Discharge for 2018 budget – European Commission and executive agencies

During the May plenary session, the European Parliament is expected to decide whether to grant discharge for the 2018 financial year to the different institutions and bodies of the European Union (EU). The first item in this process is the report covering the European Commission (including six executive agencies) which is in charge of managing the biggest share of the EU general budget. Separate discharge is granted to the Commission concerning management of the European Development Funds (EDFs), which are not part of the general budget as they are established by intergovernmental agreement. The Committee on Budgetary Control (CONT) recommends that Parliament should grant the Commission and all six executive agencies discharge for 2018. It also recommends granting discharge in respect of the implementation of the operations of the EDFs in 2018.

The discharge procedure

In the framework of the annual discharge procedure, the European Parliament decides to grant, postpone or reject the discharge, for implementation of the budget in the year concerned, of different EU institutions and bodies. It can also makes recommendations for improving the financial management and implementation of the EU budget. After receiving a recommendation from the Council, Parliament ascertains whether the European Commission, as well as the executive agencies (set up by it to manage specific tasks related to EU programmes) upheld the principles of sound financial management and respected the applicable rules and regulations when implementing the budget.

The European Court of Auditors (ECA) assesses the EU´s accounts independently. Every year, it prepares an annual report on the implementation of the budget, which is an essential element in the discharge procedure. The ECA checks the legality and regularity of the spending as well as the achievement of objectives.

European Court of Auditors' 2018 annual report

In 2018, spending totalled €156.7 billion, the equivalent of 2.2 % of the total general government spending of EU Member States, or 1.0 % of EU gross national income. According to the ECA, revenue for 2018 was legal, regular and free from material error.

As far as expenditure is concerned, the ECA concluded that it was also legal and regular, except for cost reimbursements. The ECA's opinion on expenditure for the financial year 2018 is qualified, for the third time in a row. Previously, since 1994 the ECA had given adverse opinions for every year. For expenditure as a whole, the ECA estimates the level of error to be in the range of 1.8 % to 3.4 %. The mid-point of this range, termed the most likely error, is 2.6 %. This compares to 2.4 % in 2017 and 3.1 % in 2016. During 2018, the ECA communicated nine cases of suspected fraud to the European Anti-Fraud Office (OLAF) (there were 13 such cases in 2017). The spending area of 'Natural resources' had the largest share of audited expenditure (48 %). 'Direct support', consisting mainly of direct aid payments to farmers, accounted for 7 % of this area and was free of material error. 'Cohesion', the second largest share of audited expenditure (20 %), was affected by material error, mainly due to the reimbursement of ineligible costs and infringements of internal market rules. 'Competitiveness' represented the third largest share of audited expenditure (15 %).

The ECA's 2018 audit results confirm the findings for 2016 and 2017: namely, the way expenditure is disbursed has an impact on the risk of error. Errors were confined mainly to high-risk expenditure where payments from the EU budget are made to reimburse costs previously incurred by beneficiaries. Such cost reimbursements can be subject to complex eligibility conditions, which in turn may lead to errors. This type of expenditure accounted for around 51 % of the audit subjects in 2018, and the estimated level of error was 4.5 %. This compares to 3.7 % in 2017 and 4.8 % in 2016.

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PE 649.413 – May 2020

The low absorption of European structural and investment (ESI) funds (27.3 % of total allocations for the whole Multiannual Financial Framework, MFF) has contributed to increasing outstanding commitments. Poland, Italy, Spain and Romania had the biggest share of outstanding ESI funds commitments. The ECA highlighted again the significant risks that a high level of outstanding commitments can create for the EU budget. The ECA also concludes that further emphasis on the performance of EU spending is needed.

In 2018, the expenditure of the European Development Funds (EDFs) amounted to €4.1 billion, of which €3.7 billion was subject to audit. On the basis of the 39 errors the ECA had quantified, the ECA estimated the level of error to be 5.2 %. The ECA found that most errors related to non-compliance with procurement rules, expenditure that either had not been incurred or was ineligible, overheads claimed as direct costs, and the absence of supporting documents. The ECA recommends reinforcing the obligation on international organisations to forward to the ECA, at its request, any document or information it needs.

Council recommendations

The Council recommends the European Parliament to give discharge to the Commission and all six executive agencies for the execution of the 2018 budget. It also recommends giving discharge concerning the financial management of the EDFs for the financial year 2018. The Council regrets that the estimated level of error reported by the Court continues to be above the materiality threshold and increased in 2018 (2.6 %) compared to 2017 (2.4 %), after having gone down from 3.8 % in 2015 and 3.1 % in 2016. The Council is concerned about the increase in the estimated level of error for reimbursement-based payments, from 3.7 % in 2017 to 4.5 % in 2018, and notes that this type of expenditure, subject to complex rules, carries a high risk of error. The Council expresses its concern about the continuing increase of outstanding budgetary commitments (RAL), which creates the risk of insufficient payment appropriations to settle outstanding payment claims in future years. It also deplores the low absorption of the ESI funds in the earlier years of the current MFF, mainly due to the late adoption of the related legislation. It also stresses the increase of the risk exposure of the EU budget to contingent liabilities stemming from guarantees.

Committee on Budgetary Control's position

On 19 February 2020, the CONT committee adopted its report which proposes to grant discharge to the Commission and to all six executive agencies. CONT highlights that respect for the rule of law is an essential precondition for complying with the principles of sound financial management as established in Article 317 of the Treaty on the Functioning of the EU (TFEU). It recalls that Article 61 of the current Financial Regulation has enlarged the definition of conflict of interests, and deplores the fact that the Commission's auditors have detected cases of allegations of conflict of interests in Czechia related to cohesion policy. CONT calls on the Commission to define stronger key performance indicators that would reflect the achievements of EU spending programmes and policies. CONT welcomes the ECA's intention to provide the discharge authorities with an assessment covering both compliance and performance dimensions for each policy. CONT sees a clear need for more cooperation between customs services in the Member States, in particular as regards value-added tax (VAT) losses and counterfeit products, and is concerned about the risk of under-evaluation of supplies of e-commerce goods from third countries. The Commission is urged to pay greater attention to the geographical distribution of research funds. CONT calls on the Commission to speed up the delivery of cohesion and related programmes, in view of the high level of outstanding commitments resulting from the slow implementation of ESI funds. Concerning the common agricultural policy, CONT expresses concerns about land-grabbing in some Member States. CONT regrets that according to the Commission the overall effects of the greening measures, as currently applied, on farm management practices and on environment/climate are uncertain and appear to be fairly limited. Emphasis is put on better disclosure of beneficiaries of agricultural funds and on a fair allocation to active farmers. CONT also welcomes the fact that the Commission's Directorate-General for Regional and Urban Policy (DG REGIO) intends to recover more than €1 billion from programmes in which it discovered irregularities in Hungary.

A separate CONT report proposes to grant discharge in respect of the implementation of the 8th, 9th, 10th and 11th EDFs for the financial year 2018.

Discharge procedure reports: Committee responsible: CONT; 2019/2055(DEC), Rapporteur: Monika Hohlmeier (EPP, Germany); 2019/2065(DEC), Rapporteur: Michèle Rivasi (Greens/EFA, France).