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A9-0297/2023

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REPORT

on possibilities to increase the reliability of audits and controls by national
authorities in shared management
(2022/2020(INI))

Committee on Budgetary Control

Rapporteur: Monika Hohlmeier

CONTENTS

	Page
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	3
EXPLANATORY STATEMENT	13
OPINION OF THE COMMITTEE ON AGRICULTURE AND RURAL DEVELOPMENT	14
INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE	22
FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE	23

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on possibilities to increase the reliability of audits and controls by national authorities in shared management (2022/2020(INI))

The European Parliament,

- having regard to Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (the Financial Regulation)¹ and to the Commission communication of 16 May 2022 on a proposal for a revision thereof (COM(2022)0223),
- having regard to its draft position on the proposal for a regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union,
- having regard to Regulation (EU) 2021/2116 of the European Parliament and of the Council of 2 December 2021 on the financing, management and monitoring of the common agricultural policy and repealing Regulation (EU) No 1306/2013²,
- having regard to Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy³,
- having regard to the European Court of Auditors' annual report on the implementation of the EU budget for the 2021 financial year,
- having regard to the study entitled 'Research for REGI Committee – Gold-Plating in the European Structural and Investment Funds', published by its Directorate-General for Internal Policies on 16 January 2017⁴,
- having regard to the study, requested by its Committee on Budgetary Control, entitled 'Single Audit Approach – Root Causes of the Weaknesses in the Work of the Member

¹ [OJ L 193, 30.7.2018, p. 1.](#)

² [OJ L 435, 6.12.2021, p. 187.](#)

³ [OJ L 231, 30.6.2021, p.159.](#)

⁴ Study – 'Research for REGI Committee – Gold-plating in the European Structural and Investment Funds', European Parliament, Directorate-General for Internal Policies, Policy Department B – Structural and Cohesion Policies, 16 January 2017.

States' Managing and Audit Authorities', published by its Directorate-General for Internal Policies on 30 April 2022⁵,

- having regard to its previous decisions and resolutions on discharge to the Commission for the years 2019, 2020, 2021 and 2022⁶,
 - having regard to Rule 54 of its Rules of Procedure,
 - having regard to the opinion of the Committee on Agriculture and Rural Development,
 - having regard to the report of the Committee on Budgetary Control (A9-0297/2023),
- A. whereas Article 317 of the Treaty on the Functioning of the European Union states that 'regulations shall lay down the control and audit obligations of the Member States in the implementation of the budget and the resulting responsibilities';
- B. whereas Article 127⁷ of the Financial Regulation defines the concept of 'cross-reliance on audits' for all interventions financed by EU funds; highlights that this article sets out a basis for auditors to rely on previous audit work when this has been conducted in compliance with the EU rules, applicable international standards and by an independent auditor; underlines that the Single Audit principle aims to prevent a duplication of audit work, reducing the overall costs of audit activities and decreasing the administrative burden on auditees;
- C. whereas in accordance with Article 247 of the Financial Regulation, the Commission has to include an estimation of the level of error in Union expenditure based on a consistent methodology in its annual management and performance report;
- D. whereas Article 69 of the Common Provisions Regulation places the Member States under an obligation to have management and control systems for their programmes, and to take, upon request of the Commission, all actions necessary to ensure their effective functioning, including audits, in which the Commission or authorised representatives may take part, and to ensure that all documents required for the audit trail are kept;
- E. whereas Article 59 of Regulation (EU) 2021/2116 on the financing, management and monitoring of the common agricultural policy (CAP) obliges the Member States to take the measures necessary to ensure the effective protection of the financial interests of the Union and the actions necessary to ensure the proper functioning of their management

⁵ Study – 'Single Audit Approach – Root Causes of the Weaknesses in the Work of the Member States' Managing and Audit Authorities', European Parliament, Directorate-General for Internal Policies, Policy Department D, Budgetary Affairs, 30 April 2022.

⁶ Texts adopted, P9_TA(2020)0114, P9_TA(2021)0164, P9_TA(2022)0144, P9_TA(2023)0137.

⁷ Article 127: '**Cross-reliance on audits**. Without prejudice to existing possibilities for carrying out further audits, where an audit based on internationally accepted audit standards providing reasonable assurance has been conducted by an independent auditor on the financial statements and reports setting out the use of a Union contribution, that audit shall form the basis of the overall assurance, as further specified, where appropriate, in sector-specific rules, provided that there is sufficient evidence of the independence and competence of the auditor. To that end, the report of the independent auditor and the related audit documentation shall be made available on request to the European Parliament, the Commission, the Court of Auditors and the audit authorities of Member States'.

and control systems and the legality and regularity of the expenditure they declare to the Commission;

Root causes affecting the management, control and audit of EU expenditure under shared management

1. Recalls that under shared management, the Commission retains ultimate responsibility for the implementation of the EU budget while Member States are required to set up effective national management and control systems of EU funded programmes in line with the applicable rules to prevent, detect and correct any irregularities or fraud cases in the EU expenditure and to provide reasonable assurance to the Commission that EU resources are being spent in accordance with the principle of sound financial management;
2. Recalls that the Single Audit approach refers to an audit system in which each audit layer builds on work done by the preceding one provided that this is reliable and accurate; highlights that the correct implementation of the Single Audit approach prevents the duplication of audit work, reducing the overall cost of audit activities for the Member States and the Commission and decreasing the administrative burden on auditees; points out that, in practice, the application of the Single Audit approach depends, among other things, on the robust and reliable audit work carried out by the audit bodies in the Member States;
3. Highlights that the complexity of the rules on EU funds, together with the frequent changes in regulations between programming periods, can lead to legal ambiguity or compliance issues, as well as misinterpretations and deficient implementation, which generate a higher risk of errors; notes that the Commission has provided audit bodies in the Member States with guidance and support on how to interpret and apply EU rules and requirements in order to ensure a consistent audit approach across the EU; regrets the fact that the Commission's guidance is often very theoretical, technocratic and open to differing interpretations; stresses that these measures may lead to gold-plating practices, increased bureaucracy and continued changes in implementation standards by the Member States; deplores the fact that these aspects, which create unnecessary administrative burdens, might negatively impact the level of attractiveness of EU funds for potential beneficiaries in the Member States; stresses that the managing authorities run the risk of errors as the result of complex and unclear rules in spite of their best intentions to comply with EU regulations;
4. Recalls that under shared management, the Member States are responsible for setting up a management and control system for payments and must ensure that it is capable of detecting and correcting irregularities; stresses that it is advantageous to the Member States to opt for preventive rather than punitive measures for the purposes of management and control, thereby helping to ensure that the system is administered as efficiently as possible for the benefit of the right recipients, while avoiding fraud and the misdirection of public funds and ensuring the best use thereof;
5. Maintains that translation in the field of law is a complex and demanding procedure that adds an extra layer of difficulty to interpretation, as legal translation needs to be accurate and transpose the same ideas expressed in the source text, and legal terms

reflect legal concepts that vary between different legal systems, particularly in the fields of management, control and audit, which might be very technical;

6. Recalls the observations of the discharge authority as regards the implementation of the Recovery and Resilience Facility and the involvement of regional and local authorities and other stakeholders who were not sufficiently involved in the setting-up of national programmes;
7. Points out that errors and irregularities should be avoided, detected and corrected by the managing authorities and paying agencies in the first instance; recalls that the European Court of Auditors (ECA) found that controls currently in place do not yet sufficiently offset the high inherent risk of error in the implementation of the cohesion policy⁸, particularly that the managing authorities' verifications are still partly ineffective in preventing or detecting irregularities in the expenditure declared by beneficiaries; stresses that effective management control is indispensable to ensure both the performance of operations and their compliance with the legal framework; stresses that, in addition to protecting the Union's financial interests, the detection of errors must serve to implement the necessary corrective measures and to make improvements to the legislation to prevent such errors in the future;
8. Notes the Court's observations from past annual reports that in several cases examined by the Court the national authorities had sufficient information to prevent, or to detect and correct, the error before declaring the expenditure to the Commission, and if they had made proper use of all the information at their disposal, the estimated level of error would have been several percentage points lower; calls on the Member States to be more vigilant and make better use of the available information in order to avoid making declarations of expenditure containing errors and thus increase the reliability of their control and audit work;
9. Insists that the Member States' audit bodies comply with the international standards of supreme audit institutions; states that failing to comply with these standards creates a risk of undermining the reliability and quality of the audit work and also poses a threat to the Single Audit approach; notes that the ECA has identified recurring issues in the scope, quality, documentation, and reporting of certain national audit authorities' work⁹; points out that the ECA considers the way audit authorities carry out and document their work to be the main reason for the shortcomings; considers that the weaknesses found in the work of several audit authorities covered by the ECA's sample currently limit the overall reliability of the audit findings and any opinions that are based on them; notes that the ECA's and the Commission's own audits demonstrate that the work of some of the national audit authorities can sometimes be less reliable, including audits on high risk spending programmes with an error rate higher than the material level of 2 %; notes that this is due to one or more of the following: failure to fully comply with international audit standards, differences in the scope and provision of adequate audit tracing in documentation, inadequate financing of national authorities, resourcing problems and lack of objective sampling; stresses the importance for Member States of having a common basic framework with clear and detailed responsibilities for ensuring the quality of audits, in order to avoid misinterpretation of EU rules; insists that

⁸ Annual report on the implementation of the EU budget for the 2021 financial year, p. 160.

⁹ Annual report on the implementation of the EU budget for the 2021 financial year, pp. 163-168.

effective, fully independent, transparent, and compliant audit authorities adhering to international standards should aim to reduce redundant audit efforts, thereby lessening bureaucratic burdens and optimising audit resources;

10. Stresses that in order to carry out verifications and checks of programmes financed with EU funds, it is essential to have competent human resources with adequate training, experience and institutional memory at different levels; regrets that, according to the feedback from a survey and interviews carried out for the aforementioned study on the Single Audit approach, the lack of sufficient resources, including capacity training dedicated to control functions, is a factor affecting the capacity of the managing authorities (in cohesion policy) and the paying agencies (in the CAP) to carry out effective and thorough checks and verifications of expenditure¹⁰; points out, similarly, that staff shortages in the national audit authorities, time constraints for carrying out audits and outsourcing to private sector entities could result in the loss of institutional experience and the fragmentation of the audit functions among different bodies and that, consequently, these challenges could negatively impact the efficiency of the assurance process and the capacity of the audit bodies to deliver conclusive results on time¹¹; recalls, in this context, the need to improve the methods and implementation of technical assistance that the Commission can provide to Member States' authorities;
11. Underlines that independent audit bodies and other bodies managing funds in the Member States are a key requirement for the reliability and quality of the audit results; recalls with concern that in some Member States, state bodies with supervisory functions have seen arbitrary appointments leading to questions with regard to their impartiality in detecting and reporting corruption; highlights that deficient independent oversight mechanisms and illegal interconnections between political and oligarchical structures in the economic and societal spheres are conducive to corruption¹²;
12. Reiterates its concern regarding the difference between the methods of the ECA and the Commission for calculating errors, which creates confusion and makes it difficult to tackle the root causes of errors; highlights that these divergences do not occur in all areas of expenditure; notes that the occurrence of divergences is present in cohesion spending, one of the largest parts of the EU budget, for the fourth year in a row¹³; underlines that cohesion is also a policy area with a considerable risk of irregular expenditure, and that a relevant and reliable estimated level of error in cohesion spending is therefore a key element for the Commission's disclosure and monitoring of whether expenditure in this policy area complies with the legal provisions; highlights that the Commission's methodology for estimating the risk rate at closure at DG level gives a much lower estimated error rate compared to the ECA's methodology for calculating errors in payments under multiannual financial framework headings 1 and 2; draws attention to the fact that the desk reviews may fail to detect and correct irregular

¹⁰ Study – 'Single Audit Approach – Root Causes of the Weaknesses in the Work of the Member States' Managing and Audit Authorities', European Parliament, Directorate-General for Internal Policies, Policy Department D, Budgetary Affairs, 30 April 2022, p. 57.

¹¹ Study – 'Single Audit Approach – Root Causes of the Weaknesses in the Work of the Member States' Managing and Audit Authorities', European Parliament, Directorate-General for Internal Policies, Policy Department D, Budgetary Affairs, 30 April 2022, p. 58.

¹² https://commission.europa.eu/system/files/2022-07/40_1_193993_coun_chap_hungary_en.pdf.

¹³ Annual report on the implementation of the EU budget for the 2021 financial year, p. 166.

expenditure; considers that when Member States' auditing authorities report high error rates or have issues with the rule of law, or have substantial problems with their management and administrative systems, the Commission should diverge from the Single Audit approach; underlines that the Single Audit approach should only be applied when there is a clear separation of powers between programme competent authorities and complete and unlimited oversight of the audit work, including full access to relevant data; emphasises that adequate audit coverage is needed for a statistically representative sample that reflects the high degree of confidence needed for audit work to lead to reliable conclusions; notes that the Commission carries out its own audits on the basis of a risk analysis and audits a larger number of operations across all operational programmes and Member States; calls on the ECA, as the EU's external auditor, and on the Commission, as the body responsible for the implementation of the EU budget and an auditee, to find a compatible methodology and to cooperate with a view to increasing harmonisation in order to provide more comparable figures, and to reinforce the risk-based approach and make sure that the reliability of controls can be ensured in the event that severe deficiencies appear in certain Member States or sectors;

Recommendations on possible ways to increase the reliability of audits and controls under shared management

13. Calls on the Commission to contribute to improving the common understanding of the Single Audit approach in order to achieve a more uniform interpretation and implementation of this model across the Member States;
14. Asks the Commission to continue simplifying the rules and requirements that apply to EU funds and programmes, while ensuring a balance with the necessary audits and controls and continuity between programming periods, as well as providing further clarification on their implementation to Member States' competent bodies; encourages Member States to use simplified cost options to address the complexity of EU rules and reduce the error rate while focusing on the achievement of policy objectives;
15. Reiterates that the detection of irregularities and errors must lead to the implementation of corrective measures, the production of guidance for managing authorities and improvements to EU legislation in order to prevent such errors in the future;
16. Calls on the Commission to continue to identify ways to assist Member States in transposing directives, issuing guidelines and implementing EU funds, taking into account the interaction between EU rules and national legislation; recalls, in this context, the importance of conducting rigorous impact assessments, evaluations and fitness checks to assess whether EU legislation and spending programmes are fit for purpose; emphasises the need for the Commission to address the regulatory overlaps, inconsistencies and shortcomings identified during the fitness checks promptly, taking experiences at national and/or regional level into account and to take appropriate measures to ensure the effectiveness, relevance and coherence of EU programmes and ensure continuity between programming periods;
17. Calls on the Commission and the Member States to reduce gold-plating, on the one hand, and to closely monitor the delayed, fragmented or incomplete implementation or transposition of EU legislation, on the other, as this disrupts harmonisation and leads to

distortions in the EU, with contradictory standards applied in the spending of European funds; stresses that simplification should be a guiding principle not only in cohesion policy and the CAP, but also in the rules governing other areas such as public procurement, State aid, taxation and sector-specific provisions;

18. Criticises the fact that more and more legislative proposals lack a thorough impact assessment with the involvement of all of the various stakeholders and with a clear financial and budgetary analysis; calls on the Commission to attach greater importance to the quality of legislative work and to take a realistic approach to its administrative, financial and budgetary consequences; urges the Commission to be quicker to set up and launch tendering procedures with a view to developing impact assessments for independent operators;
19. Points out the importance at national level of allocating adequate resources to the monitoring and auditing of EU expenditure as well as further enhancing the technical capacity of the audit authorities' staff in order to both avoid delays or risks of inefficiencies in the assurance process, and improve the quality and reliability of audit work;
20. Calls on the Commission to enhance cooperation with the Member States, in particular, on avoiding mistranslation issues that may hinder the uniform interpretation of EU law as well as imposing a further administrative burden on national authorities when interpreting and applying the relevant provisions, so that they are not compelled to resort to versions existing in other official languages¹⁴; stresses that the Commission should ensure the horizontal and equal application of audit standards in all Member States in order to avoid different levels of scrutiny and application; suggests that the Commission strengthen its own control system, in particular for Member States and sectors where deficiencies appear; considers necessary for a stronger control and audit system to be put in place in these situations without reducing the attention paid to Member States or sectors that perform well;
21. Calls on the Commission to encourage and facilitate exchanges of best practices among Member States and their audit and control authorities in term of implementing and auditing methodologies, with a view to improving their performance; calls on the Commission and the Member States, furthermore, to implement the ECA's recommendations related to shortcomings in audit and control practices and to report to the discharge authority;
22. Calls on the Commission and the Member States, when implementing EU programmes, always to take account of the needs and experience of the regional and local authorities and that are involved in the implementation of programmes, both as regards their administrative capacity and the suitability of the operational and audit procedures that they have to implement; calls on the Commission to develop support mechanisms for local authorities in need; underlines that further capacity building such as training, peer-to-peer reviews and exchange of knowledge and audit practices between the audit bodies of different Member States would further enhance the technical capacity of the national authorities' staff;

¹⁴ Judgment of the General Court of 12 March 2019, *Italy v Commission*, T-135/15, ECLI:EU:T:2019:155.

23. Is of the opinion that digitalisation and the adoption of more sophisticated IT tools at national and EU levels would improve the management, control and auditing of EU funds, and could contribute to preventing irregularities, increasing the quality of checks and audits, and substantially reducing bureaucracy, assuming interoperability of IT tools between Member States and the Commission; considers that digitalisation allows easier and quicker access to important data during verifications and, therefore, should lead to a reduction in the number of controls; highlights the importance of promoting and sharing good practices by Member States in the use of effective IT tools for data mining and the avoidance of conflicts of interest in the context of EU funds; highlights, nevertheless, that no IT system can ever completely replace the human factor; insists that well-trained staff continue to play a central role in the management and control system protecting EU funds; calls on the Member States to improve the digitalisation of administrative work with a view to harmonising their practices, and to ensure the proper training of staff involved in programmes using EU funds, as well as in control and auditing positions, allowing them to fully understand the capabilities of their IT tools, know what to expect in terms of results and understand their role in the decision-making process;
24. Recalls the importance of *ex ante* controls and checks in preventing financial errors and irregularities, particularly conflicts of interest, in addition to the *ex post* checks on expenditure that is declared to the Commission; notes that greater attention should be paid to systems audits; insists on the importance of using IT tools for data mining and the avoidance of conflicts of interest; notes in this regard the systems audits performed by the Commission in the context of the Recovery and Resilience Facility;
25. Underlines that for hybrid financial instruments, when using ‘financing not linked to costs’ and payments made conditional on the achievement of milestones, targets and other performance indicators, new audit methodologies and approaches are required, as well as flexibility for audit authorities and the Commission to check the legality of spending;
26. Insists that good collaboration and feedback between the managing and audit authorities and the Commission is another important factor in the effectiveness of the assurance and control framework; takes note of the efforts the Commission is making towards a better exchange with managing and audit authorities but points out that there is always room for improvement; calls on the Commission to proactively promote good communication and the exchange of good auditing practices between Member States’ auditors at EU, national and regional levels;
27. Underlines the importance of measures being taken to combat fraud and new forms of irregular practices; encourages the Member States to regularly evaluate their audit practices and internal control systems to ensure that they are reliable and effective in preventing, detecting and correcting irregularities;
28. Points out the importance of information and awareness campaigns to reduce unintentional errors; calls on the Member States to organise such campaigns in a timely manner and involve all relevant stakeholders;
29. Recalls that its draft position on the Commission’s proposal for a regulation on the financial rules applicable to the general budget of the Union went much further, calling

on the Commission to set up a compulsory single integrated interoperable reporting and monitoring system, allowing for the electronic recording and storage of data on the recipients of Union funding, also in an aggregated format, including their beneficial owners and allowing for the regular making of those data available for data-mining and risk-scoring, as well as ensuring that the indicators used by the system are reliable, objective and limited to what is necessary for risk assessment;

30. Recalls that the Commission plays a supervisory role, ensuring that the arrangements governing the management and control system are compliant by, among other steps, verifying the effective functioning of the system and making financial corrections, where necessary; notes the Commission's continued responsibility to intervene if serious deficiencies are found in a Member State's control system, as outlined in Regulation (EU) 2021/2116;
31. Invites the Commission to reduce administrative burden of the CAP for farmers, which is often the reason for unintentional mistakes which should be clearly differentiated from acts of deliberate fraud, and thereby to ensure the more efficient deployment of CAP funds; recommends that the audit reports continue to give a clear breakdown of error rates for each pillar of the CAP, identifying areas in which simplification is most needed; insists that a marginally higher error rate for agri-environmental measures should not discourage the Member States from making them available to farmers in rural communities;
32. Welcomes the simplifications introduced in the CAP for 2023-2027 and the fact that they facilitate management by national authorities alongside the latter's responsibilities for audits and controls, which must be carried out effectively to ensure that errors and irregularities do not increase under this simplification; stresses that the sanctions imposed by the Member States must be effective, dissuasive, proportionate and geared towards recovering undue payments; calls on the Member States to properly implement the 'right to retroactively correct errors' in their national strategic plans, in accordance with Regulation (EU) 2021/2116;
33. Notes the role of the Commission's Internal Audit Service and the ECA in carrying out control functions in the EU's interest and evaluating the risk to CAP funds; considers that the new delivery model under Regulation (EU) 2021/2116 must not hamper the ECA in its task of assessing the effectiveness, efficiency and economy of the expenditure of EU funds under the new arrangements for the CAP; seeks reassurance from the ECA that the documentation required under point (c) of Article 9(3) of the same Regulation will be sufficient for cases of non-compliance to be verified;
34. Calls for increased action to avoid and address conflicts of interest and prevent land grabbing and the misuse of public funds, in order to protect EU funds and uphold the reputation of the CAP; welcomes the action taken by the Commission, in particular the dissemination of the notice of 9 April 2021 entitled 'Guidance on the avoidance and management of conflicts of interest under the Financial Regulation'¹⁵, to ensure the correct implementation of shared management funds by the Member States' authorities;

¹⁵ OJ C 121, 9.4.2021, p. 1.

35. Stresses the importance of the correct implementation by the ECA of the measures for the protection of the financial interests of the Union outlined in Chapter I of Title IV (on control systems and penalties) of Regulation (EU) 2021/2116;
36. Welcomes the use of satellite images and new imaging technologies to monitor the CAP, providing regular observations of the agricultural activity of an entire population of beneficiaries; acknowledges that since 2018, Member State paying agencies may perform ‘checks by monitoring’ and use automated processes based on the EU Copernicus programme’s Sentinel satellite data to check compliance with certain common agricultural policy rules; encourages the Commission to continue promoting them, as they have the potential to reduce administrative burdens, improve cost-effectiveness, support the identification of red flags for potential fraud and guarantee a harmonised approach;
37. Welcomes the Commission’s ‘EU budget focused on results’ strategy, aimed at improving the efficiency of spending and achieving more with the available resources;
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38. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

The Report is self-explanatory and the Rapporteur wishes nothing to add.

26.10.2022

OPINION OF THE COMMITTEE ON AGRICULTURE AND RURAL DEVELOPMENT

for the Committee on Budgetary Control

on the possibilities to increase the reliability of audits and controls by national authorities in shared management
(2022/2020(INI))

Rapporteur for opinion: Luke Ming Flanagan

SUGGESTIONS

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

- A. having regard to Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012¹⁶ (the Financial Regulation), and to the Commission communication of 16 May 2022 on a proposal for a revision thereof (COM(2022)0223),
- B. having regard to Regulation (EU) 2021/2116 of the European Parliament and of the Council of 2 December 2021 on the financing, management and monitoring of the common agricultural policy and repealing Regulation (EU) No 1306/2013¹⁷,
- C. having regard to the Annual Activity Report 2021 published on 25 April 2022 by the Commission's Directorate-General for Agriculture and Rural Development,
 - 1. Recalls that, while the Commission bears overall responsibility for the financial management of the common agricultural policy (CAP), 99.1 % of its budget is implemented under shared management;
 - 2. Recalls that, from 1 January 2023, the budget of the CAP implemented under shared management will be subject to the provisions of Regulation (EU) 2021/2116 on the financing, management and monitoring of the common agricultural policy;

¹⁶ OJ L 193, 30.7.2018, p. 1.

¹⁷ OJ L 435, 6.12.2021, p. 187.

3. Recalls that the effectiveness and good reputation of the CAP depend on the correct and efficient use of funds, for which audits and controls are basic tools, and that the Commission's auditing role remains essential to assess the use of funds and contribute to the budget discharge process with the European Court of Auditors;
4. Recalls that under shared management, the Member States are responsible for setting up a management and control system for payments and must ensure that it is capable of detecting and correcting irregularities; stresses that it is advantageous to the Member States to opt for preventive rather than punitive measures for the purposes of management and control, thereby helping to ensure that the system is administered as efficiently as possible for the benefit of the right recipients, while avoiding fraud and the misdirection of public funds and ensuring the best use thereof;
5. Stresses that a distinction must be drawn between deliberate fraud and unintentional errors, as outlined in the definition of the European Anti-Fraud Office's mandate and provided for in Regulation (EU) 2021/2116; stresses the importance of continuous legal certainty regarding payments, whereby, for penalties for non-compliance, a clear distinction is drawn between cases of intentional and unintentional non-compliance for beneficiaries who have acted in good faith; suggests that the Member States use relevant instruments to register serious, intentional and repeated irregularities; maintains that it is necessary to reduce the administrative burden for farmers in order to ensure the more efficient deployment of CAP funds, among other measures, to enable the CAP's objectives to be achieved;
6. Underlines the importance of measures being taken to combat fraud and new forms of irregular practices; encourages the Member States to regularly evaluate their audit practices and internal control systems to ensure that they are reliable and effective in preventing, detecting and correcting irregularities;
7. Insists that, for the sake of the CAP's reputation, control systems must be of a high standard, robust and fully compliant with the new regulations in order to ensure the proper implementation, in particular, of the new delivery model from 1 January 2023; encourages the exchange of best practice across all Member States to that end;
8. Stresses that the new CAP should simplify matters for farmers; points out that, in view of the concerns about administrative burdens under joint management, the CAP strategic plans should specifically seek to simplify matters for the final beneficiaries;
9. Notes the consistently low levels of error in recent years regarding the CAP, which reflect the fact that the management and control systems in the Member States are operating within the correct parameters and providing reasonable assurances;
10. Calls on the Commission, when assessing the CAP strategic plans, to focus on the extent to which they simplify matters and reduce administrative burdens for the final beneficiaries;
11. Notes that the Member States execute payments of EU funds, co-financed with national funds in the case of second-pillar rural development payments, to CAP beneficiaries through accredited paying agencies, which perform on-the-spot checks to ensure the eligibility of applications and the correct execution of payments; considers that these

checks must be coordinated, rigorous and effective, and be performed without increasing the level of bureaucracy faced by farmers;

12. Notes the major role of certification bodies appointed as independent audit bodies by the Member States; observes that certification bodies, which adopt an essentially risk-based approach, already provide an opinion on the proper functioning of paying agencies' management and control systems;
13. Recalls that, from 1 January 2023, certification bodies must establish whether Member States' governance systems are functioning properly and expenditure is eligible, in accordance with Regulation (EU) 2021/2116¹⁸;
14. Recalls that the main objective of the assurance model is to ensure that the remaining level of risk to the budget is below the materiality threshold of 2 %, as indicated in the 2018 annual report¹⁹ of the European Court of Auditors; recognises and highlights the low error rates for the European Agricultural Guarantee Fund and the continuous decrease in error rates for the European Agricultural Fund for Rural Development over the past financial years; notes, furthermore, that the overall adjusted error rate for CAP funds for 2021 was below the materiality threshold of 2 % for the third year in a row, at 1.84 %; stresses the need for a sustained effort to improve further by continuing to progressively reduce the CAP error rate;
15. Stresses that error rates can also be an indicator of the complexity of policies; recommends, therefore, that the audit reports continue to give a clear breakdown of error rates for each pillar of the CAP, identifying areas in which simplification is most needed; insists that a marginally higher error rate for agri-environmental measures should not discourage the Member States from making them available to farmers in rural communities; recalls that society²⁰ is calling for more nature-friendly farming;
16. Welcomes the simplifications introduced in the CAP for 2023-2027 and the fact that they facilitate management by national authorities alongside the latter's responsibilities for audits and controls, which must be carried out effectively to ensure that errors and irregularities do not increase under this simplification; stresses that the sanctions imposed by the Member States must be effective, dissuasive, proportionate and geared towards recovering undue payments; calls on the Member States to properly implement the 'right to retroactively correct errors' in their national strategic plans, in accordance with Regulation (EU) 2021/2116;
17. Points out the importance of information and awareness campaigns to reduce unintentional errors; calls on the Member States to organise such campaigns in a timely manner and involve all relevant stakeholders;
18. Notes that the simplification entailed by the new delivery model has changed the eligibility control rate for CAP basic payments (formerly 5 % of beneficiaries) to rates

¹⁸ See, in particular, Article 37.

¹⁹ OJ C 340, 8.10.2019, p. 1.

²⁰ See the conclusions of the Conference on the Future of Europe, which address proposals and measures to bring the concept of the green economy to the fore by promoting environmentally effective and climate-friendly agriculture and transitioning towards climate and environmental sustainability.

determined by the Member States based on risk assessment and the potential for error; notes in this regard the role of the new area monitoring system, which will make use of Copernicus satellite cluster data; understands that the extension of the coverage of farmed land is particularly useful to monitor indicators²¹ demonstrating active farming and other land use requirements, and justifies the reduction in the basic control rate; calls on the Member States to do their utmost to guarantee sound financial management, further reduce errors and avoid any delays in the implementation of the CAP;

19. Supports the use of simplified cost options to allow authorities to calculate eligible grant expenditure on the basis of flat-rate financing, thereby reducing complexity and ensuring that farmers are not left out of pocket concerning payments compensating ‘additional costs incurred and income foregone’, for example in regard to Natura 2000, groundwater protection zones under the Water Framework Directive²², or other second-pillar payments linked to statutory obligations; notes that ensuring high, or at least remunerative, payments for public goods provided by the protection of such areas will, if applied correctly by the Member States and the Commission, go a long way to easing tensions and diminishing the resentment among some farmers in relation to protection obligations;
20. Notes the role of the Commission’s Internal Audit Service and the European Court of Auditors in carrying out control functions in the EU’s interest and evaluating the risk to CAP funds; considers that the new delivery model under Regulation (EU) 2021/2116 must not hamper the European Court of Auditors in its task of assessing the effectiveness, efficiency and economy of the expenditure of EU funds under the new arrangements for the CAP; seeks reassurance from the European Court of Auditors that the documentation required under point (c) of Article 9(3) of the same Regulation will be sufficient for cases of non-compliance to be verified;
21. Believes that digitalisation and the adoption of more sophisticated and accessible IT tools could improve the efficiency of the assurance process, as well as the use of the Integrated Administration and Control System to support the data monitoring needed to measure the performance of the CAP through the indicators set out in Annex I to Regulation (EU) 2021/2115; recalls that the performance approach was put forward in response to the clear and sustained desire of EU citizens to have a sustainable, fair and effective CAP and in recognition of the fact that a one-size-fits-all approach is not feasible; supports the extension of the use of the risk-scoring tool Arachne, designed to prevent and combat fraud, including to help track beneficiaries, holding companies and oligarchs; welcomes the references to this in the proposal for a revision of the Financial Regulation²³, which advocates the use of a single integrated IT system for data mining and risk scoring;

²¹ As referred to in Article 71 of and Annexes I and III to Regulation (EU) 2021/2115 of the European Parliament and of the Council of 2 December 2021 establishing rules on support for strategic plans to be drawn up by Member States under the common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulations (EU) No 1305/2013 and (EU) No 1307/2013, OJ L 435, 6.12.2021, p. 1.

²² Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, OJ L 327, 22.12.2000, p. 1.

²³ Point (d) of Article 36(2), as well as Article 36(6), 36(7) and 36(8).

22. Recalls that Arachne must be made fully fit for purpose to cover all CAP interventions and notes that the Commission will present a report in 2025 assessing the tool's use and its interoperability with the different national systems, with a view to potentially broadening its use by the Member States; calls for more cooperation among and training by the audit services concerned, including the services at the Commission, the European Court of Auditors and the European Public Prosecutor's Office (EPPO); believes that a wider use of Arachne, in line with the data protection framework, could strengthen the Commission and Member States' analytical capacity and increase the reliability of audits and controls; highlights the need to allow the EPPO to access Arachne when carrying out investigations; encourages all remaining Member States to join the EPPO to ensure that more cases of fraud are investigated and prosecuted;
23. Acknowledges that the Commission has proposed making the use of a single data-mining and risk-scoring tool mandatory for funds under shared management and the Recovery and Resilience Facility; notes that this proposal has not been adopted due to resistance in the Council;
24. Calls for increased action to avoid and address conflicts of interest and prevent land grabbing and the misuse of public funds, in order to protect EU funds and uphold the reputation of the CAP; welcomes the action taken by the Commission, in particular the dissemination of the notice of 9 April 2021 entitled 'Guidance on the avoidance and management of conflicts of interest under the Financial Regulation'²⁴, to ensure the correct implementation of shared management funds by the Member States' authorities;
25. Stresses the importance of the correct implementation by the European Court of Auditors of the measures for the protection of the financial interests of the Union outlined in Chapter I of Title IV (on control systems and penalties) of Regulation (EU) 2021/2116;
26. Underlines that digitalisation offers various opportunities when it comes to the management and control of the EU's policies and programmes, and in particular with regard to conducting audits (for example, the statistics-gathering obligation concerning the farm accountancy data network, the land use, land use change and forestry (LULUCF) sector, and agricultural inputs and outputs); calls on the Member States, the Commission and all the relevant authorities to take advantage of new IT tools and techniques to increase the reliability of audits and controls; underlines the strong and repeated requests to the Commission and the Member States to ensure the protection of the EU budget by making comprehensive and methodical use of digital and automated reporting, monitoring and auditing systems; reiterates that the creation of an integrated, interoperable and harmonised system to collect, monitor and analyse information about final beneficiaries in all Member States could further enhance the protection of EU finances and enable even closer scrutiny;
27. Notes the usefulness of satellite images and other digital technology approaches used in the area monitoring system for agroforestry and forestry parcels to complement LULUCF accounting and justify possible future carbon-farming payments based on remotely observable agronomic techniques and sustainable and effective land management operations;

²⁴ OJ C 121, 9.4.2021, p. 1.

28. Recalls the growing use of drones, in particular after the outbreak of the COVID-19 pandemic, to carry out remote sensing for audit and control purposes; calls for the best practice from that experience to be shared and for geotagged photos to be used in order to build on those foundations and make the most effective use of the technology in future; calls, likewise, for the good practices developed in remote auditing, as detailed in the Annual Activity Report 2021²⁵ of the Commission's Directorate-General for Agriculture and Rural Development, to be replicated;
29. Recalls that the Commission plays a supervisory role, ensuring that the arrangements governing the management and control system are compliant by, among other steps, verifying the effective functioning of the system and making financial corrections, where necessary; notes the Commission's continued responsibility to intervene if serious deficiencies are found in a Member State's control system, as outlined in Regulation (EU) 2021/2116;
30. Reiterates the need to strike the right balance between further simplifying the rules and procedures and applying better controls for the most common areas of irregular spending, developing training sessions and practical information for applicants, in particular new applicants, and improving the assistance and guidelines for SMEs; calls on the Commission to continue its efforts to simplify the EU funding system, especially with regard to reducing the implementation and management burden for EU-funded projects;
31. Reminds the Commission of the need to streamline processes to avoid an unnecessary administrative burden, while delivering enough data to enable proper scrutiny of the effectiveness of EU aid and the success of the related policies in terms of their results and impact;
32. Welcomes the Commission's 'EU budget focused on results' strategy, aimed at improving the efficiency of spending and achieving more with the available resources.

²⁵ See section 2.1.1.2.1.

INFORMATION ON ADOPTION IN COMMITTEE ASKED FOR OPINION

Date adopted	25.10.2022
Result of final vote	<div style="display: flex; justify-content: flex-end; align-items: center;"> <div style="margin-right: 10px;">+:</div> <div>43</div> </div> <div style="display: flex; justify-content: flex-end; align-items: center;"> <div style="margin-right: 10px;">-:</div> <div>0</div> </div> <div style="display: flex; justify-content: flex-end; align-items: center;"> <div style="margin-right: 10px;">0:</div> <div>3</div> </div>
Members present for the final vote	<p>Mazaly Aguilar, Clara Aguilera, Atidzhe Alieva-Veli, Álvaro Amaro, Attila Ara-Kovács, Carmen Avram, Adrian-Dragoș Benea, Benoît Biteau, Daniel Buda, Isabel Carvalhais, Asger Christensen, Ivan David, Jérémy Decerle, Salvatore De Meo, Herbert Dorfmann, Luke Ming Flanagan, Dino Giarrusso, Martin Häusling, Martin Hlaváček, Krzysztof Jurgiel, Jarosław Kalinowski, Elsi Katainen, Camilla Laureti, Gilles Lebreton, Norbert Lins, Elena Lizzi, Chris MacManus, Colm Markey, Marlene Mortler, Ulrike Müller, Maria Noichl, Juozas Olekas, Eugenia Rodríguez Palop, Bronis Ropė, Bert-Jan Ruissen, Anne Sander, Simone Schmiedtbauer, Annie Schreijer-Pierik, Veronika Vrecionová, Sarah Wiener, Juan Ignacio Zoido Álvarez</p>
Substitutes present for the final vote	<p>Franc Bogovič, Rosanna Conte, Marie Dauchy, Anna Deparnay-Grunenberg, Alin Mituța</p>

FINAL VOTE BY ROLL CALL IN COMMITTEE ASKED FOR OPINION

43	+
ECR	Mazaly Aguilar, Bert-Jan Ruissen, Veronika Vrecionová
ID	Rosanna Conte, Marie Dauchy, Gilles Lebreton, Elena Lizzi
NI	Dino Giarrusso
PPE	Álvaro Amaro, Franc Bogovič, Daniel Buda, Salvatore De Meo, Herbert Dorfmann, Jarosław Kalinowski, Norbert Lins, Colm Markey, Marlene Mortler, Anne Sander, Simone Schmiedtbauer, Annie Schreijer-Pierik, Juan Ignacio Zoido Álvarez
RENEW	Atidzhe Alieva-Veli, Asger Christensen, Jérémy Decerle, Elsi Katainen, Alin Mituța, Ulrike Müller
S&D	Clara Aguilera, Attila Ara-Kovács, Carmen Avram, Adrian-Dragoș Benea, Isabel Carvalhais, Camilla Laureti, Maria Noichl, Juozas Olekas
THE LEFT	Luke Ming Flanagan, Chris MacManus, Eugenia Rodríguez Palop
VERTS/ALE	Benoît Biteau, Anna Deparnay-Grunenberg, Martin Häusling, Bronis Ropé, Sarah Wiener

0	-

3	0
ECR	Krzysztof Jurgiel
ID	Ivan David
RENEW	Martin Hlaváček

Key to symbols:

+ : in favour

- : against

0 : abstention

INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE

Date adopted	5.10.2023
Result of final vote	+ : 26 - : 0 0 : 0
Members present for the final vote	Matteo Adinolfi, Gilles Boyer, Olivier Chastel, Caterina Chinnici, Carlos Coelho, Beatrice Covassi, Ryszard Czarnecki, Luke Ming Flanagan, Daniel Freund, Isabel García Muñoz, Monika Hohlmeier, Jean-François Jalkh, Joachim Kuhs, Alin Mituța, Victor Negrescu, Jan Olbrycht, Markus Pieper, Sándor Rónai, Petri Sarvamaa, Eleni Stavrou
Substitutes present for the final vote	Maria Grapini, Hannes Heide, Marian-Jean Marinescu, Mikuláš Peksa, Viola von Cramon-Taubadel, Michal Wiezik

FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE

26	+
ECR	Ryszard Czarnecki
ID	Matteo Adinolfi, Jean-François Jalkh, Joachim Kuhs
PPE	Caterina Chinnici, Carlos Coelho, Monika Hohlmeier, Marian-Jean Marinescu, Jan Olbrycht, Markus Pieper, Petri Sarvamaa, Eleni Stavrou
Renew	Gilles Boyer, Olivier Chastel, Alin Mituța, Michal Wiezik
S&D	Beatrice Covassi, Isabel García Muñoz, Maria Grapini, Hannes Heide, Victor Negrescu, Sándor Rónai
The Left	Luke Ming Flanagan
Verts/ALE	Daniel Freund, Mikuláš Peksa, Viola von Cramon-Taubadel

0	-

0	0

Key to symbols:

+ : in favour

- : against

0 : abstention