Basic information

2012/2167(DEC) DEC - Discharge procedure	Procedure completed
2011 discharge: EU general budget, Section III, Commission and executive agencies **Subject** 8.70.03.07 Previous discharges	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	GEIER Jens (S&D)	29/02/2012
	Shadow rapporteur HOHLMEIER Monika (PPE) PIEPER Markus (PPE) MULDER Jan (ALDE) STAES Bart (Verts/ALE) ANDREASEN Marta (ECR) BRADBOURN Philip (ECR) EHRENHAUSER Martin (NI)	

Committee for opinion	Rapporteur for opinion	Appointed
AFET Foreign Affairs	SALAFRANCA SÁNCHEZ-NEYRA José Ignacio (PPE)	10/10/2012
DEVE Development	BERMAN Thijs (S&D)	18/09/2012
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	BERÈS Pervenche (S&D)	26/10/2012
ENVI	Environment, Public Health and Food Safety	HAUG Jutta (S&D)	20/09/2012
ITRE	Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO	Internal Market and Consumer Protection	The committee decided not to give an opinion.	
TRAN	Transport and Tourism	DURANT Isabelle (Verts/ALE)	26/10/2012
REGI	Regional Development	OLBRYCHT Jan (PPE)	27/11/2012
AGRI	Agriculture and Rural Development	The committee decided not to give an opinion.	
PECH	Fisheries	TORVALDS Nils (ALDE)	09/10/2012
CULT	Culture and Education	LØKKEGAARD Morten (ALDE)	19/09/2012
JURI	Legal Affairs	The committee decided not to give an opinion.	
LIBE	Civil Liberties, Justice and Home Affairs	PAPANIKOLAOU Georgios (PPE)	05/11/2012
AFCO	Constitutional Affairs	The committee decided not to give an opinion.	
FEMM	Women's Rights and Gender Equality	CLIVETI Minodora (S&D)	10/10/2012
PETI	Petitions	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	3220	2013-02-12

European Commission	Commission DG	Commissioner
	Budget	ŠEMETA Algirdas

Key events

Date	Event	Reference	Summary
25/07/2012	Non-legislative basic document published	COM(2012)0436	Summary
13/09/2012	Committee referral announced in Parliament		
18/03/2013	Vote in committee		
25/03/2013	Committee report tabled for plenary	A7-0116/2013	Summary
16/04/2013	Debate in Parliament		
17/04/2013	Decision by Parliament	T7-0122/2013	Summary
17/04/2013	Results of vote in Parliament		
17/04/2013	End of procedure in Parliament		
16/11/2013	Final act published in Official Journal		

Technical information

Procedure reference	2012/2167(DEC)
Procedure type	DEC - Discharge procedure
Stage reached in procedure	Procedure completed
Committee dossier	CONT/7/10295

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee opinion	FEMM	PE500.566	23/01/2013	
Committee opinion	TRAN	PE500.563	28/01/2013	
Committee opinion	ENVI	PE500.740	28/01/2013	
Committee draft report		PE497.984	29/01/2013	
Committee opinion	AFET	PE500.612	08/02/2013	
Committee opinion	DEVE	PE502.101	19/02/2013	
Committee opinion	REGI	PE502.212	20/02/2013	
Committee opinion	PECH	PE501.992	21/02/2013	

Committee opinion	CULT	PE502.046	21/02/2013	
Committee opinion	EMPL	PE501.888	22/02/2013	
Amendments tabled in committee		PE502.129	27/02/2013	
Committee opinion	LIBE	PE500.652	01/03/2013	
Committee report tabled for plenary, single reading		A7-0116/2013	25/03/2013	Summary
Text adopted by Parliament, single reading		T7-0122/2013	17/04/2013	Summary

Council of the EU

Document type	Reference	Date	Summary
Document attached to the procedure	05752/2013	01/02/2013	Summary
Supplementary non-legislative basic document	05754/2013	01/02/2013	Summary

European Commission

Document type	Reference	Date	Summary
Document attached to the procedure	COM(2012)0414	24/07/2012	
Non-legislative basic document	COM(2012)0436	25/07/2012	Summary
Document attached to the procedure	COM(2012)0563	28/09/2012	Summary
Document attached to the procedure	SWD(2012)0283	28/09/2012	
Document attached to the procedure	COM(2012)0585	03/10/2012	Summary
Document attached to the procedure	SWD(2012)0330	03/10/2012	
Document attached to the procedure	SWD(2012)0340	03/10/2012	
Document attached to the procedure	COM(2013)0118	28/02/2013	Summary
Document attached to the procedure	SWD(2013)0061	28/02/2013	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Court of Auditors: opinion, report	N7-0127/2012 OJ C 344 12.11.2012, p. 0001	06/09/2012	Summary

Additional information

Source	Document	Date

European Commission	EUR-Lex	

Final act
Decision 2013/0537 OJ L 308 16.11.2013, p. 0025 Summary

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 03/10/2012 - Document attached to the procedure

FOLLOW-UP TO THE COMMISSION DISCHARGE FOR 2010: FOLLOW-UP TO THE EUROPEAN PARLIAMENT'S RECOMMENDATIONS

Preliminary comment: this document is the Commission's report to the European Parliament (EP) and the Council on the follow-up to the discharge for the 2010 financial year, pursuant to Article 319(3) of the Treaty on the Functioning of the European Union, Article 147 of the Financial Regulation (FR) and Article 119(5) of the European Development Funds (EDF) Financial Regulation.

The report focuses on the **four priority actions highlighted by the European Parliament** in its general discharge resolutions as well as on other key requests. It is accompanied by two Commission Staff Working Documents (CSWDs) containing the Commission replies to each specific request from the EP and Council (428 in total).

Compared to the 2009 discharge resolutions and recommendation, this represents an increase of 44% of requests addressed to the Commission.

N.B. this summary confines itself to the manner in which the Commission responded to the European Parliament's requests.

CONTENT: the report specifies that out of these 428 requests, a total of 337 are contained in the EP resolution and 91 in the Council recommendation. The Commission **agrees to start new actions on 119 requests** (95 from the EP and 24 from the Council). It considers that **for 283 requests** (217 from the EP and 66 from the Council), the required action has **already been taken or is on-going**. Lastly, for reasons related to the existing legal and budgetary framework or its institutional role or prerogatives, **the Commission cannot accept 26 requests** (25 from the EP and 1 from the Council). A justification is provided in the two attached CSWDs where the Commission has not accepted the requests made by Discharge Authority.

The **Commission's responses to the EP's requests** may be summarised as follows:

1. ***Priority actions***: in its resolution, Parliament specifically highlights four priority actions of institutional accountability and financial nature:

- **Financial engineering instruments (FEIs):** Parliament invited the Commission to closely monitor the use of FEIs through a set of different actions. In February 2012, the Commission sent a staff working document5 to the EP which provides an assessment of the experience by both the Commission and the MS in implementing FEIs in Cohesion Policy. Based on available audit results, this document includes lessons learned and measures taken by the Commission and the MS under the current programming period and also those proposed for the future. However, experience has also shown that clearer rules and more guidance are necessary to ensure sound financial management. This is why **the Commission addressed these recommendations by including the concept and rules for leverage and recycling into the proposals for the Common Provisions (CP) of the structural instruments for the 2014-2020 programming period**. It also ensured as much as possible consistency between the framework for financial instruments under the CP and the one for EU level instruments under the EU FR (and will continue to ensure consistency in the implementing subsequent Delegated Acts).

  At the beginning of 2011, the Commission also undertook a comprehensive exercise of gathering information from the Member States to identify the volumes of funding delivered though FEIs and the types of instruments implemented. These exercises showed that the legal framework needed to be improved and the Commission initiated in July 2011 a revision of Council Regulation (EC) No. 1083/2006. This fast track revision ended in December 2011, with the introduction of requirements making the reporting by the Member States on financial and implementation issues a regular, standardized and compulsory procedure under the annual reporting on the implementation of programmes.

- **Accountability chain:** the Parliament invited the Commission to provide the Committee on Budgetary Control (CONT) with a full insight into the MS annual summaries (AS). As a result, all AS were made available to the EP under the discharge procedure. It will continue to do so up to the end of the current 2007-2013 Multiannual Financial Framework.

  As for the Commission's political declaration in which it accepts responsibility for the implementation of the EU budget, the **Commission confirms that it fully assumes this responsibility as foreseen in Article 317 of the TFEU**. It formally and collegially adopts the Annual Synthesis Report covering the overall responsibility for the EU budget. The Commission is committed to continuously improve the quality, readability and comparability of the AARs, which are its main accountability and management reporting instrument. However, concerning the

request to add the responsible Commissioner's signature to the AAR of his/her related department, **the Commission recalls that this is in contradiction to its internal governance structure**. Based on a decision of the College, the primary responsibility for managing financial and human resources is individually assigned to the Directors General or Heads of Service.

- **Increased use of pre-financing:** the EP called on the Commission to be informed on the increased use of pre-financings between 2005-2010 and to adapt its level in the various programmes for ensuring the necessary float for the beneficiaries to start the project. The increased use of pre-financing over the recent years reflects the spending cycle of multiannual programmes, and is **mostly due to the beginning of the 2007-2013 programming period**. In fact, the level of pre-financings in the various programmes should ensure the necessary float for the beneficiary to start the project, while safeguarding the financial interests of the EU. The EP and Council agreed to amend the rules in the new Financial Regulation (FR) where it will be foreseen that **pre-financing should be regularly cleared following the timing and economic substance of the underlying projects**. Alternatively, for projects exceeding EUR 5 million, the authorising officer shall obtain at least once a year from the beneficiaries information on the cumulative spending. Lastly, the latest information shows that the **global amount of pre-financings has slightly decreased in 2011**, which confirms that the increase witnessed in the early years of the 2007-2013 Financial Framework is also a normal development linked to the spending profile of multiannual programmes.
- **Effective sanctioning mechanisms in the area of Cohesion policy:** the EP invited the Commission to create effective sanctioning mechanisms by making net reductions a rule, abolishing retrospective projects as well as obliging Member States to recover ineligible expenditure from beneficiaries. **The Commission considers that these sanctioning mechanisms should be applied with minimal scope for discretion, involve adequate reporting from Member States** and allow it to impose penalties, discontinue non-compliant operational programmes and bring legal action against Member States in breach of their obligations under Article 258 TFEU. It also considers that the preventive and corrective measures already at hand (interruptions, suspensions, financial corrections) contribute effectively towards these aims although it acknowledges that the tools it has at its disposal should be further strengthened in some areas. The Commission's legislative proposals for the 2014-2020 period put focus on results and effectiveness of the Cohesion policy. The Commission has also made a proposal to reinforce the accountability of Member States and its supervisory role by clarifying the use of different sanctioning mechanisms at its disposal. However, **it did not propose a system to impose penalties on Member States or to discontinue operational programmes in Member States or regions which have repeatedly failed to implement Structural Funds and the Cohesion Fund correctly**. It considers that its existing proposals for improved tools, including net corrections, allow it to supervise adequately the implementation of each programme at the level of Member States.

2) *Horizontal issues:* several questions were addressed in this regard:

- **Corporate governance of the Commission:** Parliament requested the President of the Commission to sign the accounts and to present together with them a description of the risks which could affect the achievement of the policy objectives as well as a statement in which the President, together with the College of Commissioners, accepts responsibility for risk management and a formal Corporate Governance declaration. The Commission has already expressed its views about the way it takes overall political responsibility in this regard. As for the signature of the accounts by its President, the Commission points out that any additional statement by the President and/or the other Members of the College, which remain politically responsible would dilute the clear assignment of the actual management responsibilities to the Director-Generals.
- **Responsibility of Member States:** Parliament requested the Commission to present a proposal for the introduction of mandatory national management declarations. As a result of the negotiations on the new FR, **it is now foreseen that Member States may provide to the Commission declarations, signed at the appropriate level**, based on the information submitted annually to the Commission (accounts, management declarations, annual summary of the final audit reports and of controls, audit opinion). These **voluntary declarations** would be issued in addition to the mandatory management declarations as from 2014.
- **European Financial Stabilisation Mechanism (EFSM):** the Commission was asked to report to EP and Council twice a year on the risk that is incurred on the Union's budget by its guarantee to the EFSM. The cash management of the Commission and its right to draw on Member States for contributions, under the provisions of Article 12 paragraph 3 of Regulation 1150/2000, ensures timely payment of all obligatory expenditures, including debt service for the bonds issued by the EU. Any funds mobilised in this way would be proposed to be budgeted under the line 01 04 01 03 "European Union guarantee for Union borrowings for financial assistance under the EFSM". The EP as an arm of the Budgetary Authority would be part of this decision.
- **Transparency:** the EP requested that all grant payments from the EU budget should be recorded in a user-friendly online database, paying due regard to data protection law. The Commission considers that it is fulfilling the requirements of transparency as defined in the FR, with due regard to data protection law and European Court of Justice case law. This information is available through the Financial Transparency System (FTS), a central online search engine.

3) *Specific issues*: the Commission highlights the following observations:

- **performance:** the EP recalls its suggestion that the Commission should appoint a "performance evaluator" in order to establish clear ownership of its Evaluation report. The Commission considers that there is no lack of ownership of the evaluation report, as it is adopted by its College and reiterates its commitment to present the evaluation report in full compliance with Article 318 of the TFEU;
- **cohesion:** the EP called on the Commission to analyse the weaknesses in the Member States and regions affected by high error rates. The Commission indicates that the Directors-General for Regional Policy and Employment have put reservations on a significant number of programmes in their 2011 AARs and subsequently interrupted and/or suspended payments to these programmes. This approach follows the general objective to strengthen the Commission's supervisory role. The EP also called on the Commission **to resume interrupted payments only if sufficient appropriate audit evidence gathered on the spot proves that weaknesses were remedied**. The Commission underlines that it does not resume payments until it has confirmation that systems are corrected for the future and that financial corrections have been implemented on past expenditure, based on formal written commitments;
- **agriculture and natural resources:** the EP invited the Commission to take the necessary measures to ensure that bartering arrangements if to be continued at all are transparent and cost effective. As regards the food aid programme for the most deprived people, Regulation (EU) No 121/2012 allows the continuation of the current scheme until the completion of the 2013 annual plan. According to the MFF proposal for 2014-2020, as of 2014 the food aid programme will be financed by the Cohesion budget;
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- **external aid including the European Development Funds (EDF):** concerning the Union's aid to Haiti, the EP asked the Commission to ensure better coherence and complementarity between humanitarian aid and development aid. In parallel, Parliament requested a list of the projects carried out in Haiti with a detailed assessment of their current situation. The instructions for EDF/DCI for the period 2014-20 sent to EU delegations aim at ensuring a comprehensive, consistent and effective approach towards partner countries and enhancing coordination and complementarity between geographical and thematic programmes/instruments. Parliament also called on the Commission to accompany budget support instruments with **rigorous and well-defined conditions**. This had already been addressed in the Commission's communication on the future approach to EU budget support to third countries and more specifically in guidelines for designing and implementing budget support programmes. As part of these guidelines, the Commission prepared together with the Member States a common risk assessment framework covering political governance, macroeconomic stability, public financial management, corruption etc. This framework has proved to be a useful tool for designing and implementing budget support operations. Lastly, as for the **integration of the EDF into the Union budget**, the Commission considers that, as the Cotonou agreement is due to expire in 2020, the 2014-2020 period should rather be used for redefining the principles and the architecture of the EUACP partnership and for preparing the integration of cooperation with ACP countries into the budget for the post Cotonou period;

- **decentralised agencies / joint undertakings:** several EP requests concern issues that have been discussed by the Inter-Institutional Working Group on agencies (IIWG) and are addressed in the common approach recently adopted by the EP, the Council and the Commission. The Commission will present a roadmap on the implementation of the Common Approach with concrete timetables for the planned initiatives by the end of 2012. It will indicate in this roadmap how it will follow-up on the issues raised by the EP. Agencies will be responsible for the implementation of those issues which are within their remit.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 28/09/2012 - Document attached to the procedure

DISCHARGE 2011 – COMMISSION : ANNUAL REPORT ON INTERNAL AUDITS

PURPOSE: this report informs the discharge authority of the work undertaken by the Internal Audit Service (IAS) in 2011. It is based on the IAS's main audit observations and well as the audit and consultancy reports completed in 2011 relating to Commission departments and the executive agencies. It does not cover the results of audit work carried out by the IAS in the decentralised agencies, the European External Action Service or other agencies or bodies for which separate reports have been drawn up.

This report informs the Discharge Authority of the work undertaken by the Commission's IAS, in accordance with the provisions of Article 86(4) of the Financial Regulation (FR). It has as its base the IAS's report drawn up on the basis of Artcile 86 (3) of the FR, on the main recommendations of the audit as well as the important risks, monitoring and corporate governance.

The Commission's reactions to the observations and recommendations of the Internal Auditor were presented in the Synthesis Report of the Commission's management achievements in 2011 in which the Commission highlights its position in relation the horizontal questions raised by the IAS, by the Court of Auditors and by the Discharge Authority, as well as in relation to the aspects highlighted by the Audit Progress Committee (APC).

CONTENT: in 2011, the IAS celebrates its 10th anniversary. Its annual conference was the occasion to review the results achieved thanks to the efforts made in the context of the administrative reform of the Commission, in which the creation of the IAS and the internal audit structures have played an important role. According to one of its conclusions, the Commission's internal audit community is not only one of the largest public internal audit functions but it has also **reached an exceptionally high degree of maturity**.

According to the IAS stakeholder survey results, 87 % of participants are confident that the service delivers and communicates a strong vision in terms of governance and internal control; 87 % are also convinced that the recommendations issued by the IAS **lead to better risk control in the Commission and the Executive Agencies**.

Overall opinion on the Commission's financial management: the IAS issued, in 2011, an overall opinion on the state of financial management in the Commission in the previous year. **It is a positive assurance statement.** It is based on the work carried out by the IAS and IACs during the previous three-year period and provides reassurance to the Commission (the 'College') that the statements of assurance issued by the Directors-General are, seen as a whole, soundly based, and that there are no significant weaknesses other than those mentioned in the report made by the IAS.

IAS contribution to a more positive Statement of Assurance ('DAS'): the DAS represents the opinion of the European Court of Auditors (ECA) on the reliability of the EU accounts and on the legality and regularity of the underlying transactions. Although the accounts were found to be reliable in recent years, the ECA has issued an adverse opinion for some fields of activity. **Most errors occur outside the Commission and are found in particular in the structural funds, which have shared management, and in rural development (shared management), research (direct management) and external aid (decentralised management)**. Serious breaches of EU and national procurement rules accounted for much of the error found in the 'Cohesion' area.

The IAS audit plan has therefore prioritised audits to ensure that a consistent control strategy is being applied for every significant area of expenditure, including the Structural Funds DGs, as such control strategies aim at addressing the risk of error in the underlying transactions.

Implementation of the IAS audit plan: in 2011, the IAS implemented 88 % of its priority engagements (C1 engagements being those due to be completed in the year). Other engagements were well advanced, to the tune of 69 % of non-priority audit engagements (C2 engagements being those that may be completed in the following year due to scheduling considerations). 29 C1 and 36 C2 engagements (including audits, follow-ups and

consultancy) were finalised, resulting in 77 reports. The total number of recommendations accepted by the audited services in 2007-2011, for which the IAS had conducted follow-up audits by the end of 2011, is 1 097. The IAS agreed that the recommendations had been implemented and closed 98 % of the recommendations followed-up during this period.

Main conclusions: in regard to the work carried out in 2011, the following conclusions may be drawn:

Performance audits: the IAS's first two performance audits sought to make processes more effective and efficient rather than to test their compliance with procedures and rules. This type of audit is particularly relevant at this present time: there are mature internal control systems to address the compliance issue, but the Commission must strive to do more with fewer resources, and to demonstrate increased efficiency, given the current economic climate. These first performance audits produced positive results, but highlighted the need for:

- better links between the activities of DGs,
- more relevant performance indicators for certain programmes,
- better performance measurement in evaluations.

In the 2014-2020 Multiannual Financial Framework, the Commission proposed **radical simplifications** and included in all sectoral programmes general and specific objectives and key performance indicators with a view to improved performance reporting. Moreover, a standard clause on evaluation requires a final evaluation report on whether each programme's objectives have been achieved.

Commission departments' control strategies: the IAS continued to work towards helping the Commission to achieve **a more positive DAS** by taking an effective but proportionate approach to the risk of error in the underlying transactions. With a view to strengthening the controls on the way EU research policy is run, the 2011 IAS audit in two Commission **research-related departments** underlined the need for a common audit strategy in the Research Area, with no fewer than eight Commission departments. The interconnected nature of research means that there are bound to be common beneficiaries, requiring a more coordinated audit approach.

In the **External Aid** area the IAS recommended stronger supervision and controls in the EDF grant management process, both at Commission headquarters and in the EU Delegations. The action plans were designed to improve supervision of devolved expenditure, notably by improving the Delegations' reporting, rationalising the control programmes and monitoring control activities. The measures were considered adequate but have yet to bear fruit. **The separation of tasks between the Commission and the EEAS presents new risks, which are being addressed**.

The IAS audited the control strategies of the **Structural Funds** DGs in 2010, concluding that they are on the right track. This work will be continued in 2012 in the Cohesion area, by way of audits covering the closure of the previous programming period for the ERDF, CF and ESF and the implementation of controls over the 2007-13 programming period, to seek reasonable assurance that DGs are effectively **addressing the issue of the persistently high rate of error**.

Commission's management of major industrial programmes: following its audits on the Global Navigation Satellite Systems (GNSS) Programmes, the IAS concluded that the Commission should ensure it has the capacity to run such complex programmes, as they require large-project management skills which are not readily found internally. They also require management responsibility to be assigned at an appropriately high level and a stable governance structure. The Commission took immediate action to address the above issues and adopted a proposal for a new Regulation on the implementation and exploitation of European Satellite Navigation Systems. This provides a new framework for the financing and governance of the EGNOS and Galileo programmes for 2014-2020.

Commission's financial management processes: the follow-up audits on financial management processes have shown much improvement over recent years, so the IAS's conclusions in this area are positive. Work is still needed to ensure that the **control framework remains robust** despite pressure on resources.

Commission's IT governance: following the IAS's recommendations in the IT area, the Commission has taken a number of initiatives, all of which have improved IT governance. In 2010/2011, the IT rationalisation process was initiated. To this end, many Commission IT systems were reviewed and assessed in 2011, with a view to limiting the number of local IT systems and IT staff and to streamlining existing systems. This work is ongoing. It is essential that any rationalisation decisions be based on a thorough and objective analysis of the costs and benefits of each option under consideration.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 06/09/2012

OBJECTIVE: presentation of the Report of the European Court of Auditors (ECA) on the implementation of the 2011 budget (section III - Commission).

CONTENT: the Court of Auditors published its 35th Annual Report on the implementation of the EU budget for the 2011 financial year. This report has a two-part structure :

- a first part devoted to the work of the Court relating to the reliability of the accounts and the regularity of the operations,
- a second part focusing on the audit findings regarding the revenues and expenditures of the EU (in groups of policies) and on the analysis of the expenditure of the other institutions and bodies of the European Union.

The Statement of Assurance ("DAS") regarding the reliability of the annual accounts of the EU as well as the legality and regularity of the transactions is the central element of this report.

DAS: payments are still affected by a significant level of errors: the 2011 accounts present fairly the financial position of the European Union and the results of its operations and its cash flows for the year. Revenue and commitments were free from material error. Nevertheless, **payments were affected by material error, with an estimated error rate of 3.9% for the EU budget as a whole**, similar to 2010 when it was 3.7%.

ECA key messages relating to the DAS: in 2011, the European Union spent EUR 129.4 billion, of which almost 80% was devoted to agriculture and cohesion policies, areas where the Commission and the Member States share the task of implementing the EU budget. **The Court also noted cases in which EU funds were insufficient to achieve the objective or were not used optimally.**

Characteristics by policy group: the Court noted that the estimated error rate calculated by policy group was as follows:

- Agriculture: market support and direct aid: 2.9%;
- Rural development, environment, fishing and health: 7.7%;
- Regional policy, energy and transport: 6%;
- Employment and social affairs: 2.2%;
- External relations, external aid and enlargement: 1.1%;
- Research and other internal policies: 3%;
- Administrative and other expenses: 0.1%.

There was an increase in Commission reservations, with the amount the Commission directors-general consider to be at risk rising from EUR 0.4 billion in 2010 to EUR 2 billion in 2011. This reflects the Commission's recognition of a high risk of error in some areas, in particular rural development, cohesion and research.

Legality and regularity of the transactions underlying the accounts: in the Court's opinion, commitments underlying the accounts for 2011 are legal and regular in all material respects. The same applies to revenues.

As in previous years, it is the payments that prevent **the return of a fully satisfactory DAS**. In general, the most likely error rate for payments underlying the accounts is 3.9 %.

Control systems: overall, the control systems examined were **only partially effective in ensuring the regularity of payments** and are not realising their potential to prevent or detect and correct errors. Many instances of control failure were identified. **The Court considers that national authorities should devote greater attention to the management and control of EU funds**.

The Commission's self-assessment of performance is evolving and represents some welcome improvements on previous years. Nevertheless, ECA performance audits in 2011 identified a **lack of good quality needs assessments**, weaknesses in the design of programmes which impair reporting on results and impacts, and a need for the Commission to demonstrate EU added value.

Budgetary management: implementation of the budget overall resulted in a budgetary surplus at the end of 2011 of EUR 1.5 billion euro (as opposed to EUR 4.5 billion in 2010), which shows the extent to which the budget has not been spent. For the three main funds of the multi-annual financial framework "Cohesion for growth and employment" (European Social Fund, European Regional Development Fund and Cohesion Fund), payment requests by Member States increased towards the end of 2011. **Budgetary payments could have been up to EUR 5 billion higher** had this increase been correctly anticipated and sufficient appropriations made available.

Outstanding budgetary commitments (RAL): the total outstanding commitments increased by EUR 13 billion (6.7 %) to **EUR 207 billion in 2011**, representing the equivalent of 2.7 years of payments at the 2011 spending rate. Two-thirds of outstanding budgetary commitments concern cohesion, representing 3.2 years worth of payments – or EUR 136 billion – in that area at the 2011 spending rate. The fact there is a substantially higher level of accumulated outstanding commitments for the 2007-2013 programming period compared with the same point in the previous period is largely due to the late start and implementation of the related spending programmes.

Analysis of budget implementation by expenditure groups and recommendations of the Court:

- **Agriculture** (EUR 43.8 billion): as in 2010, around three-quarters of quantifiable errors are "accuracy" errors, with the most frequent being **over-declaration by beneficiaries of land area when claiming for EU funds**. The majority of errors amount individually to less than 5 % of the claim, although some are more substantial. The effectiveness of the control systems – notably the integrated administration and control system (IACS) – is adversely affected by inaccurate data in the various databases and incorrect administrative treatment of claims by the paying agencies. **Inaccurate land data provided by beneficiaries and by Member States' land registries represent a significant source of error** . Furthermore, some serious systems weaknesses reported in previous annual reports still persist;

- **Rural development, environment, fisheries and health** (EUR 13.9 billion): the European Agricultural Fund for Rural Development (EAFRD) represents 88 % of the payments of this policy group. The expenditure covers area-related measures (such as agri-environment payments and compensatory payments to farmers in areas with natural handicaps) and non-area-related measures. The majority of the most likely error rate concerned the eligibility of expenditure for non-area related measures. In 10 out of 43 payments for agri-environment schemes, the farmers had not respected the environmental commitments they had given. One or more cross compliance infringements were noted in 26 out of the 73 payments subject to these obligations. In the area of rural development, **the audit of the control systems revealed that administrative and on-the-spot checks are not sufficiently rigorous to mitigate the risk of declaring ineligible expenditure**. In the area of maritime affairs and fisheries, the Court found that unforeseen expenditure resulted from insufficient monitoring of fish catches;

- **Regional policy, energy and transport** (EUR 34.8 billion): this specific assessment covers the audit of regional policy (94% of the spending), which is mostly financed through the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). The ECA found serious failures to respect public procurement rules. Such errors affected one quarter of transactions audited. The combined estimated contract

value for these 298 audited public procurements amounted to EUR 6.7 billion. The second most frequent type of error was ineligible payments with projects failing to fulfil the necessary conditions. For 62 % of the transactions affected by error, the ECA considers that **sufficient information was available for the Member State authorities to have detected and corrected at least some of the errors prior to certifying the expenditure to the Commission.** For regional policy, the ECA found weaknesses in management verifications, in particular in the "first level checks" carried out by managing authorities and intermediate bodies. The ECA found that the programme closure procedures for the 2000-2006 programming period were better prepared by the Commission and Member States than for previous multiannual programmes but the ECA also identified weaknesses. More generally, the ECA's audits have shown that there is **no assurance that financial corrections mechanisms adequately compensate for the detected errors** and resolve all material issues at the closure of the operational programmes. Likewise, there is no evidence that financial correction mechanisms translate into lasting improvements to systems, preventing the recurrence of errors;

- **Employment and social affairs** (EUR 10.3 billion): the main objectives of the spending are to combat unemployment, to develop human resources and to promote integration in the labour market. The European Social Fund (ESF) is the main tool for the implementation of employment and social policy. The majority of errors detected – 73% of the estimated error rate – concerned the reimbursement of ineligible costs, including ineligible training course participants, ineligible beneficiaries, ineligible and overcharged staff costs and incorrectly awarded contracts. The results of the ECA's audit indicate weaknesses in the management and control systems established in the Member States, in particular in the "first level checks" of the expenditure. The ECA found that sufficient information was available to the Member State authorities for them to have detected and corrected at least some of the errors in 76 % of the ESF transactions affected by error, before certifying the expenditure to the Commission;

- **External relations, aid and enlargement** (EUR 6.2 billion): in this area, all errors were found in interim and final payments. The errors involve ineligible expenditure incurred at final beneficiary level, such as: expenditure incurred outside the eligibility period; inclusion of ineligible expenditure (e.g. VAT, staff costs and unjustified overheads) charged in the project cost claims and expenditure without adequate supporting documents. The fact that ineligible expenditure declared by the final beneficiaries of grants or service providers has been paid by the Commission, shows that the preventive and detective controls applied by the Commission prior to payment are not fully effective. The ECA identified an insufficient number and limited scope of on-the-spot visits and direct testing of expenditure declared, as well as insufficient quality of expenditure verifications subcontracted by the beneficiaries;

- **Research and other internal policies** (EUR 10.6 billion): the main component of the policy group covered by this specific assessment is the framework programmes (FPs) for research and technological development (accounting for 56% of the total operational expenditure). The main source of error is the over-declaration of costs by beneficiaries for projects funded by the research FPs. Errors were found in **personnel costs**, other direct costs and indirect costs. The control systems assessment carried out by the ECA revealed **errors in 81% of the audited projects** that had recived a positive audit certificate;

- **Administrative and other expenditure** (EUR 9.8 billion): in this spending sector, errors and weaknesses were detected in the examination of calculations and payments of social allowances, of employment contracts for non-permanent staff. The ECA also noted several weaknesses in procurement procedures namely in the application of selection and award criteria having an impact on the results of the procedure.

Recommendations of the Court of Auditors: for each of these areas of expenditure, the Court made a series of recommendations aimed at improving EU financial management. This improvement is essential given the pressure on the public finances of the Union and the Member States. Expenditure, therefore, must be carried out in a way that is still **more efficient and better targeted**.

For their part, Member States must agree on better rules on the use of EU funds, and the Commission must ensure that these rules are correctly applied to the EU budget, thus providing a true added value for citizens.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 01/02/2013 - Supplementary non-legislative basic document

Having examined the revenue and expenditure accounts for the financial year 2011 and the balance sheet at 31 December 2011 of the following Executive Agencies:

- Education, Audiovisual and Culture,
- Competitiveness and Innovation,
- Health and consumers,
- Trans-European Transport Network,
- Research and the European Research Council Executive Agency,

as well as the report by the Court of Auditors on the annual accounts of the Executive Agencies for the financial year 2011, accompanied by the Executive Agencies' replies to the Court's observations, the Coucil recommends the European Parliament to give a discharge to all the Executive Agencies in respect of the implementation of the budget for the financial year 2011.

The Council considers that a certain number of observations should be taken into account when granting discharge (overestimation of staff expenditure, insufficient budgetary planning, lack of respect of budget annuality and excessive carry-overs, recruitment issues, weaknesses in the management of certain programmes).

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 01/02/2013

In accordance with Article 319(1) of the Treaty on the Functioning of the European Union (TFEU), the Council approved the recommendation to give a discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2011.

Breakdown of the expenditure:

- revenue amounted to EUR 129 999 955 328.80;
- expenditure disbursed from appropriations amounted to **EUR 128 043 323 049.01**;
- cancelled payment appropriations amounted to EUR 457 395 591.58;
- appropriations for payments carried over amounted to EUR 1 013 400 234.32;
- the positive budget balance amounted to EUR 1 491 933 247.80;
- EUR 1 351 572 566.04 (89%) of the EUR 1 512 521 279.18 in appropriations for payments carried over to year n have been used.

Based on the observations contained in the report by the Court of Auditors, the Council calls on the European Parliament to **grant discharge to the Commission** in respect of the implementation of the 2011 budget. However, the Council issues a series of comments that need to be fully taken on board when granting discharge.

DAS: the Council notes that for the fifth consecutive year, the annual accounts of the EU gave a fair presentation of the financial position of the Union and the results of its operations and cash flows. It welcomes the Court's Statement of Assurance (DAS) on the implementation of the budget for the financial year 2011 and the analysis of the audit findings and conclusions provided by the Court.

Nevertheless, the Council remains concerned that, according to the Court's overall assessment, payments from the budget continued to be materially affected by error and that supervisory and control systems for payments audited by the Court remained only partially effective in ensuring the legality and regularity of transactions. It recalls the importance of better spending and sound financial management of EU funds to ensure **credibility in the public perception of actions financed from the EU budget** in particular under the current economic and financial circumstances.

The Council acknowledges the action taken by the Commission and Member States to put into practice the recommendations of previous years and to improve the management and control of EU Funds and programmes, however, it regrets that the **error rate increased in 2011** and urges the Commission and Member States to continue their efforts to strengthen controls for the effective and efficient management of EU funds. The errors identified by the Court are again to be found in the area of **public procurement** for the EU budget as a whole, and in particular under shared management where national rules also apply. The Council urges the Commission and Member States to continue to put in place robust programme management structures and to envisage, where required, **the timely interruption and suspension of payments and the rigorous implementation of recoveries and financial corrections.**

As regards the **RAL**, the Council takes note of the persistent high volume of outstanding budgetary commitments under multiannual programmes. It calls on the Commission to carefully monitor the amounts of outstanding commitments, and to settle or decommit them in a timely manner and in line with the relevant rules.

The Council also makes the following remarks:

Reliability of the accounts: the Council welcomes the favourable opinion given by the Court on the reliability of the accounts for the financial year 2011. It encourages the Commission to continue to ensure that the high quality of the accounts is maintained in the forthcoming years.

Legality and regularity of the underlying transactions: the Council notes that the Court's audit findings, based on the audited sample of the underlying transactions and of supervisory and control systems, confirm the **relative stability in the error rate** observed in recent years. However, the Council regrets that an important share of spending continued to be affected by a material level of error and that the most likely error rate for payments as a whole increased from 3.7% in 2010 to 3.9% in 2011. It notes that 0.1% of the increase results from the inclusion for the first time of cross-compliance in the calculation of the error rate. The Council reiterates its wish to see year-on-year improvements in financial management systems and lower error rates.

Supervisory and control systems: the Council regrets the Court's conclusion that overall the supervisory and control systems examined by the Court were only **partially effective** and that payments relating to the policy groups "Agriculture: market and direct support", "Rural development, environment, fisheries and health", "Regional policy; energy and transport", "Employment and social affairs" and "Research and other internal policies" remained affected by material error.

Revenue: the Council welcomes with satisfaction the Court's conclusion that "Revenue" transactions were free from material error and that overall the related supervisory and control systems were assessed as effective in ensuring the regularity of transactions. It calls on the Commission to continue its work in order to ensure a correct accounting of the established customs duties and to assist Member States in enhancing appropriate control frameworks in order to collect the **total amount of traditional own resources due to the Union**.

The Council then returns to each of the **budget areas** and makes the following comments:

- **Agriculture – direct support**: the Council regrets that 39% of the transactions audited by the Court in 2011 were affected by error and that the overall most likely error rate amounted to 2.9%. The most frequent of these errors being the over-declaration by beneficiaries of eligible land with a limited financial impact. The Council encourages Member States to further improve the quality of the Land Parcel Identification System (LPIS) and to continue their efforts to ensure the reliability and completeness of data.
- **Development, environment, fisheries and health**: the Council is disappointed that the estimated error rate for this policy group amounted to **7.7%.** However, the Council notes the Court's explanation that this is a particularly error prone spending area of the EU budget and for a large part this is related to the inherent complexity of the programmes it covers. Rural development expenditure presents a high risk of error due to the fact that its policy objectives are subject to highly complex rules and eligibility conditions. The Council notes that the Court found a high incidence of errors, including by public bodies, in declaring the inclusion of ineligible VAT and **failure to comply with public procurement rules**. It also remains concerned that administrative and on-the-spot checks were found not to be sufficiently rigorous to mitigate the risk of declaring ineligible expenditure and that serious weaknesses were observed in the definition and control of the **applicable cross-compliance requirements**.
- **Regional policy, energy and transport**: the Council regrets that the most likely error rate for this policy group was well above the materiality threshold. Although the error rate for this policy group improved in 2011 and that the combined most likely error rate for the previous chapter "Cohesion, energy and transport" as a whole decreased from 7.7% to 5.1%, the Council considers that the error rate of 6 % estimated by the Court for "Regional policy; energy and transport" remains too high. Moreover, it regrets that for 62% of the transactions affected by error, Member States would have been in a position to detect at least some of these prior to certification of the expenditure to the Commission. It recalls the importance of the proper enforcement of rules and encourages the Commission to continue applying a strict policy of **interruption and suspension of payments** whenever significant deficiencies in the functioning of management and control systems are identified, until corrective action is fully implemented. It invites the Commission and Member States to continue their efforts in securing strict compliance with EU and national eligibility requirements, and with public procurement rules.
- **Employment and social affairs**: the Council welcomes the fact that the most likely error rate for the policy group "Employment and social affairs" was estimated by the Court at 2.2%, which is only slightly above the materiality threshold. This positive development resulted from a simplification of rules and a strict application of the policy of interruption and suspension of payments by the Commission. However, the Council is concerned that the Court's audit revealed significant weaknesses in the "first level checks" of expenditure which are the responsibility of Member States.
- **External relations and enlargement**: the Council notes with satisfaction that the Court's audit revealed that the payments for "External relations, aid and enlargement" were free from material error, with a most likely error rate of 1.1 % estimated by the Court for 2011. However, it regrets that interim and final payments were again affected by material error. The supervisory and control systems audited by the Court in this policy group were only partially effective in ensuring the legality and regularity of payments. The Commission is asked to take the necessary measures to correct the shortcomings identified by the Court in relation to tendering procedures and on-the-spot checks.
- With regard to the service for Foreign Policy Instruments, the Council acknowledges that the Internal Audit Capability is now fully operational but that there are difficulties in identifying the **risks related to budget support**. It expects that the new budget support guidelines, with increased eligibility criteria, will mitigate the risks identified by the Court.
- **Research and other internal policies**: the Council regrets that the payments examined by the Court in this policy group were affected by material error, and that the estimated error rate of 3% in 2011 was higher than the one in 2010 (1.4%), partly due to the fact that the sample examined by the Court in 2011 included a higher share of interim and final payments. It regrets that the main source of error was the over-declaration of costs by beneficiaries for projects funded from the 6th and the 7th framework programmes for research. As for the supervisory and control systems, the Council notes that they remained only partially effective. It encourages the Commission to continue to reinforce its internal control systems.
- **Administrative and other expenditure**: lastly, the Council notes with satisfaction that, again in 2011, the administrative expenditure of EU institutions and bodies remained free from material error and that their supervisory and control systems continued to comply with the requirements of the Financial Regulation.

Conclusion: the Council urges all actors in the Commission, Member States and the Court to consider how best to develop robust mechanisms for measuring and reporting on the performance of programmes during the next multiannual programming period. It calls on the Commission, in cooperation with Member States, to ensure that timely, reliable and comparable data are made available at EU and national level. It stresses the **need to define a limited number of SMART annual and multiannual objectives for each programme** and action, focussing on the results achieved, notably on the impact and the added value resulting from activities at EU level. The Council underlines the importance of all actors developing a better and clearer understanding of the concept of **EU added value** and of taking this into account when designing the programmes for the next multiannual programming period.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 28/02/2013 - Document attached to the procedure

This report is an analysis of the Member States' replies to the European Court of Auditors' annual report for budgetary year 2011.

In accordance with the Treaty, the Court of Auditors presents, in its annual report, a declaration of assurance (DAS). This document is sent to the European Parliament and the Council as regards the reliability of the accounts and the legality and regularity of the underlying transactions.

The Financial Regulation applicable to the General Budget of the European Union states in article 162.5 that as soon as the Court of Auditors (the Court) has transmitted its Annual Report, the Commission shall inform the Member States concerned immediately of the details of that report which relate to management of the funds for which they are responsible, under the rules applicable.

Member States should reply to the Commission within sixty days and the Commission transmits a summary of the replies to the Court of Auditors, the European Parliament and the Council before 28 February of the following year.

Following publication on 6 November 2012 of the Court's Annual Report for the budgetary year 2011, the Commission duly informed Member States of details of the report. This information was presented in the form of a letter and three questionnaires (presented as annexes) which Member States were required to complete:

- Annex I was a questionnaire on the paragraphs in the report referring to individual Member States;
- Annex II was a questionnaire on the audit findings which refer to each Member State;
- Annex III was a questionnaire on general findings related to the policies and programmes under shared management.

This report is an analysis of the Member States' replies and is accompanied by a Staff Working Document (SWD) which comprises the Member States' replies to Annex I and Annex III.

Main conclusions: for 2011, the Court made further modifications to the presentation of its report, primarily by adding two new chapters. The Court gave a clean opinion on the accounts and it estimated the most likely error rate for the budget as a whole at 3.9% which is similar to last year's overall error rate of 3.7%. The figure of 3.9% now includes errors in cross-compliance for both “Agriculture: market and direct support” and “Rural development” following a change in the Court’s methodology. Without this change, the figure would have been 3.8%.

The majority of replies from Member States were received within the scheduled timeline.

As in previous years, the quality varied considerably from one Member State to another. In some cases replies were of a very high standard, while in others it was apparent that very little quality time had been dedicated to the replies.

Member States reiterated their commitment to partnership with the Commission and the Court in order to ensure sound financial management of EU funds. For instance, **three quarters of all Member States have expressed an interest in extending tripartite meetings, (which already exist in the Cohesion policy area), to Rural development**.

Both the Commission and the Member States have expressed their commitment to tackling **Rural development** issues in order to reduce the error rate. DG AGRI has launched an action plan and as indicated in their replies, Member States are already taking some remedial action in order to address Rural development issues.

In the Cohesion policy as a whole, although there have been significant improvements, concrete and sustained actions are required by both Member States and the Commission to ensure improved results. For this programming period DG REGIO and DG EMPL will continue targeted actions. These will include **focusing audits on more risky areas and financial actors**, careful monitoring of actions taken by national authorities interrupting/suspending payments and applying financial corrections where justified.

For the next programming period, several measures have been proposed by the Commission and are being discussed in the interinstitutional process.

These measures include:

- wider use of simplified costs,
- quarterly focused reporting by Member States to the Commission,
- stricter eligibility rules,
- the introduction of net financial corrections and management declarations.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 25/03/2013 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the report by Jens GEIER (S&D, DE) recommending to Parliament to grant discharge to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2011, Section III – Commission and the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Competitiveness and Innovation, the Executive Agency for Health and Consumers, the European Research Council Executive Agency and the research Executive Agency.

The committee also recommends that the European Parliament closes the accounts of the general budget of the European Union for the financial year 2011.

In a series of general observations, Members call for the introduction of **priority actions** dealing with the following:

- **protection of the Union budget:** the Commission should adopt annually, and for the first time in September 2013, a communication to Parliament, the Council and the Court of Auditors with a view to making the impact of its preventive and corrective actions as regards the protection of the Union budget public (all suspensions, interruptions and retentions which aimed to prevent errors and all the amounts recovered per Member-State…); the Commission should demonstrate as far as possible that the **financial corrections adequately compensated for errors made**;

- **error rate in shared management:** the Commission is urged to harmonise the practice of its services concerning the interruption/suspension of payments when significant deficiencies are detected at the level of the supervisory and control systems of Member States in regard to the areas of agriculture, cohesion and research. More specific demands are made to:

  - **DG AGRI:** this Directorate-General (DG) should systematically interrupt and suspend payments when the prime level controls reveal that they are materially affected by error;

  - **DG REGIO:** this DG should fully align its payment practices with the best practices of other directorates-general or services, and continue making direct and full use of the legal instruments provided for by the regulations, especially the interruption of payments or whenever necessary by the **suspension of operational programmes.**

- **enhanced use of performance audits:** the Commission should develop a **new culture of performance**, defining in its management plan a number of targets and indicators in terms of relevance, comparability and reliability. It is also urged to carry out a review of the programmes with the aim of avoiding national and regional displacement effects and only finance measures which could not be carried out without impetus from the Union, thus promoting the European added value of projects;
- **revenues and traditional own resources:** in order to ensure proper protection of the Union's financial interests, and with a view to equipping the Union with sufficient own resources for growth, the Commission should, among other things, identify the channels and schemes allowing for tax evasion and tax avoidance, and raise the Member States' and public awareness, in the context of the negotiations on the Multiannual Financial Framework, that effective revenue collection remains an essential feature of sound management of public finances.

I. Court of Auditors' Statement of assurance:

- **Reliability of the accounts – favourable opinion:** Members note that the annual accounts of the Union for the 2011 financial year

present fairly, and in all material respects, the position of the Union as at 31 December 2011, and the results of its operations and its cash flows for the then completed year;

- **Legality and regularity of revenue – adverse opinion:** Members regret however, that, once again, the payments are affected by a most likely error rate of 3.9%. They note with concern that the policy groups agriculture; market and direct support; rural development, environment, fisheries and health; regional policy, energy and transport; employment and social affairs, as well as research and other internal policies, are materially affected by error. They are dismayed in the increase in the rate of error in comparison with 2010.

Members note in passing that the Netherlands, Sweden and the United Kingdom have voted **against granting discharge to the Commission** for the execution of the Union's budget because for the 18th consecutive year, the Court of Auditors was unable to grant a positive unqualified statement of assurance. According to Members, credibility has to underpin the Union's expenditures.

Members highlight, moreover, the high number of the Commission's reservations concerning the ERDF/CF management and control systems for the period 2007-2013, amongst others in the Netherlands and the United Kingdom, and call for the conduct of a peer review of each of the Member States' financial management and quality of performance.

II. Horizontal issues:

Responsibilities of the Commission and the Member States in shared management: once again, Members expect that Member States are fully aware of their obligations, pursuant to Article 4(3) of the Treaty on European Union and pursuant to the principle of sincere cooperation, to assist in an active and effective way the Union in carrying out tasks which flow from the Treaties with a view to preventing, detecting and correcting irregularities and fraud. The current system does not ensure a full transparency of the beneficiaries of certain support (ERDF, for example). They consider that national management organisations should make a binding declaration, in combination with the introduction of self-critical deliberation, which would arrive at an **even-handed, honest and open peer review among Member States resulting in better and more effective budget execution**. This would improve the performance of policies, programmes and projects and which will help to reinforce the solidarity between Member-States and restore the confidence of European citizens.

For its part, the Commission is urged to make progress in disclosing more precise and reliable data concerning recoveries and financial corrections and to strengthen transparency measures *vis-à-vis* the European Parliament in this regard.

Fingers are pointed at the Member States in regard to the two policy areas prone to the highest error rates (rural development, environment, fisheries and health as well as regional policy, energy and transport) with likely error rates amounting to 7.7 % and 6 % respectively. In this context, Members call on the national authorities to issue an **opinion on the independence of the national audit authorities in the context of shared management**.

Public procurement: as regards the responsibility of Member States, Members note that numerous errors derive from the incorrect application of national rules (in particular, as regards the ESF errors in 2011, breaches of national rules have contributed 86% of the error rate), and that eligibility error (especially for grant beneficiaries) and **breaches of public procurement rules** (in particular for shared and indirectly managed funds) are the two main sources of errors. They deplore the fact that errors can also derive from the addition to Union rules of **national rules which are unnecessarily complex** and therefore difficult to implement and verify by the Member States themselves, while creating an additional and artificial burden for the beneficiaries (**"gold plating"**). Such rules not only increase error rates unnecessarily, but could also lead to the Commission issuing recovery claims.

Budgetary management and outstanding budgetary commitments: Members recall that outstanding budget commitments are commitment appropriations that are open but not yet paid and that they mainly relate to multiannual programmes (Cohesion, for example). They note the record level of outstanding budgetary commitments at **EUR 207 billion** (mostly in cohesion policy).

III. Specific points: Members then return point by point to the implementation of the budget and highlight the following:

Revenue: Members recall that the potential cost of tax evasion and avoidance for Member States is estimated to amount to EUR 1 trillion every year while in comparison, the Union budget for 2011 in terms of appropriations for commitments amounted only to EUR 142.5 billion. They therefore propose a whole battery of measures to strengthen customs controls and to collect customs duties and VAT more effectively. They call on the Commission, in particular, to strengthen its coordination with the Member States in order to collect reliable data on the customs and VAT gap in the respective countries and to report on a regular basis to Parliament in that regard.

Agriculture: Members deplore the increase of the error rate to 4.0% in the policy area 'Agriculture and rural development' covering the expenditures of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) and of the policy groups environment, fisheries and health. They criticises strongly the fact that **beneficiaries who very often are not farmers receive direct payments**. In regard to **direct support**, Members call on the Commission to take all necessary measures so that paying agencies remedy weaknesses detected in their administration and control system in order to avoid the most classic errors which are the incorrect classification of land use and the overstatement of eligible land.

Rural development: Members regret that payments in the policy sector 'rural development, environment, fisheries and health' are not free from material error in 2011, the most likely error being estimated at 7.7%, this rate being linked to the eligibility of non-area related measures such as modernisation of agricultural holdings and the setting up of basic services for the economy and rural population. Particular criticism is directed at DG AGRI in this context, which did not bring to light the fact that the supervisory and control systems in Denmark, Finland, Hungary, Italy and Spain were not effective or only partially effective.

Environment, public health and food safety/Fisheries: overall, Members are satisfied with the implementation of these policies. However, Members encourage the Commission to strengthen the cooperation with Member States in order to receive the best and most accurate data for the forecasts in this policy area.

Regional policy; energy and transport: Members deplore the fact that the Court of Auditors estimated the most likely error rate in this spending area at **6%** : 62% of the regional policy transactions affected by error. They call on the Member States to improve their management and control systems in order to detect and correct errors at national level as this is imposed by the principle of sound financial management. They regret the fact that according to the 2011 Annual Activity Report of DG REGIO, the countries with the highest risk of incorrect payments for the 2007-2013 programming period are the Czech Republic (11.4%), Romania (11.2%) and Italy (8.6%). Members call on the Commission to use all available instruments over the next programming period 2014-2020, in particular by means of delegated acts and implementing acts, with a view to setting out conditions which the national audit authorities shall fulfil. They call on the Commission, in consultation with the Court of Auditors, to establish a transparent system which allows, on the one hand, taking into consideration **annual financial corrections** but also, on the other, financial corrections during the life span of a programming period. Members call on the Commission to assist Member States in rendering first-level controls and national audit authorities more effective by exchange of best practice and closer cooperation between the Commission, the Court of Auditors and national authorities.

Employment and social affairs: overall, these policies were implemented satisfactorily. However, they regret that despite reinforcements of ESF budget lines by means of transfers between budget lines and via the Amending Budget, EUR 2.7 billion of outstanding payments to the beneficiaries could not be paid **due to insufficient payments appropriations**. Members reiterate their call to ensure, in the light of implementation, an orderly progression of the total appropriations for payments in relation to the appropriations for commitments, so as to avoid any abnormal evolution of outstanding commitments ('RAL').

Members also make a series of specfic observations as regards the implementation of aid to Bulgaria, Romania and the Czech Republic.

External relations, aid and enlargement: Members point out the specific nature of the financing of the Union's external assistance, which, although it must be subject to the same rules and oversight requirements as the rest of the Union budget, is put in place partly by persons and entities external to the Union under sometimes difficult conditions. They are concerned that EuropeAid's and DG ECHO's supervisory and control systems were again found to be only partially effective. They call on the Commission to set aside sufficient resources for delegation staff to perform monitoring and supervision activities in a timely and satisfactory manner.

Members urge the Commission and the EEAS to focus more on results and impact measurement in the design of the new spending programmes under the next Multiannual Financial Framework (MFF) for the period 2014-2020, inter alia by using pre-defined, countryspecific, clear, transparent and measurable indicators adapted to the specificities and objectives of each instrument.

Members call for a detailed summary of the **allocation of funding in Libya** and on the implementation of actions carried out in Haiti.

Research and other internal policies: Members are concerned that the research framework programmes are implemented under centralised direct and centralised indirect management involving six Commission directorates-general and two executive agencies and that parts of the budget are implemented under indirect centralised management by joint undertakings and the European Investment Bank. They regret that the **large number of Commission services involved in that policy area renders decision-making and the lines of responsibilities opaque**. They are also concerned about the delay in dismantling the Ignalina Nuclear Power Plant (INPP) in Lithuania, due to conflicts between the authorities and the contractors.

In general, Members urge the Commission to improve cooperation among all the directorates-general and other bodies involved, and render the division of labour, decision-making procedures and lines of responsibility between them more transparent.

Administrative and other expenditure: lastly, Members call on the Commission not to reimburse any more travel costs of advisors to Commissioners whose work has not produced any tangible findings until an added value of their work can be proven. They also call on it to execute an in-depth study on the differences in required qualifications and the granted privileges, working conditions, allowances, entitled vacation days as well as pay levels for positions for civil servants and foreign services between Union and Member States located in the same working place.

Conclusions: Members ask the Commission to outline in time for the discharge procedure 2012 a new system of management and performance information including the design and the role of the evaluation report taking on board the recommendations of the European Parliament as developed in this resolution and to present it to the discharge authority.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 17/04/2013 - Text adopted by Parliament, single reading

The European Parliament adopted by 445 votes to 84, with 1 abstention, a decision to grant discharge to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2011. It also adopted separate decisions granting discharge to each of the Directors of the following Executive Agencies: Commission and the Education, Audiovisual and Culture, Competitiveness and Innovation, Health and Consumers, European Research Council, Trans-European Transport Network and Research in respect of the implementation of their respective budgets for the financial year 2011.

In parallel, Parliament closed the accounts of the general budget of the European Union for the financial year 2011.

Parliament also adopted a resolution which includes a series of recommendations that should be taken into account when discharge is granted.

In a series of general observations, Parliament calls for the introduction of **priority actions** dealing with the following:

- **protection of the Union budget**: the Commission should adopt annually, and for the first time in September 2013, a communication to Parliament, the Council and the Court of Auditors with a view to making the impact of its preventive and corrective actions as regards the protection of the Union budget public (all suspensions, interruptions and retentions which aimed to prevent errors and all the amounts recovered per Member-State…); the Commission should demonstrate as far as possible that the **financial corrections adequately compensated for errors made**;
- **error rate in shared management**: the Commission is urged to harmonise the practice of its services concerning the interruption/suspension of payments when significant deficiencies are detected at the level of the supervisory and control systems of Member States in regard to the areas of agriculture, cohesion and research. More specific demands are made to:

  - **DG AGRI**: this Directorate-General (DG) should systematically interrupt and suspend payments when the prime level controls reveal that they are materially affected by error;

  - **DG REGIO**: this DG should fully align its payment practices with the best practices of other directorates-general or services, and continue making direct and full use of the legal instruments provided for by the regulations, especially the interruption of payments or whenever necessary by the **suspension of operational programmes.**

- **enhanced use of performance audits**: the Commission services should develop a new culture of performance, defining in their management plan a number of targets and indicators meeting the requirements of the Court of Auditors in terms of relevance, comparability and reliability. The Commission is also called upon to propose a clear definition of European added value and for a review of the programmes with the aim of avoiding national and regional displacement effects and genuinely only financing measures which could not be carried out without impetus from the Union. Parliament expects that in the framework of a new and enhanced policy on performance, all evaluation reports done or paid for by the Commission will be made available in full to Parliament, which may decide to make them available on its website for consultation;
- **revenues and traditional own resources**: in order to ensure proper protection of the Union's financial interests, and with a view to equipping the Union with sufficient own resources for growth, the Commission should, inter alia, identify the channels and schemes allowing for tax evasion and tax avoidance; raise the Member States' and public awareness, in the context of the negotiations on the Multiannual Financial Framework, that effective revenue collection remains an essential feature of sound management of public finances. It is also called for to collect reliable data on the customs and VAT gap in the Member States and report every six months to Parliament in this regard and to identify and implement actions which would increase the effectiveness and efficiency of the collection of customs duties and VAT in the Member States.

Offshore structures and tax havens: Parliament is alarmed by the magnitude of offshore financial activities, as revealed in the recent offshore leaks. It calls on the Commission to take urgent measures to **eliminate these possibilities of diverting thousands of billions of euros** away from the normal financial circuit in order primarily to avoid tax and to hide illegal funds from the tax authorities in the Member States. It strongly suggests that the Commission should take measures to ensure that all banking activities related to advising on, and setting up, o**ffshore structures are made illegal and that no bank within the European Union involved in such activities will or can receive European funding under any scheme or benefit from national support measures**. Parliament expects to receive, within two months, draft legislative proposals from the Commission to **end the practice of the use of tax havens by individuals, companies and even public institutions**.

I. Court of Auditors' Statement of assurance:

- **Reliability of the accounts – favourable opinion:** Parliament notes that the annual accounts of the Union for the 2011 financial year present fairly, and in all material respects, the position of the Union as at 31 December 2011, and the results of its operations and its cash flows for the then completed year;

- **Legality and regularity of revenue – adverse opinion:** it regrets however, that, once again, the payments are affected by a most likely error rate of 3.9%. It notes with concern that the policy groups agriculture; market and direct support; rural development, environment, fisheries and

health; regional policy, energy and transport; employment and social affairs, as well as research and other internal policies, are materially affected by error. Members are dismayed in the increase in the rate of error in comparison with 2010.

Parliament notes in passing that the Netherlands, Sweden and the United Kingdom have voted **against granting discharge to the Commission** for the execution of the Union's budget because for the 18th consecutive year, the Court of Auditors was unable to grant a positive unqualified statement of assurance. According to Members, credibility has to underpin the Union's expenditures.

Members highlight, moreover, the high number of the Commission's reservations concerning the ERDF/CF management and control systems for the period 2007-2013, amongst others in the Netherlands and the United Kingdom, and call for the conduct of a peer review of each of the Member States' financial management and quality of performance.

II. Horizontal issues:

Responsibilities of the Commission and the Member States in shared management: once again, Parliament expects that Member States are fully aware of their obligations, pursuant to Article 4(3) of the Treaty on European Union and pursuant to the principle of sincere cooperation, to assist in an active and effective way the Union in carrying out tasks which flow from the Treaties with a view to preventing, detecting and correcting irregularities and fraud. The current system does not ensure a full transparency of the beneficiaries of certain support (ERDF, for example). It considers that national management organisations should make a binding declaration, in combination with the introduction of self-critical deliberation, which would arrive at an **even-handed, honest and open peer review among Member States resulting in better and more effective budget execution**. This would improve the performance of policies, programmes and projects and which will help to reinforce the solidarity between Member-States and restore the confidence of European citizens.

For its part, the Commission is urged to make progress in disclosing more precise and reliable data concerning recoveries and financial corrections and to strengthen transparency measures *vis-à-vis* the European Parliament in this regard.

Fingers are pointed at the Member States in regard to the two policy areas prone to the highest error rates (rural development, environment, fisheries and health as well as regional policy, energy and transport) with likely error rates amounting to 7.7% and 6% respectively. In this context, Members call on the national authorities to issue an **opinion on the independence of the national audit authorities in the context of shared management**.

Public procurement: as regards the responsibility of Member States, Members note that numerous errors derive from the incorrect application of national rules (in particular, as regards the ESF errors in 2011, breaches of national rules have contributed 86% of the error rate), and that eligibility error (especially for grant beneficiaries) and **breaches of public procurement rules** (in particular for shared and indirectly managed funds) are the two main sources of errors. They deplore the fact that errors can also derive from the addition to Union rules of **national rules which are unnecessarily complex** and therefore difficult to implement and verify by the Member States themselves, while creating an additional and artificial burden for the beneficiaries (**"gold plating"**). Such rules not only increase error rates unnecessarily, but could also lead to the Commission issuing recovery claims.

Budgetary management and outstanding budgetary commitments: Parliament recalls that outstanding budget commitments are commitment appropriations that are open but not yet paid and that they mainly relate to multiannual programmes (Cohesion, for example). It notes the record level of outstanding budgetary commitments at **EUR 207 billion** (mostly in cohesion policy).

III. Specific points: Parliament then returns point by point to the implementation of the budget and highlight the following:

Revenue: it recalls that the potential cost of tax evasion and avoidance for Member States is estimated to amount to EUR 1 trillion every year while in comparison, the Union budget for 2011 in terms of appropriations for commitments amounted only to EUR 142.5 billion. It therefore proposes a whole battery of measures to strengthen customs controls and to collect customs duties and VAT more effectively. Members call on the Commission, in particular, to strengthen its coordination with the Member States in order to collect reliable data on the customs and VAT gap in the respective countries and to report on a regular basis to Parliament in that regard.

Agriculture: Parliament deplores the increase of the error rate to 4.0% in the policy area 'Agriculture and rural development' covering the expenditures of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) and of the policy groups environment, fisheries and health. It criticises strongly the fact that **beneficiaries who very often are not farmers receive direct payments**. In regard to **direct support**, Members call on the Commission to take all necessary measures so that paying agencies remedy weaknesses detected in their administration and control system in order to avoid the most classic errors which are the incorrect classification of land use and the overstatement of eligible land.

Rural development: Parliament regrets that payments in the policy sector 'rural development, environment, fisheries and health' are not free from material error in 2011, the most likely error being estimated at 7.7%, this rate being linked to the eligibility of non-area related measures such as modernisation of agricultural holdings and the setting up of basic services for the economy and rural population. Particular criticism is directed at DG AGRI in this context, which did not bring to light the fact that the supervisory and control systems in Denmark, Finland, Hungary, Italy and Spain were not effective or only partially effective.

Environment, public health and food safety/Fisheries: overall, Members are satisfied with the implementation of these policies. However, they encourage the Commission to strengthen the cooperation with Member States in order to receive the best and most accurate data for the forecasts in this policy area.

Regional policy; energy and transport: Members deplore the fact that the Court of Auditors estimated the most likely error rate in this spending area at **6%** : 62% of the regional policy transactions affected by error. They call on the Member States to improve their management and control systems in order to detect and correct errors at national level as this is imposed by the principle of sound financial management. They regret the fact that according to the 2011 Annual Activity Report of DG REGIO, the countries with the highest risk of incorrect payments for the 2007-2013 programming period are the Czech Republic (11.4%), Romania (11.2%) and Italy (8.6%). Members call on the Commission to use all available instruments over the next programming period 2014-2020, in particular by means of delegated acts and implementing acts, with a view to setting out conditions which the

national audit authorities shall fulfil. Parliament calls on the Commission, in consultation with the Court of Auditors, to establish a transparent system which allows, on the one hand, taking into consideration **annual financial corrections** but also, on the other, financial corrections during the life span of a programming period. It also calls on the Commission to assist Member States in rendering first-level controls and national audit authorities more effective by exchange of best practice and closer cooperation between the Commission, the Court of Auditors and national authorities.

Employment and social affairs: overall, these policies were implemented satisfactorily. However, Parliament regrets that despite reinforcements of ESF budget lines by means of transfers between budget lines and via the Amending Budget, EUR 2.7 billion of outstanding payments to the beneficiaries could not be paid **due to insufficient payments appropriations**. It reiterates its call to ensure, in the light of implementation, an orderly progression of the total appropriations for payments in relation to the appropriations for commitments, so as to avoid any abnormal evolution of outstanding commitments ('RAL'). Parliament also makes a series of specfic observations as regards the implementation of aid to Bulgaria, Romania and the Czech Republic.

External relations, aid and enlargement: Parliament points out the specific nature of the financing of the Union's external assistance, which, although it must be subject to the same rules and oversight requirements as the rest of the Union budget, is put in place partly by persons and entities external to the Union under sometimes difficult conditions. It is concerned that EuropeAid's and DG ECHO's supervisory and control systems were again found to be only partially effective. It calls on the Commission to set aside sufficient resources for delegation staff to perform monitoring and supervision activities in a timely and satisfactory manner.

Members urge the Commission and the EEAS to focus more on results and impact measurement in the design of the new spending programmes under the next Multiannual Financial Framework (MFF) for the period 2014-2020, inter alia by using pre-defined, country specific, clear, transparent and measurable indicators adapted to the specificities and objectives of each instrument.

Parliament also calls for a detailed summary of the **allocation of funding in Libya** and on the implementation of actions carried out in Haiti.

Research and other internal policies: Members are concerned that the research framework programmes are implemented under centralised direct and centralised indirect management involving six Commission directorates-general and two executive agencies and that parts of the budget are implemented under indirect centralised management by joint undertakings and the European Investment Bank. They regret that the **large number of Commission services involved in that policy area renders decision-making and the lines of responsibilities opaque**. They are also concerned about the delay in dismantling the Ignalina Nuclear Power Plant (INPP) in Lithuania, due to conflicts between the authorities and the contractors.

In general, Members urge the Commission to improve cooperation among all the directorates-general and other bodies involved, and render the division of labour, decision-making procedures and lines of responsibility between them more transparent.

Administrative and other expenditure: lastly, Parliament calls on the Commission not to reimburse any more travel costs of advisors to Commissioners whose work has not produced any tangible findings until an added value of their work can be proven. It also calls on it to execute an in-depth study on the differences in required qualifications and the granted privileges, working conditions, allowances, entitled vacation days as well as pay levels for positions for civil servants and foreign services between Union and Member States located in the same working place.

OLAF: in a series of amendments adopted in plenary, Parliament states that it has been informed by the OLAF Supervisory Committee about breaches of fundamental rights during OLAF investigations. It is very concerned about the information received in this regard and calls for full transparency concerning these incidents, regardless of the identity of the person(s) involved. It notes the numerous attempts made to obscure clarification of the allegations made about OLAF's investigation methods; regards this as inappropriate and demands full clarification of these allegations.

Conclusions: Parliament asks the Commission to outline in time for the discharge procedure 2012 a new system of management and performance information including the design and the role of the evaluation report taking on board the recommendations of the European Parliament as developed in this resolution and to present it to the discharge authority.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 17/04/2013 - Final act

PURPOSE: to grant discharge to the European Commission for the financial year 2011.

NON-LEGISLATIVE ACT: Decision 2013/537/EU, Euratom of the European Parliament on discharge in respect of the implementation of the European Union’s General Budget, section III – Commission and executive agencies, for the financial year 2011.

CONTENT: with the present decision, the European Parliament grants discharge to the Commission in respect of the implementation of the budget for the financial year 2011.

The parallel decision 2013/544/EU, Euratom approves the closure of the accounts for the financial year in question.

In its resolution annexed to the discharge decision, the European Parliament welcomed the fact that the annual accounts of the Union for the financial year 2011 present fairly, and in all material respects, the position of the Union as at 31 December 2011, and the results of its operations and its cash flows for the then completed year. Parliament deeply regretted that **payments remain materially affected by error** (**3.9%**). It noted with concern that the policy groups agriculture; market and direct support; rural development, environment, fisheries and health; regional policy, energy and transport; employment and social affairs, as well as research and other internal policies, are materially affected by error. It is dismayed about this increase compared to 2010.

Parliament considered that certain priority actions need to be taken in order to improve the implementation of the budget:

- actions to reinforce the present sanction system (interruption, suspension, financial corrections) by reducing the possibility of replacing ineligible expenditure with other expenditure during the next programming period thereby creating an additional incentive for Member States to detect and correct errors at an early stage (notably for actions and projects financed by Commission DGs AGRI and REGIO);
- measures to enhance the use of performance audits as well as the EU-added value of financed programmes;
- equip the Union with sufficient own resources for growth, identify and implement actions which would increase the effectiveness and efficiency of the collection of customs duties and VAT in the Member States;
- measures to ensure that all banking activities related to advising on, and setting up, offshore structures are made illegal and that **no bank within the European Union involved in such activities will or can receive European funding** under any scheme or benefit from national support measures.

Parliament also makes a series of other observations in a resolution annexed to the discharge decision. For further details concerning these observations, please refer to the summary of the opinion dated 17 April 2013.

It should also be noted that with Decisions 2013/538/EU, Euratom, 2013/539/EU, Euratom; 2013/540/EU, Euratom, 2013/541/EU, Euratom, 2013/542 /EU, Euratom, and 2013/543/EU, Euratom, the European Parliament also grants discharge to the directors of the executive agencies “Education, Audiovisual and Culture”, “Competitiveness and Innovation”, “Health and Consumers”, “Trans-European Networks For Transport”, “European Research Council” and, lastly, “Research” in respect of the implementation of their respective budgets for the financial year 2011.

2011 discharge: EU general budget, Section III, Commission and executive agencies

2012/2167(DEC) - 25/07/2012 - Non-legislative basic document

PURPOSE: presentation by the Commission of the consolidated annual accounts of the European Union for the financial year 2011, as part of the 2011 discharge procedure.

Analysis of the accounts of the EU Institutions: Section III - **European Commission**.

Legal reminder: the consolidated annual accounts of the European Union for the year 2011 have been prepared on the basis of the information presented by the institutions and bodies under Article 129(2) of the Financial Regulation applicable to the general budget of the European Union. They were prepared in accordance with Title VII of the Financial Regulation and with the accounting principles, rules and methods set out in the notes to the financial statements.

The objective of the financial statements is to provide information about the financial position, performance and cashflow of a body that is useful to a wide range of users. The objective is to provide information that is useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.

1) Purpose: the document helps to bring insight into the EU budget mechanism and **the way in which the budget has been managed and spent in 2011**. It recalls that the European Union's operational expenditure covers the various headings of the financial framework and takes different forms, depending on how the money is paid out and managed. In accordance with the Financial Regulation, the Commission implements the general budget using the following methods: direct or indirect centralised management (by means of bodies or agencies of public law or other); decentralised management where the Commission delegates certain tasks for the implementation of the budget to third countries; and, thirdly, shared management where budget implementation tasks are delegated to Member States, in areas such as agricultural expenditure and structural actions.

The document also presents the different financial actors involved in the budget process (accounting officers, internal officers and authorising officers) and recalls their respective roles in the context of the tasks of sound financial management.

Amongst the other legal elements relating to the implementation of the EU budget presented in this document, the paper focuses on the following issues:

- accounting principles applicable to the management of EU spending (business continuity, consistency of accounting methods, comparability of information ...);
- consolidation methods of figures for all major controlled entities (the consolidated financial statements of the EU comprise all significant controlled entities –institutions, organisations and agencies, this being 50 controlled entities, 5 joint ventures and 4 associates. In comparison with 2010, the scope of consolidation has been extended by 7 controlled entities (one institution, 6 agencies);
- the recognition of financial assets in the EU (tangible and intangible assets, financial assets and other miscellaneous investments);
- the way in which EU public expenditure is committed and spent, including pre-financing (cash advances intended for the benefit of an EU organ);
- the means of recovery following irregularities detected;
- the *modus operandi* of the accounting system;
- the audit process followed by the European Parliament's granting of the discharge.

To recap, the **final control is the discharge of the budget for a given financial year**. **The discharge represents the political aspect of the external control of budget implementation** and is the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission from its responsibility for management of a given budget by marking the end of that budget's existence.

The document also details specific expenditure of the institutions, in particular: i) pensions of former Members and officials of institutions; ii) joint sickness insurance scheme and iii) buildings. For the Parliament, the outstanding contractual obligation relating to building contracts totalled EUR 434 million in 2011.

Lastly, the document presents a series of tables and detailed technical indicators on (i) the balance sheet; (ii) the economic outturn account; (iii) cashflow tables; (iv) technical annexes concerning the financial statements.

2) Balance sheet of financial implementation: achievements and difficulties in implementation: in addition to legal aspects regarding the way in which the Union's expenditures are implemented, the document highlights the difficulties relating to the management and execution of certain of the Union's expenditures.

(a) financial correction and recoveries: the document provides an overview of the correction of errors and irregularities discovered, in particular in the part of the EU's budget that is implemented by means of shared management (**i.e. some 80% of the total budget**). In the context of shared management, the Commission relies on Member States for the implementation of EU programmes i.e. the EU contribution is paid to the Member States, generally to a specific paying agency, which is then responsible for the payments made to beneficiaries. As a result, **Member States are the primary party responsible for the prevention, detection and correction of errors and irregularities committed by the beneficiaries**, while the European Commission ensures an overall supervisory role (i.e. verifying the effective functioning of Member States' management and control systems).

The details provided by the Commission in its consolidated document only cover financial corrections and recoveries effected at EU level. The corrections effected by Member States following their own audits are not recorded in the Commission's accounting system because Member States can reuse, in most cases, these amounts for other eligible expenditure. Member States are however requested to provide the Commission with updated information on withdrawals, recoveries and pending recoveries of Structural Funds, and to separately identify EU corrections in the reporting related to the 2007-2013 period to avoid an overlap risk.

- **financial corrections:** financial corrections are the main tool used for the correction of errors and irregularities in the context of shared management. Financial corrections are made by the European Commission so as to exclude from EU funding expenditure that is not in accordance with applicable rules and regulations. In 2011, total financial corrections for the Cohesion policy alone amounted to **EUR 624 million** (compared with EUR 737 million in 2010) for the three cumulated programming periods (1994-1999, 2000-2006 and 2007-2013). In total, for all sectors combined, financial corrections amounted to **EUR 1.107 billion**;
- **recoveries:** recovery of amounts is a means of implementing financial corrections that merit a separate disclosure given that it concerns actual return of cash to the budget (or offsetting). These sums mainly concern the Common Agricultural Policy and Cohesion Policy. In 2011, the document states that these two sectors plus 'others' in the EU budget (such as the 7th Framework Programme for RTD) resulted in recoveries of around **EUR 733 million cumulated.**

(b) pre-financing: pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. If the beneficiary does not incur eligible expenditures, he has the obligation to return the pre-financing advance to the European Union. At 31.12.2011, total long-term pre-financings amounted to **EUR 40.625 billion** compared with EUR 40.298 million at the end of 2010. The largest pre-financing amounts relate to **structural actions for the 2007-2013 programming period**. Pre-financing represents a large portion of the EU's total assets, and thus receives proper and regular attention. It should be noted that the level of pre-financing amounts in the various programmes must be sufficient to ensure the necessary float for the beneficiary to start the project, while also safeguarding the financial interests of the EU and taking into consideration legal, operational and cost-effectiveness constraints. A closer look at the evolution of pre-financing reveals an accelerated increase in the years 2007 to 2009, which coincides with the early years of the 2007-2013 programming period. **The year 2011 marks a first decrease in the level of pre-financing**, a trend which confirms that the increase witnessed in the early years of the 2007-2013 Financial Framework is a normal development linked to the spending profile of multiannual programmes. In fact, **in 2011, total pre-financing has decreased by 1.5% or EUR 743 million compared to 2010**, an evolution related mainly to short-term shared management amounts.

(c) RAL (budgetary commitments made, payments still pending: the budgetary RAL ("Reste à Liquider")) is an amount representing the open commitments for which payments and/or de-commitments have not yet been made. The budgetary RAL is a normal result of the existence of multiannual programmes. At 31 December 2011, the budgetary RAL amounted to **EUR 207.443 billion**.

(d) borrowing and lending activities of the EU: the document also specifies that the EU is empowered by the EU Treaty to adopt borrowing programmes to mobilise the financial resources necessary to fulfil its mandate. The European Commission, acting on behalf of the EU, currently operates three main programmes under which it may grant loans and fund these by issuing debt instruments in the capital markets or with financial institutions: i) European Financial Stabilisation Mechanism (EFSM): support to Euro Area Member States, up to approximately EUR 60 billion, (EUR 28.3 billion outstanding at year-end); ii) Balance-of-Payments (BOP) assistance: to Member States that have not yet adopted the euro with up to EUR 50 billion (EUR 11.6 billion outstanding at year-end); and iii) Macro-Financial Assistance (MFA): financial aid programme to assist non-Member States (EUR 595 million outstanding at year-end). These activities have direct implications on the EU's budget. This for the EFSM alone, at 31 December 2011, **the budget is exposed to a maximum possible risk of EUR 28.344 billion** regarding these loans (the EUR 28 billion above being the nominal value). As the borrowings under the EFSM are guaranteed by the EU budget, the European Parliament scrutinises the Commission's EFSM actions and exercises control in the context of the budget and discharge procedure.

N.B. the document also examines the financial risks incurred by the EU and the mechanisms set in place to ensure the management of these risks.

3) Implementation of the budget for the 2011 financial year: the document also comprises a series of annexes containing figures, the most important of which relates to budgetary implementation:

(a) table on the implementation of commitment appropriations by heading and rate of implementation:

- Sustainable growth: EUR 65.238 billion; rate of implementation: 97.38%;
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- Preservation and management of natural resources: EUR 59.907 billion; 97.66%
- Citizenship, freedom, security and justice: EUR 2.165 billion; 94.5%;
- EU as a global player: EUR 8.807 billion; 96.42%;
- Administration: EUR 4.884 billion; 96.98%.

Total commitments: EUR 141.001 billion; 97.41%.

(b) table on the execution of payment appropriations by heading and rate of implementation

- Sustainable growth: EUR 54.732 billion; rate of implementation: 96.05%;
- Preservation and management of natural resources: EUR 57.375 billion; 97.43%
- Citizenship, freedom, security and justice: EUR 1.827 billion; 91%;
- EU as a global player: EUR 7.102 billion; 96.42%;
- Administration: EUR 4.847 billion; 89.85%.

Total payments: EUR 125.883 billion; 96.36%.

(c) budget implementation – conclusions: lastly, the document provides details on the implementation of the budget in more political terms. Financial year 2011 was the fifth annual budget implemented in the current MFF. In 2011, EUR 117 336.9 million (90.7% of total implemented EU expenditure including EFTA contributions and earmarked revenue) was allocated to Member States. For further details of the budgetary implementation of expenditures of Section III of the budget, please refer to the EU Budget 2011 – Financial Report.

Overall, many large programmes saw the implementation of their payments accelerate even if because of the general context of budget consolidation in the Member States the increase in payment appropriations was very limited and therefore **insufficient to ensure the necessary level of payment required in the course of the year**. In fact, despite a budgetary supplement of EUR 200 million, authorised thanks to amending budget 6 /2011, the strong increase in demand for payments in the last three weeks of the year and the absence of sufficient payment appropriations to meet the demand resulted in **a shortfall of some EUR 11 billion** to honour the EU's credits in 2011 and which could only be honoured in 2012. The unused voted appropriations excluding the reserves amounted to EUR 1 580 million (2010: EUR 3 243 million) and after the carryover to 2012, a total of EUR 560 million (2010: EUR 1 730 million) lapses, mainly in Headings 2 and 4 of the financial framework.

For commitments, the authorised budget, and hence the political targets set, were fully implemented (99.6%).