

# EUROPEAN PARLIAMENT

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## SECOND REPORT

on the discharge for implementation of the European Union general budget for  
the financial year 2004  
(N6-0027/2005 – C6-0357/2002 – 2005/2091(DEC))

Section I – European Parliament

Session document

Rapporteur: Markus Ferber

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## PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on the discharge for implementation of the European Union general budget for the financial year 2004, Section I – European Parliament  
(N6-0027/2005 – C6-0357/2002 – 2005/2091(DEC))**

*The European Parliament,*

- having regard to the European Union general budget for the financial year 2004<sup>1</sup>,
- having regard to the revenue and expenditure account and balance sheet in respect of the financial year 2004 (C6-0357/2005),
- having regard to the Internal Auditor's annual report,
- having regard to the Annual Report of the Court of Auditors on the Implementation of the Budget, together with the institutions' replies<sup>2</sup>,
- having regard to the statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty<sup>3</sup>,
- having regard to Articles 272(10) and 275 of the EC Treaty and Article 179a of the Euratom Treaty,
- having regard to Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities<sup>4</sup>, and in particular Articles 145, 146 and 147 thereof,
- having regard to Article 13 of the Internal Rules for the implementation of the European Parliament's budget<sup>5</sup>,
- having regard to Article 147(1) of the Financial Regulation, pursuant to which each Community institution is required to take all appropriate steps to act on the observations accompanying the European Parliament's discharge decision,
- having regard to Rules 71 and 74(3) of and Annex V to its Rules of Procedure,
- having regard to Article 5(1)(a), second subparagraph, of Annex V to its Rules of Procedure,
- having regard to the report of the Committee on Budgetary Control (A6-0119/2006),
- having regard to the result of the vote in plenary on 27 April 2006 on the above report of the Committee on Budgetary Control, rejecting discharge by an overwhelming majority

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<sup>1</sup> OJ C 105, 30.4.2004.

<sup>2</sup> OJ C 301, 30.11.2005, p. 1.

<sup>3</sup> OJ C 302, 30.11.2005, p. 100.

<sup>4</sup> OJ L 248, 16.9.2002, p. 1.

<sup>5</sup> Bur/ann/fin - PE 349.540.

(three votes for, 591 against and 13 abstentions), at the rapporteur's request, as a result of which, under Article 5(1)(a), second subparagraph, of Annex V of the Rules of Procedure, discharge is deemed to be postponed<sup>1</sup>,

- having regard to the second report of the Committee on Budgetary Control (A6-0280/2006),
- A. whereas the Court of Auditors pointed to weaknesses in supervisory and control systems (paragraph 9.16 of the Court's Annual Report), albeit mostly of a formal nature; whereas, according to the Court, the errors did not materially affect the legality and regularity of the transactions underlying administrative expenditure (paragraph 9.27 of the Court's Annual Report),
- B. whereas the Financial Regulation and the Rules of Procedure of Parliament as amended on 23 October 2002<sup>2</sup> apply with effect from 1 January 2003 as regards procedural rules governing the discharge,
- C. whereas Parliament's Rules of Procedure were amended on 23 October 2002 to provide that discharge is to be given to the President rather than to the Secretary-General,
  1. Grants its President discharge for implementation of the budget for the financial year 2004;
  2. Sets out its comments in the resolution below;
  3. Instructs its President to forward this decision, and the resolution that forms an integral part of it, to the Council, the Commission, the Court of Justice, the Court of Auditors and the European Ombudsman and to have them published in the Official Journal of the European Union (L series).

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<sup>1</sup> *Texts Adopted*, P6\_TA(2006)0158.

<sup>2</sup> OJ C 300 E, 11.12.2003, p. 303.

## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

**with comments forming an integral part of the decision on the discharge for implementation of the European Union general budget for the financial year 2004,**

**Section I – European Parliament**

**(N6-0027/2005 – C6-0357/2002 – 2005/2091(DEC))**

*The European Parliament,*

- having regard to the European Union general budget for the financial year 2004<sup>1</sup>,
- having regard to the revenue and expenditure account and balance sheet in respect of the financial year 2004 (C6-0357/2005),
- having regard to the Internal Auditor's annual report,
- having regard to the Annual Report of the Court of Auditors on the Implementation of the Budget, together with the institutions' replies<sup>2</sup>,
- having regard to the statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty<sup>3</sup>,
- having regard to Articles 272(10) and 275 of the EC Treaty and Article 179a of the Euratom Treaty,
- having regard to Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities<sup>4</sup>, and in particular Articles 145, 146 and 147 thereof,
- having regard to Article 13 of the Internal Rules for the implementation of the European Parliament's budget<sup>5</sup>,
- having regard to Article 147(1) of the Financial Regulation, pursuant to which each Community institution is required to take all appropriate steps to act on the observations accompanying the European Parliament's discharge decision,
- having regard to Rules 71 and 74(3) of and Annex V to its Rules of Procedure,
- having regard to Article 5(1)(a), second subparagraph, of Annex V to its Rules of Procedure,
- having regard to the report of the Committee on Budgetary Control (A6-0119/2006),

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<sup>1</sup> OJ C 105, 30.4.2004.

<sup>2</sup> OJ C 301, 30.11.2005, p. 1.

<sup>3</sup> OJ C 302, 30.11.2005, p. 100.

<sup>4</sup> OJ L 248, 16.9.2002, p. 1.

<sup>5</sup> Bur/ann/fin - PE 349.540.

- having regard to the result of the vote in plenary on 27 April 2006 on the above report of the Committee on Budgetary Control, rejecting discharge by an overwhelming majority (three votes for, 591 against and 13 abstentions), at the rapporteur's request, as a result of which, under Article 5(1)(a), second subparagraph, of Annex V of the Rules of Procedure, discharge is deemed to be postponed<sup>1</sup>,
  - having regard to the second report of the Committee on Budgetary Control (A6-0280/2006),
- A. whereas the Court of Auditors pointed to weaknesses in supervisory and control systems (paragraph 9.16 of the Court's Annual Report), albeit mostly of a formal nature; whereas, according to the Court, the errors did not materially affect the legality and regularity of the transactions underlying administrative expenditure (paragraph 9.27 of the Court's Annual Report),
  - B. whereas the Financial Regulation and the Rules of Procedure of Parliament as amended on 23 October 2002<sup>2</sup> apply with effect from 1 January 2003 as regards procedural rules governing the discharge,
  - C. whereas Parliament's Rules of Procedure were amended on 23 October 2002 to provide that discharge is to be given to the President rather than to the Secretary-General,
  - D. whereas its resolution of 12 April 2005<sup>3</sup> on the discharge for 2003 should be followed up and progress in implementing its recommendations assessed,
  - E. whereas the Statute for Members of the European Parliament of 28 September 2005, following the Council's agreement on 19 July 2005, will enter into force on the first day of the parliamentary term commencing in 2009,
1. Points up the fact that, in many respects, 2004 was a special year because of a number of almost simultaneous events with a direct impact on Parliament's financial management: the accession of 10 new Member States, Parliament's elections, the entry into force of the new Staff Regulations, continuing implementation of the new Financial Regulation and the implementation of Parliament's in-house reform efforts ('Raising the Game');

### ***The European Parliament's accounts***

2. Takes note of the figures with which Parliament's accounts for the financial year 2004 were closed, namely:

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<sup>1</sup> *Texts Adopted*, P6\_TA(2006)0158.

<sup>2</sup> OJ C 300 E, 11.12.2003, p. 303.

<sup>3</sup> OJ L 196, 27.7.2005, p. 28.

(in EUR)

Use of appropriations	Appropriations for the 2004 financial year		Appropriations carried over from the 2003 financial year
	Appropriations 2004	Appropriations from assigned revenue	Article 9(1) & 9(4) of Financial Regulation
Appropriations available	1 231 000 000	31 335 112	213 477 855
Commitments entered into	1 203 370 074	31 328 642	-
Payments made	921 908 371	3 248 540	197 455 018
Appropriations carried over to 2005			
. Article 9 of Financial Regulation	281 461 343	-	
. Article 10 of Financial Regulation	-	6 470	
Cancelled appropriations	27 629 926	-	16 022 837
Balance sheet at 31 December 2004: 1 451 967 061			

3. Notes that, in 2004, 97.76% of the appropriations entered in Parliament's budget were committed, with a cancellation rate of 2.24%, and that, as in previous years, a very high level of budget implementation was achieved;
4. Calls on authorising officers by delegation to set out the reasons in their annual activity reports, as has already occurred to some extent, why budget appropriations have not been fully utilised; considers that account must be taken of those reasons during the following year's budgetary discussions;
5. Notes that, in 2004, Parliament received revenue amounting to EUR 117 409 824 (2003: EUR 98 545 334);

***Parliament's property policy, focusing on the Winston Churchill (WIC) and Salvador de Madariaga (SDM) Buildings***

*Accounts*

6. Recalls that the high level of implementation for the 2004 budget is partly attributable to the consistent practice since 1992 of making 'mopping-up' transfers for the purposes of transferring any appropriations available at year-end to the budget lines for buildings and, in particular, for advance capital payments to reduce future interest payments, more than EUR 70 000 000 having been made available by means of a mopping-up transfer at the end of 2003 for the purchase of the Louise Weiss Building in Strasbourg and more than EUR 150 000 000 having been provided by means of the mopping-up transfer at the end of 2004 for the purchase of the D4 and D5 Buildings in Brussels, which is equivalent to 12% of budget appropriations;

7. Considers that repayments on buildings constitute a major saving for the taxpayer and therefore should be set as part of the budgetary strategy;
8. Calls yet again on the budgetary authority to establish budget forecasts ensuring that the amounts entered in the draft budget reflect real requirements in Parliament's various policy areas so that huge transfers of appropriations are not systematically made at year-end for property policy purposes;
9. Calls for the tendering procedures for the building of the extension to the KAD building in Luxembourg to be transparent and fair, these being the first construction tendering procedures to be managed by the Parliament itself;
10. Welcomes the Secretary General's answer to the 2004 discharge questionnaire regarding the Parliament's use of the LOW building in Strasbourg that Parliament "is the sole owner of the LOW building in Strasbourg, and may use or dispose of it as it thinks fit," which accords with the idea that the Parliament as the democratic representative body in the European Union has the right and the obligation to decide on the most cost-effective and efficient way of working, including in relation to its seat;

#### *WIC and SDM Buildings*

11. Recalls that in May 2006 the Committee on Budgetary Control, in response to the referral back of its report, set up an informal Working Group tasked with advising and assisting the rapporteur in connection with allegations made over the existing lease arrangements and the prospective purchase by the European Parliament of the WIC and SDM Buildings in the City of Strasbourg;
12. Strongly regrets that, despite its competence on Budgetary Control, the Committee only became aware of the allegations relating to the said arrangements from media reports rather than, as should have been expected, from the administration or from the Bureau of the European Parliament, both of which had been fully aware of the allegations for several weeks;
13. Notes that its directorates-general responsible made available all documents requested to the working party, including a special external audit and an internal audit as well as legal advice; notes also that the City of Strasbourg also provided documents, upon request, although some queries concerning those documents remained insufficiently answered; strongly regrets that its requests for all relevant documentation from SCI Erasme, the private investor and owner of the buildings, were not acceded to; calls on the City of Strasbourg and SCI Erasme to answer all outstanding and subsequent questions promptly and with due regard for maximum transparency, so that this information can be factored in to the discharge procedure for the financial year 2005;
14. Notes that in order to ensure full transparency, the said Working Group immediately called for and obtained full public access to all relevant documentation held by the Parliament's administration on these buildings;
15. Is aware that the discharge report reflects the financial situation of 2004; stresses, however, that such a report does not merely point out mistakes or acts of wrongdoing that



have occurred in the past, but should also make recommendations on how to avoid them in the future;

16. Recalls the existence of the rental agreement between SCI Erasme and Strasbourg, which expires in 2010; feels strongly that when the EP decides to purchase the WIC/SDM buildings, the aforementioned agreement cannot in any way have financial consequences for the Parliament; finds therefore that in that case the agreement should cease to exist;
17. Points out that if the intention of the Parliament is to purchase the building, it should at the same time acquire the land; Emphasises that at this stage it seems evident that the Parliament can only obtain the long lease held by SCI Erasme; believes therefore that the final acquisition of the land will be the matter between the Parliament and the City of Strasbourg and, if necessary, with the French national authorities;
18. Recalls however that ECA has recently conducted an audit on the buildings policy; points out that in its opinion ECA has expressed the concerns as to the use of indexation rates used to calculate the total amount of the bi-annual rent; concludes further that the ECA made it clear the indexation could potentially be unfavourable to the European Parliament;
19. Notes that the facts established by the Working Group, on the basis of information made available to it, are the following:
  - The lease agreement by virtue of which the European Parliament leases the said two buildings involves a triangular relationship between, on the one part, the Parliament itself as the lessee of the WIC and SDM buildings, on the second part, the City of Strasbourg as the lessor and on the third part, SCI Erasme as the private investor and owner of the buildings;
  - there appear to be no indications that there have been unlawful actions in the process of concluding and applying the leases and additional agreements, although there are nevertheless doubts on whether the principle of “sound financial management” enshrined in the Financial Regulation has been fully respected;
  - there is no absolutely reliable basis for setting an appropriate rent for the WIC and SDM buildings once Parliament is the only potential client, as in Strasbourg; nor is a comparison with the cost of office space in various countries and cities adequate in this case; understandably, this made it difficult to establish a “fair price” for the rent in question and therefore to assess whether the Parliament had been paying a truly fair rent over the years;
  - a fundamental reason for the fact that rents have been rising for years is that, in 1985 the Parliament's decision-making bodies agreed to the City of Strasbourg's proposal to index-link the annual amounts, disregarding dissenting opinions delivered in 1980 by the Quaestors and the Committee on Budgets;
  - there is a considerable difference between, on the one hand, the rent it pays to the City of Strasbourg for use of the WIC and SDM Buildings and, on the other, the monthly repayments by the City of Strasbourg to the private investor: according to its Administration's calculations, the additional amounts paid over the 25 years of the lease, after deduction of the investment cost and the cost of works carried out, amount to at least EUR 32 m; at this point in time, pending further information from the City of Strasbourg and SCI Erasme, it cannot be ruled out that the additional payments

might also total at least EUR 46 m (internal audit) or just under EUR 60 m (external audit);

- not until March 2006 were there indications that its rental payments to the City of Strasbourg exceeded the latter's repayments to the private investor; until then, Parliament wrongly assumed that its rental payments to the City of Strasbourg were passed on in full to SCI Erasme when, in fact, this was not the case;
- throughout this long period of time, the Parliament's Administration never questioned whether the rent payments constituted "fair rent" and never verified whether its lease payments were being passed on in full to the SCI Erasme but nor was it ever informed about this matter by the City of Strasbourg itself;
- only the City of Strasbourg knew of the existence of two different contractual relationships between the three parties involved and only the City of Strasbourg had been aware of the difference between the two amounts since 1981;
- Parliament's Administration was notified by letter of 29 November 2005 by the City of Strasbourg that negotiations with the private investor had not been ended; at that point, at the latest, Parliament's Administration should have realised that there had been negotiations between the City of Strasbourg and the private investor;
- the rent Parliament pays for its official premises should cover the cost of construction, upkeep and use, but should not in any way contain a profit margin for the host country or local or regional authorities in that country; equally, it is also customary that any public land made available by a host Member State for the purpose of hosting an EU institution is granted to the said institution free and unencumbered; it has to be conceded, however, that none of this was contractually laid down; because of the good relationship with the City of Strasbourg as a supposedly non-profit-seeking public body; ; besides, there are no legal provisions prohibiting a state or local or regional authority from making a profit; takes the view, however, that the City of Strasbourg's approach is discourteous, to say the very least, since it is contrary to rules on hospitality towards international institutions;
- the City of Strasbourg was aware of Parliament's consistent exclusion of compensation clauses in property contracts, yet deliberately ignored it; that has dealt a blow to the relationship of trust between Strasbourg and the Parliament;
- deplores the City of Strasbourg's withdrawal from tripartite negotiations with the Parliament, in the course of which it had been reiterated that compensation for loss of the long lease between the city of Strasbourg and SCI Erasme was excluded; this position was then ignored in the City of Strasbourg's subsequent bilateral negotiations with SCI Erasme;

20. Draws the following conclusions from what has been experienced:

- Deeply regrets the lack of good faith demonstrated by both the City of Strasbourg and the private investor, SCI Erasme in their relationship with Parliament; equally regrets the lack of resolve on the part of the administration of Parliament itself
- calls on the Bureau to give notice on the lease with the City of Strasbourg for 31 October 2006 in order - should purchase of the buildings be delayed - to negotiate a new and appropriate rent;
- calls on the Bureau to examine whether it might be appropriate to pay the City of Strasbourg, for the first half of 2006, initially only a rental amount allowing it to cover the repayments to SCI Erasme, but not the full rent;
- considers that it might be reasonable to continue to seek to purchase the WIC and SDM Buildings if, in the process, the following are factored in: what constitutes an

appropriate rent and hence a prospective purchase price remain uncertain; the age of the buildings; no compensation can be paid on principle; Parliament's additional and unwarranted payments over 25 years should be offset against the purchase price; land and buildings should be acquired simultaneously;

- Considers that the triangular relationship existing in this case was not conducive to full transparency or to guarantees of sound financial management and considers, therefore, that it should be avoided in the buildings policy of EU institutions and bodies;
  - calls on its competent bodies to amend Article 16 of the Internal Rules on the implementation of Parliament's budget to make building projects with significant financial implications for Parliament's budget subject to the agreement of the Committee on Budgets;
  - calls on its Administration to take the necessary measures for a regular review, at least every five years, of long-standing contractual obligations towards third parties, e.g. leases or service contracts; the results of those checks should also be included in the activity reports of the directors-general calls for the first such report to be completed in good time for the budget discharge procedure for 2005 and subsequently included in an ad hoc section of the annual activity report every year thereafter;
  - calls on its Administration, in consultation with the other Union institutions, to draw up a report examining whether it might be feasible to establish a European Buildings Authority mandated with responsibility for the construction and maintenance of the buildings of the EU Institutions and Bodies; calls for such report to be forwarded to the Committee on Budgetary Control by 1 October 2007 at the latest;
  - notes that the City of Strasbourg, but more particularly SCI Erasme have not yet met all Parliament's requests for information; will therefore re-examine the issue at stake in the 2005 discharge procedure;
  - calls on the Committee on Budgetary Control to conduct a fresh examination of Parliament's property policy during the budget discharge procedure for 2005 and thereafter on a regular basis;
21. Expects the Parliament to continue its work of examining the rental and contractual agreements and related documents between the City of Strasbourg, SCI Erasme and the Parliament in order to establish all the facts;
22. Welcomes the report on the additional audit carried out by the European Court of Auditors concerning the renting by the Parliament of the WIC and SDM buildings and endorses its conclusions;

#### ***Court of Auditors' comment on the financial year 2004***

23. Notes that the Court of Auditors pointed to weaknesses in supervisory and control systems (paragraph 9.16 of the Court's Annual Report), albeit mostly of a formal nature; notes further that, according to the Court, the errors did not materially affect the legality and regularity of the transactions underlying administrative expenditure (paragraph 9.27);
24. Notes that in 2004, when the new Staff Regulations and the new IT application for the calculation of officials' pay were virtually simultaneously introduced, mistakes were made not only because of the IT system but also because of difficulties in interpreting the Staff Regulations; notes that this was countered by stepping up ex-post controls;

25. Notes that a new travel expenses settlement procedure was introduced in 2005 in order to comply with the Financial Regulation;
26. Attaches considerable importance to the Court of Auditors' comments, which, to some extent, tally with the Internal Auditor's findings, i.e. that there are still weaknesses in supervisory and control systems; takes the view that those weaknesses are a matter of the utmost priority and asks the Court of Auditors and the Internal Auditor expressly to examine systemic improvements in the next annual report;

### ***Parliament's financial management***

27. Notes that the analysis of financial management accompanying the 2004 accounts provides a useful statement of the principal financial events of the year under review, as well as a succinct summary of the activity reports of the directors-general; considers that this would be further enhanced, however, by a more standardised presentation of the activities of the directorates-general;
28. Calls on the Secretary-General to draw up immediately, and as long since promised, a brief, accessible and attractive annual document to provide the public with more information on budgetary management in Parliament<sup>1</sup>;
29. Points out that a proportion of management activity in Parliament in 2004 was still geared to adjusting to the new requirements of the Financial Regulation, setting up new control systems, methodologies and working methods, devising training programmes and establishing new lines of responsibility;
30. Notes that initial experience with applying the new Financial Regulation in an institution such as Parliament, which has an administrative budget to manage, indicates that in some cases overly complex systems and financial circuits have been set up;
31. Calls on the Secretary-General to state how many staff members are currently engaged in control duties (ex-ante control, internal audit) and, by comparison, how many staff members there were in the former Directorate for Financial Control; calls on the Secretary-General in this connection to produce a comparative analysis and appraisal of the new system and the former financial control system which establishes whether increased staff resource deployment can be justified;
32. Reaffirms, yet again, the view expressed in paragraph 34 of its above-mentioned resolution of 12 April 2005 and in its resolutions of 21 April 2004<sup>2</sup> and 8 April 2003<sup>3</sup> that 'the scope of the discharge procedure should cover not only the management activities of Parliament's Secretary-General and Administration, but also the decisions taken by its governing bodies, i.e. its President, Bureau and Conference of Presidents';
33. Strongly criticises its Bureau and competent committee for their inaction; calls on them to respond immediately to the request formulated in paragraphs 16 and 17 of its

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<sup>1</sup> Secretary-General's reply to paragraph 9 of Parliament's resolution of 21 April 2004 on the discharge for 2002 (OJ L 330, 4.11.2004, p. 160).

<sup>2</sup> OJ L 330, 4.11.2004, p. 160.

<sup>3</sup> OJ L 158, 16.6.2003, p. 62.

above-mentioned resolution of 21 April 2004 for proposals intended to define the precise practical meaning of the political responsibility attaching to the members of Parliament's governing bodies as regards the exercise of powers and the taking of decisions with significant financial consequences;

34. Calls on the Bureau to consult fully, in advance, the individuals affected by its decisions in order to make decision-taking processes transparent; calls furthermore on the Bureau to submit an annual activity report, which, in keeping with democratic accountability, should be a component of the budget discharge procedure;
35. Stresses that Parliament grants discharge not to the Secretary-General, but, rather, to the President; therefore expects the President to make himself available to the Committee on Budgetary Control, during the discharge procedure, for a dialogue;

### ***The activity reports of the directors-general***

36. Points out that Parliament's Secretary-General forwarded the 2004 activity reports of the directors-general to the Committee on Budgetary Control on 21 April 2005; points out further in that connection that the Secretary-General, in his capacity as authorising officer by delegation, declared that he had been given reasonable assurances that Parliament's budget had been implemented in accordance with the principles of sound financial management and that the control framework put in place afforded the requisite guarantees as to the legality and regularity of the underlying transactions;
37. Notes that the various activity reports differ widely in scope, length, form and the degree to which the information from services within directorates-general is incorporated; invites the Secretary-General, as proposed by the Court of Auditors last year (in paragraph 9.16 of the Court's 2003 Annual Report), to harmonise the presentation and structure of the activity reports in the future in order to make them more easily readable and comparable;
38. Calls on Parliament's Administration to forward to the Committee on Budgetary Control, in future, the final version of activity reports, including authorising officers' declarations, together with all annexes;
39. Welcomes the fact that all directors-general have issued a declaration of assurance for their departments' financial transactions; notes that only in one case - concerning procurement in DG Information - was reference made to weaknesses, though they do not represent a reservation;
40. Recalls the proposal made in paragraph 30 of its above-mentioned resolution of 12 April 2005 that for the sake of a better understanding of the true value of authorising officers' signed declarations it would be desirable in future years to adopt a standardised format clearly distinguishing between those matters calling for an 'observation' by the director-general, which do not call into question his declaration of assurance, and other more serious matters justifying a 'reservation';
41. Notes that the conclusions in the activity reports identify the following general challenges:
  - putting the internal control framework into practice is more time-consuming than was

- originally assumed;
- difficulties in connection with public procurement procedures;
- the continuing need to look for qualified staff for the finance departments of directorates-general and to give current staff further training;
- additional difficulties encountered when directorates-general relocate and/or are restructured;

### ***The Internal Auditor's annual report***

42. Highlights the fact that the Internal Auditor's annual report and the declarations and activity reports of the Secretary-General and the directors-general constitute a major part of the assessment both by the Court of Auditors and by Parliament's discharge authority;
43. Points out that the internal control systems put in place by the authorising officers by delegation have the following control objectives: compliance with applicable legislation, rules and practices, the reliability of management information and records and the economy, effectiveness and efficiency of operations;
44. Points out further that authorising officers must comply with 22 minimum standards in order to realise those control objectives; notes that those standards can be grouped into five control categories: control environment, performance and risk management, information and communication, control activities and monitoring (audit and evaluation);
45. Notes that, in 2004, the Internal Audit Service produced 13 reports on the internal monitoring and control framework in the directorates-general and examined the financial management of four of Parliament's Information Offices;
46. Highlights the fact that the action plans adopted on the basis of the audit reports permit the following conclusions:
  - that considerable progress has been achieved in terms of internal control compliance, but full implementation of the new internal control framework will take more time;
  - that internal control systems should be fully developed and documented in every unit and that, to that end, every unit must have adequate resources for duties involving initiation of operations and verification;
  - that there is a need across the board for staff with appropriate specialist knowledge in the area of financial management and financial control, meeting which need must be regarded as a priority;
  - that, in addition, appropriate mechanisms should be developed for planning, programming and setting objectives, risk appraisal instruments and optimum management information systems<sup>1</sup>;
47. Considers that, on the basis of the experience gained, the responsible authorising officers by delegation must ensure that:
  - internal control systems provide for regular verification of the substance of legal transactions which are binding in the long term, and
  - internal control systems make sure that legal transactions which are binding in the

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<sup>1</sup> Paragraph 40 of its above-mentioned resolution of 12 April 2005.

long term contain clauses providing scope for adjustments which make economic sense;

Considers that the Internal Auditor should verify the correct implementation of these measures in his review of the internal control framework.

48. Notes that these priority areas are reflected in the Secretary-General's action plan, subject to paragraph 47;
49. Notes that the handling of procurement procedures and Members' parliamentary assistance allowances are currently the subject of ongoing audits; considers that the audit reports should be assessed during the budget discharge procedure for 2005;
50. Asks the Internal Auditor to take account also of the principle of efficiency and economy in the management of funds as an aspect of verifying the regularity and legality of expenditure operations;
51. Asks the Internal Auditor not only to forward his annual reports to the Committee on Budgetary Control, but also to give an oral account of them;

### ***Procurement***

52. Recalls that the Financial Regulation and its implementing rules<sup>1</sup> which entered into force on 1 January 2003 modified the procedures for planning, publishing and awarding procurement contracts; recalls further that the institutions forward to the budgetary authority reports on negotiated procedures and on contracts not falling under public procurement directives, that a list of contractors with contracts worth more than EUR 50 000, but less than the threshold under those directives, is published in the Official Journal, and that contracts worth between EUR 13 800 and EUR 50 000 are published on institutions' websites; notes in addition that in 2003 Parliament called on its Secretary-General to report annually on contracts concluded<sup>2</sup>;
53. Notes that the annual report contains the following information on contracts concluded in 2004:

Type of contract	Number	Percentage	Amount in EUR	Percentage
Services	229	58%	180 927 304	75%
Supplies	99	25%	26 500 867	11%
Works	60	15%	18 876 271	8%
Buildings	4	2%	15 593 025	6%
Total	392	100%	241 897 467	100%

<sup>1</sup> Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 357, 31.12.2002, p. 1). Regulation as amended by Regulation (EC, Euratom) No 1261/2005 (OJ L 201, 2.8.2005, p. 3).

<sup>2</sup> Paragraph 90 of its above-mentioned resolution of 8 April 2003.

Type of procedure	Number	Percentage	Amount in EUR	Percentage	Average amount
Open	95	24%	157 909 034	70%	1 662 200
Restricted	110	28%	39 897 441	18%	362 704
Negotiated	183	48%	28 497 967	12%	155 727
Total	388	100%	226 304 442	100%	585 259

54. Notes that the Internal Auditor is completing an institution-wide audit of the procurement process; calls on the Secretary-General to inform the Committee on Budgetary Control about the content of the report in an appropriate manner;
55. Regrets the fact that, in 2004, the number and value of contracts awarded under open procedures fell considerably; calls on the Secretary-General to give reasons for this;
56. Asks whether the contracts database required by Article 95 of the Financial Regulation has already been set up and is operational;
57. Asks whether the suggestions made last year by the Administration for changes to the Financial Regulation<sup>1</sup> (low-value contracts awarded through competitive tendering, electronic tendering information exchange) have been taken on board;

#### *Activities of the parliamentary committees*

58. Points out that, under Article 276 of the EC Treaty, it is the task of Parliament to give the Commission discharge for implementation of the budget, this process encompassing all spending areas; regrets therefore that, because of Parliament's existing internal organisational provisions governing delegations in third states, it was not possible for the Committee on Budgetary Control to carry out, in time, the planned visit by the ad hoc delegation to the European Agency for Reconstruction in Kosovo;
59. Calls therefore on Parliament's competent bodies to make it possible for the Committee on Budgetary Control, pursuant to its parliamentary obligations under the budget discharge procedure, to be able, where appropriate, to send small delegations to Member States and third states quickly, and without red tape, in order to carry out the necessary checks on the spot;

#### *Political groups (review of accounts and procedures - budget Item 3701)*

60. Recalls that paragraph 2.7.3 of the Rules on the use of appropriations from budget Item 3701<sup>2</sup> requires the Bureau and the Committee on Budgetary Control to deal with the audited annual accounts of the political groups in accordance with the powers conferred upon them by the Rules of Procedure;
61. Reiterates that the political groups are themselves responsible for the management and use of their funds from Parliament's budget and that the remit of Parliament's Internal Audit Service does not extend to the conditions under which use is made of the appropriations

<sup>1</sup> Paragraph 72 of its above-mentioned resolution of 12 April 2005.

<sup>2</sup> Bureau decision of 30 June 2003.



against budget Item 3701 (approximately 3.2% of Parliament's total budget);

62. Welcomes the fact that the political groups have published their internal financial rules and accounts for 2004 on Parliament's website;
63. Asks whether the political groups have encountered problems when applying the principles of the new Financial Regulation and its implementing rules;
64. Records the following outturn figures for appropriations entered against budget Item 3701 in 2004:

(in thousands of EUR)

Total available in budget			43 250			
Non-attached Members			1 246			
Amount available for groups			42 004			
Group	Allocated from Parliament's budget	Groups' own resources and carry-forwards	Expenditure in 2004	Utilisation rate	Carry-forward ceiling*	Carried forward to 2005
PPE	16 077	2 912	14 828	78%	8 038	4 160
PSE	12 204	3 775	10 952	69%	6 102	5 027
ELDR/ ALDE	4 525	1 192	3 612	63%	2 263	2 106
Verts/ALE	2 785	998	3 156	83%	1 393	628
GUE/NGL	2 976	1 217	3 018	72%	1 488	1 175
UEN	1 687	426	1 840	87%	844	273
EDD **	650	605	1 225	98%	N/A	N/A
IND/DEM	1 100	4	452	41%	550	653***
<b>TOTAL</b>	<b>42 004</b>	<b>11 130</b>	<b>39 083</b>	<b>74%</b>		
* As per implementing provisions for budget Item 3701.						
** Allocation only for the first half of 2004.						
*** Bureau decision of 29 September 2005.						

65. Notes the confirmation by the political groups' external auditors that the accounts complied with current rules and international accounting standards;
66. Regrets that until July 2004, trainee contracts and service provider contracts with independent persons, companies or foundations were entered into the Parliament's computer system with the same code without regard for the type of contract or whether the contract referred to an assistant or a trainee;
67. Regrets that insufficient information has been forwarded to the Secretary General on the amounts of pay received by the high proportion of assistants employed via service providers; welcomes the information received from the Secretary General on the amounts paid to assistants directly employed by Members or paid through a paying agent;
68. Notes that on 29 September 2005 the Bureau discussed and approved the groups' reports on budget implementation and the auditors' reports;
69. Notes that, as a rule, the political groups did not fully utilise the appropriations made available to them;
70. Calls on the Commission and the Council to regulate definitively and comprehensively, in the forthcoming negotiations on reform of the Financial Regulation, how funds made available to the political groups from Parliament's budget are to be treated in law, as called

for by Parliament in its position of 15 March 2006<sup>1</sup>;

### ***Members' allowances***

71. Welcomes the fact that the above-mentioned Statute for Members of the European Parliament, following the Council's agreement on 19 July 2005, will enter into force on the first day of the parliamentary term commencing in 2009;
72. Points out that the provisions of the Rules governing the payment of expenses and allowances to Members were brought into line with the Financial Regulation in May 2004;
73. Recalls the Bureau decision of 28 May 2003 'to initiate, once the plenary has adopted the Statute of Members of the European Parliament and in accordance with the calendar for the Statute's entry into force, the procedure for the adoption by the Bureau of new rules governing the payment of expenses and allowances to Members ...'; calls on the Secretary-General to inform the Committee on Budgetary Control as to what measures the Bureau has taken to date;
74. Calls on the Bureau to implement the plans already provided for in the Statute for Members, agreed by Parliament, to create a system, for those Members who so desire, to reimburse Members only for travel costs actually incurred;

### **Secretarial assistance allowance**

75. Notes that on 13 December 2004 the Bureau adopted amendments to the rules governing the secretarial assistance allowance<sup>2</sup> intended inter alia to ensure greater consistency between those rules and the requirements of the Financial Regulation;
76. Regrets that, as of 20 February 2006, 87.2% of Members had not supplied the Parliament with statements of expenditure for their parliamentary assistance allowance, which were due by 1 November 2005, as required by Articles 14(5)(e) and 14(6)(b) and (c) of the Rules governing the payment of expenses and allowances to Members, and which include declarations of their assistants' affiliation to a social security scheme if the assistant is covered by a service provider contract; regrets further that Parliament has not yet concluded framework contracts with companies specialised in management, in accordance with the applicable national law, of tax and social security issues connected with employment contracts, as is required by Article 14(5)(f) of the Rules governing the payment of expenses and allowances to Members and as has been requested at least from July 2004;
77. Insists that sending individual communications to those Members who have not yet submitted documents would be the most efficient way of resolving the problem of missing documentation due from Members on expenditure from the parliamentary assistance allowance;

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<sup>1</sup> *Texts Adopted*, P6\_TA(2006)0085, Amendment 63.

<sup>2</sup> Articles 14 to 16 of the Rules governing the payment of expenses and allowances to Members (PE 113.116).

78. Calls on the Bureau promptly to wind up discussions on the outcome of the work of the parliamentary working party on Members' assistants; calls on the Secretary-General to inform the Committee on Budgetary Control about the working party's proposals and the Bureau's decision;
79. Calls on the Bureau to establish a statute for Members' assistants regulating inter alia recruitment and working conditions as well as social security and taxation arrangements; urges that this should enter into force as soon as possible;

### *Voluntary pension scheme*

80. Recalls that the Court of Auditors has pointed out in its Annual Reports for the last three years that a sufficient legal basis for Parliament's additional pension scheme must be created; recalls that, in addition, according to the Court, clear rules must be established to cover the eventuality of a deficit<sup>1</sup>; notes however that the view of the Parliament's legal services is that "a sufficient legal basis for the additional pension scheme" already exists under "the regulatory autonomy of the European Parliament laid down in Article 199 of the EC Treaty (formerly Article 142 of the EEC Treaty) which confers on the European Parliament the right to take whatever measures it requires for its internal organisation"<sup>2</sup> and that furthermore "once the Members' Statute comes into force, Article 27 of that Statute will constitute the legal basis for the Pension Fund"<sup>2</sup>;
81. Points, in addition, to this year's activity report of DG Finance, which, with regard to the additional pension scheme, lists the following :
- no contractual basis determining the relationship between Parliament and the pension fund,
  - no rules to cover the eventuality of a fund surplus or deficit,
  - uncertainties as to entering fund members' entitlements in the budget;
82. Notes that, in November 2005, the additional pension fund had 475 members; they paid a monthly contribution - from the general expenditure allowance - of EUR 948 (representing one third); Parliament paid EUR 1 896 monthly (representing two thirds); in 2004, EUR 10 300 000 was entered in the budget for the voluntary pension scheme;
83. Notes that, as at 31 December 2004, the pension fund recorded an actuarial deficit of EUR 43 756 745 and a funding level of 76.8 % and that, as at 31 December 2005, the deficit had fallen substantially to EUR 28 875 417 and the funding level had increased to 86.1%<sup>3</sup>;
84. Notes that, as from January 2005, a member can draw a monthly pension of EUR 1 276 from age 60 onwards and after only five years of contributions;
85. Notes that the Bureau has not acted on the Court of Auditors' observations between 2002 and 2005; notes that, on 30 November 2005, the Bureau approved the following measures:

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<sup>1</sup> OJ C 301, 20.11.2005, Table 9.2; OJ C 293, 30.11.2004, Table 9.3; OJ C 286, 28.11.2003, paragraph 9.15.

<sup>2</sup> Secretary General's Note to the Bureau of Parliament - Management of the Additional Voluntary Pension Scheme for Members, November 2005, PE 356.020/BUR./REV.

<sup>3</sup> Source: ASBL Pension Fund - 2005 annual accounts

- an increase in monthly contributions as from 2006: EUR 1 094 for members and EUR 2 088 for Parliament;
  - a report to be drawn up by a working party on the financial situation of the pension fund;
86. Takes the view that the relationship between Parliament and the pension fund should be placed on a contractual footing by the end of this year; calls on the Secretary-General to forward to the Committee on Budgetary Control, in December 2006, a report on the progress achieved;
87. Believes, furthermore, that Members' contributions to the voluntary pension scheme should be paid directly from personal income rather than through the parliamentary allowance system; Notes, however, that in respect of the current contribution system "in its Opinion No 5/99, the Court of Auditors arrived at the following conclusion "From the Fund's and from the members point of view, the system has worked effectively. Additionally it has enabled Parliament to calculate its own payment obligations correctly since, according to the rules, Parliament has to pay the double of the amount effectively paid by the members"; notes that the Court saw no problems in maintaining the system provided that it was better defined and its operation set down in a formal document;
88. Notes with concern that the deduction of contributions to the pension scheme from the general expenditure allowance leaves Members exposed to allegations that public funds may be put towards the cost of private pension contributions, and therefore calls on the Parliament's Bureau to propose before 31 March 2007 measures to ensure that such payments are made directly by pension scheme members through direct debit orders;
89. Notes that, after the Statute for Members of the European Parliament enters into force in 2009, Members will be treated equally and the additional pension fund will no longer be allowed to admit new members; takes the view furthermore that once the Statute for Members has entered into force:
- the voluntary pension scheme should simply settle claims;
  - members should no longer be able to join the voluntary pension fund; previously acquired entitlements would be maintained, however;

### ***European political parties***

90. Notes the following presentation of the accounts of the political parties at European level in 2004:

2004 budget accepted under the agreement (in EUR)					
Party	Eligible expenditure according to budget estimates accompanying funding application	Funding applied for	Own resources	Funding granted	Grant as a proportion of funding applied for
PPE	2 116 783.00	1 587 587.00	517 555.63	1 051 469.44	66%
PSE	1 676 000.00	1 257 000.00	447 780.45	1 093 853.21	87%
ELDR	825 194.00	618 896.00	156 156.24	462 661.31	75%

EFGP	408 000.00	307 500.00	77 371.36	171 460.56	56%
AEN	215 000.00	161 250.00	28 000.00	83 964.01	52%
PDE	453 900.00	340 425.00	23 509.72	69 861.91	21%
GE	280 366.00	210 275.00	69 800.00	120 895.22	58%
EFA	222 024.00	165 724.00	54 407.34	163 222.02	99%
<b>Total</b>	<b>6 197 267.00</b>	<b>4 648 657.00</b>	<b>1 374 940.74</b>	<b>3 217 387.68</b>	<b>69%</b>
PPE: European People's Party; PSE: Party of European Socialists; ELDR: European Liberal Democrat and Reform Party; EFGP: European Federation of Green Parties; AEN: Union for Europe of the Nations; PDE: European Democratic Party; GE: Party of the European Left; EFA: European Free Alliance					

91. Underscores the fact that the parties' external auditors have confirmed that the accounts comply with current rules and international accounting standards;
92. Highlights the fact that parties at European level have not yet been able fully to utilise the appropriations available to them;
93. Points out that, in its position of 15 March 2006<sup>1</sup> on reform of the Financial Regulation, it made a proposal on the legal treatment of the own resources of political parties at European level within the meaning of Regulation (EC) No 2004/2003 of the European Parliament and of the Council of 4 November 2003 on the regulations governing political parties at European level and the rules regarding their funding<sup>2</sup>;
94. Recalls that its committee responsible will shortly be submitting a report on the application of Regulation (EC) No 2004/2003 and that this Regulation was applied for the first time in 2004;
95. Calls on the Bureau to take account of the following considerations for a more efficient application of this Regulation:
- that it should be possible for 15% of funding which has been committed but not yet disbursed to be carried forward to the following financial year;
  - that parties at European level should be allowed to establish a reserve from own resources which, should they be disbanded, would permit them to meet their statutory obligations towards their employees and contractors;
  - that a multiannual financial framework, extending for example over a parliamentary term, which would provide the parties with greater planning certainty, should be established;

### ***Recruitment of staff from the new Member States***

96. Calls on the Secretary-General to report by the end of December 2006 on the progress achieved in recruiting staff from the new Member States by category (interpreters, translators, administrative staff, etc.);

### ***Expenditure for interpretation services (Court of Auditors' Special Report 5/2005)***

<sup>1</sup> *Texts Adopted*, P6\_TA(2006)0085, Amendment 99.

<sup>2</sup> OJ L 297, 15.11.2003, p. 1.

97. Underscores the fact that multilingualism is one of the characteristic features of the European Union and gives expression to the Union's cultural and linguistic diversity and ensures equal treatment for its citizens; emphasises the fact that multilingualism guarantees the right of citizens to communicate with European Union institutions in one of the Union's official languages, thereby making it possible for citizens to exercise their right to democratic control;
98. Points out that it has conducted a detailed examination of the Court of Auditors' Special Report 5/2005 in a separate resolution;
99. Recognises that its frequent journeys between its seats causes significantly higher costs in a number of areas of its activities, including interpretation, as concluded by the Court of Auditors in its Special Report 5/2005;

***Interinstitutional Agreement on Better Lawmaking: impact assessment***

100. Points to its decision of 9 October 2003 on the conclusion of the Interinstitutional Agreement on Better Lawmaking<sup>1</sup> and notes the conclusions of the working party on impact assessment<sup>2</sup>; accordingly
- each institution should be responsible for assessing the impact of its own proposals;
  - the impact assessment should concern all texts of major political significance and cover the following areas: the consequences of regulation, including the consequences of non-regulation, and economic, environmental, social and budgetary consequences;
  - Parliament should have impact assessments conducted by third parties and satisfy itself only as to the quality of their appraisals;
  - decisions on whether an impact assessment should be carried out and on the appraisals contained therein should be a matter for the political coordinators and/or chairmen of the portfolio committees;
101. Takes the view that the inclusion of impact assessments involves risks which might impair parliamentary work; accordingly,
- a Member's right to table amendments could be curbed or politically controlled;
  - the time pressure to which parliamentary work is already subject because of tabling and translation deadlines will increase further;
  - including external expertise and assessments of it could prove excessively burdensome;
  - it might become impossible to negotiate last-minute compromises;
102. Calls therefore on the Secretary-General and the competent parliamentary bodies to explain how they propose to implement this aspect of the Interinstitutional Agreement on Better Lawmaking;

***Follow-up to the resolution on the discharge for implementation of the European Union general budget for the financial year 2003***

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<sup>1</sup> OJ C 81 E, 31.3.2004, p 84.

<sup>2</sup> Adonis: 03-DGIII(04)D/19596.

103. Welcomes the fact that the Internal Audit Service's audit reports have been reflected in the Secretary-General's revised action plan, which has been forwarded by him to Parliament's competent bodies together with his declaration of assurance; recalls that the action plan contains 47 individual measures and calls on the Secretary-General to explain which of those measures he has set as priorities;
104. Notes that Parliament ensures implementation of budget Item 3701 for the non-attached Members and has certified the reliability of such implementation; recalls that documents relating to this budget item are published on Parliament's website;
105. Notes that the Secretary-General's proposals firstly for a standard letter for selecting the groups' external auditors and secondly for the group chairmen's financial reports have been submitted to the Bureau for discussion and adoption; notes that a decision has not yet been taken and calls on the Bureau to inform the Committee on Budgetary Control of the outcome of the discussions;
106. Notes that in 2004, in preparation for applying the Statute for Members of the European Parliament, Parliament made a start on technically merging the management systems for the payment of allowances to Members of Parliament, which, until then, had been running independently of each other (the PAM Project - Portail Applicatif des Membres, or Members' Application Portal);
107. Notes that the Disciplinary Board has completed its work on allocating responsibility in connection with the discrepancy of BEF 4 136 125 between the cash situation and the corresponding accounts in 1982; expects that amount, including interest, to be recovered;
108. Notes with satisfaction that on 12 December 2005 the Bureau adopted the final report by the Eco-Management and Audit Scheme (EMAS) working group and that the report on the environmental management system within Parliament will be posted on Parliament's website in February 2006;
109. Notes that information technology services for Members have been further improved, in particular:
- as a result of improved IT facilities for Members' offices;
  - by the setting up of a CyberLAN network, to which any computer can be connected;
  - by launching a pilot project on the introduction of an electronic signature system;
  - through improved measures to protect servers, workstations and network components;
  - by equipping Parliament with a wireless communications structure (hotspots and wireless fidelity);
110. Insists that electronic signatures, for which a pilot project is now in process, be introduced as soon as possible so that Members can sign documents such as amendments and parliamentary questions without having to forward documents on paper, which would increase the efficiency of Members' work in Parliament;
111. Notes that the Quaestors decided on 16 November 2005 that committee documents would continue to be made available to committee members, but that hard-copy distribution of



texts adopted in Strasbourg and press releases is being discontinued.

## PROCEDURE

<b>Title</b>	Discharge for 2004 – European Parliament
<b>References</b>	N6-0027/2005-C6-0357/2002-2005/2091(DEC)
<b>Definitive annual accounts forwarded on (date)</b>	15.11.2005
<b>Annual report of the Court of Auditors forwarded on (date)</b>	30.11.2005
<b>Council recommendation</b> Date forwarded	C6-0092/2006 14.3.2006
<b>Committee responsible</b> Date of referral	CONT 15.11.2005
<b>Committees asked for opinions</b> Date of referral	All 15.11.2005
<b>Rapporteur(s)</b> Date appointed	Markus Ferber 20.04.2005
<b>Previous rapporteur</b>	Ona Juknevičienė
<b>Discussed in committee</b>	13.7.2006
<b>Date adopted</b>	14.9.2006
<b>Result of final vote:</b> <b>1. Proposal for decision on discharge</b> <b>2. Motion for a resolution with comments</b>	for: 25                      against: 0                      abstentions: 0 for: 20                      against: 1                      abstentions:4
<b>Members present for the final vote</b>	Inés Ayala Sender, Herbert Bösch, Paulo Casaca, Petr Duchoň, Szabolcs Fazakas, Markus Ferber, Ingeborg Gräßle, Dan Jørgensen, Rodi Kratsa-Tsagaropoulou, Edith Mastenbroek, Véronique Mathieu, Jan Mulder, Borut Pahor, José Javier Pomés Ruiz, Brian Simpson, Bart Staes, Margarita Starkevičiūtė, Kyösti Virrankoski
<b>Substitutes present for the final vote</b>	Chris Davies, Salvador Garriga Polledo, Robert Goebbels, Ashley Mote, Bill Newton Dunn
<b>Substitutes under Rule 178(2) present for the final vote</b>	Reimer Böge, Astrid Lulling, Francisco José Millán Mon
<b>Date tabled</b>	15.9.2006
<b>Comments (available in one language only)</b>	