Basic information

2009/2068(DEC) DEC - Discharge procedure	Procedure completed
2008 discharge: EU general budget, section III, Commission **Subject** 8.70.03.07 Previous discharges	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	LIBERADZKI Bogusław (S&D)	01/10/2009
	Shadow rapporteur AUDY Jean-Pierre (PPE) CHATZIMARKAKIS Jorgo (ALDE) STAES Bart (Verts/ALE)	

Committee for opinion	Rapporteur for opinion	Appointed
AFET Foreign Affairs	GAHLER Michael (PPE)	16/09/2009
DEVE Development	MITCHELL Gay (PPE)	10/11/2009
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	GRÄSSLE Ingeborg (PPE)	17/09/2009
ENVI Environment, Public Health and Food Safety	HAUG Jutta (S&D)	21/07/2009

ITRE	Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO	Internal Market and Consumer Protection	VAN DE CAMP Wim (PPE)	04/11/2009
TRAN	Transport and Tourism	AYALA SENDER Inés (S&D)	22/10/2009
REGI	Regional Development	OLBRYCHT Jan (PPE)	04/11/2009
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)	02/09/2009
JURI	Legal Affairs	The committee decided not to give an opinion.	02/09/2009
LIBE	Civil Liberties, Justice and Home Affairs	LÓPEZ AGUILAR Juan Fernando (S&D)	22/07/2009
AFCO	Constitutional Affairs	The committee decided not to give an opinion.	
FEMM	Women's Rights and Gender Equality	BAUER Edit (PPE)	04/11/2009
PETI	Petitions	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2994	2010-02-16

European Commission

Commission DG	Commissioner
Budget	ŠEMETA Algirdas

Key events

Date	Event	Reference	Summary
23/07/2009	Non-legislative basic document published	SEC(2009)1089	Summary
07/10/2009	Committee referral announced in Parliament		
23/03/2010	Vote in committee		Summary
26/03/2010	Committee report tabled for plenary	A7-0099/2010	
21/04/2010	Debate in Parliament		
05/05/2010	Decision by Parliament	T7-0134/2010	Summary
05/05/2010	Results of vote in Parliament		
05/05/2010	End of procedure in Parliament		
25/09/2010	Final act published in Official Journal		

Technical information

Procedure reference	2009/2068(DEC)
Procedure type	DEC - Discharge procedure
Stage reached in procedure	Procedure completed
Committee dossier	CONT/7/00546

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee opinion	LIBE	PE430.717	13/01/2010	
Committee opinion	IMCO	PE430.855	28/01/2010	
Committee opinion	FEMM	PE430.862	29/01/2010	
Committee draft report		PE429.615	02/02/2010	
Committee opinion	TRAN	PE429.567	23/02/2010	
Committee opinion	CULT	PE430.933	23/02/2010	
Committee opinion	ENVI	PE431.045	23/02/2010	
Committee opinion	AFET	PE431.034	24/02/2010	
Committee opinion	EMPL	PE430.428	25/02/2010	
Amendments tabled in committee		PE439.267	04/03/2010	
Committee opinion	DEVE	PE438.503	05/03/2010	
Committee opinion	REGI	PE431.070	18/03/2010	

Committee report tabled for plenary, single reading		A7-0099/2010	26/03/2010	
Text adopted by Parliament, single reading		T7-0134/2010	05/05/2010	Summary

Council of the EU

Document type	Reference	Date	Summary
Supplementary non-legislative basic document	05828/2010	01/02/2010	Summary
Supplementary non-legislative basic document	05826/2010	03/02/2010	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	SEC(2009)1089	23/07/2009	Summary
Document attached to the procedure	COM(2009)0419	05/08/2009	Summary
Document attached to the procedure	SEC(2009)1102	05/08/2009	Summary
Document attached to the procedure	COM(2009)0526	16/10/2009	Summary
Document attached to the procedure	SEC(2009)1427	16/10/2009	Summary
Document attached to the procedure	COM(2009)0682	11/12/2009	Summary
Document attached to the procedure	SEC(2009)1700	11/12/2009	Summary
Document attached to the procedure	SEC(2010)0178	26/02/2010	Summary
Document attached to the procedure	SEC(2010)0196	26/02/2010	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Document attached to the procedure	N7-0036/2009 OJ C 269 10.11.2009, p. 0001	10/11/2009	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Decision 2010/0494
OJ L 252 25.09.2010, p. 0028 Summary

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 16/10/2009 - 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 2007 year. The Commission's full responses to each of the recommendations may be found in the Commission' s working document (SEC(2009)1427) 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 2007 expenditures (to learn more about the content of these recommendations, click on the summary relating to Parliament's opinion of 23 April 2009 in this procedure file).

In this context, the Commission has identified a total of 203 requests made to it by the European Parliament. For 99 of these the Commission agrees to take the action requested by Parliament. The Commission considers that for 96 requests the required action has already been taken or is ongoing, though in some cases the results of the actions will need to be assessed.

Lastly, for reasons related to the existing legal framework or its institutional prerogatives, the Commission cannot accept 8 requests.

The Commission's responses may be summarised as follows:

1) Horizontal issues

- **Statement of assurance**: the Commission welcomes the Court of Auditors' unqualified opinion on the 2007 accounts. It states that it will continue to improve the quality of its accounting data and accounts as recommended by the Court. It agrees that high error rates in underlying transactions are partly due to complex rules. It acknowledges that simplification has a role to play in improving the implementation of EU policies and reducing error rates, but points out that a certain degree of complexity in rules and eligibility criteria is unavoidable as these are often fixed in order to achieve desired policy objectives, and are the outcome of a complex legislative procedure. Improvements have been incorporated into the 2007-2013 legal bases. The impact of simplification is expected to become visible in the medium- to long-term. The Commission is currently working to identify possible areas of further simplification in particular on grants, in particular eligibility rules; management and control methods. The degree of complexity of the eligibility rules has a direct link with the intensity and cost of controls required to gain reasonable assurance on the legality and regularity of transactions. The Commission is also working on the concept of tolerable risk of error, which seeks to identify the intensity of the controls which is most cost-effective, i.e. to provide an appropriate balance between costs and benefits (reduction in error rates). It will also study principles for further simplifying sectoral legislation for the next round of basic acts, those to come into force from 2014.

- **Budgetary management - financial corrections, amounts recovered and suspension of payments**: changes were made to the ABAC financial system in 2008 to permit recoveries to be traced back to the specific errors or irregularities. This has allowed the Commission to present more complete and reliable recovery figures in the 2008 accounts.

- **Annual summaries of audits and declarations available in the shared-management field, and national management declarations**: the Commission is continuing to work with Member States to improve the annual summaries. Compared to 2007, for 2008 all Member States respected the obligation to provide an annual summary and complied or mostly complied with the minimum requirements. For 2008 the Commission issued new and better guidelines for the annual summaries under structural funds. It also welcomes the initiative by seven Member States to append an assurance statement to their annual summaries for 2008 as is suggested in the revised guidelines. Together with the four national management declarations received for 2008, this brings to 11 the number of Member States providing some sort of national assurance.

- **Control systems**: in recent years, the Commission has put significant efforts into improving its control systems, following recommendations made by the Court of Auditors and requests from the Discharge Authority. To address deficiencies brought up by its own audit work or by the external auditor, the Commission launched the action plan towards an integrated internal control framework (in 2006) and the action plan to strengthen the Commission's supervisory role for structural actions (in 2008). An impact report on the action plan towards an integrated internal control framework was adopted by the Commission in early 2009 (COM(2009)43), reporting completion of the actions. A report on the action plan to strengthen the Commission's supervisory role for structural actions was also adopted at the same time (COM(2009)42). The Commission is, on a continuous basis, further improving its own control systems and those of its partners wherever it identifies weaknesses. The Commission believes that a tolerable risk approach can give a clear view of the appropriate balance between error rates and the cost of controls, thus promoting sound and efficient stewardship of EU funds. Concrete proposals for tolerable risk shall be presented in the latter half of 2010.

- **Financial Regulation**: the Commission will present its proposal for the future Financial Regulation by May 2010. As in the past, the future Financial Regulation will be discussed and negotiated in close cooperation with the Parliament and Council.

b) Sectoral issues

- **Agriculture and Natural Resources**: the CAP Health Check agreement brings further simplification to the Single Payment Scheme (e.g. reducing the types of entitlements, possibility to merge entitlements) and more decoupling of payments (e.g. arable crops, seeds, hops, animal premia). The Commission will continue to monitor closely the IACS procedure in Greece. Greece has complied with its action plan and created a new, operational LPIS. The new system will be used by the Greek authorities for the first time during the 2009 claims procedure. As regards rural development expenditure, where most errors occur, the management and control system for the expenditure under the newly created European Agricultural Fund for Rural Development (EAFRD) has been aligned with the EAGF guarantee system as of 2007 in accordance with Council Regulation 1290/2005. Thus, in the future, the widely recognised advantages of the EAGF system will also apply to rural development expenditure. Moreover, Member States are obliged to ensure that all rural development measures are verifiable and controllable, as well as to ensure the respect of eligibility rules. The Commission has also given extra guidance to Member States on how to implement agri-environmental measures.

- **Cohesion**: the Commission has incorporated in its audit strategy for 2009-2011 all on-going actions of its action plan to strengthen the Commission's supervisory role for structural actions (such as completion of national remedial action plans, suspension and correction procedures). The Commission showed that the action plan has produced effective results. The Commission has also continued to work on simplifying the 2007-13 rules, in particular on the system for reporting irregularities and the possibility to declare costs on the basis of flat rates, unit costs or lump sums.

- **Internal policies, including research**: in research, the Commission has devised a multiannual control strategy for the 6th Framework Programme (FP6). It is based on the detection and correction of any errors which could not be identified by desk checks before a payment was made. This approach has already contributed to a reduction in error rates in recent years. The 7th Framework Programme (FP7) has brought about further improvements and a number of important simplifications.

- **External actions, NGOs and Development**: the Commission has introduced measures to reinforce the controls at the level of implementing organisations. Meanwhile, it plans to put in place measures such as the development of specific guidance to help implementing organisations manage EC funds better and comply with EC rules, thus reinforcing preventive measures. Recent evaluations of the Commission's cooperation with partner countries through the UN, and of aid delivery through the EIB and the development banks, conclude that this gives added value and tangible results, in particular for the larger trust funds. In addition, participation in such initiatives enabled the Commission to intervene in politically sensitive areas, where it would otherwise have been impossible to deliver aid. The Commission was able to benefit from the field presence and expertise of its multilateral partners in terms of implementation. The Commission will continue to work closely with the UN to improve the performance of verification missions and to enhance the transparency and visibility of Community contributions to the UN.

- **Pre-accession strategy**: the fight against corruption and organised crime is a key priority of all the Accession and/or European Partnerships. The Commission has also made it an integral part of its strategy for the implementation of the instrument for pre-accession assistance (IPA). More practical initiatives are to be proposed and prepared in co-operation with OLAF.

- **Administrative expenditure**: work was also carried out as regards European Schools, staff issues and Community buildings.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 03/02/2010 - Supplementary non-legislative basic document

PURPOSE: presentation of the Council’s recommendation on the discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2008 (section III-Commission).

CONTENT: the Council approved a draft recommendation regarding the implementation of the EU budget for the financial year 2008. The recommendation recalls the key figures relating to 2008:

Analysis of expenditures:

- revenue amounted to EUR 121 584 382 284.55;
- expenditure amounted to **EUR 115 549 972 381.55;**
- cancelled payment appropriation (included earmarked revenue) carried over from 2007 amounted to EUR 187 895 817.94;
- appropriations for payments carried over from 2008 to 2009 amounted to EUR 3 912 336 487.46;
- the positive budget balance amounts to EUR 1 809 933 155.72.
- Cancelled payment appropriations for the financial year amounted to EUR 1 782 153 884.83.

EUR 994 555 498.12 (83%) of the EUR 1 192 715 675.21 in appropriations for payments carried over to 2008 have been used.

Based on the observations contained in the report of the Court of Auditors, the Council recommends the European Parliament **to give a discharge to the Commission** in respect of the implementation of the EU budget for the financial year 2008.

DAS (Statement of Assurance): the Council notes the positive trend over the recent years as regards an improved financial management of EU funds in an increased number of policy areas. However, it regrets that the Statement of Assurance (DAS) remains adverse for a significant part of the budget for the financial year 2008. In this respect, it welcomes the notable improvements in the management and control of funds, showing evidence of the progress made towards the principal objective of achieving a positive DAS. It urges all responsible actors to continue to improve the financial management of EU funds. The Council welcomes the unqualified audit opinion of the Court as regards the legality and regularity of the underlying

transactions for "Revenue", commitments for all policy areas and payments for "Education and Citizenship" and "Administrative and other expenditure". It is particularly satisfied with the improvements made in the area of "Agriculture and natural resources" for which the Court's opinion on the underlying payments was for the first time qualified only in respect of "Rural Development". However, it notes with dissatisfaction the qualified opinion for the area of "Economic and financial affairs". The Council also regrets that the Court's opinion for certain other areas remained adverse, it calls for simplification of expenditure schemes, while not undermining the level of assurance provided by improved controls.

- **Reliability of the accounts:** the Council welcomes the favourable opinion given by the Court on the reliability of the annual accounts of the European Union for the financial year 2008 and the Court's statement that the accounts present fairly, in all material respects, the financial position of the EU as at 31 December 2008. It, nevertheless, asks the Commission to take further steps towards the closing of outstanding cross-cutting issues relating to interfaces between local financial management applications and the central accounting system, as well as towards the improvement of the quality of basic accounting data;
- **Legality and regularity of the underlying transactions:** the Council welcomes the fact that the Court was able to give non-adverse opinions on an increasing number of areas and appreciates the Court's unqualified opinion for "Revenue", commitments for all policy areas and payments for "Education and Citizenship" and "Administrative and other expenditure" where the error range estimated lies below the 2% materiality threshold, as well as progress made in respect of "Rural Development". Regarding expenditure in the area of "Cohesion", the Council regrets the Court's finding that at least 11% of the total amount reimbursed to 2000-2006 Cohesion policy projects should not have been reimbursed. The Council recalls that irregularities in this policy area are almost entirely the result of eligibility errors and that irregularity does not mean fraud. It invites the Commission to do its best to recover a maximum of the money that should not have been paid out.

TFEU: the Council recalls that, following the Treaty on the Functioning of the European Union (TFEU), the Commission shall implement the budget in cooperation with the Member States, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. **Member States shall continue to cooperate with the Commission** to ensure that appropriations are used in accordance with the principles of sound financial management. It insists on the importance of further improving the efficiency, effectiveness and consistency of controls, in order to provide reasonable assurance of the sound financial management of funds by all parties involved. Moreover, it is of the opinion that **the control burden must remain proportionate to the benefits derived from controls** undertaken at different levels. It encourages the Commission to continue its work on the concept of tolerable risk of error and looks forward to examining the Commission's proposals on this issue.

Commission internal control and supervisory system: the Council welcomes the progress made by the Commission in 2008 to improve its internal control and to address the weaknesses in the control and supervisory systems. It takes note of the **transmission by all Member States of annual summaries at the appropriate national level of the available audits and declarations** on time. Recognising the considerable steps taken by the Commission to improve its internal control standards, the Council regrets that there is still no evidence that the actions undertaken have been effective in mitigating the risk of error in the policy areas related to "Rural development", "Cohesion", "Research, energy and transport" and "External aid, development and enlargement". The Council acknowledges that any simplification of the rules and all improvements to the Commission's controls **will need time** to have an effect on the reduction in the level of errors. The Council also recalls that the controls and the assurance they provide should be improved by building on existing control structures and promoting simplification with a view **of improving the cost-benefit ratio**, based on the single audit model. As regards the simplification, the Council fully agrees with the recommendation of the Court that **simplified eligibility conditions, control structures and procedures have to be prioritised** in the context of future legislation. In particular, it stresses that attention is primarily directed to those expenditure areas where a **high level of errors** is systematically reported.

Budgetary management: the Council notes that the implementation level of the 2008 budget is similar to the spending rates in 2007. It reiterates that **over-budgeting** has to be avoided and insists that a realistic budgeting from the stage of the draft budget presented by the Commission onwards remains an essential element of good budgetary management. However, it shares the Court's statement that reducing appropriations for payments through amending budgets represents good financial management by adjusting to changes and reducing the budgetary surplus. Concerning the **2000-2006 Structural Funds programmes**, the Council welcomes the fact that the implementation of payment appropriations is higher than expected. However, it regrets that the implementation of payment appropriations for the 2007-2013 Cohesion programmes is lower than expected and that the initial payment appropriations were reduced by EUR 4.5 billion due to a delay in implementation.

RAL (outstanding budgetary commitments): the Council notes with concern that the overall level of outstanding budgetary commitments (RAL) continues to increase. The highest proportion is related to the Cohesion area. Nevertheless, it notes that almost 80% of RAL are from 2007 and 2008 and therefore related to the current financial framework. Moreover, the high level of RAL for the Cohesion Fund, responsible for about two thirds of the total amount, is mainly due to the regulatory provisions for this fund for the 2000-2006 programming period.

Revenue: the Council welcomes the Court's conclusions that the Member States' declarations and payments of traditional own resources, as well as the VAT- and GNI-based contributions were free from material error. It also notes that the functioning of the supervisory and control systems was overall satisfactory.

The Council then reviews each **budgetary area** and makes the following remarks:

- **Agriculture and natural resources**: the Council notes with great satisfaction that, for the first time, the overall error rate related to the transactions underlying the expenditure declared for this policy area, taken as a whole, is below the materiality threshold. The errors detected mainly affect the transactions' accuracy and, to a lesser extent, their eligibility, and were relatively small in financial terms. Therefore, the Council encourages the Commission and the Member States to continue addressing the weaknesses of the systems, most of which the Court assessed as partially effective. With a view to addressing specific deficiencies, particularly within the SPS (Single Payment Scheme) and SAPS (Single Area Payment Schemes), the Council considers that close cooperation between the Commission and the Member States is crucial. The reliability of databases and the correctness of administrative procedures will be enhanced mainly by providing implementing entities and beneficiaries with clear and simple guidelines, particularly in relation to eligibility conditions. With regard to the effectiveness of systems related to recoveries and financial corrections, the Council stresses, once again, that effective and rapid recovery actions represent not only an indispensable instrument for the protection of the Union's financial interests, but also an additional incentive for Member States to improve their Management and Control Systems.
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the Council considers that the simplified rules and conditions set in the new regulatory framework for the 2007-2013 programming period, coupled with tighter and more effective controls, have resulted in a lower error rate for this policy area, which remains nonetheless an error-prone one, due in large part to the inherent complexity of rural development rules and conditions. It acknowledges that good progress has been achieved in ensuring that all measures, including agri-environmental ones, are verifiable and controllable but that further efforts still need to be made to **furthersimplify implementation**.

- **Cohesion:** the Council, being aware that the Court's observations concentrate on the 2000-2006 programming period, notes with great concern the Court's estimate that again in 2008 at least 11% of the **total amount reimbursed** to 2000-2006 Cohesion policy projects should not have been reimbursed. While noting the absence of potential fraud cases in the Court's report, the Council urges the Commission and the Member States to remedy this situation without delay. It welcomes the fact that the Commission has already taken remedial measures, namely in 2008 but the entire impact of the Commission's action plan can only be assessed when the 2007-2013 reimbursements are audited. The Council is also convinced that simplification should lead to reductions in the level of errors and the administrative burden. It encourages the Commission, in cooperation with the Member States, to make concrete proposals aiming at further simplification of procedures. As regards financial corrections, the Council considers that the application of **flat-rate corrections** should be reserved for exceptional and duly justified cases.
- **Research, energy and transport**: overall, the Commission has reinforced its control systems and simplified the funding rules for research projects, and that these measures have contributed to a reduction in the level of error. The Council regrets that a number of transactions audited by the Court were still affected by material errors. It is concerned that, according to the Court, most of the errors found were related to the reimbursement of ineligible costs in interim and final payments to research projects under the Sixth Framework Programme. The most common type of error remained the reimbursement of ineligible personnel and indirect costs. The situation appears to be better as far as the 7th Framework Programme is concerned and, in the context of the preparation of the Eight Framework Programme, special attention should be paid to work concerning the simplification of the funding rules.
- **External aid, development and enlargement**: the Council regrets that the transactions relating to this policy area were still affected by a material level of error of legality and/or regularity and that the frequency of errors in the transactions was higher than in the previous financial year. The Council recognises, however, the serious work done by the Commission to improve the financial controls in this area that entails controls to be made all over the world. As regards the types of errors, the Council notes with dissatisfaction the eligibility errors in the transactions and the irregularities in the procurement procedures. It expresses its disappointment concerning the controls at DG AIDCO (EuropAid) and in projects implemented by UN agencies. While checks made at headquarter level continue to be effective, this is not the case at delegation level. It invites the Commission to continue to improve management and supervision in DG RELEX and AIDCO delegations. It also criticises weaknesses in auditing methods.
- **Education and citizenship:** the Council welcomes the clear progress made in the implementation of transactions in this policy area. Nevertheless, it regrets that the Court's assessment of selected supervisory and control systems in this policy area as a whole resulted in the conclusion that these systems are only partially effective. It calls on all stakeholders to continue to improve the control and supervisory systems. It calls for new simplification measures, in particular the introduction of lump-sum payments. It also recommends the Commission to involve itself in a closer supervision of the annual ex-post declarations process, with more thorough monitoring visits and direct verification if the controls described are adequate and fully applied.
- **Economic and financial affairs:** the Council notes that, except for the payments made under the Sixth Framework Programme for research and technological development (FP6), the transactions in this policy area were free from material error. It notes with satisfaction that the Commission has taken significant measures in order to address errors and weaknesses affecting respectively the regularity of transactions and the effectiveness of systems. However, it is concerned about the fact that for 2008 the Court found out that the audit certificates, mainly for projects financed under the FP6, were only partially reliable. While noting that actions have been taken to improve the quality of audit certificates for FP7, it insists on the importance of this instrument as a contribution to prevention and early correction of errors.
- **Administrative and other expenditure:** overall, in 2008, all institutions continued to operate satisfactorily the supervisory and control systems required by the Financial Regulation. Nevertheless, the Council takes due note of the Court's observations concerning the budgeting of funds for the Secured European System for Automatic Messaging (SESAME). It will assess the situation in the context of the annual budgetary procedure. The Council is concerned with the various problems identified by the Court in the functioning of the new Individual Rights Information System (IRIS) used to manage staff entitlements, including the calculation of salaries, implemented by the Office for Administration and Payment of Individual Entitlements (PMO) and calls on the latter to take all measures necessary to remedy these shortcomings, in order to avoid in the future the problems identified by the Court. Lastly, it invites the Commission to take duly into account the remarks made by the Court when assessing the workings of the pension scheme and fund for local staff at Commission .delegations. It welcomes the Commission's commitment to present, in spring 2010, **a long-term estimate of EU pension expenditure**, as requested by the Council.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 23/07/2009 - Non-legislative basic document

PURPOSE: to present the revenue and expenditure account and the balance sheet relating to the 2008 budget (Section III – Commission).

CONTENT: this document presents a political and detailed analysis of the use of payment appropriations by the Commission in 2008. The main information presented in this summary is extracted from the EU Budget 2008 Financial Report.

Main changes in 2008: the Financial Report recall that the 2008 budget could not have been designed specifically to respond to a crisis which only took hold later that year. Yet, the increased focus on investment in Europe's competitiveness in 2008 and stable funding provided by the 2007–13 financial framework has played a positive role in helping Europe cope with the consequences of the economic crisis. The Commission's decisive action to help secure extra funding for priority measures in the area of energy links and broadband connections in autumn 2008, as well as the fast-tracking of Structural Fund payments, shows how the EU can react quickly and effectively to crisis situations. Moreover, **98% of payments were executed in 2008**, which sets the right target for EU spending in the years ahead.

- **Continuity in efficient budget management**: the 2008 budget focused on solid programme implementation and the areas of growth and jobs, with commitments on sustainable growth rising from EUR 53.7 billion to EUR 57.9 billion. For the second year in a row, spending on competitiveness and cohesion outstripped expenditure on agriculture and rural development (the heading for preservation and management of natural resources), which amounted to EUR 56.3 billion. Active budget management also continued, with Member States only making payments into the EU budget for what was strictly necessary and with only roughly 1.5 % of the budget end-of-year surplus being redistributed to national coffers.

- **Dealing with the consequences of the economic crisis**: whilst the 2008 budget followed the roadmap set out in the financial framework, a series of crises also called for the EU's intervention and budgetary support during the year. Active on the diplomatic front to halt the fighting during the war in Georgia, the EU intervened financially through the provision of humanitarian aid, peace monitors and a reconstruction aid package. In total, this aid amounted to EUR 168.8 million. In response to the dramatic rise in food prices in developing countries, the EU also acted decisively by agreeing on a EUR 1 billion food aid facility for 2008–10 to help developing countries access goods and services necessary to increase food production. The second half of the year was marked by the **severe economic situation** and the coordinated efforts at European level to counter its effects through the European economic recovery plan. In November, the Commission proposed EUR 14.4 billion from the EU budget in 2009 and 2010, made up from an additional EUR 5 billion of funding to go to developing energy interconnections and broadband; EUR 6.3 billion was made up from accelerated Social and Cohesion Fund payments; EUR 2.1 billion in total redeployment from existing budgets for green cars, energy payments for trans-European transport networks; and EUR 0.5 billion for various other projects.

- **Strengthen transparency of budget expenditure**: the 2008 EU budget increased by 8% compared with 2007, reaching **EUR 130.9 billion** in executed commitment appropriations. 2008 saw the European Transparency Initiative bear its first important fruits. In October 2008, the Commission launched the online Financial Transparency System (FTS) — a web-based search engine allowing the public to find out who the recipients of EUR 10 billion of EU aid are.

Focusing European Union spending on new challenges: the budget implemented in 2008 has been structured around six headings as follows:

Heading 1 - Sustainable growth maintained its top position with EUR 57.919 billion (44.2% of the budget). This heading also includes:

- **Heading 1a. Competitiveness for growth and employment** with a budget of EUR 10.5 billion in commitments (+19.7% compared to 2007). Competitiveness is the key objective of the renewed Lisbon strategy on growth and jobs. The main expenditure area is research and development (R & D) (57%), followed by the trans-European networks programme (TENs), lifelong learning, and competitiveness and innovation (CIP). The 7th Framework Programme for research and technological development is the European Union's chief instrument for funding research over the period 2007–13. It bundles all research-related EU initiatives (nano-sciences, health, food, environment including climate change) together under a common roof playing a crucial role in reaching the goals of growth, competitiveness and employment. Over 2 500 grants were awarded and over 1 400 services and products were delivered in 2008.

- **Heading 1b. Cohesion for growth and employment** with a budget of EUR 47.4 billion (+ 5.5% compared to 2007). This heading aims to strengthen economic, social and territorial cohesion by reducing disparities in the level of development among regions and Member States. This heading is structured around 3 main objectives and supported by 3 funds;

Heading 2 - Preservation and management of natural resources: with EUR 56.7 billion in commitments (43% of the total budget) (+8% compared to 2007). This heading aims to manage natural resources while preserving landscape and jobs are the EU's most important objectives in the fields of agriculture, fisheries and the environment. This heading showed a shift of funds within the common agricultural policy from direct aid (the first pillar) to rural development (the second pillar).

Heading 3 - Citizenship, freedom, security and justice with EUR 1.521 billion in commitments. This heading comprises the 2 following sub-headings:

- **Heading 3a. Freedom, security and justice** with EUR 641 million (+13% compared to 2007): 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 are the main policies of this expenditure area focusing on the protection of life, freedom and property of citizens. Nearly half of the expenditure was allocated to Solidarity and management of migration -flows (through 4 specific Funds).

- **Heading 3b. Citizenship** with EUR 880.6 million (+10.11% compared to 2007): improving active citizenship, fostering European culture, identity and diversity, as well as promoting health, consumer and civil protection are the EU's objectives implemented in this expenditure area. In 2008, nearly 30% of expenditure under this sub-heading went to the Solidarity Funds.

Heading 4 - the European Union as a global player with EUR 7.3 billion (+13.5% compared to 2007): the EU's paramount objectives in foreign policy are stability, security and neighbourhoods' prosperity. The EU is the world's biggest provider of aid to developing countries. It has created a more proactive foreign and security policy with the capacity to carry out crisis management and peace-keeping missions within Europe and far beyond. Main interventions in 2008 concerned Kosovo, Georgia and Palestine. The main expenditure of this year went to the following three programmes: Instrument for Pre-Accession; European Neighbourhood and Partnership Instrument Development Cooperation Instrument.

Heading 5 - Administration: this heading covers the expenditure of all EU institutions (EUR 7.2 billion, representing 5.5% of the EU budget).

Heading 6 - Compensation: this heading represents EUR 206.6 million. Compensation is a temporary measure ensuring that new Member States retain a positive budgetary balance during the first years of accession. Whereas in 2006 compensations were paid to the 10 countries that had joined in 2004, as of 2007 they only concerned Bulgaria and Romania, which received EUR 64 million and EUR 142.6 million in 2008 respectively.

A budget directly implemented in the Member States: in 2008, total executed EU expenditure amounted to EUR 116 544.5 million, of which EUR 104 962.0 million (i.e. 90.1 %) was allocated to Member States, EUR 5 603.9 million to third countries and EUR 5 978.6 was not allocated. In absolute

terms, France is in 2008 as in 2007 the largest recipient of EU expenditure ahead of Spain, which was first in 2003, 2004 and 2005. Germany is in third position as in 2004, 2005, 2006 and 2007. Italy is in fourth position, followed by Greece. Poland, which now receives substantial EU cohesion and agricultural expenditure, is in sixth position as in 2007 (up from the eighth position in 2005 and 2006), ahead of the United Kingdom and Belgium.

Budget implementation: the Financial Report concludes by stating that budget implementation remained strong in 2008, confirming that the switch to a new multiannual financial framework (MAFF) in 2007 was well managed. The performance in terms of commitments' implementation was by 2 percentage points higher than in 2001, the second year of the previous financial framework, thus reaching 99 %. Some EUR 0.4 billion of unused commitment appropriations lapsed in 2008, thus confirming a positive trend if compared with the 0.5 and 0.6 billion lapsing in 2007 and 2006 respectively. The execution rate of payments grew by 14 percentage points on 2001, thus reaching 98 % after carry-over in 2008. The level of payments lapsing at the end of the year dropped from 16 % of the agreed budget in 2001 to 2 % in 2008.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 10/11/2009

PURPOSE: to present the report of the Court of Auditors on the implementation of the budget concerning the financial year 2008 (section III – Commission).

CONTENT: the Court of Auditors published its 32nd annual report on the implementation of the general budget of the European Union, covering the financial year 2008.

Statement of Assurance: unqualified opinion on the reliability of the 2008 accounts: the Court concludes that the 2008 annual accounts of the European Communities present fairly, in all material respects, the financial position of the European Communities and the results of their operations and cash flows. It also states that the revenue transactions are free from material error. The related supervisory and control systems are assessed as effective, although the Court draws attention to certain weaknesses. They are, however, not material to the effectiveness of the systems as a whole.

Without calling this opinion into question the Court notes that **weaknesses in the accounting systems** of certain Directorates-General of the Commission as well as in the accounting system for the fixed assets of the European Satellite Programme **Galileo** put the quality of financial information at risk. This is partly due to the complex legal and financial framework.

Steps taken to strengthen the accruals-based accounting system: the measures introduced by the Commission's Accounting Officer in 2007, to improve the accounting control environment at the level of individual Directorates-General, have had an impact in 2008 and have contributed to a strengthening of the financial reporting framework and accounting systems. However, certain weaknesses still exist which put at risk the quality of accounting data.

When it comes to **legality and regularity of transactions**, the overall results for 2008 reflect the improvements in the management of the budget in recent years. The Court's opinion can be summarised as follows:

- **Unqualified opinions**: for 2008 the Court gives unqualified opinions for "Revenue", commitments for all policy groups and payments for the policy groups "Education and Citizenship" and "Administrative and other expenditure".
- **Qualified opinions**: payments for the policy group "Agriculture and natural resources", except for Rural Development are in all material respects legal and regular. Payments for the policy group "Economic and financial affairs", except for expenditure in this policy group concerning the Sixth Framework Programme for research and technological development (FP6), are in all material respects legal and regular.
- **Adverse opinions**: the Court gives adverse opinions for policy groups "Cohesion", "Research, energy and transport", as well as "External aid, development and enlargement". Payments in these policy groups are materially affected by errors, although at different levels.

Court's analysis of main policy sectors:

- **Agriculture and natural resources** (EUR 55 billion): for the policy group taken as a whole, the Court estimates the value of the overall error rate to be slightly below 2%. The Court found eligibility errors of Single Area Payment Scheme (SAPS) payments to beneficiaries not meeting the farmer definition as they had not carried out any agricultural activity nor maintained the land in good agricultural and environmental condition (GAEC). Rural development, which represents 19% of all spending, is still affected by a higher level of errors than the rest of agricultural expenditure (EAGF), although the estimated error level is lower than in previous years and relatively small in financial terms.
- **Cohesion** (EUR 36.6 billion): the Court concludes that the reimbursement of expenditure to Cohesion projects is affected by a material level of error of legality and/or regularity. In 2008 again a large number of reimbursements to the Cohesion projects were affected by errors, i.e. a large number of projects were over-reimbursed. The Court has established a sample estimate, based on which it concludes that **at least 11% of the total amount reimbursed should not have been paid out**. In the cases audited by the Court this year the most frequent causes of incorrect expenditure reimbursements in the Structural Funds were related to eligibility of funding, such as projects or beneficiaries not meeting specific fund conditions, serious failure to respect procurement rules and inclusion of costs which are not reimbursable.
- **Research, energy and transport** (EUR 7.5 billion): the Court concludes that payments in 2008 for this policy group are affected by a material level of error, although the remedial measures taken by the Commission have contributed to a reduction in the level of error in comparison to previous years. Errors mainly concern the reimbursement of ineligible personnel and indirect costs for FP6 research projects.

- **External aid, development and enlargement** (EUR 6.2 billion): the Court concludes that transactions underlying the expenditure in this policy group are affected by a material level of error of legality and/or regularity. Its assessment of the supervisory and control systems is that they are only partially effective in ensuring the regularity of payments. The Court found eligibility errors, such as not meeting essential conditions required for expenditure and inclusion of VAT and other ineligible taxes. In other cases the supporting evidence (e.g. invoices, receipts and bank statements) for payments was not provided, time limits were not respected and procurement procedures presented irregularities.

- **Other policies**: the Court considers that the payments of other policy groups including “Education and citizenship” (EUR 1.7 billion); “Economic and financial affairs” (EUR 600 000 million); “Administrative and other expenditure (EUR 8.5 billion) did not show significant errors.

Improvements to the supervisory and control systems: the Court states that past recommendations made to improve supervisory and control systems still remain valid. They must be seen as parts of an **ongoing process**, where the relevant measures will take time before they can be deemed to be effective. Particular and additional attention needs to be directed at those expenditure areas where the Court continues to report a high level of error. In many situations the errors are a consequence of too complex rules and regulations. **Simplification, therefore, remains a priority**.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 05/08/2009 - Document attached to the procedure

2008 DISCHARGE – COMMISSION : ANNUAL REPORT IN INTERNAL AUDITS

PURPOSE: to inform the Discharge Authority about the work carried out by the Commission's Internal Audit Service (IAS) in 2008. It is based on the report of the IAS and concentrates in particular on significant risk exposures and control issues and corporate governance issues within the Commission.

CONTENT: this report is based on IAS audit and consulting reports finalised in 2008 (and some finalised at the beginning of 2009). 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.

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(2009)1102).

Main conclusions: on the basis of the Commission audits and reviews finalised in 2008 and other related work the following conclusions can be drawn:

Conclusion 1: Further progress made, but more improvements needed: in thecourse of its audits, reviews and consultancy work, the IAS saw further improvements in the Commission’s internal control systems. Six critical recommendations had been issued in 2007, but none in 2008. The number of unsatisfactory or partly unsatisfactory opinions in new audit reports dropped from six in 2007 to four in 2008. However, further improvements are still needed.

For instance several aspects of **financial management** can still be improved:

- significant progress was made concerning the completeness and consistency of the Commission's recovery/financial corrections statistics. For example, DG REGIO and DG EMPL, in collaboration with DG BUDG, have undertaken to produce an overall table on financial corrections (already made or in the process of being made): this will enhance considerably the audit trail of multi-annual controls in shared management. However, in areas of **centralised management** a backlog of recovery orders is to be noted. Hence, internal recovery procedures need be simplified and shortened;
- whether it is appropriate to apply the **2% materiality limit of error** across the board to both standard financial transactions and certain particularly complex or highly sensitive projects needs to be reassessed. The proposed concept of "**tolerable risk of error**" – if and when endorsed by Council and Parliament – would be more appropriate and should improve in the future the achievable level of reasonable assurance of financial management in certain areas;

- attention was drawn to the need for solid monitoring of procurement procedures, especially if major parts of outsourced activities are attributed to a limited number of bidders, exposing the Commission to risks of **market concentration**.

With regard to **security**, considerable progress has been made and follow-up audits confirmed that the difficulties encountered in ensuring that relevant Commission delegations were properly equipped for handling EU classified information have now been resolved. The findings of the audits have also helped the general review of the Commission's security policy, which took place in 2008.

Ethics standards require continuous attention, and throughout the year initiatives at DG and central level have been launched to further strengthen the Commission ethics framework and raise staff awareness. The IAS has not yet provided an audit opinion on the Commission's Ethics framework, but will follow a schedule of actions until the end of 2010. Timely implementation by the Commission services of critical and very important recommendations is an ongoing challenge. The Audit Progress Committee, assisted by the IAS, holds DGs to account in implementing their own Action Plans. It issues reminders, addressed to portfolio Commissioners, which are generally effective, improving follow-up and facilitating the reassessment of residual risks.

Conclusion 2: IT: the extensive audit work on IT issues showed that an effective and efficient IT environment is important for the successful implementation of the Commission’s policies. Greater efforts to follow up past recommendations, an integrated systems approach with a view to gaining an overview of all IT developments at all times and the need for comprehensive security arrangements to guarantee, *inter alia*, business continuity seem more and more important. Better management of projects and service providers are also key success factors.

Conclusion 3: Strong Embedded Audit Culture: the second external quality review of the IAS demonstrated that the service fully complies with the "International Standards for the Professional Practice of Internal Auditing". The IAS is an integrated and accepted driver of positive change in the Commission, covering jointly with the Internal Audit Capabilities all identified risks with the strategic audit plan 2007-2009. While the IAS audit plan focuses to a large extent on financial management, it also covers areas such as governance (e.g. ethics), IT, security and operations (e.g. implementation of EC law).

As reported here, the IAS's audit work helps to draw attention to risks and areas for improving control of risks: **it is therefore important that control of non-financial risks should continue to receive attention throughout the Commission**.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 01/02/2010 - 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 2008.

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 examined the revenue and expenditure account for the financial year 2008 and the balance sheet at 31 December 2008 and the report by the Court of Auditors on the annual accounts of the Executive Agencies, the Council recommends that, in light of its examination, the **European Parliament should give discharge to the Director of each Agency** in respect of the implementation of the budget for the financial year 2008. It states that for each Agency the annual accounts present fairly, in all material aspects, the financial position as at 31 December 2008 and the results of operations and cash-flows for the year then ended, in accordance with the provisions of the Executive Agencies' Financial Regulation, and that, on the other hand, the underlying transactions for the financial year ended on 31 December 2008 are, in all material respects, legal and regular for the four Agencies.

The Council considers that a certain number of observations should be taken into account when granting discharge:

- **Education, Audiovisual and Culture Executive Agency**: the Council notes with concern the persistently high carry-over rates and encourages the Executive Agency to continue its efforts to reduce the volume of appropriations being carried over.
- **Executive Agency for Competitiveness and Innovation**: the Council notes that the Executive Agency's initial budget for 2008 was reduced by more than 22% later in the year following delays in the recruitment of staff and lower than expected forecasts for mission and building costs. It invites both the Executive Agency and the Commission to adopt a more realistic and effective approach when planning tasks, recruitment activities and expenditure.
- **Executive Agency for Health and Consumers** (formerly know as the Executive Agency for the Public Health Programme): the Council regrets that there had been shortcomings in two procurement procedures as the Executive Agency had not circulated all invitations to tender on the same day and asks it to improve the transparency and the planning of its procurement procedures, as well as to strictly implement the principle of equal treatment.
- **Trans-European Transport Network Executive Agency**: the Council regrets the unclear treatment of the appropriations carried forward and asks the Executive Agency to ensure that these are hence forwarded based on appropriate justifications and that those without legal commitments are decommitted at the end of the year. The Council regrets that for a significant part the staff was not recruited according to the 2008 establishment plan, while noting the explanation given by the Executive Agency that this irregularity was due to a delay in the extension of its mandate and did not affect its proper functioning.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 11/12/2009 - Document attached to the procedure

FOLLOW-UP TO THE 2007 DISCHARGE DECISIONS : COUNCIL RECOMMENDATIONS: DETAILED ANSWERS

This Working Document completes the Report from the Commission to the Council on the Follow-up to 2007 Discharge decisions. It presents in detail the answers to the 90 specific recommendations made by the Council in the comments accompanying its Recommendations on the 2007 Discharges.

An overview of these answers can be found in the summary of COM(2008)0628 (please refer to the document in question).

This Commission Working Document intends, on a technical level, to detail the replies already set out in the main COM document.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 26/02/2010 - Document attached to the procedure

This document comprises the report from the Commission as regards Member States' replies to the Court of Auditors' 2008 Annual Report.

In accordance with Article 248 of the EC Treaty [Article 287 of the Lisbon Treaty], the European Court of Auditors (ECA) provide the European Parliament and the Council annually with a statement of assurance (the DAS) in the Court's annual report. Under the terms of the Financial Regulation,

the Commission is required to inform Member States of the details of the ECA's annual report that relate to the management of funds for which they are responsible, as soon as the report has been transmitted.

On 10 November 2009, the Commission duly transmitted these findings and invited the Member States to fill in a three part questionnaire on the follow-up given to the Court's findings, questions related to simplification, the role of the Supreme Audit Institutions (SAIs), eligibility and specific risks, annual summaries and reporting on financial corrections. The summary of Member States replies is to be presented in a Commission report to the ECA, the Council, and the European Parliament before 28 February 2010 which is the aim of this report. It is accompanied by a Commission Staff Working Document.

The main conclusions can be summarised as follows:

- **DAS**:the 2008 DAS indicates that whilst there have been significant improvements and results are encouraging, there are still a number of challenges to be faced by both Member States and the Commission with respect to the attainment of a positive DAS for the legality and regularity of underlying transactions;
- **correction of financial errors**: the report notes that there is a need to make **further improvements with regard to the detection and correction of errors** at Member State level and the subsequent recovery procedures and reporting to the Commission. The Commission has included this in its action plan to improve its supervisory role in shared management. In addition, the Commission has been taking steps to improve coordination with Member States and the Court of Auditors. The Commission is working with the Court on establishing common ground for the treatment of various **types of errors**. The Court has also highlighted the fact that careful attention needs to be paid to the expenditure areas with a continuously high level of error. The Court has stated that in many instances the errors are a result of onerous and complex rules. Therefore, simplification, cautiously and correctly implemented continues to be a high priority;
- **annual summaries**: the Court also underlines the fact that the Commission should seek to gain assurance from the Annual Summaries and ex ante declarations of all Member States as well as other voluntary initiatives by certain Member States. The Commission will explore how to strengthen the value added of the annual summaries in the upcoming triennial revision of the Financial Regulation, for which it will make a proposal in May/June 2010;
- **supreme Audit Institutions (SAIs)**: the extent of the reporting on EU funding by SAIs can be considered as proof of their increasing role in monitoring EU funds. However, the objectives and the comprehensiveness of the reporting activities as well as the methodologies used are very different.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 11/12/2009 - Document attached to the procedure

FOLLOW-UP REPORT TO THE 2007 COMMISSION DISCHARGE DECISION : FOLLOWING THE COUNCIL RECOMMENDATIONS

Preliminary remark: this Commission report concerns the follow-up of the recommendations made by the Council on the 2007 discharge decisions. The Commission's full responses to the 90 recommendations may be found in the Commission's working document (SEC(2009)1700).

CONTENT: the Commission has identified a total of 90 recommendations made by the Council to the Commission in the context of the 2007 discharge. The Commission considers that for 44 recommendations the required action has already been taken, though in some cases results of the actions will need to be examined. For another 46 recommendations the Commission agrees to take the action recommended by the Council:

- **Introduction**: simplification of eligibility rules: the Commission agrees that simplification has a key role to play in reducing errors occurring in the implementation of EU policies. However, a certain degree of complexity in rules and eligibility criteria is unavoidable. Improvements have been incorporated into the 2007-2013 legal bases. Further simplification measures for Structural Funds, such as the possibility to declare costs on the basis of flat rates, unit costs and lump sums, were decided in May 2009. The impact of simplification of eligibility rules on the rate of error is expected to become visible in the medium- to long-term. Moreover, the Commission notes that the degree of complexity of the eligibility rules has a direct link with the intensity and cost of controls required to gain reasonable assurance on the legality and regularity of transactions. If simplified eligibility rules are decided and effectively implemented the underlying transactions will be less prone to error, which will allow to perform less extensive controls (controls can be focussed on output rather than input) and ultimately reduce the cost of controls.

- **The statement of assurance (DAS)**: with regard to the information on financial recoveries, a new IT tool was put in place during 2008 to improve the reliability and completeness of information on the correction of errors, including those relating to payments of earlier years.

- **Commission Internal Control**: an impact report on the action plan towards an integrated internal control framework was adopted by the Commission in early 2009 (COM(2009)43). The Commission took further steps to ensure that reports and declarations present a consistent assessment of supervisory and control systems, with clear explanations made of the reasons and control processes leading to the absence, presence or removal of reservations. As regards funds managed by the Member States under shared management, the Commission will continue to work with Member States to add value to the Annual Summaries. For the financial year 2008, all Member States were able to comply with the legal obligations. The Commission considers that the concept of a tolerable risk of error will provide a clear view on the cost-effectiveness of the overall control system, and is taking this forward in the light of the positive reaction in the 2007 Discharge resolution. The nature of the work required and timing will vary according to the different policy areas and their multi-annual execution. The Commission will make concrete proposals for tolerable risk in the areas of research, energy and transport and rural development in the first half of 2010 and on external aid, development and enlargement and administrative expenditure in the latter half of 2010.

- **Budgetary management**: the Commission continues striving towards realistic and sufficient budgeting already from the stage of the preliminary draft budget. This includes careful analysis of Member States' expenditure forecasts in order to improve their usefulness for budgeting purposes. In the Cohesion policy area, it is also examining the Member States' descriptions of their management and control

systems for the 2007-2013 period. The Commission has further improved its reporting on implementation of Community programmes and outstanding commitments (RAL).

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

- **Agriculture and Natural Resources**: the Commission concentrated on the case of Greece which posed a particular problem in 2006. Regarding IACS, Greece has complied with its action plan and has created a new, operational LPIS. The new system will be used by the Greek authorities for the first time during the 2009 claims procedure. The Commission will continue to closely monitor the IACS procedure in Greece. The Commission recalls that the Member States are required to recover from the final beneficiaries irregular payments identified. However, recovery from the final beneficiaries is often not possible because the problems identified relate to deficiencies in the Member States' management and control systems. Member States should improve these systems and prevent or detect and recover irregular payments to final beneficiaries. The Commission welcomes the Council's support for the application of the 50/50 rule, which provides a strong incentive for Member States to ensure an expeditious and effective recovery of irregular payments from the final beneficiaries.

- **Cohesion**: improving the effectiveness of the control system for Cohesion Policy continues through both preventive and corrective action. For the closure of the 2000-2006 programmes the focus is on removing irregular expenditure through financial corrections and on the work of winding-up bodies to ensure that the residual risk of irregular expenditure in closed programmes is low. For the 2007-2013 period the preventive phase is continuing with the completion of the compliance assessment procedure for the new programmes, the provision of guidance and training, and simplification of operating conditions. A number of simplifications have been introduced, e.g. concerning revenue-generating projects and the use of flat rates and lump sums for certain outputs. Further simplifications were introduced to allow quicker disbursement of Cohesion policy funds in response to the economic downturn. Lastly, the Commission has taken action to speed up its procedures and reduce unnecessary delays in the application of payment suspensions and financial corrections following detection of significant deficiencies during audits. This has been reflected in a large increase in the number of suspension decisions and in the volume of financial corrections in 2008 compared to 2007.

- **Research, Energy and Transport**: the Commission has devised a control and audit strategy aimed to ensure the legality and regularity of expenditure under the research Framework Programmes on a multiannual basis. It is based on the detection and correction of errors which could not be identified before making the payment. The seventh Framework Programme (FP7) has brought about a number of important simplifications, in particular the introduction of the "participants guarantee fund" which allowed a considerable reduction in the numbers of ex-ante financial checks and the use of protective measures. The Commission agrees to the general need for more profound simplifications and asks the legislator to support the adaptations to the legal basis that would be necessary (revision of the Financial Regulation, Framework programme participation rules) for the preparation of the 8th Framework Programme (FP8).

- **External aid, Development and Enlargement**: the Commission has started further work on measures to support implementing organisations and beneficiaries of EC external aid projects in the management of EC funds. The Terms of Reference for verification missions were agreed between the UN and the Commission in April 2009, and the Commission also believes that the efforts made to explain the operation of the verification clause in Contribution Agreements with the UN - including through training - will help to ensure that misunderstandings are avoided in UN country offices and delegations. As regards budget support, guidelines are currently being revised to improve the design and assessment of eligibility conditions and of specific results oriented indicators in order to achieve a more rigorous results oriented approach.

- **Education and Citizenship**: the design of the new programmes 2007-2013 has taken into account the recommendations of previous years to simplify the rules and allows extensive use of lump sum financing. The necessary steps have been taken to improve ex-ante control for communication expenditure, including the development of appropriate check-lists.

- **Administrative and other expenditure**: as requested by the Council, the Commission offers wide-ranging assistance to decentralised agencies in several areas, such as financial management, accounting and training, and agencies are encouraged to sign service-level agreements with the horizontal Commission Directorates-General for support services. The Commission will take into account the results of the Interinstitutional Working Group in order to adjust its assistance further. The Council and the European Parliament are also involved in the evaluation of EU decentralised agencies through the Reference Group. The results of the evaluation should be available by end 2009.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 16/10/2009 - Document attached to the procedure

FOLLOW-UP TO THE 2007 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 2007 Discharge Decisions. It presents the answers to the 203 specific recommendations made by the European Parliament in the comments accompanying its Resolutions on the 2007 Discharges (see summary dated 23 April 2009).

An overview of these answers can be found in COM(2009)0526.

This Commission Working Document intends, on a technical level, to detail the replies already set out in the main COM document.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 05/05/2010 - Text adopted by Parliament, single reading

The European Parliament adopted by 520 votes to 68, with 36 abstentions, a decision on discharge to be granted to the European Commission in respect of the implementation of its budget for the financial year 2008, as well as to the Directors of the following executive Agencies: “Education, Audiovisual and Culture”; “Competitiveness and Innovation”; “Health and Consumers”; “Trans-European Transport” for the implementation of their respective budgets for the financial year 2008.

The decision to grant discharge also marks the closure of the accounts for the General Budget of the Union and the budgets of the agencies concerned.

In parallel, Parliament adopted by 550 votes to 48, with 39 abstentions a resolution containing a series of observations which are an integral part of the decision to grant discharge.

Among the main concerns raised by Parliament, Members refer to the accumulated problems deriving from the previous Commission, which include: i) continuing high rates of error in payments, ii) slowness in recoveries of undue payments, and iii) carryovers at unprecedented high levels.

Although Parliament welcomes the initial signs of a collegial approach from the new Commission promising action in the areas of Member State statements of assurance, proposals for tolerable risk of error, simplification and transparency, and trust funds covering external actions, it also awaits further action in the area of corrections and recoveries, and internal control systems. Overall, Parliament believes that errors in expenditure hinder effectiveness in achieving EU policy targets. It considers that this is still an **inadequate level of improvement** year on year and points out that, despite some areas of improvement, an error rate above 5% remains in policy groups which account for 31 % of the budget, and a rate of between 2% and 5% for a further 22%. It is for this reason that it calls on the Commission to prepare and submit to Parliament a new Agenda for 2010 onwards, providing for an acceleration in the reduction of error rates so as to ensure that a **further 20 % of the budget can be given a 'green' classification** from the Court of Auditors by 2014, with interim changes called for from the Court of Auditors for a new methodology to show specific error rates within the Cohesion budget chapter and differentiating between payments made under the 2000-2006 and the 2007-2013 legislation. It considers that reaching this target is an essential part of getting full value for EU expenditure in the future and progressing towards a positive DAS.

Parliament also proposes a series of horizontal recommendations. These may be summarised as follows:

- **Statement of Assurance (DAS)**: although Parliament notes with satisfaction the Court’s positive opinion concerning the reliability of the final annual accounts, it considers it abnormal that the annual accounts should be presented with negative own capital of EUR 51.4 billion. Parliament regrets that the **DAS still remains qualified (negative)** in extremely important Community spending areas of the budget for the 2008 financial year (Rural development, Structural measures, Research, energy and transport, External actions at the level of implementing organisations and Enlargement). It welcomes the Commission’s efforts made by the Commission since the implementation of the Action Plan and it calls on it to provide a series of indicators and descriptors to measure the impact of this Action Plan.
- **information and framework of the DAS:** in view of the use of the DAS as a key element to improve the way in which European money is spent, Parliament considers that having **only one global and annual assessment does not reflect the complex structure of the European Communities' finances**. Furthermore, continuing to receive a negative annual assessment for 15 consecutive years has negative repercussions amongst the Union’s citizens;
- **revision of the Treaties: reform of the DAS:** noting that Parliament has an enhanced role in the procedure of revision of the Treaties since the entry into force of the Lisbon Treaty, in particular as regards the statement of assurance, Parliament calls for reflection on the **feasibility of separate statements of assurance in the future**, to be provided both by sector/policy area and by multiannual programme;
- **budgetary management: considerable RAL:** Parliament is concerned that outstanding budgetary commitments (unused commitments carried forward to be used in future years), mainly on multiannual programmes, increased in 2008 by EUR 16.4 billion (11.8 %) to **EUR 155 billion** because of delays in the start-up phase of the new programmes. The "RAL" is mainly related to the cohesion area which is why Parliament calls for an overview of budgetary support granted, by country and by fund, for the years 2005 to 2009;
- **recoveries:** Parliament notes some improvement in recoveries, but nevertheless remains concerned about the problems which subsist regarding irregularly disbursed Community funds and the poor quality of the information supplied on the correction mechanism applied at Member State level. It draws attention to the urgent need to **aim for a 100 % recovery rate** in respect of funds that have been falsely issued. It also calls on the Commission to enhance the efficiency and effectiveness of multiannual recovery systems, including at Member State level, and to consolidate data on recoveries and financial corrections in order to provide reliable figures which can be compared between the various policy areas and fund management procedures. Parliament recalls its demand that the Commission produce an annual fund-by-fund grading per Member State, specifying the error rate established;
- **suspension of payments:** Parliament assures its full support in the rigorous application of the legislation on suspension of payments and draws attention to the example of Greece, where significant financial corrections brought about by Commission decision appear to have resulted in better performance in some areas. It agrees that the suspension of payments, as a means of pressure, will contribute to greater involvement of the Member States in the correct use of EU funds received;
- **annual summaries:** Parliament stresses the need to strengthen the role of annual summaries in the upcoming review of the Financial Regulation as well as to improve the quality, homogeneity and comparability of the data provided by Member States so as to ensure their added value in the field of the control of EU funds. It considers that a comparative analysis should be forwarded to Parliament, the Council and the Court by late 2010;
- **national management declarations:** Parliament welcome the voluntary initiatives taken by Denmark, the Netherlands, Sweden and the United Kingdom to draw up national management declarations. In its view, this practice should be generalised and the principle of **compulsory national management declarations for all Member States** introduced. Parliament makes reference to the manipulation of financial statistics and tax evasion in Greece and draws attention to the serious financial impacts on Greece that these have had.
- In regard to the **Commission's internal control system**: with regard to internal control, Parliament made the following observations:
- **the Action Plan for an Integrated Internal Control Framework:** notwithstanding the progressive improvement in the DAS since 2003, Parliament remains concerned by the Court’s assessment that it is not yet possible to determine whether the Action Plan has had a measurable impact on the supervisory and control systems. Further efforts are required on this matter;

- **balance between operational expenditure and the cost of the EU funds' control system:** Parliament calls on the Commission to carry out in 2010 a more complete and exhaustive evaluation of the resources given over to control systems in certain areas in order to assess what future improvements can be achieved and at what cost, as recommended by the Court of Auditors for achieving progress on the question of tolerable risk of error;
- **tolerable risk of error:** Parliament considers that it is urgent to clarify the definition of “tolerable risk of error”. Overall, the Commission should evaluate the relationship between the resources available for each particular policy, and the part of those resources dedicated to the control systems broken down by area of expenditure. It must also identify areas of high political sensitivity (with high "reputational risk") where a quality approach to rates of error (rather than an economic one) should be adopted;
- **interinstitutional debate on the current discharge procedure system:** Parliament calls on the Commission to organise an interinstitutional discussion at the highest level, involving Member States, with a view to embarking on a comprehensive debate on the current discharge procedure system.

Political responsibility and administrative responsibility at the Commission:

- **transparency and ethics:** insisting on the importance of annual activity reports for the directorates-general of the Commission, Parliament also stresses more generally the need to ensure the transparency of working methods and also of beneficiaries of EU funding. It suggests, in particular, that the public must have access to **information on all members of expert groups and working groups managing expenditures and that a public register of NGO-type bodies that receive EU funding be established**. It also emphasises the need to revise the present **Code of Conduct of the Members of the Commission** in order to remedy shortcomings such as: (a) the absence of any definition of the term "conflict of interest", (b) the failure to prescribe a course of action if a conflict of interest arises, (c) a lack of clarity with regard to the acceptance of gifts and hospitality, and (d) the absence of any body designated to look into complaints as well as to relieve the President from the (possible) duty of self-assessment. It expects the Commission to begin the process of consulting Parliament on revision of the present Code of Conduct of the Members of the Commission by August 2010. The Code should incorporate the necessary ethical rules and the principal guidelines to be observed by Commissioners in the conduct of their office. MEPs insist, in particular, on the need for all staff are well trained and properly briefed about their obligations and rights under the Staff Regulations;
- **governance and administrative reform:** Parliament urges the Commission to submit an establishment plan implementing a 3 % reduction in this field by the end of the term of office of the Barroso II Commission. It makes some suggestions for alternative methods for the adjustment of the pay of officials, and also proposes that the Commission splits the hierarchical power between people with accounting responsibility and those responsible for transferring funds in application of the normal security rules for internal control in treasury management;
- **OLAF:** Parliament welcomes the undertakings by the new Commission to unblock discussions in the Council about the reform of OLAF and reiterates its view that OLAF should remain within the Commission whilst retaining its independence.

Sectoral questions: cohesion issues: Parliament also dwelt upon sectoral questions affecting the implementation of the Union’s budget. All of the recommendations made by the committee responsible were taken up (see summary dated 23 March 2010). The plenary mainly focuses on errors affecting **cohesion policy**. Parliament deplores the fact that the system of sanctions for Member States returning high error rates and receiving large shares of funds is inefficient since they only repay between 3% and 5% of the overall appropriations in recoveries. In this regard, it is concerned that the cost of maintaining proper control systems manifestly exceeds this amount, so that this is a negative incentive. Once again, Parliament calls for a simplification of the rules proposed by the Commission and the introduction of more efficient controls at national and EU level, with a view to effective implementation of the Structural and Cohesion Funds.

On the matter of financial corrections, Parliament regrets that the current system has little dissuasive effect on Member States.

Echoing the concerns expressed by the Court of Auditors at the difficulties of taking a definitive and unchangeable snapshot, solely in the annual report, **of the changing and progressive reality that is the Cohesion Policy budget**, Parliament calls on the Commission to present a proposal for solving these phasing difficulties between the multiannual budgetary framework and the annual auditing system. It considers that such a proposal would also be useful to ensure there is more efficient control of major European projects, such as Galileo.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 05/05/2010 - Final act

PURPOSE: to grant discharge to the Commission for the implementation of the European Union general budget for the financial year 2008.

LEGISLATIVE ACTS: Decisions 2010/494/EU, Euratom and 2010/499/EU, Euratom of the European Parliament on the discharge for implementation of the European Union general budget for the financial year 2008 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 2008 and definitively closes the accounts for the year 2008.

In its resolution attached to the discharge decision, the European Parliament regrets that the implementation of the main EU expenditure continues to be marred by significant errors and the continuous level of payments. In addition, delays continue to be found in the recovery of sums unduly paid.

Parliament expects the Commission to take decisive action in the field of errors and recoveries, as well as internal control systems because if there are improvements in the management of expenditure, they remain low relative to the objectives to be reached in the Action Plan that the Commission has implemented in order to reach a positive Statement of Assurance on the implementation of the budget.

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 05/05/2010).

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 2010/495/EU, Euratom), the Executive Agency for Competitiveness and Innovation (Decision 2010/496/EU, Euratom) and the Executive Agency for the Public Health Programme (Decision 2010/497/EU, Euratom) and the Trans-European Transport Network Executive Agency (2010/498/EU, Euratom) for implementation of their respective budget for the financial year 2008.

2008 discharge: EU general budget, section III, Commission

2009/2068(DEC) - 05/08/2009 - Document attached to the procedure

2008 DISCHARGE – COMMISSION : ANNUAL REPORT IN INTERNAL AUDITS

This Commission Staff Working Document accompanies the Annual Report to the Discharge Authority on Internal Audits Carried out in 2008 – presented in parallel (please refer to COM(2009)0419).

The report consists of a technical Annex containing a synthesis of audits carried out in 2008.

The document proposes in particular a series of analytical tables on the audits of Commission DGs and services and recommendations made by each to improve their governance.

In this synthesis report, the Commission takes a position on the cross-cutting 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.