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REPORT

on the Commission action plan towards an integrated internal control
framework
(2008/2150(INI))

Committee on Budgetary Control

Rapporteur: Gabriele Stauner

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the Commission action plan towards an integrated internal control framework (2008/2150(INI))

The European Parliament,

- having regard to the EC Treaty,
- having regard to Opinion No 2/2004 of the European Court of Auditors on the 'single audit' model (and a proposal for a Community internal control framework)¹,
- having regard to the Commission communication on a roadmap to an integrated internal control framework (COM(2005)0252),
- having regard to the Commission action plan towards an integrated internal control framework (COM(2006)0009),
- having regard to the first half-yearly report on the scoreboard for the application of the Commission action plan towards an integrated internal control framework published on 19 July 2006 (SEC(2006)1009), pursuant to Parliament's request in its resolution on the discharge in respect of the financial year 2004,
- having regard to the interim progress report of the Commission published in March 2007 (COM(2007)0086), outlining progress and announcing some additional actions,
- having regard to the Communication presented by the Commission in February 2008 (COM(2008)0110) and the Commission staff working paper annexed thereto (SEC(2008)0259),
- having regard to the Commission communication entitled 'Synthesis of the Commission's management achievements in 2007' (COM(2008)0338),
- having regard to the Commission's annual report to the discharge authority on internal audits carried out in 2007 (COM(2008)0499),
- having regard to the Commission's annual report to the discharge authority on the follow-up to the 2006 discharge decisions (COM(2008)0629 and COM(2008)0628) and the Commission staff working paper entitled 'Annex to the report from the Commission to the European Parliament on the follow-up to 2006 discharge decisions' (SEC(2008)2579 and SEC(2008)2580),
- having regard to the Annual Report of the European Court of Auditors on the implementation of the budget concerning the financial year 2007, together with the

¹ OJ C 107, 30.4.2004, p. 1.

institutions' replies¹,

- having regard to Rule 45 of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Budgets (A6-0022/2009),
- A. whereas under Article 274 of the EC Treaty the Commission implements the budget on its own responsibility, on the basis of the principles of sound financial management, in cooperation with the Member States,
- B. whereas the principle of effective internal control is one of the budgetary principles set out in the Financial Regulation following its amendment by Regulation (EC, Euratom) No 1995/2006, as proposed by the Commission in the action plan referred to above,
- C. whereas the most effective means for the Commission to demonstrate that it is genuinely committed to ensuring transparency and sound financial management is to do all it can to support measures seeking to enhance the quality of financial management, with a view to obtaining a positive statement of assurance (DAS²) from the European Court of Auditors (ECA),
- D. whereas in paragraph 5 of its conclusions of 8 November 2005, the ECOFIN Council took the view that it was of fundamental importance to introduce an integrated internal control system and simplify the legislation on controls and requested 'that the Commission assess the cost of controls by area of expenditure',
- E. whereas to support the strategic objective of receiving a positive declaration of assurance from the ECA, the Commission adopted in January 2006 the action plan towards an integrated internal control framework (the "Action Plan"), drawing on recommendations of the ECA³, Parliament's resolution on the discharge in respect of the financial year 2003⁴ and the ECOFIN conclusions of 8 November 2005,
- F. whereas the Action Plan addressed 'gaps' in the Commission's control structures at the time and identified 16 areas for action by the end of 2007, taking into account that improvement of financial management in the Union must be supported by a close monitoring of controls in the Commission and the Member States,
- G. whereas at paragraph 2.29 in Chapter 2 (concerning the Commission internal control system) of its Annual Report for 2007, the ECA points out that 'The Commission's summary report for 2007 provides a confident assessment of progress made in the implementation of the actions at this date, whilst indicating that the evidence of the effectiveness of the actions in terms of reducing the level of error in the underlying transactions may still be some way off',
- H. whereas, according to the Commission's response to paragraph 2.30 of the ECA's Annual

¹ OJ C 286, 10.11.2008.

² Abbreviation of the French term 'Déclaration d'assurance'.

³ Opinion No 2/2004 (OJ C 107, 30.4.2004, p. 1) (the 'Single Audit' Opinion).

⁴ OJ L 196, 27.7.2005, p. 4.

Report for 2007, 'the implementation of the actions is a continuing process and is being pursued vigorously. The impact of the actions is necessarily posterior to their implementation over the years 2006 and 2007 and a first impact report will be made in early 2009',

1. Welcomes the overall progress made in the development of the Action Plan and the fact that a majority of actions have been implemented and most of the gaps identified in the Action Plan filled;
2. Stresses that an effective integrated internal control framework as envisaged in the Commission's action plan will allow the Commission and the Member States to better implement the EU budget according to political objectives and Parliament's priorities;
3. Regrets the lack of clear language, and calls on the Commission to indicate at which stage it finds itself in the process of achieving an integrated internal control framework, and when it expects the measures taken to have visible and positive effects on the legality and regularity of transactions;
4. Expects the Commission to adopt the next progress report before 30 January 2009 so that real improvements made can be taken into consideration in the discharge resolution in respect of the financial year 2007;
5. Notes the efforts made by the Commission but regrets that, so far, the Commission has not been able to present complete and reliable figures on recoveries and financial corrections due to Member States' reporting problems; asks the Commission to solve these problems and expects it to present a detailed timetable for the development and application of a new reporting scheme;
6. Points out that it is the impact of the actions which will form the basis of the evaluation of the success of the Action Plan through decreasing error rates and improved ratings of control systems confirmed by the ECA;
7. Fully expects that such improvements will have a real impact on the ECA's Annual Report for 2008;
8. Encourages the Commission to increase transparency in its impact assessment of the Action Plan and to fully supervise its implementation;

Actions 4, 10 and 10N: error index or acceptable risk of error - analysis of the existing balance between operational expenditure and the cost of the control system

9. Regrets the fact that in two of the most important actions for this Parliament there is a degree of delay with regard to the planned calendar;
10. Especially regrets the fact that Action 4 of the Action Plan concerning the launching of an inter-institutional initiative on the basic principles to be considered regarding the risks to be tolerated in the underlying transactions has not been yet implemented; agrees with the

statement made by the ECA in its Opinion No 4/2006 that even if it is a vital concept for the integrated control system, how an 'acceptable risk level' is to be determined has not yet been clarified;

11. Points out that in paragraphs 2.9 and 2.10 of its Annual Report for 2005, the ECA already took the view that, with respect to the establishment of an integrated internal control framework, 'one of the most important objectives approved by the Commission is represented by the proportionality and cost-effectiveness of controls';
12. Recalls, furthermore, the above-mentioned conclusions of the ECOFIN Council of 8 November 2005, that stated that 'The Council believes, in line with the Court's opinion 2/2004, that it should reach an understanding with the European Parliament regarding the risks to be tolerated in the underlying transactions, having regard to the costs and benefits of controls for the different policy areas and the value of the expenditure concerned';
13. Points out that at paragraph 2.42, point (c) of its Annual Report for 2007, the ECA recommends making progress in taking forward the concept of tolerable risk, and at paragraph 1.52, point (c) in Chapter 1 (concerning the Statement of Assurance and supporting information) of that report, it states that 'the balance between cost and residual risk for individual spending areas is of such importance that it should be approved by the political level (i.e. by the budget/discharge authorities) in the name of the citizens of the Union';
14. Urges the Commission to promptly adopt the promised communication on this issue, with the aim of re-launching the inter-institutional discussion on tolerable risk as already requested by Parliament in its discharge resolutions for the financial years 2005 and 2006; invites the Commission to fully disclose to the public the methods being used for the determination of rates of error,
15. Considers, therefore, that the Commission, in line with the principles of proportionality and cost efficiency (value for money) of control systems, should evaluate the relationship between, on the one hand, the resources available for each particular policy, and, on the other, the part of those resources dedicated to the control systems broken down by area of expenditure, as requested by Parliament in its discharge resolution in respect of the financial year 2005;
16. Reminds the Commission of the importance of carrying out the comparative analysis which alone will enable the establishment of an acceptable risk level of error, and of forwarding it to Parliament, the Council and the ECA;
17. Believes that the cost-benefit ratio existing between the resources dedicated to control activities and the results obtained by controls should be a key element to be taken into account by the ECA;
18. Highlights the very important observation made by the ECA at paragraph 1.52, point (d), of its Annual Report for 2007 that 'If a scheme cannot be satisfactorily implemented at an acceptable level of cost and with tolerable risk it should be reconsidered';

19. Asks the Commission, with regard to Actions 10 and 10N, to present reliable information on the costs of the control systems and on possible means of simplification with the aim of finding a better balance between the need for controls and the aim of lessening the administrative burden for applicants and beneficiaries of EU funds;
20. Recalls its own view and the view of the Court of Auditors that complicated or unclear rules and complex legal requirements negatively impact on the legality and regularity of EU spending; considers it necessary to take up the issue of simplification as an important point in the next reform of the Financial Regulation and in the future legal basis of EU spending programmes;

Actions 1, 3, 3N, 5, 10, 10a, 11N, 13 and 15: cooperation with the Member States is needed

21. Highlights that in relation to the implementation of Actions 1, 3, 3N, 5, 10, 10a, 11N, 13, and 15, the Commission is also dependant on cooperation with the Member States; emphasises that it fully supports these actions, and therefore urges the Commission to use every available tool at its disposal to implement them fully as soon as possible;
22. Recalls the statement made by the Commission in its above-mentioned 2008 communication that Actions 1, 3, 3N, 5, 8 and 13 have been completed;
23. Points out nevertheless that so far it has been unaware of supporting documents or statements justifying such a declaration; is forced therefore to seriously question whether these measures have been completed and whether they have been implemented or have had an impact on the progress of the implementation of the Action Plan;
24. Calls on the Court of Auditors to report in more detail on cooperation with its national counterparts and to predict when this cooperation will show positive effects;

Actions 5 and 13: promote the use of annual summaries and management declarations

25. Welcomes the annual summaries of available audits and declarations at national level, presented for the first time on 15 February 2008, which are a considerable step towards the target of improving management of EU funds; regrets, however, the lack of transparency concerning these annual summaries, which the Commission had not sent to Parliament;
26. Welcomes the provision as from 2008 of annual summaries and the assessment and declarations provided in the 2006 and 2007 Annual Activity Reports of the Directorates-General dealing with Structural Funds, but is far from considering Actions 5 and 13 as having been completed as there is a lack of information to Parliament;
27. Regrets that Parliament has until now not received complete information from the Commission concerning the assessment and comparative analysis of the first annual summaries presented;
28. Points out moreover that in its Annual Report for 2007, the ECA states that due to the disparity of presentation, annual summaries do not yet provide a reliable assessment of

the functioning and effectiveness of the system;

Action 11N: developing a typology of error and relationship with recoveries and financial corrections

29. Regrets the fact that, despite the considerable efforts made by the Commission, according to the ECA the Commission was unable to present complete figures or demonstrate that the figures eventually presented could be clearly reconciled with the published financial statements;
30. Encourages the Commission to complete the implementation of this important action in order to obtain a greater degree of compliance with reporting requirements and to improve the accuracy of the data provided by Member States;

Action 8N: cooperation with the National Supreme Audit Institutions and how their work can be used to provide assurance

31. Points out that, although not a part of the internal control framework, the independent Supreme Audit Institutions, as external auditors of national public spending, may be able to play a key role in the audit of public funds;
32. Fully supports the cooperation started by the Commission with some of the National Supreme Audit Institutions, and encourages continued contact with such institutions with the aim of determining how their work can be used to increase assurance as regards the execution of programmes in the Member States;
33. Welcomes the Commission's initiative to develop a structured approach to support contacts with National Supreme Audit Institutions and furthermore encourages the Commission to complete the implementation of this action in close cooperation with the ECA;
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34. Instructs its President to forward this resolution to the Council, the Commission and the governments and parliaments of the Member States.

OPINION OF THE COMMITTEE ON BUDGETS

for the Committee on Budgetary Control

on the Commission action plan towards an integrated internal control framework
(2008/2150(INI))

Rapporteur: Ingeborg Gräßle

SUGGESTIONS

The Committee on Budgets calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Stresses that an effective integrated internal control as envisaged in the Commission's action plan will allow the Commission and the Member States to better implement the EU budget according to political objectives and Parliament's priorities;
2. Regrets the lack of clear language and calls on the Commission to indicate at which stage it finds itself in the process towards an integrated internal control framework, and when it expects the measures taken to have visible and positive effects on the legality and regularity of transactions;
3. Notes the efforts made by the Commission but regrets that, so far, the Commission has not been able to present complete and reliable figures on recoveries and financial corrections due to reporting problems of the Member States; asks the Commission to solve these reporting problems and expects it to present a detailed timetable for the development and application of this new reporting scheme;
4. Asks the Commission, with regard to Actions 10 and 10N, to present reliable information on the costs of the control systems and on possible means of simplification with the goal of finding a better balance between the need for controls and the aim of lessening the administrative burden for applicants and beneficiaries of EU funds;
5. Recalls its own view and the view of the Court of Auditors, that complicated or unclear rules and complex legal requirements negatively impact on the legality and regularity of EU spending; considers it necessary to take up the issue of simplification as an important point for the next reform of the Financial Regulation and for the future legal basis of EU spending programmes;

6. Calls on the Court of Auditors to report in more detail on the cooperation with its national counterparts and to state, when this cooperation will show visible positive effects.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	11.12.2008
Result of final vote	+ : 14 - : 0 0 : 0
Members present for the final vote	Reimer Böge, Simon Busuttil, Valdis Dombrovskis, Brigitte Douay, Vicente Miguel Garcés Ramón, Catherine Guy-Quint, Jutta Haug, Vladimír Maňka, Jan Mulder, Margaritis Schinas, László Surján, Kyösti Virrankoski, Ralf Walter
Substitute(s) present for the final vote	Peter Šťastný

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	20.1.2009
Result of final vote	+ : 12 - : 0 0 : 0
Members present for the final vote	Jean-Pierre Audy, Inés Ayala Sender, Herbert Bösch, Paulo Casaca, Esther De Lange, James Elles, Nils Lundgren, José Javier Pomés Ruiz, Bart Staes, Søren Bo Søndergaard
Substitute(s) present for the final vote	Christopher Heaton-Harris, Paul Rübig