



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 8 February 2012

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ADD 1**

**FIN 67
PE-L 2**

ADDENDUM 1 TO NOTE

from : Budget Committee

to : Permanent Representatives Committee/Council

Subject : Discharge to be given to the Commission in respect of the implementation of the
general budget of the European Union for the financial year 2010
- Draft Council recommendation

Draft
COUNCIL RECOMMENDATION

of

on the discharge to be given to the Commission
in respect of the implementation of the general budget
of the European Union
for the financial year 2010

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 319 thereof,

Having carried out the examination provided for in Article 319(1) TFEU,

Whereas:

(1) According to the revenue and expenditure account for the financial year 2010:

- revenue amounted to	EUR 127 795 326 628.52
- expenditure disbursed from appropriations amounted to	EUR 121 212 689 332.56
- cancelled payment appropriations (including earmarked revenue) carried over from year <i>n-1</i> amounted to	EUR 740 844 913.80
- appropriations for payments carried over to year <i>n+1</i> amounted to	EUR 2 792 592 118.31
- EFTA payment appropriations carried over from year <i>n-1</i> amounted to	EUR 4 518 811.01
- the balance of exchange-rate differences amounted to	EUR 22 331 942.47
- the positive budget balance amounted to	EUR 4 548 703 222.91

- (2) Cancelled payment appropriations for the financial year amounted to EUR 740 844 913.80;
- (3) EUR 1 018 014 697.57 (58 %) of the EUR 1 758 859 611.37 in appropriations for payments carried over to year *n* have been used;
- (4) The observations in the report by the Court of Auditors for the financial year 2010 call for certain comments by the Council, which are ANNEXED hereto;
- (5) The Council attaches importance to its comments being followed-up and assumes that the Commission will implement all of the recommendations in full, without delay;
- (6) The Council has adopted conclusions concerning special reports for 2010 and 2011, as set out in Addendum 2;
- (7) Following the examination referred to above, implementation by the Commission of the budget for the financial year 2010 taken as a whole, on the basis of the observations made by the Court of Auditors, is such as to allow a discharge to be given in respect of such implementation;

HEREBY RECOMMENDS the European Parliament, in the light of these considerations, to give a discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2010.

Done at Brussels,

For the Council

The President

INTRODUCTION

1. The Council is content that the annual accounts of the European Union (hereinafter "the accounts"), for the fourth consecutive year, gave a fair presentation of the financial position of the Union and the results of operations and cash flows.

Nevertheless, it draws attention to the implications of the substantial increase in pre-financing payments, in particular to create or to contribute to financial engineering instruments, and the need to record their establishment and clearance properly in the accounts. It recalls the importance of having comprehensive, consistent and timely information on the actual use of pre-financed amounts available. It asks the Commission to continue to improve its supervision of the use of pre-financed amounts, to revisit the relevant accounting rules, and to systematically collect the necessary data from Member States in a timely manner.

2. The Council regrets that, in the overall assessment made by the Court of Auditors, payments from the budget continued to be materially affected by error and that supervisory and control systems for payments audited by the Court remained only partially effective in ensuring the legality and regularity of transactions.

However, the Council welcomes the Court of Auditors' Statement of Assurance (DAS) on the implementation of the budget for the financial year 2010 and the analysis of the audit findings and conclusions provided by the Court. It appreciates that the Court's audit results show evidence of a generally stable quality in the implementation of the budget compared to the financial year 2009, and of a most likely error rate level considerably lower than found in years prior to 2009. It deduces from the Court's findings that the improvement observed in the evolution of financial management by the Commission and Member States over recent years has stabilised, while witnessing a slight increase in the overall most likely level of error rate when compared with 2009. The Council reaffirms its wish to see year-on-year improvements creating the basis for an unqualified audit opinion from the Court.

3. The Council urges the Commission to fully assume its responsibilities in the implementation of the budget, and to carefully exercise its supervisory role within the existing legal provisions in order to limit the risks to the legality and regularity of transactions, notably through the interruption and suspension of payments whenever significant deficiencies in the functioning of management and control systems are identified and until corrective action is fully implemented. At the same time, the Council calls on the Commission to correct identified errors without delay through the recovery of amounts unduly paid and through financial corrections. It invites the Commission to report about the progress made in the implementation of corrective action, based on the Commission's and Member States' data on recoveries and withdrawals. The Council calls upon all actors to improve, where applicable, the management of EU funds with the aim to decrease error rates, to increase transparency, and to optimise the positive effects of EU budgetary funds for European citizens.
4. While recalling the importance of maintaining a stable regulatory framework, the Council encourages the Commission to thoroughly evaluate the functioning of existing regulations, to identify weaknesses and possibilities for improvement, and to propose the necessary modifications in the context of the ongoing revision of the Financial Regulation and the design of sectoral legislation relating to the next multiannual financial framework. However, the Council also calls on the Commission to systematically compare possible benefits resulting from such modifications with the additional administrative and control burden, in order to establish the right balance between added value and increased costs, before proposing any major modifications.
5. As in previous years, the Council reminds in this context of the importance to simplify policy objectives, enabling a subsequent simplification of programme structures and management systems at the level of beneficiaries. It also recalls the need for further guidance to Member States and beneficiaries, in order to further bring down the frequency of eligibility errors.

6. The Council notes that the Commission and the Court agree in their analysis on the causes of errors in the area of public procurement, which constitutes an important source of error, in particular under shared management. It considers that the modernisation of procurement is an important issue to be dealt with during the ongoing revision of the Financial Regulation. At the same time, the Council stresses the need to take into account the relevance, effectiveness and efficiency of existing rules, on the basis of the experience gained by all parties, in the context of the revision of EU legislation on public procurement. It invites the Court to undertake an audit on public procurement financed by the EU budget and to report on it in due time, if possible summarised in a special report, including an evaluation of the Commission's administration and organisation in this field.

7. Furthermore, the Council underlines the importance of the annual activity reports established by the Commission's Directors-General as part of the internal accountability within the Commission, and of the reservations issued based on their assessment of the use of resources and of the control procedures ensuring the legality and regularity of transactions. The Council calls on the Commission to remedy the weaknesses identified by the Court in the content and comparability of the annual activity reports. It emphasises the urgency of a coherent application across Directorates-General of the concept of estimating residual error rates, taking into account in particular the actual amounts at stake and the control mechanisms in place, but also all available audit results, including those of audits carried out outside the Commission at the level of beneficiaries. It also stresses the importance of enlarging the scope and scale of reservations issued, and calls on Member States to provide correct and complete data on recoveries and financial corrections.

8. The Council takes note of the considerable increase in the volume of outstanding budgetary commitments under multiannual programmes. It therefore calls on the Commission to carefully monitor the amounts of outstanding commitments, and to settle or decommit them as timely as possible.

9. The Council takes note of the Commission's analysis of errors identified by the Court's audit results in "Cohesion" for the period 2006-2009¹ and considers that it represents a starting point for reinforced efforts to reduce the errors in the budget for "Cohesion". It invites the Commission to pursue its efforts to identify, analyse and report on error rates, best practices and recurrent weaknesses in financial management on the basis - in the future - of all information available to it.

The Council notes the low level of suspected fraud reported by the Commission in its report on the "Protection of the European Union's financial interests - Fight against fraud - Annual Report 2010"².

¹ Doc. 15219/11 (SEC(2011) 1179 final).

² Doc. 14879/11 (COM(2011) 595 final).

CHAPTER 1

THE STATEMENT OF ASSURANCE AND SUPPORTING INFORMATION

1. Reliability of the accounts

The Council welcomes the favourable opinion given by the Court on the reliability of the accounts for the financial year 2010. It notes with satisfaction the Court's statement that the accounts present fairly, in all material respects, the financial position of the Union as at 31 December 2010, and the results of its operations and cash flows for the year then ended, in accordance with the provisions of the Financial Regulation of 25 June 2002 and the accounting rules adopted by the Commission's accounting officer.

The Council takes note of the change in the Commission's accounting policy concerning pre-financing payments establishing or contributing to financial engineering instruments, which required the Commission to review the accounts for the financial year 2009. It notes with satisfaction that the Court's unqualified opinion also covers the revised 2009 accounts.

The Council encourages the Commission to continue to assure that the high quality of the accounts is also maintained in the coming years.

2. Legality and regularity of the underlying transactions

The Council notes that the Court's audit findings, based on the audited sample of underlying transactions and of supervisory and control systems, is consistent with the positive evolution observed in recent years and expresses its wish to see year-on-year improvements in error rates and financial management systems.

However, it is concerned that an important share of spending continued to be affected by a material level of error. It regrets the higher frequency of errors and the increase in the most likely error rate for payments as a whole from 3.3 % in 2009 to 3.7 % in 2010.

The Council appreciates the Court's unqualified conclusion for "Revenue", commitments for all policy groups and payments for "External aid, Development and Enlargement", "Research and other Internal Policies" and "Administrative and other expenditure". The Council notes the Court's statement that supervisory and control systems for "Revenue" and "Administrative and other expenditure" functioned effectively, and that the most likely error estimated by the Court for "External aid, Development and Enlargement", "Research and other Internal Policies" and "Administrative and other expenditure" was below the 2 % materiality threshold. However, it is concerned that interim and final payments for "External aid, Development and Enlargement" and "Research and other Internal Policies" were affected by material error.

The Council regrets the Court's conclusion that overall the supervisory and control systems examined by the Court were only partially effective in ensuring the legality and regularity of payments underlying the accounts, and that payments relating to the policy groups "Agriculture and Natural Resources" and "Cohesion, Energy and Transport" remained affected by material error.

The Council encourages the Commission to further reinforce supervision and control structures, to further strengthen its cooperation with Member States and to continue to improve guidance to national managing authorities, in order to bring down the level of error in Union spending in the years to come.

3. The Court's audit approach

The Council welcomes the modified structure of policy groups reflected in the different chapters of the Court's annual report for the financial year 2010, which replies to its previous request for a more equal balance of the individual policy areas and expenditure volumes in the Court's presentation of audit results. However, it emphasises the importance of ensuring full transparency about the implementation of expenditure in all areas of the budget also under the revised structure of the report, and encourages the Court to continue to enhance the presentation of information in its annual report. It takes note of the Court's intention, in line with this aim, to present in future annual reports separate conclusions under "Agriculture and Natural Resources" on the implementation of the European Agricultural Guarantee Fund (EAGF), and of Rural Development and the other areas covered by this policy group, as well as specific conclusions on the European Regional Development Fund, the Cohesion Fund and Energy and Transport, on the one hand, and on Employment and Social Affairs, on the other hand.

The Council notes that interim and final payments in most policy groups were affected by a higher level of error than advance payments. It therefore considers that the Court's differing approaches as regards the inclusion of advance payments in the samples selected for the individual policy groups reduce the comparability of the Court's audit findings between chapters and between years. The Council recalls the importance of a comprehensive, consistent and uniform presentation of audit results and estimated error rates.

The Council invites the Court to apply in its future audits a harmonised method for the selection of transaction samples across policy groups and to present audit results in future annual reports in such a way that they facilitate comparison with previous years.

The Council considers that the Court's tripartite meetings with the Commission and national authorities proved to be important for the mutual understanding and judgement of problems in the "Cohesion" area.

CHAPTER 2

REVENUE

The Council notes with satisfaction the Court's conclusions that EU revenue was free from material error and that overall the related supervisory and control systems were assessed as effective in ensuring the regularity of transactions.

The Council encourages the Commission to continue to improve its management in order to reduce the risk of budget losses from waivers of amounts to be recovered.

1. Traditional own resources

The Council notes that certain problems relating to the management of B-accounts persisted. It calls on the Commission to continue its surveillance and guidance activities in order to ensure correct accounting of established customs duties.

The Council notes with satisfaction the achievements reached in particular for simplified customs procedures for imports, and takes note of the Commission's position on debts incurred on seized goods which does not correspond to the Court's view expressed in its annual reports for 2009 and 2010.

2. VAT-based own resources

The Council notes with satisfaction the good progress made in lifting long-outstanding reservations regarding VAT-based own resources. It encourages the Commission to further improve the management of reservations, in order to pursue lifting VAT reservations with the same diligence.

3. GNI-based own resources

The Council calls on the Commission to complete its verification of Member States' GNI inventories so that the existing general reservations can be lifted or replaced by specific reservations. It also encourages the Commission to continue to make progress to reduce the number of specific reservations related to GNP data.

CHAPTER 3

AGRICULTURE AND NATURAL RESOURCES

The Council regrets that the payments examined by the Court in this policy group were still affected by material error and that the most likely error rate amounted to 2.3 %. Nevertheless, it welcomes the fact that this rate remained close to the materiality threshold of 2 % and therefore confirms the improvements seen in recent years. The Council notes that this chapter covers not only the policy areas "Agriculture and Rural Development" (97 % of the payments made in 2010), but also "Environment", "Maritime Affairs and Fisheries" and "Health and Consumer Protection".

The Council is particularly satisfied that EAGF payments covered by the Integrated Administration and Control System (IACS) were free from material error.

1. Regularity of transactions

The Council regrets that still 37 % of the transactions audited by the Court in 2010 were affected by error and that the overall most likely error rate amounted to 2.3 %. Specifically, it is concerned that, despite some improvement, "Rural Development" expenditure still suffered from a higher incidence of error and that the frequency of error in the sample of audited transactions rose from 31 % to 50 %. It requests to focus efforts of remedial action on this area. At the same time, it acknowledges the multiannual nature of programmes, whereby some errors detected during the course of a project can be remedied in a year later than the one under examination.

However, the Council notes that the payments covered by IACS, which corresponded in 2010 to almost EUR 40 billion, i.e. more than 70 % of the total payments in "Agriculture and Rural Development", were free from material error.

The Council expects added value next year through the introduction by the Court of specific estimated error rates for EAGF and Rural Development, taking into account that Rural Development actions are more prone to error due to their inherent complexity.

The Council notes that a large part of quantifiable errors in 2010 were related to problems of eligibility and accuracy, the latter mainly due to over-declarations of eligible land. It encourages the Commission and Member States to continue their efforts to ensure the reliability and completeness of data. It awaits the results of the implementation by the Commission of the first exercise of quality assessment in 2010 of the Land Parcel Identification System (LPIS).

2. Supervisory and control systems

The Council notes that the Court has identified several areas in which the operation of IACS, the main control system to ensure the regularity of transactions in "Agriculture and Rural Development", was still considered as only partially effective in 2010 and could be improved. It notes that weaknesses in IACS were related to inaccurate data in the databases, notably in the LPIS, to incomplete cross checks, to weaknesses in on-the-spot inspections, and to incorrect or incomplete follow-up of anomalies in certain paying agencies. Moreover, it takes note of the lack of adequate documentation as regards internal control systems in the "Environment" policy area.

However, the Council notes that for direct payments covered by IACS the error rate was below the materiality threshold. It also welcomes the progress registered in the recovery rates in recent years and encourages the Commission to further reinforce the recovery systems.

Even if there is still room for improvement, the Council highlights the significant work already made by the Commission, in collaboration with Member States, to decrease the error rate through more effective supervisory and control systems. The Council welcomes the simplification measures already implemented in this area and encourages the Commission and Member States to continue their efforts in close cooperation. The Council insists on the need for additional measures of simplification which should notably reduce the complexity of eligibility criteria and agree on harmonised definitions.

Concerning the opinion to be given by the certification bodies on the quality of on-the-spot inspections carried out by the paying agencies, the Council asks the Commission, when opting for a method, to take into consideration the respective administrative burden of re-performed and accompanied inspections in relation to their added value.

Notably in the context of the reform of the Common Agricultural Policy after 2013, the Council asks the Commission, when proposing measures to improve the systems, to avoid unnecessary administrative burden and additional complexity, to maintain a flexibility level respecting regional specificities, and to give sufficient time to the stakeholders to adjust to the new procedures.

CHAPTER 4

COHESION, ENERGY AND TRANSPORT

The Council regrets that in 2010, in the "Cohesion, Energy and Transport" policy group, the audited interim and final payments were affected by material error and that the most likely error estimated by the Court increased compared to the previous year. In addition, it regrets that the work of some national Audit Authorities was estimated by the Court as only partially effective.

The Council recognises, however, that the functioning of supervisory and control systems improved in comparison with the 2000-2006 programming period. Furthermore, it welcomes the improvements seen in the last two years, compared to the previous situation, and acknowledges that the 2010 level of error remains well below the levels reported by the Court for the period 2006-2008. It calls on the Commission and Member States to pursue their efforts in close cooperation in order to respond to the shortcomings identified by the Court. At the same time, it acknowledges the multiannual nature of programmes, whereby some errors detected during the course of a project can be remedied in a year later than the one under examination.

1. Regularity of transactions

Despite the fact that the volume of declared expenditure in "Cohesion" doubled in 2010, the Council is concerned that the most likely error rate for this policy group increased to 7.7 % and that the lower error limit rose from 3 % to 4.7 %.

It also strongly regrets that for 58 % of the transactions affected by error, Member States should have been in a position to detect at least some of them prior to certification of expenditure to the Commission. It agrees with the Court that more effective management verifications must therefore be put in place by national managing authorities and that corrective mechanisms need to be applied rigorously when recommended by the Court.

It recalls the importance of applying a strict policy of interruption and suspension of payments whenever significant deficiencies in the functioning of management and control systems are identified and until corrective action is fully implemented.

The incorrect application of eligibility criteria and failures to comply with public procurement rules being the most common errors identified by the Court over the period 2006-2010, the Council invites the Commission and Member States to continue their efforts in monitoring compliance with EU and national eligibility requirements and public procurement rules. It also invites the Commission to ensure a better dissemination of information and best practices through trainings and guidance, and, in particular, to target its assistance on programmes where serious and recurrent risks have been identified. At the same time, the Council encourages Member States to simplify as much as possible the eligibility rules set out at national level and to actively promote the use of the existing simplified cost options.

The Council welcomes the Court's specific evaluation of contributions to Financial Engineering Instruments (FEI). While taking note of the increasing share of expenditure in this policy group allocated to FEI, the Council is concerned about the deficiencies identified by the Court in the setup and implementation of the FEI, notably the non-respect of key regulatory requirements by national authorities and the lack of sufficient monitoring of the information provided by Member States to the Commission.

Hence it invites the Commission to continue to ensure its cooperation with Member States regarding the implementation of FEI and to ensure that appropriate control and reporting requirements are put in place already for the rest of the current programming period.

2. Effectiveness of systems

The Council notes that the Court's examination of management and control systems focused on the work and performance of national Audit Authorities and their effectiveness in ensuring the regularity of expenditure. It regrets that these Authorities were considered by the Court as only partially effective, weaknesses being identified notably as regards the delays in the performance of audits and the use of inappropriate checklists for the audit of operations.

The Council invites the Commission to continue to take corrective action, whenever appropriate, in order to ensure that national Audit Authorities deliver high quality audit results in a timely manner. It encourages the Commission to continue to follow a more risk-based approach in its checks, to concentrate its efforts on particular problems in financial management and to make use of all available audits.

3. Reliability of Commission management representations

The Council is concerned about the Court's observation that some of the reservations issued in the Commission's 2010 annual activity reports examined by the Court may lead to an underestimation of the amounts at risk and stresses the importance of enlarging their scope and scale.

4. Follow-up of special report No 7/2009 on the management of the Galileo programme's development and validation phase

The Council notes that the Commission has only partially followed the Court's recommendations. It asks the Commission to finalise the implementation of the remaining recommendations without delay.

CHAPTER 5

EXTERNAL AID, DEVELOPMENT AND ENLARGEMENT

The Council notes with satisfaction that the Court's audit revealed that payments for "External aid, Development and Enlargement" as a whole were free from material error.

It recognises the fact that no quantifiable errors were found in advance payments, which constituted a large share of payments. However, it is concerned about the significant level of errors found in interim and final payments which had not been detected by the Commission's controls. In addition, it recalls that the inclusion of pre-financing/advance payments in the Court's audit sample also in this policy group affects the comparability between policy areas.

The Council is concerned that supervisory and control systems in this policy group were only partially effective in ensuring the legality and regularity of payments. At the same time, it acknowledges the multiannual nature of the programmes, whereby some errors detected during the course of a project can be remedied in a year later than the one under examination.

While welcoming the improvements made in this policy group and noting with satisfaction that the Court's recommendations have been taken into consideration by the Commission, the Council calls on the Commission to continue to react to the weaknesses identified by the Court.

1. *Ex-ante* controls

The Council, while welcoming the positive initiatives to improve the internal control procedures introduced in 2010, underlines the importance to remedy the remaining weaknesses identified by the Court.

Concerning DG ELARG, the Council asks the Commission to take the necessary measures to correct the shortcomings identified by the Court concerning tendering procedures and the definition of more detailed criteria for lifting *ex-ante* controls and suspending the "conferral of management" to third countries.

As regards DG ECHO, the Council takes note that the Court did not perform a specific assessment in 2010.

2. Monitoring and supervision

The Council, while acknowledging that the Court considered DG ELARG's monitoring and supervisory systems as effective, urges the Commission to ensure improvement in the quality of data entered in the management information systems.

3. External audits and clearing procedures

The Council notes with satisfaction that the external audits and clearing procedures of DG ELARG were assessed by the Court as effective. It invites the Commission to promptly address the recommendations made by the Court, namely to further improve guidance and follow-up in the preparation of Annual Audit Plans at delegation level, and to define a coherent methodology for the calculation of the residual error rate across Directorates-General.

4. Follow-up of special reports No 9/2008 on the effectiveness of EU support in the area of Freedom, Security and Justice for Belarus, Moldova and Ukraine and No 10/2008 on EC development assistance to health services in Sub-Saharan Africa

The Council notes with satisfaction that the Commission has followed the Court's recommendations presented in these two special reports. However, concerning the first one, it invites the Commission to pursue its work in order to take also into account the remaining remarks presented by the Court, notably concerning the integration of performance indicators and strategic objectives in the planning documents and the full evaluation of progress made by the three delegations.

CHAPTER 6

RESEARCH AND OTHER INTERNAL POLICIES

The Council welcomes the Court's conclusion that overall payments for the policy group "Research and other Internal Policies" were free from material error. However, it recalls that the inclusion of advance payments in the Court's audit sample also in this policy group affects the comparability between policy areas.

Nevertheless, the Council regrets that interim and final payments relating to the 6th and 7th Research Framework Programmes (RFP) were subject to material error. The Council notes that the Commission has adopted measures to simplify the implementation of the 7th RFP and encourages the Commission to continue towards further procedural simplification and increased awareness among beneficiaries.

As regards the supervisory and control systems for "Research and other Internal Policies", the Council regrets that they were only partially effective in ensuring the regularity of payments.

1. Regularity of transactions

The Council notes that the main source of error in interim and final payments was the reimbursement of ineligible or inaccurately declared costs to projects funded from the RFP. The Council regrets the recurrence of the principal source of error, the incorrect calculation of personnel and indirect costs, but also the other types of error which included ineligible indirect taxes, the incorrect application of the depreciation of non-current assets methodology, and underdeclared interest on bank accounts.

2. Effectiveness of systems

The Council regrets that the supervisory and control systems remained only partially effective in ensuring the regularity of payments, although it recognises the improvements achieved in comparison with previous years. It encourages the Commission to continue to reinforce its internal control systems.

2.1. Research Framework Programmes

The Council notes that the Court found minor weaknesses in the *ex-ante* desk checks and, compared to last year, welcomes the general improvement in payment periods.

The Council regrets that the audit certification of cost claims remained only partially effective. It points out that the right balance between the reduction of administrative burden and the risk of errors not being detected needs to be established. As in previous years, it is concerned about the errors in cost statements which had, however, received an unqualified opinion from the independent certifying auditor. The Council encourages the Commission to follow the Court's recommendations to increase the independent auditors' awareness notably of the rules on the eligibility of expenditure.

The Council also regrets that the Commission's efforts to simplify the audit certification under the 7th RFP by the *ex-ante* certification of beneficiaries' costing methodologies did not lead to the expected results because of the very low participation and the subsequent limited effectiveness of the system.

The Council welcomes the Court's overall positive assessment on the effectiveness of the *ex-post* audit strategy put in place by the Commission which should help to enhance the Commission's *ex-ante* controls with the aim to better identify payments with a relatively high risk profile. It also takes note of the higher share of expenditure covered by *ex-post* audits compared to 2009.

As regards the procedures which aim to ensure that the results of external audits can be relied upon, the Council invites the Commission to systematically carry out periodic quality reviews, in line with the Court's recommendations.

Concerning the systems related to recoveries and financial corrections, the Council notes that the amounts to be recovered have significantly increased. It welcomes the Commission's more extensive use of corrective measures and the Court's positive assessment of the procedures ensuring that ineligible costs are recovered.

2.2. Other Internal Policies

As regards the supervisory and control systems for the Lifelong Learning Programme, the Council welcomes the Court's confirmation of the high level of compliance with the requirements set out by the Commission. However, as some weaknesses were identified, the Council invites the Commission to continue to strengthen the implementation of primary controls in close collaboration with national agencies.

Furthermore, the Council encourages the Commission to continue its activities of support in order to help national authorities to correctly implement secondary controls. It notes that most of these secondary controls were performed satisfactorily.

As regards the procedures for checks implemented by the Commission, the Council welcomes the improvements reported by the Court. It values the progressive reduction in the number and gravity of qualifications to be remedied by national authorities and national agencies.

CHAPTER 7

ADMINISTRATIVE AND OTHER EXPENDITURE

1. Regularity of transactions and effectiveness of systems

The Council notes with satisfaction that, again in 2010, the administrative expenditure of EU institutions and bodies continued to remain free from material error and that their supervisory and control systems continued to be effective in ensuring compliance with the requirements of the Financial Regulation.

2. Issues regarding individual institutions

Even if specific observations made by the Court do not call into question the assessments set out under point 1, the Council takes note of them, welcomes the remedial action already taken by the institutions concerned and encourages them to address the remaining weaknesses pointed out by the Court.

The Council takes due note of the Court's observations concerning the under-utilisation of a number of budget lines in the European Council and Council's section of the budget enabling transfers of unused amounts as advance payments for the "Résidence Palace" building project. The Council acknowledges that steps have been taken to address this issue in the 2012 budgetary procedure.

As regards weaknesses identified by the Court in the recruitment procedures of the European Parliament and the Committee of the Regions, the Council supports the Court's recommendation to establish appropriate documentation and to respect eligibility criteria as strictly as possible.

Concerning the problems in procurement procedures noted in the European Parliament, the previous DG RELEX of the Commission, the European Economic and Social Committee and the Committee of the Regions, the Council supports the Court's recommendation that authorising officers should have appropriate checks at their disposal and receive better guidance, to diminish the risk of error when applying the rules, even when these rules are considered to be complex.

3. Issues regarding European Union agencies¹

The Council welcomes the Court's unqualified opinion on the legality and regularity of the underlying transactions of all agencies and joint undertakings audited, as well as the unqualified opinion on the reliability of their accounts, with the exception of the European GNSS Agency and the ENIAC Joint Undertaking. Moreover, the Council welcomes the solid progress made by several agencies, as reflected in the reports on their annual accounts for the financial year 2010. It notes that a number of agencies did not receive any comments from the Court.

However, the Council considers that the remaining weaknesses identified by the Court for a number of agencies and joint undertakings are a reason for concern and should be progressively remedied. It encourages agencies and joint undertakings to improve their financial management, in particular the compliance with the budgetary principles of annuality and budget accuracy, to rigorously respect the rules for procurement of goods and services, and to tackle the deficiencies identified by the Court in staff recruitment procedures. It invites the Commission to scrutinise the level of carry-overs of agencies and joint undertakings at year end.

¹ Decentralised agencies, executive agencies and joint undertakings are subject of specific recommendations recorded in separate documents (Docs. 6083/12 ADD 1, 6084/12 ADD 1 and 6086/12 ADD 1).

The Council takes note of the non-activation of purchased tangible fixed assets (namely satellite components) by the European GNSS Agency which gave rise to the Court's qualified opinion on the reliability of the accounts of that Agency, as set out in the specific recommendation for discharge. It also takes note of the Court's qualified opinion on the reliability of the accounts of the ENIAC Joint Undertaking and recommends this Joint Undertaking to comply with the Commission's accounting rules.

The Council welcomes the actions taken, following past recommendations, by the European Police College and the European Medicines Agency, which received an unqualified opinion from the Court for the year 2010. It encourages the College and the Agency to continue towards a continuous improvement of their financial programming, monitoring and implementation.

4. Follow-up to observations from past annual reports

The Council welcomes the actions taken, following its past recommendations, by the European Parliament, the Commission and the European Data Protection Supervisor to improve the administrative systems for the timely monitoring and control of documents related to the payment of social allowances to staff members.

CHAPTER 8

GETTING RESULTS FROM THE EU BUDGET

The Council welcomes the Court's presentation of this new chapter in its annual report. It regards it as a useful element for the evaluation of the Commission's self-assessment of performance and sound financial management carried out in the annual activity reports of its Directors-General. It points out that this assessment constitutes an important source of information on the progress made towards the intended results, which so far had not been considered in such detail in the Court's traditional audit of the legality and regularity of transactions. The Council expects added value from taking it into account in the context of the annual discharge procedure.

Moreover, the Council appreciates the summary provided by the Court in this section on the results of its performance audits carried out in the course of the year.

The Council notes the Court's observations about certain lacks in the Commission's analysis of its achievements. It stresses the importance of systematically comparing planned targets and results achieved, especially for multiannual programmes, and of explaining any possible departure of actual achievements from the planned targets. The Council emphasises the need, under shared management, to also collect and examine comprehensive and reliable planning and reporting information from Member States. It invites the Commission and Member States to generally include information on results and impacts in their monitoring and control systems, whenever possible and appropriate.

Moreover, the Council recalls the need to thoroughly analyse the effectiveness and efficiency of EU spending through the setting of coherent SMART¹ annual and multiannual objectives, interim milestones and performance indicators. It urges the Commission to take up the issues identified by the Court without delay and in full transparency, in order to further improve its performance in the targeted and most economic use of the limited resources available.

¹ Specific, measurable, achievable, relevant and timed.