

# EUROPEAN PARLIAMENT

1999



2004

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*Session document*

FINAL  
**A5-0200/2004**

19 March 2004

## **REPORT**

on the discharge for 2002 - general budget of the European Communities  
(Commission)  
(SEC(2003)1104 - C5-0564/2003 - 2003/2210(DEC))

Committee on Budgetary Control

Rapporteur : Juan José Bayona de Perogordo



## CONTENTS

	<b><u>Page</u></b>
PROCEDURAL PAGE .....	5
1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION.....	7
on the discharge for 2002 - general budget of the European Union (Commission)	
2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION.....	9
on closing the accounts for 2002 - general budget of the European Union (Commission).....	9
3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	11
containing the comments which are an integral part of the decision on the discharge for 2002 - general budget of the European Union (Commission) .....	11
ANNEX 1.....	61
Working document on the European Court of Auditors' findings:	
- as regards the system for setting the rates of subsidy on exports of agricultural products (Special Report 9/2003);	66
- the prefinancing of export refunds (Special Report 1/2003)	66
Working documents on the reform of the Commission:	
- Part A	75
- Part B: Accounting system	83
Working documents on EU Structural Funds and rural development:	
- Part A: Support for less -favoured areas	91
- Part B: Implementation of assistance programming 2000-2006 and evolution of the RAL 98	
Working document on enlargement	106
OPINION OF THE COMMITTEE ON FOREIGN AFFAIRS, HUMAN RIGHTS, COMMON SECURITY AND DEFENCE POLICY	111
OPINION OF THE COMMITTEE ON EMPLOYMENT AND SOCIAL AFFAIRS	113
OPINION OF THE COMMITTEE ON THE ENVIRONMENT, PUBLIC HEALTH AND	

CONSUMER POLICY	115
OPINION OF THE COMMITTEE ON REGIONAL POLICY, TRANSPORT AND TOURISM	124
OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION	126
OPINION OF THE COMMITTEE ON WOMEN'S RIGHTS AND EQUAL OPPORTUNITIES	129

## PROCEDURAL PAGE

On 8 October 2003 the Commission submitted to Parliament, pursuant to Article 275 of the EC Treaty, Article 78(5) of the ECSC Treaty and Articles 275 and 179a of the Euratom Treaty, the final annual accounts of the European Union for the budgetary operations for 2002 - Volume I - Consolidated accounts for budgetary execution and consolidated financial accounts (SEC(2003)1104 - 2003/2210(DEC))<sup>1</sup>.

At the sitting of 3 December 2003 the President of Parliament announced that he had referred the documents to the Committee on Budgetary Control as the committee responsible and to all the relevant committees for their opinions (C5-0564/2003, C5-0565/2003).

On 17 November 2003 the Court of Auditors submitted to Parliament its report on the 2002 financial year.

At the sitting of 3 December 2003 the President of Parliament announced that he had forwarded the report to the Committee on Budgetary Control as the committee responsible (C5-0583/2003).

On 10 March 2004 the Council forwarded to Parliament the recommendation on giving discharge to the Commission in respect of the execution of the general budget of the European Union for 2002.

At the sitting of 29 March 2004 the President of Parliament announced that he had forwarded the above document to the Committee on Budgetary Control (C5-0000/2004).

At its meeting of 10 September 2002 the Committee on Budgetary Control had appointed Juan José Bayona de Perogordo rapporteur.

At its meetings of 17 February and 16 March 2004 it examined the Commission's final accounts for the budgetary operations of 2002 - Volume I - consolidated account for budgetary execution and consolidated financial accounts (SEC(2003)1104 and SEC(2003)1105), the Court of Auditors' annual report, the working documents drawn up by the members of the committee on the different areas of the activity of the European Union and the Council's recommendation, and the draft report and committee opinions.

At the latter meeting it adopted:

1. the proposal for a decision on the discharge for 2002 - general budget of the European Union (Commission) by 11 votes to 4;
2. the proposal for a decision on closing the accounts for 2002 - general budget of the European Union (Commission) by 12 votes to 3;

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<sup>1</sup> OJ C 316, 29.12.2003, pp. 1-105.

3. the motion for a resolution containing the comments which are an integral part of the decision on the discharge for 2002 - general budget of the European Union (Commission) by 12 votes to 3.

The following were present for the vote: Diemut R. Theato (chairman), Herbert Bösch, Paulo Casaca (vice-chairmen), Juan José Bayona de Perogordo (rapporteur), Generoso Andria, María Antonia Avilés Perea, Jens-Peter Bonde (for Rijk van Dam), Graham H. Booth (for Jeffrey William Titford, pursuant to Rule 153(2)), Giorgio Calò (for Ole Sørensen, pursuant to Rule 153(2)), Christopher Heaton-Harris, Helmut Kuhne, John Joseph McCartin (for Brigitte Langenhagen), Eluned Morgan, Heide Rühle (for Bart Staes), Gabriele Stauner and Michiel van Hulten.

The opinions of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, the Committee on Development and Cooperation, the Committee on Employment and Social Affairs, the Committee on the Environment, Public Health and Consumer Policy, the Committee on Women's Rights and Equal Opportunities and the Committee on Regional Policy, Transport and Tourism are attached.

The report was tabled on 19 March 2004.

## 1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on the discharge for 2002 - general budget of the European Union (Commission)  
(SEC(2003)1104 - C5-0564/2003 - 2003/2210(DEC))**

*The European Parliament,*

- having regard to the final annual accounts of the European Communities for the budgetary operations for 2002 - Volume I - Consolidated accounts for budgetary execution and consolidated financial accounts (SEC(2003)1104 - C5-0564/2003, SEC(2003)1105 - C5-0565/2003)<sup>1</sup>,
- having regard to the Court of Auditors' annual report for 2002<sup>2</sup> and to its special reports accompanied by the replies of the institutions audited, (C5-0583/2003),
- having regard to the statement of assurance concerning the reliability of the accounts and the legality and regularity of the underlying operations supplied by the Court of Auditors pursuant to Article 248 of the EC Treaty<sup>3</sup> (C5-0583/2003),
- having regard to the Council recommendation of 9 March 2004 (C5-0145/2004),
- having regard to Articles 274, 275 and 276 of the EC Treaty, and Articles 179a and 180b of the Euratom Treaty,
- having regard to Article 3 of the Council Decision of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel<sup>4</sup>,
- having regard to Annex 1(3) to the Decision of the Representatives of the Governments of the Member States, meeting within the Council, of 27 February 2002 on the financial consequences of the expiry of the ECSC Treaty and on the research fund for coal and steel<sup>5</sup>,
- having regard to the Financial Regulation of 21 December 1977, especially Article 89 thereof, and to the Financial Regulation of 25 June 2002<sup>6</sup>, especially Articles 145 to 147 thereof,
- having regard to Article 93 of and Annex V to its Rules of Procedure,
- having regard to the report of the Committee on Budgetary Control and the opinions of the other committees concerned (A5-0200/2004),

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<sup>1</sup> OJ C 316, 29.12.2003.

<sup>2</sup> OJ C 286, 28.11.2003, p. 1.

<sup>3</sup> OJ C 286, 28.11.2003, p. 12.

<sup>4</sup> OJ L 29, 5.2.2003.

<sup>5</sup> OJ L 79, 22.3.2002.

<sup>6</sup> OJ L 248, 16.9.2002, p. 1.

- A. whereas under Article 274 of the EC Treaty the Commission executes the budget on its own responsibility, taking account of the principle of sound financial management,
1. Grants discharge to the Commission in respect of the execution of the general budget of the European Communities for 2002;
  2. Submits its comments in the attached resolution;
  3. Instructs its President to forward this decision and the resolution which is an integral part of it to the Council, the Commission, the European Court of Justice, the European Court of Auditors and the European Investment Bank, and to publish the texts in the Official Journal of the European Union (L series).



## 2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on closing the accounts for 2002 - general budget of the European Union (Commission)  
(SEC(2003)1104 – C5-0564/2003 – 2003/2210(DEC))**

*The European Parliament,*

- having regard to the general budget of the European Union for 2002,
- having regard to the final annual accounts of the European Union for the budgetary operations for 2002 - Volume I - Consolidated accounts for budgetary execution and consolidated financial accounts (SEC(2003)1104 - C5-0564/2003, SEC(2003)1105 - C5-0565/2003)<sup>1</sup>,
- having regard to the Court of Auditors' annual report for 2002<sup>2</sup> and to its special reports accompanied by the replies of the institutions audited, (C5-0583/2003),
- having regard to the statement of assurance concerning the reliability of the accounts and the legality and regularity of the underlying operations supplied by the Court of Auditors pursuant to Article 248 of the EC Treaty<sup>3</sup> (C5-0583/2003),
- having regard to the Council recommendation of 9 March 2004 (C5-0145/2004),
- having regard to Articles 274, 275 and 276 of the EC Treaty, and Articles 179a and 180b of the Euratom Treaty,
- having regard to Article 3 of the Council Decision of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel<sup>4</sup>,
- having regard to Annex 1(3) to the Decision of the Representatives of the Governments of the Member States, meeting within the Council, of 27 February 2002 on the financial consequences of the expiry of the ECSC Treaty and on the research fund for coal and steel<sup>5</sup>,
- having regard to the Financial Regulation of 21 December 1977, especially Article 89 thereof, and to the Financial Regulation of 25 June 2002<sup>6</sup>, especially Articles 145 to 147 thereof,
- having regard to Article 93 of and Annex V to its Rules of Procedure,

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<sup>1</sup> OJ C 316, 29.12.2003.

<sup>2</sup> OJ C 286, 28.11.2003, p. 1.

<sup>3</sup> OJ C 286, 28.11.2003, p. 12.

<sup>4</sup> OJ L 29, 5.2.2003.

<sup>5</sup> OJ L 79, 22.3.2002.

<sup>6</sup> OJ L 248, 16.9.2002, p. 1.

- having regard to the report of the Committee on Budgetary Control and the opinions of the other committees concerned (A5-0200/2004),
- A. whereas under Article 275 of the EC Treaty the Commission is responsible for drawing up the accounts,
  1. Approves the closure of the accounts in respect of the execution of the general budget for 2002;
  2. Instructs its President to forward this decision to the Council, the Commission, the European Court of Justice, the European Court of Auditors and the European Investment Bank, and to publish the text in the Official Journal of the European Union (L series).

### 3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

**containing the comments which are an integral part of the decision on the discharge for 2002 - general budget of the European Union (Commission)  
(SEC(2003)1104 – C5-0564/2003 – 2003/2210(DEC))**

*The European Parliament,*

- having regard to the general budget of the European Union for 2002,
- having regard to the final annual accounts of the European Communities for the budgetary operations for 2002 - Volume I - Consolidated accounts for budgetary execution and consolidated financial accounts (SEC(2003)1104 - C5-0564/2003, SEC(2003)1105 - C5-0565/2003)<sup>1</sup>,
- having regard to the Court of Auditors' annual report for 2002<sup>2</sup> and to its special reports accompanied by the replies of the institutions audited (C5-0583/2003),
- having regard to the statement of assurance concerning the reliability of the accounts and the legality and regularity of the underlying operations supplied by the Court of Auditors pursuant to Article 248 of the EC Treaty<sup>3</sup> (C5-0583/2003),
- having regard to the Council recommendation of 9 March 2004 (C5-0145/2004),
- having regard to Articles 274, 275 and 276 of the EC Treaty and Articles 179a and 180b of the Euratom Treaty,
- having regard to Article 3 of the Council Decision of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel<sup>4</sup>,
- having regard to Annex 1(3) to the Decision of the Representatives of the Governments of the Member States, meeting within the Council, of 27 February 2002 on the financial consequences of the expiry of the ECSC Treaty and on the research fund for coal and steel<sup>5</sup>,
- having regard to the Financial Regulation of 21 December 1977, especially Article 89 thereof, and to the Financial Regulation of 25 June 2002<sup>6</sup>, especially Articles 145 to 147 thereof,
- having regard to Article 93 of and Annex V to its Rules of Procedure,

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<sup>1</sup> OJ C 316, 29.12.2003.

<sup>2</sup> OJ C 286, 28.11.2003, p. 1.

<sup>3</sup> OJ C 286, 28.11.2003, p. 12.

<sup>4</sup> OJ L 29, 5.2.2003.

<sup>5</sup> OJ L 79, 22.3.2002.

<sup>6</sup> OJ L 248, 16.9.2002, p. 1.

- having regard to the report of the Committee on Budgetary Control and the opinions of the other committees concerned (A5-0200/2004),
- A. whereas implementation of EU policy is characterised mainly by 'shared management' between the European Commission and the Member States,
- B. whereas 'implementation tasks shall be delegated to Member States' where the Commission implements the budget by shared management, according to Article 53(3) of the Financial Regulation,
- C. whereas one of the main aims of the Modernisation of the Accounting System (MAS), announced in the latter half of 2002, is to develop an integrated accrual system which would provide a fuller picture of the Communities' financial situation - registering all assets and liabilities as soon as they arise, rather than waiting until a receipt or payment is affected,
- D. recalling that the administrative reform has been one of the main objectives of the present Commission, that the White Paper 'Reforming the Commission' was adopted on 1 March 2000, and that the Commission committed itself to an ambitious programme for strengthening independence, accountability, efficiency, transparency and the highest standards of responsibility,
- E. stressing its view that the discharge procedure is a process seeking, inter alia, to improve financial management in the EU by improving the basis for decision-taking in the light of the Court of Auditors' reports and the replies and opinions of the institutions,
- F. recalling the need for clear performance indicators for each major spending department of the Commission in order to evaluate progress in financial management from year to year;

## **A. HORIZONTAL ISSUES**

### **Shared management**

#### *General issues*

1. Recalls that the two largest areas of expenditure in the budget - agriculture and the Structural Funds - are subject to shared management, and notes that the Court of Auditors recommends that these two areas should be monitored particularly attentively 'due to their complexity and the many layers of administration involved' (Annual Report for the 2002 Financial Year, point 0.11);<sup>1</sup>
2. Endorses the Court of Auditors' view that there is a need for the Commission to pay greater attention to a form of management which separates the financing of a

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<sup>1</sup> OJ C 286, 28.11.2003, p.6.

Community policy from its implementation and, in the case of the Community, affected 77.6% of commitment appropriations in 2002;

3. Stresses that 'shared management' has its Community legal basis, in primary law, in Article 274 of the Treaty ('Member States **shall cooperate** with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management'), as well as, in secondary law, in Article 53(3) of the Financial Regulation ('Where the Commission implements the budget by shared management, implementation tasks **shall be delegated to Member States ...**');
4. Stresses that it is clear from the above two provisions that the Commission has primacy in the management of the Community funds concerned; calls on the Commission, accordingly, to draw up measures that reflect the subordinate position of the Member States and are aimed at ensuring sound financial management in this area;
5. Considers that there are no rules that would give the Commission clear grounds for avoiding its financial accountability by transferring it to the Member States in cases where they are at the origin of the irregularity;
6. Considers, therefore, that meaningful use of the term 'shared management' must be based on the fundamental principle that the Union delegates some of its powers to the Member States and that the Member States are obliged to carry out their part of the work in accordance with the guidelines adopted by the Union;
7. Points out that the salient financial feature of shared management is that national authorities appointed by the Member States make payments to those entitled to aid and that, even if the Member States pay out Community funds, where fraud and irregularities are not discovered or reported the cost is borne by the Community budget and not by the Member States;

#### *Commission's responsibility*

8. Stresses that, even though the day-to-day management is shared, financial responsibility remains indivisible and ultimate responsibility for implementation lies with the Commission, in accordance with Article 274 of the Treaty ('the Commission shall implement the budget ... on its own responsibility ..., having regard to the principles of sound financial management');
9. Calls on the Commission substantially to increase the number of 'sunset clauses' enshrined in legislation and detailed impact assessments;

10. Points out that Article 53, paragraph 5, of the new Financial Regulation<sup>1</sup> reiterates the indivisibility of financial responsibility as follows: 'in cases of shared or decentralised management, in order to ensure that the funds are used in accordance with the applicable rules, the Commission shall apply clearance-of-accounts procedures or financial correction mechanisms which enable it to assume final responsibility for the implementation of the budget in accordance with Article 274 of the EC Treaty and Article 179 of the Euratom Treaty';

*Member States' responsibility*

11. Points out that the Member States' responsibility is laid down in:

- Article 280 of the Treaty:

'The Community and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Community through measures to be taken in accordance with this Article, which shall act as a deterrent and be such as to afford effective protection in the Member States.

Member States shall take the same measures to counter fraud affecting the financial interests of the Community as they take to counter fraud affecting their own financial interests.

Without prejudice to other provisions of this Treaty, the Member States shall coordinate their action aimed at protecting the financial interests of the Community against fraud. To this end they shall organise, together with the Commission, close and regular cooperation between the competent authorities.'

- and in Article 274 as amended by the Amsterdam Treaty:

'Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principle of sound financial management';

*Position of the Court of Auditors on shared management*

12. Points out that since 1994 the Court of Auditors has noted in its declarations on the correctness of the accounts that the underlying transactions are often materially affected by errors, particularly in the case of payments made by the Member States in areas subject to shared management; regrets the fact that the 2002 financial year is no different from previous financial years in this respect

'a) in the case of the EAGGF, Guarantee Section, the payments were, again, materially affected by errors. Arable crops are less exposed to the risk of error than animal premiums, whereas the other categories of expenditure, which are not subject to the integrated administration and control system (IACS), are exposed to greater risk, as well as being subject to less efficient controls;

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

b) in the case of the structural measures, in spite of an improvement in supervisory systems and controls, especially at Commission level, the same types of error occurred at Member State level with the same frequency as in previous years<sup>1</sup>;

13. Points to the Court's most important audit results for the two main areas under shared management during the 2002 financial year <sup>2</sup>:

#### *Agriculture*

- the certifying bodies have reservations regarding expenditure of EUR 300 m owing to the way transactions are dealt with by the paying agencies (4.8 (b));
- the Commission has not accepted the accounts in respect of one-quarter of the total amount declared (4.8. (b));
- the certifying bodies' audits do not provide assurance that the information supplied to paying agencies by claimants under CAP schemes is correct (4.7.(d));
- the IACS<sup>3</sup> is a valuable source of information concerning the legality and the formal correctness of EAGGF payments, but it only covers approximately 58% of these payments (1.43) and is only fully implemented in 14 Member States (4.23), despite the fact that 'IACS inspection results represent an important source of evidence on the legality and regularity of the CAP transactions' (4.13); takes the view that Member States which fail to implement IACS should lose their corresponding right to agricultural support from the EAGGF Guarantee Fund;
- CAP expenditure taken over one year was - as in previous years - 'materially affected by error' (4.49);

#### *Structural Funds*

##### *System faults*

- not until the end of 2002 did the Member States give all managing and paying authorities and the intermediate bodies the necessary guidance for the management and control systems to be set up in respect of forms of intervention in the 2000-2006 programming period (5.27);
- not all the management and control systems examined by the Court meet the requirements, three years into the 2000-2006 programming period (5.32);
- approximately 15% of total expenditure for the 2000-2006 period have been paid without the Commission having assurance that the national supervisory and control

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<sup>1</sup> Annual report for the 2002 financial year, point V, OJ C 286, 28.11.2003, p. 13.

<sup>2</sup> Annual report for the 2002 financial year, chapters 1, 4, and 5, OJ C 286, 28.11.2003.

<sup>3</sup> Each Member State is required to set up an integrated administration and control system (IACS) which comprises an electronic database of farms and applications for aid, a system for identifying land, a system for identifying and registering animals and an integrated control system for administrative control and on-the-spot checks.

systems are operating as required (5.32);

*Substantive audit*

- of the areas at the final beneficiary stage affecting the eligibility of the expenditure for aid, the Court mentions the inclusion of actions or persons unrelated to the programmes concerned, failure to take account of revenue generated or other income when calculating the net cost of projects, the same expenditure being declared more than once, expenditure without supporting documents, use of arbitrary cost allocation rates, calculation errors, 'and several other failures to respect Community rules' (5.40);
14. Points to the Court's repeated highlighting of serious weaknesses in the Member States' supervisory control systems, and regrets the Member States' unwillingness to cooperate with the Commission to ensure that appropriations are used in accordance with the principle of sound financial management and the fact that this obligation appears to be translating into action only slowly and with difficulty;
  15. Wonders why the Commission allows Community monies to be knowingly put at risk in such a way;
  16. Points out the following key factors by way of explanation of this situation:
    - (a) the legal basis for shared management lies in secondary legislation (mainly sectoral legislation concerning the EAGGF Guarantee Section and the Structural Funds) and not in the Treaty;
    - (b) the Commission has the right of initiative for sectoral legislation and is fully responsible in legal terms for implementing the budget under Article 274, but its powers may be limited by sectoral legislation adopted by the Council and Parliament;
    - (c) the Commission is not able to act in any other way than as laid down in sectoral legislation, which generally does not provide it with any means other than supervisory instruments and procedures and financial corrections;
  17. Stresses that, without prejudice to the Commission's obligations as reflected in the Treaty, it is the legislative authority that defines the Commission's competence in the areas to which sectoral legislation applies; takes the view that there may be a risk of a mismatch between these two areas and that this may have an adverse effect on the scope for ensuring that the appropriations are used in accordance with the principle of sound financial management;
  18. Points out that, pursuant to the Treaty, general political responsibility lies unequivocally with the Commission; notes that responsibility for the many weaknesses, as highlighted by the Court of Auditors, should be attributed both to the Commission's failure to ensure that those control systems are working and to the complex nature of the legislation and the shortcomings of the supervisory and control systems in the Member States;



### *Recommendations*

19. Takes the view that it is absolutely necessary - inter alia because of enlargement - to find the right balance between the Commission's responsibility and the legislative means it has at its disposal to exercise that responsibility;
20. Believes that in areas with shared management there is a need for a climate of coordination, cooperation and dialogue between the parties involved in implementing the budget, and that without such a climate it will be difficult to envisage the budget being implemented in accordance with the principle of sound financial management;
21. Believes likewise that such a climate of understanding can help forge a common perception of the risks and weaknesses in the implementation of the budget in these areas;
22. Points out that the Commission has the paramount interest in the full implementation of these supervisory and control provisions, and that indulgence in this area on the Commission's part only undermines its position in areas with shared management;
23. Calls on the Commission to improve implementation of the budget in the forthcoming financial years by:

#### *in general*

- (a) ensuring that exemptions are not incorporated in sectoral legislation concerning implementation of the Financial Regulation;
- (b) taking greater account of Member States' dual role as both members of the Council and as national states with regard to the Commission's obligation to implement the budget in accordance with the principle of sound financial management;
- (c) complying to the letter with the provisions of the Treaty and of secondary law in the Commission's and Member States' practice in areas with shared management;
- (d) introducing, where applicable, new common standards to improve the national authorities' ability to carry out their part of the work;
- (e) fully assuming the role of guardian of the Community's financial interests, which do not necessarily coincide with those of the individual Member States;

#### *Agriculture*

- (f) making proposals for higher fixed correction rates for system weaknesses,
- (g) undertaking whatever action is needed to ensure that IACS is implemented in all Member States,

#### *The Structural Funds*

- (h) carrying out a study of old and new Member States' administrative capacity and increasing the frequency of controls in countries and regions with relatively weak administrative structures;
- (i) considerably improving its instruments for monitoring compliance with the additionality principle and the provisions on eligibility for aid;

- (j) making full use of the right to carry out on-the-spot checks and use financial corrections in respect of the Member States;
24. Takes the view that shared management is well suited as a form of management to implementing Community policies in the two major budget areas of agriculture and the Structural Funds, which have a very high number of final recipients of aid and involve very considerable amounts (77.6% of commitment appropriations in the 2002 budget); stresses, nonetheless, that sound implementation of these policies requires both the Commission and the national authorities to carry out their respective tasks;

#### *Auditing and shared management*

25. Applauds the Commission's initiatives with a view to coordinating and harmonising the audit programmes and the methods introduced in order to achieve an integrated auditing approach;
26. Expresses its interest in this initiative, and asks to receive up-to-date information on successes achieved, reservations entered, obstacles removed and the timetable for future actions in the Commission's follow-up report;
27. Welcomes the approach underlying the 'confidence contracts'; is aware that there is a lack of information on the matter, given the embryonic nature of the pilot project, but asks to be informed in good time of the results and of the measures adopted to encourage signature of such contracts despite their voluntary nature; notes with pleasure the willingness of Austria and Denmark to submit themselves to this measure, and strongly urges all other Member States to follow their lead;
28. Is concerned at the absence of 'confidence contracts' for the area of the European Social Fund with the Member States;<sup>1</sup>
29. Further urges the Commission to include provisions introducing a verifiable system based on a national declaration of assurance in the new draft regulations on the Structural Funds for the next period; urges the Member States to endorse such a proposal, which is essential for the shared management of the programmes;

#### **Recovery**

30. Notes, in the light of the Commission's replies<sup>2</sup>, the existence of a high degree of fragmentation in the area of the recovery of funds unduly paid;
31. Asks for information on the criteria for administrative harmonisation in this respect and the degree of compliance;
32. Calls on the Commission to provide, in its follow-up report, a comprehensive

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<sup>1</sup> Replies to the questionnaire - part 1 - Commission's reply to question No 92 (PE 328.732/fin. 1)

<sup>2</sup> Replies to the questionnaire - part 1, annex to question 19, pp. 120-121 (PE 328.732/fin. 1)

framework permitting standardised and regularly updated comparisons to be made and containing sufficient information on outstanding sums, numbers of dossiers closed and still open, and the efficiency levels of the individual recovery units;

## **The reform of the Commission**

### *General aspects*

33. Believes that the administrative reforms announced were barely more than window-dressing and that little tangible progress has been made; notes that uneven progress has been made in the implementation of the various actions set out in the White Paper; observes that, despite such progress, there are delays and difficulties to be overcome in many areas;
34. Notes the adoption by the Commission on 10 February 2004 of its final progress report on the actions adopted under the March 2000 White Paper on administrative reform; acknowledges that adoption of virtually all of the 98 reform measures marks the completion of the legislative phase, but insists that the reform momentum needs to be maintained so as to ensure full implementation;
35. Points out that rapid progress must be made as regards 'administrative culture', in which connection every effort must be made to ensure that the system around the authorising officer by delegation works perfectly; considers that further efforts must be made in order to bring about an appropriate change in mentality as regards giving staff a sense of responsibility, so that each official or other employee - irrespective of his or her position within the hierarchy - feels actively involved in the collective task; expects management to be unstinting in its efforts to achieve this objective;
36. Insists that the efforts still required if the reform is to be optimised must be made as quickly as possible, with particular regard to human-resource management (identification of priorities, including 'negative' ones; redistribution of resources so that they can be allocated to priority activities; assessment of needs and appropriate training initiatives designed to fill 'skills gaps') and the implementation of the 24 control standards; expects such progress to be reflected in the forthcoming annual activity reports;
37. Welcomes the measures adopted by the Commission to ensure further progress in the harmonisation of the terms and conditions under which Directors-General express reservations in their annual reports; hopes that these measures will be applied in the next annual-report drafting exercise, so as to enable the reservations expressed to be assessed and to facilitate identification of corrective measures;
38. Considers that the part of the reform linked to the amendment of the Staff Regulations is also important, since it constitutes an essential means of monitoring the reform of human-resource management; therefore expects the Commission to take Parliament's opinion into account;
39. Approves the Commission's efforts to establish a comprehensive 'whistleblower's

doctrine', notes that such a doctrine is truly effective only if staff members are aware of it, and encourages the Commission to ensure that this information is freely available to its staff;

#### *Decentralised financial control and risk assessment*

40. Acknowledges that the Commission has worked hard to ensure the transition from a centralised to a decentralised control system (i.e. the Administration controlling itself), involving inter alia the transfer of more than 200 posts from DG Financial Control to, in some cases, other directorates-general, with a view to strengthening their internal control systems, and, in others, for the new internal audit function;
41. Points out that a key feature of any debate on the most appropriate structure and form for financial control is the question of striking a suitable balance between operational requirements and control requirements; takes the view that painstaking compliance with rules and directives does not necessarily always go hand in hand with effective problem-solving;
42. Considers that control efforts focusing solely on preventing formal errors can militate against improvements in effectiveness if they encourage an excessively rule-based approach, with the familiar consequences of a lack of flexibility and excessive red tape; is therefore of the opinion that *risk assessment* is a crucial component of internal control arrangements insofar as it alone makes it possible to ensure that internal control outcomes are commensurate with costs;
43. Notes that the 24 internal control standards making up the framework for internal controls at the Commission, as adopted by the Commission in 2000 and modified in 2001, have still not come fully into force; observes that Standard 11 reads as follows: 'Each DG shall systematically analyse risks in relation to its main activities at least once a year, develop appropriate action plans to address them and assign staff responsible for implementing those plans';<sup>1</sup>
44. Considers, in view of the vital role of risk assessment within internal control, that the Commission's report on the implementation of that standard is both disquieting and unsatisfactory<sup>2</sup>; calls, therefore, on the Commission to give higher priority both to the performance of risk assessments and to implementation of the internal control system's other features; expects that the rules on internal control<sup>3</sup> will be applied rapidly and universally;
45. Deplores the lack of accountants in the Commission; notes the high turnover of accounting officers in 2002;

#### *The reform of the accounting system*

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<sup>1</sup>[http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC%20\\_2001\\_2037\\_Internal\\_Control\\_Standards\\_en.pdf](http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC%20_2001_2037_Internal_Control_Standards_en.pdf).

<sup>2</sup> 'Moreover, it is clear from the limited progress made in general, that DGs and services are some way short of having a fully embedded risk management culture in place.' (COM(2003) 391, point 3.2.)

<sup>3</sup> Replies to the questionnaire - part II - Commission's reply to question No 1 (PE 328.732/fin. 2)

46. Considers that the future accounting system should ensure full accrual accounting capacity, data consistency and secure access;
47. Stresses that one of the questions thus far has been whether the Commission should adopt a 'big bang' approach and move directly to a fully integrated, single-package system, or phase it in by means of an interim phase which takes account of the needs of local systems;
48. Notes that the Commission prefers the latter, as a safer and surer method and because a large-scale validation exercise is necessary before local systems can be switched to the central system;
49. Notes the following progress in implementing the first stages of reform in 2003:
  - (a) definition of accounting standards;
  - (b) documentation of user requirements;
  - (c) definition of accounting events;
  - (d) chart of accounts for coding of all transactions;
  - (e) accounting manual;
50. Takes note of the feasibility study conducted by Price Waterhouse Coopers on the Commission's MAS project and its chief recommendations for the project's successful completion;
51. Recalls that the Financial Regulation is based on a dual system combining accrual accounting for the purposes of the general financial accounts and cash-based accounting for the budget accounts; notes that this arrangement of public-sector accounting practices is in line with the criteria of the International Federation of Accountants and is the system operated by most Member States; points out, however, that this system requires permanent reconciliation between budget implementation and out-turn;
52. Notes that this 'dual system' enables the use of double-entry book-keeping for the general financial accounts, while single-entry is maintained for the budget accounts which are used by the budgetary authority to verify the state of budget implementation;
53. Appreciates the Commission's efforts to keep to the timetable laid down by the legislation in force, while recognising that it is extremely tight, given the experience in several Member States which have embarked upon a similar process of modernising public-sector accounts; suggests, therefore, adopting a phased approach which focuses first of all on eliminating any significant security weaknesses and accounting discrepancies, secondly on ensuring that the 2005 accounts will be presented on an accrual basis, and lastly that a coherent and integrated system is put in place to support the new architecture;
54. Considers that all EU institutions and decentralised agencies must ensure that they also have accounting systems compatible with the new framework and based on principles and standards analogous to those required by the Financial Regulation;

55. Considers the full cooperation and input of all Commission departments (stakeholders) essential to the success of MAS; likewise expects DG Budget to take account as much as possible of user needs;
56. Underscores the high priority which Parliament attaches to data uniformity of the new system, and, in particular, to the establishment of a central invoice register and contractors' database that will provide full, accurate and detailed information on the status of the institutions' contractual relations;
57. Points to the 2005 deadline for the validation process of interfaces between local systems and the central system, after which data provided by non-validated systems will not be recognised; seeks assurances that this deadline will be met for all services without exception;
58. Recognises that Option 3, as presented in the Commission Communication of December 2002<sup>1</sup>, represents the only realistic, although interim, approach to meet the key requirements of a modern accrual-based accounting system by 1 January 2005, as well as the sectoral needs of the operational services; stresses that the 2005 deadline, as required by the new Financial Regulation and thus a priority objective for Parliament, is not the end of the reform process, as the IT system supporting the new accounting architecture will still need to be installed to meet the goal of a fully integrated system (as laid down in Option 2);
59. Recalls the observer status on the Accounting Standards Committee and Project Oversight Board of both the Internal Audit Service and the Court of Auditors in the context of the MAS project; underlines their duty to follow closely the progress of the reform and to offer constructive and timely advice, as well as, where necessary, issuing early warnings that the project leaders must take into account when implementing the various stages;

### **The post-reform control structures**

#### *General issues*

60. Recalls that the administrative reform has been one of the main objectives of the present Commission, that the White Paper 'Reforming the Commission' was adopted on 1 March 2000, and that the Commission has committed itself to an ambitious programme for strengthening independence, accountability, efficiency, transparency and the highest standards of responsibility; notes that:
  - a) many very necessary and important steps in the right direction have been taken; and
  - b) there are still potential barriers to reform which have to be addressed;
61. Stresses that the Eurostat affair has highlighted the need to amend the Financial Regulation to the effect that the Commission is automatically required to request a full account of the ownership of a firm tendering for a Commission contract, and that the contractor has a corresponding obligation to give a full account of its ownership; further

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<sup>1</sup> COM(2002) 755

stresses that a contractor which refuses to provide information about its ownership should automatically be excluded from tendering for the contract;

62. Draws attention to the fact that the examination of the problems at Eurostat shows that there need to be safeguards against concealment of critical information;
63. Notes that the financial management and control structures now comprise the following key organisational elements:
  - (a) the Directors-General as delegated authorising officers;
  - (b) the Internal Audit Service;
  - (c) the Audit Progress Committee;
  - (d) the Internal Audit Capabilities (DG level);
  - (e) the Accounting Officer; and
  - (f) the Central Financial Service in DG Budget;
64. Takes the view that the Eurostat case has pointed up the need to review the relations between these different actors and between the individual Commissioners and the College of Commissioners, as well as the functioning of the accountability chain, in order to ensure progress not only in the area of financial management but also in the governance structure of the Commission;
65. Reiterates the statement that it made in paragraph 1 of its resolution of 4 December 2003<sup>1</sup> that 'it was a mistake to concentrate the competences for drawing up the budget and keeping accounts and for combating fraud in the hands of one Member of the Commission, because this inevitably creates a conflict of interests'; reiterates its demand that this conflict of interests be avoided in the future;
66. Stresses the political importance that it ascribes to the statements made and conclusions drawn under the heading 'Eurostat' in its resolution of 29 January 2004;

*The Directors-General as delegated authorising officers*

67. Believes that, as a result of the introduction of a system requiring each Director-General or Head of Service to present an Annual Activity Report accompanied by a statement of assurance concerning the degree of effectiveness of his department's controls, efficiency, transparency and accountability are improving to such an extent that they have actually become a key tool in the Court of Auditors' annual assessment of budgetary management;
68. Reiterates the demands and recommendations set out in paragraph 20 of its resolution of 4 December 2003 that the Financial Regulation should provide for more effective controls of the Directors-General in their capacity as authorising officers, in order to prevent any misuse of power, that the Commission's Accounting Officer should verify the information supplied to him by the authorising officers, at least by carrying out spot checks, and that the 'internal audit capacities' in the Directorates-General should no longer answer to the Directors-General but to the Internal Auditor;

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<sup>1</sup> P5\_TA-PROV(2003)0551

69. Expressly regrets the fact that the Commission took no action on its demand, set out in paragraph 21 of its resolution of 4 December 2003<sup>1</sup>, that the Commission should submit the requisite legislative proposals for the amendment of the Financial Regulation and/or the implementing provisions relating thereto;
70. Believes that each individual Commissioner is accountable for the services under his responsibility and must ensure that their objectives have been achieved on a basis of full respect of the principles of sound financial management;
71. Welcomes the presence, in the third progress report on the reform adopted by the Commission on 10 February 2004, of structural changes in the relations between the Commissioners and the Directors-General, on the lines requested in paragraph 30(1) of Parliament's resolution of 29 January 2004<sup>2</sup>;

#### *The Internal Audit Service*

72. Recalls that the Internal Auditor is independent in the discharge of his duties as set out in the Financial Regulation (Chapter 8, Article 85); stresses that Article 85 of the Financial Regulation refers directly to 'the relevant international standard' and that these standards are 'International Standards for the Professional Practice of Internal Auditing' as drawn up by the Institute of Internal Auditors ([www.theiia.org](http://www.theiia.org));
73. Draws attention, in particular, to the following standards<sup>3</sup>:
  - ' 1100 Independence and Objectivity:  
The internal audit activity should be independent, and internal auditors should be objective in performing their work.
  - 1110 Organisational Independence  
The chief audit executive should report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities.
  - 1110.A1 The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results';
74. Takes, in consequence, the view that the Internal Audit Service should be closely integrated into the Commission Presidency; emphasises that it is crucial for that Service to be established independently of the hierarchical structure of any individual Directorate-General so that effective internal control may be guaranteed;

#### *The Audit Progress Committee*

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<sup>1</sup> P5\_TA-PROV(2003)0551

<sup>2</sup> P5\_TA-PROV(2004)0049.

<sup>3</sup> [http://www.theiia.org/iaa/index.cfm?doc\\_id=1499](http://www.theiia.org/iaa/index.cfm?doc_id=1499)



75. Notes that the Audit Progress Committee was set up under the Charter of the Internal Audit Service of the European Commission (SEC(2000)1801/2, 31 October 2000)<sup>1</sup> with the principal task of monitoring the measures put in place by the DGs and services in the light of the analyses, evaluations and recommendations of the internal and external auditors;
76. Stresses that the Audit Progress Committee has the further function of assisting the College of Commissioners in its task of ensuring that the work of the Internal Audit Service is taken into account by the Commission's services, and that it may therefore make proposals to the Commission for suitable action;
77. Welcomes the Commission's reply to the effect that the Audit Progress Committee has the task of making it aware of any possible area of conflict related to its work on which it believes the Commission should act, accordingly making its minutes available to the Secretary-General<sup>2</sup>;
78. Notes that the Court of Auditors, in its Annual Report for 2001, stated that the existing practice is 'contrary to the usual rules forbidding the chairman of an audit board from playing a role in the organisation that is likely to give rise to a confusion of interest' (9.56)<sup>3</sup>; believes that, in this connection, it would be desirable to revise the Committee's rules in order to:

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<sup>1</sup> [http://europa.eu.int/comm/dgs/internal\\_audit/charter/charter\\_en.pdf](http://europa.eu.int/comm/dgs/internal_audit/charter/charter_en.pdf)

<sup>2</sup> Replies to questionnaire - Part 1; Commission's reply to Question 28 (PE 328.732/fin. 1)

<sup>3</sup> OJ C 295, 28.11.2002, p. 272.

- (a) ensure the absence of conflicts of interest;
- (b) attach its secretariat directly to the Secretary-General's office, as suggested by the Committee itself in its annual report; and
- (c) ensure publicity for its annual reports, which should include an assessment of follow-up action on the recommendations of the auditors' reports;

*The Internal Audit Capabilities (DG level)*

- 79. Notes that, whilst the Financial Regulation only provides for an Internal Auditor, the Commission decided in 2000 to set up Internal Audit Capabilities (IAC) in each department in order to assist Directors-General and Heads of Service in their new responsibilities as regards financial management;
- 80. Trusts that the Commission will improve the channels of communication between the central and peripheral auditing bodies and the central and peripheral control bodies<sup>1</sup>;
- 81. Calls on the Commission to review the rules governing the Internal Audit Capabilities in the light of the new Financial Regulation;
- 82. Considers that this reform must ensure the smooth flowing and functional autonomy of relations between the Internal Audit Capabilities and the Internal Audit Service, consolidating where applicable all the links and relationships referred to in Vice-President Kinnock's communication to the Commission on the conditions for establishing Internal Audit Capabilities in each Commission service;<sup>2</sup>

*The Central Financial Service in DG Budget*

- 83. Recalls that the reform places a strong emphasis on decentralisation of financial controls; believes that this in turn points up the urgent need to develop more suitable and accountable forms of central management supervision of the control systems operating in individual departments; takes the view that this central management supervision should result in a formal opinion on the quality of the departments' internal control systems, which should be published in its original form within the synthesis report;
- 84. Is concerned about the high turnover of administrative staff at the European Commission and calls on the Commission to take the measures required to investigate and eliminate the causes of this problem within its organisation;
- 85. Believes that there must be a fluid relationship between the central financial control bodies and the individual DGs' or services' financial control organs, so as to ensure the same relationship as is considered desirable in the audit field;
- 86. Welcomes the Commission's statements to the effect that both the Internal Audit

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<sup>1</sup> Replies to questionnaire - Part 1; Commission's reply to Question 28 (PE 328.732/fin. 1)

<sup>2</sup> SEC(2000)1803/2, 31 October 2000

[http://europa.eu.int/comm/dgs/internal\\_audit/documents/audit\\_dg\\_sec1803\\_en.pdf](http://europa.eu.int/comm/dgs/internal_audit/documents/audit_dg_sec1803_en.pdf)

Service and the Internal Audit Capabilities could assess the control systems and that the results of the audits and controls will be transmitted to the Central Financial Service and will be included in the annual synthesis report;

#### *The Accounting Officer's Department in DG Budget*

87. Recalls that the Accounting Officer, according to Article 61(e) of the Financial Regulation, is responsible for 'laying down and validating the accounting systems and where appropriate validating systems laid down by the authorising officer to supply or justify accounting information';
88. Points out that Article 61(2) of the Financial Regulation states that in order to assume this responsibility the Accounting Officer 'shall obtain from authorising officers, who shall guarantee its reliability, all the information necessary for the production of accounts which give a true image of the Communities' assets and of budgetary implementation';
89. Agrees with the Commission on the need to maintain operational synergies for financial management without prejudice to the functional independence of the supervisory bodies and the proper recognition of the roles of those responsible for the services concerned <sup>1</sup>;
90. Welcomes the Commission's proposal (COM(2004) 103) amending the OLAF Regulation 1073/1999; is glad that the proposal as a whole is heading in the right direction; agrees with the Supervisory Committee (Opinion 1/04) that the procedures for the operation of OLAF should be as clear and precise as possible, so that they can be effectively monitored; is particularly pleased about the enhancement of the Supervisory Committee's role and about the precise rules concerning OLAF's duty to inform the institution concerned in a given case;

#### **The European Anti-Fraud Office (OLAF)**

91. Welcomes the Commission's intention to establish that communications from the DGs to OLAF should be forwarded to the relevant Commissioner<sup>2</sup>;
92. Recalls its resolution of 4 December 2003<sup>3</sup> on the assessment of OLAF in which it supported the announcement made by the President of the Commission that he would accord greater priority to OLAF's core tasks, improve the flow of information between OLAF and the institutions, do more to safeguard the rights of defence of persons under investigation and enhance the role of the Supervisory Committee;
93. Cannot understand why the Commission was more than a year late in submitting the progress report required by Article 15 of the OLAF Regulation and why now, after adoption by the European Parliament of a resolution on the Commission report on the evaluation of the activities of the European Anti-Fraud Office (OLAF), the Commission

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<sup>1</sup> idem

<sup>3</sup> See minutes of sitting of 4 December 2003: A5-0393/2003 - European Parliament resolution on the Commission report on the evaluation of the activities of the European Anti-Fraud Office (OLAF) (COM(2003) 154 - 2002/2237(INI)), paragraph 30.

required almost three months before it took a decision on a corresponding set of proposals on 9 February 2004; notes that these delays have made it practically impossible for improvements to be made to the OLAF Regulation before the European elections;

94. Believes that the OLAF Supervisory Committee should be fully independent of the Commission;
95. Is deeply disturbed at the Director of OLAF's announcement that he does not intend to follow the Ombudsman's recommendation that the case of the firm of Blue Dragon be reopened; notes that the OLAF Supervisory Committee has raised serious doubts about OLAF's handling of the case; calls on OLAF to comply with the recommendations of the Supervisory Committee; welcomes the Commission's reopening of the case;
96. Notes that most of the 1000 cases which OLAF inherited from UCLAF have been closed; calls on the Supervisory Committee to investigate how many of the cases were closed without any result; calls on the Supervisory Committee to pay particular attention to ensuring that cases have not been closed without proper justification;

#### **Presentation of audit results**

97. Stresses the importance of the principle of an auditee's right to comment on audit results submitted by an auditor, and draws attention to the fact that the effectiveness of parliamentary oversight over financial management in the EU is very much dependent on the quality and information value of the Court of Auditors' special reports and annual reports;
98. Stresses its view that the discharge procedure is a process seeking, inter alia, to improve financial management in the EU by improving the basis for decision-taking in the light of the Court's reports and the replies and opinions of the institutions; welcomes the fact that, in practice, the Court contributes not only to correcting mistakes, but also to developing and improving management in the EU by identifying and pointing to sub-optimal solutions; points out that improvements naturally presuppose that an auditee is receptive to audit recommendations;
99. Notes that the Court of Auditors, despite its name, is not a court of law, does not have decision-taking powers and can only achieve results on the strength of the quality of its reports;
100. Takes the view that the impact of examinations by the Court of Auditors is very much dependent on how the discharge authority deals with, and follows up, the results of the Court's examinations, and that improvement in the quality of reports, and in the way in which the competent committee deals with them, is therefore in the common interest of the Court and the discharge authority;
101. Observes that the Commission's position on the results of Court audits often varies, depending on the areas examined; notes that, with regard to own resources, the Commission often declares itself to be in agreement with the Court's recommendations,

but that, with regard to the common agricultural policy, structural policy and external actions, it is frequently critical of the results of the Court's audits and its observations;

102. Takes the view that the Commission and the Court can self-evidently have differing views as to the importance to be accorded to the results of an audit, but points out that it is unsatisfactory for the two institutions not always to be in agreement about the underlying premises and criteria for an audit, since this affects the clarity of the message;
103. Looks to both the Commission and the Court of Auditors to make greater efforts in future to ensure that audit results are presented to the discharge authority as clearly and as unambiguously as possible;
104. Welcomes the positive development as regards cooperation between the Court of Auditors and Parliament's competent committee, and points in particular to the new procedure for submitting reports for the committee, under which, inter alia, special reports are made public at a meeting of the competent committee and at the relevant preparatory meetings;
105. Hopes that it will be possible for this personal contact, which is positive and highly important for continuing development of cooperation between the two institutions, to be maintained and expanded in the future; considers it appropriate for more precise rules and procedures to be laid down on how the competent committee deals with the Court of Auditors' special reports;
106. Calls on both sides to develop the procedure further so that both the results of audits and the Commission's replies are satisfactorily considered in committee; is convinced that consideration in the competent parliamentary committee makes a major contribution towards drawing attention to the problems identified in the audit report and thus helps to improve financial management in the Union;
107. Stresses also the Commission's crucial role in disseminating information on financial management to the discharge authority and the public; calls on the Commission to continue to ensure that policy implementation is given at least as much attention as policy development; takes the view that many instances of irregularities and 'creative management methods' are an inevitable consequence of the dominant tradition at the Commission of according far more importance and prestige to policy development than to the implementation of policies already decided on;

### **Corruption**

108. Calls on the Commission to make greater efforts to support accession countries', candidate countries' and Member States' anti-corruption strategies, in particular as regards areas such as public procurement, customs and border control services, and the financing of political parties;
109. Takes the view that there is a need everywhere to raise awareness concerning public administration transparency, accountability and efficiency and, by means of campaigns,

to make the public aware that corruption jeopardises the economy and society as a whole; calls on the Commission to support national and, in particular, local NGOs working for greater public awareness of corruption;

110. Therefore expects the Commission to consider carefully which NGOs it gives support to and to insist that NGOs given support present accounts and audit statements drawn up by independent auditors, on the same basis as ordinary undertakings;
111. Calls on the Commission to undertake the necessary verification to ensure that the NGOs it supports practise transparency in their activities and that their governing bodies operate correctly;

## **B. SECTORAL ISSUES**

### **Own resources**

#### *The taxpayers and the EU budget*

112. Recalls that the European Union's revenue for financing its expenditure consists of three categories of 'own resources': (1) traditional own resources (agricultural levies, sugar levies and customs duties); (2) own resources calculated on the basis of VAT collected by the Member States; and (3) own resources calculated on the basis of the Member States' gross national product;
113. Notes that the Community's revenue via these own resources has hitherto been insufficient to finance the European Union's activities and policies, but points out that since 1970, when the system of Member States' financial contributions was replaced with own resources, and the introduction of own resources based on GNP in 1988, numerous changes have been made to the system, as a rule under pressure from the Member States;
114. Points out that the VAT and GNP resources are based on macroeconomic statistics forwarded by the Member States and that the Court of Auditors is unable to test the underlying data directly; notes the Court of Auditors' view that '[these observations] cast doubt on the accuracy and reliability of the VAT statements produced by the Member States' (point 3.37 of the 2002 annual report)<sup>1</sup>;
115. Considers that there are several good reasons for reorganising the financing of the EU budget, and that the aim should be to secure the EU's financial independence from national contributions subject to the decisions of national parliaments, and funding for all the tasks to be undertaken in a Union of 25 members, without thereby further burdening European taxpayers;
116. Notes that the annual EU budget made up, in 2002, only 3.4% of Member States' total tax revenue<sup>2</sup>, and that many of the public's notions about the size of the EU budget simply have no foundation in reality;
117. Calls on the Commission to draw up a report on the possibilities of introducing a more

<sup>1</sup> OJ C 286, 28.11.2003, p.88.

<sup>2</sup> The following table shows the EU budget (outturn figures) as a percentage of Member States' total tax income for the years 2000–2002:

Year	EU budget (outturn) <sup>1</sup> euro million	Total tax income EU-15 <sup>2</sup> euro billion	EU budget in % of Member States' tax income
	(1)	(2)	(3) = (1) / (2) / 1000
2000	83 331.1	2 414.4	3.5%
2001	79 987.3	2 450.2	3.3%
2002	85 144.5	2 488.1	3.4%

<sup>1</sup> Payments in the year in question under payment appropriations of the year as well as under payment appropriations of the previous year carried forward.

<sup>2</sup> Total tax income of the 15 Member States. Social security contributions are not included.

Source: Commission services.

direct link between taxpayers and the EU budget, since such a scheme would not only be financially advantageous, but would also be an important political instrument for achieving all the objectives set out in Article 2 of the EC Treaty;

*The Community's transit system*

118. Welcomes the success of the hearing held to follow up the recommendations made by the first temporary committee in 1997; recalls that the background to the setting-up of the temporary committee was the introduction of the internal market and the need for rapid and effective customs clearance and an effective transit system to ensure the correct payment of VAT and customs duties, and that Parliament and the Council, as a result of the work of the committee of inquiry, called on the Commission to review the Community's transit system and implement the New Computerised Transit System (NCTS);
119. Is pleased that all the compulsory administrative measures have been taken in the Member States and that all customs offices in the EU are linked to NCTS; welcomes the fact that in the development stage of NCTS account has already been taken of enlargement, and that NCTS is now showing itself to be a particularly flexible instrument;
120. Is aware that it is probably too early to assess the success of the system from the point of view of transit firms, but notes that business people are apparently rather reluctant to use it; calls on the Commission to promote the transition to phase 3.2 of NCTS, which is mainly a national matter, since it is expected that the guarantee guidance function, which will only be implemented with phase 3.2, will act as a strong incentive to businesses to use the system;
121. Considers that the EUR 68 m which have so far been spent on the project can only pay off if there are far more users; also considers that one reason for the low level of use is the decision to apply a 'decentralised architecture', which means that the national customs administrations will use a national application, as opposed to a 'centralised architecture' based on a common application to which all customs administrations are linked;
122. Notes that the reality still lags far behind the recommendation of the committee of inquiry that all customs administrations should act as a single administration in relation to businesses; notes with regret that, while this objective is shared by the Commission and by business associations, the national customs administrations are being very passive;
123. Further notes that NCTS cannot directly prevent or combat fraud committed using false customs declarations, which can only be detected by physical checks; welcomes the fact that NCTS, by simplifying the administrative tasks of customs workers, can help free up human resources to combat this type of fraud; calls on the Member States to make use of the resources thus released for effective and comprehensive physical checks;
124. Notes that the Commission allows goods which have been incorrectly or falsely



declared to be regarded as not being involved in the transit procedure, with the result that the guarantee cannot be reclaimed, that the papers have to be sent back to the country of entry into the EU, and that the campaign to combat fraud is impeded; calls on the Commission to put an immediate end to this practice and to propose an appropriate amendment to the Customs Code;

125. Notes that, in many customs administrations, staff numbers are being reduced rather than increased, with the result that false declarations and other irregularities, which can be exposed only by means of on-the-spot physical inspections, are going undetected; notes that the costs involved in increasing the number of inspection staff are more than offset by the increase in customs revenue; calls on the Commission to urge the Member States to increase the number of staff required for physical inspection duties, especially now that the share of customs revenue allocated to the Member States has been increased from 10% to 25%;
126. Trusts that the Commission will abide by its statement to the effect that the objective of fraud reduction is being achieved and that NCTS will attain in full the objectives for which it was created;<sup>1</sup>
127. Calls on the Commission to draw up, no later than 15 June 2004, a survey showing the implementation of the 38 recommendations made by the committee of inquiry in 1997;
120. Calls also on the Commission, in its competent committee and on the basis of a brief written report on the situation forwarded to that committee prior to the follow-up report, to report on (any problems with) the continued implementation of NCTS, with regard inter alia to the implementation of phase 3.2, the number of users, user satisfaction, implementation in the Member States (new and old) and the commitment of the national customs administrations;

## **Agriculture**

### *Setting of export subsidy rates*

129. Notes, in relation to the Commission's reply under point 25 of Special Report No 9/2003 on the system for setting the rates of subsidy on agricultural products,<sup>2</sup> that neither the Commission nor the Court of Auditors has supplied the discharge authority with details on the content and nature of the 'extremely important circumstances' for which the Commission opted for 'a rate different from the theoretical calculated rate'<sup>3</sup>;
130. Recalls that the expenditure in the EU budget for export refunds is dependent on the quantity of products for export and the export refund rate set by the Commission, and that the investigation by the Court of Auditors as to how, by means of which procedures and on what basis the Commission decides to set that rate is therefore both welcome and useful, as the setting of the rate is an important cog in the entire export refund

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<sup>1</sup> Replies to the questionnaire - part 1; Commission's reply to question No 60 (PE 328.732/fin. 1)

<sup>2</sup> OJ C 211, 5.9.2003, p.1.

<sup>3</sup> OJ C 211, 5.9.2003, p. 17.

mechanism;

131. Understands that, in their reply to the auditors' observations, auditees will seek to defend and explain their actions; also understands that a special report is a snapshot of management at a particular time before the publication of the special report, and that changes may have been made during the period it takes to carry out and complete an audit;
132. Finds, despite the above acknowledgement, that the gap between the two institutions' understanding of, on the one hand, 'what the situation is' and, on the other hand, 'what the situation should be' puts the discharge authority in a difficult and unsatisfactory situation;
133. Reminds the Court of Auditors and the Commission that the object of an audit is to bring about constant improvements in the relevant management process and that the outcome of audits and replies thereto should be drawn up in such a way as to be comprehensible to the European public, and expects rapid progress towards that objective;
134. Notes that the Court last investigated this matter in 1990<sup>1</sup> and concluded in regard to the method of setting export refunds that 'documentation of the facts, the Commission's consideration of the facts, the decisions taken and the outcome was not maintained, and, as a consequence, independent third party and audit and management control were virtually impossible' (SR 9/2003: 9);
135. Recalls that, in its report on the Court's special report, Parliament concluded that 'for reasons of public accountability, the Commission's internal decision-making procedures must be recorded and justified in writing so that its reasoning can be followed by the monitoring bodies at any time' (SR 9/2003: 10);
136. Notes that, in its latest report, the Court concludes that:
  - (a) the Commission has access to extensive market information but that this is not always up-to-date, complete or objective;
  - (b) in many cases it is unclear how the information is used and what impact it has on the final refund rates set;
  - (c) in setting the refund rates, the Commission gives no details of its working methods or any systematic and coherent justification for the rates set (SR 9-2003:39);
137. Regrets the slow progress made in the 13 years between the two audits, and calls for further improvement following the recommendations of the Court of Auditors and the discharge authority and the full implementation of its 2002 comprehensive action plan;
138. Expects the Commission to account in its follow-up report for the following:

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<sup>1</sup> Special report No 2/90 of 31 May 1990 on the management and control of export refunds (OJ C 133, 31.5.1990).

- (a) the slow and limited nature of the progress made in the 13 years between the two audits (SR 9/2003:39),
- (b) the results achieved by the working group set up by the Commission in response to the Court's audit (SR 9/2003: 40a, footnote 7);
- (c) to what extent DG Agriculture meets standard No 15 of the internal control standards, which reads:

'The procedure used in the DG for its main processes shall be fully documented, kept up to date and available to all relevant staff and shall be compliant with the Financial Regulation and all relevant Commission decisions'<sup>1</sup>;

139. Also expects the Commission to submit as soon as possible:

- (a) an overall framework for the information to be included in the calculation of the rate;
- (b) reliable documentation for the information selected;
- (c) quality control of the information selected;
- (d) a clear statement of the division of tasks and responsibilities internally in the Commission;
- (e) a clear and unambiguous description of the procedures to be followed; and, in particular,
- (f) a description of control procedures and criteria for assessment;

140. Calls on the Court of Auditors to keep it informed of the Commission's implementation of the recommendations set out in paragraph 40 a) - h) of Special Report 9/2003;

#### *The prefinancing regime*

- 141. Notes with interest the Court of Auditors' investigation of the Commission's administration and the national authorities' implementation of the prefinancing regime, which is an important part of the export refund system, which in turn is a part of the common agricultural policy adopted by the Council;
- 142. Recalls that this is a very complex area, in which the Commission actively intervenes on the agricultural markets after taking difficult decisions, in which very considerable sums are paid out daily from the EU budget and which the Court of Auditors has described in earlier special and annual reports as a high-risk area;
- 143. Notes that some 11% of the refunds paid in 2000 - some EUR 600 m - were paid out under the prefinancing regime (SR 1/2003: 2);
- 144. Notes that the Commission's own investigations in 1997 into the national authorities' checks on the regime revealed such significant shortcomings that the Commission imposed financial corrections of over EUR 166 m on the Member States (SR 1/2003:

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<sup>1</sup>[http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC%20\\_2001\\_2037\\_Internal\\_Control\\_Standards\\_en.pdf](http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC%20_2001_2037_Internal_Control_Standards_en.pdf)

- V), but did not subsequently carry out an in-depth analysis of the regime's procedures;
145. Considers that financial corrections reflect not only the Member States' ability and willingness to implement a regime correctly, but also the *possibility* of implementing the regime correctly; believes in a general sense that many legal provisions concerning the common agricultural policy are so difficult to interpret, and the checking provisions in many cases so lacking in transparency, that the Member States' authorities do not have much opportunity to implement the regimes correctly;
146. Finds it hard to understand why the Commission does not pay greater attention to large financial corrections or treat them as alarm signals that may mean that a regime and its associated procedures should be made subject to a thorough investigation with a view to simplification or amendment;
147. Notes the Court of Auditors' conclusions to the effect that:
- (a) the legal provisions are hard to interpret, which makes it difficult for the Member States to implement the regime;
  - (b) the prefinancing regime makes the already complex export refund system still more complicated;
  - (c) the checking provisions are so unclear that there are large discrepancies not only between Member States but also between regions within the same Member State regarding the nature and extent of the checks;
  - (d) the original purpose of the system has fallen by the wayside,
- and that the Court of Auditors recommends, in the light of these conclusions, that consideration should be given to the removal of the regime;
148. Regrets that the Commission - while sharing some of the Court of Auditors' points of view - has not followed up the Court's recommendation to work towards the removal of the prefinancing regime, but has instead adopted two new regulations which further complicate an already complex system;
149. Considers that the prefinancing regime operates in practice as a provider of free capital to those undertakings which make use of the export refund regime;
150. Is aware that the common agricultural policy is adopted by the Council, and that the Commission therefore has only a limited influence over it; regrets, however, that the Commission is not making a greater effort to make it clear to the Council that a detailed follow-up to the Court of Auditors' recommendations is an important step on the necessary road to improving the EU's financial management; calls, therefore, on the Commission to submit a proposal by December 2004 for the abolition of the pre-financing scheme;
151. Deeply regrets that the Council has still not adopted the Commission's proposal for a Council regulation amending Regulation (EC) 1258/1999 on the financing of the common agricultural policy, which seeks to extend from 24 to 36 months the maximum period to which an expenditure correction may apply, and has received favourable

opinions from both the Court of Auditors<sup>1</sup> and the European Parliament<sup>2</sup>;

*Support for less-favoured areas*

152. Recalls that the support scheme for agricultural holdings in less-favoured areas is one of twenty-two support measures for agriculture and that it has been in existence since 1975 and was radically overhauled in 1999; stresses that the overall budget for the scheme is EUR 2 billion a year, approximately 50% of which comes from Community funds, accounting for 1% of the overall annual budget and 12.5% of the total budget for rural development measures, while 55.8% of all farms in the EU receive support under this regime;
153. Recalls that the term 'less-favoured area' was first defined in 1975, when Community support for such areas was introduced, and that since that time only slight adaptations have been made to this definition (SR4-2003:5), so that current Community legislation now distinguishes between three categories of less-favoured area, which are:
- mountain areas;
  - other less-favoured areas; and
  - areas affected by specific handicaps;
154. Notes that since 1975 support rules have never been subject to a general assessment, and calls on the Commission to submit to Parliament, before 1 May 2004, a comprehensive evaluation report, whether or not all the Member States have complied with the legal obligation to supply the data required for such a report;
155. Notes two points of apparent concern:
- (a) it is the Member States' responsibility to classify areas as less-favoured;
  - (b) in some Member States, these areas have been expanded considerably over the years<sup>3</sup>;
156. Notes, furthermore, that this increase inevitably concerns the last two categories, where 'less-favoured' and 'handicaps' are determined with the aid of statistical criteria related to national averages;
157. Recalls that criteria may be adapted, and that changes may be made to the statistical basis used for the classification of 'normal' areas, which means that the definition of those areas which may be included in the last two categories is somewhat more flexible than, if not more vague than, the definition of areas that are clearly mountainous, as the rising number of the latter confirms;
158. Notes with satisfaction that the Commission responded to the Court of Auditors'

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<sup>1</sup> Opinion 9/2002, OJ C 285, 21.11.2002.

<sup>2</sup> P5-TA(2002) 413.

<sup>3</sup> The Court of Auditors points out that between 1975 and 1998, the percentage of less-favoured areas in Italy rose from 37.7% to 53.6% and in Ireland from 51.2% to 70.9% (SR4/2003:8). Previous reports show that the percentage in the Federal Republic of Germany went up from 33.1% to 50.9% in 1986 and from 50.9% to 53.5% in 1989, and in France from 40% to 45.1% in 1989 (Annual Report for 1990, Paragraph 9.21 in OJ C 324, 13.12.1991).

previous remarks in 1993 by attempting to carry out an investigation into the classifications, but deeply regrets the fact that, under pressure from some Member States, the Commission failed to complete the investigation ;

159. Is concerned at the Commission's difficulty in effectively asserting the Community's interests over national interests, and agrees with the Court that the provisions are seriously flawed in allowing the classification to be determined or altered by the individual Member States instead of by the Community;
160. Calls on the Commission to undertake, in its next follow-up report, a comprehensive and thorough review of the current classification of all less-favoured areas and, in addition, to draft a proposal for a periodic review of the situation of less-favoured areas and introduce an effective system not only to prevent the areas concerned from being extended but also allowing them to be reduced;
161. Notes that the individual Member States use a very wide range of different indicators to establish the boundaries of less favoured areas (17 indicators for productivity, 12 for economy and three for population) (SR4/2003:33 and Annex II), and that the Court noted during its audit on the spot that the wide range of different indicators may lead to discriminatory treatment of beneficiaries, particularly in border regions;
162. Calls, in this connection, for a review, no later than 15 June 2004, of the suitability and relevance of the current series of indicators, restricting them where possible and for them to be defined (or redefined) in such a way that they provide fewer opportunities for 'manipulation' by the Member States;
163. Regrets the fact that the Commission has not reacted to the risk of negative repercussions deriving from the unfortunate combination of Member States' responsibility for classification of less-favoured areas, the use of the wide range of indicators and the lack of evaluation;
164. Considers it absolutely essential for the Commission to monitor the situation, since individual Member States cannot be expected to send it information which may entail the Member State in question receiving less support; also takes the view that the Commission should have paid more attention to the inherent and obvious conflict of interest in the scheme between the Member States' and the Community's interests;
165. Calls on the Commission to investigate, and publicise in its next follow-up report, the effect of the introduction, since 1990, of conservation of the countryside as one of the grounds for entitlement to compensatory payments and the impact it has had on the scale of support payments;
166. Calls on the Commission to review the existing regime on overcompensation, so as to ensure that farms in similar conditions receive similar compensation and that the Member States take measures to prevent overcompensation that are mutually comparable, also supplying a clear and workable definition of the term 'overcompensation';

167. Suggests, in addition, that the compensatory allowances regime should include an appraisal of the structure of holdings' expenditure, so that, where the cost structure in a certain region is significantly higher than that of the average agricultural holding in other, normal regions, then this circumstance should be taken into account when granting compensatory allowances;
168. Calls on the Commission to adapt and update the definition of 'good farming practices', and to ensure that the Member States apply this condition consistently and supply the requisite documentation which proves that they have actually done so; points out, in this connection, that, in the 2004 budget, Parliament made available appropriations so that the use of environmental indicators might be further developed;
169. Believes that the Commission should play a much more active role in the management and supervision of the compensatory allowance scheme and should, to this end, establish uniform minimum standards of control to be complied with when applications for aid are examined or on-the-spot checks are carried out; also believes that the Commission should brief Parliament on the extent to which Member States have satisfied the requirements of Article 48(2) of Regulation (EC) No 1257/99<sup>1</sup> and on exactly what action it is taking in response; expects the Commission to lay down penalties for the event that Member States fail to comply and do not supply the requisite information about the manner in which they have administered the support scheme, for example, by reducing or suspending the payment of compensatory allowances;
170. Believes, furthermore, that, since the Financial Regulation requires support measures to have specific and quantifiable objectives, it would be better if the indicators for less-favoured areas were established on the direct basis of concrete objectives and the criteria for granting aid to farms were defined in performance-related terms; this would help prevent manipulation by the Member States;
171. Is concerned that, while the Management Committee plays a crucial role in implementing the support scheme, there is virtually no supervision of its activities and decisions;
172. Suggests that the Commission review the existing 22 agricultural support measures and consider whether some of them could be combined in the interests of more effective monitoring;

### **The Structural Funds**

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<sup>1</sup> 'Article 48

1. The Commission and the Member States shall ensure effective monitoring of implementation of rural development programming.

2. Such monitoring shall be carried out by way of jointly agreed procedures.

Monitoring shall be carried out by reference to specific physical and financial indicators agreed and established beforehand.

Member States shall submit annual progress reports to the Commission.

3. Where appropriate, monitoring committees shall be established.' - OJ L 160, 26.6.1999, p. 90

## Implementation of the budget in 2002

173. Draws attention to the following analysis:

*In 2002, implementation of commitment appropriations was close to 98%, cf. table 1. However, for payment appropriations the implementation rate was considerably lower, as was also the case in 2000 and 2001.*

**Table 1. Implementation of EU budget, 2000-2002.**

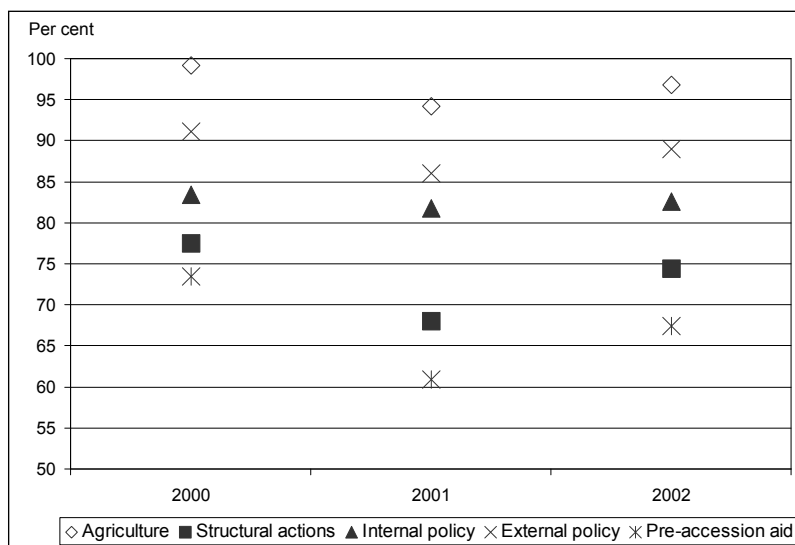
	Commitment appropriations			Payment appropriations		
	Authorised appropriations	Executed	Implementation rate	Authorised appropriations	Executed	Implementation rate
	----- Million euro -----		-- Per cent --	----- Million euro -----		-- Per cent --
2000	96.620	79.601	82,4	95.034	83.440	87,8
2001	106.924	103.333	96,6	97.160	79.987	82,3
2002	100.977	98.875	97,9	98.579	85.144	86,4

*Source: Comptes Annuels des Communautés Européennes. Exercice 2001 et 2002.*

*The budget consists of seven headings: 1) Agriculture, 2) Structural actions, 3) Internal policies, 4) External policies, 5) Administrative expenditure, 6) Reserves, and 7) Pre-accession aid. Implementation rates for payment appropriations vary significantly between the headings, with lowest rates for structural actions and pre-accession aid, cf. figure 1.*



**Figure 1. Implementation rates, payment appropriations, 2000-2002.**



*Note: Implementation rates for administrative expenditure (heading 5) and Reserves (heading 6) are not included in the figure as the appropriations for these headings are of a different nature than for other headings. Source: Comptes Annuels des Communautés Européennes. Exercice 2001 et 2002.*

*The varying characteristics of the headings should be noted when comparing the implementation rates. E.g. for agriculture (heading 1), the implementation rate will to a large extent reflect developments in world market prices on agriculture products as well as the euro-dollar exchange rate. A low implementation rate may therefore rather indicate, e.g. a more advantageous development in the euro-dollar exchange rate than inefficient management.*

*For other parts of the budget (Structural Funds, internal policies, external policies and pre-accession aid), appropriations are mainly linked to multiannual programmes. The implementation of such programmes goes through various phases – from the calling and choosing of projects to actual implementation by contractors following tendering procedures. A low implementation rate may therefore indicate problems in one or more of these phases. Shared management exists for several programmes, i.e. some phases of implementation are mainly managed by the Commission, others mainly by the relevant authorities in Member States/beneficiary countries.*

### **Structural Funds**

*In 2002, the implementation rate for payments to structural actions was just below 75%. Around three-quarters of the under-implementation was due to lower than expected payments on old programmes, cf. table 2. All types of old programmes experienced very low implementation rates, e.g. the three largest headings (objective 1, objective 2 and Community initiatives) all had implementation rates below 20%.*

**Table 2. Payments for structural actions, 2002.**

	Authorised	Executed
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	<i>appro- prias</i>	<i>appro- prias</i>	<i>Difference</i>	<i>Implementa- tion rate</i>
	<i>Million euros</i>		<i>Per cent</i>	<i>Per cent</i>
<i>New programmes (2000-2006)</i>	24.289	22.326	1.964	91,9
<i>Old programmes (before 2000)</i>	7.314	1.173	6.141	16,0
<i>Of which:</i>				
<i>Objective 1</i>	3.388	609	2.779	18,0
<i>Objective 2</i>	1.600	243	1.357	15,2
<i>Objective 3</i>	500	0	500	0,0
<i>Other actions</i>	240	80	160	33,2
<i>Community initiatives</i>	1.478	181	1.297	12,2
<i>Innovative actions/technical assistance</i>	108	61	47	56,2
<i>Total</i>	31.603	23.499	8.104	74,4

Source: Comptes Annuels des Communautés Européennes. Exercice 2002.

In 2002, payments on old programmes represented reimbursements of actual expenditure in Member States. The Commission based its proposal for payment appropriations on forecasts received from Member States. Thus, the very low implementation rates indicate that closure of old programmes progressed much slower than expected by the Commission and Member States.

### Pre-accession aid

Pre-accession aid (heading 7) consisted of three programmes: PHARE (administrative assistance), ISPA (structural assistance) and SAPARD (agriculture).<sup>1</sup> All three programmes had relatively low implementation rates of payments – with SAPARD showing a significantly lower rate than the two other programmes, cf. table 3.

**Table 3. Implementation of payments for pre-accession aid, 2002.**

	<i>Authorised payment appropriations</i>	<i>Executed payment appropriations</i>	<i>Implementation rate</i>	<i>Outstanding commitments (RAL)</i>
	<i>Million euros</i>		<i>Per cent</i>	<i>Million euros</i>
<i>SAPARD</i>	370	124	33,5	1.469
<i>ISPA</i>	506	398	78,7	2.642
<i>PHARE</i>	1.596	1.101	69,0	4.305
<i>Total</i>	2.472	1.623	65,7	8.416

Source: Comptes Annuels des Communautés Européennes. Exercice 2002.

SAPARD had been considerably delayed, as it had taken longer than expected to establish decentralised management and control systems in candidate countries, a condition under the programme. For example, accreditation of the competent authorities did not take place until the second half of 2002 for Poland, Romania and Hungary. These three countries represented two thirds of appropriations.<sup>2</sup>

<sup>1</sup> In 2002, amounts paid out to candidate countries from the Solidarity Fund were also included in heading 7. However, these amounts are not included in this analysis of implementation of pre-accession aid.

<sup>2</sup> The Commission's explanations on implementation of pre-accession aid are available in section 2.6.5 of the Commission's Report on Budgetary and Financial Management for the Financial Year 2002.

*For ISPA, the Commission explained that commitment appropriations were delayed and concentrated in the end of the year due to the fact that the ISPA management committee did not meet until mid-July. This naturally also caused delays in the implementation of payment appropriations.*

*For PHARE, the Commission explained the low implementation rate by low payment requests from beneficiary countries by comparison with initial forecasts, as well as a concentration of commitment appropriations at the end of the year.*

*At the end of 2002, a considerable amount of outstanding commitments had been accumulated for all three programmes. For SAPARD and ISPA, the outstanding commitments totalled more than 4 billion euro. Contrary to SAPARD and ISPA, PHARE was established earlier than 2000. However, of the outstanding commitments at the end of 2002, less than 12 per cent related to years earlier than 2000.*

174. Notes with satisfaction that implementation of commitment appropriations was higher in 2002 than in 2001 and 2000, but regrets that implementation of payment appropriations remained at an unsatisfactory low rate, leading to a very high surplus of the EU budget for the third year in a row;
175. Is in particular worried about the continuing low implementation of payment appropriations for structural actions and pre-accession aid - although the level of payment appropriations executed in 2002 for these two headings in the budget was higher than in 2000 and 2001;
176. Notes that the main reason for the low execution rate for payment appropriations for structural actions in 2002 was the far slower than expected closure of the old programmes; notes the Commission's progress report to the discharge authority examining the causes of this delay and evaluating means of preventing similar delays in closure for the programmes for 2000-2006;
177. Is surprised that the Commission has not published the guidance notes relating to the SAPARD Programme in all the languages of the new Member States, as requested in paragraph 80 of the 2001 discharge report; insists that the Commission remedies this situation at the earliest opportunity;

### *Member States' forecasts*

178. Notes that a significant number of Member States failed to submit their forecasts for payment applications for the budget years 2002 and 2003 before the deadline of 30 April 2002 as required under the terms of Article 32(7) of the Structural Funds regulation; observes further that the overall error rate for the forecasts for all programmes amounted to 73%, with two-thirds of this total being attributable to the excessively unrealistic forecasts coming from five Member States;
179. Urges the Commission to consider introducing a sanctions mechanism in the Structural Funds regulation for the upcoming programme period (2007-2013), particularly in the case where the 2004 and 2005 forecasting exercises fail to demonstrate a continued improvement;
180. Calls on the Commission to consider a system whereby a difference between the amount requested and actual requirements of more than x % in a specific year will entail the obligation to submit estimates for subsequent years accompanied by a report drawn up by an independent auditor, and, if this difference persists, the amount granted may be reduced by the same proportion as the surplus;

### *Simplification*

181. Notes that the Commission has taken an initiative to ensure simplification, clarification, coordination and flexible management of the structural policies for 2000-2006, and notes the Commission's report to the discharge authority on measures taken and on to what extent the measures have contributed to faster and/or better implementation;

### *The N+2 rule*

182. Welcomes the N+2 rule as a means of providing Member States with an incentive to implement Structural Fund programmes and considerably reducing the volume of RAL; insists that this rule must be consistently and conclusively applied, not only during the current programming period (2000-2006) but also during the next programming period (2007-2013);
183. Welcomes the Commission's announcement that it will provide Parliament every quarter with a breakdown of the situation as regards the application of the N+2 rule, as Parliament requested in paragraph 27 of its resolution of 22 October 2003<sup>1</sup>; trusts that cooperation between the two institutions in connection with this 'monitoring' activity will bear fruit, with particular regard to the identification of the reasons for the constant problems encountered in project realisation and of the best methods for managing projects;

### *Reasons for underutilisation*

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<sup>1</sup> P5\_TA(2003)0448

184. Takes the view, having regard to continued underutilisation of payment appropriations under the Structural Funds, which are a part of non-compulsory expenditure and one of Parliament's high-priority objectives, that the Commission must improve its analysis of the reasons for underutilisation;
185. Requests the Commission to draw up an analysis discussing in detail:
- (a) all stages in the management of a project plus associated activities,
  - (b) which stages come under Member State and Commission management and responsibility respectively,
  - (c) indicators for satisfactory/unsatisfactory implementation of the various activities at each stage,
  - (d) what problems have been identified at what stage,
  - (e) a comprehensive analysis of the problem which clearly identifies the source (Member States or Commission);
186. Requests the Commission to note that a significantly improved analysis of the reasons for underutilisation is necessary in order to counter the widespread (erroneous) view that the Union's executive authority, the Commission, is refusing to implement the policy adopted by the Union's legislative authority, Parliament and the Council, in this domain;
187. Takes the view that the Commission can usefully publish the results of its checks in the Member States concerning the application of vital elements such as, for instance, the additionality principle, financial control, expenditure eligibility and public procurement because - in addition to improving management transparency - it will enable the institutions and bodies involved to compare their results in the same way that present and future programme staff can benefit from former colleagues' experience;
188. Welcomes the Commission's initiative to ask the Member States to submit yearly reports on the implementation of control activities in 2002 and expresses the wish to receive a summary report thereon;

*Structural Fund effectiveness*

189. Asks the Commission to include in its annual cohesion report to Parliament an assessment of the influence of the Structural Funds on the degree of economic inequalities between regions, comparing the results obtained by region and by fund, and referring where relevant to the influence on effectiveness of the quality of the institutions in the beneficiary regions;

### *Implementation of Regulations (EC) Nos 1681/1994 and 438/2001*

190. Notes the findings of the review carried out by OLAF and the Regional Policy DG into the systems and procedures used by the Member States for reporting irregularities and the recovery of amounts unduly paid; notes, on the basis of those findings, that, in 2002 and 2003, the Member States were still uncertain as to the correct application of some of the provisions of Regulations (EC) Nos 1681/1994 and 438/2001; notes the follow-up and/or simplification measures announced by the Commission with a view to the elimination of such uncertainty; calls on the Commission to report back to Parliament on the progress made towards the attainment of that objective;

### *Issues related to the future of the Structural Funds*

191. Asks the Commission to undertake an initiative to guarantee, as far as possible, the allocation of Objective 2 funds to the areas most gravely affected by structural problems, with national decisions being harmonised at Community level;<sup>1</sup>
192. Shares the Commission's hope that delays can be avoided for the legislative proposals for the forthcoming programming period and that the procedure can be prepared by 1 January 2007;<sup>2</sup>
193. Shares the Commission's concern over the problems related to translation that will arise soon, and urges it to prepare the appropriate budgetary forecasts;<sup>3</sup>
194. Urges the Commission not to relax its efforts to obtain a review of the systems for administration and supervision of Community initiatives so as to secure a 'reasonable guarantee';<sup>4</sup>
195. Strongly welcomes the coupling of the map of regions eligible for Structural Fund aid with the map of authorisations of national regional aid, but believes it is not correct to substitute one of these policies for the other;<sup>5</sup>
196. Calls on the Commission to study the effects of the participation of private funds in cofinancing projects benefiting from the Structural Funds, and to adopt measures where appropriate to encourage such participation;

### **Internal policies and research**

197. Notes that responsibility for implementing internal policies is divided between 13 Directorates-General;

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<sup>1</sup> Replies to the questionnaire - Part I; Commission's reply to question no. 75 (PE 328.732/fin. 1)

<sup>2</sup> Replies to the questionnaire - Part I; Commission's reply to question no. 78 (PE 328.732/fin. 1)

<sup>3</sup> Replies to the questionnaire - Part I; Commission's reply to question no. 79 (PE 328.732/fin. 1)

<sup>4</sup> Replies to the questionnaire - Part I; Commission's reply to question no. 83 (PE 328.732/fin. 1)

<sup>5</sup> Replies to the questionnaire - Part II; Commission's reply to question no. 39 (PE 328.732/fin. 2)

198. Asks the Commission to devise procedures to enhance the consistency of the ex-ante and mid-term evaluation processes so as to ensure that a more consistent information basis is created for ex-post evaluation;
199. Calls on the Commission to submit a report on the progress of and the activities planned to enhance the integration of the social and environmental objectives laid down in Lisbon and Gothenburg in the programming and evaluation of the Structural Funds at both Community and Member State level;
200. Congratulates the Court of Auditors on its interesting analysis of selected annual activity reports and declarations for 2002 of certain Directorates-General<sup>1</sup>, and notes that:
- (a) all the Directorates-General concerned claimed to have reasonable assurance that the funds for which they were responsible had been legally and regularly spent (6.11);
  - (b) all the Directorates-General examined included reservations concerning (1) the regularity of payments for the multiannual research programme and (2) the failure to implement internal control standards (6.19);
201. Fully endorses the Court's conclusion that 'the weaknesses reported in the reservations are not consistent with the reasonable assurance given in the Declarations of the Directors-General' (6.19);
202. Looks to the Commission: (1) to intensify implementation of internal control standards; (2) put a figure to the financial or economic effect of the reservations; and (3) to bring coherence and consistency to relations between 'reservation' and 'reasonable certainty';
203. Notes that the rates of utilisation of payment appropriations (chapter B2-7) for transport policy, particularly security in this sector, are once again inadequate, although there are reasons for this, such as delays in the implementation of actions by contractors and stricter rules applied by the Commission, entailing a slowdown in payments;
204. Notes that the Court of Auditors has consistently developed and expanded its examination of the management system for the trans-European transport networks (TEN-T) which it launched in the 2001 annual report, and that it has monitored in detail the Commission's follow-up of the 2001 recommendations;
205. Notes, in particular, that the Court adheres to its previous view that in order to remedy a number of weaknesses in Commission decisions, there is a need to strengthen the legal framework for the TEN-T programme by concluding contracts between the Commission and the recipient after the Commission's decisions to grant aid have been taken (6.25);

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<sup>1</sup> Directorate-General for Energy and Transport, Directorate-General for Research, Directorate-General for the Information Society and the Directorate-General for Legal and Internal Affairs.

206. Expresses concern regarding the highly disappointing progress made with several TEN-transport projects, despite the high level of utilisation of payment appropriations; the Court of Auditors in its 2002 annual report indicated that some of the projects monitored in 2002 would have proceeded even without Community financial assistance, which may suggest that some projects are not of sound quality or that implementation mechanisms are inadequate;
207. On the basis of the conclusions of the Court of Auditors, calls on the Commission to use part of these resources to fund projects in the transport sector which would have difficulty securing funding from other sources;
208. Notes that the Court puts forward the following recommendations, among others, with a view to improving controls:
- (a) more precise definition of 'eligibility of costs' (6.27);
  - (b) introduction of a standardised cost claim form (6.26);
  - (c) coherent and consistent application of the TEN-T rules in all Member States (6.38);
  - (d) checks to be more effective and better documented (6.40);
  - (e) ex-post financial and technical audits to complement on-the-spot checks prior to final payment (6.41);
209. Welcomes the fact that the Commission, in its replies to the Court of Auditors, has announced its willingness to comply with the Court's recommendations and, in some cases, that it has already started to do so;
210. Calls on the Court to continue its detailed monitoring of the management system for the trans-European transport networks and to report<sup>1</sup> on the following questions which are of fundamental importance for the discharge authority:
- (a) which of the recommendations proposed by the Court in 2001 and/or 2002 has the Commission accepted and satisfactorily implemented?
  - (b) which recommendations does the Commission reject, what is its justification for rejecting them and what is the Court's position on that justification?
  - (c) which recommendations is the Commission in the process of implementing and what is the Court's view regarding the pace at which these accepted recommendations are being implemented?
211. Notes that the Court points out that the five Directorates-General<sup>2</sup> involved in implementing the research framework programmes manage and coordinate ex-post audits in different ways and that they do not follow the same procedures when selecting contractors to be audited (6.47.);
212. Considers that the Commission could introduce a coordination or synthesis system which will make it possible to obtain synergies from the remarks contained in the audit reports for each Directorate-General;

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<sup>1</sup> Possibly in the form of a letter to the chairman of its competent committee on budgetary control before the next annual report.

<sup>2</sup> Directorate-General for Research, Directorate-General for the Information Society, Directorate-General for Energy and Transport, Directorate-General for Industrial Policy and Directorate-General for Fisheries.



213. Calls on the Commission, following inter alia the criterion of simplification, to consider how it would be possible to avoid the numerous errors at the final recipient level, where audits have shown that in many cases expenditure was over-declared (6.51); also expects the Commission to step up the process of recovering amounts unduly paid;
214. Welcomes the introduction of audits to certify statements of expenditure under the Sixth Framework Programme for Research and Technological Development, and expects to receive a final report on the audits carried out in relation to previous framework programmes;
215. Calls on the Commission to carry out a study, on the basis of an analysis of the geographical destination of funds under the Fifth Framework Programme, into how research funding can help to strengthen regional development and thereby counteract the increasing concentration of scientists and researchers in an ever smaller number of universities and research institutions, using new technologies to achieve scientific cooperation and promote deconcentration;

#### *Employment and social affairs*

216. Expresses general satisfaction with the implementation rates of budget headings for employment and social affairs in terms of internal policies;
217. Deplores, however, the very low rate of implementation of headings B5-502 (Labour market), B5-502A (Labour market - expenditure on administrative management), and B5-503 (Preparatory measures for a local commitment for employment);

#### *Environment, Public Health and Consumer Protection*

218. Expresses general satisfaction with the high implementation rates of the budget headings for environment, public health and consumer policy;
219. Welcomes the decision by the Commission to transfer part of the administrative appropriations on budget line B7-8110A to operational expenditure to reduce under-utilisation of funds; urges the Commission to transfer any administrative appropriations that will probably not be used by the year end to lines for operational expenditure, by means of requests for transfers of appropriations; this would allow optimum use to be made of the available funds;
220. Underlines the fact that the impact of environment programmes is often hampered by the lack of assessment of environmental impacts of other Community legislation and programmes, especially in the field of the Structural Funds, and believes that a systematic use of strategic environment assessments (SEAs) can be a powerful instrument to avoid such problems in future;
221. Is concerned about the low number of officials in DG Environment dealing with infringement procedures, in particular as environment-related cases represent almost

one-half of the infringement cases started in 2002 and over one-third of all complaints related to bad application of EU law, and calls upon the Commission to significantly increase the number of officials in this sector in accordance with its task of being the guardian of the Treaties, thus responsible for the correct implementation of EU environmental legislation;

222. Calls for increased use of environmental criteria in selection procedures for Community appropriations (invitation to tender, awarding of contracts) in order for the EU to take the lead in greening public procurement;

### *Equal opportunities*

223. Notes that, in the framework of the establishment of the budget for 2002, the Commission organised its activity around six priority objectives, namely the euro, sustainable development, development cooperation, the Mediterranean, enlargement, and the new governance, and that these objectives have guided the Commission's work planning, the process of drawing up the budget and the use of resources; while endorsing the priorities, notes that under Article 3(2) of the EC Treaty the promotion of gender equality is a fundamental principle of the EU and a transversal objective of all Community actions and policies; calls on the Commission, therefore, to ensure that gender equality is henceforth one of the priority objectives of its strategic planning, in such a way as to ensure gender mainstreaming in the definition of income and expenditure under all policies included in the budget;
224. Welcomes the fact that the Action Programme for Equality between Men and Women (2001-2005) will be opened up in 2002 to the participation of the accession countries; stresses that, under the 2002 budget and, in particular, in the framework of Community assistance to the accession countries, gender mainstreaming should be applied to all measures; calls, therefore, on the Commission to submit a state-of-progress report on the projects and actions for promoting equality in those beneficiary countries of the Community's contribution, as well as on the level of that contribution; calls on the Commission, in addition, to draw up an interim evaluation report on the 2001-2005 action programme, including data on the funds allocated to the projects undertaken in the different fields of the programme;
225. Regrets, in the absence of proof to the contrary, the circumstance of funds having been allocated from the indubitably important Community initiative EQUAL to activities whose impact on promoting equality has not been assessed;

## **Enlargement**

### *Enlargement and sound financial management*

226. Points out that the forthcoming enlargement to include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia is the largest-ever enlargement in terms of both scale and diversity;
227. Draws attention to the fact that the enlargement will put pressure on economic resources, will make complicated decision-taking procedures even more complicated, and will thus make further demands in terms of financial management; considers that the Commission and the Member States ought to use the opportunity to initiate a process designed to *enhance financial management transparency* in order to boost public confidence in Community management;
228. Calls on the national supreme audit institutions to play an active part in this process with a view to adopting a specific policy on auditing EU funds, drawing up an annual report on the management and use of EU funds in their country, and submitting it to their government and parliament, the other Member States' governments, parliaments and audit institutions, the Commission and the European Parliament;
229. Considers not only that there should be more audits of the use of EU funds, but also, in particular, that auditing should be made more effective, and urges all the parties involved to do everything possible to ensure that:
- (a) common audit standards are introduced in the present and future Member States,;
  - (b) the national supreme audit institutions in the present and future Member States are provided with mechanisms which will make it possible to perform the same audit tasks as those performed by the Court of Auditors at Community level;
  - (c) cooperation between national supreme audit institutions is encouraged;
230. Congratulates the accession countries on the progress they have made in meeting the criteria for their accession;
231. Takes the view that enlargement will make great demands in terms of the information to be provided by the Commission to the discharge authority and to the public, and that it can be improved if the Commission:
- a) structures the information in the report on budgetary and financial management in the financial year (Article 128(3) of the Financial Regulation) in such a way that it corresponds to the various policy areas;
  - b) provides detailed information on implementation of the various funds in the individual Member States;
  - c) states clearly, in a concise overview, which DGs are involved in the implementation of the various policy areas;
  - d) compiles information in such a way that it can be used by national supreme audit institutions in their own audits;
  - e) publishes its audits of Member States' management and control systems;
  - f) adjusts in general to the fact that information must be compiled in such a way that it is accessible and comprehensible to all, not only to Member State finance ministries;
232. Takes the view that, since far and away the largest proportion of the EU budget is implemented on a shared-management basis, meaning that the Commission delegates budget implementation duties to the Member States, i.e. to 15 and, after 1 May 2004, 25

heterogeneous ministries and administrative bodies and traditions, EU standards ought to be laid down which make it possible to verify that all 25 Member States use budget appropriations in accordance with the principle of sound financial management, i.e. in accordance with the principles of economy, efficiency and effectiveness;

233. Notes that it is the Commission's responsibility to ensure that EU legislation is implemented by the Member States; notes that the average infringement case takes three years before a final judgment is handed down and that there have only ever been two cases where a Member State was fined for not implementing EU legislation; is concerned that enlargement will increase the workload of the Commission with regard to its monitoring of the implementation of legislation and will further slow the infringement procedure; is concerned that no Commissioner is responsible for such an important issue; urges the incoming Commission President to include special responsibility for infringements in the portfolio of one of the new Commissioners;

*Pre-accession environmental projects and twinning arrangements*

234. Calls for particular attention to the needs of national, regional and local authorities in institution-building in the environmental sector when awarding aid before or after accession;
235. Notes that twinning is seen not only by the Commission but also by the candidate countries as an important way of strengthening the latter's administrative capacity; would nonetheless like to see the following improvements made to the programme so that the Commission can achieve the desired outcomes:
- (a) setting of specific and realistic objectives,
  - (b) all stages of project preparation should be rationalised,
  - (c) payment procedures should be speeded up and simplified,
  - (d) use of twinning on the basis of an informed choice between various instruments,
  - (e) the Commission should establish a network of seconded national experts (pre-accession advisers) so as to preserve specific experience and expertise;
236. Expects that the Commission will produce a global report, no later than 15 June 2004, on the successes and shortcomings of the 503 projects approved between 1998 and 2001;<sup>1</sup>
237. Calls for the extended decentralised information system (EDIS) to be implemented in all the applicant countries as soon as possible and once a Commission audit has validated the quality of their management and control systems; notes that thanks to EDIS the Commission should be able to move from ex ante to ex post control of tendering and contracting;
238. Calls on the applicant countries to draw up sustainable and viable environmental and financial strategies;
239. Draws attention to the importance of cooperation with the international financial

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<sup>1</sup> Replies to questionnaire - part I; Commission's reply to question 99.

institutions with regard to financial aid;

240. Draws attention to the need to improve absorption capacity by allocating more resources to project design and the organisation of tendering procedures;
241. Wishes to know the level of participation of private companies in the twinning projects and the effects of such participation;<sup>1</sup>

### **External measures**

#### *Organic issues*

242. Notes that, as a result of the complicated reorganisation of Commission departments dealing with external relations, the Court regards 2002 as 'a transitional year'; considers that the reorganisation could have been more extensive since there are still six different DGs and various departments sharing responsibility for external relations<sup>2</sup>;
243. Therefore urges that the number of DGs responsible for external policy be substantially reduced;
244. Notes with satisfaction that the Court's audit concentrated on the supervisory and control systems designed to ensure the legality and regularity of transactions and welcomes the Court's findings that both 'administrative procedures and organisational structures have been adjusted appropriately by both the EuropeAid Cooperation Office and the Humanitarian Aid Office to cater for the introduction of the new Financial Regulation which entered into force on 1 January 2003' (7.40)<sup>3</sup>;

#### *Controls relating to external measures*

245. Notes that the Court finds it questionable whether the Director-General of the EuropeAid Cooperation Office had sufficient information to declare that he had obtained reasonable assurance as to the quality of the supervisory and control systems set up to ensure the legality and regularity of the underlying transactions (7.39);
246. Notes also that the Court attributes the lack of quality in the supervisory and control systems to the fact that no overall auditing strategy was established to ensure that sufficient information was available at senior management level (7.10);
247. Looks to the Commission, therefore, to lay down guidelines for the use of independent external auditors, their selection, their terms of reference and reporting requirements; considers that the Court's recommendation in this respect should be accompanied by guidance designed to improve the drafting of these guidelines;
248. Stresses that, under any circumstances and as recommended by the Court, it should be

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<sup>1</sup> Replies to the questionnaire - Part I; Commission's reply to question no. 103

<sup>2</sup> External relations, EuropeAid, Trade, ECHO, Enlargement and Development

<sup>3</sup> OJ C 286, 28.11.2003

the Commission or its delegations - and not the implementing organisations - that decide on the selection of external auditors and lay down detailed terms of reference and precise requirements in respect of the presentation of audit reports (7.44);

249. Underlines the importance of evaluating the results of the reform of the external aid management as soon as sufficient experience of new structures and procedures has been gained; would welcome a specific evaluation report from the Court of Auditors;
250. Stresses that major and recurrent implementation problems like the ones encountered in the TACIS region and in other regions should routinely be reported by the Commission to the Budgetary Authority and the Court; emphasises that these reports should include analyses of causes as well as accounts of action taken or planned in response to the problems - all in clear language and indicating how further succinct information on different aspects can be obtained;
251. Stresses that greater coherence between different EU policies can improve the efficiency of EU expenditure; points to the simultaneous provision of macrofinancial assistance to Moldova and the maintenance of high import barriers against most products which that country could export to the EU as a clear example of incoherent policies causing an efficiency loss;
252. Fully shares the Court's view that there is a need for stronger measures to render crossborder cooperation over the external borders more effective; calls on the Commission and Council to ensure that Neighbourhood Programmes are launched without delay and that a Neighbourhood Instrument is created, so that a definitive end can be put to the problems caused by the mismatch of the instruments currently used for crossborder cooperation;
253. Welcomes, also, the Court's call for consideration to be given to amending the PHARE CBC regulation, so as to make regions bordering third countries also eligible for support;
254. Expects the Commission to provide an explanation each time it does not follow a provision laid down in a budgetary remark;

## *Development policy*

255. Draws attention to the principal objective of the Community's development policy, which is to reduce poverty with a view to its eventual eradication<sup>1</sup>, and highlights the endorsement given by the Commission and all Member States to the Millennium Development Goals (MDGs) as the means by which this objective is to be achieved;
256. Recalls that in the past a lack of statistical data hampered attempts to analyse the level of poverty focus in the Commission's development programmes; welcomes the introduction of the Common Relex Information System (CRIS) which, along with other databases, gave fully reliable figures for the first time in 2002;
257. Congratulates the Commission on meeting the global benchmark, introduced in the 2002 budget, requiring 35% of annual development commitments to be allocated to 'social infrastructure and services' as defined by the OECD Development Assistance Committee (DAC); observes, however, that aid reported to the DAC under this heading amounted to only 31.4% and that the shortfall was made up of 'macroeconomic assistance with social sector conditionality', which was included in the benchmark formula at the request of the Commission and for which the link to poverty reduction is less direct;
258. Notes that the benchmark formula requires the 35% to be allocated 'mainly (to) education and health' which are the two sectors most prominent in the MDGs; observes, further, that the figures reported to the DAC for 2002 commitments in these sectors<sup>2</sup> remain far from this target, and that structural adjustment programme conditionalities are most unlikely to make up such a large shortfall; notes, however, that the regional figures for Asia and Latin America show notable progress; calls on the Commission to build on this achievement by making improvements in the figures for other geographical areas in future years;
259. Points out that the figure for 'social infrastructure and services' includes an allocation of 13.5% for 'government and civil society' of which the largest single element is €319.9 million for 'economic and development planning'; notes that this is principally aimed at administrative support and that its direct relevance for poverty reduction is therefore questionable;
260. Regrets that the Commission has not provided an analysis of its contribution towards achieving the MDGs but has limited its study<sup>3</sup> to measuring the progress made by developing countries towards this objective; considers that assessment of the effectiveness of Commission programmes is hampered by the absence of such an analysis;

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<sup>1</sup> The European Union's Development Policy, conclusions of the 2304th meeting of the Development Council 10 November 2000.

<sup>2</sup> 4.1% for education and 3.0% for health. These figures include sector-specific budget support.

<sup>3</sup> Outlined in the Annual Report on the EC Development Policy and the Implementation of External Assistance in 2002, Ch 3.

261. Supports the Commission's policy of deconcentrating decision-making to the external delegations, 44 of which completed the process in 2002; welcomes the improvements that have already resulted from this<sup>1</sup>; derives reassurance from the reinforcement of delegation staff and the training programmes established for them, as well as from the controls exercised by headquarters; warns nevertheless that delegation staff should not be burdened with excessive levels of reporting to headquarters as this would risk negating the benefits of deconcentration;
262. Expresses concern at the increase in the use of macroeconomic assistance in 2002, and particularly at the Commission's willingness to use this modality in cases where other donors consider minimum requirements have not been met; notes that the Commission has drawn up an analysis of the risk associated with external assistance, and calls for this to be communicated to Parliament without delay; takes the view that budget support is more effective when targeted on a specific sector, and that key horizontal fields<sup>2</sup> may be addressed through a sector-wide approach in the area of public finance;
263. Recognises the achievement of the Commission in reducing year-on-year levels of 'abnormal *reste a liquider* (RAL)' but remains concerned that the total level continues to rise when successive budget years are added into the figures; calls on the Commission to redouble its efforts to bring this problem under control;

#### *Humanitarian aid*

264. Notes that the 2002 annual report from the Humanitarian Aid Office - ECHO<sup>3</sup>, setting out the humanitarian actions financed by the Commission to a total, over the year in question, of EUR 537.8 m, provides large numbers of details which, albeit useful, do not allow the reader to form a global picture of Community action, since insufficient attention is paid to horizontal issues;
265. Calls on the Commission to find and utilise a larger number of NGOs and charity partners;
266. Takes the view that no NGO or organisation should be able to bid exclusively or to receive 100% of the appropriations entered against any one budget line;
287. Calls on the Commission to supplement its future annual report with a general presentation of the strategic lines followed over the budget year, including an analysis of the value added supplied by Community humanitarian aid and an outline of ECHO's procedures; believes the report should also include a presentation of the methods used to estimate humanitarian requirements, together with detailed information on the assessments and audits carried out during the year concerned by the report, as well as their conclusions; considers, finally, that other transversal issues should be included - e.g. the risk of manipulation, abuse and looting, and measures to ensure that

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<sup>1</sup> Among improvements observed by the Commission are: reduction in time taken for tenders and calls for proposals and implementation of better-quality programmes.

<sup>2</sup> public service, public contracts, external audit etc

<sup>3</sup> COM (2003) 430



humanitarian aid reaches its proper destination - where they impact on the definition and implementation of Community humanitarian aid;

268. Trusts that the evaluation of the food security instrument in 2004 will provide a sound diagnosis and that, in the case of integration into the overall development programme, there will be no devaluation or dilution of the food security objectives;<sup>1</sup>

*Transparency of the Commission's operations vis-à-vis the European Parliament*

269. Deeply regrets that, since 2000, the Commission has failed to submit an annual report to the European Parliament on the operations financed under Council Regulations (EC) Nos 975/1999 and 976/1999 (on the European Initiative for Democracy and Human Rights, Chapter B7-70, where the 2002 appropriation amounted to EUR 104 000 000) in breach of Article 18(2) and Article 19(2) of those Regulations; instructs the Commission to provide the European Parliament immediately with the annual reports for 2001, 2002 and 2003, which, as laid down in the Regulations, should include 'a review of any external evaluation exercises which may have been conducted'; calls on the Committee on Budgetary Control to review the Commission's failure in this regard and also to provide a qualitative analysis of the results achieved by the Commission's operations under this chapter of the budget;

**Administrative expenditure**

*The invalidity pensions scheme of the European institutions*

270. Expresses its satisfaction at the Special Report of the Court of Auditors on the invalidity pensions scheme of the European institutions and notes with satisfaction that, according to the Court's medical experts, invalidity pensions are awarded correctly (Special Report 3/2003: III);
271. Draws attention to the fact that periods of sick leave have considerable economic consequences and it is therefore necessary and important for the institutions to apply a general policy laying down the measures necessary to manage all aspects of sick leave in an appropriate manner;
272. Deplores the fact that, according to the Court, the institutions are not able to guarantee fully:
- a) the necessary assistance for staff who are unable to work for long periods,
  - b) the efforts required to reduce absences as far as possible, in the interests of staff and the corresponding department,
  - c) that regular attendance at work is not adversely affected by inappropriate assignments of duties or inappropriate working conditions (IE 3/2003: 21);

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<sup>1</sup> Replies to the questionnaire - Part I; Commission's reply to question no. 104 (PE 328.732/fin. 1)

273. Regrets that, as stated by the Court, the imprecise allocation of roles and responsibilities between the parties involved - the department in which the official or other servant works and the medical and personnel services - has led to a situation where only the most mechanical and bureaucratic aspects of the management of absence actually function – reporting absence and maintaining records – whilst it is not clear who is responsible for essential functions and activities of an effective and forward-looking policy on the management of sick leave, such as:
- (a) contact with the member of staff during his or her absence,
  - (b) monitoring absence rates for each member of staff and in the institution as a whole, and the benchmarks to be applied,
  - (c) identifying patterns of absence which cause concern and taking the necessary measures,
  - (d) deciding whether to carry out medical checks and in what circumstances,
  - (e) deciding whether interviews should be conducted with the member of staff after his return to work, and by whom, in what circumstances, how and for what purpose (IE 3/2003: 22);
274. Expresses its deep concern on noting that the inadequacies and shortcomings in policy on the management of absences and cases of invalidity are due to 'a lack of senior management commitment' (IE 3/2003: 74c);
275. Points out that the Court estimates that around 10 million euro could be saved each year if monitoring systems were set up making early detection and treatment possible for people who are absent on sick leave repeatedly or for prolonged periods (IE 3/2003: 55);
276. Considers that a sound workplace is characterised by a low rate of sick leave and that improved opportunities for development, greater variety of work, greater recognition and increased opportunities for the future strengthen the motivation not to be absent from work;
277. Expects the institutions to carry out an analysis of sick leave as soon as possible, with a breakdown of leave by department, gender, age, category and duration of sick leave, with the aim of acting on the Court's recommendations as regards the introduction of a general policy on the management of sick leave and invalidity;
278. Expects the institutions to draw up a report every two years on the implementation of the above measures, and expects the senior management of the institutions to pay greater attention to the scheme's economic management as well as to the aspects concerning the working environment and personnel management;

*Procurement practices*

279. Notes that the calls for tender issued by the Commission before 2000 for the supply of office paper specified a whiteness degree of just 80% but notes, further, that the corresponding calls for tender issued since 2000 have specified a degree of whiteness of more than 90% and that this has resulted not only in higher costs for the Community budget but also in the elimination of competition and a deterioration in the ecological situation with regard to paper use; calls on the Commission, therefore, to set the specified degree of whiteness at an appropriate level once again so that due account may be taken of those factors which affect the environment and competition;

#### *Financial instruments*

280. Recalls its resolution of 21 November 2002<sup>1</sup> on the EIB Annual Report for 2001 which called on the EIB, the Court of Auditors and the Commission to amend the tripartite agreement; is satisfied that the new tripartite agreement signed on 27 October 2003 significantly improves the procedures involving the three institutions; is particularly satisfied with the clarification that the Court of Auditors is authorised to audit both the guarantee and the underlying transaction when the EIB provides loans guaranteed by the Community budget; recalls that such EIB loans guaranteed by the Community budget amounted to almost EUR 14 million at year-end 2002;

281. Fully supports the conclusions of the Court with regard to the Financial Mechanism (paragraphs 10.35 and 10.39. of the annual report for 2002), that final payments should be carried out only on the basis of appropriate certificates issued by the competent authorities of the Member States and that greater efforts are needed to identify suitable investments and to take into account overall project realisation, particularly in order to avoid damage to the environment;

282. Calls on the Commission to report as soon as possible to Parliament and to the Court of Auditors on the findings of the internal audit of its banking operations, currently being carried out under the direct responsibility of the Commission, which should address the need for changes in the control environment, including ex-post controls;

283. Calls on the Court to include in its work programme an audit of projects financed through EIB loans backed by a Community guarantee; recommends that environmental projects in the Baltic Sea basin of Russia (Council Decision 2001/777/EC of 6 November 2001) be included in the audit programme;

284. Recalls that the audit of the financial management of the Guarantee Fund for external actions is subject to audit by the Court of Auditors in accordance with procedures to be agreed upon by the Court of Auditors, the Commission and the European Investment Bank; calls for a revision of these procedures in the spirit of the new tripartite agreement signed on 27 October 2003;

285. Notes that the fee structure for the management of the Guarantee Fund for external actions was negotiated on a commercial basis with the EIB; regrets that neither the Commission nor the Court has been provided with detailed information on the EIB's

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<sup>1</sup> OJ C 25 E, 29.1.2004, p. 390

cost structure with regard to the treasury management of the Guarantee Fund; calls on the Commission to submit a proposal for the amendment of the current Council Regulation on the Guarantee Fund so that it may take over the portfolio management from the EIB from 2005 onwards;

286. Recalls that the Commission holds 30% (EUR 600 million) of the shares of the European Investment Fund (EIF), the cumulative portfolio of signed EIF operations (investment in venture capital funds and in the SMU guarantee markets) amounting to about EUR 7 billion at year-end 2002; notes that there is currently no agreement in force for the audit of the EIF by the Court of Auditors; emphasises that, pursuant to Article 248 of the Treaty, the Court is nonetheless entitled to undertake a comprehensive audit of the EIF and its operations; calls on the Court to include an overall audit of the EIF in its work programme so as to ensure that the financial management of the Fund is sound (compliance with the principles of economy, efficiency and effectiveness);
287. Takes the view that the rulings of the Court of Justice (in Cases C-11/00 and C-15/00) on Investment Bank and Central Bank cooperation with OLAF must be applied, by analogy, to the Investment Fund as well; calls on the Investment Fund, therefore, to take an immediate decision on internal OLAF inquiries in accordance with the OLAF Regulation;
288. It concerned by the statement made by the Court of Auditors (point 10.36 of the Annual Report) that the EEA Financial Mechanism clearly caused undesirable displacement; shares the Court's view (point 10.35) that greater efforts are needed to identify suitable investments; calls for any environmental damage caused during project realisation to be avoided or made good, and insists that final payments should be carried out only on the basis of appropriate certificates issued by the competent authorities or by an independent auditor;
289. Notes that the Commission has not yet answered the question posed by the Court of Auditors (point 10.33 of the annual report) as to whether the regional authorities in Galicia gave preference to national products in breach of the Protocol on the Statute of the European Investment Bank which states: 'Neither the Bank nor the Member States shall impose conditions requiring funds lent by the Bank to be spent within a specified Member State'; recalls that, where appropriate, the recovery of undue payments may be required; calls, in this instance too, on the Commission to submit a report on this issue by September 2004 at the latest and to include in that report, where appropriate, an assessment of similar problems with regard to the Cohesion Fund where, in the past, the Commission had complained about non-compliance with the provisions relating to the award of public contracts..

## ANNEX 1

### DOCUMENTS REQUESTED FROM THE COMMISSION<sup>1</sup> in relation to the 2002 discharge Section III - Commission

Docs requested from Commission	Question No	Commission's reply	Remarks
Annual report - overall view of internal control systems broken down by DG	15 - Part I <sup>2</sup>	The Central Financial Service (CFS) has to provide an overall view of internal controls for the budget year 2003, from April 2004. This will be sent to the EP as soon as it is available.	To be forwarded
Report on the Member States' control and management systems: from November 2002 to January 2003, the Commission and OLAF carried out a joint inquiry into the shortcomings, the conclusions of which will be communicated to several other institutions, among them the EP.	86 - Part I	The report has been drawn up and is now going through internal consultation procedures. It will be sent to the EP in late 2003 or early 2004.	To be forwarded
Eurostat affair - preliminary internal audit report - list of banks and	161 - Part I	A list of the banks and balances making up the treasury (see 2002 accounts) will	Received

<sup>1</sup> Pursuant to Annex V, Article 3(1d) of Parliament's internal rules

<sup>2</sup> PE 328.732/fin. 1

<b>Docs requested from Commission</b>	<b>Question No</b>	<b>Commission's reply</b>	<b>Remarks</b>
balances for the sums appearing in the 2002 accounts		be sent separately pursuant to Annex III to the framework agreement.	
In its decisions of July 2003 on Cases C-11/00 and C-15/00, the ECJ stated that the 1999 rules governing OLAF inquiries also apply to the EIB. Previously, the EIB had reserved the power of inquiry to its own services. Since then, has the EIB complied with the ECJ ruling, and has it taken a decision enabling OLAF to carry out inquiries concerning itself and its projects? Can the Commission supply a copy of this decision?	166 - Part I	In the wake of Cases C-11/00 and C-15/00, the EIB has set up a working group on the decision enabling OLAF to carry out inquiries into the EIB and projects funded by it. A draft proposal will be put to the EIB's governing bodies in early 2004, following consultation of the Commission and OLAF.	To be forwarded
Briefing by the former Director of Resources - Eurogramme affair and questions on the Datashops.	172 - Part I	These documents will be forwarded to the chairman of the Committee on Budgetary Control and the rapporteurs on the 2001 and 2002 discharges, pursuant to Annex III of the framework agreement	Received
Both the European Environment Agency and Eurostat had contractual links to this company. Can the Commission provide the following data concerning each of these contracts: amount; duration; copy of the reports evaluating the tenders?	173 - Part I	The requested tender evaluation report will be forwarded to the chairman of the Committee on Budgetary Control and the rapporteurs, pursuant to Annex III of the framework agreement.	Received

Docs requested from Commission	Question No	Commission's reply	Remarks
The Commission's DGs are subject to the checks of the Internal Audit Service and the decentralised Internal Audit Capabilities. Can the Commission provide a detailed list, broken down by DG and area, of all checks begun and/or completed in 2002?	185 - Part I	The relevant tables will be sent separately pursuant to Annex III of the framework agreement.	Received
Final audit reports forwarded to the Court of Auditors	187 - Part I	The relevant tables will be sent separately under to the procedure laid down in Annex III of the framework agreement on EP/Commission relations.	Received
List of contracts concluded in the last ten years with SCHLUMBERGER and SEMA/SEMA Group Belgium and details of payments made over the same period to those companies	195 - Part I	The Commission will, on the request of the discharge rapporteurs and pursuant to Annex III of the framework agreement, forward the files on all the relevant payments made by the Commission's services	Received

Docs requested from Commission	Question No	Commission's reply	Remarks
In 2002 the Commission 'requested a legal opinion' setting out the respective rights and duties of the Commission and the Member States in shared management.	3 - Part II <sup>1</sup>	The legal opinion is being drawn up. Account will be taken of it in the context of the 'shared management' action of the 2002 summary, and also by the inter-services group steered by DG BUDG (section 5.3.3., point A) et DG REGIO and the other DGs preparing a communication for March 2004 (section 5.3.3., point B). The results of the two parts of this action will be communicated at the appropriate moment to the Committee on Budgetary Control.	To be forwarded
Results of the risk evaluation apparently carried out in 2002/2003	72 - Part II	The analysis will be forwarded to the other institutions, in the form of a working document prepared by Commission staff, during the first quarter of 2004.	To be forwarded
Sectoral breakdown (on the basis of the OECD/DAC categories) of the execution of the budget headings relating to geographically-based aid to developing countries and the EDFs (budget chapters B7-10, B7-30, B7-31	83 - Part II	Tables with the data requested will be provided in January.	Received

<sup>1</sup> PE 328.732/FIN 2



Docs requested from Commission	Question No	Commission's reply	Remarks
and B7-32)			
Table indicating the breakdown as between primary commitments, secondary commitments and EDF payments in 2002, by sector (education, health, etc), with the amounts broken down by instrument	84 - Part II	Tables with the data requested will be provided in January.	Received

# WORKING DOCUMENT ON THE EUROPEAN COURT OF AUDITORS' FINDINGS

as regards the system for setting the rates of subsidy on exports of agricultural products (Special Report 9/2003)

The prefinancing of export refunds (Special Report 1/2003)

2002 DISCHARGE

Rapporteur: Paulo Casaca

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>1. System for setting the rates of subsidy on exports of agricultural products</b>	<b>1</b>
1.1. Introduction	1
1.2. Export refunds	1
1.3. The Court's audit	1
1.4. Product groups	1
1.5. Market management	2
1.6. Beef	2
1.7. Milk and milk products	2
1.8. Cereals	2
1.9. Sugar	3
1.10. The Court's overall conclusion	3
<b>2. Rapporteur's proposed conclusions</b>	<b>3</b>
<b>3. Prefinancing of export refunds</b>	<b>7</b>
3.1. The Court's audit	7
3.2. The key results	7
3.3. The Court's recommendation	8
<b>4. Rapporteur's proposed conclusions</b>	<b>8</b>

## **1. System for setting the rates of subsidy on exports of agricultural products**

### **1.1 Introduction**

In connection with the Court of Auditors' presentation of Special Report 9/2003 on the system for setting the rates of subsidy on exports of agricultural products at the meeting of the Committee on Budgetary Control on 7/8 July 2003, the rapporteur demanded - in line with one of the Court's recommendations and as forcefully as the niceties of parliamentary parlance allow - that the Commission submit documentation on how it arrives at the calculation for the rates set. The rapporteur also stressed - again politely but unambiguously - that as there had been no guidelines or instructions on the procedures to be followed it could not be ruled out that the system might turn out to be highly vulnerable.

On Wednesday, 15 October 2003 the police searched DG AGRI's offices in Brussels as part of a large-scale investigation conducted simultaneously in Belgium, the Netherlands and France.

### **1.2 Export refunds**

Since prices for agricultural products in the internal market are higher than world market prices, selling products is difficult. The sensible thing to do would of course be to limit the production of unsaleable commodities and, instead, to start to produce commodities which consumers are willing to buy. The common agricultural policy is not sensible, however, and that is why this obvious and straightforward solution is not used for it. Instead, the EU pays a subsidy to exporters endeavouring to dispose of European farmers' production surpluses outside the EU and, often, in developing countries (which harms their production). The subsidy represents the difference between internal EU prices and world market prices. The key products covered by this system are sugar, cereals, skimmed-milk powder, whole-milk powder, butter, cheese and beef. Support rates are laid down for each product by the Commission. Annual spending on that support is some EUR 3.4 bn<sup>1</sup>.

### **1.3 The Court's audit**

The aim of the Court's audit was to examine the following appropriate and entirely relevant questions:

- Are the export refund rates set by the Commission in a rational, coherent and sound way?
- Are the factors taken into account in setting the export refund rates relevant and complete?
- Are the underlying data sources relevant, complete, reliable, valid and up to date?

### **1.4 Product groups**

DG AGRI's market divisions are organised by product group; they are responsible inter alia for proposing export refund rates. To cut a long story short, there are two rate-setting methods: for beef and milk products, the rate is set periodically; for cereals and sugar, there is a tender system. The main audit results with regard to the Commission's approach to market management and to the individual product sectors are summarised below. *The Commission's replies to the Court's observations are in italics.*

### **1.5 Market management**

<sup>1</sup> That figure, if it is to be comprehended at all, needs to be expressed in different terms. The reader is invited to think up various ways of converting it, or drawing parallels, in terms of a developing country's national budget, a firm's turnover, government expenditure on unemployment insurance in a Member State, a chateau in Bordeaux, etc. EUR 3.5 bn can also be divided by the number of days or hours in a year.

As markets are very different, in practice there are considerable variations in how the various market divisions set rates. The Court of Auditors does not criticise the fact that there are differing approaches, but points out that

- '... there is no evidence of recent management analysis of the justification for them.' (paragraph 13)

*Commission:*

*'All decisions on refunds are taken at the highest hierarchical level in DG AGRI. Since neither the nature of the products nor their system of production and marketing has changed, a new look at the mechanisms for fixing refunds is not required. The parameters relating to these mechanisms are constantly monitored.'* (Commission's replies, paragraph 13)

### **1.6 Beef**

The Court points out that:

- '... the relationship between the information available ... and the final level of the refund rate fixed is not clear.'
- 'There were no guidelines concerning changes in the market situation which would warrant a change in refund rates (e.g. internal price levels, stocks, exchange rates, etc).'
- 'When refund rates are adjusted, neither the choice of products affected nor the extent of the adjustment is systematically clearly explained and justified.' (paragraph 20)

*Commission:*

*'It is the Commission's view that rate setting in the beef sector is sufficiently transparent for the internal decision-making process, including the Management Committee, to be concluded correctly.'* (Commission's replies, paragraph 20)

### **1.7 Milk and milk products**

The dairy market is large and encompasses some 400 products eligible for export refunds. The Court states that:

- '... there is no direct link between [the Commission's] calculations and the refund rate set.'
- 'There are no explanations for differences between the calculated theoretical rate and the rate actually proposed.' (paragraph 25)

*Commission:*

*'While it may not always have been completely documented in the individual files, the Commission has explained that extremely important circumstances prevailed in opting for a rate different from the theoretical calculated rate during the period examined.'* (Commission's replies, paragraph 25)

It will be noted that neither the Commission nor the Court of Auditors gives the discharge authority particulars as to the substance and nature of those '*extremely important circumstances*'.

### **1.8 Cereals**

For wheat a maximum refund rate is set on the basis of a tendering system. The Court points out that:

- '... the relationship between the calculations performed and the final rate set is not clear.' (paragraph 30(d))

*Commission:*

*'The maximum refund awarded does not necessarily correspond to the strict mathematical calculation but includes other market factors; these are discussed with the representatives of the Member States in the Management Committee. Furthermore, the representatives of the Member States vote on the fixing of refunds by tender.*

*The opinions of the Committee are recorded in a file note, with explanations; these are available to the Court of Auditors.'* (Commission's replies, paragraph 30(d))

## **1.9 Sugar**

This product sector differs from the others in that:

- 'The setting of refund rates is highly transparent.' (paragraph 33) However,
- 'Given that the method and elements of the procedure to set the maximum refund are public knowledge and that the sugar market is dominated by a very small number of large companies, the tendering system, designed to set export refunds in the most economical way for the Community budget, does not function as a real tendering system in the sense that traders are in meaningful competition with each other.' (paragraph 37)

*Commission:*

*'The fact that the method used is known to the operators does not hamper this kind of competition.'* (Commission's replies, paragraph 37)

## **1.10 The Court's overall conclusion**

The Court concludes, as it did in 1990, that 'there is still a lack of demonstrable coherence in the rate-setting procedures for milk products, beef and to a lesser extent cereals. Independent third-party audit is very difficult.' (paragraph 39).

## **2. Rapporteur's proposed conclusions**

In the light of the results of the Court's audit and the Commission's replies, the rapporteur calls on the general rapporteur to include the following conclusions in his report:

### **Setting the rates of subsidy on exports (Special report No 9/2003)**

1. Recalls that the expenditure in the EU budget for export refunds is dependent on the quantity of products for export and the export refund rate set by the Commission, and that the investigation by the Court of Auditors as to how, by means of which procedures and on what basis the Commission decides to set that rate is therefore both welcome and useful, as the setting of the rate is an important cog in the entire export refund mechanism;
2. Understands that, in their reply to the auditors' observations, auditees will seek to defend and explain their actions; also understands that a special report is a snapshot of management at a particular time before the publication of the special report, and that changes may have been made during the period it takes to carry out and complete an audit;
3. Finds, despite the above acknowledgement, that the gap between the two institutions' understanding of, on the one hand, 'what the situation is' and, on the other hand, 'what the situation should be', puts the discharge authority in a difficult and unsatisfactory situation;

4. Reminds the Court of Auditors and the Commission that the object of an audit is to bring about constant improvements in the relevant management process, that the outcome of audits and replies thereto should be drawn up in such a way that they are comprehensible to the European public, and expects rapid progress towards that objective;
5. Notes that the Court last investigated this matter in 1990<sup>1</sup> and concluded in regard to the method of setting export refunds that 'documentation of the facts, the Commission's consideration of the facts, the decisions taken and the outcome was not maintained, and, as a consequence, independent third party and audit and management control were virtually impossible' (SR 9/2003: 9);
6. Recalls that, in its report on the Court's special report, Parliament concluded that 'for reasons of public accountability, the Commission's internal decision-making procedures must be recorded and justified in writing so that its reasoning can be followed by the monitoring bodies at any time' (SR 9/2003: 10);
7. Notes that, in its latest report, the Court concludes that
  - the Commission has access to extensive market information but that this is not always up-to-date, complete or objective,
  - in many cases it is unclear how the information is used and what impact it has on the final refund rates set,
  - in setting the refund rates, the Commission gives no details of its working methods or any systematic and coherent justification for the rates set SR 9-2003:39);
8. Notes that no progress has been made in the 13 years between the two audits; regrets and criticises the fact therefore that the Commission ignores the recommendations of the Court of Auditors and the discharge authority;
9. Expects the Commission to account for the following:
  - the reason why no substantial progress has been made in the 13 years between the two audits (SR 9/2003:39),
  - the results achieved by the working group set up by the Commission in response to the Court's audit (SR 9/2003: 40a), footnote 7);
  - to what extent the Agriculture DG meets standard no 15 of the internal control standards which reads:  
*'The procedure used in the DG for its main processes shall be fully documented, kept up to date and available to all relevant staff and shall be compliant with the Financial Regulation and all relevant Commission decisions'*<sup>2</sup>;
10. Also expects the Commission to submit as soon as possible:
  - an overall framework for the information to be included in the calculation of the rate,

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<sup>1</sup> Special report No 2/90 of 31 May 1990 on the management and control of export refunds (OJ C 133, 31.5.1990).

<sup>2</sup>[http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC%20\\_2001\\_2037\\_Internal\\_Control\\_Standards\\_en.pdf](http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC%20_2001_2037_Internal_Control_Standards_en.pdf)

- reliable documentation for the information selected,
- quality control of the information selected,
- a clear statement of the division of tasks and responsibilities internally in the Commission,
- a clear and unambiguous description of the procedures to be followed, and in particular
- *a description of control procedures and criteria for assessment;*

11. Calls on the Court of Auditors to keep it informed of the Commission's implementation of the recommendations set out in paragraph 40a) - h) in Special Report 9/2003.

### **3. Prefinancing of export refunds**

The complex export refunds 'machinery' has a special component, known as 'prefinancing', which has been separately audited by the Court of Auditors. Prefinancing of export refunds was introduced in 1969 in order to maintain Community preference for EU products over those from third countries temporarily imported for storage or reprocessing prior to re-export.

About 11 % of all refunds - approx. EUR 600 m - is 'prefinanced', i.e. a refund payment can be made to an exporter up to 240 days prior to physical export.

#### **3.1 The Court's audit**

The Court examined how the Commission manages the scheme and how the national authorities implement it. The Court's audit must be regarded as especially apposite. An earlier examination carried out by the Commission in 1997 revealed weaknesses in national authorities' checks which were so considerable that the Commission imposed financial corrections of more than EUR 166 m on Member States (Special Report 1/2003, Summary, point V).

#### **3.2 The key results**

- An obligation to provide sufficient detail did not come into force until the start of the EAGGF year 2002. Previously, no statistics were available on the quantity or value of products exported under the prefinancing regime (paragraph 13).
- Interpreting the regulatory framework is complex (paragraph 15).  
*The Commission's reply: the fact that 11% of expenditure on refunds is prefinanced shows that exporters are pleased with the scheme despite the administrative complications (paragraph 15).*
- There is a lack of coordination between DG AGRI and DG TAXUD on the common interpretation of provisions (paragraph 15).  
*Commission: 'In one individual case relating to the application of the standard rate of yield, the interpretation given by the two Commission services was different.'* (paragraphs 16 to 19)
- Both between and within Member States, considerable variations have been found with regard to the type of checks performed and to the degree of thoroughness with which they are carried out.
- Member States' application of the provisions on common storage (of goods under the prefinancing scheme and goods subject to other customs regimes) varies (paragraphs 20 and 21).

*The Commission will further clarify interpretations already given for Member States (paragraphs 21 and 22).*

- When basic products covered by the prefinancing scheme are processed, matters are further complicated because the accounting records to be drawn up on goods for processing, with a view to ex post checks on export transactions, 'do not reflect reality' (paragraph 26).
- Commercial reality prevents the controls required by the rules from being carried out (paragraph 29).

*The Commission services will take account of these findings in their risk analysis and future work programme (paragraphs 29 and 30).*

- The scheme no longer fulfils its original intention. It is now used primarily to increase control over beef exports. The need for increased controls is in itself not sufficient justification for payment of refunds in advance under the prefinancing arrangements (paragraph 39).

*Prefinancing continues to be used for the purposes for which it was originally designed, but is also used to strengthen checks (paragraph 40).*

### **3.3 The Court's recommendation**

The Court takes the view that 'the prefinancing regime should be reviewed and consideration should be given to its removal' (rapporteur's underlining) (paragraph 41).

*The Commission will 'carry out a review' (paragraph 42).*

## **4. Rapporteur's proposed conclusions**

In the light of the results of the Court's audit and the Commission's replies, the rapporteur calls on the general rapporteur to include the following conclusions in his report:

### **The prefinancing regime (Special Report 1/2003)**

1. Notes with interest the Court of Auditors' investigation of the Commission's administration, and the national authorities' implementation, of the prefinancing regime, which is an important part of the export refund system, which in turn is a part of the common agricultural policy adopted by the Council;
2. Recalls that this is a very complex area, in which the Commission actively intervenes on the agricultural markets after taking difficult decisions, in which very considerable sums are paid out daily from the EU budget, and which the Court of Auditors has described in earlier special and annual reports as a high-risk area;
3. Notes that some 11% of the refunds paid in 2000 – some EUR 600 m – were paid out under the prefinancing regime (SR 1/2003: 2).
4. Notes that the Commission's own investigations in 1997 into the national authorities' checks on the regime revealed such significant shortcomings that the Commission imposed financial corrections of over EUR 166 million on the Member States (SR 1/2003: V), but did not subsequently carry out an in-depth analysis of the regime's procedures;
5. Considers that financial corrections reflect not only the Member States' ability and



willingness to implement a regime correctly, but also the *possibility* of implementing the regime correctly, and considers in a general way that many legal provisions concerning the common agricultural policy are so complex to interpret, and the checking provisions in many cases so lacking in transparency, that the Member States' authorities do not have much opportunity to carry out the systems correctly.

6. Finds it hard to understand why the Commission does not pay greater attention to large financial corrections or treat them as alarm signals which may mean that a regime and its associated procedures should be made subject to a thorough investigation with a view to simplification or amendment;
7. Notes the Court of Auditors' conclusions to the effect that:
  - the legal provisions are hard to interpret, which makes it difficult for the Member States to implement the regime;
  - the prefinancing regime makes the already complex export refund system still more complicated;
  - the checking provisions are so unclear that there are large discrepancies not only between Member States but also between regions within the same Member State regarding the nature and extent of the checks;
  - the original purpose of the system has fallen by the wayside.

and that the Court of Auditors recommends, in the light of these conclusions, that consideration should be given to the removal of the regime;

8. Regrets that the Commission – while sharing some of the Court of Auditors' points of view – has not followed with the Court's recommendation to work towards the removal of the prefinancing regime, but has instead adopted two new regulations which further complicate an already complex system;
9. Considers that the prefinancing regime operates in practice as a provider of free capital to those undertakings which make use of the export refund regime;
10. Considers it neither reasonable, proportional nor necessary for the European taxpayer to be forced to provide free banking services for these firms by continuing to subsidise their cash-flow to the tune of EUR 600 m;
11. Is aware that the common agricultural policy is adopted by the Council, and that the Commission therefore has only a limited influence over it; regrets, however, that the Commission is not making a greater effort to make it clear to the Council that a detailed follow-up to the Court of Auditors' recommendations is an important step on the necessary road to improving the EU's financial management;
12. Deeply regrets that the Council has still not adopted the Commission's proposal for a Council regulation amending regulation (EC) 1258/1999 on the financing of the common agricultural policy, which seeks to extend from 24 months to 36 months the maximum period to which an expenditure correction may apply, and which has been supported both

by the Court of Auditors<sup>1</sup> and by the European Parliament<sup>2</sup>;

13. Does not consider that the Commission's argument for continuing the regime are convincing, supports the Court of Auditors' recommendation and calls on the Commission to work towards removing the pre-financing regime as a first step towards phasing out the whole export refund system;
14. Points out that it has already called on the Commission on a host of occasions to make proposals to abolish the export refunds scheme as part of what is a necessary reform of the common agricultural policy, which is increasingly distorting competition;
15. Takes the view that agriculture's primary objective must be to produce foodstuffs which consumers are willing to buy, on an open and competitive market; deplores the fact that the conservative majority on the Council has watered down the Commission's proposals for reform of the common agricultural policy; draws the attention of Member State governments and, in particular, ministers for agriculture to the fact that the necessary acceptance of agriculture and its production methods in the rest of society is becoming more and more difficult to secure as a result of the short-sighted and narrow way in which the sector looks after its interests.

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<sup>1</sup> Opinion 9/2002, OJ C 285, 21.11.2002, p. 1.

<sup>2</sup> A5-0277/2002.

# WORKING DOCUMENT ON THE REFORM OF THE COMMISSION

## 2002 DISCHARGE

Rapporteur: Gianfranco Dell'Alba

### Structure of the document

#### I. Background

1. The crisis which led to the resignation of the Santer team made it obvious that the Commission was in need of extensive reform. That need, which was loudly proclaimed by Parliament and subsequently confirmed and made the subject of recommendations in the two reports drawn up by the independent experts, was the theme of a White Paper submitted by the Prodi Commission in April 2000. On that basis the Commission has launched an ambitious reform programme, the aims of which are to increase independence, introduce a more stringent requirement for accountability and raise standards as regards the assumption of responsibility, whilst improving efficiency and increasing transparency. Parliament has provided support for the Commission's efforts to bring this ambitious reform to a successful conclusion.

#### II. Reorganising management

2. Improving financial and operational management and monitoring it more effectively are one of the main planks of the reform. The aim is to place political priorities at the heart of the organisation and to allocate the resources which the organisation needs in order to perform its priority tasks. To achieve that aim the Commission has resorted to strategic planning, the establishment of a programming cycle and the introduction of activity-based management (ABM).

- During 2002 the Commission focused its efforts on **improving its internal management system**. In the case of its annual policy strategy it has mainly been concerned with ensuring that the activity-programming cycle operates satisfactorily. Said cycle involves strategic planning, annual management plans, budget allocation, implementation of expenditure, the annual report produced by the Directors-General and the heads of department, and the Statement of Assurance.
- Furthermore, the **New Financial Regulation (NFR)** was adopted in June 2002 (as were the implementing rules relating thereto) and it has been in force since 1 January 2003. It **constitutes one of the main tools** in the revised financial-management system which accompanied the introduction of activity-based management.

3. In order to enhance the management system and prepare its staff for the implementation of the NFR, the Commission has been active on several fronts at the same time, with particular

reference to:

- giving responsibility to authorising officers and making them accountable (including by means of annual reports drawn up by authorising officers by delegation [Directors-General]);
- redrawing financial circuits;
- ensuring that tasks are separated appropriately (the initiator and the verifier of a transaction to have distinct roles), following the abolition of *ex-ante* control;
- devolving control operations to the DGs and increasing the size of the internal audit departments;
- getting departments to draw up annual management plans based on common standards;
- establishing an independent internal audit department with the task of assessing the effectiveness of management and control operations;
- presenting the initial annual activity reports drawn up by the DGs and departments and summarising them.

4. Without disregarding the College's political responsibility, any assessment of the progress made in terms of reform should take into account both the new balance established under the revised system (namely, the key role assigned to authorising officers by delegation - Directors-General/heads of department) amongst the various players and also the stated objective of the reform, which is to establish 'a new service culture'. In this connection the rapporteur considers that critical assessment may usefully be focused on the following considerations:

- the importance of the management plan and of the DGs' and departments' annual activity reports as essential tools for implementing and assessing the results obtained;
- the implementation of 'internal-control standards',
- the contribution made to the running of the system introduced by the decentralised internal-audit units and the Internal Audit Service (IAS) in performing a 'corrective function' and providing transparency.

5. The importance, in particular, of the **annual activity report** must be emphasised, since the latter enables an overall assessment to be made of the main results obtained by the Directorates-General, and it also ensures accountability. It has become the preferred means of identifying problems, recording the action taken by the Commission on the recommendations issued by the Court of Auditors and on the observations/proposals contained in the IAS's audits, and of announcing the necessary corrective action. The report also contains useful information on the functioning and the assessment of the decentralised checking and internal-audit system by increasing transparency. These characteristics make it a major tool made available to the discharge authorities (and to the other institutions), since it must be accompanied by the Director-General's statement which is supposed to provide an 'assurance of sound management'.

6. Although that 'statement of assurance' is intended as an explicit expression of **responsibility** and of **accountability**, *it nonetheless presupposes that the entire system 'set up' around the authorising officer works perfectly*. This means that the internal-control system works well, that it dovetails with the tasks of authorising and implementing expenditure, that the IAS's contribution is properly integrated into the 'the circuit' and that the information needed to enable decisions to be taken circulates unimpeded from and to those who are required to act. There are therefore many points at which the 'system' may reveal weaknesses and even 'shortcomings' if one or other of its component parts becomes dysfunctional.

7. In this connection the rapporteur points out that **the implementation of certain**

**internal-control standards** to cover management, the internal-control environment and risk assessment **still leaves much to be desired**. This is something which the Commission has acknowledged and it describes 2002 as a year of 'consolidation'. Hence it is stated in the **synthesis of annual activity reports 2002** of DGs<sup>1</sup> that, as regards risk analysis and management, at the end of 2002 '... there remained work to be done by DGs and services in ensuring that certain mandatory controls would be in place. Moreover, it is clear from the limited progress made in general that DGs and services are some way short of having a fully-embedded risk-management culture in place'.

As regards control activities it is stated in the same document that '... weaknesses in the area of control activities are often interconnected with ... the absence of appropriately expert staff, compounded by insufficient or unclear documentation... and poor management supervision overseeing the whole process'.

8. In order to ascertain the stage reached in the achievement of the targets set, the Commission has undertaken an exercise involving the **self-assessment of its services as regards compliance with the internal-control baselines**. In its Communication<sup>2</sup> on that topic it presents the outcome of its exercise and notes that additional efforts are called for as a matter of urgency in order to ensure that the DGs and services are fully compliant with the 24 internal-control standards. Such efforts need to be deployed in the following areas:

- control environment: the standards linked to staff skills and to **sensitive tasks**;
- performance and risk management: the standards linked to the setting of objectives, monitoring performance against targets and **risk analysis and management**;
- information and communication: the standards linked to adequate management information and to mail registration and filing systems;
- control activities: the standards linked to **the documentation of procedures**, to the **supervision of control activities** and to the recording of exceptions;
- audit and evaluation: the standards relating to the identification and correction of internal control weaknesses and to evaluation.

(**NB**: the standards **in bold** are the ones which, in the Commission's eyes, are of particular importance and which the Directorates-General are consequently called upon to endeavour to apply.)

9. It is clear from the above remarks that, even if progress has been made (an observation which is confirmed in the analysis produced by the Court of Auditors - see below), **the effectiveness of the control systems cannot yet be deemed satisfactory** in the light of the stated objective of legitimately securing statements of assurance concerning sound management from the Directors-General.

### III. Observations made by the Court of Auditors

10. **Whilst acknowledging that progress has been made in terms of reform**, the Court of Auditors has made the point that the initial Commission timetable put forward in the White Paper was 'extremely ambitious' (= unrealistic). This criticism expressed by the Court was also

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<sup>1</sup> COM(2003) 391 final - Section 3.2 et seq.

<sup>2</sup> SEC(2003) 1287, 26 November 2003.

put forward by Parliament in its resolution on the 2001 discharge - a text in which the discharge authority identified a number of areas of Commission activity in which that institution would have to do more, do better and act more swiftly and decisively. Furthermore, the Court's recommendation **that the Commission should submit an updated version of the White Paper** providing a full picture as regards the targets which still need to be met and establishing a revised timetable<sup>1</sup> is based on reasoning similar to Parliament's.

11. The Court of Auditors also records the **inadequate progress made as regards the development of the new accounting framework**. (The question of the accounting system is dealt with in Part B of this working document.)

12. In its 2002 annual report the Court of Auditors also concerned itself with the issue of the application of internal-control standards by the Commission<sup>2</sup>. The Court notes right at the start<sup>3</sup> that, at the end of 2002, implementation of the standards by the DGs was running a year behind schedule and it emphasises that '**of critical importance for ensuring sound financial management within the Commission are the internal control standards**' ... 'as they, together with the principle of the responsibility of Directors-General, represent the cornerstone for much of the reform within the Commission'. The Commission acknowledges the problem and points to the considerable efforts being made by the DGs to comply fully with the basic requirements of the 24 internal-control standards by the end of 2003.

13. Furthermore, with reference to other matters raised by the Court, the Commission acknowledges the difficulties encountered in the recruitment of **staff** with a specific profile, for example in the fields of auditing and control. It also acknowledges the difficulties encountered in taking action designed to achieve 'more effective management of the **recovery of funds unduly paid**'. On this latter point the Commission acknowledges that 'despite measures already taken, recoveries of unduly paid funds remain a significant risk sector for many services in the institution.' Other issues are also addressed by the Court, such as its recommendation that **the organisation of the Audit Progress Committee should be reviewed** with a view to strengthening the mechanisms designed to deal with potential conflicts of interest. The Commission acknowledges that the Internal Audit Service's methodology should be improved and that, at the instigation of the Internal Auditor, a better operating system for audit recommendations and closer working relations should be developed between the Internal Auditor and the internal-audit structures<sup>4</sup>.

14. The Court also considers that 'the **annual management plans** of the Directorates-General [have helped to provide] a solid foundation for the main aspects of the reform of the internal-control system ... but the plans are not yet sufficiently operational as far as the internal-control system and issues relating to the legality and regularity of the underlying transactions are concerned'<sup>5</sup>. On the subject of the **annual activity reports** and the statements by the Directors-General, the Court notes **the increase in the number of reservations**, 'the extent of [which], all too often, remains imprecise. As a result, it is still difficult to form a reasoned

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<sup>1</sup> 2002 annual report, paragraph 1.67, p. 31.

<sup>2</sup> 2002 annual report - Reform of the Commission's internal control system, paragraph 1.62 et seq. (p. 29); see also Table 1.3 on page 43 of the 2002 annual report.

<sup>3</sup> Paragraph 0.9 on page 8 of the annual report.

<sup>4</sup> Point 3.3.3 - Synthesis of annual activity reports 2002 - COM(2003) 391 final.

<sup>5</sup> Points 1.70 and 1.74 of the 2002 annual report.

judgment of the Commission's management as a whole<sup>1</sup>. The Court makes the point<sup>2</sup> that 'implementing the reform of the internal-control system will take time' and that 'the impact of the reform is only just beginning to be felt'. It also notes that, although the **progress achieved in respect of 'regulatory' actions may be considered satisfactory, 'problems still persist where actions require services to change their habits** or necessitate the introduction of new activities<sup>3</sup>.

#### IV. The role of other players in the reformed structure

15. Within the structure established by means of the New Financial Regulation, not only is a **central role assigned to the authorising officer by delegation** (in principle, the Director-General); other players have important roles too, in helping to ensure that the system operates as smoothly as possible in order to ensure sound financial management. Such players include in particular the **Internal Auditor and the Audit Progress Committee**.

16. The Internal Auditor's annual report is concerned in particular with issues linked to the reform relating to the organisation of the Commission, including:

- the promotion of common audit methods, tools and techniques within the Commission's 'audit community'; central coordination by the Internal Audit Department must be applied to the DGs'/services' internal-control structures, without forgetting other coordination activities (carried out by means of 'internal governance instruments' such as the Directors-General Group, the Directors of Resources, the Interservice Coordination Group and the Steering Group);
- the need for the Commission (in particular managerial staff) to adopt the risk-assessment culture as a major factor in the drawing up of management plans and the allocation of resources;
- as regards shared management, the need to establish an 'appropriate balance' between preventive measures (selected in particular on the basis of the degree of risk represented by a sector) and transaction-closure auditing;
- the introduction (still with reference to shared or decentralised management) of statements of assurance from the beneficiary countries (together with the appropriate clarifications/solutions which are required in the field of external actions);
- monitoring of the accounting reform by means of a regular debate within the Commission.

17. The Audit Progress Committee's annual report raises the issue of the relationship between, on the one hand, the Internal Auditor and his recommendations concerning rules, efficiency and effectiveness and, on the other, the acceptance of such recommendations by management and staff in order to bring about tangible improvements. Those recommendations should indicate clear priorities and clearly state the potential risks of non-compliance. Furthermore, the Internal Auditor should swiftly introduce an 'operating system' for the follow-up of recommendations. The Commission states that it wishes to strengthen the Audit Progress Committee's relations with the Court of Auditors in order to optimise the results which may be obtained from the 'synergy' between the external audit/internal audit/DG audit capacities, whilst maintaining that the committee's composition and role will remain unchanged.

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<sup>1</sup> Point 1.107.

<sup>2</sup> Point 1.109.

<sup>3</sup> Point 1.109.

## V. The reform and the Eurostat affair

### 18. The Eurostat affair has demonstrated that, in practice, the system can still fail.

Parliament correctly identified the problems posed by the inconsistencies in the Commission's internal communication system between the various levels of the hierarchy (vertically), between the various departments (horizontally) and between OLAF and the Commission.

19. In addressing the Conference of Presidents on 25 September the Commission President himself, whilst emphasizing the efforts which had been made in order to put right the 'serious failings' identified in the reports drawn up by the independent experts, did not rule out 'additional measures to increase the level of financial security'. On 18 November, Mr Prodi came before the Committee on Budgetary Control and the plenary in order to present a set of post-Eurostat affair corrective measures which Parliament was calling for. **Parliament usefully 'stuck to its guns'**, maintaining that introducing corrective measures randomly and selectively in one or other sector is not sufficient. **Such measures require consistency and an overview, simultaneous action on several fronts and, whenever necessary, active interinstitutional cooperation.**

## VI. Other remarks

20. The rapporteur expresses a number of reservations concerning Commission assessments such as 'accountability awareness is now well established across the Commission ...'. He does, on the other hand, agree with assessments such as '... efforts still need to be made to improve the quality of the process as a whole at all levels within DGs ...' or 'improvements should be made, as not all DGs and services have adequately translated their action plans into Management Plans.' He considers that recent events (such as the Eurostat affair) have highlighted the fact that the change in mentality which has to be brought about if the reform is to succeed requires more time and effort than does an adjustment within structures or the introduction of new rules. This change in mentality - this 'reformed administrative culture' - is what the success of the reform will depend upon.

21. In addition to the human-resources field there are other topics to explore and activities to engage in: **recovery operations**, arrangements relating to '**shared management**' (a multi-annual task in respect of which legal clarification is required as regards the respective responsibilities of the Commission and the Member States - as in the case of the Structural Funds), assessing **decentralization** in the field of external relations, **monitoring the implementation of the annual legislative and work programme**, and monitoring **OLAF activities**.

22. On the basis of the foregoing it may be observed that **the Commission itself has opted for a 'cautious' approach in its presentation of the results obtained**. However, it may legitimately be asked whether the implementation of the reform as presented by the Commission in various reports does not constitute a cleverly balanced mixture of **political determination laced with 'admissions of weakness' on the part of individual sectors**, devised in order that the Commission can claim credit for having accomplished - albeit imperfectly - a virtually impossible mission.

Be that as it may, it is to be hoped that the implementation of the reform (thanks to the provision



and improvement of tools such as the annual activity reports) will make it possible, **when the reform has reached 'cruising speed'**, to switch from a Commission 'reactivity cycle' lasting two years on average (implementation of the budget for a given financial year, preparation of the discharge and follow-up measures, granting of the discharge) to a significantly shorter cycle. This would be advantageous in terms of the Commission's operational efficiency, the quality of interinstitutional cooperation and the effectiveness, the transparency and the legitimacy of EU activities.

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### 23. Whistle-blowing

One of the new issues dealt with in the reform is whistle-blowing.

The Commission has proposed that the amended Staff Regulations should include rules (articles) laying down the terms and conditions under which such a 'right' may be exercised. In its opinion on the Harbour-Medina Ortega report (A5-0069/2003) on the reform of the Staff Regulations (Dell'Alba opinion - February 2003 - amendment 1 - PE 315.855) the Committee on Budgetary Control proposed a 60-day period within which OLAF would be required to inform the official or servant who has disclosed the information of its decision as to the action it intends to take in response to the reported illegal activity or fraud. This amendment was not adopted by the Committee on Legal Affairs (the committee responsible).

The purpose of the amendment was to inject clarity into investigative procedures and to provide legal security and transparency as regards the rights of the individual concerned. From an administrative point of view it was also intended to ensure that appropriate action would be taken in response to whistle-blowing.

The Commission could be asked to consider incorporating this idea into its amended proposal relating to the Staff Regulations (into the articles concerned with whistle-blowing), and also into the proposal for an amendment of the basic OLAF Regulation (No 1073/1999) which the Commission has undertaken to submit before the end of the current parliamentary term.

### **Conclusions**

The rapporteur submits the following conclusions for the committee's approval:

1. Points out that the implementation of the reform is proving to be a longer and more complex operation than the Commission initially expected and that it is only just starting to make its impact felt; notes that uneven progress has been made in the implementation of the various actions set out in the White Paper; observes that, despite such progress, there are delays and difficulties to be overcome in many areas;
2. Observes that the Commission has made improvements to many aspects of its management process; notes, however, that many aspects of the reform have still to be implemented; points out that this will require commitment from all the services; considers in this connection that active cooperation is required between the Central Finance Office, the Internal Auditor, the decentralised audit structures and the Audit Progress Committee;

3. Calls upon the Commission to submit (before Parliament expresses its opinion on the 2002 discharge) an updated version of the White Paper describing the current situation as regards the targets which have not yet been achieved and establishing a revised timetable;
4. Points out that rapid progress must be made as regards 'administrative culture', in which connection every effort must be made in order to ensure that the system around the authorising officer by delegation works perfectly; considers that further efforts must be made in order to bring about an appropriate change in mentality as regards giving staff a sense of responsibility, so that each official or other employee - irrespective of his or her position within the hierarchy - feels actively involved in the collective task; expects management to be unstinting in its efforts to achieve this objective;
5. Insists that the efforts which are still required if the reform is to be optimised must be made as quickly as possible, with particular regard to human-resource management (identification of priorities, including 'negative' ones; redistribution of resources so that they can be allocated to priority activities; assessment of needs and appropriate training initiatives designed to fill 'skills gaps', particularly in the areas of financial management, monitoring and auditing) and the implementation of the 24 control standards; expects such progress to be reflected in the forthcoming annual activity reports;
6. Calls upon the Commission to take action in order to ensure that further progress is made in the harmonisation of the terms and conditions under which Directors-General express reservations in their annual reports; such action should have been taken by the time of the next annual-report drafting exercise, so as to enable the reservations expressed to be assessed and to facilitate the identification of corrective measures;
7. Expects the Commission to ensure (particularly in view of the recent events relating to the Eurostat affair) that contract and contractor databases are quickly set up and brought into operation; in this connection, recalls Parliament's view that such databases should contain comprehensive information concerning the owners and the management of companies which have signed a contract;
8. Considers that the part of the reform linked to the amendment of the Staff Regulations is also important, since it constitutes an essential means of monitoring the reform of human-resource management; therefore expects the Commission to take Parliament's opinion into account.

# WORKING DOCUMENT ON THE REFORM OF THE COMMISSION - PART B: ACCOUNTING SYSTEM

## 2002 DISCHARGE

Rapporteur: Ole Sørensen

### Structure of the document

#### 1. Background

The working document<sup>1</sup> drawn up by Mr Dell'Alba, Mr van Dam and Mr Sørensen in the context of the discharge to the Commission in respect of the 2001 budget contained - in addition to a series of recommendations later included in Mr Casaca's draft report - brief explanations of:

- the purpose and nature of accounting, including management objectives, control objectives and objectives relating to analysis and information;
- the legal framework;
- the current structure of the Commission's accounting system (accounting framework and computer system);
- an overview of critical remarks from the Court of Auditors as well as from within the Commission itself;
- a summary of the Commission's proposals for modernising the accounts together with the three IT options then being considered;
- and lastly, a glossary of technical accounting terms.

The information set out in the earlier working document remains valid and it is not proposed to repeat it here. The present document therefore aims to continue where the earlier one left off by giving a succinct statement of the developments in the accounting field since January 2003, together with a set of conclusions which the rapporteur for the 2002 Commission discharge, Mr Bayona, may wish to take on board in his draft report.

#### 2. Commission communication

Although published just before last year's working document, the starting point must be the Commission's communication<sup>2</sup> of 17 December 2002.

The purpose of this communication according to the Commission is twofold:

- to adopt a detailed proposal to allow the Commission to decide on the accounting framework, in particular on how generally-accepted accrual accounting principles can be implemented;

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<sup>1</sup> PE 315.830

<sup>2</sup> COM(2002)755 final

- to set out the action to be taken as regards project organisation, resources and the timing of the work to develop an integrated computerised system. The system options are appraised in detail, identifying a preferred solution.

The communication sets out the key requirements for the future accounting system:

- full accrual accounting capacity;
- consistency of data, including respect of inter-operability principles;
- effective security;
- other requirements, including ease of maintenance and user-friendliness.

It then examines the IT options:

- option 1: continued use of the current system (SI 2 and SAP)  
This option is rejected because the system architecture relies on two separate interfaced systems.
- option 2: single standard package  
All spending services would need to use the standard package in the same way for management as well as accounting proposes. This, in the Commission's view, might necessitate a full public procurement procedure, which would risk delaying the introduction of an accrual-based system beyond the 2005 deadline.
- option 3: a new integrated system  
This option envisages using the current package to provide the accounting function and to acquire additional accounting functions by extending the existing contract.  
Financial management needs would be met by other solutions.

### 3. Chronology of events since last year's working document

22.1.03 The previous working document and the Commission's communication were discussed at the committee's meeting of 22 January 2003.

8.4.03 Plenary adoption of Casaca resolution on 2001 Commission discharge calling for  
- an external audit by the end of 2003 on its treasury system (paragraph 16);  
- a quarterly progress report (paragraph 20);  
- an audit by external experts of the Commission's plans to improve the accounting framework and the related IT systems (paragraph 29).

15.4.03 Final report from IAS (IAS 02 BUDG 011) 'review of the Commission's accounting framework'.

30.4.03 Publication of declaration of assurance (contained in 2002 activity reports) by DG BUDG with reservations<sup>1</sup> concerning i) correct entry of assets in Commission accounts and ii) SINCOM 2 sub-systems.

12.5.03 Mr Fabra Vallés forwarded the Court of Auditors' observations on the Commission's accounting and management information systems (AMIS) in the field of external

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<sup>1</sup> for full text, see 2002 activity report, DG BUDG

action containing remarks on SINCOM, double entry bookkeeping and the adequacy of financial management systems.

- 8.7.03 Mrs Schreyer's first quarterly progress report to the Committee presenting the work completed by 30 June 2003 with the remark that the 2005 deadline is 'feasible but remains very challenging'.
- 9.10.03 Letter from Mrs Schreyer enclosing a further progress report covering the third quarter of 2003. Conclusion: the project is advancing as planned and the deadline of 1.1.2005 is realistic, if ambitious.
- 29.10.03 Publication of Commission's report<sup>1</sup> on the follow-up to 2001 discharge, containing the following replies:

(Casaca - § 16):

The European Court of Auditors had indicated its willingness to consider an audit of the Commission's treasury system but it would not be able to complete this task before the end of 2003.

(Casaca - § 29):

As regards an audit of its project for the modernisation of the Commission's accounts, the Court of Auditors had stated that such an audit by the Court would be premature, given the degree of the project's implementation. To meet Parliament's concern, the Accounting officer of the Commission had asked external consultants<sup>2</sup> to do a feasibility study of the Communication of December and of the implementation of the project.

- 17.11.03 Publication of the Court's 2002 annual report reiterating criticism of accounting system and underlying principles.

#### 4. Report by the Court of Auditors on the financial year 2002

In paragraph 1.8 of its report<sup>3</sup> the Court makes the following comments<sup>4</sup>:

- 'a) introduction of the accounting standards necessary for a genuinely accruals-based accounting system is singularly complicated by the constraints associated with, firstly, applying the principle of annuality of appropriations and, secondly, the rules on sharing management with the Member States; in fact, the Commission very often only becomes aware at a very late stage of the events which, in a classic accruals-based accounting system, constitute the economic events that trigger entries in the accounts;
- b) in view of the scale of the work to be undertaken, the timetable laid down for the development and introduction of the new systems appears over-ambitious. As a consequence, there is a risk that the Commission will be forced merely to make

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<sup>1</sup> COM(2003)651 final

<sup>2</sup> Price Waterhouse Coopers (PWC)

<sup>3</sup> Information in support of the statement of assurance-action plan for the modernisation of the accounts

<sup>4</sup> see also Commission's replies

gradual adjustments to the current, fragmented systems and not take advantage of the opportunity for rationalisation which would be provided by an in-depth reform of the management information systems that ultimately lead to entries in the accounts'.

#### 5. Minimum fundamental characteristics of the accounting framework and IT system

Parliament, when adopting its resolution on 8 April 2003 on the basis of the Casaca report<sup>1</sup> on the 2001 discharge, defined the following fundamental characteristics:

- accounting system (paragraph 23):
  - single and fully integrated entry of information across the whole system;
  - uniform data definition;
  - consistency of central and sectoral systems;
  - multiannual consistency of date and information (to facilitate comparability and to demonstrate improvements);
  - full accrual accounting capacity and respect for international accrual accounting standards;
- IT system (paragraph 28):
  - a single point of access to data for the user;
  - full interoperability of the system;
  - elimination of redundant data;
  - effective security and reliability of data and guarantee of a full audit trail;
  - a back-up which functions effectively in the event of system breakdown;
  - involvement of user groups at all stages of development (to guarantee user-friendliness and to reduce the need for specific sectoral or local systems);
  - proper and safeguarded software change management.

#### 6. Latest progress report of 9 October 2003

On the basis of the information provided by the Commission, the progress made in the third quarter of 2003 can be summarised as follows:

- the inventory and analysis of all accounting events in each service was completed and sent for validation in July;
- SAP was successfully upgraded to SAP Enterprise in September 2003;
- the central invoice register is now deployed in 15 services and its use will be mandatory in all services by January 2004;
- an inventory of all local systems was completed in July 2003;
- the drafting of a new security policy was completed in July 2003 and is now being applied.

#### 7. Outline of recent developments

The current accounting system of the Commission is predominantly cash-based. It records only

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<sup>1</sup> A5-0109/2003

budgetary expenditure and revenue operations during the year and is supplemented by additional information at year-end for purposes of preparing the financial statements. One of the main aims of the Modernisation of the Accounting System (MAS) is to develop an integrated accrual system which would provide a fuller picture of the Communities' financial situation - registering all assets and liabilities as soon as they arise, rather than waiting until a receipt or payment is effected.

The legal obligation, under the new Financial Regulation, is to prepare and publish the financial statements in 2005 on an accrual basis, in accordance with International Public Sector Accounting Standards (IPSAS). The future accounting system should ensure full accrual accounting capacity, data consistency and secure access. Initially aimed at the central services of the Commission, it will be gradually extended to external services and the Agencies.

The Court of Auditors, the Budget Commissioner and external consultants all recognise the enormous challenge involved in meeting the objectives within the agreed timeframe. MAS is a large scale project involving renewal of not just accounting procedures but the computerised system throughout the Commission. Systems integration requires design, development, testing and implementation whilst ensuring a single access for user consultation. Similar reforms in several national administrations have taken at least six years. The Commission will only have had two years if the accounts are to be IPSAS compliant by 01.01.05.

In response to this challenge, in the Annex to the June 2003 Progress report, the Commission has drawn a line between those aspects which HAVE to be completed by 1 January 2005 to meet legal obligations (ie. accrual accounting) and those aspects which may require a longer timeline (ie. fully integrated accounting system). This is because the Commission currently has a hybrid system based partly on external software for central treasury and accounts (SAP R3) and an in-house, user-friendly interface (SINCOM Si2) in the respective DGs. The two systems are not compatible and need to be 'reconciled' before final accounts are presented. One of the questions thus far has been whether the Commission should adopt a 'big bang' approach and move directly to a fully integrated, single package system or phase it in by means of an interim phase which take account of local network needs. The Commission prefers the latter as a safer and surer method and because a large scale testing exercise is necessary before local systems can be switched to the central system. The external consultants too, whilst indicating option 2 as the preferred long-term option, recognise the merits of option 3 if the 2005 deadline is to be met<sup>1</sup>.

#### Issues still outstanding

- The perimeter of the Commission's accounts, in particular where accounting events occur in procedures managed in partnership with Member States or by delegation to external bodies adds complexity to the task of developing an integrated system;
- the identification of excluded contractors (Article 95 Financial Regulation) should be addressed in a contractors database but work is needed on how to integrate it with the central system in the most efficient way;
- programme for the training of staff in services other than DG BUDG requires significant resources, commitment and planning;

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<sup>1</sup> For definitions of options 1, 2 and 3 see paragraph 2 above

- a fall-back strategy should be articulated and implemented in the event of major disruptions and delays;
- remarks made by PWC in July 2003 in its analysis of the main issues and risks include the following:
  - . a project plan still needs to be developed, approved and communicated;
  - . the project processes need to be implemented;
  - . communication on the project should be further emphasised;
  - . planned Commission resources may not be sufficient;
  - . DG's and/or other stakeholders may not be committed to the project;
  - . the implementation of IT systems may be delayed.

**Conclusions on progress towards Modernisation of Accounting Systems (MAS):**

1. Notes the following progress in implementing the first stages of reform in 2003:
  - definition of accounting standards
  - documentation of user requirements
  - definition of accounting events
  - chart of accounts for coding of all transactions
  - accounting manual
  - development and implementation of a web-based version of Si2 (accounting interface) to facilitate interoperability between systems as part of the transitional phase to a more integrated system;
2. Takes note of the feasibility study conducted by Price Waterhouse Coopers on the Commission's MAS project and its chief recommendations for the project's successful completion;
3. Recalls that the Financial Regulation is based on a dual system combining accrual accounting for the purposes of the general financial accounts and cash-based accounting for the budget accounts; notes that this arrangement of public sector accounting practices is in line with the International Federation of Accountants and is the system operated by most Member States; points out however that this system requires permanent reconciliation between budget implementation and out-turn;
4. Notes that this 'dual system' enables the use of double-entry book-keeping for the general financial accounts whilst single entry is maintained for the budget accounts which are used by the budgetary authority to verify the state of budget implementation;
5. Points out that the timetable remains extremely tight if not unrealistic given the experience in several Member States which have embarked upon a similar process of modernising public sector accounts; acknowledges therefore the need to adopt a phased approach which focuses first of all on eliminating any significant security weaknesses and accounting discrepancies, secondly on ensuring that the 2005 accounts will be presented on an accrual basis and lastly that a coherent and integrated system is put in place to support the new architecture; recognises furthermore that option 2 would certainly delay the legal obligation



to have an accrual-based system by 1 January 2005;

6. Considers that all EU institutions and decentralised agencies must ensure that they also have accounting systems compatible with the new framework and based on analogous principles and standards as required by Article 121 of the Financial Regulation;
7. Considers the full cooperation and input of all Commission departments (stakeholders) essential to the success of MAS; likewise expects DG Budget to take account as much as possible of user needs;
8. Underscores the high priority which Parliament attaches to data uniformity of the new system and in particular the establishment of a central invoice register and contractors' database that will provide full, accurate and detailed information on the status of the Institution's contractual relations;
9. Points to the 2005 deadline for the validation process of interfaces between local systems and the central system after which data provided by non-validated systems will not be recognised; seeks assurances that this deadline will be met for all services without exception;
10. Considers that the Commission should make a greater effort to communicate to the whole financial and audit community the progress and planned phases in the design of the MAS project given the public concern over the deficiencies in the existing accounting systems; underlines the need for all DGs to raise awareness among financial personnel, address user concerns and budget for costs and resources for implementation;
11. Recognises that Option 3, as presented in the Commission Communication of December 2002<sup>1</sup>, represents the only realistic, although interim, approach to meet the key requirements of a modern accrual-based accounting system by 1 January 2005 and the sectoral needs of the operational services; stresses that the 2005 deadline, as required by the new Financial Regulation and thus a priority objective for Parliament, is not the end of the reform process, as the IT system supporting the new accounting architecture will still need to be installed to meet the goal of a fully integrated system (as laid down in option 2);
12. Recalls the observer status on the Accounting Standards Committee and Project Oversight Board of both the Internal Audit Service and the European Court of Auditors in the context of the MAS project and underlines their duty to follow closely the progress of the reform and to offer constructive and timely advice as well as, where necessary to issue early warnings that the project leaders must take into account when implementing the various stages.

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<sup>1</sup> COM(2002) 755 final

**WORKING DOCUMENT ON EU STRUCTURAL FUNDS AND RURAL  
DEVELOPMENT: SUPPORT FOR LESS FAVOURED AREAS - PART A  
(ECA SPECIAL REPORT 4/2003)  
2002 DISCHARGE**

Rapporteur: Rijk van Dam

## **Structure of the document**

### **1. Introduction**

The support scheme for agricultural holdings in less-favoured areas is one of twenty-two support measures for agriculture. It has been in existence since 1975 and was radically overhauled in 1999.<sup>1</sup> The overall budget for the scheme is 2 billion euro a year, approximately 50% of which comes from European funds. The regulation has a significant impact on the EU budget, accounting for one percent of the overall annual budget and almost 20 percent of the total budget for rural development measures. 55.8% of all farms in EU Member States receive support under this regulation.

### **2. Aims of the directive**

Under Articles 1 to 3 of Directive 75/268/EEC, Member States may make annual payments to farms to compensate for the effect of permanent natural handicaps, in order to:

- ensure the continuation of farming, thereby maintaining a minimum population level;
- conserve the countryside;
- raise farm incomes.

### **3. Classification of less-favoured areas**

The following are eligible for designation as less-favoured areas:

1. mountain areas where the farmland is at high altitude or where there are steep slopes and/or difficult climatic conditions (category 1);
2. areas in danger of depopulation and where the conservation of the countryside is necessary, with infertile land, productivity levels that are appreciably lower than the average and a low or dwindling population (category 2);
3. small areas affected by specific handicaps and in which farming must be continued in order to conserve the countryside and preserve the tourist potential of the area or in order to protect the coastline<sup>2</sup> (category 3).

These are the general Community criteria, to which the Member States have to add specific conditions. In practice, Member States have been virtually free to determine national provisions supplementing or clarifying the general criteria laid down in the Community rules in order to

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<sup>1</sup> Council Directive 75/268/EEC, OJ L ... , 28 April 1975 and Council Regulation 1257/1999/EC, OJ L 160, 26.6.1999.

<sup>2</sup> See Article 3 of Directive 75/268 EEC and Articles 17 to 21 of Regulation 1257/1999/EC.

meet local needs. The Commission has to approve the Member States' provisions under Articles 24 and 25 of Regulation 797/85 EEC.

#### **4. Conditions applying to beneficiaries**

Beneficiaries of support under the rules governing less-favoured areas have to satisfy the following conditions:

- they must farm at least three hectares of utilised agricultural area;
- they must undertake to pursue a farming activity for at least five years;
- farmers in receipt of a retirement pension are not eligible for support from the EAGGF Guidance Section, although Member States are free to grant them support.<sup>1</sup>

#### **5. Aid rates**

Under Article 15(3) of Regulation 1257/1999, and the associated table, the compensatory allowance is set at a minimum of 25 euro and a maximum of 200 euro per hectare of used agricultural land. The minimum amount may be lower to take account of specific characteristics or avoid over-compensation.<sup>2</sup>

#### **6. European Court of Auditors' investigation**

The European Court of Auditors first raised the question of the compensatory allowance in 1980 and further comments were made in its 1988 report. In the 1985 annual report the Court of Auditors drew attention to problems relating to the considerable extension of less-favoured areas. Because of the rise in Community expenditure, the high number of beneficiaries and the significant extension of less-favoured areas, in its 1999 report<sup>3</sup> the Court investigated the way in which the measure was implemented. In spring 2003<sup>4</sup> the Court of Auditors published the findings of its investigation into the support scheme in a special report. The remainder of this working document focuses primarily on the problems highlighted in the last two reports.

#### **7. Problems relating to the classification of less-favoured areas**

There has been a huge increase in the number and scale of less-favoured areas over the past 25 years. This would suggest that the measures to improve the land and develop breeds have had no positive impact whatsoever over the past 25 years. Back in 1990 the Commission began checking the existing classification but this review was never been completed because of opposition from some Member States.

In 1991 the Commission noted a sharp increase in less-favoured areas in category 2, i.e. outside mountain or hill-farming areas. Category 2 then accounted for about 60 percent of the scheme's total budget. This should give us food for thought, particularly as the classification criteria for this category are the vaguest and can obviously be interpreted subjectively by the Member States.

The virtually continuous extension of less-favoured areas (up to 2000) has blurred the boundaries and distinctions between less-favoured areas and normal farming areas. In its special report, the Court of Auditors expresses serious reservations about the validity of the classification of less-favoured areas. Approximately 56 percent of the available agricultural area in the EU is classified as being in less-favoured areas. This seems to be rather a lot. The

<sup>1</sup> Council Directive 75/268/EEC, Article 6, OJ L ...

<sup>2</sup> OJ L 160, 26.6.1999, p. 88-89 and p. 102.

<sup>3</sup> OJ C 324, 13.12.1991.

<sup>4</sup> Special report No 4/2003 on rural development: support for less-favoured areas, OJ C 151, 27.6.2003.

percentages vary sharply from one Member State, ranging from one percent in Denmark to as much as 98% in Luxembourg. The Member States apply a broad range of indicators for designating less-favoured areas.

The excessive number of indicators makes for ineffective policy and creates distortions of competition between farms operating under similar conditions. Classification in one of the less-favoured area categories gives farms a number of advantages. As a result, agricultural and political lobbies are putting pressure on the Member States to extend less-favoured areas further, with the aim of increasing the number of recipients of specific financial advantages rather than compensating for specific handicaps.

In addition to this, since 1999, decisions on classification as less-favoured areas have no longer been taken at Community level but by the Member States concerned. Given this situation and the forthcoming enlargement to include 10 new Member States, which will double the agricultural area in the EU, this is an extremely serious shortcoming in the rules.

The Commission considers that the designation reflects the less-favoured character in relation to the productive agricultural areas within the Member State or region concerned and not in comparison with other Member States.<sup>1</sup> However, if that is the case, we can no longer dodge the issue of why European regulations are necessary in the first place. The existing rules are clearly framed in a way that fails to provide a sound balance that ensures fair and reasonable application of the rules.

#### ***Conclusion on the classification of less-favoured areas***

There is insufficient evidence to support the designation of areas as less-favoured. The classification of areas as less-favoured therefore needs to be radically overhauled without delay. The Commission's response that the number of less-favoured areas reached a ceiling in 1999 and has remained stable over the period 2000-2006 is completely beside the point. In view of enlargement to include 10 new Member States, the Commission is simply burying its head in the sand. We have to conclude that the Commission should have accepted its responsibilities at a much earlier stage and now has to take the necessary action as a matter of the utmost urgency. The Commission is undertaking a comprehensive and thorough review of the current classification of all less-favoured areas. It is also drafting a proposal for a periodic review of the situation of less-favoured areas and introducing an effective system not only to prevent the areas concerned from being extended but also allowing them to be reduced. As part of this review, it is looking at the suitability and relevance of the current series of indicators and restricting them where possible.

Article 21 of Council Regulation (EEC) No 1257/1999<sup>2</sup> could also be amended to introduce a maximum percentage by Member State for the areas covered by Article 19. The second indent of Article 19 of the Regulation<sup>3</sup> could stipulate a percentage rather than the current vague wording 'appreciably lower than the average'.

#### **8. Problems relating to aid rates and over-compensation**

The maximum amount of aid is 200 euro per hectare, with a minimum of 25 euro per hectare<sup>4</sup>. However, as it is very easy to make exceptions, one wonders why any limits were included in

<sup>1</sup> European Court of Auditors annual report for 2002, p. 149.

<sup>2</sup> OJ L 160, 26.6.1999, p. 90.

<sup>3</sup> *ibidem*.

<sup>4</sup> See above, paragraph 5 and note 4.

the regulation in the first place. To give an illustration, the average payment per farm in Luxembourg is 4 437 euro whereas in Portugal it is 410 euro. Expressed in hectares, the figures are 111 euro per hectare for Luxembourg and 52 euro per hectare for Portugal. Even after adjustments to take account of purchasing power, the difference is still significant. It should also be borne in mind that the larger the farm, the greater the risk of over-compensation.

Prior to 1990, conservation of the countryside was not one of the grounds for entitlement to compensatory payments. The Commission should investigate what effect the introduction of this condition has had on the scale of support payments.

There are also instances of this aid being combined with other COM schemes, such as the suckler cow and ewe premiums, which have the same impact and the same economic effect. This also creates a risk that the average incomes of farmers in less-favoured areas may exceed those of farmers in normal areas. However, no detailed information is available on this matter.

Each Member State has its own methods of avoiding over-compensation. Some Member States set ceilings or limit payments, or allow lower than permitted aid rates. However, as there is insufficient reliable data on the effect of the aid scheme, it is impossible to rule out over-compensation.

The Commission takes the view that differences in the amount of aid should be considered at national rather than European level. This argument does not hold water as there would otherwise be no justification for European regulations. Farming conditions naturally differ from region to region. A linear, uniform European regulation would therefore not provide the right outcomes. However, the very large degree of flexibility in the current rules is resulting in major disparities, to the point that farmers who have to work in virtually identical conditions are receiving very different amounts of support solely because a Member State border runs between their farms.

### ***Conclusion on aid rates and over-compensation***

The Commission should examine the major disparities in the compensatory allowances and draft proposals for the necessary changes. Farms in similar conditions should receive similar compensation. The Commission should also review of the usefulness of compensation. In view of the major extension of less-favoured areas, the compensatory allowances in many cases no longer compensate for specific natural handicaps. The Commission has also a duty to ensure that the Member States take similar measures to prevent over-compensation. By 1 April 2004 at the latest, the Commission should submit proposals for a clear and workable definition of the term 'over-compensation' to be inserted in Regulation 1257/1999 and the other relevant rules.

A specific point that should be examined is whether the cost structure of agricultural holdings should be taken into account in the appraisal. If the cost structure in a certain region is significantly higher than that of the average agricultural holding in other, normal regions (in other words, at least 20 percent higher over a period of five years) then they should be eligible for compensatory allowances under the rules.

## **9. Problems relating to the definition of good farming practices**

The concept of 'good farming practices' has become an important criterion in granting support to farms. As there is no clear and verifiable definition of such practices, is impossible for the rules to be applied consistently.

In Ireland, for instance, no premiums are paid for environmentally-responsible production (good farming practices), whereas these have an important place in the Regulation. Or does the Commission consider that this aspect is not relevant to Irish farming and livestock production?<sup>1</sup>

### ***Conclusion on the definition of good farming practices***

The current definition of 'usual good farming practice' means '*the standard of farming which a reasonable farmer would follow in the region concerned. Member States shall set out verifiable standards in their rural development plans. These standards shall at least entail compliance with general mandatory environmental requirements*'.<sup>2</sup> This definition needs to be amended and clarified and the Commission should present a proposal to this effect. It should also ensure that Member States apply these conditions consistently and provide the necessary documentary evidence to prove that they have done so.

### **10. Problems of management and control**

The main problems with managing this regulation arise from the fact that there is a very large number of beneficiaries but there are no specific, easily identifiable performance standards that have to be achieved in return for the support received (as in the case of investments).

There are roughly two or three main methods of monitoring application of the rules. It is possible to check the number of livestock units (LU) declared or to carry out random checks on the declarations made by farmers in their aid applications. In practice, however, not all Member States systematically require documentary evidence (proof of ownership, tenancy agreements, land registry data of agricultural area, declarations from official registers, training certificates, etc.) from the recipients of aid. In general, public authorities in the Member States consider that a reliable control system would cost too much in relation to the amounts that might be recovered or rectifications that might be achieved.

The scheme has existed since 1975 but has never been thoroughly reviewed. The Commission promised to produce a summary of the assessments made by the Member States by the end of 2003. Before 2000 the Commission tried to make a comprehensive evaluation but this was never completed. The reasons given by the Commission were that the Member States failed to provide any data or that the data provided was incomplete, inaccurate or much too late. Even then, the Commission still did not stop or reduce the aid. Some Member States did in fact provide information but it is unclear what exactly the Commission did with this information and how it was used.

Up until 2000, the Member States were entirely responsible for the way in which controls were carried out, resulting in significant disparities in control standards. The Commission has, however, the ultimate responsibility for ensuring that harmonised and rational control systems are introduced in all Member States. It is doubtful whether the Commission has effectively fulfilled its obligations in this matter. The study by the Court of Auditors has shown, for example, that the Austrian government paid out only 75 percent of the compensatory allowances claimed by beneficiaries. This means that 12.5% of the Community contribution should be repaid to the EU budget. It is unclear whether the Commission has in fact claimed back these amounts.

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<sup>1</sup> Source: Support for Agriculture in Less Favoured Areas, Research Note, Scottish Parliament, RN 01/37, 15 March 2001.

<sup>2</sup> As set out in Article 29 of Commission Regulation (EC) No 445/2002 (OJ L 74, p. 9, 15.3.2002)

### ***Conclusion on management and control***

The European Commission needs to play a much more active role in the management and supervision of the compensatory allowance scheme. In practice it is clear that the Commission has the greatest interest in doing so, whereas the Member States pay little attention to this aspect or attach little importance to sound financial management of the regulation because of other considerations. The Commission should establish uniform, minimum standards of control to be complied with when applications for aid are examined or on-the-spot checks carried out, along the lines of the standards established for other EAGGF subsidies. The Commission should brief Parliament on the extent to which Member States have satisfied the requirements of Article 48 (2) of Regulation (EC) No 1257/99<sup>1</sup> and exactly what action the Commission is taking in response.

The Financial Regulation requires support measures to have specific and quantifiable objectives. In order to ensure that the scheme is effective and that differences in the amounts of aid are justified, it would be better if the indicators for less-favoured areas could be established on the basis of performance-related requirements to cut down the scope for manipulation of the rules by Member States.

### **11. Final observations**

A major area of concern is that the Management Committee plays a crucial role in implementing the support scheme but there is virtually no supervision of its activities and decisions.

There are a total of 22 support measures for agriculture. In 1991 the Commission said that it was constantly looking at ways of improving these schemes, the scope of which had been extended by the numerous objectives<sup>2</sup>. It is all very well to think about things but this must lead to effective measures and good results. The Commission should examine whether certain measures could be combined, thus making it possible to improve monitoring.

Any review of the regulations should bear in mind that the more stringent the conditions, the greater the risk of non-compliance. It is therefore important to strike the right balance.

Finally, it has to be said that the European Commission's response to the findings and recommendations of the European Court of Auditors<sup>3</sup> are often conspicuously vague, sometimes fail to relate specifically to the support measures in less-favoured areas and take the form of promises for the future. This has to change.

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<sup>1</sup> OJ L 160, 26.6.1999, p. 90.

<sup>2</sup> OJ C 324, 13.12.1991.

<sup>3</sup> See annex to Special report No 4/2003, OJ C 151, 27.6.2003.

**WORKING DOCUMENT ON EU STRUCTURAL FUNDS AND RURAL DEVELOPMENT:**

**IMPLEMENTATION OF ASSISTANCE PROGRAMMING 2000-2006 AND EVOLUTION OF THE RAL  
2002 DISCHARGE**

Rapporteur: Helmut Kuhne

**Structure of the document**

**Implementation of structural funds**

As in the previous two budgetary years, the overall implementation of structural funds for 2002 has been slow.

	Commitments			Payments		
	Authorised appropriations	Executed appropriations	Implementation rate	Authorised appropriations	Executed appropriations	Implementation rate
	----- Million Euros -----		- Per cent --	----- Million Euros -----		- Per cent --
<i>Total</i>						
2000	32,252	17,843	55.3	32,621	25,906	79.4
2001	38,234	38,041	99.5	29,835	20,472	68.6
2002	31,040	31,035	100.0	28,416	20,312	71.5

Note: Authorised appropriations are appropriations as voted in budget and later modified by e.g. carry-overs, transfers and supplementing and amending budgets.

Source: Comptes annuel definitifs des communautes europeennes - exercices 2000, 2001 et 2002.

A break down of these figures as applied to the new and old programmes demonstrates that although the delays experienced in the initial programming phase are now being overcome, the main problems now lie in the closure of projects from the old programming periods.

	----- Million Euros -----			----- Million Euros -----		
			- Per cent --			- Per cent --
<i>New programmes</i>						
2000	29,855	15,446	51.7	10,577	5,907	55.8
2001	38,229	38,036	99.5	21,007	14,657	69.8
2002	31,034	31,030	100.0	21,102	19,139	90.7
<i>Old programmes</i>						
2000	2,398	2,397	100.0	22,044	19,999	90.7
2001	5	5	92.2	8,827	5,816	65.9
2002	6	5	79.9	7,314	1,173	16.0

Source: Comptes annuel definitifs des communautes europeennes - exercices 2000, 2001 et 2002.

Given the differing trends in these implementation rates, it makes more sense to judge the state of affairs from a multi-annual perspective in comparing the performance of the new and old programmes. One should also keep in mind here the different bases of legislation upon which the programmes have been implemented, particularly as the new programming period 2000-2006 has seen the introduction of important innovations such as the notion of automatic commitments, the N+2 rule and the possibility of the Commission to undertake financial



corrections.

### **New programmes**

The initial delay in the programming was off-set by an adjustment of the Financial Perspective ensuring that the total envelope agreed for structural funds would still be respected for 2000-2006 as a whole. However, even when taking into account the delays in the programming, payments seem to have been somewhat lower than originally expected. This has led to outstanding commitments (or in French RAL for *reste à liquider*) amounting to almost € 45,000 million at the end of 2002 corresponding to more than 50 per cent of total commitments made during 2000-2002.

Within the multi-annual framework of the structural funds, it is quite natural that the end-of-year RAL increases significantly the first 2-3 years of the programming period and continues to increase thereafter - albeit at a much slower speed. The RAL should reach its highest level at the end of 2006 after which it should rapidly decline as Member States send in final payment claims for reimbursement. However, when comparing to projections presented by the Commission last year, the level of RAL at the end of 2002 does seem to be on the high side.<sup>1</sup>

### Simplification

In response to the RAL problem and at the behest of the Parliament, the Commission undertook efforts in co-operation with Member States to simplify management procedures within the framework the new programming period. Given that these measures were enacted primarily toward the end of 2002 or the beginning of 2003, it is too early at this point to judge to what extent these procedures will actually contribute to a reduction of the RAL.

Nonetheless, the rapporteur welcomes the Commission's willingness to engage in this exercise with the Member States and intends to follow up on this point within the framework of future legislation for the structural funds. In this connection, and in view of their reticence to submit the payment agencies operating within their territory to a 'declaration of assurance' procedure, the Member States are also strongly urged to accept more responsibility and thus give serious consideration to the Commission's proposal for a 'contrat de confiance.'

### N+2 Rule

In the legislation underlying the new programmes, the N+2 rule was introduced as a new instrument. The rule will in effect introduce a maximum limit to the RAL, i.e. outstanding commitments cannot 'live' forever but shall be automatically decommitted at the latest at the end of the second year following the year in which the initial commitment was made.

So far, the N+2 rule has not had effect, which is not surprising due to the initial delays in programming. It is too early to say what effect the N+2 rule will have in future years but the high level of RAL does indicate a risk that significant decommitments may be made.

The N+2 rule gives Member States an incentive to ensure that the structures for implementing structural funds are in place and working effectively. In order to maintain this incentive, it will be important that the Commission implements the N+2 rule in a transparent and consistent

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<sup>1</sup> See graph 7 and 8 in COM (2002) 528 final of 29 September 2002, *Communication from the Commission to the Council and the European Parliament - Evolution of budget execution of the Structural Funds, in particular outstanding commitments (R.A.L.)*.

manner.

### Old programmes

2000 was the last year in which sizeable commitments were made on the 1994-99 programmes. Thus, the speed with which payments and decommitments are made, and the RAL subsequently reduced, is now the only topic of interest.

As the following table demonstrates, by the end of 2001 the RAL for the programming period prior to 1994 had been practically eliminated, but the outstanding commitments for the 1994-1999 programmes still amounted to a sizeable € 17,000 million.

	RAL end of 2001	RAL end of 2002	Difference	Change
	Million Euros			Per cent
Pre-1994 programmes	532	172	-0.4	-76
1994-99 programmes	16,707	15,437	-1.3	-8
Total	17,239	15,609	-1.7	-10

Source: *Analysis of the budgetary implementation of the Structural Funds in 2002*, working paper from the European Commission, Directorate-General Budget, May 2003, table 18 p. 42 and table 19 p. 45.

For 2002, Member States submitted payment forecasts totalling € 7,000 million. The Commission accepted this figure (rather uncritically). Were the forecasts to have been true, the size of the RAL at the end of the year would have been halved. In reality however, the Member States forecasts for 2002 have turned out to be grossly exaggerated, exceeding even by far the unrealistic forecasts submitted for 2001.

	Old programmes				New programmes			
	Forecast	Executed	Absolute error	Relative error	Forecast	Executed	Absolute error	Relative error
	Million Euros			Per cent	Million Euros			Per cent
-	-				-			
1998	25,800	22,800	3.0	13	...	...	...	...
1999	29,100	21,600	7.5	35	...	...	...	...
2000	22,200	19,800	2.4	12	...	...	...	...
2001	10,200	5,700	4.5	79	18,000	14,700	3.3	22
2002	7,000	1,100	5.9	534	27,800	19,000	8.8	46

Source: *Analysis of the budgetary implementation of the Structural Funds in 2002*, working paper from the European Commission, Directorate-General Budget, May 2003, table 9 p. 24.

Following from this situation, almost 10 per cent of the € 159,000 million committed in total for the programming period 1994-99 remained outstanding at the end of 2002 and a preliminary examination of the implementation for 2003 would indicate that around € 5,000 million will still remain outstanding- contrary to projections from September 2002 indicating a RAL of only € 800 million.<sup>1</sup> Though one could certainly reproach the Commission for having overestimated the amount of payment appropriations to be made available for the 1994-1999 programmes in both 2002 and 2003, their task was clearly made more difficult by the fact that most claims for final payments were not submitted by the Member States until shortly before the final deadline of 31 March 2003 and that many of these claims were also incomplete as well.

Although the inaccuracy of the forecasts submitted by the Member States for the previous programming period is particularly severe, the forecasts made by the Member States over the

<sup>1</sup> COM (2002)528 from 20.09.2002, .29.

last five years have been anything but reliable. Though the Commission is clearly in favour of maintaining the forecast mechanism for 'its potential to become a useful budgeting tool' the forecasts provided by all of the Member States since 1998 have deviated on average 140 % from the actual payments made.<sup>1</sup> In view of this fact, the Rapporteur would like to once again invite the Commission to examine more seriously the possibility of introducing a sanctions mechanism - as first mentioned in its Communication from September 2002<sup>2</sup> - similar to that existing under the Guarantee Section of the Agricultural Guidance and Guarantee Fund (EAGGF), so as to concentrate the minds of the responsible authorities of the Member States on producing realistic forecasts.

Inadequate implementation of the 1994-1999 programmes and the EU budget surplus

In view of the deleterious effects of such inaccurate payment forecasts, it should come as no surprise that as in the previous years, the rate of implementation for payment appropriations of the Structural Funds in 2002 (72%) remained far behind that of the overall budget (86%). The effects of this inadequate implementation in relation to the overall budget were further mirrored in the fact that the non-implemented payments contributed to approximately 65% of the EU budget surplus for 2002 (€ 4,850 million of the overall € 7,420 million surplus). Although the surplus for 2002 was lower than that of the previous two years, it is interesting to note that the percentage of the EU budget surplus attributable to unused payment appropriations was only slightly less than that for 2001 and remained much higher than that for 2000.

Budget Year	EU Budget Surplus (Million Euros)	Contribution of unused Structural Funds to Surplus (Million Euros)	Contribution of unused Structural Funds to Surplus (per cent)
2000	11,620	6,492	55,9%
2001	15,014	10,539	65,4%
2002	7,420	4,850	70,1%

Source: Court of Auditors Annual Report 2002 OJ C 286 28.11.03 p.57 and European Parliament Report on Draft Supplementary and Amending Budget n o 3/2001 of the European Union for the financial year 2001(A5-0239/2001) p. 18.

Both the Court and Parliament have expressed their concern in the past on this issue and it has been the position of the Court that the Commission should achieve a better management of the budget surplus by bringing into line the amount of revenue in the budget with the level of forecast expenditure via a supplementary and amending budget (SAB). This year the Commission responded to the Court's criticism in presenting on 29 October 2003 a Preliminary Draft Amending Budget No for 2003 budget year.<sup>3</sup> Therein, the Commission - in taking into account the fact that not all of the payment claims submitted by the Member States for the 1994-1999 programming period could actually be paid out in 2003 - proposed to reduce the contribution of the Member States to the 2003 budget by € 5,000 million through a corresponding reduction of the payment appropriations entered for the outstanding commitments of the 1994-1999 programming period.

While the proposition of the Commission did serve to respond to the concerns of the Court regarding attaining an optimal rate of implementation for the entire budget, the amending budget does absolutely nothing to resolve the underlying problem of inadequate implementation of

<sup>1</sup> Analysis of the budgetary implementation of the Structural Funds in 2002 (May 2003) p. 27.

<sup>2</sup> COM(2002) 528 from 20.09.02, p.21.

<sup>3</sup> (SEC(2003)1111 final)

payment appropriations for the structural funds. Although the Draft Amending Budget was approved by Parliament on 4 December, it reiterated its dissatisfaction with the RAL for the 1994-1999 programming period and made clear its view that the reduction of payment appropriations for this programming period served to weaken the political priority, repeatedly expressed, of making headway in implementing and closing these programmes.' The rapporteur clearly supports this position and admonishes the Commission to undertake serious measures for rectifying the systemic problems linked to the inadequate implementation of payment appropriations, particularly that of the unrealistic and unreliable forecasts submitted by the Member States.

### **Comparison of Member States**

When comparing Member States' performance regarding implementation rates of old programmes, it is perhaps surprising that no clear pattern is evident. At the end of 2002, Italy, Spain, the UK and Germany held - in descending order - the largest relative shares of the total outstanding commitments remaining for the 1994-1999 programming period. In terms of the implementation of the total amounts committed for the programmes within a given Member State however, it was the Luxembourg, the Netherlands, Sweden and the UK, followed close by Italy, who had the highest amounts remaining. While an overlapping of these two bases of comparison might seem to indicate that the UK and Italy are not necessarily examples for best practice, it would not appear on the whole that the larger Member States perform systematically better than smaller Member States, *cf. graph A in annex I*. It should of course be noted here as well that low or high implementation does not necessarily give any indication of the quality of underlying control systems.

In order to compare the performance of old programmes with the performance of new programmes, implementation rates have been calculated for the new programmes by comparing total payments made so far with total national allocations available for 2000-2006 as a whole. It should of course be noted that about 35 per cent of payments made so far - which is a relatively large share - have been advance payments and not reimbursements of actual expenditure. As advance payments are made regardless of the state of play of actual implementation on the ground, a situation with very slow actual implementation on the ground will only show up in the figures with some delay.

Regardless, it does seem that Member States with high implementation rates for 1994-99 programmes such as Ireland, Portugal, Spain, Germany and Austria have so far also experienced high implementation rates for the new programmes. Likewise countries with low implementation rates under the old programmes, such as Luxembourg and the Netherlands in particular, have also confirmed this tendency for the new programmes, *cf. graph B in annex I*.

The Commission has concluded that the main reason for delays in the start-up of new programmes was that Member States gave priority to closing old programmes and therefore did not focus on the new programmes.<sup>1</sup> However, the continuing and seemingly systematic variations in the performance of Member States also seem to indicate that some of the underlying reasons for implementation problems are specific to the individual Member States.

*As the rapporteur finds it noteworthy that the relative performance of Member States does not*

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<sup>1</sup> See *Communication on Evolution of budget execution of the Structural Funds, in particular outstanding commitments (RAL)*, p. 25. COM(2002) 528 adopted on 20 September 2002.

*seem to have changed significantly between the old and new programming period, he would like to encourage the Commission to look further into this matter by presenting a more qualitative analysis of the possible reasons for the differences in the Member States' implementation rates.*

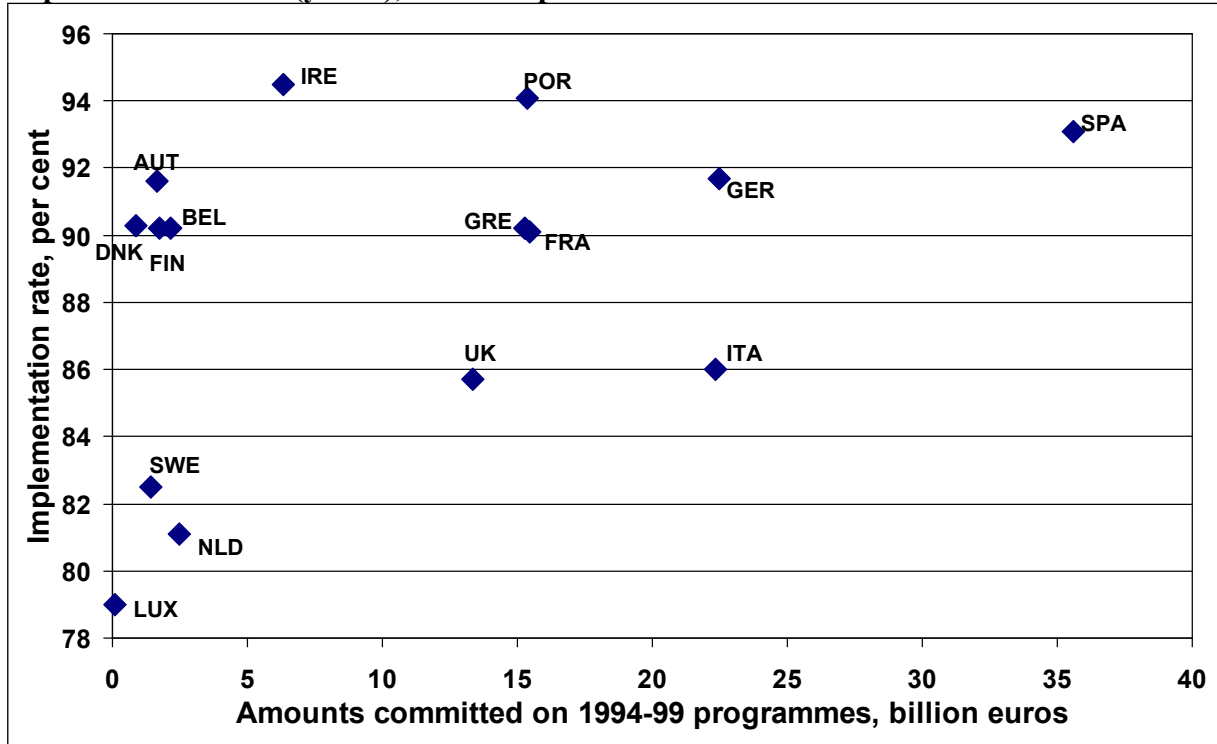
### **Questions**

In light of the analysis above, the rapporteur would like to raise the following issues:

1. Can the Commission present any concrete examples of positive effects that the simplification efforts undertaken with the Member States have already had on the implementation of the Structural Funds for the 2003 budget year?
2. What is the status of the 'contrat de confiance' measure discussed within the framework of the simplification procedure?
3. Can the Commission present the latest state of play as regards implementation of the 1994-99 programmes; e.g. what is the expected level of RAL at the end of 2003 and at the end of 2004?
4. Can the Commission comment on the use of the N+2 rule and indicate the possible effect of the rule in 2004?
5. What measures does the Commission foresee taking in order to address the severe problem of the inaccurate and unreliable payment forecasts submitted by the Member States? Has the Commission given any further thought to the introduction of a sanctions mechanism similar to that existing under the Guarantee Section of the Agricultural Guidance and Guarantee Fund?

## ANNEX I

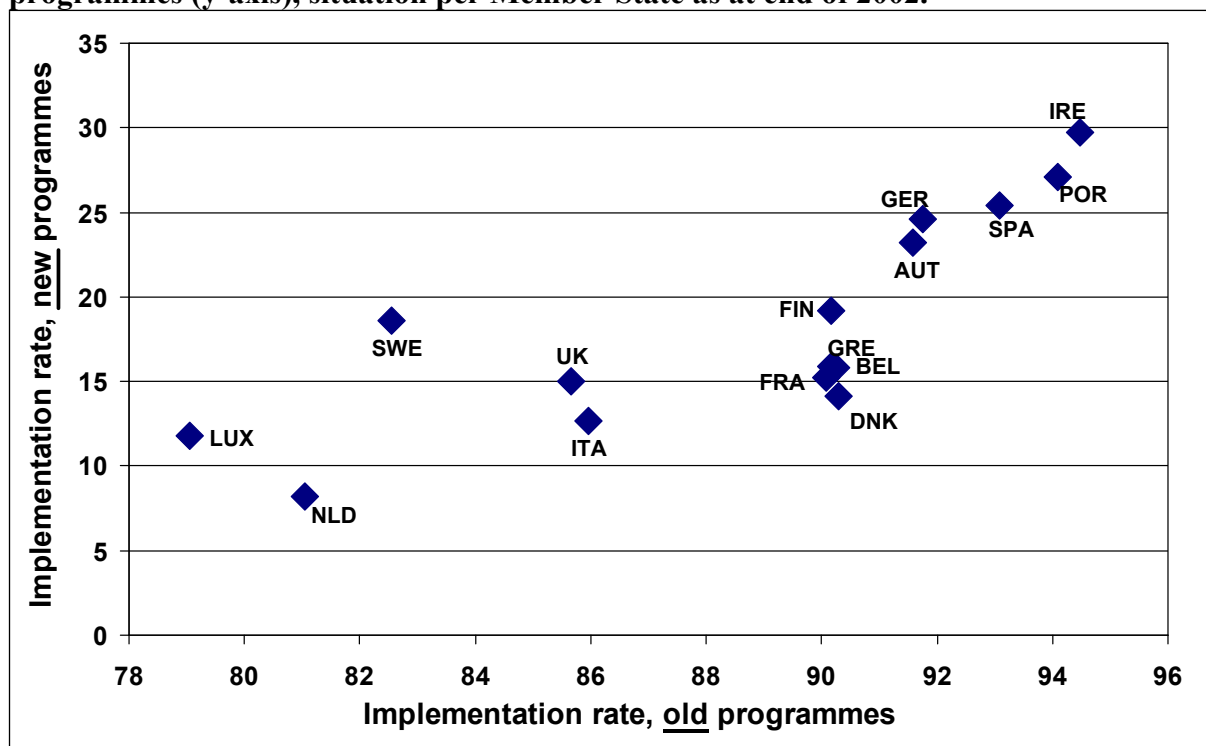
**Graph A. Total amounts committed on 1994-99 programmes (x-axis) vis-à-implementation rate (y-axis), situation per Member State as at end of 2002.**



Note: Implementation rates have been calculated as  $1 - (\text{outstanding amounts} / \text{amounts committed on 1994-99 programmes})$ .

Source: *Analysis of the budgetary implementation of the Structural Funds in 2002*, working paper from the European Commission, Directorate-General Budget, May 2003, table 21 p. 47.

**Graph B. Implementation rate for old programmes (x-axis) and new programmes (y-axis), situation per Member State as at end of 2002.**



Note: Implementation rates for old programmes calculated as in graph A. Implementation rates for new programmes have been calculated as total payments made on new programmes in 2000-2002 as a share of total national allocations available for the period 2000-2006 without reserves and without the initiatives Peace and Interreg.

The Commission has pointed out that Ireland and Portugal have relatively more commitments at the beginning of the programming period than other Member States due to allocations to objective 1 phasing-out regions. This partly contributes to a relatively high implementation rate for these two Member States.

Source: *Analysis of the budgetary implementation of the Structural Funds in 2002*, working paper from the European Commission, Directorate-General Budget, May 2003, table 21 p. 47 and graph 11 p. 33.

## WORKING DOCUMENT ON ENLARGEMENT - DISCHARGE 2002

- Court of Auditors Special Report No 5/2003 concerning PHARE and ISPA funding of environmental projects in the candidate countries
- Court of Auditors Special Report No 6/2003 concerning twinning as the main instrument to support institution-building in candidate countries

Rapporteur: Michel-Ange Scarbonchi

### Structure of the document

1. As the Committee on Budgetary Control (CONT) is unable to discuss all the Court of Auditors special reports during its committee meetings, it was decided to draft a working document on special reports Nos 5 and 6/2003, so that the Court's recommendations could be taken into consideration in the discharge procedure for the 2002 financial year. The Committee on Budgetary Control has also taken account of its official visits to Poland (2002) and Bulgaria (2003).

#### Special report No 5/2003 concerning PHARE and ISPA funding of environmental projects in the candidate countries

2. The audit covered PHARE and ISPA funding of environment projects financed during the period 1995 to 2000 in the ten candidate countries of central and eastern Europe. The objective of the audit was to assess the effectiveness of PHARE and ISPA aid to the environment sector in the candidate countries, notably in relation to helping to prepare these countries for accession.
3. In total PHARE projects amounting to 270 million euro were audited. This represented approximately 67 % of the total value of funding for PHARE environment projects over this period excluding environment infrastructure projects funded under the PHARE cross-border cooperation (CBC) programme and regional environmental programmes. In addition, 22 of the 39 ISPA environment measures committed in 2000 were subject to site visits. The commitments for the ISPA measures audited amounted to 307 million euro, or approximately two thirds of total ISPA environment commitments. The audit of ISPA was designed to build on the Court's observations on the setting up of the ISPA instrument contained in its Annual Report 2000. All the supreme audit institutions in the candidate countries participated in the audit to varying degrees, either through auditing part of the sample of projects selected by the Court using the Court's methodology or supporting the Court's auditors in preparing and during their on-the-spot missions.

#### *Institution-building projects in the environment sector*

4. The audit found that the Commission's assistance to support institution-building in the environment sector in the candidate countries has been only partially successful. As the Commission itself recognised in its 2001 and 2002 Enlargement Strategy Papers, there is still a need for candidate countries to further strengthen their administrative capacities in the environment sector. This situation partly reflects both the limited scale of funding



which the Commission committed to institution-building, despite the particular challenges faced by institutions in this sector, and the only modest impact of the twinning<sup>1</sup> and technical assistance projects that have been funded. The Commission's institution-building strategy has placed too much reliance on the twinning instrument which cannot be expected to overcome many of the underlying structural problems faced by candidate countries' administrations. These problems may hinder their capacity to comply with the environmental acquis. The weaknesses in administrative capacity persist in relation to ISPA, not only at national level but also at final beneficiary level, where attention should be paid to establishing sufficient capacity to ensure the sustainability of infrastructure projects.

*The financing of environmental infrastructure projects*

5. Candidate countries should have developed environmental and financing strategies at an earlier stage to identify priority projects and how to finance them most efficiently. ISPA has sought to reduce the level of grants below the 75 % ceiling and has cooperated effectively with the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and other international financing institutions to achieve this. Nevertheless, the Court considers that there remains further scope for reducing grant levels.

*The management of environment infrastructure projects*

6. Institutional weaknesses were also reflected in problems with project cycle management which the Commission has not always effectively addressed. Thus candidate countries encountered difficulties in preparing projects to an adequate standard, and the consultants financed by the Commission to rectify these problems sometimes did not perform satisfactorily. The Commission for its part did not employ sufficient resources at the project appraisal stage. For certain infrastructure projects<sup>2</sup>, notably waste water treatment plants, there was a risk that they would be too large. Candidate countries were experiencing significant difficulties tendering ISPA contracts, partly because of the complexity of the Commission procedures, and required more support in this area. ISPA project budgets did not systematically include the necessary funds to recruit engineers with sufficient experience to supervise contracts effectively. While most infrastructure projects, once up and running, were satisfactorily implemented, a few important exceptions were found.

Special Report No 6/2003 concerning twinning as the main instrument to support institution-building in candidate countries

7. A strong administrative capacity (institution-building) is vital for the candidate countries of central and eastern Europe in order to be able to adopt and implement Community law (acquis communautaire), one of the criteria for accession. The Commission launched

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<sup>1</sup> Twinning involves the full-time and long-term secondment of experts from Member State administrations to the candidate countries. The main objective is to help candidate countries establish or strengthen the institutions responsible for transposing the Community acquis by transferring the knowledge and experience acquired by Member State administrations and public institutions.

<sup>2</sup> In Bulgaria, the original budget of 33 million euro for the rehabilitation of the Sofia Wastewater Treatment Plant was reduced to 23 million euro (Phare funds available). Consequently, the Commission also amended the invitation to tender without knowing whether the new amount was sufficient for the full rehabilitation of the plant. A firm secured the contract for less than 18 million euro and part of the plant will not be renovated.

twinning in 1998 as the main instrument to assist candidate countries in strengthening their administrative capacity. Twinning involves the provision of national experts by Member States to candidate countries. Up to February 2002, 503 twinning projects in total had been approved, with an overall budget of 471 million euro.

8. The Member State administrations and public institutions have unique knowledge and specific experience concerning the implementation and enforcement of Community law. The introduction of the twinning instrument in 1998 provided for transferring knowledge and experience from the public sector of the Member States to the candidate countries. Twinning is therefore a positive initiative by the Commission to assist candidate countries in acquiring the capacity to adopt, implement and enforce the *acquis communautaire*.
9. The twinning projects acted as a catalyst in setting the candidate countries' reform in motion, bringing together specialists from Member States and candidate countries' administrations and promoting the adoption of the *acquis communautaire* through legislation. However, progress was rather less in implementing and enforcing the *acquis*. The objectives stated in the twinning covenants (the so-called "guaranteed" results were often unrealistic, and could often be achieved only partially within the project period. In practice it proved overly optimistic to expect that a fully functioning, efficient and sustainable candidate country organisation would exist in a given field after one twinning project, the average duration of which is 18 months.
10. Twinning is a complex activity involving a variety of functions and participants (the national experts or Pre-Accession Advisers (PAAs), different Member State and candidate country administrations and the Commission (Brussels and Delegations)). The desired results can only be achieved if all parties perform as required. The audit showed that the limited achievements are in general due to a combination of factors involving all parties:
  - setting of unrealistic objectives,
  - poor candidate country commitment and ownership,
  - management shortcomings at the level of Member State administrations and the Commission.
11. Twinning is a relatively new approach in delivering institution-building assistance to the candidate countries. A positive feature of it is the fact that the Commission assumed its responsibility for organising a learning process and as a result introduced many changes to improve the instrument. However, a negative side effect was increased complexity as different sets of rules from those applying to older ones had to be applied to new projects.
12. The interaction of the numerous public administrations involved in twinning created administrative complexity, diminishing efficiency and effectiveness. Too much time is spent on purely administrative issues, to the detriment of the main task, namely advising candidate countries on institution-building. The still lengthy periods between needs assessment and project realisation, as well as the highly complicated payment systems, are two of the more significant of the current difficulties. There was also a tendency to over-emphasise twinning at the expense of other mechanisms that are eligible for support. This sometimes resulted in a departure from the instrument's original aim and in

an insufficiently selective use of twinning.

### Conclusions and recommendations

13. Consequently, the Committee on Budgetary Control has arrived at the following conclusions and recommendations:
- \* Calls for particular attention to the needs of national, regional and local authorities in institution-building in the environmental sector when awarding aid before or after accession;
  - \* Notes that twinning is seen not only by the Commission but also by the candidate countries as an important way of strengthening the latter's administrative capacity; would nonetheless like to see the following improvements made to the programme so that the Commission can achieve the desired outcomes:
    - setting of specific and realistic objectives,
    - all stages of project preparation should be rationalised,
    - selective use of twinning on the basis of an informed choice between the various options,
    - the Commission should establish a network of detached national experts (pre-accession advisers) so as not to lose the experience and expertise acquired.
  - \* Considers that a decentralised national political system is best adapted to the administration of European financial aid;
  - \* Notes that the national administrations in the candidate countries are losing highly qualified staff, recently trained with the aid of European funds, to the private sector; insists that such staff should be obliged to remain in their posts for at least three years; proposes that a substantial financial penalty should be imposed in the event of non-compliance;
  - \* Calls for the extended decentralised information system (EDIS) to be implemented in all the candidate countries as soon as possible; thanks to EDIS, the Commission should be able to move from ex ante to ex post control of tendering and contracting;
  - \* Calls on the Commission to stop amending tenders once they have been drawn up, even if the amount entered in the budget no longer corresponds to that available; a tender should be not be modified unless the services initially put out to tender cannot be obtained for the reduced amount (see footnote 1);
  - \* Calls on the Commission to pay particular attention to the worrying financial situation of the public authorities in the candidate countries;
  - \* Calls on the candidate countries to draw up sustainable and viable environmental and financial strategies;
  - \* With regard to financial aid, draws attention to the importance of cooperation with the international financial institutions;

- \* Draws attention to the need to improve absorption capacity by allocating more resources to project design and the organisation of tendering procedures.

25 February 2004

**OPINION OF THE COMMITTEE ON FOREIGN AFFAIRS, HUMAN RIGHTS,  
COMMON SECURITY AND DEFENCE POLICY**

for the Committee on Budgetary Control

on discharge in respect of the implementation of the general budget of the European Union for the 2002 financial year (Commission)  
(SEC(2003) 1104 – C5-0564/2003 – 2003/2210(DEC))

Draftsman: José Ignacio Salafranca Sánchez-Neyra

**PROCEDURE**

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy appointed José Ignacio Salafranca Sánchez-Neyra draftsman at its meeting of 26 November 2003.

It considered the draft opinion at its meeting of 24 February 2004.

At this meeting it adopted the following suggestions unanimously.

The following were present for the vote: Elmar Brok (chairman), Baroness Nicholson of Winterbourne (vice-chairwoman), Christos Zacharakis (vice-chairman), José Ignacio Salafranca Sánchez-Neyra (draftsman), Michael Gahler, Alfred Gomolka, Pasqualina Napoletano, Arie M. Oostlander, Doris Pack, Jacques F. Poos, Joan Vallvé, Paavo Väyrynen, Karl von Wogau.

## SUGGESTIONS

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

- 215a.** *Underlines the importance of evaluating the results of the reform of the external aid management as soon as sufficient experience of new structures and procedures has been gained; would welcome a specific evaluation report from the Court of Auditors;*
- 215b.** *Stresses that major and recurrent implementation problems like the ones encountered in the TACIS region and in other regions should routinely be reported by the Commission to the Budgetary Authority and the Court; underlines that these reports should include analyses of causes as well as accounts of action taken or planned in response to the problems - all in a clear language and with indication of how further succinct information on different aspects can be obtained;*
- 215c.** *Draws attention to that greater coherence between different EU policies can improve the efficiency of EU expenditure; points to the simultaneous provision of macro-financial assistance to Moldova and the maintenance of high import barriers against most products that this country could export to the EU as a clear example of incoherent policies causing an efficiency-loss;*
- 215d.** *Fully shares the Court's view that there is a need for stronger measures to render cross-border co-operation over the external borders more effective; calls on the Commission and the Council to ensure that Neighbourhood Programmes are launched without delay and that a Neighbourhood Instrument is created, so that a definitive end can be put to the problems caused by the mismatch of the instruments currently used for cross-border co-operation;*
- 215e.** *Welcomes, also, the Court's call for consideration to be given to amending the PHARE CBC regulation, so as to make also regions bordering third countries eligible for support;*
- 215f.** *Expects the Commission to provide an explanation each time it does not follow a provision laid down in a budgetary remark;*

17 February 2004

## **OPINION OF THE COMMITTEE ON EMPLOYMENT AND SOCIAL AFFAIRS**

for the Committee on Budgetary Control

on the granting of the discharge in respect of the general budget of the European Communities for the 2002 financial year (Commission)  
(SEC(2003) 1104 – C5-0564/2003 – 2003/2210(DEC))

Draftsman: Bartho Pronk

### **PROCEDURE**

The Committee on Employment and Social Affairs appointed Bartho Pronk draftsman at its meeting of 15 February 2001.

It considered the draft opinion at its meetings of 21 January and 16/17 February 2004.

At the latter meeting it adopted the following suggestions by 25 votes to 1.

The following were present for the vote: Marie-Hélène Gillig (acting chairwoman), Winfried Menrad (vice-chairman), Marie-Thérèse Hermange (vice-chairwoman), Jan Andersson, Elspeth Attwooll, Regina Bastos, Johanna L.A. Boogerd-Quaak (for Anne André-Léonard), Alejandro Cercas, Proinsias De Rossa, Harald Ettl, Jillian Evans, Carlo Fatuzzo, Roger Helmer, Stephen Hughes, Karin Jöns, Jean Lambert, Elizabeth Lynne, Toine Manders (for Marco Formentini), Thomas Mann, Mario Mantovani, Manuel Pérez Álvarez, Lennart Sacrédeus, Herman Schmid, Helle Thorning-Schmidt, Anne E.M. Van Lancker and Barbara Weiler.

## SUGGESTIONS

The Committee on Employment and Social Affairs calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Expresses general satisfaction with the implementation rates of budget headings for employment and social affairs in terms of internal policies;
2. Deplores, however, the very low rate of implementation of headings B5-502 (Labour market), B5-502A (Labour market - expenditure on administrative management), and B5-503 (Preparatory measures for a local commitment for employment);
3. Regrets that, for the structural funds, there are still shortcomings in the implementation of internal control standards and in the application of procedures for repayment of unused advances; regrets that the Court of Auditors' audit revealed a repetition of errors of the same type and with the same frequency as in previous years, whereas Regulation (EC) No 438/2001 provides a framework, which favours the improvement of the control systems for the programming period 2000-2006;
4. Asks the Commission, not only to intensify its on-the-spot checks on the implementation and sound operation of the supervisory systems and on the legality and regularity of the underlying transactions, but also to examine structural defects in the payment system;
5. Is concerned about the fact that the payment implementation rate for Structural Fund payments was only 74% of available appropriations, although this represents an increase on the implementation rate for 2001 (69%) when it was historically low;
6. Deplores the fact that this underspending on the Structural Funds mainly arises from the significantly and consistently inaccurate forecasts by the Member States; is convinced that this indicates a systematic and structural, rather than a random problem with the procedure;
7. Takes the view that the next reform of the Structural Funds should be guided by the following principles: a more performance-related approach to the distribution of funding, taking into account the results in the implementation of previous funding in the same member state, concentration on few clear priorities, administrative simplification, and avoidance of abrupt change-overs between programming periods.



17 February 2004

## **OPINION OF THE COMMITTEE ON THE ENVIRONMENT, PUBLIC HEALTH AND CONSUMER POLICY**

for the Committee on Budgetary Control

on discharge for the Commission in respect of implementation of the general budget of the European Communities for the financial year 2002  
(SEC(2003) 1104 - C5-0564/2003 - 2003/2210(DEC))

Draftsman: Robert Goodwill

### **PROCEDURE**

The Committee on the Environment, Public Health and Consumer Policy appointed Robert Goodwill draftsman at its meeting of 21 November 2001.

It considered the draft opinion at its meeting of 17 February 2004.

At the last meeting it adopted the following suggestions unanimously.

The following were present for the vote: Caroline F. Jackson (chairman), Mauro Nobilia (vice-chairman), Alexander de Roo (vice-chairman), Guido Sacconi (vice-chairman), Robert Goodwill (draftsman), María del Pilar Ayuso González, Hans Blokland, David Robert Bowe, Hiltrud Breyer, Dorette Corbey, Chris Davies, Karl-Heinz Florenz, Cristina García-Orcoyen Tormo, Françoise Grossetête, Eija-Riitta Anneli Korhola, Bernd Lange, Minerva Melpomeni Malliori, Rosemarie Müller, Giuseppe Nisticò, Karl Erik Olsson, Marit Paulsen, Dagmar Roth-Behrendt, Yvonne Sandberg-Fries, Giacomo Santini (for John Bowis), María Sornosa Martínez, Catherine Stihler, Nicole Thomas-Mauro, Antonios Trakatellis, Peder Wachtmeister.

## SUGGESTIONS

The Committee on the Environment, Public Health and Consumer Policy calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Expresses general satisfaction with the high implementation rates of the budget headings for environment, public health and consumer policy;
2. Welcomes the decision by the Commission to transfer part of the administrative appropriations on budget line B7-8110A to operational expenditure to reduce under-utilisation of funds; urges the Commission to transfer any administrative appropriations that will probably not be used by the year end to lines for operational expenditure, by means of requests for transfers of appropriations; this would allow optimum use to be made of the available funds;
3. Underlines the fact that the impact of environment programmes is often hampered by the lack of assessment of environmental impacts of other Community legislation and programmes, especially in the field of structural funds, and believes that a systematic use of strategic environment assessments (SEAs) can be a powerful instrument to avoid such problems in future;
4. Points out that compliance with administrative and financial provisions of the Financial Regulation should not lead to unnecessary delays in awarding grants or selecting projects to be financed;
5. Is concerned about the low number of officials in DG Environment dealing with infringement procedures, in particular as environment related cases represent almost half of the infringement cases started in 2002 and over third of all complaints related to bad application of EU law, and calls upon the Commission to significantly increase the number of officials in this sector in accordance with its task of being the guardian of the Treaties, thus responsible for the correct implementation of EU environmental legislation;
6. Calls for increased use of environmental criteria in selection procedures for Community appropriations (invitation to tender, awarding of contracts) in order for the EU to take the lead in greening public procurement;
7. On the basis of the data available, the Committee on the Environment, Public Health and Consumer Policy is of the opinion that the Commission can be granted discharge in respect of expenditure in the areas of environmental protection, public health and consumer protection.

## SHORT JUSTIFICATION

This opinion examines the execution of the budget in the areas of environment, consumer and health policy for the financial year 2002.

### ENVIRONMENT

Implementation rates for commitments for all environment budget lines (title B4-3) were good, 90-100%. The backlog in payments following the launch of the LIFE III programme in 2000 was also successfully eliminated.

As regards payments, the overall implementation rates were satisfactory. The Community framework for co-operation to promote a sustainable urban environment, Community co-operation in the field of marine pollution and the Community action programme in the field of civil protection show lower rates (34.5%, 56.1% and 56.7% respectively), as most of the commitments were made at the end of the year 2002. The first advance payments were postponed to the following year. As regards the budget line on urban environment, a major commitment of 2001 was cancelled, as the contract was not signed in time and the project could not be continued also for other reasons.

The implementation rates (commitments) of the external aspects of environment policy (chapter B7-81) were also satisfactory. The execution rate of the administrative management budget line has been traditionally fairly low. As a preventive measure, the Commission transferred part of the appropriations to the operational budget line. Despite this effort, the budget line remained under-used with the implementation rate 36.2%. Following the low execution of commitments both in 2001 and 2002 also the payment credits were under-utilised (57.2%).

In 2002, the administrative budget line for LIFE third countries was fully committed. However, the low commitment utilisation rate in 2001 led to a lower need for payment credits in 2002 (77.9%).

The Court of Auditors examined, in its Special Report No 11/2003, the management of the Financial Instrument for the Environment (LIFE). The audit focused on the second phase of the programme (1996-1999, LIFE II). While the observations by the Court are valuable for the implementation of the present programme and the preparation of the new phase, it does not have a direct impact on granting the discharge on 2002 credits.

### PUBLIC HEALTH

In 2002, the implementation of eight existing public health programmes (cancer, drug dependence, pollution-related diseases, health promotion, health monitoring, injury, aids and other communicable diseases and rare diseases) continued under one single budget line B3-4308. The total available budget was € 46.4 million out of which nearly € 44.8 million was committed (96.6%). The Commission also managed to reduce the backlog in payments.

As regards administrative expenditure, the implementation rate was clearly higher than the year before (60% in 2001). The appropriations (€1.6 million) were almost fully committed, though the payments lagged behind (54.8%).

The regulation setting up the European Food Safety Authority (EFSA) was adopted in January 2002. During the start-up year the EFSA committed 81.8% (€ 2.4 million out of € 2.9 million) of the administrative appropriations. The appointment of the Authority's Executive Director and the adoption of a new general financial regulation for all EU agencies were delayed, which contributed to the relatively low implementation rates.

DG SANCO was responsible, together with DG AGRI, for the implementation of B1-175, Community fund for research and information (tobacco). DG SANCO attained an implementation rate of 96.8% for a budget of € 9.0 million. Committed appropriations included €8.7 million for the Europe-wide anti-smoking campaign '*Feel Free to Say No*', which was launched in 2002 and which will continue for three years.

### CONSUMER POLICY

In the field of consumer policy, the available budget for operational expenditure amounted to € 23 million. In September, € 1 million was returned to the general budget following delays in implementation, mainly in launching a call for tender for specific projects. The final, corrected implementation rate was 95.4%. The major part of this appropriation, € 13.8 million, was spent on the Commission actions, € 1.9 million on support to EU-level consumer organisations and € 2.3 million on grants for specific projects and € 3 million on grants for European Consumer Centres and for the European Extrajudicial Network (EEJNet). The administrative expenditure budget line was fully committed, although most of the payments were executed during the subsequent year.

**IMPLEMENTATION OF THE 2002 BUDGET**

(Mio EUR)

<b>Budget Line</b>	<b>Heading</b>	<b><u>Total commitment appropriations</u> (initial 2002 budget, supplementary and amendment budgets and transfers, additional appropriations, incl. carry-overs from 2001, reuse of revenue etc.)</b>	<b>Committed</b>	<b>%</b>	<b><u>Total payment appropriations</u> (initial 2002 budget, supplementary and amendment budgets and transfers, additional appropriations, incl. carry-overs from 2001, reuse of revenue etc.)</b>	<b>Committed</b>	<b>%</b>
<b>B1-175</b>	Community fund for research and information (DG SANCO)	9.000	8.713	96.8	non-differentiated credits		
<b>B3-43</b>	<b>PUBLIC HEALTH</b>						
B3-4308	Public health (2001-2006)	46.360	44.762	96.6	39.867	36.729	92.1
B3-4308A	Public health (2001-2006) - Expenditure on administrative management	1.595	1.594	99.9	1.659	0.909	54.8

B3-4309	Expenditure related to the creation of the European Food Safety Authority	0.400	0.262	12.5	0.400	0.061	15.3
B3-4309A	Expenditure related to the creation of the European Food Safety Authority - Expenditure on administrative management	2.900	2.437	45.1	2.250	1.436	63.8

<b>B4-3</b>	<b>ENVIRONMENT</b>						
B4-304	Legislation, awareness-raising and other general actions based on the Community action programme in the field of environment	17.909	17.331	96.8	16.329	16.185	99.1
B4-304A	Legislation, awareness-raising and other general actions based on the Community action programme in the field of environment - Expenditure on administrative management	4.913	4.425	90.1	4.944	4.795	97.0
B4-305	Community framework for cooperation to promote sustainable urban development	2.915	2.745	94.2	1.534	0.528	34.5
B4-306	Community action programme	3.660	3.660	100	2.300	2.064	89.7

	promoting non-governmental organisations primarily active in the field of environmental protection						
B4-307	Community cooperation in the field of marine pollution	1.039	1.013	97.6	1.039	0.583	56.1
B4-308	Community action programme in the field of civil protection	1.459	1.378	94.5	1.356	0.770	56.7
B4-308A	Community action programme in the field of civil protection - Expenditure on administrative management	0.074	0.074	100	0.129	0.112	87.0
B4-309	Pilot project for the protection of coastlines	0	0	0	1.000	0.993	99.3
B4-3200	LIFE III – Projects on Community territory - Part I: Nature protection	71.784	71.784	100	28.900	26.223	90.7
B4-3200A	LIFE III – Projects on Community territory - Part I: Nature protection - Expenditure on administrative management	3.123	3.084	98.8	2.912	2.783	95.6
B4-3201	LIFE III– Projects on Community territory - Part II: Environmental protection	70.943	70.698	99.7	30.802	27.823	90.3

B4-3201A	LIFE III– Projects on Community territory - Part II: Environmental protection - Expenditure on administrative management	2.904	2.895	99.7	3.287	3.156	96.0
<b>B5-1</b>	<b>CONSUMER POLICY AND CONSUMER HEALTH PROMOTION</b>						
B5-100	Community activities in favour of consumers	21.246	20.273	95.4	19.719	19.089	96.8
B5-100A	Community activities in favour of consumers - Expenditure on administrative management	0.712	0.712	100	0.689	0.188	27.3

<b>B7-</b>	<b>ENVIRONMENT - EXTERNAL ASPECTS</b>						
B7-810	LIFE III (European Financial Instrument for the Environment) - Operations outside Community territory	6.522	5.773	88.5	7.092	6.576	92.7
B7-810A	LIFE III (European Financial Instrument for the Environment) - Operations outside Community territory - Expenditure on	0.381	0.381	100	0.381	0.297	77.9



	administrative management						
B7-811	Contribution to international environmental activities	6.400	6.191	96.7	6.640	6.638	99.9
B7-811A	Contribution to international environmental activities - Expenditure on administrative management	0.600	0.217	36.2	0.900	0.515	57.2

18 February 2004

## **OPINION OF THE COMMITTEE ON REGIONAL POLICY, TRANSPORT AND TOURISM**

for the Committee on Budgetary Control

on the discharge to be granted in respect of the implementation of the general budget of the European Union for the financial year 2002 (Commission)  
(SEC(2003) 1104 – C5-0564/2003 – 2003/2210(DEC))

Draftsman: Josu Ortuondo Larrea

### **PROCEDURE**

The Committee on Regional Policy, Transport and Tourism appointed Josu Ortuondo Larrea draftsman at its meeting of 25 November 2003.

It considered the draft opinion at its meetings of 20 January and 17 February 2004.

At the latter/last meeting it adopted the following suggestions by 32 votes to 6, with 2 abstentions.

The following were present for the vote: Paolo Costa (chairman), Rijk van Dam, Gilles Savary, Helmuth Markov (vice-chairmen), Josu Ortuondo Larrea (draftsman), Pedro Aparicio Sánchez (for Danielle Darras), Graham H. Booth (for Alain Esclopé), Philip Charles Bradbourn, Luigi Cocilovo, Nirj Deva (for Rolf Berend), Jan Dhaene, Garrelt Duin, Markus Ferber (for Felipe Camisón Asensio), Jacqueline Foster, Mathieu J.H. Grosch, Catherine Guy-Quint (for Giovanni Claudio Fava), Konstantinos Hatzidakis, Juan de Dios Izquierdo Collado, Elisabeth Jeggle (for Christine de Veyrac), Dieter-Lebrecht Koch, Erik Meijer, Bill Miller (for John Hume), Enrique Monsonís Domingo, Francesco Musotto, James Nicholson, Peter Pex, Samuli Pohjamo, Alonso José Puerta, Reinhard Rack, Ingo Schmitt, Elisabeth Schroedter (for Nelly Maes), Renate Sommer, Ulrich Stockmann, Hannes Swoboda (for Emmanouil Mastorakis), Joaquim Vairinhos, Ari Vatanen, Herman Vermeer, Dominique Vlasto (for Giorgio Lisi), Mark Francis Watts, and Brigitte Wenzel-Perillo (for Margie Sudre).

## SUGGESTIONS

The Committee on Regional Policy, Transport and Tourism calls on the Committee on Budgetary Control, as the committee responsible, to include the following suggestions in its motion for a resolution:

1. Welcomes the fact that the rate of utilisation of payment appropriations for the Structural Funds improved in 2002; deplores the fact, however, that for Objective 2 and the Community initiatives the rate of utilisation for payment appropriations fell to a level unacceptable to the budgetary authority; recognises, however, that the delays in adopting Community legislation may have contributed to the delays in utilising the appropriations;
2. Calls on the Commission to provide both a clear explanation of this inadequate implementation of the budget and detailed proposals to improve budget implementation for Objective 2 and, in particular, for the Community initiatives;
3. Notes with concern the remarks made by the Court of Auditors in its special report 7/2003 on the implementation of assistance programming for the period 2000-2006 within the framework of the Structural Funds regarding the inadequacy of the statistical information used to identify regions eligible under ERDF Objective 1 and Objective 2; because the statistics were out of date, some regions received Objective 1 assistance even though their GDP exceeded 75% of the Community average; calls therefore on the Commission to provide a formal explanation;
4. Notes that the same report confirms that the management, payment, monitoring and inspection systems in the Member States still display weaknesses which have resulted in delays in the implementation of payments under the ERDF;
5. The rates of utilisation of payment appropriations (chapter B2-7) for transport policy, particularly security in this sector, are once again inadequate, although there are reasons for this, such as delays in the implementation of actions by contractors and stricter rules applied by the Commission, entailing a slow-down in payments;
6. Expresses concern regarding the highly disappointing progress made with several TEN-transport projects, despite the high level of utilisation of payment appropriations; the Court of Auditors in its 2002 annual report, indicated that some of the projects monitored in 2002 would have proceeded even without Community financial assistance, which may suggest that some projects are not of sound quality or that implementation mechanisms are inadequate;
7. On the basis of the conclusions of the Court of Auditors, calls on the Commission to use part of these resources to fund projects in the transport sector which would have difficulty securing funding from other sources;
8. Proposes that the Committee on Budgetary Control grant the discharge for the financial year 2002 for those budgetary sectors for which the Committee on Regional Policy, Transport and Tourism is responsible.

9 February 2004

## **OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION**

for the Committee on Budgetary Control

on the 2002 Discharge: European Communities general budget section III Commission (SEC(2003) 1104 - C5-0564/2003 – 2003/2210(DEC))

Draftsman: Glenys Kinnock

### **PROCEDURE**

The Committee on Development and Cooperation appointed Glenys Kinnock draftsman at its meeting of 25 November 2003.

It considered the draft opinion at its meetings of 2 December 2003 and 20 January 2004.

At its meeting of 9 February, 2004, it adopted the following suggestions unanimously.

The following were present for the vote: Margrietus J. van den Berg (acting chairman), Marieke Sanders-ten Holte (vice-chairwoman), Glenys Kinnock (draftsman), Yasmine Boudjenah, John Bowis, Nirj Deva, Giovanni Claudio Fava (for Maria Carrilho), Fernando Fernández Martín, Concepció Ferrer (for Karsten Knolle), Michael Gahler (for Vitaliano Gemelli), Karin Jöns (for Miguel Angel Martínez Martínez), Constanze Angela Krehl (for Wolfgang Kreissl-Dörfler), Giorgio Lisi (for Jürgen Zimmerling), Nelly Maes (for Paul A.A.J.G. Lannoye), Mario Mantovani (for Luigi Cesaro), Maria Martens (for John Alexander Corrie), Linda McAvan, Hans Modrow, Philippe Morillon (for Jean-Pierre Bebear), José Ribeiro e Castro (for Luisa Morgantini), Ulla Margrethe Sandbæk, Francisca Sauquillo Pérez del Arco, Maj Britt Theorin, Elena Valenciano Martínez-Orozco (for Marie-Arlette Carlotti) and Anne E.M. Van Lancker (for Karin Junker).

## SUGGESTIONS

The Committee on Development and Cooperation calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Draws attention to the principal objective of the Community's development policy, which is to reduce poverty with a view to its eventual eradication<sup>1</sup>, and highlights the endorsement given by the Commission and all Member States to the Millennium Development Goals (MDGs) as the means by which this objective is to be achieved;
2. Recalls that in the past a lack of statistical data hampered attempts to analyse the level of poverty-focus in the Commission's development programmes; welcomes the introduction of the Common Relex Information System (CRIS) which, along with other databases, gave fully reliable figures for the first time in 2002;
3. Congratulates the Commission on meeting the global benchmark, introduced in the 2002 budget, requiring 35% of annual development commitments to be allocated to 'social infrastructure and services' as defined by the OECD Development Assistance Committee (DAC); observes, however, that aid reported to the DAC under this heading amounted to only 31.4% and that the shortfall was made up of 'macroeconomic assistance with social sector conditionality', which was included in the benchmark formula at the request of the Commission and for which the link to poverty reduction is less direct;
4. Notes that the benchmark formula requires the 35% to be allocated 'mainly (to) education and health' which are the two sectors most prominent in the MDGs; observes, further, that the figures reported to the DAC for 2002 commitments in these sectors<sup>2</sup> remain far from this target, and that structural adjustment programme conditionalities are most unlikely to make up such a large shortfall; notes, however, that the regional figures for Asia and Latin America show notable progress; calls on the Commission to build on this achievement by making improvements in the figures for other geographical areas in future years;
5. Points out that the figure for 'social infrastructure and services' includes an allocation of 13.5% for 'government and civil society' of which the largest single element is €319.9 million for 'economic and development planning'; notes that this is principally aimed at administrative support and that its direct relevance for poverty reduction is therefore questionable;
6. Regrets that the Commission has not provided an analysis of its contribution towards achieving the MDGs but has limited its study<sup>3</sup> to measuring the progress made by developing countries towards this objective; considers that assessment of the effectiveness of Commission programmes is hampered by the absence of such an analysis;

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<sup>1</sup> The European Union's Development Policy, conclusions of the 2304th meeting of the Development Council 10 November 2000.

<sup>2</sup> 4.1% for education and 3.0% for health. These figures include sector-specific budget support.

<sup>3</sup> Outlined in the Annual Report on the EC Development Policy and the Implementation of External Assistance in 2002, Ch 3.

7. Supports the Commission's policy of deconcentrating decision-making to the external delegations, forty-four of which completed the process in 2002; and notes with satisfaction the improvements that have already resulted from this<sup>1</sup>; derives reassurance from the reinforcement of delegation staff and the training programmes established for them, as well as from the controls exercised by headquarters; warns nevertheless that delegation staff should not be burdened with excessive levels of reporting to headquarters as this would risk negating the benefits of deconcentration;
8. Expresses concern at the increase in the use of macroeconomic assistance in 2002, and particularly at the Commission's willingness to use this modality in cases where other donors consider minimum requirements have not been met; notes that the Commission has drawn up an analysis of the risk associated with external assistance and calls for this to be communicated to Parliament without delay; takes the view that budget support is more effective when targeted at a specific sector, and that key horizontal fields<sup>2</sup> may be addressed through a sector-wide approach in the area of public finance;
9. Recognises the achievement of the Commission in reducing year-on-year levels of 'abnormal *reste a liquider* (RAL)' but remains concerned that the total level continues to rise when successive budget years are added into the figures; calls on the Commission to redouble its efforts to bring this problem under control;

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<sup>1</sup> Among improvements observed by the Commission are: reduction in time taken for tenders and calls for proposals and implementation of better-quality programmes.

<sup>2</sup> public service, public contracts, external audit etc

15 March 2004

## **OPINION OF THE COMMITTEE ON WOMEN'S RIGHTS AND EQUAL OPPORTUNITIES**

for the Committee on Budgetary Control

on the 2002 discharge: EC general budget - Section III - Commission  
(SEC(2003) 1104 - C5-0564/2003 - 2003/2210(DEC))

Draftswoman: Miet Smet

### **PROCEDURE**

The Committee on Women's Rights and Equal Opportunities appointed Miet Smet draftswoman at its meeting of 27 November 2003.

It considered the draft opinion at its meetings of 20 January, 19 February and 15 March 2004.

At the last meeting it adopted the following suggestions unanimously.

The following were present for the vote: Anna Karamanou (chairwoman), Marianne Eriksson (vice-chairwoman), Olga Zrihen Zaari (vice-chairwoman), Miet Smet (draftswoman), María Antonia Avilés Perea, Marie-Hélène Gillig (for Christa Prets), Lissy Gröner, Rodi Kratsa-Tsagaropoulou, Astrid Lulling, Joke Swiebel and Anne E.M. Van Lancker (for Mary Honeyball).

## SUGGESTIONS

The Committee on Women's Rights and Equal Opportunities calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Notes that, in establishing the budget for 2002, the Commission organised its activity around six priority objectives (the euro; sustainable development; development cooperation; the Mediterranean; enlargement; and the new governance), which have guided the programming of its work, the process of preparing the budget and the use of resources; while approving those priorities, stresses that under Article 3(2) of the EC Treaty the promotion of gender equality is a fundamental principle of the EU and a transversal objective of all Community actions and programmes; calls on the Commission, accordingly, to ensure that gender equality henceforth figures among the priority objectives guiding its strategic planning, so that gender mainstreaming is applied in the definition of revenue and expenditure for all policies entered in the budget;
2. Welcomes the launching in 2002 of the action programme for gender equality (2001-2005) in the accession countries; recalls that, under the 2002 budget and, in particular, in the context of Community assistance to the accession countries, all measures should include the gender equality dimension; calls on the Commission, therefore, to submit to it a report on the projects and actions for the promotion of equality in the countries concerned which have received a Community contribution; asks the Commission, in addition, to draw up a mid-term evaluation report on the action programme for 2001-2005, including data on the funds allocated to the projects carried out in the different areas of the programme;
3. Notes that, for the new programmes (2000-2006) under the Structural Funds, the execution rate for payments is 91%, representing a considerable improvement on the 2001 rate of 70%; notes that the accumulated underuse of the payment appropriations for the Funds is related essentially to delays in receiving payment requests from the Member States for the programmes for the period 1994-1999; points out that there is at present no overall concept of gender mainstreaming for operations cofinanced by the Funds; calls on the Commission, therefore, to include in its report on the Structural Funds for 2003 an analysis of the measures aimed at promoting gender equality which have received financial support from each of the Funds since 2000 and of the appropriations allocated for that purpose;
4. Deplores the Commission's transfers of EUR 15 m from the EQUAL initiative and other structural instruments to support fleet restructuring in Spain and Portugal and of EUR 123 m from EQUAL and other structural instruments to the EU Solidarity Fund, resulting in payments to Germany, Austria, France and the Czech Republic following the summer 2002 floods; regrets the fact that, in the absence of proof to the contrary, funds from the Community initiative EQUAL, which is a key instrument designed specifically for the promotion of equality, have been diverted to activities whose impact on promoting equality has not been subjected to any evaluation;



5. While recognising the efforts made by the Commission thus far to promote gender equality in certain specific fields, notably social and employment policy and research and technological development policy, regrets the failure to apply gender mainstreaming meaningfully in a number of other areas; calls on the Commission once again to undertake a specific analysis, in its financial management report for 2003, of the appropriations utilised to promote gender equality and remove inequalities, under all headings of the budget.