# Procedure file

## Basic information

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|---|---|---|
| DEC - Discharge procedure | 2013/2195(DEC) | Procedure completed |
| 2012 discharge: EU general budget, European Commission and executive agencies<br><br>Subject<br>8.70.03.07 Previous discharges | | |

## Key players

| European Parliament | Committee responsible | Rapporteur | Appointed |
|---|---|---|---|
| | CONT Budgetary Control | | 23/09/2013 |
| | | PPE PIEPER Markus | |
| | | Shadow rapporteur | |
| | | S&D VAUGHAN Derek | |
| | | ALDE MULDER Jan | |
| | | Verts/ALE STAES Bart | |
| | | ECR CZARNECKI Ryszard | |
| | | EFD VANHECKE Frank | |
| | | NI EHRENHAUSER Martin | |
| | Committee for opinion | Rapporteur for opinion | Appointed |
| | AFET Foreign Affairs | | 12/09/2013 |
| | | S&D MUÑIZ DE URQUIZA María | |
| | DEVE Development | | 17/12/2013 |
| | | ALDE GOERENS Charles | |
| | 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 | | 09/10/2013 |
| | | S&D BERÈS Pervenche | |
| | ENVI Environment, Public Health and Food Safety | | 10/10/2013 |
| | | S&D HAUG Jutta | |
| | 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 | | 15/10/2013 |
| | | ECR VLASÁK Oldřich | |
| | REGI Regional Development | | 07/11/2013 |

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|---|---|---|---|
| | | S&D STAVRAKAKIS Georgios | |
| | AGRI Agriculture and Rural Development | The committee decided not to give an opinion. | |
| | PECH Fisheries | PPE MATO Gabriel | 03/10/2013 |
| | CULT Culture and Education | ALDE LØKKEGAARD Morten | 17/10/2013 |
| | JURI Legal Affairs | The committee decided not to give an opinion. | |
| | LIBE Civil Liberties, Justice and Home Affairs | PPE ROITHOVÁ Zuzana | 04/11/2013 |
| | AFCO Constitutional Affairs | The committee decided not to give an opinion. | |
| | FEMM Women's Rights and Gender Equality | PPE MATERA Barbara | 18/02/2013 |
| | PETI Petitions | The committee decided not to give an opinion. | |
| Council of the European Union | Council configuration | Meeting | Date |
| | Economic and Financial Affairs ECOFIN | 3294 | 18/02/2014 |
| European Commission | Commission DG | Commissioner | |
| | Budget | ŠEMETA Algirdas | |

## Key events

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|---|---|---|---|
| 26/07/2013 | Non-legislative basic document published | COM(2013)0570 | Summary |
| 22/10/2013 | Committee referral announced in Parliament | | |
| 18/03/2014 | Vote in committee | | |
| 24/03/2014 | Committee report tabled for plenary | A7-0242/2014 | Summary |
| 02/04/2014 | Debate in Parliament | | |
| 03/04/2014 | Results of vote in Parliament | | |
| 03/04/2014 | Decision by Parliament | T7-0287/2014 | Summary |
| 03/04/2014 | End of procedure in Parliament | | |
| 05/09/2014 | Final act published in Official Journal | | |

## Technical information

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|---|---|
| Procedure reference | 2013/2195(DEC) |
| Procedure type | DEC - Discharge procedure |
| Other legal basis | Rules of Procedure EP 159 |
| Stage reached in procedure | Procedure completed |
| Committee dossier | CONT/7/13844 |

## Documentation gateway

| | | | | | |
|---|---|---|---|---|---|
| Supplementary non-legislative basic document | | COM(2013)0558 | 23/07/2013 | EC | Summary |
| Non-legislative basic document | | COM(2013)0570 | 26/07/2013 | EC | Summary |
| Court of Auditors: opinion, report | | N7-0049/2014<br>OJ C 331 14.11.2013, p. 0001 | 05/09/2013 | CofA | Summary |
| Document attached to the procedure | | COM(2013)0668 | 26/09/2013 | EC | Summary |
| Document attached to the procedure | | SWD(2013)0348 | 26/09/2013 | EC | Summary |
| Document attached to the procedure | | SWD(2013)0349 | 26/09/2013 | EC | Summary |
| Committee opinion | PECH | PE523.109 | 23/01/2014 | EP | |
| Committee draft report | | PE521.558 | 28/01/2014 | EP | |
| Supplementary non-legislative basic document | | 05850/2014 | 05/02/2014 | CSL | Summary |
| Committee opinion | ENVI | PE524.569 | 05/02/2014 | EP | |
| Committee opinion | AFET | PE524.543 | 11/02/2014 | EP | |
| Committee opinion | REGI | PE524.560 | 12/02/2014 | EP | |
| Committee opinion | FEMM | PE524.607 | 12/02/2014 | EP | |
| Committee opinion | DEVE | PE526.210 | 12/02/2014 | EP | |
| Committee opinion | CULT | PE524.571 | 13/02/2014 | EP | |
| Committee opinion | EMPL | PE524.623 | 13/02/2014 | EP | |
| Document attached to the procedure | | 05848/2014 | 17/02/2014 | CSL | Summary |
| Committee opinion | TRAN | PE526.147 | 20/02/2014 | EP | |
| Committee opinion | LIBE | PE524.746 | 24/02/2014 | EP | |
| Amendments tabled in committee | | PE529.709 | 27/02/2014 | EP | |
| Document attached to the procedure | | COM(2014)0120 | 28/02/2014 | EC | Summary |
| Document attached to the procedure | | SWD(2014)0060 | 28/02/2014 | EC | |
| Committee report tabled for plenary, single reading | | A7-0242/2014 | 24/03/2014 | EP | Summary |
| Text adopted by Parliament, single reading | | T7-0287/2014 | 03/04/2014 | EP | Summary |
| Follow-up document | | COM(2014)0383 | 26/06/2014 | EC | Summary |
| Follow-up document | | SWD(2014)0200 | 26/06/2014 | EC | |
| Follow-up document | | SWD(2014)0201 | 26/06/2014 | EC | |
| Follow-up document | | SWD(2015)0125 | 26/06/2015 | EC | |

## Final act

Decision 2014/544
OJ L 266 05.09.2014, p. 0030 Summary

2012 discharge: EU general budget, European Commission and executive agencies

Pursuant to Title VII of the Financial Regulation, the Commission presented a paper on the certification of the accounts of the European Union for the financial year 2012.

The paper proposes a consolidated overview of the financial statements of the EU budget with indicative tables outlining heading by heading expenditure as well as indicative and explanatory notes to the consolidated accounts.

The document presents in partuclar:

- the budget sheet (assets - liabilities);
- a statement of financial performance;
- cashflow statement;
- the statement of changes in net assets of the budget.

The second part of the paper focuses on the implementation of the budget and refers in particular to the difficulties encountered due to the lack of payment appropriations at the end of the fiscal year.

## 2012 discharge: EU general budget, European Commission and executive agencies

PURPOSE: presentation by the Commission of the consolidated annual accounts of the European Union for the financial year 2012, as part of the 2012 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 2012 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 2012. 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);
- 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.

The document also 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 Unions expenditures are implemented, the document highlights the difficulties relating to the management and execution of certain of the Unions 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 EUs 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 Commissions 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.

- Suspensions and interruptions: there may be interruptions or total suspension of payments where there is evidence of significant deficiencies in the functioning of the management and control systems of the Member State concerned in particular with regard to policy cohesion. Total pending cases to this effect at 31.12.2012 amounted to EUR 1 639 million, the Member States particularly targeted were Italy and Poland. Concerning ERDF and the Cohesion Fund, suspension decisions were taken for 2 programmes in Germany and in Italy. Both suspensions were still effective at 31 December 2012. Concerning ESF, 2 suspension decisions were adopted in 2012 and concerned the Czech Republic and Slovakia;
- 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 2012, more than half of the EUR 1 161 million financial corrections confirmed/decided in 2012 (EUR 631 million) concern the current programming period 2007-2013 as a result of stricter supervision by the Commission and a growing number of audits completed at this stage of implementation of the programmes. The amount of corrections decided/confirmed in 2012 related to the programming period 2007-2013 is mainly explained by corrections concerning Spain (EUR 267 million), the Czech Republic (EUR 111 million), Greece (EUR 82 million) and Poland (EUR 77 million). These amounts do not include corrections to expenditure declared by beneficiaries at
- 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 2012, the document states that these two sectors plus others in the EU budget resulted in recoveries of around EUR 678 million.

(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 31.12.2012, total long-term pre-financings amounted to EUR 44.505 billion compared with EUR 44.723 million at the end of 2011. Pre-financing represents a large portion of the EUs 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.

The most significant non-current pre-financing amounts relate to Structural Actions for the 2007-2013 programming period: the regional development fund (ERDF) and the cohesion fund (CF) EUR 23.9 billion, the social fund (ESF) EUR 6.5 billion, the agricultural fund for rural development (EAFRD) EUR 6.1 billion and the fisheries fund (EFF) EUR 0.6 billion. As many of these projects are long-term in nature, it is necessary that the related advances are available for more than one year.

(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. At 31 December 2012, the budgetary RAL amounted to EUR 217.81 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.

European Financial Stabilisation Mechanism (EFSM): the EFSFs mandate is to safeguard financial stability in Europe by providing financial assistance to Eurozone Member States. The EFSF does not provide new lending after 1 July 2013, in keeping with the current Framework Agreement. It is backed by guarantee commitments from the Eurozone Member States for a total of EUR 780 billion and has a lending capacity of EUR 440 billion. It is not guaranteed by the EU budget. The EFSF is a Luxembourg-registered commercial company owned by euro-area Member States outside the EU Treaty framework and thus is not an EU body and is entirely separate from and not consolidated in the EU accounts. Consequently it has no impact on the EU accounts, aside from the possible sanctions.

Loans outstanding at 31.12.2012: EUR 103 900 million.

European Stability Mechanism (ESM): the ESM has assumed the tasks fulfilled by the EFSM and, as from 1 July 2013, the tasks fulfilled by the EFSF becoming the sole and permanent mechanism for responding to new requests for financial assistance to Eurozone Member States. Consequently, the EFSF and the EFSM will no longer engage in new financing programmes or enter into new loan facility agreements, but will remain active in financing the on-going programmes for Portugal, Ireland and Greece. The creation of the ESM will thus not have an impact on the existing commitments under the EFSM. It must also be noted that the EU budget will not guarantee ESM borrowings. The ESM is backed by a robust capital structure, with a total subscribed capital of EUR 700 billion, of which EUR 80 billion in the form of paid-in capital provided by the Eurozone Member States. Loans outstanding at 31.12.2012: EUR 39 468 million.

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 2012 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 69 billion; rate of implementation: 97.4%;
- Preservation and management of natural resources: EUR 60.817 billion; 97.78%
- Citizenship, freedom, security and justice: EUR 2.892 billion; 98.21%;
- EU as a global player: EUR 9.753 billion; 98.21%;
- Administration: EUR 8.822 billion; 96.81%.

Total commitments: EUR 151.284 billion; 97.55%.

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

- Sustainable growth: EUR 61.585 billion; rate of implementation: 96.60%;
- Preservation and management of natural resources: EUR 59.096 billion; 97.83%
- Citizenship, freedom, security and justice: EUR 2.375 billion; 95.86%;
- EU as a global player: EUR 7.064 billion; 98.35%;
- Administration: EUR 8.564 billion; 87.18%.

Total payments: EUR 138.683 billion; 96.55%.

(c) budget implementation conclusions: lastly, the document provides details on the implementation of the budget in more political terms. Financial year 2012 was the sixth annual budget implemented in the current MFF. For further details of the budgetary implementation of expenditures of Section III of the budget, please refer to the EU Budget 2012 Financial Report. The financial year 2012 has been another year marked by a very high execution of the budget and the financial support activities of the EU for Member States under the EFSM facility. The level of long-term advance payments (pre-financing) remains stable at EUR 44.5 billion, practically the same as in 2011.

For commitments, the authorised budget, and hence the political targets set, were fully implemented (99.6%). The total level of payment appropriations was increased at the end of the year through Amending Budget 6/2012 for an amount EUR 6 billion.

The shortage of payments affected nearly all headings, and in particular heading 1b Cohesion for Growth and Employment. It must also be recalled that the EUR 6 billion agreed was EUR 3 billion less that the amount requested by the Commission. Finally, the 2012 budget result of EUR 1 019 million for the Union was returned to the Member States during 2013 through deduction of their contributions due for that year.

Cruising speed: the year 2012 was the sixth and penultimate year of the current programming period 2007-13. All major programmes were at cruising speed, and the inflow of payment claim increased significantly, as is normal as the cycle draws to a close.

## 2012 discharge: EU general budget, European Commission and executive agencies

FOLLOW-UP TO THE 2011 COMMISSION DISCHARGE: FOLLOW-UP TO THE RECOMMENDATIONS OF THE EUROPEAN PARLIAMENT

AND OF THE COUNCIL

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 2011 financial year, pursuant to Article 319(3) of the Treaty on the Functioning of the European Union. The Commissions responses to each of the Parliament and Councils requests are available in two Commission Staff working documents (published in SEC(2013)348 and SEC(2013)349 and attached to this procedure file).

This report summarises the Commissions responses to the main requests of the European Parliament and of the Council.

CONTENT: the report indicates that in the European Parliaments discharge resolution, the Commission agreed to start new actions on **181 requests** (143 from the EP and 38 from the Council). For 252 other requests (205 from the EP and 47 from the Council), the required action has already been taken or is on-going, though in some cases the results of the actions will need to be assessed. Lastly, for reasons related to the existing legal and budgetary framework or its institutional role or prerogatives, the Commission cannot accept41 requests (39 from the EP3 and 2 from the Council).

The Commissions responses to the requests of the EP and the Council may be summarised as follows:

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

1. Communication on the protection of the EU budget: the EP requested the Commission to present a Communication on the protection of the EU budget, with a view to making public all the amounts corrected and recovered in the course of the preceding year. The Communication sas to be presented in September 2013 and demonstrate that corrections and recoveries have increased considerably in the last few years.

2. Actions relating to error rates: for shared management, the EP requested the Commission to harmonise the practices concerning the interruption/suspension of payments when significant deficiencies are detected at the level of the supervisory and control systems of the Member States. **The Commission indicates that interruptions and suspensions are intensively used as shown in various Commission reports and that it is its firm intention to continue using these tools.** The Commission's actions in this regard have been further harmonized in 2012, in particular in the area of Cohesion policy.

As regards agriculture, Commission Regulation No 883/2006 was amended in April 2013 with the objective to facilitate **interruptions of Rural Development payments to the Member States** already in the current programming period in case of deficiencies. However, a full harmonisation across all policy areas **is not possible under the current legal framework**. For the new programming period 2014-2020, the Commission's proposal for common provisions on the Funds foresees a further harmonisation of the interruption of payments for all these Funds, including Rural Development.

Other technical measures were proposed to simplify national eligibility rules for the Structural Funds, avoid gold-plating and provide for joint assessment between Managing Authorities and Paying Agencies, Member States (MS) to ensure that all the rural development measures they intend to implement are verifiable and comparable.

As regards the identification of so-called systemic errors, the Commission indicates that it intends to make considerable efforts to ensure **strict compliance with eligibility requirements and the correct application of public procurement rules**, through training and guidance to programme managing authorities who should in their turn transmit this knowledge to all bodies in charge of managing the funds. It has also shared with MS an analysis of the types of procurement errors detected by EU audits in cohesion policy during previous years.

Under the same priority action, the EP also had some requests concerning three specific directorates-general (AGRI, REGIO and Research).

3. Enhanced use of performance audits: the European Parliament asked the Commission to place the emphasis on the progress made in the achievement of the (EU 2020) flagship initiatives. It also calls for an enhanced use of performance audits.

The Commission has presented an action plan as part of the Evaluation report on the year 2012, which was adopted on 26 June 2013. This action plan includes actions to integrate performance information from the Strategic Planning and Programming Cycle. This includes the integration of elements of progress and performance management in the Management Plan for 2014 (setting objectives, performance indicators and associated targets per programme, evaluations planned).

4. Actions concerning revenues and traditional own resources:

the EP invited the Commission to provide it with an evaluation of the cost of postponing the full application of the Modernised Customs Code (MCC) in time for the 2012 discharge procedure. It also requested the Commission to collect reliable data on the customs and VAT gap in the MS and report every six months to the EP in this regard. In this field, the Commission is providing technical assistance to certain Member States and has taken a series of actions to support Member States in their fight against tax fraud and tax evasion.

**On the issue of the impact of uncollected revenues on the availability of the Union Own resources**, the Commission underlines that each revenue stream is characterised by a different risk profile. For traditional own resources, the Commission has repeatedly drawn Member States attention to recovery issues and strengthened awareness by applying the principle of financial responsibility if non-recovery can be attributed to a MS. As far as VAT is concerned, by far the greater financial incentive arising from effective recovery accrues to MS: **for every euro collected a minimum of 97 cents goes to national budgets, while the much smaller part 3 cents flows to the EU**.

Horizontal issues:

1. Responsibility of the Commission and the MSs in shared management: Parliament noted that the Commission should give guidance to MS to draft meaningful annual summaries (AS) and considers that AS should be put at the disposal of the EP and should not only be made available in the language of the Member State. Guidelines on the form and content of the AS were provided to Member States in 2010. However, the Commission considers that requesting the Member States to transmit their AS in another language than theirs would affect current regulatory provisions on the use of languages by Member States. Taking duly the principles of proportionality and cost-effectiveness into account, the Commission is committed to provide translation of the most important elements of those documents into English.
2. Reliability of Commission management representations: Parliament suggested establishing a clear link between amounts included in Annual Activity Reports (AARs), for establishing the residual error rate and information on recoveries / financial corrections presented in the accounts. A clear link has been established in the 2012 consolidated accounts. Detailed information on these points appears in the 2012 AARs and in the 2012 Synthesis Report.
3. Anti-fraud Strategy: Parliament called on the Commission to report on and evaluate the anti-fraud strategies established within each directorate general. The Commission will report to Parliament and Council in 2014 on the implementation of its anti-Fraud strategy starting with the Commission report on the protection of the EU financial interests for the year 2013.
4. Tobacco Industry: lastly, Parliament called on the Commission to report on how it intends to improve its provisions to introduce a pro-active management of potential conflicts of interest and "revolving doors". The Commission considers that the legal framework applicable to all institutions and the implementation provisions adopted by each institution are a solid basis for dealing with all issues relating to conflicts of interest, including the so-called revolving door cases. These rules are proactively managed by the Commission. On the whole, the Commission believes that the ethical framework applying to Members and staff is fully compatible with this provision.

## 2012 discharge: EU general budget, European Commission and executive agencies

FOLLOW-UP TO THE 2011 COMMISSION DISCHARGE  REPLIES TO REQUESTS FROM THE COMMISSION

This Commission Staff Working Paper completes the Report from the Commission to the European Parliament and the Council on the Follow-up to the 2011 Discharge.

An overview of these replies can be found in COM(2013)0668 (please refer to the summary of the document in question).

It presents in detail the answers to 87 specific requests made by the Council in the comments accompanying its Recommendation.

## 2012 discharge: EU general budget, European Commission and executive agencies

FOLLOW-UP TO THE 2011 COMMISSION DISCHARGE  REPLIES TO REQUESTS FROM THE EUROPEAN PARLIAMENT

This Commission Staff Working Paper completes the Report from the Commission to the European Parliament and the Council on the Follow-up to the 2011 Discharge.

An overview of these replies can be found in COM(2013)0668 (please refer to the summary of the document in question).

It presents in detail the answers to 387 specific requests made by the European Parliament in its Resolutions.

## 2012 discharge: EU general budget, European Commission and executive agencies

Having regard to Council Regulation (EC) No 58/2003 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes, and in particular Article 14(3) thereof and to Commission Regulation (EC) No 1653/2004 on a standard financial regulation for the executive agencies, the Council addressed the following recommendations to the European Parliament as regards the discharge to the given to the executive agencies.

At its meeting on 29 January 2014, the Budget Committee examined the six specific annual reports of the European Court of Auditors related to executive agencies.

Having examined the revenue and expenditure accounts for the financial year 2012 and the balance sheet at 31 December 2012 as well as the report by the Court of Auditors on the annual accounts of the Executive Agencies, accompanied by the Executive Agency's replies, the Council hereby recommended the European Parliament to give a discharge to the Director of the Executive Agency in respect of the implementation of the budget for the financial year 2012.

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

The Council's recommendations may be summarised as follows:

1. as regards the Executive Agency Education , Audiovisual and Culture, the Council invites the Executive Agency to limit the amount of carry-overs, in line with the budgetary principle of annuality;
2. as regards the Executive Agency for Competitiveness and Innovation, the Council urges the Executive Agency to comply with the international standards of internal control and to separate the Internal Audit Capability (IAC) and the ex-post verifications that are part of the internal control system, in order to ensure the independence of its Internal Audit function. It also encourages the Executive Agency to pursue its efforts in addressing the failures detected by the Court in its recruitment procedures;
3. as regards the Executive Agency for Health and Consumers, the Council urges the Executive Agency to continue paying due attention to the respect of the budgetary principle of annuality and to avoid, as far as possible, any excessive carry-overs;
4. as regards the Executive Agency of the Trans-European Transport Network, the Council also urges the Executive Agency to continue paying due attention to the respect of the budgetary principle of annuality and to avoid, as far as possible, any excessive carry-overs;
5. as regards the Executive Agency for the Research, the Council calls on the Executive Agency to pay due attention to the respect of the provisions laid down in the Financial Regulation and its Rules of Application concerning the subdelegation of powers of the Authorising Officer when making payment orders.
6. with regard to the European Research Council Executive Agency, the Council made ??no particular comment.

## 2012 discharge: EU general budget, European Commission and executive agencies

This report is an analysis of the Member States' replies to the European Court of Auditors' annual report for budgetary year 2012.

Courts audit results: the results showed that for 2012 the consolidated accounts presented the financial position of the Union fairly and that they were free from any material misstatements. However, for expensed payments the Courts conclusion was that they were materially affected by error and the related control systems examined were partially effective for all expenditure areas except administrative expenditure, which was free from errors.

For the budget as a whole, the most likely error rate had increased from 3.9% in 2011 to 4.8% in 2012. The Court identified that eligibility errors accounted for a significant proportion of the estimated overall error rate.

It also highlighted that shared management expenditure, which represents 80% of EU expenditure, contributed significantly to the estimated overall error rates and that many of the errors found could have been detected by better first-line controls at the level of the Member States.

Member States replies: this report is accompanied by a Staff Working Document (SWD) which comprises the Member States' detailed replies (SWD(2014) 60 final).

This report analyses the replies provided by Member States under three main thematic headings:

(1) Performance: the Court criticised the existing performance measurement and reporting framework. Member States were therefore requested to reply to questions on performance measurement, evaluation and reporting for cofinanced programmes. Twenty three Member States indicated that they use SMART objectives and RACER indicators. Member States also detailed various aspects of their national performance measurement processes.

If the Member States' positive view is confirmed, it would allow the Commission to improve its global performance measurement and reporting on the basis of Member States data.

(2) Eligibility and accuracy errors: in the area of expensed payments, the Court identified recurrent eligibility errors with a financial impact concerning ineligible VAT in cost claims.

In the area of Agriculture it also indicated that there were significant deficiencies related to three Land Parcel Identification Systems (LPIS) audited resulting in eligibility and accuracy errors.

All Member States concerned indicated that they had made efforts to rectify VAT errors and to update and improve LPIS databases. The Court highlighted the positive impact of simplified cost options (SCOs) in the area of Employment and Cohesion and its opinion was shared by a majority of Member States. This is extremely important because the use of SCOs could be a key element in the prevention of errors in programmes under the new MFF.

(3) Improving controls and systems: in shared management the Commission applies the concept of single audit whenever possible, meaning that it may rely on audit and controls performed by national audit authorities, if they are proven to be reliable and if the management and control systems are fully effective.

In its report, the Court referred to the risk of frequently unreliable information provided by the audit authorities.

Ten Member States replied that they had no plans for improvements as they considered their audit authorities to be reliable. Member States all expressed overall satisfaction with the guidance on the treatment of errors provided and the seminars organised by the Commission in 2012 and 2013. The majority of Member States indicated that they were willing to establish effective and proportionate anti-fraud measures.

Although, the Commission acknowledges the advantages of the single audit concept, it has to ensure the reliability of the data reported by the Member States and it therefore performs reviews and audits of the systems of national audit authorities and the national bodies responsible for the implementation of EU programmes.

## 2012 discharge: EU general budget, European Commission and executive agencies

The Committee on Budgetary Control adopted the report by Markus PIEPER (EPP, DE) in which it recommended the European Parliament to grant the Commission discharge in respect of the implementation of the general budget of the European Union for the financial year 2012 as well as to the Directors of the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Small and Medium-sized

Enterprises, the Consumers, Health and Food Executive Agency, the Research Executive Agency, the Innovation and

Networks Executive Agency, on the implementation of their respective budgets for the financial year 2012

The Commission also recommends that the European Parliament gives closure to the accounts of the general budget of the European Union for 2012.

Strengthen the supervisory role of the Commission: recalling that for the 19th time in succession, the Court of Auditors was unable to grant a positive statement of assurance regarding the legality and regularity of the payments underlying the 2012 accounts, Members called on the Co mmission to assume greater and more substantial responsibility for safeguarding the Union budget against financial losses and called furthermore for a better coordination of public procurement rules at the level of all stakeholders and a simplification and harmonisation of rules and financial corrections.

Observing that in the 2012 financial year the error rate rose for the third time in succession, Members recalled that the rapporteur and the shadow rapporteurs for the discharge to the Commission for the financial year 2012 called for more stringent financial corrections to be imposed on those Member States whose management and monitoring systems display persistent and systematic weaknesses. Although the Commission was committed to strengthening controls in this area and had submitted a Communication to strengthen financial corrections, Members noted that it awaits the delegated act laying down detailed rules for the criteria for the assessment of the functioning of management and control systems, for establishing the level of financial corrections to be applied and for applying flat-rate corrections.

Parliamentary reserve on agricultural and cohesion: revealing that 8 Members States (out of 28) are responsible for 90% of the financial corrections in the area of shared management, Members called on the Commission, in light of repeated error concentration in a few Member States, to assume greater and more substantial responsibility for safeguarding the Union budget against financial losses.

In this context, Members underlined that Parliament only issues reservation in areas for which it has not received adequate assurance from the Commission and/or the Court of Auditors to refute its concerns, deems it a priority that the Commission proves to Parliament in the case of reservations in which way convincing remedial measures have been taken to overcome the latter's concerns. They regarded reservations as a new and effective budgetary control instrument, being a commitment by Parliament to monitor closely the measures taken by the Commission and Member States to eliminate these problems, so as to justify in the eyes of the public in particular the decision to grant discharge.

Members endorsed reservations on two major EU policies:

- as regards agriculture, the Commission should strengthen its controls in particular as regards the errors in the Land Parcel Identification System (LPIS) in France and Portugal since 2006. Members endorsed the reservations issued by the Director-General of DG AGRI with regard to serious deficiencies in the direct payment systems in Bulgaria, France and Portugal;

- as regards regional policy, some audit authorities of Member States are not carrying out their audits with the requisite thoroughness and that it is not sufficiently apparent whether and in what respect they are permanently improving their supervisory and control systems. In this respect, the Commission should conduct more audits of the final beneficiaries and Member States who repeatedly show signs of management weakness.

Measures to be taken: in a series of general observations, Members call for the introduction of priority actions dealing with the following:

- the DGs concerned should build up a new and reinforced audit strategy to counter weaknesses found in some Member States;
- intensification of quality checks on Member-States audit and control reports;
- application of progressively increasing payment reductions and administrative sanctions where eligibility criteria have not been respected by the final beneficiary receiving direct payments or rural development support and recurrent LPIS shortcomings;
- suspension mechanism to be used as an ex ante instrument for protection of the Union budget;
- for France and Portugal, comprehensive action plans should be established in the field of agriculture in among other the updating of their LPIS systems;
- limit the option of replacing projects affected by error with new projects;
- making better use of RAL and limiting the period covered by pre-financing;
- the Commission should reach binding bilateral agreements with Member States which have attracted particular attention, along the lines of the European Semester.

Members called for the above commitments to be sent, by the newly elected President of Parliament, to the President of the Commission calling for binding commitments for the delivery of the above following the 2014 European parliament elections.

I. Court of Auditors Statement of assurance:

- Reliability of the accounts favourable opinion: Members welcomed the fact that the annual accounts of the Union for the financial year 2012 present fairly, and in all material respects, the position of the Union as at 31 December 2012 and the results of its operations, its cash flows and the changes in net assets for the then completed year.
- Legality and regularity of revenue adverse opinion: Members noted with concern that all areas of operational expenditure contributed to this increase, with the rural development, environment, fisheries and health remaining the most errorprone policy group with an estimated error rate of 7.9%. Members deeply regretted that payments remain materially affected by error. They reminded the Commission that Parliament has a zero-tolerance approach to errors.

Although Members noted that the financial corrections reported as implemented in 2012 were more than three times the figure for 2011, they considered that these measures have still had too little impact on the Union budget. They asked the Commission to provide Parliament and the Council with precise amounts and the use made thereof in this regard in the next communication on the protection of the Union budget for the financial year 2013.

RAL: Members stressed that the recurrent shortages of payment appropriations have been the main cause of the unprecedentedly high level of RALs especially in the last years of the 2007-2013 MFF. They noted with deep concern that the Commission is finding it increasingly difficult to meet all requests for payments in the year within the budget appropriations for payment and that the cumulative total of commitment appropriations available for payments over the period 2007-2013 has exceeded the cumulative total of payment appropriations available over the same period by EUR 114 billon. They also expressed concern over the fact that the Commission's outstanding budgetary commitments for which payments and/or decommitments have not yet been made increased by EUR 10 billion to EUR 217 billion. The Commission is urged to prepare and publish a long-range cash flow forecast, projecting future payment requirements to ensure that necessary payments can be met from approved annual budgets.

Shared management: once again, Members requested the Member States to urgently reinforce the primary controls to address this unacceptably high level of mismanagement. They called on the Commission to shield the Union budget from the resulting risk of irregular payment by applying financial corrections in the event that such weaknesses in Member States' management and control systems are found and n the Member States and the Commission to urgently reinforce first-level checks to address this unacceptably high level of mismanagement.

II. Budget implementation by policy: Members then return point by point to the implementation of the budget and highlight the following:

Revenue: Members expressed its concern about the weaknesses of the Value Added Tax (VAT) systems of the Member States (findings of a study estimated losses of VAT revenue in 2011 due to infringements or failure to collect the tax at EUR 193 billion for public finances in the Member States) and called for improvements in certain Member States, such as Belgium, Finland and Poland.

Agriculture: Members pointed out that the most frequent accuracy errors relate to overstated area declarations and administrative errors, and that the bigger accuracy errors relate mostly to excessive payments for permanent grassland. Members were deeply concerned about the fact that the critical observations made in the annual report of the Court of Auditors for the financial year 2012 and the systematic weaknesses detected by the latter have already been reported by the Court of Auditors in its previous reports, and in particular, as regards the eligibility of permanent pasture, since 2007. They called on the Commission and the Court of Auditors, in the context of the adversarial procedure, to reach agreement on the eligibility criteria for permanent pasture.

Rural development, environment, fisheries and health: Members pointed out that, as in 2011, the major component (65%) of the most likely error rate reported by the Court of Auditors concerns non-area-related measures, and stressed that the reason for most quantifiable errors was that the beneficiaries did not respect the eligibility requirements, in particular those concerning agri-environment commitments, special requirements for investment projects and public procurement rules. They called on the Commission to continue to provide guidance and assistance to Member States by means of best practice, through systematic interruptions of payments, financial corrections according to the severity of the error and also, in addition, by drawing up short term and ad hoc action plans. They also asked for structural changes leading to long-term solutions such as a permanent knowledge-sharing platform among managing authorities and paying agencies across the Union so that EAFRD specific bodies can learn by examples and best practices.

Regional policy, energy and transport: Members stressed that the findings of the Court of Auditors audit indicate weaknesses in the first-level checks on expenditure. They considered it unacceptable that, for years, errors of the same kind continue to be identified, often in the same Member States. They acknowledged that suspension and interruptions of payments by the Commission ensures that corrective actions are carried out in cases where deficiencies were identified and called on the Commission to step up monitoring of national and regional management and control systems in the light of this finding. They called on the newly elected Parliament to establish action to remedy the weaknesses detected in the fields of agriculture and regional policy as urgent tasks in the new European Commission's work programme. They also raised the issue of the weaknesses in the fields of agricultural and regional policy indicated here at the hearings of the designated members of the new Commission and to demand appropriate pledges in order to improve protection of the Union budget.

A follow-up is needed as regards the weaknesses identified in Greece.

Employment and social affairs: Members noted that, as in previous years, the Court of Auditors considers that for 67% of the transactions affected by error sufficient information was available for the Member State authorities to have detected and corrected at least one or more of the errors prior to certifying the expenditure to the Commission. They observed furthermore that the main source of error is payment of ineligible costs and breaches of public procurement rules. They called for a policy to reduce youth unemployment which possesses Union added value. In this regard, they called for an honest European subsidy policy which focuses far more on transfers of know-how from Member States with low youth unemployment rates to Member States where those rates are high, but without further arousing false expectations and without further making promises on matters for which the Union cannot assume primary responsibility. Members are critical of the fact that the Commission has failed to act on repeated calls from Parliament to indicate the sums of Union funding, in both absolute and proportional terms, which have been used to improve training schemes for the 2007-2013 funding period.

External relations, aid and enlargement: Members regretted that shortcomings persist in EuropeAid's ex ante checks and in the supervisory and control system and that, according to the findings of the Court of Auditors, the Commissions 2011 reorganisation continues adversely to affect the activity of its Internal Audit Capacity. They also regretted that the supervisory and control systems of EuropeAid are only partially effective, which means that they fail to detect and correct material errors. They supported the Commission's continuing efforts to shift from an input-based to a performance- and impact-oriented approach and urged the adoption of specific, measurable, achievable, relevant and timed benchmarks for all programmes in Heading 4 of the Union budget. They noted with concern that the number of cases OLAF started investigating in relation to EuropeAid/DG DEVCO managed projects has increased from 33 (in 2011) to 45 in 2012.

Research and other internal policies: Members considered it incomprehensible that the Court of Auditors still finds a significant error rate in the cost statements drawn up by independent auditors. They considered, therefore, that the Commission and Member States should supply auditors with all the necessary background material and training material to facilitate correct auditing of cost statements.

OLAF: Members observed that the President of the Commission still has not accounted to Parliament in plenary for the loss of office of Health Commissioner John Dalli on 16 October 2012. They insisted on the necessity of respecting the presumption of innocence and noted that the serious accusations of corruption levelled at the Commissioner by the tobacco industry, which he has always rejected, remain unproven to this day.

Lastly, they recalled that in order to ensure the sound financial management of Union funds, the Commission administers the Central Exclusion Databasea database of entities excluded from Union funding for reasons such as insolvency, final court judgments for fraud, corruption, decisions of a contracting authority for grave professional misconduct and conflict of interest. They regretted that this central database is not accessible to the public or to the Members of Parliament and called on the Commission to make the Central Exclusion Database public.

## 2012 discharge: EU general budget, European Commission and executive agencies

PURPOSE: to grant discharge to the European Commission on the implementation of the general budget for the Union for 2012.

NON-LEGISLATIVE ACT: Decision 2014/544/EU, Euratom of the European Parliament on discharge in respect of the implementation of the European Unions General Budget, section III  Commission and executive agencies, for the financial year 2012.

CONTENT: with the present decision, the European Parliament granted discharge to the Commission in respect of the implementation of the budget for the financial year 2012.

The parallel decision 2014/551/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 2012 present fairly, and in all material respects, the position of the Union as at 31 December 2012, and the results of its operations and its cash flows for the then completed year.

Parliament, however, found that the error rate of the 2012 budget had increased for the third consecutive time and that significant gaps have emerged in agriculture, involving the application of financial corrections (although the Commission had undertaken to strengthen controls in this area and had presented a communication to strengthen the corrections.

At the same time, Parliament considered that priority actions are needed to improve the implementation of the budget in the following areas:

- Agricultural Policy: strengthening the control of direct payments as regards in particular the eligibility criteria of permanent pasture areas;
- Rural development, environment, fisheries and health: improving the respect of the eligibility requirements, in particular those concerning agri-environment commitments, special requirements for investment projects and public procurement rules. Structural changes are called for leading to long-term solutions such as a permanent knowledge-sharing platform among managing authorities and paying agencies across the Union so that EAFRD specific bodies;
- Regional policy, energy and transport: improved "first-level checks" on expenditure, with a focus on the situation in Greece;
- Employment and Social Affairs: enhancing the policy to reduce youth unemployment by ensuring full transparency of aid already granted in this area;
- External Relations and Enlargement: improved control of EuropeAid's ex ante checks as well as the number of cases OLAF started investigating in relation to EuropeAid/DG DEVCO managed projects.

Parliament also deplored the recurrent shortages of payment appropriations have been the main cause of the unprecedentedly high level of RALs especially in the last years of the 2007-2013 MFF. It also expressed concern over the fact that the Commission's outstanding budgetary commitments for which payments and/or decommitments have not yet been made increased reached EUR 217 billion. The Commission is urged to prepare and publish a long-range cash flow forecast, projecting future payment requirements to ensure that necessary payments can be met from approved annual budgets.

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 3 April 2014.

It should also be noted that with Decisions 2014/545/EU, Euratom, 2014/546/EU, Euratom; 2013/547/EU, Euratom, 2014/548/EU, Euratom, 2014/549/EU, Euratom, and 2014/550/EU, Euratom, the European Parliament also grants discharge to the directors of the executive agencies Education, Audiovisual and Culture, SME (former Competitiveness and Innovation), Consumers, Health and Food, Innovation and Networks (former Trans-European Networks For Transport), European Research Council and, lastly, the executive Agency for Research in respect of the implementation of their respective budgets for the financial year 2012.

## 2012 discharge: EU general budget, European Commission and executive agencies

The European Parliament adopted by 488 votes to 121, with 10 abstentions,  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 2012, as well to the Directors of the Education, Audiovisual and Culture Executive Agency, the Executive Agency for Small and Medium-sized Enterprises, the Consumers, Health and Food Executive Agency, the Research Executive Agency, the Innovation and Networks Executive Agency, on the implementation of their respective budgets for the financial year 2012.

The European Parliament also approved the closure of the accounts of the general budget of the European Union for 2012.

In its resolution accompanying the granting of the discharge, adopted by 504 votes to 96, with 11 abstentions, Parliament recalled that for the 19th consecutive year, the Court of Auditors was unable to grant a positive statement of assurance regarding the legality and regularity of the payments underlying the 2012 accounts.

Agriculture and regional policy: deficiencies in the Commissions and Member States management: noting the repeated error concentration in a few Member States, Parliament called on the Commission to assume greater and more substantial responsibility for safeguarding the Union budget against financial losses and urged all relevant actors involved in Union decision-making to simplify further, notably by drafting eligibility rules that are simple and verifiable, cutting red tape and devising appropriate and effective controls.

Observing that in the 2012 financial year the error rate rose for the third time in succession, Parliament recalled that the rapporteur and the shadow rapporteurs for the discharge to the Commission for the financial year 2012 called for more stringent financial corrections to be imposed on those Member States whose management and monitoring systems display persistent and systematic weaknesses. Although the Commission was committed to strengthening controls in this area and had submitted a Communication to strengthen financial corrections, Parliament stressed that the application of net financial corrections in the field of agriculture does not yet constitute the anticipated progress.

Commissions Reservations, reasons for binding commitments: revealing that 8 Member States (out of 28) are responsible for 90% of the financial corrections in the area of shared management, the plenary acknowledged, as the Commission has frequently indicated, that around 80% of the funds are being spend under shared management. Parliament recalled, nevertheless, that Article 317 TFEU stipulates that the Commission bears the ultimate responsibility for the implementation of the budget but that it expects full cooperation from Member States, however, in ensuring that they fully apply the rules on sound financial management and controls.

In this context, Parliament underlined that it only issues reservation in areas for which it has not received adequate assurance from the Commission and/or the Court of Auditors to refute its concerns. It deems it a priority that the Commission proves to Parliament in the case of reservations in which way convincing remedial measures have been taken to overcome the latter's concerns. It regarded reservations as a new and effective budgetary control instrument, being a commitment by Parliament to monitor closely the measures taken by the Commission and Member States to eliminate these problems, so as to justify in the eyes of the public in particular the decision to grant discharge.

Parliament endorsed reservations on two major EU policies and underlined that:

- as regards agriculture, the Commission observed that the error rate in the field of rural development, environment, fisheries and health is 7.9 %. It regretted that due to the delay between payment claims, payments, controls and reported statistics, no significant impact on reducing the error rate can be expected before 2014 at the earliest, although an action plan was adopted in 2012. Parliament calls on the Commission to strengthen its controls, in particular for errors detected in France and Portugal (these countries have been cited as problematic by the Court of Auditors since 2006);

- as regards regional policy, some audit authorities of Member States are not carrying out their audits with the requisite thoroughness and that it is not sufficiently apparent whether and in what respect they are permanently improving their supervisory and control systems. In this respect, the Commission should conduct more audits of the final beneficiaries and Member States who repeatedly show signs of management weakness.

Measures to be taken: in a series of general observations, Parliament called for the introduction of priority actions dealing with the following:

- to remedy shortcomings in the Land Parcel Identification System (LPIS), for action plans to be implemented promptly, which would include proportional net financial corrections as part of the conformity clearance procedure where deadlines set in the action plans are not met, and adversarial procedures to be completed in general in two years;
- the DGs concerned should build up a new and reinforced audit strategy to counter weaknesses found in some Member States;
- intensification of quality checks on Member-States audit and control reports;
- application of progressively increasing payment reductions and administrative sanctions where eligibility criteria have not been respected by the final beneficiary receiving direct payments or rural development support and recurrent LPIS shortcomings;
- suspension mechanism to be used as an ex ante instrument for protection of the Union budget;
- for France and Portugal, comprehensive action plans should be established in the field of agriculture in among other the updating of their LPIS systems;
- limit the option of replacing projects affected by error with new projects;
- making better use of RAL and limiting the period covered by pre-financing;
- the Commission should reach binding bilateral agreements with Member States which have attracted particular attention, along the lines of the European Semester.

Parliament called for the above commitments to be sent, by the newly elected President of Parliament, to the President of the Commission calling for binding commitments for the delivery of the above following the 2014 European Parliament elections.

Newly elected Parliament: Parliament called for the new assembly that is elected to (i) forward the above list of actions to the President of the Commission and to obtain a commitment that they will be delivered following the 2014 Parliament elections; (ii) include the above commitments in the written procedure at the hearings of the designated members of the new Commission; (iii) demand appropriate pledges in order to improve protection of the Union budget; (iv) ensure, through the relevant committees, that the respective Commissioners commit themselves formally, in the written procedure prior to the hearings, to take remedial action within the defined timeframe in time for the 2013 discharge procedure; (v) probe all legal means of achieving further legislative improvements, if appropriate, in the context of the mid-term review of the Multiannual Financial Framework.

<u>I. Court of Auditors Statement of assurance</u>:

Reliability of the accounts  favourable opinion: Parliament welcomed the fact that the annual accounts of the Union for the financial year 2012 present fairly, and in all material respects, the position of the Union as at 31 December 2012 and the results of its operations, its cash flows and the changes in net assets for the then completed year.

Legality and regularity of revenue  adverse opinion: Parliament noted with concern that all areas of operational expenditure contributed to this increase, with the rural development, environment, fisheries and health remaining the most errorprone policy group with an estimated error rate of 7.9%. Parliament deeply regretted that payments remain materially affected by error. It reminded the Commission that Parliament has a zero-tolerance approach to errors.

Although Parliament noted that the financial corrections reported as implemented in 2012 were more than three times the figure for 2011, it considered that these measures have still had too little impact on the Union budget. It asked the Commission to provide Parliament and the Council with precise amounts and the use made thereof in this regard in the next communication on the protection of the Union budget for the financial year 2013.

RAL: Parliament stressed that the recurrent shortages of payment appropriations have been the main cause of the unprecedentedly high level of RALs especially in the last years of the 2007-2013 MFF. It noted with deep concern that the Commission is finding it increasingly difficult to meet all requests for payments in the year within the budget appropriations for payment and that the cumulative total of commitment appropriations available for payments over the period 2007-2013 has exceeded the cumulative total of payment appropriations available over the same period by EUR 114 billon. It also expressed concern over the fact that the Commission's outstanding budgetary commitments for which payments and/or decommitments have not yet been made increased by EUR 10 billion to EUR 217 billion. The Commission is urged to prepare and publish a long-range cash flow forecast, projecting future payment requirements to ensure that necessary payments can be met from approved annual budgets.

Shared management: once again, Parliament requested the Member States to urgently reinforce the primary controls to address this unacceptably high level of mismanagement. It called on the Commission to shield the Union budget from the resulting risk of irregular payment by applying financial corrections in the event that such weaknesses in Member States' management and control systems are found and on the Member States and the Commission to urgently reinforce first-level checks to address this unacceptably high level of mismanagement.

<u>Council discharge recommendations</u>: Parliament called for the Council to adopt a more critical position on the discharge and the ultimate use made of Union tax revenue in the Member States. It notes in this connection the critical stance taken by Sweden, the United Kingdom and the Netherlands on the discharge for 2012. It hopes that during their respective Presidencies, they will provide the necessary information, as

requested by Parliament, on the execution of the Council's budget, preventing a further refusal by Parliament to grant discharge.

II. Budget implementation by policy: Parliament then returned point by point to the implementation of the budget and highlighted the following:

Revenue: Parliament expressed its concern about the weaknesses of the Value Added Tax (VAT) systems of the Member States (findings of a study estimated losses of VAT revenue in 2011 due to infringements or failure to collect the tax at EUR 193 billion for public finances in the Member States) and called for improvements in certain Member States, such as Belgium, Finland and Poland.

Agriculture: Parliament pointed out that the most frequent accuracy errors relate to overstated area declarations and administrative errors, and that the bigger accuracy errors relate mostly to excessive payments for permanent grassland. It was deeply concerned about the fact that the critical observations made in the annual report of the Court of Auditors for the financial year 2012 and the systematic weaknesses detected by the latter have already been reported by the Court of Auditors in its previous reports, and in particular, as regards the eligibility of permanent pasture, since 2007. It called on the Commission and the Court of Auditors, in the context of the adversarial procedure, to reach agreement on the eligibility criteria for permanent pasture.

Rural development, environment, fisheries and health: Parliament pointed out that, as in 2011, the major component (65%) of the most likely error rate reported by the Court of Auditors concerns non-area-related measures, and stressed that the reason for most quantifiable errors was that the beneficiaries did not respect the eligibility requirements, in particular those concerning agri-environment commitments, special requirements for investment projects and public procurement rules. It called on the Commission to continue to provide guidance and assistance to Member States by means of best practice, through systematic interruptions of payments, financial corrections according to the severity of the error and also, in addition, by drawing up short term and ad hoc action plans. It also asked for structural changes leading to long-term solutions such as a permanent knowledge-sharing platform among managing authorities and paying agencies across the Union so that EAFRD specific bodies can learn by examples and best practices.

Regional policy, energy and transport: Parliament stressed that the findings of the Court of Auditors audit indicate weaknesses in the first-level checks on expenditure. It considered it unacceptable that, for years, errors of the same kind continue to be identified, often in the same Member States. It acknowledged that suspension and interruptions of payments by the Commission ensures that corrective actions are carried out in cases where deficiencies were identified and called on the Commission to step up monitoring of national and regional management and control systems in the light of this finding. It called on the newly elected Parliament to establish action to remedy the weaknesses detected in the fields of agriculture and regional policy as urgent tasks in the new European Commission's work programme. It also raised the issue of the weaknesses in the fields of agricultural and regional policy indicated here at the hearings of the designated members of the new Commission and to demand appropriate pledges in order to improve protection of the Union budget.

The plenary raised the problem of European funding for investment which would lead to job losses in those same firms in another region of the EU. It urged the Commission to launch an investigation into the scale of such improper use of EU funding in connection with projects involving less than EUR 50 million. It also looked to the Commission to make sure that EU funding which is disbursed in contravention of the rules is paid back.

A follow-up is needed as regards the weaknesses identified in Greece.

Employment and social affairs: Parliament noted that, as in previous years, the Court of Auditors considers that for 67% of the transactions affected by error sufficient information was available for the Member State authorities to have detected and corrected at least one or more of the errors prior to certifying the expenditure to the Commission. It observed furthermore that the main source of error is payment of ineligible costs and breaches of public procurement rules. It called for a policy to reduce youth unemployment which possesses Union added value. In this regard, it called for an honest European subsidy policy which focuses far more on transfers of know-how from Member States with low youth unemployment rates to Member States where those rates are high, but without further arousing false expectations and without further making promises on matters for which the Union cannot assume primary responsibility. Parliament is critical of the fact that the Commission has failed to act on repeated calls from Parliament to indicate the sums of Union funding, in both absolute and proportional terms, which have been used to improve training schemes for the 2007-2013 funding period.

External relations, aid and enlargement: Parliament regretted that shortcomings persist in EuropeAid's ex ante checks and in the supervisory and control system and that, according to the findings of the Court of Auditors, the Commissions 2011 reorganisation continues adversely to affect the activity of its Internal Audit Capacity. It also regretted that the supervisory and control systems of EuropeAid are only partially effective, which means that they fail to detect and correct material errors. It supported the Commission's continuing efforts to shift from an input-based to a performance- and impact-oriented approach and urged the adoption of specific, measurable, achievable, relevant and timed benchmarks for all programmes in Heading 4 of the Union budget. It noted with concern that the number of cases OLAF started investigating in relation to EuropeAid/DG DEVCO managed projects has increased from 33 (in 2011) to 45 in 2012.

Research and other internal policies: Parliament considered it incomprehensible that the Court of Auditors still finds a significant error rate in the cost statements drawn up by independent auditors. It considered, therefore, that the Commission and Member States should supply auditors with all the necessary background material and training material to facilitate correct auditing of cost statements.

OLAF: Parliament observed that the President of the Commission still has not accounted to Parliament in plenary for the loss of office of Health Commissioner John Dalli on 16 October 2012. It insisted on the necessity of respecting the presumption of innocence and noted that the serious accusations of corruption levelled at the Commissioner by the tobacco industry, which he has always rejected, remain unproven to this day.

Lastly, it recalled that in order to ensure the sound financial management of Union funds, the Commission administers the Central Exclusion Database  a database of entities excluded from Union funding for reasons such as insolvency, final court judgments for fraud, corruption, decisions of a contracting authority for grave professional misconduct and conflict of interest. It regretted that this central database is not accessible to the public or to the Members of Parliament and called on the Commission to make the Central Exclusion Database public.

## 2012 discharge: EU general budget, European Commission and executive agencies

The Commission presents its fourth report on the evaluation of the Union's finances based on the results achieved.

This report follows up on requests made by the Discharge Authority, most recently in its 2012 discharge resolution and in its Resolution of 26 February 20141, on its content and structure.

Structure of the report and objectives: in general, the Commission states that progress towards the Europe 2020 targets have been mixed. Although it is not possible to single out what has been the exact contribution of each of the financial programmes in achieving Europe 2020 targets and although the Europe 2020 strategy had not been adopted when the MFF 2007-2013 programmes were designed, this report provides available performance information on how the financial programmes have contributed to Europe 2020.

2013 is the last year of the MFF 2007-2013 period, but it is still too early fully to measure the programmes' results and impacts. This is because the final and ex-post evaluations addressing these issues are planned in the period 2014-2016. Nevertheless, data is available on indicators measuring the extent to which the implementation of the programmes is on track and a number of evaluations have been finalised giving performance feedback.

The report examines the results achieved for the main financial programmes. It is accompanied by two Commission Staff Working Documents which aim: (i) to provide an analysis and a description of the monitoring, reporting and evaluation frameworks for the financial programmes in 2014-2020; (ii) to take stock of the progress made to date on the Action Plan for the Development of the Article 318 Evaluation Report, attached to last year's Report.

Operational content of the report: the report is structured according to budget headings. For those budget headings related to the internal policies of the EU, it gives:

- the main financial programmes and their link to Europe 2020;
- an assessment of available performance results;
- an account of operational aspects of performance.

For the EU external policies, the report focuses on the main achievements of the financial programmes related to external policy goals.

In line with the guidance given by the Discharge Authority this Report provides an overview, and so does not give an exhaustive and detailed account of the annual progress in achieving objectives for each of the MFF 2007-2013 financial programmes. Such detailed information, including summaries of 2013 evaluations, is available in the Annual Activity Reports of the Commission departments.

Main conclusions: the Commission is generally on track in implementing the different programmes, with occasional examples of lack of progress compared to set milestones and indicators. Much of the information and data at this stage concerns outputs and actions being taken rather than results and impacts on programme objectives, but first indications of overall performance confirm expectations based on the design of the programmes and the progress achieved in their implementation.

It is difficult to measure the extent to which progress towards overall strategic policy objectives is a direct and exclusive result of actions financed by the spending programmes, while confirmation is provided of the added value of common objectives and co-ordinated action by the EU, contributing to increased efficiency and effectiveness.

The economic downturn has clearly slowed down progress in achieving EU headline targets on important aims such as the reduction in the number of people at risk of poverty and social exclusion. In response to the crisis, the Commission has undertaken various measures to speed up the implementation and align EU financing with the objectives of the Europe 2020 strategy.

It is clear that despite this fact the EU spending programmes alone have not been able to reverse the economic slowdown. This report provides many examples of financial programmes reducing the negative effects of the crisis for companies and Member States. For example, different financial facilities enabled SMEs and innovative firms to continue to invest for the future. Also in many Member States support from European Structural Funds has been the key instrument to support active labour market policies.

In a similar vein whilst EU funding has contributed important strategic policy objectives, large scale funding under the European Energy Programme for Recovery of gas and electricity interconnections has only started to contribute to easing the wide-ranging energy security issue and to consolidate the internal market in energy, while far more needs to be done to further improve interconnections with the more remote and/or less well connected parts of the single market.

The report states that:

- the Commission has used the input from all available forms of assessment, such as evaluations and special reports from the Court of Auditors, to adapt the implementation of programmes and preparation of successor programmes;
- the Commission has called for more focus on effectiveness and efficiency and for inclusion of better indicators and systems to track evidence of performance.

The report concludes that the monitoring, reporting and evaluation framework for the MFF 2014-2020 based on the legislation adopted by Parliament and Council for the new financial programmes provides what has broadly been agreed as a sound foundation for future reporting on results and impacts.

Reporting on 2007-2013 programmes will continue well into the next financial period.