors delivers an overall favourable opinion: while the Council regrets that the Statement of Assurance (DAS) remains qualified for a significant part of the budget for the financial year 2007, it welcomes the fact that the annual accounts of the European Communities present, **for the first time without a reservation**, fairly in all material respects the financial position of the European Communities. The Council regrets that the Court's opinion for "Cohesion", "Research, energy and transport", "External aid, development and enlargement", "Education and citizenship" and "Agriculture and natural resources" remains qualified, while noting with satisfaction that the Integrated Administration and Control System (IACS) continues to be effective, where properly implemented. In this context, the Council stresses the importance of further simplification of legislation in order to continue to make progress towards achieving an unqualified DAS in all areas of the budget. The Council also calls for simpler rules governing the programmes.

The Council recalls the great importance it attaches to the protection of the Communities' financial interests, as well as the fight against fraud, and in regard to:

1. **the reliability of the accounts**, calls on the Commission to remove the weaknesses in the accounting system and improve the information in the notes in the accounts on the correction mechanisms concerning undue payments, as well as the completeness and accuracy of the basic accounting data;
2. **the legality and regularity of the underlying transactions**, calls for efforts to be made to ensure that, in future, there are no reservations in any of the aforementioned budgetary areas. The Council notes in particular that, with regard to cohesion, the qualified statement of the Court's audit estimated that the transactions were affected by a material level of error of at least 11% (which remains difficult to accept).

Shared management: the Council recalls that the Commission shall implement the budget on its own responsibility and within the limits of the appropriations. The Council recalls, in this respect, the key role of Member States in improving financial management.

Commission internal control system: the Council welcomes the fact that the Court, in its statement, concludes that the Commission made further progress in its supervisory and control system. It notes, however, that the Commission itself acknowledges that further efforts are needed to resolve a number of weaknesses. The Council regrets, in particular, that there is still **no evidence that actions undertaken to improve supervisory and control systems have been effective in mitigating the risk of error** in policy areas related to "Agriculture and natural resources", "Cohesion", "Research, Energy and Transport", "External aid, development and enlargement" and "Education and citizenship". It therefore calls on the Commission to take all the necessary measures for a further improvement of control systems including all control levels. The Council reiterates the fact that it is essential that **the whole process aimed at reducing the level of error should not necessarily mean that, as a result, there is an increase in administrative and control costs.**

Budgetary management: the Council notes a considerable improvement compared to the first year of the previous programming period. It calls on the Commission to make every effort to avoid delays in the examination of major projects and the management and control systems which could have an adverse impact on the future implementation of the budget. While noting that the budgetary surplus continues to decrease, the Council reiterates that a realistic and sufficient budgeting from the stage of the preliminary draft budget onwards remains an essential element of good budgetary management.

RAL: notwithstanding that 2007 is the first year of the new programming period, the Council notes with great concern that the overall level of outstanding budgetary commitments (RAL) continues to increase. Nevertheless, it notes with satisfaction a decrease of RAL for Structural Funds for the 2000-2006 programming period and calls on the Commission to continue with its efforts so as to avoid any delays in the closure of these programmes. The Council acknowledges that the "n+2" rule has had the intended effect and calls on the Member States to give additional attention to ensuring timely liquidation of commitments.

Financial corrections and recoveries: the Council acknowledges the substantial efforts made by the Member States and the Commission in providing complete, accurate and timely information on financial corrections and recoveries. However, it notes the Court's observations on the remaining deficiencies and encourages the Member States and the Commission to further improve the completeness and accuracy of information with the aim of providing reliable evidence allowing the Court to assess the effectiveness of the multiannual correction mechanisms for EU spending.

The Council also makes a number of observations on each of the **budgetary areas:**

- **Agriculture and natural resources:** the Council notes with concern that the transactions underlying the expenditure declared for this policy area, taken as a whole, are affected by a material level of error. Therefore, the Commission and the Member States should continue to make efforts in strengthening their supervisory and control systems. It welcomes the Court's conclusion that the Integrated Administrative Control System (IACS), when properly implemented, continues to prove effective in limiting the risk of error, but regrets the fact that calculation and allocation of Single Payment Scheme (SPS) entitlements by national authorities are still not correct in all Member States. The Council urges the full implementation of controls and checks under IACS in all Member States. With regard to rural development, the Council regrets that this sector is accountable for a disproportionately large part of the overall error rate. It calls for a simplification of complex rules and more precise definitions of eligibility criteria (especially for agri-environmental schemes). Moreover, with regard to the environment, fisheries, health and consumer protection, the Council calls for more thorough audits (including an ex-post audit for the LIFE instrument);
- **Cohesion:** the Council notes with great concern the Court's estimate that at least 11% of the total amount reimbursed to Cohesion policy projects should not have been reimbursed. According to the Council, such a rate is a clear indicator of high inherent and control risk, mainly due to the complexity of rules and conditions to comply with. It points out that the mitigation of high inherent risk requires **further simplification of rules** as well as both effective control systems in the Member States and **effective supervision by the Commission**. It therefore urges the Commission and the Member States to work closely together at all stages in the control chain to improve the situation;
- **Research, energy and transport:** the Council regrets the material level of error in payments as well as the weaknesses in supervisory and control systems identified by the Court's audit of this area. The Council stresses the importance of a substantial simplification of the legal framework, which should be regarded as a general guidance principle for the new programming period (by making more extensive use of financing methods which are based on lump sums, where possible). The Council also urges the Commission to ensure timely payments to beneficiaries. Moreover, it calls for the improvement of monitoring tools;
- **External aid, development and enlargement:** the Council regrets that a material level of error was once again detected, mostly at the level of **project implementing organisations**. While acknowledging the Commission's continuous efforts to mitigate the problems identified in this area, the Council calls on it to enhance its efforts and take all the necessary measures to decrease the material level of error significantly. In this context, the Council is aware that, due to the multiannual nature of the programmes, the errors detected during the course of a project can be remedied in a year later than the one under examination. The Council considers that the Commission should enhance its audit strategy and monitor the **beneficiary countries' systems**. Regarding **budget support**, the Council expresses its concerns about the fact that the performance indicators used to provide assessments were not in all the cases examined time-bound, sufficiently clear and unambiguous and achievable. With regard to the monitoring of implementing organisations, the Council encourages the Commission to further enhance its action and urges it to provide for more training and support to project finance staff and to increase the active monitoring of their work by Commission's delegations. As regards the funds channelled through United Nations organisations, the Council insists on the need for a closer control by the Commission. As far as the **Enlargement policies** are concerned, the Council regrets weaknesses detected in some implementing organisations, while taking note of the improvements made in the course of 2008. Lastly, the Council underlines the importance of **field audits for all types of partners** and notes that the Commission has increased them in 2007. It therefore underlines the need to achieve a better balance between headquarter and on-the-spot audits of the implementing partners;
- **Education and citizenship:** the Council regrets that this policy area was affected by a material level of error in payments. It calls on the Commission to enhance the simplification of the often complicated legal framework by establishing clearer eligibility criteria and easier rules for the calculation of eligible expenditure. The Council is aware of the fact that many programmes are multiannual and that their execution has just started and calls on the Commission to verify in further detail the **certification of management structures** carried out by national entities;
- **Administrative expenditure:** the Council is seriously concerned about the lack of uniform application of rules affecting the staff across the institutions. Most notably, the Court's audit revealed significant differences in the application of the multiplication factor applicable to salaries. Such differences are not in line with the principle of equality of treatment for all staff since staff of some institutions may benefit from an advantage the others do not. Therefore, the Council encourages all the institutions to agree on a uniform approach to the application of the Staff Regulations. It is equally concerned by the Court's observation on the absence of any formal selection procedures for contract staff for

auxiliary tasks in some institutions and urges all the institutions to comply fully with the provisions of the Conditions of employment of other servants of the European Communities. Lastly, with regard to the EU agencies, the Council regrets serious problems identified by the Court in respect of the European Police College and the European GNSS Supervisory Authority (refer to the relevant discharges for these agencies). It regrets, in particular, the persistently unrealistic requirements for funds (which translate into high carry-over and cancellation rates). It therefore urges the Commission to carefully check the requirements of funds and posts as proposed by the agencies, with the aim of presenting a realistic budget proposal.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 23/07/2008 - Non-legislative basic document

PURPOSE: to present the revenue and expenditure account and the balance sheet relating to the 2007 budget (Section III – Commission).

CONTENT: this document presents a political and detailed analysis of the use of payment appropriations by the Commission in 2007. The main information presented in this summary is extracted from the [EU Budget 2007 Financial Report](#).

Main changes in 2007: the 2007 budget inaugurated important changes at European Union level: i) a new multiannual financial framework (MAFF), which will cover the period up to 2013, ii) the implementation of a new generation of EU programmes, iii) changes to the financing system of the EU budget, iv) a series of relevant reforms aimed at making the EU spending more transparent, effective and accessible and, last but not least, v) the enlargement to two new members, namely Bulgaria and Romania, who joined the EU family on 1 January 2007.

- **The new 2007–13 financial framework:** sustainable growth and employment are the Union's key priorities. In 2007, expenditure on sustainable growth amounted to EUR 53.7 billion in commitment appropriations (CA), which represents an increase of 13.2 % on 2006;
- **More money for sustainable growth:** key programmes such as competitiveness and innovation (CIP), trans-European networks (TENs) for transport and energy, lifelong learning, and the framework programme for research and technological development implemented the goals of the Lisbon strategy with increased financial resources (see below). Internal flexibility of the EU financial framework enabled an adaptation and shift in funds between policy headings, which helped secure the future of the European satellite navigation system (Galileo) and the brand new European Institute of Technology (EIT). Alongside the normal programmes in the financial framework, a number of tools have been foreseen to reinforce the leverage effect of the EU budget: i) the European Globalisation Adjustment Fund (EGF) with a total budget of up to EUR 3 500 million (and an annual ceiling of up to EUR 500 million); ii) the European Union Solidarity Fund offers rapid financial assistance in the event of major disasters in a Member State or a candidate country with an annual ceiling of up to EUR 1 000 million; iii) the Flexibility Instrument, with a budget of up to EUR 1 400 million (and an annual ceiling of up to EUR 200 million);
- **New funds, better rules:** new funds require better rules to measure up to real life situations. The new provisions of the financial regulation, which entered into force in May 2007, aim at simplifying procedures and reducing red tape. EU grants have become easier to access, in particular for beneficiaries with limited resources such as small non-governmental organisations (NGOs) and SMEs. For the first time ever, EU research grants have become available for individual researchers. Thanks to the new rules, Member States for the first time submitted in February 2008 summaries of the audits of EU funds undertaken by them in 2007. The publication of the list of beneficiaries who received EU money became compulsory. Member States must exchange information with the Commission on proven fraud cases. Such measures have increased the effectiveness of EU policies and helped protect taxpayers' interests.
- **Focusing European Union spending on new challenges:** the budget implemented in 2007 has been structured around six headings representing a budget of EUR 121.3 billion.

Heading 1 - Sustainable growth with an amount of EUR 53.7 billion, this heading includes:

- Heading 1a. Competitiveness for growth and employment with a budget of EUR 8.8 billion in commitments (+12.9% compared to 2006). Competitiveness is the key strategic objective of the renewed Lisbon strategy on growth and jobs. The main expenditure area is research and development (R & D), followed by transport and energy networks (TENs), lifelong learning, and competitiveness and innovation (CIP);
- Heading 1b. Cohesion for growth and employment with a budget of EUR 44.9 billion (+ 13.2 % compared to 2006) aims to strengthen economic, social and territorial cohesion by reducing disparities in the level of development among regions and Member States. This means investing in regions' potential to promote competitiveness and improve convergence to the best standard. This heading is structured around 3 main objectives and supported by 3 funds;

Heading 2 - Preservation and management of natural resources with EUR 52.6 billion in commitments (-5% compared to 2006). This heading concentrates on the common agricultural policy and support to the EU's fishermen and efforts to preserve the environment.

Heading 3 - Citizenship, freedom, security and justice with EUR 1.4 billion in commitments. This heading comprises the 2 following sub-headings:

- Heading 3a. Freedom, security and justice with EUR 567.2 million (+ 6.9 % compared to 2006): the main policies of this heading focus on the development of a common asylum area, cooperation between law enforcement agencies and judicial authorities to prevent and fight terrorism and crime, respect for fundamental rights, and a global approach to drug issues;
- Heading 3b. Citizenship with EUR 801.1 million (+ 2.1 % on 2006): the objectives of this heading aim to improve active citizenship, fostering European culture, identity and diversity, as well as to promote health, consumer and civil protection.

Heading 4 - the European Union as a global player with EUR 6.5 billion (- 21.5% compared to 2006): the EU's paramount objectives in foreign policy are stability, security and neighbourhood's prosperity.

Heading 5 - Administration: this heading Administration covers the expenditure of all EU institutions (EUR 6.7 billion, representing 5.6% of the EU budget).

Heading 6 - Compensation: this heading represents slightly more than EUR 400 million and is a temporary measure ensuring that new Member States retain a positive budgetary balance during the first years of accession. Compensations of respectively EUR 129.3 million and EUR 315.4 million were paid to Bulgaria and Romania in 2007.

A budget directly implemented in the Member States: most of the 2007 funds - over 92%, or EUR 105 billion of the EUR 114 billion – were spent on the ground in the EU's 27 Member States with the four biggest recipients taking almost half of the total budget. France held on to its position of overall top recipient, with EUR 13.9 billion, followed by Spain (EUR 12.8 billion), Germany (EUR 12.5 billion) and Italy (EUR 11.3 billion). The EU-12 made steady ground with their share of spending growing from 12.9% in 2006 to 17% in 2007 – five and a half billion more. Poland benefited most, receiving EUR 7.8 billion (7.4%).

The division of payments for agriculture and cohesion show a similar picture to 2006. For farming and rural development, France stayed in first place, taking more than EUR 10 billion - nearly 20% of agricultural spending. Spain followed with EUR 7 billion (12.9%) then Germany with EUR 7 billion (12.8%). Italy and the UK were next in line with EUR 6 billion (11%) and 4.2 billion (7.9%) respectively. Of the EU-12, Poland received the biggest share, EUR 3.1 billion (5.8%). As in 2006, the top cohesion policy beneficiary was Spain, taking EUR 5.4 billion or 14.7%. Greece moved up to second place with EUR 4.6 billion (12.4%), followed by Italy and Germany. Poland also moved up the cohesion policy ladder, ahead of Portugal, France and the UK.

However, 2007 also saw **EUR 227 million lost in unspent funds** from the previous programming period (2000-2006). Under the n+2 rule, Member States lose committed money that is not claimed as a payment within two years. The highest 2007 loss was EUR 66 million for Germany, but the largest share lost was in Luxembourg: EUR 3.5 million - nearly a quarter of their funding - and the Netherlands which lost EUR 19.9 million, over 4% of its total funding. The only EU-12 losers were Slovenia (EUR 0.2 million) and Slovakia (EUR 1.4 million). From the EU-15 only Ireland and Finland avoided any losses.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 30/07/2008 - Document attached to the procedure

DISCHARGE 2007 - COMMISSION: COMMISSION WORKING DOCUMENT ON INTERNAL AUDITS

This Commission working document aims to complement the report by the Internal Audit Services (IAS) - 2007, presented in parallel (refer to the summary of the document COM(2008)0499).

The report consists of a technical annex containing a synthesis of audits carried out by the IAS in 2007. The document offers a series of analytical tables on the audits of the Directorates-General (DGs) of the Commission and on the recommendations made to improve their governance.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 10/11/2008 - Court of Auditors: opinion, report

PURPOSE: to present the report of the Court of Auditors on the implementation of the budget concerning the financial year 2007 (section III – Commission).

CONTENT: the Court of Auditors published its 31st annual report on the implementation of the general budget of the European Union, covering the financial year 2007.

Finally an overall positive Statement of Assurance: the European Court of Auditors' opinion on the EU accounts is now 'unqualified', for the first time since the introduction of the accruals based accounting rules. The opinion on the underlying transactions remains broadly similar to that of last year, although the Court identifies the need for improvements in supervisory and control systems and recommends the simplification of regulations. The Court also provides a clean (unqualified) opinion on the consolidated accounts. It states that the 2007 annual accounts of the European Communities give a fair presentation, in all material respects, of the financial position of the European Communities and the results of their operations and cash flows. Moreover, the Court gives a clean opinion on the legality and regularity in certain areas, such as the Union's administration.

However, **for most spending areas the Court cannot provide a clean opinion.** Although most of the payments which the Court checks are made in compliance with the rules, the Court still finds that payments made to final beneficiaries, such as farmers and project promoters running EU-funded projects, have a too high level of error (non-compliance with rules). The Court also notes that weaknesses in the accounting systems, which are partly due to the complex legal and financial framework, still put at risk the quality of financial information of certain Directorates-General of the Commission (in particular for pre-financing, the related cut-off and for invoices/cost claims).

A successful reform program but the costs involved risks being too high: the Commission has, since 2000, been working on a reform program to improve the management of the EU budget, including an action plan launched in 2006. For 2007, the Court has identified further progress in the Commission's supervisory and control systems, in particular in the area of monitoring and reporting. By the end of the year the Commission had implemented two thirds of the sub-actions in the action plan. It is however too early to assess their impact. Overall, the Court considers that improved high level controls - such as Commission supervision of Member State controls – cannot compensate for inadequate lower level controls, including **on-the-spot-checks**. The benefits of increasing the number of the latter however have to be balanced against the costs. The Court encourages the political authorities of the Union to conclude their analysis of what would be a **tolerable level of risk of error**. Moreover, the Court calls for due consideration to be given to simplification - for example in rural development and research. Well designed rules that are clear to interpret and simple to apply decrease the risk of error.

Still progress to be made: as in previous years, the Court examines, on a case by case basis, the policies that still pose problems and makes the following observations:

- **cohesion policies** (EUR 42 billion): cohesion policies are the area most affected by errors. Following the Court's sample estimate, at least 11% of the value of reimbursed cost claims should not have been paid out;
- **agriculture:** overall, in agriculture and natural resources (EUR 51 billion) the estimated overall error rate is still material. Rural development, with its often complex rules, accounts for a disproportionately large part of this error rate. For European Agricultural Guarantee Fund (EAGF) expenditure, the Court estimates the value of the error rate to be slightly below materiality. The Court concludes that supervisory and control systems are only partially effective in providing assurance as to compliance with EU rules. However, it concludes that the Integrated Administration and Control System (IACS) continues to be effective in limiting the risk of irregular expenditure where properly implemented and if accurate and reliable data are entered into the system;
- **other policies:** the estimated error rates in some spending, notably that previously covered under the headings "internal policies" and "external actions" have fallen - however not enough to affect the overall picture. In "Research, energy and transport", the Court found that payments are affected by a material level of error. The Court concludes that, despite some improvements, the Commission's supervisory and control systems are only partially effective in mitigating the risk of reimbursement of overstated or ineligible cost in these areas. Moreover, in "External aid, development and enlargement", the Court found that transactions underlying the expenditure are affected by a material level of error, mostly at the level of implementing organisations. Lastly, in "Education and citizenship", similar shortcomings were noted by the Court.

In all of these areas of expenditure (agriculture and natural resources, cohesion, research, energy and transport, external aid, development and enlargement, as well as education and citizenship), the Court considers that the Commission and the Member States and other beneficiary states need to make further efforts to implement adequate supervisory and control systems, so as to improve the management of the risk of illegality and irregularity.

In conclusion, the Court has identified further progress in the Commission's supervisory and control systems. However, the Court considers that the Commission is not yet able to demonstrate that its actions to improve supervisory and control systems have been effective in mitigating the risk of error in large areas of the budget.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 16/10/2008 - Document attached to the procedure

FOLLOW-UP TO THE 2006 DISCHARGE DECISIONS : COUNCIL RECOMMENDATIONS: DETAILED ANSWERS

This Working Document completes the Report from the Commission to the Council on the Follow-up to 2006 Discharge decisions {COM(2008)0628 final}. It presents in detail the answers to the 66 specific recommendations made by the Council in the comments accompanying its Recommendations on the 2006 Discharges.

An overview of these answers can be found in the summary of aforementioned COM document (please refer to the document in question).

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 23/01/2009 - Supplementary non-legislative basic document

PURPOSE: to present the Council recommendation on the discharge to be given to the executive agencies of the Commission in respect of the implementation of the budget for the financial year 2007.

CONTENT: in accordance with Council Regulation (EC) No 58/2003 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes (see [CNS/2000/0337](#)) and with Commission regulation (EC) No 1653/2004 on a standard financial regulation for the executive agencies pursuant to Council Regulation (EC) No 58/2003 (as last amended by Commission Regulation (EC) No 651/2008 of 9 July 2008), the Council is required to draw up recommendations to the European Parliament on a discharge to be given to the executive agencies.

Having analysed the reports drawn up by the Court of Auditors on the annual accounts of the following three executive agencies, the Council reached an agreement on the following recommendations to submit to the European Parliament:

1. with regard to the **Education, Audiovisual and Culture Executive Agency**, the Council examined the revenue and expenditure account for the financial year 2007 and the balance sheet at 31 December 2007, as well as the Court of Auditors' report on the annual accounts of the Agency, and recommends, in the light of its analysis, that the European Parliament grant discharge to the Director of the Executive Agency in respect of the implementation of the budget for the financial year 2007. It notes that EUR 5.6 million (83.1%) of the EUR 6.7 million in appropriations carried forward from 2006 to 2007 were used, that EUR 6.8 million in appropriations were carried forward from 2007 to 2008 and EUR 1.6 million were cancelled. The Council notes with concern the persistently high carry-over rates and calls on the Executive Agency to make every effort to comply fully with the provisions of the Financial Regulation, in particular those regarding the annuality principle. The Council also notes with concern the high cancellation rate in 2007 and urges the Executive Agency to improve its programming and the budgeting of its activities, especially audits, in order to avoid such large-scale cancellations of appropriations carried over. It encourages the Executive Agency to ensure more transparent and non-discriminatory recruitment procedures by adopting formal recruitment practical guidelines for temporary and contractual staff at an earliest possible date;
2. with regard to the **Executive Agency for Competitiveness and Innovation**, the Council also examined the revenue and expenditure account for the financial year 2007 and the balance sheet at 31 December 2007, as well as the Court of Auditors' report on the annual accounts of the Executive Agency, and recommends, in the light of its analysis, that the European Parliament grant discharge to the Director of the Executive

Agency in respect of the implementation of the budget for the financial year 2007. It notes that EUR 680 000 (70%) of the EUR 980 000 in appropriations carried forward from 2006 to 2007 were used, that EUR 2.1 million in appropriations were carried forward from 2007 to 2008 and EUR 770 000 were cancelled. The Council notes with concern the increasingly high rate of carry-overs and cancellations and urges the Executive Agency to take the appropriate measures to comply in full with the provisions of the financial regulation, in particular regarding the principle of annuality. In this context, the Council draws the attention of the Executive Agency on the crucial importance of a thorough expenditure planning, which should be fully consistent with its operational programming. The Council also takes note of the Court's observation related to the two amending budgets established by the Executive Agency in 2007, which were published late and without disclosing the revised figures separately for each amended budget. The Council calls on the Executive Agency to ensure fully transparent budgetary and administrative procedures;

- with regard to the **Executive Agency for Health and Consumers**, the Council also examined the revenue and expenditure account for the financial year 2007 and the balance sheet at 31 December 2007, as well as the Court of Auditors' report on the annual accounts of the Executive Agency, and recommends, in the light of its analysis, that the European Parliament grant discharge to the Director of the Executive Agency in respect of the implementation of the budget for the financial year 2007. It notes that EUR 560 000 (56%) of the EUR 1 million in appropriations carried forward from 2006 to 2007 were used, that EUR 1.51 million in appropriations were carried forward from 2007 to 2008 and EUR 140 000 were cancelled. The Council notes with concern the high rate of carry-overs, a significant proportion of which, regarding administrative expenditure, was neither justified by legal obligations nor related to goods and services to be delivered in 2008. Therefore, as is the case for the other two Executive Agencies, the Council calls on this Executive Agency to take the appropriate measures to comply in full with the provisions of the Financial Regulation, in particular regarding the principle of annuality.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 23/04/2009 - Text adopted by Parliament, single reading

The European Parliament adopted by 415 votes to 72, with 11 abstentions, a decision to grant the Commission discharge in respect of the European Union's budget for the financial year 2007, as well as the Directors of the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Competitiveness and Innovation and the Executive Agency for the Public Health Programme for implementation of their respective budget for the financial year 2007. This decision constitutes the closure of the accounts of the three agencies concerned.

The European Parliament adopted by 431 votes to 46, with 17 abstentions, a resolution containing a series of observations that forms an integral part of the discharge decision.

Parliament approves closing the accounts for implementation of the European Union general budget for the financial year 2007 and welcomes the further progress made by the Commission and some of the Member States towards a more efficient use of EU funds and the overall control environment, which is reflected by the **improvements in the European Court of Auditors' (ECA) statement of assurance (DAS)**. Parliament also welcomes, in particular, the considerable progress made in the management of the 7th Framework Programme and the Common Agricultural Policy (CAP), as well as in terms of the implementation of the action plan to strengthen the Commission's supervisory role under shared management of structural actions. It notes considerable improvements in the field of Research and Technological Development (RTD) financial management where error rates were reduced by more than 50% in the space of three years. It invites the Commission to continue its simplification efforts in order to improve the use of programmes by final beneficiaries.

Parliament considers unacceptable the existence of problems, identified once again by the ECA, in implementing the Integrated Administration and Control System (IACS) in Greece. It also expresses concern about the lack of EU capacity in **crisis management**. Parliament considers that the Union is losing political guidance, visibility and accountability when using international trust funds which could have been managed by the Commission if it had built up its own post-crisis instrument (in particular, it makes reference to the lack of control of EU funds implemented by certain UN agencies and the unwillingness of UN agencies to follow up on fraud cases where EU funds are involved).

Horizontal issues:

DAS: Parliament welcomes the improvements in the individual parts which comprise the DAS but regrets that, for the fourteenth year in succession, the DAS issued by the ECA in its annual report for 2007 includes a **qualified opinion on the legality and regularity of the transactions underlying the accounts**. The ECA takes the view that, in a large number of expenditure areas (agriculture and natural resources, cohesion, research, energy and transport, external aid, development and enlargement, education and citizenship), payments are still materially affected by errors.

- Reliability of the accounts:** while recognising alongside the Court that the annual accounts of the Communities are, on the whole, reliable, Parliament calls on the Commission to clarify the issue of Community pension funds in terms of financial commitments to be provided for staff pensions. It also calls for clarifications in terms of assets received by the European Communities in connection with the Galileo programme, provisions for major maintenance and refurbishment work on the European Communities' buildings stock and the issue of whether the European Communities' level of political authority in the agencies complies with international public-sector accounting standards;
- Legality of the underlying transactions:** Parliament regrets the fact that in extremely important Community spending areas, the Court noted, once again, that complicated or unclear legal requirements resulted in a large number of errors at final-beneficiary level. Parliament calls on the Commission to further step up its monitoring of controls delegated to Member States.

Budgetary management - financial corrections: Parliament considers, with regard to shared or decentralised management, that the Commission must apply Regulation (EC, Euratom) No 1605/2002 in full and assume its ultimate responsibility for budget implementation. It stresses the need to make financial corrections as soon as irregularities uncorrected by Member States are detected.

- Amounts recovered:** Parliament calls on the Commission to enhance the efficiency and effectiveness of multiannual recovery systems and to carry out an evaluation of the recovery system;

- **Suspension of payments:** Parliament also assures the Commission of their full support in the rigorous application of the legislation on suspension of payments.

Declarations available in the shared-management field: Parliament welcomes the fact that annual summaries of audits by the Member States have been made available since 2008, along with the evaluation and declarations presented in the 2007 annual activity reports of the directorates-general dealing with Structural Funds. It notes with concern, however, that, owing to disparities in presentation, the ECA considers that those annual summaries do not yet constitute a reliable appraisal of the operation and effectiveness of the control systems. In this context, it calls on the Commission to analyse the summaries received in 2009 with the aim of optimising their added value. Parliament also deplores the Commission's failure to act on the call made in the resolution on discharge for the financial year 2006 for a specific document to be drawn up, and forwarded to Parliament and the Council, which analyses, on the basis of the annual summaries received, the strengths and weaknesses of each Member State. Parliament welcomes the initiative taken by some Member States (the United Kingdom, the Netherlands, Sweden and Denmark) to approve the adoption of a national declaration on the management of Community funding, but regret the fact that, despite those initiatives, most other Member States are resisting its introduction.

Control systems: Parliament welcomes the overall progress made in the development of the **Action Plan for an integrated internal control framework** while regretting the inadequate quality of controls in Member States. It notes, in this respect, that control systems are a reflection of the complexity of regulations and rules on the various, sometimes overlapping levels. The Commission must therefore accelerate the **simplification exercise** and review the conditions for using the flat-rate method. It also reiterates the need to reach an appropriate **balance** between the costs and benefits of controls. Once again, Parliament calls for the establishment of interinstitutional dialogue on **tolerable risk of error** (in particular, for the Structural Funds and the EAFRD). Plenary insists on the need for an **interinstitutional conference** involving all stakeholders in Community fund management and control (representatives of the Member States, the Commission, the ECA, national audit bodies, national parliaments, the European Parliament and all other relevant actors in the discharge process) in order to obtain a positive DAS as soon as possible. Parliament takes the view that tangible proposals should be produced with regard to improving the management and control of Community spending.

Parliament also makes reference to serious **problems of transparency**, particularly in terms of data provided on the beneficiaries of EU funding, the cabinet staff of Members of the Commission, etc.

Financial Regulation: Parliament welcomes the simplification begun when Regulation (EC, Euratom) No 1605/2002 was last revised as regards public procurement. However, the measures taken on grants have demonstrated their effectiveness only in part. It therefore calls on the Commission to present to them by 1 January 2010 proposals for a revised and fully consolidated Financial which bring together all the requirements which a beneficiary of a programme must fulfil in one single comprehensive source.

Sectoral issues: Parliament considers in detail the budgetary implementation of each of the budgetary headings and makes the following observations:

- **Agriculture and natural resources:** noting once again the material level of error of legality and/or regularity of expenditure in this sector (particularly in terms of rural development and agri-environmental measures), Parliament urges the Commission to simplify, strengthen and consolidate the control rules. It is concerned at the ECA's criticisms of errors in interpreting the provisions of the regulations and at the finding that the cumulative effect of all such errors, over a number of years, will be significant if they are not corrected. Once again, Parliament calls on Greece to implement the IACS and support the Commission's intention to apply current legislation on suspension of payments rigorously if the Greek Government does not remedy the existing problems within the stated time-limits. Parliament deplores the fact, as regards Single Payment Scheme management and control, that the ECA exposed inadequacies, in several 'old' Member States, affecting control systems in this area (in the Netherlands, Portugal, the United Kingdom, France and Spain) as well as a number of systemic shortcomings with regard to area-aid eligibility checks in Greece, Italy, Spain, the United Kingdom, France and the Netherlands. It therefore calls on the Commission to step up its checks and to simplify eligibility requirements as far as possible. Moreover, Parliament calls for the recovery of irregular payments so that the cost of financial corrections is met by the final beneficiaries and not by the taxpayer;
- **Cohesion:** noting with concern the ECA's estimate that at least 11% of the total amount reimbursed in connection with structural policy projects should not have been reimbursed, Parliament regrets that despite Commission's unremitting efforts to improve control systems, the number of errors remains. It notes with concern that, under the European Regional Development Fund (ERDF) from 2000 to 2006, 95.47% of financial corrections were accounted for by Spain, Italy and the United Kingdom. It calls on the Commission to report to Parliament in early 2010 on the further actions carried out in 2009 and on the initial impact of the actions. Once again, Parliament calls on the Commission to **simplify existing regulations** on cohesion funds. Noting the sometimes very large financial corrections affecting (on a frequent basis) certain countries, it calls on the Commission to bring its control requirements into line with the frequency and seriousness of errors in the Member States most affected (particularly Spain and Italy). Parliament calls on the Commission to produce an **annual grading of Member States, for each European fund**, and to forward it to Parliament, specifying the error rate established. They also call on the Commission to apply strictly the Community rules on the suspension of payments where a Member State fails to provide the guarantees sought;
- **Internal policies:** Parliament regrets that, according to the ECA, the same problems from previous years are persisting (cost reimbursement errors, complexity of the rules applied, and lack of an effective penalising mechanism), and calls on the Commission to continue its efforts to simplify, and further clarify, the proportionality rules applicable to shared-cost programmes. The proposal for a resolution also focuses on the sectoral analysis of expenditure and notes that, in terms of **research**, it regards the 7th Framework Programme rules as clearly contradicting the modern accounting and calculation standards of European industry in asking for individual costs of persons actively involved in a specific research programme. It asks the Commission to start a procedure making 7th Framework Programme rules compatible with general business practices. In terms of the **environment, public health and food safety**, Parliament is overall satisfied with the implementation rates. It calls on the Commission to offer further assistance to applicants in the context of multiannual programmes, especially by providing specific training for applicants and user-friendly guidelines. In terms of the **internal market and consumer protection**, Parliament calls on the Member States to further improve their internal control systems to prevent the placing of unauthorised goods on the Community market. It also regrets the implementation rates sometimes below the average for certain budget lines (customs 2007 and consumer protection programme). It stresses the low utilisation rate of commitment appropriations for the GNSS Supervisory Authority (33.24 % under Title 3). In terms of **culture and education**, Parliament calls for more information on how the various national agencies and executive agencies operate. It calls on the ECA to analyse in greater detail the question of the effectiveness and continued existence of the various agencies in this area. It also calls on the

agencies and national authorities to respect the implementation rules, as regards their respective responsibilities, established by the Commission. Moreover, it calls on the Commission to examine ways of making the Youth Programme more capable of reaching new groups of young people, in particular those from disadvantaged backgrounds. In terms of **civil liberties, justice and home affairs**, Parliament regrets the low level of implementation of budget lines of the Funds included within the Solidarity and Management of Migration Flows framework. Lastly, in terms of **women's rights and gender equality**, it reiterates its call to the Commission for gender equality to be taken into due consideration as an ongoing priority objective during budgetary planning;

- **External actions:** Parliament deplores deeply the fact that the Commission has failed to create a truly European instrument for the implementation of crisis management, as it had been asked to do in the 2005 and 2006 discharges. According to it, **this should be done urgently**. Parliament also calls on the Commission to give itself the possibility of managing multi-donor trust funds itself, where appropriate, when it is involved in such funds. Moreover, the Commission is called upon to ensure full financial transparency in external aid and to honour its undertaking to Parliament that any international organisation receiving Community funds will be required to submit the results of all internal and external audits of the use of those Community funds to the ECA and to the Commission's Internal Auditor. It also calls for OLAF to be given access to data where fraud is suspected. Noting that the cost of checks relating to the funds administered by the EuropeAid Cooperation Office is estimated by the Commission at some EUR 120 million, Parliament calls on the ECA to take account of this in its calculations and to state its position on both this estimate and the cost-effectiveness of the relevant control systems. Members note the Court's assessment that the supervisory and control systems for external relations, enlargement and humanitarian aid are partially effective and accept that many of the errors detected concern advance payments (and are then rectified when final payments are made). Nevertheless, they call on the Commission to make the necessary improvements in this area. Parliament also regrets the **lack of transparency** concerning the use of Community funds channelled through **United Nations** organisations. Moreover, it calls on the Commission to further improve the conditions and performance indicators used for the disbursement of **budgetary support to third countries**, so as to provide for clear, unambiguous and measurable assessment criteria with a specific timetable. Parliament also requests to be kept regularly informed about steps taken by the Commission concerning the implementation of the significant pledges made in support of Georgia's post-conflict recovery and future development at the international donors' conference held in Brussels on 22 October 2008. Parliament also call on the Commission to compile, by the end of 2009, a comprehensive list of all NGOs which have received EU funds;
- **Pre-accession strategy:** Parliament notes with concern the fact that the Commission suspended payments of funds amounting to several hundreds of millions of euros for Romania and Bulgaria. While Parliament is aware of the lack of reliable control systems in these countries, it remains convinced of the urgent need to reform the administrative capacities of these countries. It notes that over the period 2007 to 2013, Bulgaria is to receive EUR 6 853 000 in structural funding, and Romania EUR 19 200 000. Parliament is of the opinion that the preparation of the absorption capacity of Romania and Bulgaria for funds in the Agricultural and Cohesion policy fields has not been treated by the Commission with the necessary seriousness, and that statements and actions of the Commission in this context were misleading, not only for Parliament but also for the Bulgarian and Romanian governments, and were one reason for the loss of funds by those Member States. Moreover, it also calls on OLAF to forward to it the findings of its investigations concerning Bulgaria and calls on the Commission to submit to them a special report on the state of play of the management and control of EU funds in Romania and on the measures taken and the progress made in the fight against corruption. Parliament therefore considers that the European institutions should apply the principle of **zero tolerance** in connection with cases of misuse of Community funds, fraud and corruption. It calls on the Commission to ensure that unduly paid amounts are recovered. In terms of Turkey, Croatia, Serbia, Former Yugoslav Republic of Macedonia, Kosovo and the other Western Balkan countries, Parliament calls on the Commission to play a more active role in connection with the expenditure control systems existing in these countries and to introduce in the progress reports a system of traffic lights (green, amber and red lights) to denote the progress made towards achieving the various key objectives. Regretting the cases of fraud and mismanagement of European funds administered by the United Nations identified in connection with EU funding of reconstruction work in Kosovo, Parliament calls on the ECA to report on the issue. Moreover, they propose that the Commission ask the Kosovo Government to supply an audit certificate in respect of European funds;
- **Administrative expenditure:** Parliament is satisfied that the ECA's audits brought to light no material errors affecting the legality and regularity of administrative expenditure, but express concern at the fact that close to 32% of the Commission's staff work in administrative support and coordination. It therefore calls on the Commission to reorganise its human resources in order to reduce the proportion of staff working in these areas to 20%;
- **Matters relating to the Community's buildings:** lastly, Parliament regrets the lack of transparency shown by the Commission in the management of its 61 buildings in Brussels and as regards developments concerning its buildings stock. It calls on the Commission to inform them of all new projects concerning its buildings stock prior to their adoption and on OLAF to notify them of any cases of fraud brought to light in the property policy field and to look into possible conflicts of interest. It also calls on the Commission to conduct an audit of both its own buildings and the buildings of all the other Community institutions.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 30/07/2008 - Document attached to the procedure

2007 DISCHARGE – COMMISSION – ANNUAL REPORT ON INTERNAL AUDITS

PURPOSE: to inform the Discharge Authority about the work carried out by the Commission's Internal Audit Service (IAS) in 2007. This report is based on IAS audit and consulting reports finalised in 2007. It concerns audit and consulting work related to Commission DGs and Services and executive agencies only. It does not cover the IAS work on other agencies or bodies.

CONTENT: to recall, in 2006 the Commission presented an Action Plan towards an Integrated Internal Control Framework consisting of 16 actions which sought to improve all aspects of the control structures in place. The Commission sought to improve its reporting through different statements of assurance established by its Directors-General in order to support the political responsibility of the Commissioners to manage the Commission.

The Commission's reactions to the findings and conclusions of the Internal Auditor are covered in the synthesis report on the annual activity reports of the Directors-General (see SEC(2008)2361). In this synthesis report, adopted at the same time, the Commission takes a position on the crosscutting

issues raised by the Internal Auditor, the European Court of Auditors and the Discharge Authority, or identified by the Audit Progress Committee and by the Director-General for Budget in his overview report.

On the basis of the Commission audits and reviews finalised in 2007, and other related work, the Internal Auditor of the Commission drew the following conclusions (the Commission's position is contained in the synthesis report on the annual activity reports of the Directors-General).

IAS conclusion 1: Overall progress made, but more improvements needed: in the course of its audit work, the IAS noted further improvements in the Commission's internal control systems. The number of critical IAS recommendations issued decreased from twelve in 2006 to six in 2007 and the number of audits with adverse IAS opinions dropped from nine in 2006 to six in 2007. However, further improvements are still needed, for instance in the areas of grant management, ex-post controls, procurement and implementation of data protection provisions.

IAS conclusion 2: Information Security: ensuring that sensitive information held in the Commission (both at Headquarters and in the Delegations) is protected against unauthorised disclosure and access is of paramount importance for the Commission's effectiveness and reputation. All DGs and services concerned should pay particular attention to information security and should coordinate with and seek validation of all their security measures by the corporate security service.

IAS conclusion 3: Policy Directorates-General have front-line responsibility for fraud

Prevention: the Commission has recently adopted a new approach to fraud proofing. OLAF plays a key role in fraud investigations and contributes to developing methods of fighting fraud on the basis of its experience. However, in the Commission, Directors-General - as Authorising Officers by Delegation - have, front-line responsibility for the prevention of fraud in their area of responsibility (in which they will be supported by OLAF) and for the follow-up to OLAF investigations (recoveries etc.).

IAS conclusion 4: AAR assurance process steadily being improved: the ultimate aim of both the AAR (Annual Activity Reports) assurance process and the synthesis report is to support the political responsibility of the Commissioners to manage the Commission. The foundation of the assurances given will be improved by a better definition of the underlying control strategies, backed by indicators for key controls and by better "reconciliation" of the assurances with the results of the European Court of Auditor's work.

IAS conclusion 5: Some progress in follow-up, but also some areas lagging behind: follow-up of audit recommendations has improved recently, but still takes too long in some areas. Also some issues raised in previous annual reports still require continued attention, e.g. a human resources strategy that is fully aligned on the strategic planning process and the development of shared services and improvements in IT governance.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 16/10/2008 - Document attached to the procedure

FOLLOW-UP REPORT TO THE 2006 DISCHARGE DECISIONS : FOLLOWING THE COUNCIL RECOMMENDATIONS

Preliminary remark: this Commission report concerns the follow-up of the recommendations made by the Council on the 2006 discharge decisions. The Commission's full responses to the 66 recommendations may be found in the Commission's working document (SEC (2008)2580) published at the same time.

CONTENT: the Commission has identified a total of 66 recommendations made by the Council to the Commission in the context of the 2006 discharge. The Commission considers that for 42 recommendations the required action has already been taken, though in some cases results of the actions will need to be examined. For another 24 recommendations the Commission agrees to take the action recommended by the Council:

- **Introduction:** the Commission shares the Council's view on the need for all actors involved in the implementation of the budget to continue to do their best to improve the functioning of the supervisory and control systems and to continue to make progress towards achieving an unqualified DAS in all areas of the budget. It presented in February 2008 a progress report on the Commission [Action plan](#) towards an integrated internal control framework and concluded that most of the "gaps" have been filled. Work will be completed in 2008 and the first impact report will be issued in early 2009. The Commission is completing the assessment of the costs of control in agriculture, the ERDF and direct centralised management. The results will form the basis of a communication by the Commission in autumn 2008 aimed at relaunching the inter-institutional discussion on tolerable risk. As regards simplification little further change is expected under current legislation. The Commission has clarified rules through guidelines on e.g. FP7, the implementing rules for Structural Funds 2007-2013, the Education Policy 2007. It will continue to provide support and further guidance where necessary.
- **The statement of assurance (DAS):** the Commission has taken due note of the accounting related remarks of the Court in its 2006 Annual Report whilst preparing the 2007 Community accounts, including as regards cut-off procedures. The split between the Directorate-General for Education and Culture and the Executive Agency has been made and the annual accounts for 2007 have been prepared separately.
- **Commission Internal Control:** further efforts are needed to resolve weaknesses in the supervisory and control systems. The Commission will take vigorous action to address the causes of reservations in the 2007 annual activity reports and will closely monitor progress. It will make all necessary efforts to demonstrate the effectiveness of its controls and has included in the notes to the annual accounts of the European Communities for the financial year 2007 a new section about the recovery of undue payments following Commission correction decisions. The Commission's accounting system is being extended to allow, from 2008, full reporting on the correction of errors by the Commission, including those relating to payments of earlier years.
- **Budgetary management:** the Commission fully agrees with the importance of realistic budgeting and has taken the recommended action to ensure effective budgetary management throughout the programming period. The PDB 2009 has been drawn up completely in accordance

with these principles. Commitments are consistently budgeted higher than payments on account of the longer period for payments than commitments. As commitments are also generally increasing year on year, the level of outstanding commitments (RAL) will increase as well. The n+2/n+3 rule in Cohesion Policy however ensures that commitments are largely used up within 2-3 years.

As regards the management of different budget headings, the Commission highlights the following:

- **The Common Agricultural Policy:** the Commission and the Member States continue efforts in strengthening the management and control systems notwithstanding the significant improvements already achieved in the management of Common Agricultural Policy (CAP) expenditure. The European Court of Auditors acknowledges that the Integrated Administration and Control System (IACS), where properly applied, is an effective control system to limit the risk of irregular expenditure. IACS currently covers about 84.5% of the EAGF-expenditure. The effects of the different reforms will extend this coverage to about 89% by 2010 and to about 92% by 2013. As regards eligibility conditions for agri-environmental measures in rural development, the Member States are now under the obligation to ensure that all rural development measures, including agri-environmental measures, are verifiable and controllable and that control arrangements at the level of the Member States provide reasonable assurance that eligibility criteria and other commitments are respected. As regards clearance of accounts, the application of the new "50/50 rule" specified in Article 32(5) of Regulation (EC) No. 1290/2005 is based on figures provided by Member States and certified by the certification bodies. The Commission is following-up the application of this rule by means of on-the-spot checks and desk audits, which may lead to financial corrections in case of non-compliant practices.
- **Structural measures:** the Commission is continuing to work closely with the Member States to improve management and control systems for structural actions expenditure. Recent actions include the issue of guidance on good practices in management verifications and checks by certifying authorities and a training seminar for 500 representatives of national managing and certifying authorities in June 2008. The Commission also holds annual coordination meetings with national audit bodies, in addition to regular discussions of management and control issues with Member States in the structural actions management committee and ad hoc technical meetings. The Commission's guidance, training and coordination activities all aim to simplify the day-to-day use of the funds by clarifying requirements and avoiding duplication of controls. The Commission is taking specific actions to encourage use of the provisions for flat rates and partial closure and to provide guidance on eligibility rules. The Commission considers that its audit activity is already effective in bringing about improvements in management and control systems, for example through the implementation of remedial action plans, but is seeking to increase its impact by speeding up the adoption of decisions where appropriate to suspend payments or apply financial corrections. The Commission is now reporting on financial corrections and recoveries resulting from its own or the Court of Auditors' audit work in the structural actions area.
- **Internal policies, including research:** the principal risk to the legality and regularity of research expenditure is that beneficiaries overstate costs in their cost statements, and that this is not subsequently detected and corrected by the Commission. Many errors affecting legality and regularity can only be detected (and therefore corrected) by performing on-the-spot checks. To address this problem, the Commission has shifted the focus of its control strategy towards detection and correction of errors ex-post, after the payment has been made. The Research DGs have implemented their FP6 audit strategy. The audit strategy is being implemented over a period of 4 years. Efforts have also been made to simplify and clarify the guidelines for calculation and reporting of costs for beneficiaries and certifying auditors. In the education and culture area, the Commission is implementing a revised supervision strategy based on the "integrated control framework" approach. The Commission is taking appropriate measures to comply with Council's recommendation related to delayed payments to beneficiaries and the need to comply with the time limits for expenditure operations set out in the Financial Regulation. The efforts made have increased the percentage of payments made on time.
- **External actions:** the Commission has taken a series of actions aimed at improving the systems designed to ensure the legality and regularity of external actions expenditures at the level of project implementing organisations. In the area of humanitarian aid, the balance between headquarter and field audits has been reviewed and should be seen in the context of an overall control strategy. The number of field audits has increased to 37 in 2007 compared to 20 field audits performed in 2006.
- **Pre-accession Strategy:** the Commission continues to monitor closely the national supervisory and control systems for expenditure under the pre-accession programmes, and where necessary, strongly encourages the beneficiary countries to take action to redress unsatisfactory situations. As regards the Sapard programme, the Commission has further intensified its checks and their follow-up as recommended by Council. Closure of Sapard programmes has been made on the basis of the payment application for the final balance, the decision on the clearance of the accounts and the final implementation report.
- **Administrative expenditure:** as regards procurement, the Commission has put in place specific control measures to improve procurement management. For real estate expenditure, negotiated procedures are allowed according to the Commission. As regards the Communities' pension liabilities, the Commission gave the figures and estimates as requested at the time of the PDB presentation in the Council's Budget Committee. As regards the agencies, the Commission adopted the revision of the framework Financial Regulation, which contains provisions reinforcing the agencies' obligation to submit, in their payment requests, rigorous forecasts on their real cash requirements throughout the year in order to avoid unnecessary cash-flows. This should enable the Commission to follow more closely the cash balances of the agencies and hence should lead to more rigorous planning and increased transparency. Moreover, a horizontal evaluation is to be launched in the context of the Commission's Communication "European Agencies: the way forward" of March 2008. The evaluation will also assess the impact of agencies on the Commission's internal organisation and activities. The inter-institutional working group that the Commission proposes to set up with the European Parliament and the Council will contribute inter alia to defining the objectives and the scope of this horizontal evaluation. A report on the results of this evaluation will be ready in 2009-2010.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 16/10/2008 - Document attached to the procedure

FOLLOW-UP ON DISCHARGE OF THE COMMISSION 2006: FOLLOW-UP ON THE EUROPEAN PARLIAMENT'S RESOLUTION

Preliminary remark: this Commission report concerns the follow-up of the recommendations and observations made by the European Parliament during the discharge procedure for the 2006 year. The Commission's full responses to each of the recommendations may be found in the Commission's working document (SEC (2008)2579) published at the same time.

CONTENT: this report seeks to respond to each of the recommendations accompanying the Parliament's discharge decisions concerning the implementation of 2006 expenditures (including the expenditure of the decentralised agencies and the EDF). This summary focuses on the recommendations made to the Commission in regard to the its implementation of the budget (to learn more about the content of these recommendations, click on the summary relating to Parliament's opinion of 22 April 2008 in this procedural file).

In this context, the Commission considers that of the 208 recommendations addressed to it by the Parliament in its resolution, the required action has already been taken for 100 of them, though in some cases results of the actions will need to be examined. For another 99 recommendations, the Commission agrees to take the action recommended by Parliament. Lastly, the Commission cannot accept 9 recommendations and will therefore not be taking the requested action.

The Commission's responses may be summarised as follows:

1) *Horizontal issues*

- **Statement of assurance:** the Commission has continued to improve its accounting practices through efforts such as the Accounting Quality Project, in particular concerning the cut-off exercise. On 30 April 2008, the Commission provided Parliament's Committee on Budgetary Control with the required report on pre-financing as at 31 December 2007. Further efforts are needed to resolve a number of weaknesses in supervisory and control systems, in particular those highlighted in the reservations of the delegated authorising officers, and in relation to budget areas that were not considered satisfactory by the European Court of Auditors. The Commission will take vigorous action to address the causes of reservations in the 2007 Annual Activity Reports and will closely monitor progress;
- **Budgetary management:** the Commission is acting to ensure an effective winding-up procedure concerning the 2000- 2006 programme period for the Structural Funds, through audits of winding-up bodies, raising awareness of the closure guidelines, issued in 2006, and finalising internal procedures. After closures, the Commission will carry out audits to verify the level of residual error, and, if necessary, will apply further financial corrections. Structural Funds payments to EU-10 Member States in 2007 caught up with those in EU-15 countries at the corresponding point in the programme cycle. Cohesion Fund payments in 2007 were still somewhat below forecasts in certain Member States, and at the end of 2007 outstanding commitments overall stood at approximately three years of payments;
- **National management declarations:** the Commission supports the Member States which decide to issue a national declaration on a voluntary basis through the provision of financial reports from its accounting system and by responding to information requests from national authorities, though there is no legal obligation to do so. In the Inter-Institutional Agreement (paragraph 44), the three institutions agreed that Member States should be required to produce annual summaries of available audits and declarations. This provision was included in the revised Financial Regulation and the summaries were due for the first time in February 2008. The Commission is focussing its attention on rigorous implementation of the provisions for "annual summaries". Overall the outcome of the first round of annual summaries has been positive and the Commission considers this a success that it can build on;
- **Governance:** the Commission's governance model respects the provisions of the Treaty. Directors-General and Heads of Service are assigned management responsibility for the resources that each are allocated by the budgetary authority. Each prepares an end-of-year report and declaration giving assurance on the use of the resources, if necessary with reservations (annual activity report and declaration). The Commission considers that adding further formal declarations of the Secretary-General or the Director-General for Budget would make the lines of responsibility less clear as it would blur the responsibilities of Directors-General and lead to potential interference between the central services and the operational services. The Commission has insight on funds whose management is shared with the Member States. The governance architecture is clear on the share of responsibilities: the Member States have the primary responsibility to take all measures necessary to ensure that the funds are used in accordance with the applicable rules, including the setting-up of efficient control mechanisms. The Commission must supervise the whole system and verify that the Member States are carrying out the tasks entrusted to them correctly. Where it concludes that this is not the case, it must use the available mechanisms to suspend payments and apply financial corrections. In February 2008, the Commission adopted an Action Plan aimed at further strengthening its supervisory role under shared management of structural actions;
- **The Commission's internal control system:** the Commission presented in February 2008 a progress report on the Commission [Action Plan](#) towards an integrated internal control and concluded that most of the "gaps" have been filled. Work will be completed in 2008 and the first impact report will be issued in early 2009. The Commission is completing the assessment of the costs of control in agriculture, the ERDF and direct centralised management. The results will form the basis of a communication by the Commission in autumn 2008 aimed at relaunching the inter-institutional discussion on 'tolerable risk';
- **Synthesis Report:** the Synthesis Report reflects all instances where there were qualifications to assurance on the legality and regularity of Commission spending; the Commission has instructed its services to take vigorous action to address the causes of reservations. It requires that, in all instances where there is a difference between the European Court of Auditors' opinion and that of the Director-General, the latter will have to explain it in his/her next year's Annual Activity Report;
- **Political responsibility and administrative responsibility at the Commission:** the Commission notes that overall progress has been made in the presentation of the Annual Activity Reports. In 2007, internal control templates were introduced, allowing greater comparability between the services' Annual Activity Reports. For the 2008 Annual Activity Reports exercise, the Commission will provide further guidance on the treatment of risks to reputation and on the link between error rates, materiality and reservations. The Commission welcomes the positive reaction of the European Parliament to its suggestion to consider a common approach to registration of lobbyists. Action has also been taken to improve information on beneficiaries of EU funding and members of expert groups. The Commission considers that the existing code of conduct for Members of the Commission already contains comprehensive and appropriate rules on responsibility and ethics. The staff working for Members of the Commission are recruited in accordance with Staff Regulations. As regards ethical rules, an independent study concluded that the European Commission's system is sound, and that the necessary rules and procedures are in place.

b) Sectoral issues

- **Revenue:** the reservations on items in Member States' annual VAT statements are placed by the Commission in its control reports. The Commission will, in co-operation with the Member States, continue its efforts to ensure that reservations are lifted within reasonable time frames. The Commission will, where necessary, make management visits designed to devise – with the Member State concerned - suitable strategies to resolve long-outstanding reservations. Where progress towards the lifting of reservations cannot be shown, the Commission will consider whether starting infringement proceedings will be beneficial;
- **Common Agricultural Policy:** like the European Parliament, the Commission welcomes the fact that the Court found general improvements in the management of CAP expenditure in 2006. The Commission continues through its audits to monitor the full and correct application of the IACS tool. In case of deficiencies, the Commission imposes financial corrections. In 2008, six audit missions on IACS to new Member States are planned. The situation of IACS in Greece is subject to a reservation in the DG AGRI Annual Activity Report and is being addressed by an action plan. As regards eligibility conditions for agri-environmental measures in rural development, the Member States are now under the obligation to ensure that all rural development measures, including agri-environmental measures, are verifiable and controllable and that control arrangements at the level of the Member States provide reasonable assurance that eligibility criteria and other commitments are respected. As part of the Health Check of the CAP the Commission has presented legal proposals in order to prevent agricultural income support being allocated to companies and firms whose business purpose is not or only marginally targeted at exercising an agricultural activity. Under this Regulation, if adopted, Member States may decide not to grant them direct payments;
- **Structural measures, employment and social affairs:** in February 2008, the Commission adopted an Action Plan aimed at further strengthening its supervisory role under shared management of structural actions. The Commission will provide an interim progress report on the Action Plan in October 2008 and a final report in January 2009. The follow-up of the error findings of the Court has been incorporated into the Action Plan. In line with its guidelines on financial corrections for public procurement irregularities, the Commission will make 100% corrections for serious breaches of the public procurement rules, and will apply flat-rate or extrapolated corrections where justified. The Commission informed Parliament of the initial results of the submission of annual summaries of the Directorates-General for Regional Policy and Employment. The Commission provided Parliament with a further update in April 2008, and informed it of the infringement proceedings being brought against Germany. The Commission considers that a key feature of the annual summaries, which contributes to reinforcing the Member State 's accountability for its use of EU funds, is their formal submission by a central body. The Commission will present a revised guidance note to Member States with recommendations to improve the quality of their annual summaries for 2008;
- **Internal policies, including research:** the principal risk to the legality and regularity of research expenditure is that beneficiaries overstate costs in their cost statements, and that this is not subsequently detected and corrected by the Commission. Many errors affecting legality and regularity can only be detected (and therefore corrected) by performing on-the-spot checks. To address this problem, the Commission has shifted the focus of its control strategy towards detection and correction of errors ex-post, after the payment has been made. The Research DGs have implemented their FP6 audit strategy over a period of four years. In the education and culture area, the Commission is implementing a revised supervision strategy based on the "integrated control framework" approach. This includes ex-ante declarations of assurance for the 2007-2013 period issued by National Authorities and annual ex-post declarations of assurance concerning the use of funds during the previous year. The Commission continues taking appropriate measures to comply with the European Parliament's recommendation and request related to delayed payments to beneficiaries and thus to comply with the time limits for expenditure operations set out in the Financial Regulation. The efforts made have increased the percentage of payments made on time;
- **External actions:** in keeping with the commitments made during the 2006 discharge procedure, the Commission will provide information on multi-donor trust funds annually and at Parliament's request. For Iraq and Afghanistan, the Commission provides regular updates. The Commission has taken a series of actions aiming at improving the systems designed to ensure the legality and regularity of external actions expenditures at the level of project implementing organisations. The European Parliament's 2006 discharge resolution also contains recommendations in areas such as pre-accession, humanitarian aid, development policy and external relations. The Commission's replies to these recommendations can be found in the parallel working document mentioned above;
- **Administrative expenditure and issues concerning the agencies:** on 9 July 2008, the Commission adopted the revision of the framework Financial Regulation, which contains provisions reinforcing the agencies' obligation to submit, in their payment requests, rigorous forecasts on their real cash requirements throughout the year in order to avoid unnecessary cash-flows. This should enable the Commission to follow more closely the cash balances of the agencies and hence should lead to more rigorous planning and increased transparency. Moreover, a horizontal evaluation is to be launched in the context of the Commission's Communication "European Agencies: the way forward" of March 2008. The evaluation will also assess the impact of agencies on the Commission's internal organisation and activities. The inter-institutional working group that the Commission proposes to set up with the European Parliament and the Council will contribute inter alia to defining the objectives and the scope of this horizontal evaluation. A report on the results of this evaluation will be ready in 2009-2010. As regards the community buildings policy, a study was commissioned in 2007 from a specialised company. This study provides a structured approach for the necessary works to be carried out over time in order to ensure sound and efficient management of the Commission's property investments. A second study, on the buildings in usufruct, will be launched towards the end of 2008/beginning of 2009. The results of these studies will be used to support the budget requests in this area.

2007 discharge: EU general budget, Section III, Commission

2008/2186(DEC) - 16/10/2008 - Document attached to the procedure

FOLLOW-UP TO THE 2006 DISCHARGE DECISIONS : DETAILED ANSWERS FROM THE COMMISSION FOLLOWING THE EP RESOLUTION

This Working Document completes the Report from the Commission to the Parliament on the Follow-up to 2006 Discharge Decisions. It presents the answers to the 208 specific recommendations made by the European Parliament in the comments accompanying its Resolutions on the 2006 Discharges (see summary dated 22 April 2008). An overview of these answers can be found in COM(2008)0629.