

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

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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.