

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

on the follow-up to 2003 Discharge Decisions (Summary) - Council Recommendations

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TABLE OF CONTENTS

PREAMBLE 3

I. Council recommendation on the General Budget 4

a) Introduction (Commission working document, points 1-4) 4

b) Statement of assurance (DAS) and supporting information (Commission working document, points 6-11) 4

c) Budgetary management (Commission working document, points 5 and 12-13) 4

d) Own Resources (Commission working document, points 14-15) 5

e) The common agricultural policy (Commission working document, points 16-21) 5

f) Structural measures (Commission working document, points 22-26) 5

g) Internal Policies, including research (Commission working document, points 27-33) 6

h) External actions (Commission working document, points 34-36) 6

i) Pre-accession aid (Commission working document, points 37-40) 6

j) Administrative expenditure (Commission working document, point 41) 6

k) Financial instruments and banking activities (Commission working document, point 42) 7

II. Requests to the Commission concerning the agencies (Commission working document, point 43) 7

III. Conclusions on the follow-up of the 2002 discharge (Commission working document, points 44-54) 7

IV. Court of Auditors' special reports (Commission working document, points 55-63) 8

V. European Development Funds (EDF) (Commission working document, points 64-66) 9

PREAMBLE

According to Article 276 of the EC Treaty and Article 180b of the Euratom Treaty, the "Commission shall take all appropriate steps to act on the observations in the decisions giving discharge and on other observations by the European Parliament relating to the execution of expenditure, as well as on comments accompanying the recommendations on discharge adopted by the Council. At the request of the European Parliament or the Council, the Commission shall report on the measures taken in the light of these observations and comments and in particular on the instructions given to the departments which are responsible for the implementation of the budget. These reports shall also be forwarded to the Court of Auditors"[1]

The Commission, acting on requests from the Council and Parliament, has accordingly prepared Follow-up Reports, which relate to the Council recommendation of 8 March 2005 and the Resolutions voted by the European Parliament on 12 April 2005. The present Follow-Up Report deals with the recommendations made by the Council in relation to the 2003 Discharges. A separate Follow-up report deals with the recommendations made by Parliament in relation to the Discharges given for the 2003 financial year[2].

The Follow-up Reports are presented to the European Parliament, the Council, and the Court of Auditors. They summarise each sector or themes raised by the Council and the Parliament, the actions that the Commission intends to take or has already taken and also the recommendations that the Commission will not or is not able to follow up.

The summary Follow-up Reports are complemented by Commission working documents giving detailed answers to each specific recommendation of both Council and Parliament.

1 See also Article 147 of the Financial Regulation

2 2003 General Budget Discharge, 2003 EDF Discharge, 2003 Agencies Discharge

I. COUNCIL RECOMMENDATION ON THE GENERAL BUDGET

A) Introduction (Commission working document, points 1-4)

The Commission shares the Council's disappointment that in 2003 the Court of Auditors was again unable to give a Statement of Assurance (DAS) in relation to most of the expenditure. For this reason, the Commission has announced its intention to set out in 2005 a roadmap to an integrated internal control framework. The aim is to establish, in close collaboration with Parliament and the Council, how the current internal framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of underlying transactions.

The integrated internal control framework will build on the positive results achieved by the reform of the internal control framework of the Commission. The vast majority of the actions in the White Paper have been completed, in particular as regards the internal control standards. The Commission will continue its work to implement effective internal control systems and to improve the Annual Activity Reports and the declarations and reservations made by the Directors-General. The Commission will further work with Member States to improve controls over funds under shared management.

B) STATEMENT OF ASSURANCE (DAS) AND SUPPORTING INFORMATION (COMMISSION WORKING DOCUMENT, POINTS 6-11)

In June 2005 the Commission adopted a communication setting-out the abovementioned roadmap to an integrated internal control framework. The Commission services are also currently identifying the gaps which, in their view, lie between the control framework in place for each area of all budgetary expenditure and the general principles defined by the Court of Auditors in its opinion No 2/2004, with particular emphasis on the controls which limit the risks concerning the legality and regularity of the underlying transactions. It will propose the action required to address each gap, and the timetable for implementing this action, and discuss this with the Court, Council and Parliament.

The Commission intends to come to an agreement by November 2005 with Parliament and the Council on how the current internal framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of underlying transactions. To that end, the Commissionit will undertake discussion with the appropriate Council Committees, and by October 2005 present the initial report exploring the road map to a protocol with Member States.

As regards the new accounting system of the Commission, which became operational in January 2005 and is currently being used by all Directorates-General, work is ongoing to meet the remaining objectives and to date there are no significant delays or problems noted in meeting these objectives.

c) Budgetary management (Commission working document, points 5 and 12-13)

The Commission has taken due note of Council's request for more accurate and updated budget estimates and more information on outstanding commitments and budgetary implementation. Budget estimates have improved overall and in particular for structural operations. The Commission also provides an annual report on the evolution of outstanding commitments (RAL) and the successful efforts to eliminate "abnormal RAL". Moreover, the 2004 report on Budgetary and Financial Management analyses the cumulative state of implementation of the Communities' main multi-annual programmes.

D) Own Resources (Commission working document, points 14-15)

The Commission agrees with the Council that further progress should be made concerning the management of agricultural tariff quotas. It continues to work on proposals to simplify the procedural framework, including the development of a central, integrated IT system (AMIS Quota). As regards the follow-up to the Green Paper on preferential origin rules, the Commission adopted on 16 March 2005 a Communication on "the rules of origin in preferential arrangements – orientations for the future" (COM(2005)100 final) which provides the general orientations which the Commission intends to follow and promote in the context of all preferential arrangements in which the Community is involved.

E) The common agricultural policy (Commission working document, points 16-21)

The Commission will work more actively with Member States in order to improve the control systems in areas that are not checked through IACS and where serious problems such as high risks and recurrent errors still occur. For example, the Commission will follow up instances where information supplied by Member States appears to be erroneous. Audit activity on ex-post controls has been reinforced in 2005.

The Commission effectively addresses the issues of revision of certain control procedures, of identifying subsidies that are particularly subject to fraud and error, of improving the supervisory checks and of using these checks as a tool for comparison by performing detailed analyses when establishing the annual work plan. It believes that the current system of statistical reporting is sufficient. Furthermore, the results of the IACS checks made by Member States have been included in the 2004 Annual Activity Report of the Director General for Agriculture.

As on the need to ensure that both limited audit evidence and supervision receive sufficient attention by certifying bodies, during 2004, the Commission provided further guidance and arranged bilateral meetings with Certifying bodies and Paying agencies of several Member States in which the issues of supervision and audit evidence were discussed. Consequently, the Certifying Bodies paid much more attention to these issues in the 2004 certification exercise. As a result, for the financial year 2004, the accounts of only 5 paying agencies were disjoined, compared to 29 accounts in the 2003 financial year.

The Commission drew up an action plan to lessen the risk of fraud in this area and implemented it. The management of the risks involved has significantly improved. The Commission committed itself to provide Member States' authorities with a new catalogue of customs documents and stamps of the main 50 third countries. A call for tender was launched in 2004 and a one year contract with the successful bidder was signed on 16th December 2004.

F) Structural measures (Commission working document, points 22-26)

The Commission is pursuing its efforts to remedy the weaknesses in the supervisory and control system for structural expenditure. It is continuing its audits of the systems in 2000-06 programmes. It makes recommendations to the Member State to remedy any weaknesses found, follows up the action taken, suspends payments if the problems represent a serious risk to Community funds, and applies financial corrections. The management and control framework for the 2007-13 period proposed by the Commission builds on the experience of the past by further reinforcing and clarifying the control responsibilities of the Member States whilst respecting the requirements of proportionality. Concerning annual activity reports, tables summarising the main findings including

reservations have been included in the Directors'-General reports for 2004 and will appear in these reports in future.

G) Internal Policies, including research (Commission working document, points 27-33)

As regards supervisory systems and Controls, the Commission has taken the recommended action to reinforce financial information regarding payment delays and to improve monitoring of budgetary implementation for example by regularly producing and monitoring financial scoreboards.

As regards management and control systems for the 6th Research and Technological (RDT) Framework Programme (FP6), IT tools have been deployed and are being upgraded to provide the full range of support for proposal evaluations through to contract payments and project monitoring.

As regards the European Refugee Fund, action has been taken to remedy internal control weaknesses. Moreover, the Commission will continue to work with Member States in order to further harmonise the control environment at national level.

As regards the follow-up to findings of the ex-post financial audits and the recovery of undue payments, the Commission has put in place a reporting system to assist the financial services in monitoring their recoveries. Moreover, "A common audit policy of the Research DGs for FP6" was defined and agreed, and audit databases for the audit follow-up will be put in place.

H) External actions (Commission working document, points 34-36)

The Commission has taken due note of the Council's invitation to continue the reform of external management. Thus the recent reorganisation of EuropeAid services aims at further strengthening its role which has progressively evolved towards supervision, coordination and support to devolved management in the Commission delegations. Moreover, the Commission's monitoring and control systems aim at ensuring the compliance by contract partners, such as NGOs, with the contractual requirements. The introduction of new tools (such as CRIS Audit) will contribute to further improve the flow of information on audit results at central level.

I) Pre-accession aid (Commission working document, points 37-40)

The Commission continues to pursue the aim to fully implement the Extended Decentralised Implementation System (EDIS), both in the new Member States and the Candidate Countries. All new Member States had received accreditation decisions for PHARE funds by early 2005 and could rely on the (albeit phasing out) assistance of the PHARE Transition Teams in the local Commission Representations. Within HQ, at DG Enlargement, the Financial Assistance Follow-up Unit will provide further punctual monitoring-driven assistance.

As for the Candidate Countries, the assistance towards the implementation of EDIS is pursued by means of several initiatives and measures, including high level working groups, training seminars and systems reviews.

J) Administrative expenditure (Commission working document, point 41)

As regards administrative expenditure, where, as noted by Council, the Court has been able to give a positive DAS, the Commission intends to continue the effective implementation of the reform, including the internal control standards, the development of a common risk evaluation methodology, the ex-post controls and the internal audit.

K) Financial instruments and banking activities (Commission working document, point 42)

As regards the financial instruments in favour of small and medium-sized enterprises, the Commission confirms that it is generally satisfied with the quality of the reports received from the European Investment Fund (EIF). Consistent rules are already applied in respect of guarantee calls as well as state aid.

II. REQUESTS TO THE COMMISSION CONCERNING THE AGENCIES (Commission working document, point 43)

As regards the European Agency for Reconstruction (EAR), the Commission, as recommended by Council, continues to undertake all appropriate actions possible within its limited remit as one of the 26 members (the other 25 being the Member States) of the Governing Board of the EAR. The Commission has already provided advice, guidance and assistance to the EAR so that it may follow-up closely on all the recommendations of the Court of Auditors. The EAR is a unique entity and legally distinct from the Commission, established on the initiative of the Budgetary Authorities and governed by Article 185 of the Financial Regulation as is indicated in the Council Regulation on the EAR under Article 9. Under this law it is the legally distinct EAR which is responsible for management and control of the funds allocated to it, supervised by the Governing Board and subject to external audit by the Court of Auditors. The Commission is further considering the legal framework under which the EAR operates.

It must be clarified that the Commission does not have "joint management" with UNMIK. The latter does have contractual relations with the EAR with respect to implementation of some CARDS projects for the National Programme for Kosovo. The Commission will reiterate the views of Council to the other supervising members on the Governing Board.

III. CONCLUSIONS ON THE FOLLOW-UP OF THE 2002 DISCHARGE (Commission working document, points 44-54)

The Commission has taken or is taking the recommended actions to follow-up the conclusions on the 2002 discharge, for instance as regards improvements in supervisory and control systems concerning the areas of agriculture, TEN-T, external actions, pre-accession aid and banking operations.

Consistency of interpretation and guidance is being given increased attention in the internal risk assessments of the directorates general responsible for the Structural Funds. The Commission has taken steps to improve Member States' forecasts of expenditure, but has also gone over to relying for assessment of payment needs more on its own estimates based on the pattern of implementation and foreseeable trends rather than on the Member States' forecasts.

IV. COURT OF AUDITORS' SPECIAL REPORTS (Commission working document, points 55-63)

As regards special report 5/2003 concerning Phare and ISPA funding of environmental projects in the Candidate Countries the Commission will take the recommended action to maximise the future impact of projects. For example, scarce grant financing will be targeted more effectively and absorption capacity will be increased by strengthening project preparation and tendering capabilities.

As regards special report 14/2003 on the measurement of farm income, a feasibility study for the development and cost of statistics that measure the standard of living of the farming population across all the Member States of the Union is being launched by the Commission (Eurostat is finalising a call for tender to be published soon). The financial situation and income levels of farming undertakings and in the agricultural sector generally continue to be the subject of regular monitoring on the basis of FADN and EAA data, the harmonisation and consistency of which is being strengthened through increased collaboration among the various services concerned

As regards special report 15/2003 concerning microproject programmes (MPP) financed by the EDF, the Council has recommended that the Commission take several actions, such as to improve the organisation of central services, provide Delegations with precise guidelines, and to improve monitoring and methods of measuring results. The Commission has either taken or is taking the recommended actions.

As regards special report 1/2004 on the management of indirect RDT actions under the 5th Framework Programme for Research and Technological Development (1998 to 2002), the recommended action has been taken and is continuing. The simplification of FP6 implementation in compliance with the legal and financial framework has been a main objective. An Action Plan on Rationalisation and Acceleration has addressed many of the issues identified as problematic or needing improvement under FP6; the Commission has informed the Council and the Programme Committees of progress achieved. For the future, the efforts on simplification will also address any potential changes that may be necessary to the legal and financial framework and further improvements in delivery of the framework programme. To that end, a working paper on simplification was part of the Commission's proposal for FP7 adopted on 6 April 2005. Work has begun on the implementation of the proposals made in that paper.

As regards special report 6/2004 concerning the organisation of the system for the identification and registration of bovine animals in the European Union (SIRB), the Commission has already, under the existing legal situation, provided advice and assistance to the Member States setting up and managing databases for bovine animals. A working document for benchmarking of the national databases has been developed to assist the Member States in further improving their databases.

V. EUROPEAN DEVELOPMENT FUNDS (EDF) (Commission working document, points 64-66)

The Commission has further improved the readability and precision of the EDF financial management report as recommended by the Council. The Council also recommends that an overview of EDF management costs charged to the general budget be included in the EDF financial management report. However, as activities related to the EDF are integrated into the Commission's other activities concerning development aid and political relations with developing countries, the total administrative costs charged to the general budget cannot be divided between EDF activities and other activities in a meaningful way. As regards budgetary support, the agreements now systematically include an important element of institutional support. Concerning the Stabex funds, the Commission has issued instructions, with deadlines, to the Delegations, in order to ensure closer financial monitoring and the rapid approval of all outstanding Frameworks of Mutual Obligations.

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