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REPORT

on the outcome of the conciliation procedure provided for by the Joint Declaration of the European Parliament, the Council and the Commission of 4 March 1975 on the joint guidelines adopted by the Council with a view to adopting a Council Regulation (Euratom, ECSC, EEC) amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities
(14380/2000 – C5-0006/2001 - 2000/0135(CNS))

Committee on Budgetary Control

Rapporteur: Michiel van Hulten

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PROCEDURAL PAGE

At its sitting of 5 October 2000 Parliament delivered its opinion on the proposal for a Council Regulation amending the Financial Regulation of 21 December 1977 and separating the internal audit function from the ex ante financial control function (Article 24, paragraph 5, of the Financial Regulation) (COM(2000) 341 – C5-0293/2000 – 2000/0135(CNS))

By letter of 29 December 2000 the Council submitted to Parliament the text of the joint guidelines concerning that proposal.

At the sitting of 18 January 2001 the President of Parliament announced that she had received the joint guidelines and that she had referred them to the Committee on Budgetary Control (C5-0006/2001).

Parliament's delegation to the Conciliation Committee recommended to the Committee on Budgetary Control, at its meeting of 26 March 2001, that conciliation be wound up and that a report be made to plenary to that effect.

The Committee on Budgetary Control had appointed Michiel van Hulten rapporteur at its meeting of 19 September 2000.

It considered the draft report at its meeting of 21 March 2001.

At this meeting it adopted the draft decision unanimously with one abstention and decided to apply the procedure without debate under Rule 114(1).

The following were present for the vote: Diemut R. Theato, chairman; Freddy Blak, vice-chairman; Michiel van Hulten, rapporteur; Paolo Casaca (for Anne Ferreira), Rijk van Dam, Bert Doorn (for Birgitte Langenhagen), Christos Folias (for Christopher Heaton-Harris), Helmut Kuhne, Jan Mulder (for Antonio Di Pietro), Bart Staes, Gabriele Stauner.

The report was tabled on 22 March 2001.

DRAFT DECISION

Decision on the outcome of the conciliation procedure provided for by the Joint Declaration of the European Parliament, the Council and the Commission of 4 March 1975 on the joint guidelines adopted by the Council with a view to adopting a Council Regulation (Euratom, ECSC, EEC) amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities (14380/2000 –C5-0006/2001 - 2000/0135CNS))

(Conciliation procedure)

The European Parliament,

- having regard to its opinion¹ on the Commission proposal to the Council (COM(2000) 341 – C5-0293/2000)²,
 - having regard to the amended Commission proposal (COM(2000) 693)³,
 - having regard to the joint guidelines adopted by the Council on 29 December 2000 (14380/2000 - C5-0006/2001),
 - having regard to the Joint Declaration of the European Parliament, the Council and the commission of 4 March 1975,
 - having regard to Rule 72(4) of its Rules of Procedure,
 - having regard to the report of its Committee on Budgetary Control (A5-0100/2001),
1. Notes the outcome of conciliation, the details of which are attached, and shares the favourable opinion of its delegation;
 2. regrets that the Council did not see fit to agree to a trialogue meeting at political level prior to a formal meeting of the Conciliation Committee; urges the Council to reconsider this issue, notably in the context of the pending general recast of the Financial Regulation;
 3. Instructs its Secretary-General, in agreement with the Secretary-General of the Council, to arrange for the details of the outcome to be published in the Official Journal;
 4. Instructs its President to forward this decision to the Council and Commission.

¹ See Minutes of 5 October 2000, Part II.

² JO C 311, dated 31.10.00

³ JO C 62, dated 27.02.01

OUTCOME OF CONCILIATION

(Amendments made to the Council's joint guidelines (14380/2000 - C5-0006/2001))

I. Amendment of the text of the joint guidelines

New recital

- (7) *The European Parliament and the Council reached a broad convergence of views on separating the internal audit function from the ex ante financial control function; they thus concluded that it was not necessary, in this particular case, to convene the Conciliation Committee pursuant to the Joint Declaration of 4 March 1975 of the European Parliament, the Council and the Commission.*

II. Statements

Joint Parliament and Council statement

"The European Parliament and the Council reached a broad convergence of views on separating the internal audit function from the *ex ante* financial control function. In conformity with the new Article 24a (3) of the Financial Regulation, they confirm their willingness to implement internally the separation of the internal audit function from the *ex ante* financial control function. They will carry out this separation as soon as their internal control systems and procedures are fully operational."

Commission statement

"The Commission considers that the internal audit should be carried out in accordance with the relevant international rules, as laid down by the proposal amending the Commission Regulation of 1993 laying down detailed rules for the implementation of the Financial Regulation, adopted on 15 November 2000 and currently under consultation at the European Parliament and the Council - and on the basis of a risk assessment, as provided for in the proposed revision of the Financial Regulation of 21 December 1977 adopted by the Commission on 26 July 2000."

EXPLANATORY STATEMENT

The Parliament delegation, at its meetings of 31 January 2001 and 14 February 2001, endorsed the position of the Parliament adopted on 5 October 2000 introducing four amendments to the Commission proposal, especially the points raised in Amendment 3 which the Council's Joint Guideline did not accept. These changes aimed to introduce:

- The mandatory separation of the internal audit function from the *ex ante* financial control within Parliament, Council and Commission,
- a job description of the internal auditor and
- a requirement to produce annual internal audit reports and an obligation for the institutions to learn from each other's annual reports.

The delegation mandated Mr. IMBENI, Chair of the Delegation, Mrs. THEATO, Chair of the Committee on Budgetary Control, and Mr. Van HULTEN, Rapporteur, to arrange to meet the representatives of the Council in order to find common ground.

After an exchange of letters between the EP delegation and the Council, possible compromise solutions were sought. It has become clear that the Council was not willing to change the text of its Joint Guideline. Parliament's representatives have been obliged to seek a compromise through declarations. However they have succeeded in obtaining a commitment from the Council that these declarations be published in the Official Journal alongside the Regulation.

Two declarations have emerged from these discussions: one joint EP and Council statement confirming their intention to separate internally the functions of internal audit and financial control and one Commission statement where it confirms its intention to carry out the tasks of the internal auditor in accordance with international standards.

Thus, the conciliation procedure could be concluded by an exchange of letters without convening the "Conciliation Committee" provided for in the 1975 Joint Declaration.

However, in his letter to the President of the Council dated 6 March 2001, the Chair of the delegation regretted that Council had not seen fit to agree to a trialogue meeting at political level prior to a formal meeting of the Conciliation Committee. He urged the Council to reconsider this issue, notably in the context of the pending general recast of the Financial Regulation.