



COMMISSION OF THE EUROPEAN COMMUNITIES

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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT**

**on the follow-up to 2004 Discharge Decisions (Summary) - European Parliament Resolutions**

{SEC(2006) 1376}

## TABLE OF CONTENTS

PREAMBLE .....	3
I - COMMISSION RESPONSES TO THE RECOMMENDATIONS MADE BY THE EP IN THE GENERAL BUDGET DISCHARGE RESOLUTION.....	4
a) Horizontal issues.....	4
b) Sectoral issues:.....	5
II - EP DISCHARGE ON EDF .....	9
III – Recommendations in the resolutions concerning individual AGENCIES.....	10

## PREAMBLE

Due to translation constraints, the Commission's report on the follow-up to European Parliament (EP) Discharges given for the 2004 financial year<sup>1</sup> is being published in all EU official languages in this summarised form. The Commission's full answers to each specific recommendation by the Parliament are available in a Commission working document<sup>2</sup> which is published in English, French and German. Both these follow-up reports relate to the resolutions adopted by the European Parliament on 27 April 2006.

Each chapter<sup>3</sup> of this summary report includes cross-references to the relevant recommendation numbers in the full Commission working document mentioned above. These references will help readers to find in the working document all recommendations (and action planned or already taken by the Commission) relating to a given chapter or presenting a particular interest to them.

Both reports have been drafted pursuant to Article 276(3) of the EC Treaty and Article 180b of the Euratom Treaty, and to Article 119(5) of the EDF Financial Regulation and similar provisions in the former ad hoc EDF Financial Regulation which state that the "Commission shall take all appropriate steps to act on the observations in the decisions giving discharge and on other observations by the European Parliament relating to the execution of expenditure, as well as on comments accompanying the recommendations on discharge adopted by the Council. At the request of the European Parliament or the Council, the Commission shall report on the measures taken in the light of these observations and comments and in particular on the instructions given to the departments which are responsible for the implementation of the budget. These reports shall also be forwarded to the Court of Auditors"<sup>4</sup>.

In the discharge decisions for the general budget, the EDF and the Agencies, the Commission has identified a total of 150 recommendations made by the European Parliament to the Commission. The Commission considers that for 51 recommendations the required action has already been taken, though in some cases results of the actions will need to be examined. For another 85 recommendations the Commission agrees to take the action recommended by Parliament. Finally, the Commission cannot accept 14 recommendations and will therefore not be taking the requested action<sup>5</sup>.

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<sup>1</sup> 2004 General Budget Discharge, 2004 EDF Discharge, 2004 Agencies Discharge.

<sup>2</sup> Commission Staff Working Paper, Annex to the Report from the Commission to the European Parliament on the follow-up to the 2004 Discharge Decisions.

<sup>3</sup> Both the present summarised report and the integral working document follow the structure of the resolutions containing the recommendations of the European Parliament.

<sup>4</sup> See also Article 147 of the Financial Regulation

<sup>5</sup> See recommendations 12, 13, 27, 43, 63, 89, 106, 110, 113, 115, 138, 139, 148 & 149.

## **I - COMMISSION RESPONSES TO THE RECOMMENDATIONS MADE BY THE EP IN THE GENERAL BUDGET DISCHARGE RESOLUTION**

The following is a summary of the Commission's replies to the specific requests made by Parliament in its 2004 Discharge Resolutions.

### **A) HORIZONTAL ISSUES**

#### ***Reliability of the accounts (Commission working document, points 1-4)***

The authorising officers validated their opening balance sheet figures and the Commission established its opening balance sheet, which was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation.

#### ***Integrated internal control framework (Commission working document, points 5-11)***

The Commission Action Plan towards an Integrated Internal Control Framework” [COM(2006)9] foresees 16 actions under four broad themes aimed at simplifying and harmonising control practices, via information sharing and the use of a ‘single-audit’ approach to better target the limited control resources available. At this stage, priority actions have been launched, while others which depend on the results of prior actions will be developed during 2007. Sufficient progress is expected to be made by the beginning of 2009. The first half-yearly progress report to Parliament and Council was issued on 19 July 2006 (SEC(2006) 1001).

#### ***Declarations (Commission working document, points 12-20)***

As part of the Action Plan, the Commission has promoted operational level management declarations and synthesis reports at national level. For agriculture, the envisaged management declarations and national synthesis reports are already foreseen in the new rules<sup>6</sup>. With the adoption of the Inter-institutional Agreement, an important step forward was achieved. Paragraph 44 states: "Member States therefore undertake to produce an annual summary at the national level of the available audits and declarations". The Commission has proposed further provisions to this extent in the revised Financial Regulation (Art. 53b) and Implementing Rules."

#### ***Transparency (Commission working document, points 21-24)***

With the European Transparency Initiative, the Commission also expects that the results of the open debate covering a broad spectrum of issues will gain support for the Commission’s commitment to better account for the use of public money. In its revised proposal to modify the Financial Regulation, the Commission puts forward a new overall obligation on Member States to disclose information on beneficiaries of Community Funds spent under shared management.

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<sup>6</sup> Council Regulation 1290/2005 (Article 8) and Commission Regulation 885/2006 (Articles 3 and 7).

### ***Annual activity reports (Commission working document, points 25-27)***

Under the existing accountability architecture established by the reform, the implementation of Parliament's proposed measures regarding assurances at Commissioner, Secretary-General, Internal Auditor and Director General for Budget levels would call into question Directors'-General individual responsibility and blur the distinction between political (College) and management responsibilities/accountabilities (Director General). The adoption of the synthesis report is the major act whereby the Commission fully assumes its political responsibility for the implementation of the budget under the Treaty and through which the Commission's political accountability to the discharge authority is expressed. The conclusion to the 2005 synthesis report states this more explicitly.

### ***Further horizontal recommendations (Commission working document, points 28-32)***

The Commission's proposal for amending the Financial Regulation provides that the responsibilities of the accounting officer will be adapted. It will require that, before the adoption of the accounts by the institution, the accounting officer shall sign them off, certifying that they present a reasonable true and fair view of the financial situation of the institution

Action 4 of the Action Plan aims to initiate inter-institutional dialogue on the basis of principles to be considered regarding the risks to be tolerated in the underlying transactions. The Commission has already made significant progress by including the issue in the proposed revision of the Financial Regulation (FR) and drafting the corresponding Implementing Rules (IR) which will define the practical application of these principles.

## **B) SECTORAL ISSUES**

### ***Revenue (Commission working document, point 33)***

Since the introduction of the fourth own resource based on GNP/GNI, the Commission has been working in close co-operation with Member States to improve the reliability, comparability and exhaustiveness of national accounts. The measures taken are described in the reports from the Commission to the European Parliament and the Council on the application of the GNP Directive (COM (96)124 final of 27.03.1996) and of the GNI Regulation (COM (2006) 199 final of 8.05.2006). The Commission is willing to inform directly the competent European Parliament committee about these measures.

### ***Common Agricultural Policy (Commission working document, points 34-41)***

In order to further improve and reinforce the overall system for providing reasonable assurance as to the effective management of the risk of error in the legality and regularity of the underlying transactions in agriculture, the Commission is prepared to implement the Court's recommendation that the certifying bodies should do more work to verify and validate inspections statistics and post-payment checks. To this end, the certifying bodies will be required in the new guideline on reporting to review more in detail the administrative capacity of the paying agency as regards on-the-spot checks. They will have to gain assurance as to whether the system (for on-the-spot checks) in place has operated satisfactorily by reviewing its components in detail.

So as to extend post-payment checks to as many Member States as possible in order to obtain reasonable assurance on compliance with Community legislation the Commission carried out 10 audits in 2004 and 2005. Eight further missions on the application of Regulation 4045/89 to cover

general aspects are envisaged for 2006. In that respect, the compliance units will continue in 2006 to evaluate the Regulation as part of their missions covering specific sector related issues. Furthermore, an amendment to Regulation 4/2004 laying down detailed rules for the application of Regulation 4045/89 was adopted by the Commission on 10 January 2006.

All paying agencies (PAs) in the new Member States (NMS) have received final accreditation. Provisional accreditation was granted provided the PAs' control systems reached the minimum acceptable standard. Final accreditation was only granted when all significant issues identified in the pre-accreditation audits were resolved. The Commission has closely monitored the situation, notably via audit missions to each paying agency in each NMS.

The Commission has responded to the recommendation of tabling proposals to avoid that the premiums of the major instrument for afforestation largely exceed the funds allocated by proposing a reduction of the aid ceilings and a shortening of the maximum period to compensate income foregone resulting from the afforestation of agricultural land from 20 to 10 years. The Council, in its Regulation (EC) N° 1698/2005, decided on a reduction to 15 years.

### ***Structural measures (Commission working document, points 42-47)***

The Commission recently issued notes of good practice for day-to-day checks by the management in the Member States and for performance of the certification function by paying authorities. It has also published detailed audit manuals, and it discusses control and audit issues with Member States at regular bilateral and multilateral coordination meetings.

The regulations for the 2007-2013 period require the Member States to submit to the Commission, a description of the management and control system and an assessment of its compliance with requirements before lodging the first interim payment claim and at the latest within 12 months of the approval of programmes.

The Commission has already issued a detailed guidance document for the 2000-06 period closure.

In the legislation for the 2007-13 programme period existing control requirements have been clarified and the framework has been strengthened with a number of new provisions, including, in the Structural Funds, an annual audit opinion and an ex ante compliance assessment. In agriculture, rural development expenditure will fall largely under Guarantee rules (for example accredited paying agencies, annual certification and clearance of accounts procedures). These elements, with the envisaged management declarations and national synthesis reports, are already foreseen in the new rules<sup>7</sup>. This will ensure that the supervisory and control systems can operate effectively from the beginning, despite simultaneous work on closing 2000-06 programmes. The provisions on partial closure should also achieve an even more significant improvement in the closure arrangements.

### ***Internal policies, including research (Commission working document, points 48-82)***

In order to work towards a maximum number of standardised procedures in internal policies, thereby facilitating financial controls and reducing the administrative burden for beneficiaries, the Commission has established an Action Plan for the Rationalisation and Acceleration of FP6.

In the Commission's Staff Working Paper on FP7 adopted on April 2005, a first set of 10 measures is proposed. These include more extended use of flat-rate financing and lump sum financing; a

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<sup>7</sup> Council Regulation 1290/2005 (Article 8) and Commission Regulation 885/2006 (Articles 3 and 7).

single common electronic registration desk for participants to submit their basic legal, administrative and financial data; consistent application of ex-ante controls guaranteeing the protection of Community's financial interests; full operational autonomy entrusted to consortia avoiding micro-management by the Commission's services; simplification of eligible costs based on contractors' usual accounting and management practices and principles.

In addition, the workshop of June 2005 on simplification, with participation of the Court of Auditors, representatives of Member States and stakeholders, helped to consolidate these proposals and to identify further actions. Simplification of the internal procedures with a growing use of IT tools has also been implemented.

A Sounding Board of smaller participants (SMEs, small research institutes and universities) has been set up to ensure that their interests are taken into consideration when establishing FP7 rules.

A further conference on simplification with representatives of participants in Community-funded RTD projects was held in September 2005 and a dedicated web site was established to consult participants and gather their views.

Simplification measures have also been foreseen in the Commission's proposals for the new generation of programmes in the framework of education, youth and culture.

The Commission's proposal for the EC Rules for participation, adopted on 23 December 2005, includes the first set of rules reflecting these discussions<sup>8</sup>.

#### ***External actions (Commission working document, points 83-102)***

The Commission has continued its efforts to improve its supervisory and control systems and the management of risk in the field of external actions. It has further strengthened external audits and the already extensive control checks of implementing organisations as recommended by Parliament. Clear instructions to the external auditors are established in terms of reference and audit results are monitored and followed up.

EuropeAid has introduced measures to improve the follow-up of audits and this year produced an analysis of audit reports finalised in 2005. As regards CRIS-Audit, a specific module of EuropeAid's Common Relex Information System (CRIS), aiming at providing a database on audit information, the Commission intends to further improve its operation with a view to allowing a better exploitation of the system at both Headquarters and Delegations.

The European Parliament also recommends a simplification of contractual procedures and of procedures for grants, as regards in particular small-scale projects, so that flexibility may be achieved in the application of the rules, along with efficiency and sound financial management. This recommendation is fully in line with the Commission's legislative proposals in the context of the revision of the Financial Regulation and implementing rules. For low-value contracts and grants, the Commission proposes to let the authorising officer decide whether or not exclusion criteria need to be verified, depending on his/her risk assessment.

The European Parliament's 2004 discharge resolution also contains a number of recommendations on development policy, relations with the United Nations, as well as on the Court of Auditors' special reports concerning the devolution of EC external aid management to the Commission Delegations (SR 10/2004), concerning EDF budget aid to ACP countries (SR 2/2005) and

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<sup>8</sup> COM(2005) 705 final.

concerning the Commission's management of economic cooperation in Asia (SR 4/2005). The Commission's replies to these recommendations can be found in the working document attached.

***Pre-accession strategy (Commission working document, points 103-104)***

The Parliament invited the Commission to reduce the risk of errors in implementation of pre-accession instruments by rethinking the design of pre-accession projects. It also urged the Commission to improve its management and targeting of funds for Bulgaria and Romania.

The Commission has already taken action to improve project design in the Phare guidelines. Improvements should also result from the replacement of the five current instruments by a single Instrument of Pre-Accession. In the specific cases of Bulgaria and Romania, the Commission has also taken action by issuing guidelines, reinforcing reporting, spreading best practices and providing information and training, and carrying out regular systems and project audits.

***Administrative expenditure and issues concerning the agencies (Commission working document, points 105-112 and 138-150)***

The European Parliament has made a number of recommendations to the Commission concerning the regulatory agencies in the discharge resolution for the general budget as well as in the discharge resolutions for the individual agencies. The Commission would like to highlight the following horizontal points<sup>9</sup>:

The Commission accepts Parliament's recommendation to ensure that the needs of the agencies are properly addressed in the current reform of the Financial Regulation (FR). The agencies' framework Financial Regulation (2343/2002) has been adopted on the basis of the general Financial Regulation and most provisions are therefore in line. The objective has been to assure, among the Institutions and the bodies, the homogeneity of budgetary and financial management rules. This aim for homogeneity has had as a consequence the consolidation of the accounts of the Institutions and bodies. The framework FR has been prepared by the Commission in close cooperation with the bodies concerned. Once adopted, the revised general FR will require a parallel adjustment of the agencies' framework FR. This will be the occasion to proceed to a more extended scrutiny of applicable provisions to take account of past experience and of these bodies' special characteristics, notably their size and the size of their budget. However, as agencies receiving grants charged to the general budget are already accountable to the European Parliament through the discharge procedure, the Commission does not agree that the agencies also have to be accountable to Parliament's respective committees. Any extension of Parliament's discharge authority to other Community bodies not currently subject to this would require legislative changes, which can be considered by the legislative authority on a case-by-case basis.

The agencies are independent institutions and it is their responsibility to comply with the relevant rules and procedures for staff recruitment, public procurement and accounting. Nevertheless, the Commission gives guidance and support to the agencies, e.g. on accounting, procurement, staff policy and audit and, where the agencies request it, the Commission provides specific assistance,

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<sup>9</sup> The discharge resolution for the general budget and the discharge resolutions for the individual agencies contain both recommendations to the Commission on horizontal matters concerning the agencies and on specific issues for individual agencies. The Commission replies to the recommendations on horizontal matters not summarised here and to recommendations addressed to it concerning individual agencies can be found in points 105-112 and 138-150 of the working document.



e.g. to help them to understand and interpret the rules.<sup>10</sup> The agencies should also be encouraged to further develop their inter-agency cooperation whenever appropriate in order to share costs and knowledge.

As requested by Parliament, the Commission will issue a report on internal audit in the agencies before the end of 2006, at the end of a cycle of agency audits undertaken by the IAS.

## **II - EP DISCHARGE ON EDF**

The Commission has taken action or intends to take actions on most issues raised by Parliament on the European Development Funds (EDFs). Detailed information is included in the Commission working document (points 113-137) but the Commission would like to highlight the following points:

### ***Setting targets and measuring impact of development policy***

The Commission is currently developing recommendations for the use of more specific indicators as part of the 2007-2013 round of country programming. As stipulated by the European Consensus, the pursuit of the Millennium Development Goals (MDG) and the principle of country ownership lie at the centre of the EC development approach. In the process of the programming dialogue, the partner country and the European Commission arrive at a common decision on whether for instance education or health should be amongst the focal domains of their cooperation taking into account donor coordination and complementarity in line with the Paris declaration and the Council conclusions on aid effectiveness. In so far as the progress on achieving the MDGs (measured at country level) is the result of the joint efforts of the recipient country government and various donors, it is for methodological reasons not possible to measure the impact of each donor separately in a meaningful way.

### ***Accounts***

The Commission is currently modernising the accounting system of the EDFs but has experienced some delays in the introduction of modifications to the local system in EuropeAid (CRIS). The Accounting Officer will check at the latest by 15 October if CRIS will be accrual compliant before the end of 2006. As a result, the implementation of the new IT system (ABAC-FED) has had to be postponed until January 2008.

### ***The supervisory and control systems***

The Commission will continue to build on the significant improvements made in recent years to the control environment in general and more specifically to the implementation of internal controls and the audit strategy.

### ***Implementation***

The Commission has made important progress in speeding up implementation of funds from the EDFs. Before the end of 2007 all funds from the 9<sup>th</sup> EDF - including funds transferred from earlier EDFs - should be committed, and payments are currently at the highest level ever. The indicator

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<sup>10</sup> See also the examples mentioned, e.g. in points 107, 143 and 144 of the working document.

showing the average time needed to implement projects has fallen from 5 ½ years in 2000 to around 4 years in 2005.

### **III – RECOMMENDATIONS IN THE RESOLUTIONS CONCERNING INDIVIDUAL AGENCIES**

The European Parliament has made a number of recommendations to the Commission concerning the regulatory agencies in the discharge resolution for the general budget as well as in the discharge resolutions for the individual agencies. A summary of the Commission's replies to some of the horizontal issues concerning the agencies is given above under the general budget. The Commission's replies to the recommendations on other horizontal matters and to recommendations addressed to it concerning individual agencies can be found in the Commission working document (points 105-112 and 138-150).

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