

Procedure file

Basic information		
DEC - Discharge procedure	2006/2070(DEC)	Procedure completed
2005 discharge: EC general budget, section III, Commission		
Subject 8.70.03.07 Previous discharges		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	CONT Budgetary Control		20/04/2006
		PPE-DE GARRIGA POLLEDO Salvador	
	Committee for opinion	Rapporteur for opinion	Appointed
	AFET Foreign Affairs		13/09/2006
		PPE-DE SALAFRANCA SÁNCHEZ-NEYRA José Ignacio	
	DEVE Development		06/11/2006
		PSE WALTER Ralf	
	INTA International Trade	The committee decided not to give an opinion.	
	BUDG Budgets	The committee decided not to give an opinion.	
	ECON Economic and Monetary Affairs	The committee decided not to give an opinion.	
	EMPL Employment and Social Affairs		22/11/2006
		PPE-DE OOMEN-RUIJTEN Ria	
	ENVI Environment, Public Health and Food Safety		14/09/2006
		PSE HAUG Jutta	
	ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO Internal Market and Consumer Protection	The committee decided not to give an opinion.		
TRAN Transport and Tourism		27/09/2006	
	Verts/ALE CRAMER Michael		
REGI Regional Development	The committee decided not to give an opinion.		
AGRI Agriculture and Rural Development	The committee decided not to give an opinion.		
PECH Fisheries	The committee decided not to give an opinion.		
CULT Culture and Education		12/09/2006	

Verts/ALE [TRÜPEL Helga](#)

JURI Legal Affairs

The committee decided not to give an opinion.

LIBE Civil Liberties, Justice and Home Affairs

19/12/2006

PSE [DÜHRKOP DÜHRKOP Bárbara](#)

AFCO Constitutional Affairs

The committee decided not to give an opinion.

FEMM Women's Rights and Gender Equality

11/12/2006

PSE [GRÖNER Lissy](#)

PETI Petitions

The committee decided not to give an opinion.

Council of the European Union

Council configuration

Meeting

Date

[Economic and Financial Affairs ECOFIN](#)

[2787](#)

27/02/2007

European Commission


Commission DG

Commissioner

[Budget](#)

KALLAS Siim

Key events

26/07/2006	Non-legislative basic document published	SEC(2006)0915	Summary
26/09/2006	Committee referral announced in Parliament		
26/03/2007	Vote in committee		Summary
11/04/2007	Committee report tabled for plenary	A6-0095/2007	
24/04/2007	Results of vote in Parliament		
24/04/2007	Debate in Parliament		
24/04/2007	Decision by Parliament	T6-0132/2007	Summary
24/04/2007	End of procedure in Parliament		
15/07/2008	Final act published in Official Journal		

Technical information

Procedure reference	2006/2070(DEC)
Procedure type	DEC - Discharge procedure
Legal basis	Rules of Procedure EP 100
Stage reached in procedure	Procedure completed
Committee dossier	CONT/6/39679

Documentation gateway

Non-legislative basic document		SEC(2006)0915 OJ C 263 31.10.2006, p. 0001	26/07/2006	EC	Summary
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Supplementary non-legislative basic document		SEC(2006)0916	26/07/2006	EC	Summary
Document attached to the procedure		COM(2006)0641	24/10/2006	EC	Summary
Document attached to the procedure		SEC(2006)1376	24/10/2006	EC	Summary
Document attached to the procedure		COM(2006)0642	26/10/2006	EC	Summary
Document attached to the procedure		SEC(2006)1377	26/10/2006	EC	Summary
Court of Auditors: opinion, report		N6-0039/2006 OJ C 263 31.10.2006, p. 0001	31/10/2006	CofA	Summary
Supplementary non-legislative basic document		05710/2007	07/02/2007	CSL	Summary
Document attached to the procedure		06162/2007	08/02/2007	CSL	Summary
Committee draft report		PE382.516	08/02/2007	EP	
Committee opinion	CULT	PE382.579	27/02/2007	EP	
Committee opinion	ENVI	PE382.436	28/02/2007	EP	
Committee opinion	FEMM	PE382.535	28/02/2007	EP	
Committee opinion	TRAN	PE382.457	01/03/2007	EP	
Committee opinion	EMPL	PE382.551	01/03/2007	EP	
Committee opinion	DEVE	PE382.632	01/03/2007	EP	
Amendments tabled in committee		PE386.378	08/03/2007	EP	
Committee opinion	AFET	PE384.427	14/03/2007	EP	
Committee opinion	LIBE	PE384.337	20/03/2007	EP	
Committee report tabled for plenary, single reading		A6-0095/2007	11/04/2007	EP	
Text adopted by Parliament, single reading		T6-0132/2007	24/04/2007	EP	Summary
Commission response to text adopted in plenary		SP(2007)2625/2	31/05/2007	EC	

Final act

[Budget 2008/499](#)
[OJ L 187 15.07.2008, p. 0023](#) Summary

2005 discharge: EC general budget, section III, Commission

PURPOSE : to present the revenue and expenditure accounts and the financial statement concerning the 2005 budget - Section III - Commission : detailed synthesis of 2005 expenditure.

CONTENT : this document presents a detailed breakdown of Commission expenditure in 2005. A more succinct political analysis can be found in summary (SEC(2006)0915) which should be read in parallel to this document.

Preliminary remark: this detailed synthesis analyses EU expenditure by heading and sub-category of expenditure. It highlights the main issues contributing to the underutilisation of budget appropriations (including, for EU-25, the initial budget appropriations, the initial reserve, amending budgets, transfers and carry-overs). Moreover, the figures mentioned are also presented in the Commission Financial Report 2004.

Analysis of expenditure in 2005, heading by heading:

1) Agriculture: total agricultural expenditure (heading 1) for 2005 based on commitments made was EUR 48.5 billion (100 %), leaving only some EUR 157 million unused. This compares favourably with the 96 % outcome for the same period last year.

For CAP (common agriculture policy) ? related expenditure (heading 1a), an underutilisation of EUR 1 048 million compared with the initial budget was recorded, of which EUR 650 million had already been included in AB 8/2005.

The under-implementation compared with the initial budget is a net result of:

- milk and milk products: ? EUR 769 million, due to a more favourable internal and external market situation than expected;
- additional revenues: + EUR 458 million revenues, of which EUR 280 million extra super levy and EUR 178 million additional financial corrections as compared with the forecasts;
- euro/dollar exchange rate: some ? EUR 100 million, due to an appreciation of the dollar compared with the estimates from October 2004;
- additional expenditure, mostly for plant products, due to extra storage and as a result of cuts in direct payments by the budget authority.

For rural development, subheading 1b, underspending amounted to EUR 44 million, which relates entirely to the new early retirement scheme. This compares with EUR 95 million last year. Of the unused appropriations for the heading, the full amount of EUR 44 million for rural development programmes was carried forward to 2006.

2) Structural operations: practically full implementation for commitment appropriations was reached, with EUR 46 million unutilised that relate to Structural Fund programmes under Objective 1 (EUR 20 million), innovative measures and technical assistance (EUR 12 million), and to Community initiatives (EUR 11 million). Of the unused appropriations in 2005, EUR 20 million (concerning the Objective 1 programmes, due to a programme modification in eastern Germany under EAGGF Guidance) was carried forward to 2006.

Overall, payments for the heading were increased by EUR 390 million as part of the global transfer procedure. Total payments for the heading amounted to EUR 32.8 billion, or 100 % of available appropriations, an underutilisation of around EUR 75 million. This mainly relates to: fisheries outside Objective 1 regions (EUR 30 million), innovative measures and technical assistance (EUR 25 million), and to Community initiatives (EUR 12 million). Given the practically full execution, no amounts for this heading are carried over to 2006. The trends underlying the high level of implementation are clear: the EU-15 2000?06 programmes in their sixth year had finally reached cruising speed, whereas the interim payments for the 2004?06 programmes for the new Member States started slowly, as the EU-10 programmes have been affected by start-up problems.

3) Internal policies: commitments amounted to EUR 9.5 billion, or 91 % of the total available appropriations, an underutilisation of around EUR 900 million. This compares with 92 % for the same period last year. Of the unused appropriations, EUR 564 million relates to earmarked revenue, and mostly concerns the completion of previous framework programmes under research and technological

development. The remaining EUR 344 million unused commitment appropriations are spread across the heading, but mainly concern AB 6/2005, under which EUR 93 million was transferred from the EU Solidarity Fund to cover emergency aid following the major storm in Estonia, Latvia, Lithuania and Sweden. Due to the late adoption of AB 6, the grant decisions and bilateral implementation agreements could not be completed before year-end. Therefore, the full amount of EUR 93 million had to be carried over to 2006. Apart from the commitments for the Solidarity Fund, another EUR 27 million of the appropriations that could not be used before end-year 2005 was carried forward to 2006.

Payments made amounted to EUR 8.0 billion from available appropriations of EUR 9.7 billion, an implementation rate of 82 %. This compares with EUR 7.3 billion in 2004, an implementation rate of 80 %. The underimplementation is mainly accounted for by earmarked revenues (over EUR 1 billion), mostly related to payments for the completion of earlier programmes under research and technological development (carried over completely). The remaining unused appropriations of EUR 725 million are budget appropriations spread across the heading, mostly for administrative expenditure related to specific operations. Of the total unused budget payment appropriations for the heading in 2005, an amount of EUR 273 million was carried forward to 2006.

4) External actions: out of total available appropriations of EUR 5.7 billion for the heading as a whole, commitments of EUR 5.5 billion were made. This compares with EUR 5.2 billion in 2004, with a similar implementation rate (97 %). The underutilisation mainly concerns earmarked revenues (of around EUR 100 million, spread across the heading and carried over completely). The unused budget commitments (EUR 41 million) partly relate to the cancelled macro-financial assistance to Georgia, and partly to the former BA lines. Of the budget appropriations that could not be used before end-year 2005, EUR 4 million was carried forward to 2006.

EUR 5 billion payments were made in 2005 from total available payment appropriations for this heading of EUR 5.4 billion, an implementation rate of 92 %, which reflects a continuing improvement on the previous levels of EUR 4.6 billion (90 %) in 2004, EUR 4.2 billion (88 %) in 2003 and 89 % in 2002. This continuous improvement shows the success of the deconcentration exercise and the reform of external aid.

Of the unused appropriations (EUR 282 million), EUR 80 million concerned earmarked revenues that are spread across the heading and were carried over completely. The remaining unused budget appropriations partly relate to administrative expenditure for the heading (former BA lines), and on the other hand to cooperation with the western Balkans (EUR 140 million), partly due to lower than expected payments for the Reconstruction Agency.

5) Administration: shows an 85% rate of implementation.

6) Pre-accession aid: implementation of commitment appropriations for this heading amounted to EUR 2 billion, from total available appropriations of EUR 2.2 billion, i.e. 89 %, compared with 94% for 2004. Part of the unused appropriations of EUR 237 million concern earmarked revenues (EUR 110 million, as last year essentially from programme closure). The remaining EUR 120 million relate to the cancelled financial assistance to the Turkish Cypriot community, as the legal basis could not be adopted.

Based on initial forecasts of the implementing authorities of the beneficiary countries, a net amount of EUR 41 million was transferred to this heading during the global transfer procedure. Payments amounting to EUR 3 billion were made, i.e. an implementation rate of 84 %, compared with EUR 3.1 billion or 95 % last year. Of the EUR 526 million remaining payment appropriations, EUR 18 million concern earmarked revenues (carried over completely to 2006). The under-implementation of budget appropriations is spread across the heading (Sapard EUR 73 million, ISPA EUR 43 million, Phare EUR 312 million, Turkey EUR 75 million and the Turkish Cypriot community EUR 27 million).

For details on the implementation rates heading by heading for 2005, please refer to the detailed synthesis report.

PURPOSE: to present the revenue and expenditure account and the balance sheet relating to the 2005 budget (Section III ? Commission: political presentation).

CONTENT: this document, presented in parallel with the implementation of the 2005 budget expenditure (refer to SEC(2006)0916 for details), presents a political and detailed analysis of the use of payment appropriations by the Commission in 2005.

1. Changes made to the accounting system:

- New accounting system: the European Communities undertook to fall into line with the approach adopted by many States. This entailed a change from a system of accounts focusing on a cash-based description of budget expenditure and revenue operations to an accrual accounting system. The objective was to provide better information to management for their decision making and to improve the transparency and quality of the accounting information presented annually. The new system should ensure that both the internal users of the system and the external readers of the accounts have more reliable and relevant information;
- The work done: in January 2005 the new accounting system came into use. These are the first set of financial statements prepared under the new accrual accounting rules (the budget accounts are still based on movements of cash.) These new rules and methods are inspired by internationally accepted standards for the public sector ? the IPSAS ? and, for accounting transactions that are not yet covered by IPSAS, on the relevant International Accounting Standards (?IAS?)/International Financial Reporting Standards (?IFRS?.) The IT architecture was updated to ensure that each accounting event, and not just cash movement, would be fully registered when it occurs;
- The main impact of the changes: the first impact to be noted is that the balance sheet and off-balance sheet presented here in relation to the prior year (2004) will differ from those published in the 2004 annual accounts, since they are prepared under different rules. The Communities have thus taken the original 2004 figures, as prepared under the old rules and made adjustments to bring them into line with the new rules. The application of accrual accounting principles essentially means that income and expenditure is recorded in the accounts when it is earned/incurred and not just if cash is received/paid;
- Amounts to be called up from Member States: many expenses are recognised under accrual accounting rules in the year N although they may be actually paid in year N+1 using the budget of year N+1. Nevertheless, the Communities only call up resources from the Member States when they need money to pay an amount due, so as to give Member States maximum flexibility in managing their public finances. This inclusion in the accounts of the Communities' liabilities, coupled with the fact that the corresponding amounts needed to fund these are only recognised in future years, results in liabilities greatly exceeding assets at the year-end;
- A new structure: while the budgetary reporting was unaffected by the move to accrual accounting, the new financial statements include much more information than before. Most significantly there are now an economic outturn account, a cashflow table and a statement of changes in net assets to add to the restructured balance sheet and off-balance sheet.

2. Main points of the 2005 annual accounts:

- The budget surplus has continued to decrease from EUR 2,7 billion to EUR 2,4 billion;
- The economic outturn (loss) for the year was EUR 7,8 billion;
- Total assets increased from EUR 53,6 billion in 2004 to EUR 58,7 billion, with total liabilities increasing from EUR 105,2 billion to EUR 120,9 billion.

3. Main axes of the 2005 budget implementation: this analysis is inspired by the European Union?s 2005 financial report. It concerns the main policy areas of the Commission?s budget implementation throughout 2005 (for information concerning the amount of expenditure, see the detailed analysis adopted in parallel):

- The 2005 budget (25 Member States): the budget is geared towards the achievement of the EU?s political priorities, the most important of which is to foster jobs and growth. The first full EU budget for 25 Member States amounted to EUR 116 193 million in commitment appropriations, a rise of 6.2 % over the previous year, and EUR 106 300 million in payment appropriations, a rise of 4.4 %. In payments, the budget therefore represented 1.004 % of the gross national income (GNI) of the enlarged European Union, leaving a margin of EUR 3.04 billion in commitments and EUR 7.9 billion in payments below the ceilings of the financial perspective, which fixes the spending limits for any given year (agreed with the Member States and the Parliament);
- Revenue: the revenue required from Member States to finance the payments represented only 0.93 % of EU GNI, as a small surplus of EUR 2.7 billion was deducted from the own resource payments to be made by Member States to the EU;
- Surplus: 2005 was a benchmark year, with a reduction in the level of unspent credits to less than EUR 1.1 billion compared with EUR 1.2 billion in 2004, and an overall surplus (including revenue) of EUR 2.4 billion, EUR 0.3 billion less than the previous year;
- Active management: this also means being able to respond quickly to disasters. This was particularly true in the case of the Commission?s reaction to the tsunami in Asia on 26 December 2004. Within days, the first payment had been made and more followed in the course of 2005. All told, for the year 2005, the Commission pledged a total of EUR 281 million comprising EUR 123 million in emergency aid, and EUR 158 million in reconstruction aid;
- Towards the world: although working hard to remain a top-of-the-league economic power, the EU certainly does not forget its responsibility to the rest of the world and in particular to the developing countries. In 2005, the Commission was one of the world?s top five providers of official development assistance (ODA). The Commission speeded up its disbursement of support which totalled EUR 6.2 billion during the year (an increase of 10 % compared with the previous year). A new development policy statement ? the European consensus on development ? was adopted by the Council and the European Parliament on the basis of a proposal from the Commission. For the first time in 50 years, the Declaration defines at EU level the common values, principles, objectives and means of eradicating poverty and achieving the millennium development goals (MDGs);
- Towards the future: the year 2005 saw significant movement towards a modernisation of the structure of future EU budgets. Intense negotiations took place on the next multiannual financial framework which will cover the years 2007?13. After heated discussions under both the Luxembourg and UK Presidencies, the December European Council reached an important compromise on the issue, opening the door to final negotiations with the European Parliament and the Commission in 2006.

2005 discharge: EC general budget, section III, Commission

This Working Document completes the Report from the Commission to the Parliament on the Follow-up to 2004 Discharge Decisions. It presents the answers to the 150 specific recommendations made by the European Parliament in the comments accompanying its Resolutions on the 2004 Discharges (see summary dated 27 April 2006). An overview of these answers can be found in COM(2006)0641.

2005 discharge: EC general budget, section III, Commission

FOLLOW-UP TO THE COMMISSION'S 2004 DISCHARGE : FOLLOWING THE EP'S RESOLUTION

Preliminary remark: this Working Document completes the Report from the Commission to the Parliament on the Follow-up to 2004 Discharge Decisions. It presents in detail the answers to the 150 specific recommendations made by the European Parliament in the Commission's working document (SEC(2006)1376) published in parallel.

CONTENT: this report intends to give detailed answers to each specific recommendation by the Parliament as regards the Commission's 2004 discharge (including expenditure by the decentralised agencies and the EDF). This summary concentrates on the recommendation made by the Parliament to the Commission on the implementation of its budget.

The Commission has identified a total of 150 recommendations made by the European Parliament to the Commission. It considers that for 51 recommendations the required action has already been taken, though in some cases results of the actions will need to be examined. For another 85 recommendations the Commission agrees to take the action recommended by Parliament. Finally, it cannot accept 14 recommendations and will therefore not be taking the requested action.

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

Horizontal issues:

- **Reliability of the accounts:** the authorising officers validated their opening balance sheet figures and the Commission established its opening balance sheet, which was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation.
- **Integrated internal control framework:** the Commission Action Plan towards an Integrated Internal Control Framework foresees 16 actions under four broad themes aimed at simplifying and harmonising control practices, via information sharing and the use of a 'single-audit' approach to better target the limited control resources available. At this stage, priority actions have been launched, while others which depend on the results of prior actions will be developed during 2007. Sufficient progress is expected to be made by the beginning of 2009.
- **Declarations:** as part of the Action Plan, the Commission has promoted operational level management declarations and synthesis reports at national level. For agriculture, the envisaged management declarations and national synthesis reports are already foreseen in the new rules. With the adoption of the Inter-institutional Agreement, an important step forward was achieved. Member States shall undertake to produce an annual summary at the national level of the available audits and declarations. The Commission has proposed further provisions to this extent in the revised Financial Regulation and Implementing Rules.
- **Transparency:** with the European Transparency Initiative, the Commission also expects that the results of the open debate covering a broad spectrum of issues will gain support for the Commission's commitment to better account for the use of public money. In its revised proposal to modify the Financial Regulation, the Commission puts forward a new overall obligation on Member States to disclose information on beneficiaries of Community Funds spent under shared management.
- **Annual activity reports:** under the existing accountability architecture established by the reform, the implementation of Parliament's proposed measures regarding assurances at Commissioner, Secretary-General, Internal Auditor and Director General for Budget levels would call into question Directors-General individual responsibility and blur the distinction between political (College) and management responsibilities/accountabilities (Director General). The adoption of the synthesis report is the major act whereby the Commission fully assumes its political responsibility for the implementation of the budget under the Treaty and through which the Commission's political accountability to the discharge authority is expressed.
- **Further horizontal recommendations:** the Commission's proposal for amending the Financial Regulation provides that the responsibilities of the accounting officer will be adapted. It will require that, before the adoption of the accounts by the institution, the accounting officer shall sign them off, certifying that they present a reasonable true and fair view of the financial situation of the institution.

Sectoral issues

- **Revenue:** the Commission has been working in close co-operation with Member States to improve the reliability, comparability and exhaustiveness of national accounts. The Commission is willing to inform directly the competent European Parliament committee about these measures.
- **Common Agricultural Policy:** the Commission is prepared to implement the Court's recommendation that the certifying bodies should do more work to verify and validate inspections statistics and post-payment checks. To this end, the certifying bodies will be required in the new guideline on reporting to review more in detail the administrative capacity of the paying agency as regards on-the-spot checks. The Commission has responded to the recommendation of tabling proposals to avoid that the premiums of the major instrument for afforestation largely exceed the funds allocated by proposing a reduction of the aid ceilings and a shortening of the maximum period to compensate income foregone resulting from the afforestation of agricultural land from 20 to 10 years.
- **Structural measures:** the Commission recently issued notes of good practice for day-to-day checks by the management in the Member States and for performance of the certification function by paying authorities. It has also published detailed audit manuals, and it discusses control and audit issues with Member States at regular bilateral and multilateral coordination meetings. The regulations for the 2007-2013 period require the Member States to submit to the Commission, a description of the management and control system and an assessment of its compliance with requirements before lodging the first interim payment claim and at the latest within 12 months of the approval of programmes. The Commission has already issued a detailed guidance document for the 2000-06 period closure. In the legislation for the 2007-13 programme period existing control requirements have been clarified and the framework has been strengthened with a number of new provisions, including, in the Structural Funds, an annual audit opinion and an ex ante compliance assessment. In agriculture, rural development expenditure will fall largely under Guarantee rules (for example accredited paying agencies, annual certification and clearance of accounts procedures). These elements, with the envisaged management declarations and national synthesis reports, are already foreseen in the new rules. This will ensure that the supervisory and control

systems can operate effectively from the beginning. The provisions on partial closure should also achieve an even more significant improvement in the closure arrangements.

- Internal policies, including research: in order to work towards a maximum number of standardised procedures in internal policies, the Commission has established an Action Plan for the Rationalisation and Acceleration of FP6. In the Commission's Staff Working Paper on FP7 adopted on April 2005, a first set of 10 measures is proposed. These include more extended use of flat-rate financing and lump sum financing; a single common electronic registration desk for participants to submit their basic legal, administrative and financial data; consistent application of ex-ante controls guaranteeing the protection of Community's financial interests; full operational autonomy entrusted to consortia avoiding micro-management by the Commission's services; simplification of eligible costs based on contractors' usual accounting and management practices and principles. In addition, the workshop of June 2005 on simplification, with participation of the Court of Auditors, representatives of Member States and stakeholders, helped to consolidate these proposals and to identify further actions. Simplification of the internal procedures with a growing use of IT tools has also been implemented. Simplification measures have also been foreseen in the Commission's proposals for the new generation of programmes in the framework of education, youth and culture.
- External actions: the Commission has continued its efforts to improve its supervisory and control systems and the management of risk in the field of external actions. It has further strengthened external audits and the already extensive control checks of implementing organisations as recommended by Parliament. Clear instructions to the external auditors are established in terms of reference and audit results are monitored and followed up. EuropeAid has introduced measures to improve the follow-up of audits and this year produced an analysis of audit reports finalised in 2005. As regards CRIS-Audit, a specific module of EuropeAid's Common Relex Information System (CRIS), aiming at providing a database on audit information, the Commission intends to further improve its operation with a view to allowing a better exploitation of the system at both Headquarters and Delegations. Furthermore, the European Parliament also recommends a simplification of contractual procedures and of procedures for grants, as regards in particular small-scale projects, so that flexibility may be achieved in the application of the rules, along with efficiency and sound financial management. This recommendation is fully in line with the Commission's legislative proposals in the context of the revision of the Financial Regulation and implementing rules. For low-value contracts and grants, the Commission proposes to let the authorising officer decide whether or not exclusion criteria need to be verified, depending on his/her risk assessment. The European Parliament's 2004 discharge resolution also contains a number of recommendations on development policy, relations with the United Nations, as well as on the Court of Auditors' special reports concerning the devolution of EC external aid management to the Commission Delegations, concerning EDF budget aid to ACP countries and concerning the Commission's management of economic cooperation in Asia.
- Pre-accession strategy: the Parliament invited the Commission to reduce the risk of errors in implementation of pre-accession instruments by rethinking the design of pre-accession projects. It also urged the Commission to improve its management and targeting of funds for Bulgaria and Romania. The Commission has already taken action to improve project design in the Phare guidelines. Improvements should also result from the replacement of the five current instruments by a single Instrument of Pre-Accession. In the specific cases of Bulgaria and Romania, the Commission has also taken action by issuing guidelines, reinforcing reporting, spreading best practices and providing information and training, and carrying out regular systems and project audits.
- Administrative expenditure and issues concerning the agencies: the European Parliament has made a number of recommendations to the Commission concerning the regulatory agencies in the discharge resolution for the general budget as well as in the discharge resolutions for the individual agencies. The Commission would like to highlight the following horizontal points:
 1. The Commission accepts Parliament's recommendation to ensure that the needs of the agencies are properly addressed in the current reform of the Financial Regulation (FR). The objective has been to assure, among the Institutions and the bodies, the homogeneity of budgetary and financial management rules. This aim for homogeneity has had as a consequence the consolidation of the accounts of the Institutions and bodies. The framework FR has been prepared by the Commission in close cooperation with the bodies concerned. Once adopted, the revised general FR will require a parallel adjustment of the agencies' framework FR. This will be the occasion to proceed to a more extended scrutiny of applicable provisions to take account of past experience and of these bodies' special characteristics, notably their size and the size of their budget. However, as agencies receiving grants charged to the general budget are already accountable to the European Parliament through the discharge procedure, the Commission does not agree that the agencies also have to be accountable to Parliament's respective committees. Any extension of Parliament's discharge authority to other Community bodies not currently subject to this would require legislative changes.
 2. The agencies are independent institutions and it is their responsibility to comply with the relevant rules and procedures for staff recruitment, public procurement and accounting. Nevertheless, the Commission gives guidance and support to the agencies, e.g. on accounting, procurement, staff policy and audit and, where the agencies request it, the Commission provides specific assistance, e.g. to help them to understand and interpret the rules. The agencies should also be encouraged to further develop their inter-agency cooperation whenever appropriate in order to share costs and knowledge.
 3. As requested by Parliament, the Commission will issue a report on internal audit in the agencies before the end of 2006, at the end of a cycle of agency audits undertaken by the IAS.

2005 discharge: EC general budget, section III, Commission

FOLLOW-UP TO THE 2004 DISCHARGE DECISIONS : COUNCIL RECOMMENDATIONS: DETAILED ANSWERS

This Working Document completes the Report from the Commission to the Council on the Follow-up to 2004 Discharge decisions (COM(2006) 642 final). It presents in detail the answers to the 79 specific recommendations made by the Council in the comments accompanying its Recommendations on the 2004 Discharges.

It should be noted that this Working Document makes reference to the Commission's proposal for a revised Financial Regulation and the Commission's draft Regulation on the 'linked' implementing rules which follow up the simplification measures suggested in the proposal for amending the Financial Regulation. The latest revision of the Implementing Rules of the current Financial Regulation entered into force on 22 August 2006. Further information can also be found in e.g. the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (OJ No C 139 of 14.6.2006), the 2005 Synthesis Report on the Annual Activity Reports 'Synthesis of the Commission's management achievements in 2005' (COM(2006) 277 final of 7.6.2006), the

2005 discharge: EC general budget, section III, Commission

FOLLOW-UP REPORT TO THE 2004 DISCHARGE DECISIONS : FOLLOWING THE COUNCIL RECOMMENDATIONS

Preliminary remark: this document is complemented by a Commission working document which entails the detailed answers to the Council's recommendations (SEC(2006)1377).

CONTENT: in the context of the 2004 discharge, the Commission has identified a total of 79 recommendations made by the Council to the Commission (refer to [DEC/2005/2090](#)). The Commission considers that for 38 recommendations the required action has already been taken. For another 39 recommendations the Commission agrees to take the action recommended by Council. Finally, the Commission cannot accept 2 recommendations and will therefore not be taking the requested action.

- **Introduction:** the Commission regrets that in 2004 the Court of Auditors was again unable to give a Statement of Assurance (DAS) in relation to most of the expenditure. For this reason, the Commission has launched its 'Action plan towards an Integrated Internal Control Framework' (see COM(2006)9) which aims to ensure that supervisory systems and controls are in place to keep the risk of illegality or irregularity in underlying transactions within reasonable limits and to provide the Court of Auditors with reasonable assurance to that effect. The Action Plan includes 16 actions under four broad themes aimed at simplifying and harmonising control practices, via information sharing and the use of a 'single-audit' approach to better target the limited control resources available. At this stage, priority actions have been launched, while others which depend on the results of prior actions will be developed during 2007. Sufficient progress is expected to be made by the beginning of 2009.
- **The statement of assurance (DAS):** the Commission's 'Action Plan towards an Integrated Internal Control Framework' sets simplification as a goal for the next programming period (2007-2013). The Commission's proposal for the Rules for Participation for the 7th Framework Programme foresees that greater recourse would be made to the use of flat rates (including scale of unit costs) and lump sums within the terms of the Financial Regulation. As regards low-value contracts and grants, the Commission proposes to let the authorising officer decide on the need to verify exclusion criteria depending on his/her risk assessment. The legislative authority should pay the necessary attention to the feasibility of expected controls and their cost/benefit, so that the correct application of controls is as straightforward as possible. As regards the Commission's new accounting system, which became operational in January 2005, the Commission established its opening balance sheet and it was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation.
- **Budgetary management:** the Commission always aims to provide accurate and realistic budget estimates, on the basis of the best available information. In 2005, more accurate budget estimates were reflected in a significant improvement in the implementation rate of payment appropriations, which rose to 98% (100% for structural operations). It regularly updates its analysis of outstanding budgetary commitments for Structural Funds and will continue to do so. In the present programme period the n+2 rule provides a powerful incentive to Member States to ensure that implementation proceeds at a sufficiently high rate.
- **Revenue:** the Commission is pleased that the Court again in 2004 considered the overall results satisfactory concerning the reliability of the accounts and the legality and regularity of underlying transactions for revenue. As regards the control mechanisms for sugar levies, audits have taken place in twelve Member States since 2004. No serious problems were found apart from in one Member State. Furthermore, the Commission is in constant contact with Member States with a view to lifting reservations on Member States' VAT statements as rapidly as possible. However, the pace of this work depends on the ability of national administrations to find and use better data, indeed any data at all in certain cases, or a suitable or more suitable methodology. The Commission provides regular advice to Member States on these matters. As regards the GNI resources, the Commission will discuss the issue of supervisory and control systems related to national accounts with the Member States in the GNI Committee in 2006. The Commission will then make suggestions for promoting best practices in 2007.
- **The Common Agricultural Policy:** the Commission is committed to addressing the remaining shortcomings in the control system in the different areas of the CAP that are not checked through IACS. As regards the Annual Activity Report of the Director-General the Commission does not intend to indicate separately in the Director-General's declaration verified expenditure and expenditure subject to further checks. Given the multi-annual nature of the conformity clearance process, such a distinction would be largely arbitrary; it would also prejudice the Member States' right of defence in the context of the clearance of accounts procedure. The weaknesses identified by the Court of Auditors in the area of spending on animal premiums do not concern the effectiveness of the IACS control system in itself. Indeed the direct testing performed by the Court did not reveal any significant errors. The problem identified consists mainly in high percentages of errors identified at farmers' level by the IACS inspections, particularly in certain Member States. The Commission will continue to identify more precisely the reasons why IACS statistics show high rates of mis-declaration or over-declaration of animals for certain Member States and will recommend appropriate actions. Although the use of the prefinancing system has become economically insignificant, with the exception of the beef sector, predominantly for its control function, the Commission is working on the necessary steps to abolish the system of prefinancing export refunds, while for the beef sector an alternative production and storage control system will be introduced. These measures should be in place by the end of 2006.
- **Structural measures:** a review of the control systems for the Structural Funds was carried out in 2005 in preparation for the Action Plan. In early 2006 the Commission issued notes on good practices in day-to-day checks by management and in paying authorities' work before certifying payment claims, which by setting benchmarks should help Member States to make the controls more effective and avoid overlap. Moreover, the Commission's audit work, monitoring of the audit results of national audit bodies, and dissemination of good practice are all designed to bring about the necessary improvements in systems so that the objective of financial control - that the expenditure reimbursed is as free of error and irregularity as reasonably possible - is achieved.
- **Internal Policies, including research:** the Commission is continuously working on the development and adaptation of its internal control system in order to manage the risks linked to its environment. Major steps were taken in 2005 to introduce a systematic approach for risk analysis, assessment and management. Simplification of the procedures with a growing use of IT tools has also been implemented. The main areas of work will be ex-post control strategy, the use of audit results to develop management and control systems, the financial circuits, the overall system of supervision put in place in the financial domain and the monitoring and reporting systems.
- **External actions:** the Commission has continued its efforts to improve its supervisory and control systems in the field of external actions and, in particular, it has further strengthened external audits as recommended by Council. EuropeAid has introduced measures to improve the follow-up of audits and this year produced an analysis of audit reports finalised in 2005. It intends to further improve its operation with a view to allowing a better exploitation of the system at both Headquarters and Delegations.
- **Pre-accession aid:** the Court invited the Commission to continue its efforts to ensure sound financial management of the pre-accession instruments. The Commission has already taken action on these recommendations, e.g. by drawing the attention of the national authorities to the

need to take urgent corrective measures in relation to the present Decentralised Implementation System (DIS) with ex ante control on procurement and award decisions.

- **Administrative expenditure:** according to self-assessments of the Commission's services, in 2005 95% of the baseline requirements were complied with compared to 93% in 2004, which ? in an ever changing environment ? could be considered as being practically fully implemented. Under this heading Council has also included two recommendations concerning the regulatory agencies. The agencies are independent institutions and it is their responsibility to comply with the relevant rules and procedures for staff recruitment, public procurement and accounting. Nevertheless, the Commission gives guidance and support to the agencies, e.g. on accounting, procurement, staff policy and audit, and where the agencies request it, the Commission provides specific assistance, e.g. to help them to understand and interpret the rules. The agencies should also be encouraged to further develop their inter-agency cooperation whenever appropriate in order to share costs and knowledge.

2005 discharge: EC general budget, section III, Commission

PURPOSE: to present the Council Recommendation on the discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2005 (Section III - Commission).

CONTENT: the Council approved the draft recommendation on the discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2005. The recommendation lays down the amounts of revenue and expenditure for 2005:

Detailed analysis of revenue and expenditure:

- revenue amounted to EUR 107 090 637 948;
- expenditure disbursed from appropriations amounted to EUR 103 548 235 840;
- cancelled payment appropriations (including earmarked revenue) carried over from 2004 amounted to EUR 1 518 600 450;
- appropriations for payments carried forward from 2005 to 2006 EUR 2 686 900 906;
- EFTA-payment appropriations carried over from 2004 EUR 91 242;
- the balance of exchange-rate differences amounted to EUR 40 924 144;
- the positive budget balance amounts to EUR 2 414 934 555.

Cancelled payment appropriations for the financial year amounted to EUR 1 911 869 884. EUR 1 286 993 986 (83%) of the EUR 1 559 765 026 in appropriations for payments carried forward from 2004 to 2005 have been used.

The observations in the report by the Court of Auditors for the financial year 2005 call for certain comments by the Council. It attaches importance to its comments being followed up and assumes that the Commission will implement all of the recommendations in full, without delay.

Statement of assurance (DAS): the Council regrets that the 12th Statement of Assurance (DAS) given by the Court remains qualified for the areas where the supervisory and control systems are not implemented in a manner which provides for adequate risk management. However, it notes with satisfaction the Court's statement that the transactions for revenue, commitments and payments for administrative expenditure and pre-accession strategy except Sapard are legal and regular, taken as a whole, and that, where properly applied, the Integrated Administration and Control System (IACS) is an effective system to limit the risk of irregular expenditure. The Council invites the Commission to present a general report on recoveries for the financial years 2000-2006, including amounts recovered by the Member States as well as the Commission and amounts of open entitlements by the end of each year. This report should be sent to the Council before the end of September 2007.

Improvement of financial management: the Council recalls the importance of continuing to improve financial management and of having controls working correctly and effectively so that for all transactions underlying the EU-accounts an unqualified DAS should be achieved as soon as possible. It emphasises the need to continue working towards the achievement of an effective integrated internal control. While respecting the different national control systems and specificities, the Council notes with interest the ongoing work under current regulations, arrangements and initiatives by Member States to improve financial management. The Council emphasises that the Commission is ultimately responsible for EU-expenditure according to the Treaty. It recalls the Council conclusions of November 2005, that the Commission implements the budget on its own responsibility, and that the Member States, in the framework of their co-operation with the Commission under Article 274 of the EC Treaty, should continue to undertake and improve controls over funds under shared management arrangements. As agreed in its discussions on the Financial Regulation, the Council will pursue its in-depth examination of all related items.

Reliability of the accounts: the Council notes with satisfaction the Court's positive opinion concerning the reliability of the final annual and that the Court's statement that except for some observations the accounts present fairly, in all material respects, the financial position of the Communities and the results of their operations and cash flows as of 31 December 2005. The Council takes note that the Court identified errors after corrections made to the provisional accounts consisting in an overstatement of net assets by some EUR 132 million in the opening balance as at 1 January 2005 and an overstatement of net assets by some EUR 314 million affecting the closing balance as at 31 December 2005.

Accounting system: the Council congratulates the Commission for the good results of the introduction of the new accruals-based accounting system within the relatively short timeframe of three years, a change particularly demanding and comprehensive. It underlines the need for further development by the Commission of reliable, cost-effective and easily understandable indicators to be audited on an annual comparable basis by the Court. Regarding controls, the Council underlines that it is important to continue with the identification of weaknesses in the design and the operation of schemes and to introduce appropriate remedial actions in the areas of centralised, shared and joint management.

2005 expenditure: the Council comments on the following issues :

- **CAP:** the Council regrets finding that, as in previous years, CAP expenditure, viewed as a whole, was still materially affected by errors. The Council welcomes the Court's statement that the IACS, which is the main control tool for area aid, animal premiums and the new single area payment scheme and covers around 62% of CAP expenditure, is an effective system to limit the risk of irregular expenditure, if properly applied. However, it regrets the fact that controls and checks implemented under IACS are still not effectively enforced or are not yet completely reliable in some Member States. Moreover the Council shares the Court's concern that statistics for animal premiums are still less reliable than the equivalent statistics for area aid applications. As a consequence, the Council urges the

Commission to ensure with the Member States that IACS is fully implemented in all EU-15 and that the weaknesses found in the EU-10 are remedied. In the area aid sector, where 40% of the applications checked by the Court contained errors, the Council urges the Commission to improve checks and to further strengthen work in the area of risk management and risk assessment.

- **Structural operations:** the Council shares the Court's observations about a number of factors that increase the inherent risks related to the legality and the regularity of expenditure for structural operations, such as the large number of programmes and projects which are implemented over several years, the large number of eligibility conditions which are sometimes open to divergent interpretations, and the variety of entities that intervene in the management process. Therefore, the Council underlines the paramount importance of the simplification of the procedures and rules, and exhorts both the Commission and the Member States to do their utmost to streamline the bureaucracy and the requirements at all level. It encourages the Commission and the Member States to pursue their efforts and take all the necessary steps to mitigate the risks through both strong and adequate controls and effective supervision. However, they both should constantly bear in mind that such controls have to be proportionate to the risks and costs involved. Moreover, the Council calls on the Commission to keep on providing updated, timely and comprehensive guidance and clarification on the rules and procedures applicable to the different programmes and projects, whether it be for the closure of the 2000-2006 programmes or for the launching of the 2007-2013 operations. It urges the Commission and the Member States to reinforce their co-operation to ensure the effective application of the control mechanisms, in particular for the 2007-2013 period, in compliance with the new legislative framework adopted.
- **Internal policies including research:** the Council regrets that once again, in an area of direct management by the Commission, the Court's audit revealed weaknesses in the supervisory and control system, which led to a material incidence of errors in three quarters of the transactions audited at final beneficiary level. The Council shares the Court's concern about the high material level of errors detected in the transactions audited. It urges the Commission to take appropriate measures to remedy the weaknesses identified by the Court, in particular those concerning the double charging of costs, the lack of supporting evidence for working time charged, the unjustified allocation of indirect costs to the action, the non-compliance with eligibility criteria. The Council stresses the need to develop a clear strategy on the coordination of key control procedures, as well as to enforce more reliable action plans designed to exclude over-declaration of costs. The Council, in particular, urges the Commission to increase the number of on-the-spot audits, to develop a harmonised methodology for reporting and selection of ex-post audits and to implement a common IT system for the Seventh and subsequent Framework Programmes.
- **External actions:** the Council welcomes the fact that the Court's audit revealed only a few errors in the transactions at the level of the Commission and its delegations, but regrets that at the level of the implementing organisations the Court detected a material incidence of errors. The Council notes that the Court again identified the highest risk areas to be the contracting procedures, the eligibility of expenditure at project level and an insufficient supporting documentation. It notes with satisfaction that the Court's audit of the supervisory and control systems of DG ECHO revealed that most elements function well although some of them still need to be improved. It also welcomes the fact that EuropeAid improved its supervisory and control systems. However, it encourages the Commission to continue to improve the functioning in practise, internal audits and management reporting of the supervisory and control systems of its delegations and EuropeAid. The Council regrets that the Court's assessment of external audits at the level of organisations implementing projects funded by EuropeAid remained. However, it notes with satisfaction that the Court gave a good assessment of the quality of these audits. The Council invites the Commission to further develop EuropeAid's risk assessment by making reference to the findings of auditors at project level, and by making a separation between the different types of implementing organisations and the funding method. It invites EuropeAid to improve the terms of reference of its external audits to cover all known risk areas including the verification of the compliance with the Commission's requirements regarding contracting procedures and the eligibility of expenditures. It agrees with the Court that the Commission should include information on all audits of projects in the Common Relex Information System (CRIS) and to better link this information to the project management information. The Council invites the Commission's EuropeAid headquarters to review the financial information provided by the delegations, supported through headquarters' audits, in order to ensure its completeness and consistency.
- **Pre-accession strategy:** the Council welcomes the fact that the Court's audit revealed that for the Phare and Turkey programmes the transactions tested were, like in the previous year, not affected by material errors. Nevertheless, in respect of the Phare programme, it notes the recurring problem of different interpretations regarding the eligibility of VAT expenditure under parallel cofinancing which is caused by the absence of a legal basis specifying this and invites the Commission to clarify this issue in the relevant implementing rules. At the same time, the Council regrets that the Sapard transactions audited were, unlike in the previous year, affected by significant errors in the Court's view, and invites both the Commission and the countries concerned to take due account of the errors identified. The Council notes with satisfaction that the Commission Delegations' ex-ante controls of the Phare and Turkey programmes and ISPA projects continue to be an effective key control to ensure the legality and regularity of the underlying transactions which compensates for existing important weaknesses in the supervisory and control systems at the national level. It notes the improvement of the control of national co-financing agreements under Phare but points out the recurring problem of insufficient action at the Commission level to remedy the issue of late submissions of final declarations by the national authorities. The Council acknowledges the Court's conclusion that the Sapard supervisory and control systems included the key concepts but their functioning showed some weaknesses. Therefore, it invites both the Commission and the national authorities to pursue efforts towards removing the remaining weaknesses.
- **Administrative expenditure:** the Council welcomes the fact the Court's audit did not reveal any material errors affecting the legality and regularity of the administrative expenditure as a whole. However, the Council notes that some Institutions had not fully implemented all their Internal Control Standards and encourages them to do so without delay (for more details on the Court's audit on the Community institutions, please refer to the corresponding discharge procedures).

2005 discharge: EC general budget, section III, Commission

The committee adopted the report by Salvador GARRIGA POLLEDO (EPP-ED, ES) recommending that Parliament should grant discharge to the Commission for its 2005 budget.

In its accompanying remarks, the committee relaunched the idea, first mooted in the 2003 discharge procedure, of "national declarations at an appropriate political level", which would provide an assurance from Member States that effective auditing systems for Community spending exist on their territory. These national declarations could be multiple, so as to reflect the realities of the Member States' differing political systems. They would also help to "improve the quality of the relevant national supervisory and control systems".

The Commission was therefore urged to submit to the Council a proposal for a national management declaration covering all Community funds under shared management, based on sub-declarations by the various national bodies responsible for the management of expenditure,

with, if possible, the participation of national audit bodies.

The report pointed out that national statements could make a very useful contribution to the Community's auditing arrangements, given that, in very large areas of Community budget management (CAP spending that is not subject to the IACS integrated administration and control system, structural funds, internal policies, external actions, SAPARD programme), the Court of Auditors had found that the effectiveness of supervisory and control systems should be improved. The committee noted that these deficiencies prevented a positive statement of assurance (DAS) being given in those areas.

The report also expressed "grave concern" at the large number of errors detected by the Court of Auditors in transactions at final beneficiary level. It urged the Commission to further improve its effective supervision of controls delegated to Member States. Should Member States' control systems still prove insufficient, the Commission should impose clear deadlines and apply sanctions where those deadlines are not met. The committee said that effective recovery rate could also be improved, but only via the Member States' enforcement agencies. An improvement could be achieved by revealing the identities of debtors who have been found guilty by the courts but are unwilling to make payment. Improved recovery would also boost the European institutions' credibility.

Amongst its other recommendations, the committee said that the Commission should simplify the rules and apply existing legislation on suspension of payments where necessary and act when Member States fail to comply with basic requirements.

With regard to transparency, the report welcomed the Commission's European Transparency Initiative but also called on the Commission to do everything in its power to persuade Member States to allow the public access to information - via a website - on projects and the beneficiaries of various Community shared-management funds.

Lastly, the Commission was asked to publish information on the expert groups upon which it calls in its work, including the names and fields of expertise of the groups' members.

2005 discharge: EC general budget, section III, Commission

The European Parliament adopted the resolution drafted by Salvador GARRIGA POLLEDO (EPP-ED, ES) by 605 votes for, 57 against and 26 abstentions, and generally agreed with the opinion of its Budgetary Control Committee. It expressed concern about errors in the management of the Union's accounts, and called for national management declarations to be given by the Member States.

Reliability of the accounts : whilst Parliament welcomed the efforts made by the Commission to adopt the accounts for the financial year within the Financial Regulation deadlines for the production of the financial statements, it expressed concern, nonetheless, at the Court's observations regarding errors in amounts registered in the accounting system (overstatement of the accounts payable and of the total amount of long-term and short-term pre-financings) and errors in the local accounting systems of some directorates-general, calling on the Commission to take urgent steps to remedy the shortcomings noted by the Court.

Budgetary management: the House was concerned at the renewed increase in outstanding commitments and called for a higher rate of utilisation over the next three years. The majority of the cancellations relate to the European Social Fund (ESF), and Member States must ensure that requests for payments were submitted to the Commission more rapidly since the measures funded by the ESF were crucial for the attainment of the Lisbon objectives. A slow rate of utilisation was extremely worrying particularly in the light of the objectives of the newly created European Globalisation Fund.

Legality of the underlying transactions: noting the Court's observations to the effect that in areas in which the Commission has applied appropriate supervisory and control systems, there were no significant findings as to the legality and regularity of the underlying transactions, Parliament deplored, nonetheless, that in extremely important Community spending areas (CAP spending that does not come under the Integrated Administration and Control System (IACS), Structural Funds, internal policies, external actions, Sapard), the supervisory and control systems needed to become more efficient, given that there remained shortcomings that prevent a positive DAS being given in those areas. Members expressed grave concern at the large number of errors in transactions at final beneficiary level. Where there is a shared management arrangement, responsibility for preventing, identifying and correcting errors at final beneficiary level lies with the Member States whilst at the same time the Commission is responsible for giving clear, efficient and effective guidelines to Member States on how to prevent and correct these errors. The Commission must further improve its effective supervision of controls delegated to the Member States. Where Member States' control systems were still insufficient, the Commission should impose clear deadlines and apply sanctions where those deadlines were not met. The central issue that needed to be addressed in connection with the DAS was whether supervisory and control systems were being properly applied at both Community and national levels and whether they ensured the legality and regularity of the underlying operations.

National management declarations: Parliament pointed out that, in accordance with Article 274 of the EC Treaty, each and every one of the Member States must fully shoulder its management responsibilities and take appropriate steps to minimise the risk of errors arising in the underlying transactions. Accordingly, it drew attention to the urgent need to introduce national declarations at an appropriate political level, covering all Community funds coming under the shared management arrangement, as proposed by Parliament in its 2003 and 2004 discharge resolutions. Such declarations could take the form of comprising 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. Whilst welcoming the initiatives of the Dutch, UK and Swedish governments, Members expressed concern at the fact that most Member States were resisting their introduction. They called nonetheless on the Commission to submit before the end of 2007 a proposal for a national (management) declaration covering all Community funds under shared management, based on sub-declarations by the various national bodies responsible for the management of expenditure. Parliament called on the Council to reopen the debate on the matter urgently, and also called on the national parliaments to discuss the introduction of national declarations and to inform the house of the outcome of this discussion.

Point 44 of the IIA: Parliament stressed that point 44 of the IIA required the relevant audit authorities in the Member States to produce an assessment concerning the compliance of management and control systems with the regulations of the Community. It called on the Commission to ask Member States for the information referred to in point 44 of the IIA and to draw up, on the basis of that information, a document analysing the strengths and weaknesses of each Member State's national system for the administration and control of Community funds and the results of the audits conducted. It would be extremely useful for the ECOFIN Council to use the final document drawn up by the Commission as the basis for a comparative analysis and a debate on the suitability of the systems used by Member States for control of the funds they receive from the Community budget.

Suspension of payments: Parliament assured the Commission of its full support in the rigorous application of the legislation on suspension of payments, and welcomes the measures already initiated in this context. It believed that, in the case of recurrent reserves for expenditure

programmes in a particular Member State, suspension of payments, as a means of pressure, would contribute to the greater involvement of the Member States in the correct use of Community funds received. The Commission was asked to simplify the rules and apply the existing legislation on suspension of payments in the cases where it is necessary, and to inform the Council, Parliament and the Court of Auditors in good time concerning the suspensions of payments and their results. In an amendment sponsored by the EPP-ED group, Parliament insisted that payments should be fully or partly suspended in the case where Member States were not complying with basic requirements, as in the case of the IACS system in Greece, and where the Greek authorities did not remedy the existing problems within the time limits set.

Financial corrections: Parliament noted with concern that the Court of Auditors was extremely critical of the financial corrections applied by the Commission, which did not ensure the prevention and timely identification and correction of errors, did not take sufficient account of the deficiencies identified in the underlying operations, that is, at the level of the final beneficiary, and did not encourage Member States to take action to prevent irregularities or to improve their management and control systems. It stressed the great importance of the Member States having appropriate systems for improving the prevention and identification of errors at the level of the final beneficiary, thus reducing the need for the Commission to apply final corrective measures. An improvement in the recovery rate could be achieved by revealing the identities of debtors who had been found liable by the courts and could no longer appeal, but were unwilling to make payment. The Commission was asked to supply an explicit definition of the different concepts grouped under the term 'financial correction mechanisms', as well as a detailed annual report including the amounts actually involved in the financial corrections.

The Commission's internal control system: Parliament discussed the analysis of the existing balance between operational expenditure and the cost of the control system. Whilst it welcomed the improvements made by the Commission in internal control, Parliament felt that the relationship between tolerable risk levels and the cost-benefit ratio of controls had yet to be established and that, even though it was a vital concept for the integrated control system, it had not yet been clarified how an 'acceptable risk level' was to be determined. The Commission should evaluate the relationship between, on the one hand, the resources available for each particular policy, and, on the other, the part of those resources dedicated to the control systems broken down by area of expenditure, and any resources lost thanks to errors thus detected. With regard to the administrative responsibility of the Commission, Parliament asked the Commission to ensure that its annual activity reports and statements go into much greater detail - where possible on the level of the individual Member States - in the evaluation of the existing systems, the shortcomings detected by them and their financial impact. It asked the Commission once again to ensure that its Secretary-General, when preparing the synthesis report, drew up a statement of assurance which included reference to the statements of each of the directors-general, with the aim of making express mention of their assistance to the Commissioners in the adoption of that report.

Ethics: Members warmly welcomed the Commission's European Transparency Initiative, which proposed launching a debate with the other European institutions on the rules and standards on professional ethics of public office holders in the European institutions. They called for the debate to be launched quickly so that any necessary measures became effective at the start of Parliament's new term in June 2009 and the Commission's new term in November 2009. In an amendment sponsored by the Green/ALE group and adopted in Plenary, Parliament called on the Commission to propose solutions for, in the framework of the Transparency initiative, the fact that a substantial number of former and actual high ranking members of staff in sensitive positions had left the Commission, sometimes on unpaid leave, to join lobbyists and law firms for example representing clients who are either under investigation by DG Competition or appeal against fines imposed on them.

Transparency: Parliament strongly urged the Commission to do its utmost to encourage Member States to allow public access to information concerning projects and recipients of all EU funds which were subject to joint management. A simple and transparent system should be set up to access all this information via a central and easily accessible website. Welcoming the Commission's initiatives to ensure that the funds paid out under the Community's agricultural support schemes would be made public, Parliament expected the Commission to instruct the Member States to standardise the information concerning agricultural funding placed on the internet. Welcoming also the fact that the Commission had recognised the need to allow access to information about the various forms of expert groups which it uses in its work, the Commission was urged to allow easy access to information on who is represented in these groups and what their tasks are. Parliament called on the Commission to publish the names of those people who take part in these groups, and the names of the special advisers which the individual Commissioners and/or Directorates-General and/or 'cabinets' have engaged.

Sectoral issues: Parliament moved on to discuss criticisms and proposed improvements to the management of sectoral issues.

- **CAP:** Parliament stated once again that cooperation between the Member States and the Commission for the purpose of providing guarantees in respect of operations relating to final beneficiaries was essential and urged the Commission to step up post-payment checks and to ensure that irregular payments were recovered. It regretted the fact that the Court continued to detect problems in the implementation of the IACS in Greece, and supported the Commission's intention to ensure that current legislation on the suspension of payments was strictly enforced if the Greek Government did not remedy the existing problems within the time-limits set. Parliament also noted the serious shortcomings reported by the Court in the checks relating to rural development, in export refunds and especially in the olive-oil sector in Spain, Greece and Italy, and called upon the Commission to carry out before the end of 2007 more stringent checks in those areas.
- **Structural measures:** Members were particularly pleased at the fact that, in connection with the European Transparency Initiative and pursuant to the new rules governing the Structural Funds for the 2007-2013 period, Member States would be required to provide information concerning the beneficiaries of Community funding. They called on the Commission to publish all this information and information on beneficiaries from all other Union's policies in such a way that it was easily accessible, including for the wider public, and to ensure that information from different Member-States could be compared. The House regretted the fact that, for yet another year, the Court had detected shortcomings in the Member States' control systems. It pointed out that, for the purposes of sound financial management and the DAS, the main issue was not so much the errors detected as the existence of adequate supervision systems which would enable the Commission to carry out proper monitoring of the risks to the Community budget. It regretted the fact that within a small group of Member States there continued to be known problems which gave rise to recurrent reservations. The Commission was urged to do all in its power to ensure that the Member States complied correctly with requirements and not to make any payment unless the Member States' authorities had supplied the requisite information.
- **Internal policies:** the House regretted the fact that there were still within the field of direct management by the Commission the same problems as in earlier years (errors in expenditure reimbursed, complexity of applicable rules and lack of an effective penalty system). It called upon the Commission to continue its efforts to simplify and further clarify the rules for shared-cost programmes, and to do its utmost to clarify the rules, manuals and forms applicable and to ensure that the existing penalty system is applied whenever necessary. It was also important to improve the scope and quality of and follow-up to the audits of national agencies? systems though improved information and mutual exchanges. Parliament returned to this on several questions relating to sectoral issues (tourism, education, justice and home affairs) and proposed improved control measures.
- **External actions:** Members noted that the Court did not detect any errors in its examination of a sample of delegation payments, although it did do so in its sample of bids and its sample of operations carried out by the implementing bodies. They considered that

priority must be attached to ensuring that Community policies which had an impact on developing countries were consistent, for which purpose the division of labour within the Directorates-General responsible for running external actions must be clarified. Parliament noted with concern that the risk analyses carried out by EuropeAid did not take into account the risks represented by the various types of implementing body (NGO, international organisation, government institution, etc.) and the financing methods used (subsidy, budget support, trust fund, etc.). It called on the Commission to establish greater clarity, through more discriminating reporting, as to the effectiveness of individual assistance instruments. It proposed with regard to the issue of aid for developing countries, that the introduction of a system of stages be looked into. The aim would be that at the first stage, by assisting individual projects, the basic preconditions for granting budget aid, i.e. a form of democratic budgetary control plus independent auditing structures, were also established.

As regards the effectiveness of TACIS programme expenditure, Parliament was concerned at the fact that the Commission was unable to determine how the programme had contributed to improving the safety of nuclear power stations. Such a criticism was extremely serious, since it revealed a lack of guarantees as regards the fundamental, priority aspect of Community action - i.e. value for money. It also noted criticisms concerning the limited use made of the Common Relex Information System (CRIS), and criticised the fact that, in the case of the fraud and corruption case on Lesotho Highlands Water Project, the Commission had evidently not taken any decision regarding exclusion from the award of contracts. Parliament expected the Commission now to take and announce the appropriate decisions and to submit a comprehensive report on the affair to Parliament, together with the European Investment Bank, in September 2007 at the latest, making clear what efforts had been made to recover monies.

- Pre-accession strategy: noting the significant errors in the Sapard transactions, Parliament recommended that the Commission should improve its monitoring of Member States' systems, devote particular attention to final expenditure declarations relating to the programmes in general and ensure that the Sapard paying bodies in particular are closely monitored. It was also concerned by the delays in the EDIS accreditation for Phare and ISPA in Bulgaria, and urged the Commission to continue to cooperate with the Bulgarian and Romanian authorities in order to support them in further adapting to the requirements of EDIS. In addition, while recognising the importance of cooperating with international financial institutions, Parliament insisted that the Commission should decide to participate in joint projects only if they ensured an effective use of funds.
- Administrative expenditure: Parliament noted with satisfaction that the Court's audits brought to light no significant error affecting the legality of administrative expenditure. It expressed concern, however, at the growing cost of invalidity pensions and considered the use of mandatory invalidity pensions based on psychological disorders to resolve any conflicting relationship with Commission personnel as unacceptable. Lastly, Parliament discusses questions in connection with the Community's buildings and noted the complaint on the structural deficit generated by the cost of maintaining the Berlaymont building following its refurbishment. The structural-deficit problems highlighted should be resolved as a matter of urgency and Parliament indicated that it would also return to other questions in connection with the Berlaymont building as soon as the Court of Auditors' special report on buildings policy was available.

2005 discharge: EC general budget, section III, Commission

PURPOSE: to give discharge to the Commission for the implementation of the European Union general budget for the financial year 2005.

LEGISLATIVE ACTS: Decisions 2008/499/EC, Euratom and 2008/500/EC, Euratom of the European Parliament on the discharge for implementation of the European Union general budget for the financial year 2005 and the closing of the accounts of the same budget (Section III ? Commission).

CONTENT: with the present decisions, the European Parliament grants a discharge to the Commission for the implementation of the general budget for 2005 and definitively closes the accounts for the year 2005

The European Parliament deplores the fact that there are still a number of errors affecting the financial management of the Union's budget. It calls on the Commission to take urgent steps to remedy errors in amounts registered in the accounting system, with a view to preventing them from affecting the reliability of the financial statements for 2006. It recalls that the responsibility for implementation of the Community budget lies with the Commission and must be exercised with regard to the principles of sound financial management, in cooperation with the Member States.

The Commission is strongly urged to do its utmost to encourage the Member States to allow public access to information concerning projects and recipients of all EU funds which are subject to joint management.

The European Parliament also makes a number of other observations in a resolution annexed to the discharge decision (please refer to the summary of the opinion of 24/04/2007).