P6_TA(2006)0157

Discharge 2004: Section III - Commission

1. European Parliament decision on the discharge for implementation of the European Union general budget for the financial year 2004, Section III - Commission (SEC(2005)1158 – C6-0352/2005 – 2005/2090(DEC) - SEC(2005)1159 – C6-0351/2005 – 2005/2090(DEC))

The European Parliament,

– having regard to the European Union general budget for the financial year 2004[1],

– having regard to the final accounts of the European Communities for the financial year 2004, Volume I - Consolidated reports on implementation of the budget and consolidated financial statements (SEC(2005)1158 – C6-0352/2005 - SEC(2005)1159 – C6-0351/2005)[2],

– having regard to the Commission's report on the follow-up to 2003 Discharge Decisions (COM(2005)0449 and COM(2005)0448) and the Commission staff working paper - Annex to the Report from the Commission to the European Parliament on the follow-up to 2003 Discharge Decisions (SEC(2005)1161),

– having regard to the Commission communication on 2004 Synthesis (COM(2005)0256),

– having regard to the Commissions's Annual Report to the Discharge Authority on Internal Audits carried out in 2004 (COM(2005)0257),

– having regard to Opinion Nº 2/2004 of the Court of Auditors on the 'single audit' model (and a proposal for a Community internal control framework)[3],

– having regard to the communication from the Commission to the Council, the European Parliament and the European Court of Auditors of 15 June 2005 on a roadmap to an integrated internal control framework (COM(2005)0252),

– having regard to the communication from the Commission to the Council, the European Parliament and the European Court of Auditors - Commission Action Plan towards an Integrated Internal Control Framework (COM(2006)0009),

– having regard to the Court of Auditors' annual report for the financial year 2004, accompanied by the replies of the institutions audited[4],

– having regard to the statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors

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1 OJ L 53, 23.2.2004.
2 OJ C 302, 30.11.2005, p. 1.
3 OJ C 107, 30.4.2004, p. 1.
4 OJ C 301, 30.11.2005, p. 1.

pursuant to Article 248 of the EC Treaty[1],

– having regard to the Council's recommendation of 14 March 2006 (5971/2006 - C6-0092/2006),

– having regard to Articles 274, 275 and 276 of the EC Treaty and Articles 179a and 180b of the Euratom Treaty,

– having regard to Council Regulation (EC, Euratom) Nº 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities[2], and in particular Articles 145, 146 and 147 thereof,

– having regard to Rule 70 of and Annex V to its Rules of Procedure,

– having regard to the report of the Committee on Budgetary Control and the opinions of the other committees concerned (A6-0108/2006),

A. whereas under Article 274 of the EC Treaty the Commission implements the budget on its own responsibility, having regard to the principles of sound financial management,

1. Grants discharge to the Commission for implementation of the European Union general budget for the financial year 2004;

2. Sets out its comments in the resolution below;

3. Instructs its President to forward this decision and the resolution that forms an integral part of it to the Council, the Commission, the Court of Justice, the Court of Auditors and the European Investment Bank and to the national and regional audit institutions of the Member States and to have them published in the Official Journal of the European Union (L series).

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1 OJ C 302, 30.11.2005, p. 100.

2 OJ L 248, 16.9.2002, p. 1.

2. European Parliament decision on closing the accounts for implementation of the European Union general budget for the financial year 2004, Section III – Commission (SEC(2005)1158 – C6-0352/2005 - 2005/2090(DEC) – SEC(2005)1159 – C6-0351/2005 - 2005/2090(DEC))

The European Parliament,

– having regard to the European Union general budget for the financial year 2004[1],

– having regard to the final accounts of the European Communities for the financial year 2004, Volume I - Consolidated reports on implementation of the budget and consolidated financial statements (SEC(2005)1158 – C6-0352/2005 - SEC(2005)1159 – C6-0351/2005)[2],

– having regard to the Commission's report on the follow-up to 2003 Discharge Decisions (COM(2005)0449 and COM(2005)0448) and the Commission staff working paper - Annex to the Report from the Commission to the European Parliament on the follow-up to 2003 Discharge Decisions (SEC(2005)1161),

– having regard to the Commission communication on 2004 Synthesis (COM(2005)0256),

– having regard to the Commissions's Annual Report to the Discharge Authority on Internal Audits carried out in 2004 (COM(2005)0257),

– having regard to Opinion Nº 2/2004 of the Court of Auditors on the 'single audit' model (and a proposal for a Community internal control framework)[3],

– having regard to the communication from the Commission to the Council, the European Parliament and the European Court of Auditors of 15 June 2005 on a roadmap to an integrated internal control framework (COM(2005)0252),

– having regard to the communication from the Commission to the Council, the European Parliament and the European Court of Auditors - Commission Action Plan towards an Integrated Internal Control Framework (COM(2006)0009),

– having regard to the Court of Auditors' annual report for the financial year 2004, accompanied by the replies of the institutions audited[4],

– having regard to the statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty[5],

– having regard to the Council's recommendation of 14 March 2006 (5971/2006 - C6-0092/2006),

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2 OJ C 302, 30.11.2005, p. 1.
3 OJ C 107, 30.4.2004, p. 1.
4 OJ C 301, 30.11.2005, p. 1.
5 OJ C 302, 30.11.2005, p. 100.

– having regard to Articles 274, 275 and 276 of the EC Treaty and Articles 179a and 180b of the Euratom Treaty,

– having regard to Council Regulation (EC, Euratom) Nº 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities[1], and in particular Articles 145, 146 and 147 thereof,

– having regard to Rule 70 of and Annex V to its Rules of Procedure,

– having regard to the report of the Committee on Budgetary Control and the opinions of the other committees concerned (A6-0108/2006),

A. whereas under Article 275 of the EC Treaty the Commission is responsible for drawing up the accounts,

1. Approves closing the accounts for implementation of the European Union general budget for the financial year 2004;

2. Instructs its President to forward this decision to the Council, the Commission, the Court of Justice, the Court of Auditors and the European Investment Bank and to the national and regional audit institutions of the Member States and to have it published in the Official Journal of the European Union (L series).

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[1] OJ L 248, 16.9.2002, p. 1.

3. European Parliament resolution with comments forming an integral part of the decision on the discharge for implementation of the European Union general budget for the financial year 2004, Section III – Commission (SEC(2005)1158 – C6-0352/2005 – 2005/2090(DEC) – SEC(2005)1159 – C6-0351/2005 – 2005/2090(DEC))

The European Parliament,

– having regard to the European Union general budget for the financial year 2004[1],

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– having regard to the Court of Auditor's annual report for the financial year 2004, accompanied by the replies of the institutions audited[4],

– having regard to the statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty[5],

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– having regard to Articles 274, 275 and 276 of the EC Treaty and Articles 179a and 180b of the Euratom Treaty,

– having regard to Council Regulation (EC, Euratom) Nº 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities[1], and in particular Articles 145, 146 and 147 thereof,

– having regard to Rule 70 of and Annex V to its Rules of Procedure,

– having regard to the report of the Committee on Budgetary Control and the opinions of the other committees concerned (A6-0108/2006),

A. whereas high quality financial information is associated with a capacity for high quality financial management, and whereas high quality financial management generates real economic benefits;

B. whereas the assigning of clear responsibilities within the Commission for the production of financial information and requiring appropriate sign-offs at central level in relation to that information will contribute to the quality of the information reported,

C. whereas, in its 2003 discharge resolution of 12 April 2005[2], Parliament proposed that each Member State should provide an *ex ante* disclosure statement and an annual *ex post* statement of assurance (DAS[3]) as regards its use of EU funding,

D. whereas procedures to this end have been established in Council Regulation (EC) Nº 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds[4] and implemented through Commission Regulation (EC) Nº 438/2001[5], and through Council Regulation (EC) Nº 1290/2005 of 21 June 2005 on the financing of the common agricultural policy[6] as regards European Agricultural Guidance and Guarantee Fund (EAGGF) and European Agricultural Fund for Rural Development (EAFRD),

E. whereas Regulation (EC) Nº 1290/2005 imposes a system of three levels of annual *ex post* declarations by Member States, as follows: firstly, the annual accounts of the paying agency; secondly, the DAS of the paying agency; and thirdly, the certification of the previous declarations by a certification body; whereas these signatures of the Member State are complementary to others demanded for monthly payments and *ex ante* evaluations,

F. whereas Article 38(1)(f) of Regulation (EC) No 1260/1999 and Article 15 of Regulation (EC) No 438/2001 foresee a final winding-up Member State declaration on each Community intervention from an authority that must be independent of the various managing and payments authorities,

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1 OJ L 248, 16.9.2002, p. 1.

2 *Texts Adopted*, P6_TA(2005)0092.

3 Abbreviation of the French term "Déclaration d'assurance".

4 OJ L 161, 26.6.1999, p. 1. Regulation as last amended by Regulation (EC) No 173/2005 (OJ L 29, 2.2.2005, p. 3).

5 OJ L 63, 3.3.2001, p. 21. Regulation as amended by Regulation (EC) No 2355/2002 (OJ L 351, 28.12.2002, p. 42).

6 OJ L 209, 11.8.2005, p. 1.

G. whereas the ECOFIN Council on 8 November 2005 did not accept Parliament's proposal regarding national level declarations[1],

H. whereas the overriding principle sought by Parliament is that the relevant political authorities within the Member States take responsibility for the funds put at their disposal,

I. whereas 80% of Community expenditure is de facto controlled by the Member States and the absence of adequate accountability at central Member State level will be a permanent barrier to obtaining a positive DAS,

J. whereas the work of its Committee on Budgetary Control in general and the discharge procedure in particular is a process which aims at establishing full accountability from the Commission as a whole, as well as from all other relevant actors in accordance with the Treaty, at creating an environment to facilitate this and at improving financial management in the EU and thereby creating a more solid basis for decision-taking in the light of the Court of Auditors' audit results,

K. whereas there can only be good governance in an organisation if top management provides a good example,

L. whereas good governance also means that a sound system of checks and balances is established between controllers, accountants and internal auditors on the one hand and operational management on the other,

M. whereas effective and efficient internal control should be included as a budgetary principle[2] in the Financial Regulation, as proposed by the Commission in its above mentioned communication on an Action Plan towards an Integrated Internal Control Framework,

N. whereas the Commission's directives and recommendations for private sector accounting and auditing suggest that the Commission believes in the importance of high-quality financial reporting and auditing,

O. whereas the most powerful way that the Commission can demonstrate its real commitment to transparency and high quality financial information and reporting is by leading by example and by obtaining a positive DAS from the Court of Auditors,

HORIZONTAL ISSUES

Reliability of the accounts

1. Notes, as last year, that, except for the effects of the absence of effective internal control procedures for miscellaneous revenues and advances, the Court is of the opinion that the

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1 See ECOFIN Council conclusions of 8 November 2005 on http://www.fco.gov.uk/Files/kfile/EcofinConclusions_08nov.pdf.

2 The current budgetary principles as set out in Article 3 of the Financial Regulation are "unity, budgetary accuracy, annuality, equilibrium, unit of account, universality, specification, sound financial management and transparency".

consolidated annual accounts of the European Communities and the notes thereto faithfully reflect the revenue and expenditure of the Communities for the year 2004 and their financial position at the year-end (DAS, paragraphs II and III);

2. Notes that the Commission is of the opinion that the problems will be addressed by the new accounting system in 2005 (paragraph 1.17 of the Court's annual report);

The opening balance sheet

3. Notes the progress made towards the implementation of the new accounting framework; is however deeply concerned about the Court's remarks regarding the delay in the establishment of the opening balance for 2005; invites the Commission to address urgently the shortcomings identified by the Court in order to avoid consequences for the reliability of the 2005 financial statements;

4. Notes that it is the authorising officers who have to validate the figures needed for the establishment of the opening balance 2005 and that it is the accounting officer who has to present this financial information and be sure that it gives a "true and fair view" (paragraph 1.45 of the Court's annual report), thus enabling the President of the Commission to sign the accounts on behalf of the Commission as a college and in accordance with the Treaty;

5. Finds the uncertainty about who has final responsibility for the establishment of these figures unacceptable; expects that these difficulties will be resolved in 2006 and that the delay is not to be seen as a dysfunction between authorising officers and the accounting officer;

6. Expects that the results of the review of unknown bank accounts related to Commission activities launched by the Commission in October 2005 will be made known completely to Parliament and be followed-up;

7. Expects that the accounts thereby established will be audited and the funds credited to the accounts will be entered in the general budget;

Pre-financing

8. Notes that the amount of pre-financings, that is, money which is disbursed but still not yet finally accepted as eligible or used, is estimated to be approximately EUR 64 000 million (paragraph 1.30 of the Court's annual report), which correspond to about two thirds of the budget;

9. Considers that the Commission should ensure a sound policy (avoiding excessively generous advances and excessively long delays for closing programmes and projects) as regards pre-financing in order to limit the financial importance of unused amounts and/or amounts not yet finally accepted as eligible expenditure; calls on the Commission to put forward a proposal to Parliament's responsible committee on how it plans in future to manage pre-financing in line with the above comments;

Towards an integrated internal control framework

10. Welcomes the above mentioned Opinion Nº 2/2004 of the Court of Auditors, which includes a proposal for a Community internal control framework as a framework within which to analyse weaknesses in financial controls and identify the remedial actions required, and recalls its main principles as set out in paragraph 57:

    – "common principles and standards ... (are) to be applied at all levels of administration in the institutions and Member States alike",

    – internal control should "provide reasonable" - not absolute - "assurance, on the legality and regularity of transactions, and compliance with the principles of economy, efficiency and effectiveness",

    – the "cost of the controls should be in proportion to the benefits they bring in both monetary and political terms",

    – the "system should be based around a logical chain structure where controls are undertaken, recorded and reported to a common standard, allowing reliance to be placed on them by all participants";

11. Welcomes the Barroso Commission's making it a strategic objective to strive for a positive DAS from the Court of Auditors, as set out in the communication from the Commission of 26 January 2005 on Strategic Objectives 2005-2009, Europe 2010: A Partnership for European Renewal: Prosperity, Solidarity and Security (COM(2005)0012);

12. Welcomes equally the above mentioned communication from the Commission on a roadmap to an integrated internal control framework, the panel of experts and the Action Plan which followed it as a response to Parliament's 2003 discharge resolution and as a follow-up to Opinion No 2/2004 of the Court;

13. Supports the Commission in its effort to give priority to this matter; recognises however that whilst the Commission has sole responsibility under the Treaty for implementing the budget, four out of every five euros in the budget are in reality handled by the Member States under shared management; underlines, therefore, that it is essential that Member States take an active part in the initiative and that Council presidencies make it first priority and include it as a separate subject in their semi-annual working programmes;

14. Emphasises that if the Commission is to be accountable for expenditure, it must have mechanisms that enable it to deliver on that accountability and that if those mechanisms are not made available to it, its accountability should be changed;

15. Stresses that the shortcomings in the European Union's financial management cannot simply be reduced to a question about a positive or negative DAS; warns, therefore, against obtaining a positive DAS without a corresponding improvement in the quality of the financial management;

16. Underlines that the responsibility for financial management lies with the Commission and the Member States and that it is for the Commission and the Member States together to ensure that the Court will be able to find audit evidence of progress towards an adequate management of the risk of error;

17. Takes the view that the move towards improvement of financial management in the Union must be supported and given momentum by a close monitoring of progress in the Commission and in the Member States;

18. Notes that Member States must be held accountable for their use of EU funds and that the primary means of accountability must be their national parliaments and media; urges the Court of Auditors and national audit bodies to take further steps to make available to them high quality and easily accessible information about the weaknesses of local financial controls;

Scoreboard for the implementation of an integrated internal control framework

19. Calls on the Commission to publish and to present to its Committee on Budgetary Control a detailed scoreboard for each area of the financial perspectives with precise targets to be achieved in a set timeline for the implementation of measures identified as necessary for establishing an integrated internal control framework and to report on progress to its competent committee every six months; furthermore expects the integrated control framework to be implemented as from 1 May 2009, allowing the Commission to set a target date for a positive DAS;

20. Requests further detailed information at Commission level and Member State level, and at regional level if needed, on measures implemented and not implemented, reasons for delays, deadlines, effectiveness of implementation and such like, so as to be allowed to have a complete overview of results obtained and outstanding issues still to be dealt with; calls on the Commission to submit to it this information as part of the preparation of the 2005 discharge procedure;

21. Invites the Court of Auditors to:

– follow and examine the implementation of the Action Plan proposed, based on the Commission's gap assessment, and test the effectiveness of the supervisory and control systems in managing the risk of error over a five year rolling audit programme,

– assess the related assurance which the Directorates-General give annually on the effective operation of the supervisory and control systems and the adequacy of the supplementary measures taken when they do not operate effectively, in particular in the Member States;

22. Welcomes the 16 concrete actions foreseen in the Action Plan; urges the Commission to ensure a successful outcome in the interests of the European Union and its citizens; underlines that an *ex ante* approval by Parliament of efforts and intentions in the form of an agreement or convergence of positions is in contradiction with its role as independent discharge authority and that it as such only can judge the Commission *ex post* on the results achieved;

Declaration of Assurance

23. Notes that the current single declaration of assurance does not adequately describe areas of success and areas of failure; notes that many equivalent national audit systems are compiled on a department by department basis; suggests that a review of the DAS system

be undertaken by the Court of Auditors in order to establish specific statements of assurance for individual Directorates-General within the Commission within an overall DAS;

24. Notes that such a system, coupled with an equivalent system of national statements, would create a matrix identifying areas of most concern both horizontally, regarding Commission programmes, and vertically, concerning Member State responsibilities;

Simplification

25. Welcomes the Commission's initiative to simplify the regulatory environment, which should aim especially at reducing bureaucratic demands on *inter alia* individuals and small and medium sized enterprises; believes that the final objective of the integrated internal control framework will only be achieved if the burden of managing too much and too heavy regulation is reduced significantly;

26. Underlines that simplicity and transparency are two of the most important principles of financial control; insists that the Commission when designing schemes and programmes should consider the relationship between the desired outcomes of a particular scheme, the complexity of the rules governing it and the likelihood of an error occurring;

27. Asks the Commission to produce a report on the effectiveness of the existing regulatory framework regarding management, assurance and certification systems of declarations of the Member States' various bodies, taking into consideration:

- the precise degree of implementation of the existing legislation by Member States and the regulatory mechanism;
- its bureaucratic and administrative cost to the European taxpayers;
- its value added in the prevention of misadministration and the recovery of Community funds;
- its influence in the correct attribution of responsibilities;
- the coherence of the various existing declaration systems;
- the advantages of instituting a single Member State declaration procedure in the context of the Financial Regulation instead of disperse sectoral legislation;

depending on the results of the above mentioned analysis, invites the Commission to proceed with the appropriate legislative proposals;

National management, assurance and certification declarations

28. Deplores the decision of the Council to refuse to discuss national political level *ex ante* statements and *ex post* declarations; invites therefore national public accounts committees as well as national parliaments to seek information from their governments and to have a parliamentary debate on their government's position on paragraph 12 of the above mentioned ECOFIN Council's conclusions, which reads as follows:

"Taking into account the need not to put into question the existing balance between the Commission and the Member States or to compromise responsibility and accountability at the operational level, the Council believes existing operational-level declarations can provide an important means of assurance for the Commission and ultimately the Court of Auditors and should be useful and cost effective and be taken into account by the Commission and ultimately the Court of Auditors to attain a positive DAS";

29. Rejects the conclusion of the Council that the instruments proposed by Parliament would "put into question the existing balance between the Commission and the Member States" since they simply underline Member States' responsibility as stated in the second sentence of the first paragraph of Article 274 of the Treaty;

30. Welcomes the initiatives taken by the Council to reinforce the responsibility of the Member States for improving the control of actions under shared management, with the aim of achieving a positive DAS, and especially the commitment by the Council to producing an annual summary at the appropriate national level of the available audits and declarations;

31. Recalls that whilst the Commission is responsible under Article 274 of the Treaty for the implementation of the budget, the Member States have responsibility for the controls over funds in shared management which are defined in the sector regulations and in their detailed rules;

32. Draws attention to the fact that Member States are free to organise these controls in the way each considers best, given their institutional and administrative structures and the international standards applying and taking into account that Member States, like the Commission, should respect international standards, and that in practice, responsibilities are allocated to a large number of different bodies reporting to ministries of the national government or to regional governments;

33. Believes that the Commission should strive for the same geographical location of paying agencies (Common Agricultural Policy - CAP) and managing authorities (Structural Funds) and whenever possible combine the two in each Member State in order to enable it to keep a good track of where, when and how EU funds are being spent in each Member State;

34. Considers that, as responsibilities are entrusted to so many existing audit bodies, initiatives aimed at bringing about standardisation of audit arrangements should be welcomed and supported;

35. Stresses that Article 274 of the Treaty also requires that Member States cooperate with the Commission to ensure that appropriations are used in accordance with the principles of sound financial management;

36. Finds, therefore, that the Commission should be able to request assurance from each Member State that these control responsibilities have been fully met, and in particular that the risk of error in the underlying transactions is being sufficiently managed;

37. Believes that a declaration at political level covering all Community funds in shared management and signed by finance ministers, as proposed in its above mentioned 2003 discharge resolution, is still a necessity and would be a big step forward;

38. Notes with satisfaction that the Council and the Commission agree on the importance of strengthening internal control; takes the view that this objective must be reached without adding to the administrative burden and that simplification of the underlying legislation is therefore a prerequisite; believes that to achieve a positive DAS, priority should be given to sound financial management for funds under shared management; considers that provisions to this end could be laid down, as appropriate, in the basic legislative acts concerned; notes that as part of their enhanced responsibilities for structural funds and in accordance with national constitutional requirements, the relevant audit authorities in the Member States will produce an assessment concerning the compliance of management and control systems with the regulations of the Community; welcomes the fact that Member States have therefore undertaken to produce an annual summary at the appropriate national level of the available audits and declarations;

39. Draws attention to the fact that the level of a possible signature at Member State level is not mainly a matter of form but first and foremost a signal showing the expected quality of the supervisory and control systems operating under the signature; recalls its resolution of 2 February 2006 on national management declarations[1] which recognised that in practice these national declarations might comprise "several declarations within a national framework, rather than one alone, in order to acknowledge the federal and decentralised political systems in existence in some Member States";

40. Notes Member States' resistance and wants to be pragmatic and constructive and stresses that the important thing is to find a way of identifying the weaknesses in the current control and supervisory systems and to undertake appropriate remedial action with a view to achieving better financial management of EU funds;

41. Welcomes a discussion about which authority might be the best for the purpose and invites the Commission and the Council to consider the alternative approach inspired by the Council's interest in declarations at sector level as expressed in paragraph 9 of the ECOFIN Council conclusions[2];

Ex ante and ex post declarations for each area of the financial perspectives

42. Draws attention to the following figures:

- for the 1994 - 1999 period the Commission approved 1 104 Structural Funds programmes and 920 Cohesion Fund projects (paragraph 5.4 of the Court of Auditors' annual report);

- for the 2000 - 2006 period there are 606 Structural Funds programmes, 1 163 Cohesion Fund projects and 72 instruments for structural policy for pre-accession projects (paragraph 5.4 of the Court of Auditors' annual report);

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1 *Texts adopted*, P6_TA(2006)0043.

2 "The Commission, working with the Member States, should provide an assessment of the present controls at sector and regional level and the value of existing statements and declarations."

- each programme may contain several thousand projects (paragraph 5.10 of the Court of Auditors' annual report);

- under the CAP there are 91 Paying Agencies (table 4.2 in the Court of Auditors' annual report);

43. Agrees fully with the Court when it states that the "main inherent risks to the legality and regularity of expenditure for structural measures arise from the variety of bodies and authorities which intervene in the management process, the large number of programmes and projects to be implemented over a period of years and the scope for potential weaknesses in the management and control systems"; also agrees with the statement that "there are a large number of conditions governing the eligibility of expenditure which are not always clear, giving rise to the risk of divergent interpretations" (paragraph 5.10 of the Court of Auditors' annual report);

44. Underlines that neither the Commission, nor, ultimately, the Court, is in a position to scrutinize every individual certificate and/or audit report emanating from primary or secondary control level due to the very high number of projects, programmes and paying agencies;

45. Takes the view therefore that the existing high number of individual certificates and/or audit reports within each major sector should be consolidated at central Member State level, whereby the quality of the information in the individual declarations issued at lower level should be guaranteed; suggests that Member States should thus participate actively in enhancing the usability of independent audit results in the chain of control; believes that this approach would aid simplification considerably and that it would give a valuable overview of the legality and regularity of the transactions at national level and accordingly contribute to the assurance to be drawn;

46. Invites the Commission to present proposals as regards the form and content of these complementary arrangements in the context of the implementation of the above mentioned Action Plan towards an Integrated Internal Control Framework and as a temporary measure invites the Member States to identify the body at central Member State level to be responsible and accountable for issuing the declarations and to inform the Commission accordingly thereof;

Ex ante disclosure statement

47. Repeats that the *ex ante* formal disclosure statement should confirm that the organisational structures put in place by the Member State comply with the requirements of Community legislation and are expected to be effective in managing the risk of fraud and error in the underlying transactions in accordance with the principle of subsidiarity;

48. Takes the view that the *ex ante* disclosure statement at central Member State level could be backed up by equivalent statements from the Director of each paying agency (CAP) and managing authority (Structural Funds) responsible for the management and control of Community funds;

Ex post declaration of assurance

49. Notes that the *ex post* declaration of assurance at central Member State level could take into account the multi-annual dimension in the accountability process and the multi-annual nature of most Community programmes and at the same time give assurance that the control systems worked effectively during the year in question;

50. Expects the *ex post* declaration at central Member State level to be built on declarations from the Director of each paying agency (CAP) and managing authority (Structural Funds) and on the certification reports issued by the Directors of the certifying bodies;

Article 53(5) of the Financial Regulation

51. Insists that until such a sectoral consolidation at central Member State level for each area of the financial perspectives has been put in place and having noted Member States' unwillingness to give the Commission the assurance it needs, the Commission should fully apply Article 53(5) of the Financial Regulation under which it shall assume final responsibility for the implementation of the budget in accordance with Article 274 of the Treaty through "clearance-of-accounts procedures or financial correction mechanisms";

52. Invites Member States to issue a voluntary declaration at national level in the sense described in paragraph 45; recommends that any Member State giving such a declaration be subject to a reduced audit programme if the Commission feels that it would present in fact a lower risk of error than a Member State not issuing such a declaration;

53. Invites, therefore, the Commission to set up a more intense programme of *ex post* clearance-of-accounts audits and fully to make use of suspension of payments or financial corrections whenever it cannot obtain assurance from the Member States;

54. Warmly invites national parliaments (in particular national public accounts committees and committees forming part of the Conference of Committees for European and Community Affairs of the European Union Parliaments - COSAC) to discuss this matter with their national governments;

55. Invites the Commission and the Court to confirm on the basis of concrete evidence that consolidation at central Member State level and for each area of the financial perspective by which the quality of individual reports and/or audit reports is guaranteed will be an effective measure in support of an overall declaration at political level covering all Community funds in shared management;

Transparency

56. Welcomes the Commission's transparency initiative and expects it to lead to concrete actions and legislative initiatives that will lead to transparency regarding the way EU funds are spent and managed;

57. Invites the Commission to do everything in its power to induce Member States to give public access to information about the projects and beneficiaries of EU funds in shared management;

58. Feels that the current situation where most Member States have not given the public access to information about projects and beneficiaries of EU funds in shared

management does not benefit overall transparency in the EU; strongly urges therefore the Commission and the Member States to resolve this anomaly;

59. Stresses that there are problems with the current manner in which the Commission is applying the rules of *ex ante* and *ex post* publicity to the funds managed under centralised direct management, in that retrieving the information is difficult because the Directorates-General have different ways of publicising the data on the internet;

60. Draws attention to the need for more openness with regard to the different types of expert groups advising the Commission and also the committees working within the comitology procedure;

61. Demands that the Commission makes information easily available to the public about the different types of expert groups, including data about the activities and membership of those groups;

The possible role of national audit offices

62. Recalls that in its above mentioned 2003 discharge resolution it considered it essential "to examine how national audit institutions can play a more operational role in the process" (paragraph 77);

63. Believes that national audit institutions have an interest in knowing, and hence a responsibility to investigate, whether or not there are no actual or contingent liabilities in the national accounts emanating from sub-standard compliance with EU regulations;

64. Believes that national audit institutions could audit the internal control systems set up by the national administration as well as the regularity and legality of the underlying transactions effected in their own country;

65. Calls on national audit bodies to assume responsibility for controlling the local use of EU funds, so as to make any consideration of establishing national offices of the Court of Auditors unnecessary;

66. Believes that such an audit - focused on national level activities - could contribute to greater awareness of the need for effective control and guide national parliamentarians in shaping their government's position in ECOFIN; further invites national public accounts committees to discuss this matter with their national audit office;

67. Suggests that consideration be given to inviting representatives of national audit bodies and national parliamentary budgetary control committees to the presentation of the Court of Auditors' annual report to the Parliament's relevant committee;

Commission's internal control system

Annual activity reports and declarations

68. Notes that despite some progress, the Court continues to report that there remains scope for improvement;

69. Calls on the Member States, in line with the good practices of some of them, to ensure that national audit institutions, and where applicable regional ones, publish an annual audit report on EU funds spent;

70. Is concerned that the Court continues to report that "the design and use of indicators by the Commission is still not sufficient to continuously monitor the quality of internal control systems and the legality and regularity of underlying transactions" (paragraph 1.53); fully shares the Court's consideration - based on INTOSAI standards - that management is responsible for the development of indicators which allow for a precise assessment of progress;

71. Expects the Commission, and in particular the central departments responsible for the guidelines for annual activity reports and declarations, to give priority to the elaboration of indicators which have a direct link to legality and regularity;

72. Welcomes the Court's follow-up to the reservations expressed in 2003 and 2004 by the Directors-General (table 1.2), and notes:

– that for five of the seven sectors in the financial perspectives the Court identified weaknesses which had not been included in the declarations of the Directors-General,

– that for three sectors the declarations were not relevant to the Court's audit conclusions,

– that for two sectors the declarations were relevant after corrections,

– that for two sectors the declarations were of immediate relevance;

73. Invites the Commission's Directorates-General to better describe the source of their assurance and ensure that their declarations give a true and fair view of the adequacy of their management of the risk of error in the underlying transactions;

Synthesis report

74. Recalls that in its 2003 discharge resolution it invited the Commission "to convert the Annual Synthesis Report into a consolidated assurance statement on the Commission's management and financial controls as a whole" (paragraph 62);

75. Notes with disappointment that the Commission "will not be taking the recommended action" on the grounds that, as set out in the above mentioned Annex to the Report from the Commission to the European Parliament on the follow-up to 2003 Discharge Decisions,

> "[t]he Synthesis is an act through which the Commission exercises its political responsibility, by analysing the annual activity reports and their declarations and by adopting a position on major horizontal issues, including appropriate actions for issues requiring remedy at Commission level. This approach is based on the reform, which decentralised the management responsibilities to Directors-General and Heads of Service, under the political supervision of the relevant Commissioner";

76. Underlines that whilst ultimate responsibility for transactions after the reform lies now - and rightly so - with line managers (Directors-General), final responsibility for control systems must be anchored in the centre, not in the periphery; notes that the Court of Auditors supports this view and made a clear recommendation in that respect (paragraph 1.57);

77. Is not convinced that risks are under control and takes the view that the Commission does not have a sufficient basis for declaring that the situation is "globally satisfactory", as it did at page 7 of its above mentioned communication on 2004 Synthesis;

78. Notes that annual activity reports as well as the above mentioned communication on 2004 Synthesis are elements in the internal control system and that internal control in the Commission will never be stronger than the political will behind it;

79. Considers - without prescribing one single solution - the following measures to be the minimum required in order to place the College in a position whereby it can comply with the requirements of Article 274 of the Treaty as regards the situation in the Commission as an institution:

- since the internal control system is designed by the Central Financial Service in the Directorate-General for Budget, and since the decentralisation of financial controls requires strong central supervision of the control systems operating in individual departments, the Director-General of this Directorate-General should give a formal opinion on the quality and efficiency of the internal control systems,

- since the Synthesis report is drawn up by the Secretary-General of the Commission, and in order to assist the Commission as an institution in adopting a position on the content of the Synthesis report, the Secretary-General, who has ultimate operational executive responsibility for the bureaucracy, should give a formal declaration of assurance as regards the quality of the individual declarations from the line managers (Directors-General),

- the internal auditor of the Commission should give his assessment of the quality and effectiveness of the controls as described in the management's annual activity reports and Synthesis report in the form of an audit opinion as regards the adequacy of the Secretary-General's assurance statement,

- the responsible Commissioner should co-sign, possibly in the form of a negative assurance so as to avoid any undermining of the responsibilities attributed to the authorising officers, the declaration given by the Director-General, as this would bridge the gap between the Director-General's individual assurance declarations and the College's institutional assurance declaration;

80. Invites, therefore, the Commission to forward its position on these considerations to its competent committee in the form of a detailed and comprehensive report explaining and discussing all relevant issues; expects the Commission, in case it disagrees with the above considerations, to explain thoroughly how it will be able otherwise to obtain the assurance required to fulfil its responsibility under Article 274 of the Treaty;

The accounting officer

81. Recalls that in paragraph 10 of its above mentioned 2003 discharge resolution, it invited the Commission to upgrade the current accounting officer to Chief Financial Officer (CFO) to assume the role of the management's institutional counterweight to its 39 services; regrets that the proposed modification of the Financial Regulation is a long way from satisfying this recommendation; fully agrees with the Court of Auditors when it states at paragraph 53 of its Opinion No 10/2005 on the draft Council Regulation amending Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities that "the amendments proposed [concerning the role of the accounting officer] are not radical enough to resolve the problems to which they are trying to respond";

82. Underlines that the role of a professional accounting officer extends beyond the compilation or aggregation of figures received from the authorising officers; draws attention to the fact that the simple signature of the accounting officer will be nothing more than a purely cosmetic improvement as long as he is not able to declare on his own account, and not only on the basis of information received from the Directors-General, that the accounts present a true and fair view;

83. Repeats its recommendation, which is in line with private sector best practice, that the accounting officer be upgraded to CFO with special responsibility for the quality of the Commission's financial reporting and its system of internal control as a whole;

84. Underlines that a CFO accountable for the quality of the Commission's financial reporting and its system of internal control must have the necessary competence and adequate resources to ensure such quality, and that this includes a means of testing the assurances given by the Directors-General;

85. Welcomes the Commission's initiatives aimed at raising Member States' awareness of their responsibilities under Article 274 of the Treaty, but is unhappy with the Commission's reluctance to look critically at its own responsibilities under that Article; invites therefore the Court to issue an opinion on the Commission's compliance with Article 274 and on the position and the role of the accounting officer and a future CFO in an accruals accounting environment;

86. Would also like to know whether in the Court's opinion the Commission's internal control structures match the recommendations the Commission is proposing for the private sector, as for example in its Communication to the Council and the European Parliament on Modernising Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move forward (COM(2003)0284), and whether this is desirable;

87. Invites the Court to inform its competent committee before the end of the second month following the adoption of this resolution whether it will accept the invitation to issue such an opinion and, in the case of a positive decision, to present an indicative timetable for the work to be carried out;

Networking

88. Invites the Commission to set up a network for financial control organisations and bodies, including an annual meeting in the presence of the members of its Committee on Budgetary Control, to discuss and exchange experiences as regards general EU internal

control systems (including internal audit) and accountability issues and thereby foster more effective cooperation between Member States and the European Union;

89. Invites its competent committee to provide specific resources from the EU budget for such a network;

Error rates, tolerable risk of error and cost-benefit analysis

90. Believes that a global error rate will only give an indication that something is wrong but will not indicate what the problem is and that what is needed is precise information on the origin, frequency, nature and financial impact of errors and factors on which action should be taken in order to prevent new errors in the future;

91. Welcomes the Court's refocusing of its DAS approach so that the central question now is whether the supervisory systems and controls that have been implemented at Community and national level provide the Commission with reasonable assurance as regards the legality and regularity of the underlying transactions;

92. Takes the view that the definition of an *ex ante* tolerable risk of error is a necessary step in the context of defining an efficient and effective internal control framework;

93. Believes further that a tolerable error rate in the underlying transactions can only be established when knowing the costs to be devoted to checking expenditure; welcomes therefore the actions launched through the above mentioned Action Plan towards an Integrated Internal Control Framework to assess the costs and benefits of checks;

94. Considers, as stated by the Court of Auditors at paragraph 55 of its above mentioned Opinion No 2/2004, that the relation between the costs of controls and the benefits they bring is a critical aspect of the control strategy for a programme or a policy and that it therefore must be "open and transparent";

95. Believes therefore that the balance between costs and benefits of controls shall be approved by the political and budgetary authorities (Parliament and Council) based on a detailed proposal of the Commission, thereby accepting a certain level of tolerable risk of error; supports therefore the Commission's initiative to launch an interinstitutional dialogue in 2006;

96. Further believes that different budgetary areas could be subject to different tolerable risks of error depending on type and risks of the transactions concerned;

97. Invites the Commission to indicate - in as much detail as possible - which areas of the budget it considers HR (High Risk), MR (Medium Risk) and LR (Low Risk) and to adapt its control and audit activities accordingly;

98. Invites the Court of Auditors to take into consideration, when establishing its audit opinion, the risk acceptance decided by the budgetary and political authorities;

Court of Auditors

99. Recalls that the President of the Court of Auditors, in his speech to its competent committee in Strasbourg on 14 November 2005, said that the Court was "in the process of preparing a self-assessment of its organisation and methods to be followed by a peer

review"; notes that no independent review of the Court's work has taken place since it was set up in 1977; welcomes the initiative and understands that the peer review will be an external review, as currently exercised in some Member States, and that the objective is to test the quality and relevance of what the Court is doing and clearly to indicate where the Court could learn from others, including both Member States and other states such as the United States and New Zealand;

100. Calls for this review to give consideration to the question of whether the resources of the Court are sufficient to achieve its objectives;

101. Invites the Court, as part of the preparation of the peer review, to send its competent committee a report in which the Court critically and professionally describes its strengths and weaknesses and whether its governance set-up allows it to meet present standards regarding efficiency, effectiveness, ownership and leadership; further invites the Court to keep its competent committee and main client informed on all major steps in this process and to present the final as well as intermediary reports to this committee;

102. Calls for the Court to give serious and detailed consideration in this report to introducing into its work programme enhanced techniques for measuring and assessing progress in establishing effective financial controls;

103. Welcomes the Court's efforts to improve the presentation of its audit results and in particular the use of tables and indicators such as the assessment of the implementation in the Member States of management and control systems as regards structural measures (Annex 2 to Chapter 4 and Annex 1 to Chapter 5 in the annual report); expresses its hope that the use of such tables and indicators be expanded in future reports;

104. Finds that benchmarking can be an effective tool in evaluating efforts by Member States to improve management of EU funds; demands therefore that information about the strengths and weaknesses of the Member States' control systems be made public both by the Commission and the Court;

105. Regrets that the table in Annex 1 to Chapter 5 includes only a limited number of Member States and invites the Court to find ways to include more explicit and specific information on weaknesses in the different sectors and Member States;

106. Recalls that in its discharge report for 2003 the Parliament already asked for the DAS methodology to be further developed in order to obtain information on improvements in each sector from year to year in the different Member States;

107. Reminds the Court that its operational services could be significantly increased by reducing Members' cabinets to one person;

SECTORAL ISSUES

Revenue

108. Notes that contributions calculated on the basis of gross national income (GNI) are now by far the most important source of revenue for the Community (two thirds of all revenue in 2004) and is concerned that the Court reports significant differences in the supervisory and control systems at statistical offices in Member States (paragraph 3.48) because this

could impact on the quality of the data being used for calculating Member States' contributions;

109. Invites the Commission to inform its competent committee on which measures it has or will take to improve the reliability, comparability and exhaustiveness of national accounts;

The common agricultural policy

110. Notes with satisfaction that the Court for the first time has issued a positive statement on expenditure under the Integrated Administrative and Control System (IACS) and that it considers this system, when effectively implemented, to be a strong instrument in reducing risk of irregular expenditure;

111. Also notes that the system is still not fully implemented in Greece, as it should have been since 1993, and that the Court, also for the first time, has indicated the reason, namely that "farmers unions control the input of all data into the computer"; further notes that "these irregular changes have an estimated financial impact of at least 10 million euros, and that the impact over the whole claim period could be significantly more" (paragraph 4.8); notes that the government of Greece has refuted these claims and in November 2005 opened negotiations with the Commission in order to settle the issue; feels that the government of Greece should control the data input and not the farmers unions;

112. Notes that under the current system corrections are too often paid by taxpayers and not by the final beneficiary who committed the error; takes the view that corrections therefore only have a limited preventive and dissuasive effect on beneficiaries and managers;

113. Notes the Court's discontent with the scope of the work of the certifying bodies (paragraph 4.60) on the grounds that it does not provide direct assurance that the information supplied by claimants, and used by paying agencies to calculate the payment due, is correct and therefore that payments are legal and regular; invites the Commission explicitly to require certifying bodies to test the operation of the primary-level controls;

114. Fully supports the Court's point of view that the Commission's post-payment checks involving visits to only three Member States is too limited to enable the Commission to state that it has "reasonable assurance as to the compliance with Community legislation of the expenditure" (paragraph 4.58);

Special Report No 9/2004 concerning Forestry Measures within Rural Development Policy

115. Shares the Court's criticism that there is no commonly applied definition of forest and other wooded land in the EU although the UN already established general definitions of forest and wooded land 10 years ago; strongly recommends that the Commission introduce a minimum of common terminology, such as a set of definitions according to the different climate zones in the Union; requests that the Commission use these common definitions in order better to target EU forestry measures and spending;

116. Finds it unacceptable that the accreditation of the EAGGF paying agencies in some new Member States has been incomplete since accession; calls on the Commission to complete its work as soon as possible, as significant amounts will be charged to the

EAGGF in the coming years and further prolongation will definitely cause late or delayed payments for these Member States;

117. Observes a lack of coherence between the 7 years' programming period from 2000 to 2006 for EU afforestation measures and the funds allocated to this period on the one hand and, on the other hand, the major instrument for afforestation which consists of an annual premium per hectare for beneficiaries paid over 20 years to compensate the loss of income if they convert agricultural land into forest; is worried about the Court's finding that the amount of premiums largely exceeds the funds allocated to the programme; is concerned that, as a consequence, the Commission's human resources are not focussed on current objectives but have to deal with the administration of the premiums; considers Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)[1] as a first step into the right direction, as it reduces the compensation scheme from 20 to 15 years; asks the Commission to table further proposals in order to remedy the situation;

Special Report No 3/2005 concerning the Rural Development: The Verification of Agri-Environment expenditure

118. Notes that agri-environment measures form an integral part of the EU's reformed CAP, although the verification of environmental expenditure can pose particular problems due to its labour-intensive character and the requirement of highly specialised knowledge;

119. Points out that good national practices could serve as a template for all Member States, such as the German 2-step method for verifying Good Farming Practice (GFP), with a general check of 5% of farmers and an additional, more detailed check of 1% of farmers; calls upon the responsible authorities to improve and make better use of local knowledge and indicators, possibly through the partial use of funds for technical assistance in the new Rural Development Regulation to increase such knowledge;

120. Urges the Commission, in order better to discharge its responsibilities, to evaluate the verifiable character of sub-measures at the time of approving the rural development programmes;

121. Attaches the greatest importance to an efficient and responsible use of the EU budget and the application of the principle that an initiative that is insufficiently verifiable should not be financed by public money;

122. Therefore considers that the Commission, the Council and Parliament should ensure that this principle is better respected when implementing the proposals for agri-environment expenditure in the 2007 to 2013 planning period, without increasing control costs and bureaucracy;

Structural measures

123. Agrees fully with the Court when it states that "Member States are responsible in the first instance for the management of operations and control of expenditure and for ensuring the correctness and legality of the underlying transactions through the functioning of systems verified by national audit bodies" (paragraph 5.7); reminds the Commission as well as the

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[1] OJ L 277, 21.10.2005, p. 1.

Court that in the absence of an adequate audit trail of structural programmes, there is no straightforward and transparent basis for certification of expenditure by Member States;

124. Is in view of this concerned about the Court's very serious findings, as follows (paragraph 5.48):

– "weaknesses in the management and control systems across all the programmes in its sample for both the 1994-1999 and the 2000-2006 periods",

– concerning the 2000-2006 period that "most of the systems examined need varying degrees of improvement in order to fully comply with the fundamental regulatory requirements for effective day-to-day management checks and/or independent sample checks of operations",

– "numerous errors of legality and regularity in the expenditure included in the declarations leading to payments by the Commission in 2004";

125. Invites the Commission and the Member States immediately to take all necessary measures in order to bring "day-to-day management" up to the required standard;

126. Points out that in the context of the CAP, the paying agencies can assign certain tasks to delegated bodies, but that actual payments may never be subject to any delegation; notes that in this way the paying agency remains primarily responsible for all the decisions which result in an actual payment; feels that the current situation in relation to structural measures, where managing authorities are allowed to delegate actual payment decisions, undermines efficient checks and balances; asks therefore the Commission to address this problem swiftly and adequately;

127. Believes that what is needed are better controls and not more controls and that assurance for the regularity and legality of underlying transactions has to come from better primary controls before approval of applications, during implementation of operations and before final payment, and not via more Commission on-the-spot controls;

128. Calls on Member States to ensure that adequate resources are invested in these controls and that proper guidance is provided; calls on the Commission to support these actions by the dissemination of good practices in this area;

129. Urges Member States to invest more in information activities directed at beneficiaries to make them aware of funding conditions, the probability of checks being made on them and the consequences of breaches;

130. Notes that the high number of national, regional and local offices and departments in the Member States involved in the management and control of structural measures makes the consolidation of audit reports as proposed at central Member State level a necessary and efficient way of facilitating better controls;

131. Notes that in the future structural measures could account for nearly half the appropriations in the Community budget and urges therefore the Commission and the Member States to implement the proposed sectoral declarations at central Member State level;

132. Believes that the independence of management and control bodies is of fundamental importance and invites the Commission to make arrangements for Commission approval of management and control bodies set up at national level;

133. Invites the Commission to present as soon as possible a proposal which would require the audit body proposed in the 2007-2013 regulations to certify the claims made on all structural funds in the course of any given year, and not just the claims under the 2007-2013 programmes, because 2000-2006 expenditure continues until 2010;

134. Underlines that the Commission, in cooperation with the Member States, should ensure that the lessons drawn from the closing of programmes for the 1994 to 1999 period are applied for the 2000 to 2006 period and future periods of the implementation of Structural Fund programmes and Cohesion Fund projects; notes that this also requires that the Member States ensure an adequate and timely submission of national closure documents;

135. Invites the Commission to present every six months a scoreboard showing Member States' progress as regards efficient implementation of supervisory and control systems as described in the regulations;

Internal policies, including research

136. Asks the Commission to work towards a maximum of standardised procedures in internal policies, thereby facilitating financial controls and reducing the administrative burden for beneficiaries; in particular, urges the Commission to follow the Court's repeated advice to establish a common or integrated IT system for the management of the fifth, sixth and further framework programmes for research, technological development and demonstration activities;

137. Notes that the Commission shares the Court's concerns as regards the persistent high risk of errors caused by incorrect declarations of costs by final beneficiaries; is convinced that simplification of procedures would help to remedy this problem; asks therefore the Commission thoroughly to consider the Court's suggestions in this respect;

Employment and social affairs

138. Notes the fact that, with regard to structural measures, the Court found further shortcomings in management and control systems and calls specifically on the Member States to undertake improvements as a matter of urgency with the assistance of national audit bodies and the relevant independent authorities;

139. Agrees with the recommendation of the Court that the number of on-site project assessments should be increased; regrets, in that connection, that the Directorate-General for Employment has not carried out any adequate assessments in order to substantiate the conclusions regarding management and control systems in the Member States for the 2000 to 2006 period;

140. Calls on the Member States, the Commission and in particular the relevant Directorates-General to work together effectively, according to the principles of good faith and sound financial management, to ensure that appropriations from the Structural Funds in particular are properly allocated;

141. Agrees that the electronic system introduced by the Directorate-General for Employment for monitoring recommendations concerning controls cannot be considered effective and encourages the Commission to issue a memorandum concerning good practice as regards controls on management of national expenditure and assessing the results of all kinds of financial resources;

142. Is generally satisfied with the progress made with regard to utilisation rates; notes that this may also be attributed to the application of the n+2 rule;

143. Agrees with the lessons learned concerning the evaluation of the Community initiative INTEGRA on social exclusion at the workplace and therefore calls on the Member States and the Commission to continue their efforts to ensure greater social cohesion;

144. Is generally satisfied with the utilisation rates in the budget lines devoted to employment and social affairs, which are to be attributed to improved management by the Commission;

145. Notes that, in internal policy areas, there is still, unfortunately, no adequate DAS as regards the legality and regularity of payments; calls on the Commission continuously to verify whether its cost-reimbursement systems could not be simplified and the procedures and instructions governing the various programmes not be formulated more clearly;

146. Calls on the Commission, in view of the uncertainty regarding the adoption of proposals for participation in Community programmes, to take practical measures to facilitate procedures;

Environment, public health and food safety

147. Considers the overall implementation rates of the budget headings for environment, public health and food safety satisfactory;

148. Calls on the Commission to develop further assistance to applicants in the context of multi-annual programmes; welcomes the efforts better to focus calls for tenders and to provide more assistance to applicants in order to avoid the submission of project applications which are clearly not eligible for funding or of poor quality, but notes that further work is needed in order to obtain a satisfactory situation;

149. Notes that the payment rates for the environment, health and food safety policy areas were all below 80%; acknowledges the difficulties in planning payment appropriation needs, as the submission of bills by beneficiaries and contractors is largely outside the Commission's control; calls on the Commission, however, to examine its own procedures carefully to see if the implementation of payment appropriations could be improved;

150. Points out that compliance with the administrative and financial provisions of the Financial Regulation should not lead to unnecessary delays in awarding grants or selecting projects to be financed;

Internal market and consumer protection

151. Welcomes the steps that the Commission has taken to date to obviate the risk of errors in grant management, with the result that consumer actions are not singled out in the Court's

observations; equally, welcomes the absence of critical observations on both internal market policy actions and customs policy;

152. Recognises the practical difficulty that the Commission faces in trying to reconcile demands that the administrative burden placed on grant applicants under the relevant programmes be as light as possible with the obligation to ensure sound financial management consistent with the implementing rules for the Financial Regulation;

153. Stresses that proper implementation of annual calls for proposals for specific consumer protection projects needs to be ensured; calls on the Commission to translate the lessons learnt during the execution of the current consumer programme in designing the new programme for 2007-2013, allowing for alternative beneficiaries that would be better equipped to undertake the actions envisaged;

154. Emphasises the importance it attaches to effective follow-up of observations by the Court concerning internal audit capabilities and failures to meet accepted standards;

Transport and tourism

155. Notes that in its annual report the Court found that there had been a substantial increase in internal audit activity in the Directorate-General for Energy and Transport (DG TREN), where the value of audited contracts rose from EUR 52 920 000 in 2003 to EUR 504 000 000 and the total value of adjustments in the Commission's favour rose from EUR 2 530 000 in 2003 to EUR 14 910 000;

156. Notes also that in the Court's view DG TREN should take further action to reach its audit target of 20 % of projects and 35 % of total project costs, define model costs statements and distinguish between studies and works for audit purposes;

157. Welcomes the fact that, following the Court's remarks in its previous annual reports, a new model Commission decision was adopted in 2004 which gives a tighter definition of eligible and ineligible costs;

158. Is concerned that while 93 % of commitment appropriations for transport safety were used, only 60 % of the payment appropriations were deployed;

159. Expresses its disappointment that only 25 % of commitments and 11 % of payments available for protecting passengers' rights were used;

160. Notes that another area where implementation has been low is Marco Polo payment appropriations, and this for reasons outside the control of the Community, and that a number of advance payments were not executed because some projects were not ready to deliver the required bank guarantee or used the wrong bank guarantee forms;

161. Notes with great satisfaction that, of the appropriations available for the important TEN-T budget item, 100% of commitments and 95,82% of payments have been taken up, showing that it is essential to increase the appropriations for this item in future;

Culture and education

162. Endorses the recommendations made by the Court in Chapter 6 of its annual report on internal policies concerning the need to reduce the risk of errors, particularly in the light

of the specificities characterising beneficiaries of grants within EU programmes on education, culture, youth and the media;

163. Welcomes the replies provided by the Commission to continue its efforts to improve its internal control systems by implementing the actions provided for in the above mentioned communication on a roadmap to an integrated internal control framework;

164. Underlines the importance that the Commission capitalise on the procedural difficulties and bottlenecks in the management of projects encountered by beneficiaries of grants; invites the relevant Commission services to identify solutions and present them in the form of lessons to be learnt by and disseminated among beneficiaries, as well as to be used for improving inputs for internal procedures;

165. Recalls that it will attach great importance to the interim and *ex post* evaluation reports on the future Lifelong Learning, Culture, Media, Youth and Citizens for Europe Programmes, and advocates a wider use of assessment indicators;

166. Emphasises the importance of strengthening multi-lingual procedures in relation to calls for proposals addressed to citizens and potential beneficiaries of EU programmes;

167. Notes the low implementation rate of some key press and communication-related budget lines and considers that this undermines any effective communication policy capable of adequately reflecting the current need for debate about the future of the Union;

Gender equality

168. Notes that 2004 was the year of enlargement, and the main priority for the budget was to proactively ease the process of integration of the ten new Member States;

169. Regrets the fact that the discharge report does not give enough relevant information as to how the budget has achieved this priority, especially as regards equal opportunities for women in the enlarged Union;

170. Reminds the Commission that the provisions of the Treaty of Nice imply that a very broad range of Community policies and measures have to be looked at from the point of view of equal opportunities;

171. Reiterates its request to the Commission made in its resolution of 3 July 2003 on gender budgeting[1] and regrets that the discharge report does not give it the possibility to assess the impact of the budget from a gender perspective; regrets the lack of budgetary data concerning funding allocated to the promotion of gender equality in the context of different budget lines;

172. Demands that relevant information on gender mainstreaming policies be included in every discharge report; regrets that the Commission has not delivered this information; repeats its demand for gender-specific data in the discharge reports;

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[1] OJ C 74 E, 24.3.2004, p. 746.

173. Welcomes the progress achieved in the implementation of the 2004 budget with regard to all the objectives and the programming period for the Structural Funds, which translates into a payment implementation rate of 99 %, well above that achieved in 2003 (89%);

174. Notes the low payment implementation rate as regards the 'Daphne' programme while accepting the Commission's reasoning regarding maintaining high quality standards for the projects supported by the programme;

175. Calls on the Member States, the Commission and the Commission's Directorates-General concerned to collaborate effectively and in keeping with the rules of good faith and sound financial management with a view to the proper implementation of appropriations committed, particularly as regards Structural Funds;

176. Calls on the Commission, in view of the uncertainty that exists regarding the acceptance of proposals to participate in the different Community programmes, to take practical measures aimed at making the process easier and at reducing the expenditure incurred during submission of such proposals;

Area of freedom, security and justice

177. Welcomes the fact that some progress has been made in the implementation of the budget for an area of freedom, security and justice; deeply deplores, however, the still very low level of implementation of payments (83,8% according to the Court, in comparison to 68% in 2003), which leads to a considerable increase of outstanding commitments (reste à liquider - RAL) from EUR 160 000 000 to 238 000 000; calls on the Directorate-General Justice, Freedom and Security further to improve the implementation of the budget and to reduce RAL;

178. Regrets that the Court in its annual report had to repeat its concerns about the implementation of the Refugee Fund by Member States and in particular the weaknesses of control systems; stresses that adequate control mechanisms by the Member States need to be put in place to ensure proper implementation of the programmes within the new financial perspective by shared management; calls on the Commission to provide appropriate training for Member States' officials in time for the new programmes;

179. Regrets that the financial regulation of Eurojust has still not been approved by the Commission;

External actions

180. Requests that the Commission, in line with the Court's recommendation, clarify with the UN agencies the Court's right of access to projects managed by such agencies in order to enable the Court to carry out the necessary on-the-spot checks;

181. Requests that the Commission inform its competent committee when and why it contributes in a substantial way to UN agencies;

182. Requests that the Court report on how EU contributions can retain their own identity in the UN family and requests that the Court report on the advantages of financing actions through the UN instead of through the Commission's actions in the field of external relations;

183. Expresses its concerns as regards the Court's observations on the project implementing organisations, namely weaknesses in internal controls and a considerable number of errors in transactions; calls on EuropeAid to pay particular attention to the implementing level in its overall risk assessment and to intensify its audits of implementing organisations;

184. Asks the Commission to ensure that information on all audits, including those contracted by delegations and implementing organisations, is introduced in EuropeAid's CRIS financial information system, thereby linking it to the respective project monitoring information and making it available for the headquarters' services; welcomes the Commission's willingness to examine this proposal but urges however the Commission to implement this recommendation of the Court as soon as possible;

185. Regrets, while recognising that EuropeAid has reacted to its request for greater transparency and fully supporting the need for a better system of checks, the vastly increased complexity of the new procedures, which are cumbersome and take far too long to implement; points out the need for real simplification, while not losing sight of the original objective; welcomes, therefore, the decision by EuropeAid to simplify as from 1 February 2006 the procedure for evaluating proposals submitted to it, in order to reduce the burden on applicant organisations of producing supporting documentation and guarantees of eligibility;

186. Insists that equal emphasis be placed on both programme quality and commitment and disbursement rates;

187. Invites the Commission to inform its competent committee on its current concrete measures and future plans to reduce the risks of implementing and funding projects in a notably highly corruption-prone environment with feeble checks and balances and governance structures; would also appreciate the Commission's view on whether and to what degree the resulting risks are manageable under the provisions of the Treaty;

188. Reiterates its view that the considerable additional costs entailed by deconcentration need to be justified by tangible results; as such, welcomes the Court's evaluation of how effectively deconcentration has been working in the delegations, as called for by Parliament's Committee on Foreign Affairs in its opinion on the 2002 discharge; notes, however, the Court's assertion that "some problem areas" in the planning process "need further attention";

189. Recognises the difficulty of reporting a single donor's results in a multi-donor environment; deplores, however, the Commission's intention to move to a "results-based approach" to development policy without establishing a methodology to measure the specific results of Community cooperation against the key objectives of the Millennium Development Goals (MDGs);

190. Agrees with the Court on the need for objective, useful and comprehensive indicators to measure the output of aid (Special Report No 4/2005, paragraph 63); trusts that these will be put in place for the period 2007-2013;

191. Regrets that the Commission's total reported allocation for basic education and basic health in 2004 was only 4,98%, which was far from meeting the 20% benchmark

established by Parliament; calls for a meaningful dialogue with the Commission on how this figure may be improved;

192. Insists that greater priority be given to the main MDG sectors of health and education in the next round of Country Strategy Papers;

193. Welcomes the identification of sector budget support[1] as a means of increasing the level of financing for education and health; considers this option more effective than general budget support, even when linked to progress in these sectors;

194. Appreciates the Commission's contribution to the Public Expenditure and Financial Accountability (PEFA) programme, which is helping to reduce the inherent risks of budget support; notes, however, the finding of the Court that the shared responsibility for public finance management between the EuropeAid Cooperation Office and the Development Directorate-General "only works because of good interpersonal relations" (Special Report No 2/2005, paragraph 65);

195. Congratulates the Commission on increasing both commitment and payment levels each year since the reform of the management of external assistance and for reorganising EuropeAid to provide better support to deconcentrated delegations; shares the Commission's concern[2] over the timely availability of competent staff in delegations, especially in relation to finance, contracts and audit;

196. Welcomes the increase in average staff per EUR 10 000 000 managed from 4.1 in 1999 to 4.8 in 2004; regrets that this figure remains well below the average for European donors and is now falling;

197. Calls on the Commission to ensure that administrative capacity for development policy in Bulgaria and Romania is strengthened before they accede to the EU;

Special Report No 10/2004 concerning the Devolution of EC external aid management to the Commission delegations

198. Calls on the Commission to improve its cost indicators and speed up its work on the development of indicators on the speed and quality of aid delivery, in order to allow a better assessment of the costs and benefits of the devolution process;

199. Encourages the Commission further to improve the quality of support provided by headquarters to the delegations;

200. Encourages the Commission to continue its efforts to ensure that staffing needs both at headquarters and in the delegations are met, and to further enhance training;

201. Urges the Commission to increase its efforts to try to reduce delays in project implementation which occur outside the delegations;

202. Welcomes the steps taken by the Commission to simplify and harmonise financial and contractual procedures;

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1 Reply to question 1.4, DEVE questionnaire.

2 Reply to question 5.2, DEVE questionnaire.

203. Stresses that the 24 internal control standards in place in the delegations must be applied effectively;

204. Requests from the Court a report on how non-governmental organisations (NGOs) are financed dealing with the definition of NGO in the Court's view, which percentage of NGOs' resources the Commission finances and which part comes from private entities not attached to any governmental body and the advantages of having projects implemented by NGOs rather than by private undertakings;

205. Further requests the Court to provide a separate examination of the proper implementation in its totality of budget line 19-04 European Initiative for Democracy and Human Rights (EIDHR), as established by Parliament in 1992;

Special Report No 4/2005 concerning the Commission's management of economic cooperation in Asia

206. Welcomes the Court's Special Report on the Commission's management of economic cooperation in Asia; takes note of the Court's finding that there has been a lack of focus in expenditure and, equally, that Asia-wide projects have suffered from an overly complex application procedure; welcomes the statement that the projects audited reached a sizeable number of beneficiaries; endorses the recommendations made that the Commission should ensure that application procedures are not unnecessarily complex, that delegations give adequate assistance to applicants and that there be a greater focus on the sustainability of projects;

207. Invites the Commission to clarify the operational framework for EU aid to Asia, focussing on a small number of better defined key priorities which in turn would help to improve effective aid implementation and enable a more result and impact-oriented approach;

208. Calls on the Commission to step up its work in developing the appropriate indicators against which to measure progress made and to ensure the necessary monitoring in order to evaluate the results obtained;

209. Expects the Commission to introduce in the current review of the Financial Regulation and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities[1] an adequate 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;

Pre-accession strategy

210. Invites the Commission to rethink the design of pre-accession projects in terms of better targeting and simplifying objectives and conditions; agrees with the Court that this would reduce the risk of errors in implementation; is convinced that simplifying project design would also facilitate the assessments of results;

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[1] OJ L 357, 31.12.2002, p. 1.

211. Acknowledges that the Commission has to support the accession countries' authorities in controlling EU spending in a fully decentralised way; observes that, at the same time, the Commission still has to compensate weaknesses in the accession countries' financial management by keeping *ex ante* controls in the hands of the delegations; feels that proper risk management in this area implies that the Commission strike a balance between these two poles;

212. Notes the Court's finding that weaknesses in the management capacity of Bulgaria and Romania remain, welcomes the improvements that have already been made and urges the Bulgarian and Romanian authorities to continue enhancements in the supervision of pre-accession assistance in order to prepare themselves for more efficient use of Structural Funds; at the same time, urges the Commission to improve its management and targeting of those funds;

Administrative expenditure

Issues concerning the agencies

213. Is pleased to note that the Commission has come forward with a proposal for an Interinstitutional Agreement on the Agencies, as requested by Parliament in its 2003 discharge reports on the agencies; calls on the Council to begin negotiations as soon as possible with a view to concluding an agreement on the basis of the Commission's draft text, taking account of the principles set out by Parliament in its resolution of 13 January 2004 on The Operating Framework for the European Regulatory Agencies[1] and in its resolution of 1 December 2005 on European Regulatory Agencies[2];

214. Notes that the Financial Regulation was designed primarily for the Commission; is aware that the agencies' framework Financial Regulation[3] and the subsequent individual financial regulations for each agency[4] were all designed to follow as closely as possible the general Financial Regulation; points out that a financial regulation fitting for the Commission might not always suit the much smaller agencies; asks the Commission to ensure that the needs of the agencies are properly addressed in the current reform of the Financial Regulation;

215. Finds it necessary to improve the agencies' responsibility for the efficient use of EU taxpayers' money and therefore considers that the agencies have to be accountable to Parliament's respective committees;

216. Considers that the agencies probably need more help with recruitment than the bigger institutions, which are likely to have a larger, more experienced administration to draw on to help with such tasks; urges the European Personnel Selection Office (EPSO) to respond positively to requests for assistance with recruitment from the agencies; asks the

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1 OJ C 92 E, 16.4.2004, p. 119.

2 *Texts adopted*, P6_TA(2005)0460.

3 Commission Regulation (EC, Euratom) No 2343/2002 of 19 November 2002 on the framework Financial Regulation for the bodies referred to in Article 185 of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 357, 31.12.2002, p. 72).

4 OJ L 245, 29.9.2003, p. 1.

Commission to make other horizontal services in addition available to the agencies, such as training and the legal service;

217. Asks the Commission to report on the state of play concerning internal audit in the agencies, describing the internal audit capability available within each agency and the internal audit services provided by the Commission in terms of provision both of guidance and of internal audits;

218. Notes the UN's apparent failure properly to apply the financing agreement signed between the Commission and it regarding the European Agency for Reconstruction, leaving the Court frequently unable to carry out adequate financial control of payments and underlying documents concerning contracts managed or overseen by the United Nations Mission in Kosovo (UNMIK); notes the statement by the Deputy Special Representative of the Secretary-General of the United Nations to grant full access to all files at the request of the Court; urges however the Commission to review the financing agreement with the UN; is of the opinion that a possible phasing out of the European Agency for Reconstruction should not be done according to a pre-set timetable but should depend on economic and political criteria and developments, making full use of the added value of the Agency in terms of expertise and know-how developed over the years, and asks the Commission to bring forward a proposal after a proper final evaluation to see whether the mandate of the reconstruction agency could be altered in such a way that that existing expertise and know-how could be used to provide reconstruction assistance wherever needed, for example in Iraq, Afghanistan, Pakistan, India and the countries affected by the Tsunami, as a second stage after immediate humanitarian needs have been addressed by the Humanitarian Aid Office;

219. Urges the Commission to help the European Environment Agency resolve the dispute with the Danish authorities concerning reimbursement of inappropriately paid taxes;

220. Is disappointed to note that the conflict between the Commission and the Translation Centre for the bodies of the European Union concerning payment of employer's pension contributions has still not been resolved; urges the Commission to step up its efforts to settle this dispute.