

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT

on the follow-up to 2003 Discharge Decisions (Summary) - European Parliament Resolutions

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PREAMBLE

Due to the present translation constraints, the Commission's report on the follow-up to European Parliament (EP) Discharges given for the 2003 financial year[1] is being published in all EU official languages in this summarised form. The Commission's full answers to each specific recommendation by the Parliament are also available in a Commission working document[2] which is published in English, French and German. Both these follow-up reports relate to the resolutions adopted by the European Parliament on 12 April 2005.

Each chapter[3] of this summary report includes cross-references to the relevant recommendation numbers in the full Commission working document mentioned above. These references will help readers to find in the working document all recommendations (and action planned or already taken by the Commission) relating to a given chapter or presenting a particular interest to them. Therefore, although this summary report deals with every theme raised by the EP in its 2003 discharge resolutions, owing to the length limits which it had to comply with, it is advisable to look in the full working document for more information on any particular theme.

Both reports have been drafted pursuant to Article 276(3) of the EC Treaty and Article 180b of the Euratom Treaty, and to Article 119(5) of EDF's Financial Regulation and similar provisions in the former ad hoc EDF Financial Regulation which state that 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"[4].

In the discharge decisions for the general budget, the EDF and the Agencies, the Commission has identified a total of 113 recommendations made by the European Parliament to the Commission. The Commission considers that for 45 recommendations the required action has already been taken. For another 52 recommendations the Commission agrees to take the action recommended by Parliament. Finally, the Commission cannot accept 16 recommendations and will therefore not be taking the requested action.[5]

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1 2003 General Budget Discharge, 2003 EDF Discharge, 2003 Agencies Discharge.

2 Working document on the follow-up by the Commission to all the EP's 2003 discharge recommendations.

3 Both the present summarised report and the integral working document follow the structure of the resolutions containing the recommendations of the European Parliament.

4 See also Article 147 of the Financial Regulation

5 For General Budget : recommendations 14, 16, 18, 25, 29, 64, 65, 67, 69 & 70 ; for EDF : recommendations 81, 83, 86 & 96 ; for Agencies : recommendations 104 & 112.

I - COMMISSION RESPONSES TO THE RECOMMENDATIONS MADE BY THE EP IN THE GENERAL BUDGET DISCHARGE RESOLUTION

In response to the express wish of the European Parliament, the Commission has adopted a roadmap to an integrated internal control framework (COM(2005) 252 of 15 June 2005). 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.

A summary follows of the Commission's replies to the specific requests made by Parliament in its 2003 Discharge Resolutions.

A) HORIZONTAL ISSUES

Reliability of the accounts (recommendation 3)

A proposal has been made to amend the Financial Regulation in order to require the Accounting Officer to sign off the Commission's accounts and therefore to certify that they are reliable. To this end, in the declarations of assurance annexed to annual activity reports, Directors-General should certify that the accounts for which they are responsible are accurate and exhaustive.

Delegation risk to Member States (recommendations 4 & 10)

The Commission considers that the introduction of formal Disclosure Statements and annual ex-post Declarations of Assurance on the legality and regularity of underlying transactions from each Member State's highest level would enhance the Commission's insight into Member States' management and control systems. To this end, the Commission suggested that the Council Presidency establish a High-Level Interinstitutional Trialogue responsible for negotiating and reaching an agreement on a common understanding of what would constitute an adequate and satisfactory Community integrated control framework, as well as on the necessary steps to implement it. On 13 July 2005 the Council asked COREPER to examine, in full respect of the EC Treaty, the panel's work with a view to preparing draft conclusions for consideration at the November ECOFIN Council.[6]

Single audit (recommendations 6 & 8)

With the Communication of 15 June 2005 on a Roadmap to an integrated internal control framework, the Commission intends to reach an agreement with the Parliament (as discharge authority) and the Council on how the current internal control 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. After identifying the gaps and proposing plans of action, the Commission will present in October 2005 an initial report proposing a basis for an understanding with Member States. Then the Commission will adapt, if necessary, the legislative proposals for 2007-2013 to include the provisions which, in the light of the gap assessment, are required to complete the integrated control framework.

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[6] See also Communication from the Commission to the European Parliament and the Council "The respective responsibilities of the Member States and the Commission in the shared management of the Structural Funds and the Cohesion Fund" (COM(2004)580 final).

Improvement of annual activity reports by Directors-General (recommendations 12 & 14)

The new guidelines for the Annual Activity Reports for 2004 (SEC(2004) 1562), address Parliament's concern about the risk in underlying transactions. They constitute a more solid and transparent basis for the assurance to be given by authorising officers by delegation, and provide a more coherent framework for the Commission departments' declarations to be taken into account for the Court of Auditors' declaration of assurance. The Commission considers that the Annual Synthesis Report contains its position on main management and control issues and includes appropriate actions for issues requiring remedy at Commission level.

Further horizontal recommendations (recommendations 16, 17 & 18)

The Commission cannot produce estimates of error rates for all sectors every year. Its audit strategy is based on a multi-annual approach and audits are system-based.

A review of the Financial Regulation is under-way and aims at improving the efficiency and transparency of provisions and the simplification of procurement procedures .

The Commission has already established a number of principles regulating Cabinets' activities which are considered sufficient to mitigate the risk of insufficient exchange of information regarding audit matters. As a basic rule the Commissioner shall be regularly informed about all audit work. The Audit Progress Committee (APC) ensures follow-up of the implementation of audits of the Internal Audit Service and the European Court of Auditors, as well as assessing internal audit quality.

B) SECTORAL ISSUES:

Own resources

As regards GNI-related own resources, the Commission continues its usual thorough verification of the GNI data and the sources and methods used by Member States to compile it. In addition the Commission is currently examining ways to carry out more direct verification in the sense indicated by the Court in its 2003 Annual Report. A pilot project is planned for 2005 (recommendation 22).

Agriculture, animal health and measures to combat fraud

The Commission is going to report to Parliament on progress made in Member States' reporting of irregularities by September 2005 (recommendation 23).

The Commission has undertaken to produce a report on how the EUR 1.12 billion not yet recovered from 1971 to 2004 will be recovered in time for the 2004 discharge procedure (recommendation 24).

Parliament gave its opinion on the new regulation on the financing of the CAP, which sets out revised rules for recoveries, prior to its recent adoption by the Council. As to the monitoring of paying agencies, the new Council regulation requires the head of each paying agency to sign a declaration of assurance (recommendations 26 & 28).

The Commission is confident that the Taskforce Recovery will make significant progress in the recoveries' backlog problem and will keep the responsible Committee informed (recommendation 27).

Structural measures

The Commission mentions in its annual activity reports the countries and regions that have been slow to implement improvements. With regard to incomplete Article 8 statements, financial corrections have been applied where the further information the Commission asked Member States to provide or the additional audit work it asked them to carry out as a result of incomplete statements still left a risk of irregular expenditure in the final payment claim (recommendation 46).

The Commission uses its power to suspend payments where Member States' systems display persistent weaknesses representing a serious risk to Community funds and the Member State has failed to correct the weaknesses (recommendation 47).

As regards Interreg III, the Commission has steadily improved the input of regional analysis into programmes via *ex ante* evaluations and will continue to work in this direction (recommendation 48).

Internal policies

The Commission has sponsored a meeting in June (16/17) in Luxembourg with the Presidency and the Court of Auditors to discuss simplification of the 7th Framework Programme and the issues to be addressed in its rules for participation (recommendation 51).

The proposal for the 7th Framework Programme adopted by the Commission on 6 April 2005 clearly indicates a simplification in the intervention mechanisms.

Community research activity has for many years been the subject of *ex post* evaluation which includes the scientific results and impact. Value-for-money criteria are among the issues that are addressed through the evaluations, especially in terms of providing European Added Value (recommendation 55).

The Commission is now using all-electronic proposal submission for calls for proposals, which simplifies and reduces the costs for applicants. It has also indicated that it will put in place an electronic registration procedure, allowing applicants to submit their administrative details only once, at the time of their first proposal submission. (recommendation 56)

The Commission's proposals for the 7th Framework Programme provide that the Commission, with the assistance of external experts, will carry out an interim evaluation on the quality of the research activities under way and progress towards the objectives set (recommendation 58) .

The Commission has indicated in its proposals for FP7 its intention to "externalise" the management of a significant proportion of the activities to an executive structure. The extra resources that will thus be dedicated to the administration of the projects will allow the Commission staff to concentrate better on the scientific follow-up of projects and on feeding the lessons learned back into policy (recommendation 60) .

External policies

As regards the recommendation to conduct a qualitative assessment of EC external assistance separate from the Annual Report, the Commission produced the requested report in July 2005. The Commission will also provide an interim report on the progress with implementing information management systems and a system of supervision of the work of the Delegations regarding the evaluation of financial risks. The Commission will provide a report on the control structures in place in Delegations (recommendations 62-63) before the next discharge exercise.

As regards the observance of tender and procurement procedures by project implementing organisations, in June 2003 the Commission took remedial action through the introduction of a revised standard contract for grants, including the introduction of an audit certificate according to which auditors are required to check the respect by the beneficiaries of applicable procurement rules. The Commission is currently revising the template of the audit certificate and developing improved terms of reference for the auditors. In view of this, the Commission does not see the need for an action plan as recommended by Parliament (recommendation 64).

As regards a comparison of the efficiency of various international aid donors, the Commission is already participating, in various frameworks, in initiatives aimed at comparing the efficiency of international aid donors. The Commission therefore does not consider any additional initiatives to be justified for the time being (recommendation 65).

The European Parliament's 2003 discharge resolution also contains a number of recommendations related to development policy (recommendations 66-72). The Commission's replies to these recommendations can be found in the working document attached.

Pre-accession aid

PHARE

The Commission intends to take measures to ensure that the accreditation process for many PHARE and ISPA agencies in Bulgaria, Romania and the future acceding countries is completed before accession. Corrective action includes ensuring that those countries have appropriately staffed Phare fund management systems in place by end 2005. Reassessment of the allocation of funds for the period 2004-2006 is based on a management system assessment to be carried out during 2005 and its follow-up (recommendation 73).

The draft framework-instrument (IPA) has been presented to Parliament and the Council. The regional development component of IPA will concentrate on development priorities in a limited number of key sectors and implementing bodies, and provide capacity building for the implementation of Structural Funds. The Commission adopted on 27 May 2004 the new IPA draft regulation together with the RELEX package and negotiation is since ongoing in the Council and Parliament (recommendation 74).

SAPARD

The Commission believes that it has already put great emphasis on projects which increased quality, health and environmental standards. Their promotion is an integral part of the support given to the most important measures, which cover 49% of the programmes. All investments must meet Community standards and will inevitably lead to improvements in these areas (recommendation 77).

The Commission has planned, and implements, a system to audit the expenditure and the management and control systems of the SAPARD programmes. This includes annual financial clearance of accounts and ad-hoc conformity clearance processes. When weaknesses that may imply a risk of loss of EU money are identified in the systems in place in the SAPARD countries, they are followed up by means of specific clearance procedures that may lead to the application of financial corrections (recommendation 78).

II - EP DISCHARGE ON EDF

The Commission accepts most recommendations concerning the European Development Funds (EDF). It wants to draw attention to the following points:

Development policy (recommendations 79-81)

The great majority of EC development aid is devoted to achieving the Millennium Development Goals (MDG), because achieving the MDGs requires economic growth, progressive distribution of the benefits of growth, and improved public services. Moreover, the Commission reports regularly on the outcome of the previous year's commitments to the social infrastructure sector. The Commission does not agree with the imposition of an input target for basic health and education for the reasons outlined in the working document attached.

Accounts, Statement of Assurance, etc. (recommendations 82-86)

The Commissions has sent progress reports to Parliament on the modernisation of its accounts, including the EDF accounts. The latest report, covering the period up to 31 May 2005, was approved by the Commission and transmitted to Parliament on 4 July 2005.

The Commission continues to improve supervisory systems and controls, including those covering contracts and payments and recovery orders. It should be noted that the internal control standards are applied by all Commission departments, including Delegations.

The Commission has further enhanced 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.

Implementation and the RAL (recommendations 87-88)

An increase in the RAL is normal when taking into account the natural cycle of the EDF. However, the Commission has taken the necessary steps to control the volume (accelerate implementation, reduce 'abnormal' RAL, flexible programming). The level of unspent resources (RAL) rose much less (€400 million) by the end of 2004 and the Commission hopes to reverse the tendency by the end of 2005. With the reorganisation within its headquarters, EuropeAid has emphasized the importance of closing projects after the end date of the Financial Agreement. Special attention is being given to old projects that have remained open to date.

Budgetary support (recommendations 89-91)

The Commission has introduced tools to assess the situation of the countries receiving budgetary support as regards each of the criteria in Article 61(2) of the Cotonou Agreement during both programme preparation and implementation. It continues to work in close coordination with the IMF and the World Bank in assessing economic reforms. It has also expanded its range of instruments to provide itself with a solid analysis of the public financial management of the beneficiary countries: six-monthly monitoring reports by the Delegations and, in particular, a new analysis framework drawn up in conjunction with other donors (including the World Bank) under the PEFA (Public Expenditure and Financial Accountability) partnership which should be operational in the second half of 2005.

Evaluation (recommendation 95)

The Commission considers that the baseline requirement of evaluation is met.

Financial Regulation (recommendation 96)

The Commission does not currently intend to propose modifications of the Financial Regulation of the 9th EDF.

III - EP DISCHARGE ON AGENCIES

The Commission accepts most recommendations concerning Agencies. It wants to draw attention to the following points[7]:

Regulations and structure of the agencies (recommendations 97-98 and 100-102)

The Commission has proposed a draft Interinstitutional Agreement (COM(2005) 59 final) which is now on the table of Council and of the European Parliament. Once an agreement has been reached concerning common guidelines for future Agencies, the Commission, together with the two other Institutions, will see what implications this can have for existing non-executive Agencies.

In line with the recommendation to analyse the added-value of new agencies, the Commission decided that from 2005 any legislative proposal included in the Commission Work Programme will be subject to an impact assessment whereby needs, added-value, the principles of subsidiarity and budgetary austerity, amongst others, are taken in consideration.

Proposals for the amendment of the basic regulations for the Agencies, either individually or across the board, are permanently underway in order to adapt the Agencies to changing realities, or to optimise the Commission's relations with them. These are ongoing processes following a need, not necessarily a fixed calendar.

The guidelines concerning staff policy in the Agencies are in their final stages of preparation and will be issued before the end of 2005.

Cross-cutting analysis of evaluations (recommendation 99)

The Commission is willing to carry out regular cross-cutting analyses of the evaluations carried out on individual agencies, as it did in its 2003 'pilot' exercise 'Meta-evaluation of the Community Agency System'. However, it is important that their timing and frequency be made dependent on the availability of a sufficient number of underlying evaluation reports. The Commission therefore expects such an overall analysis to be available by the end of 2006 at the earliest.

Contract-awarding procedures (recommendation 103)

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[7] Commission replies to recommendations addressed to it concerning individual agencies can be found as recommendations 105-113 in the working document, but are not summarised here.

The Commission has established close and effective cooperation with the Agencies on the matters of procurement and management of contracts. A set of related training events focused on their specific needs has been delivered to numerous Agencies. The Commission plays an active role in coaching the responsible Agencies' officers, particularly for newly established agencies. The Agencies have been integrated in the network of correspondents of horizontal budgetary units and receive thereby permanent advice and ad-hoc support. On various occasions the Commission delivered contributions and took part in meetings of the Inter-Agency Legal Network (IALN).

Updated information on Agencies (recommendation 104)

The Commission considers that Parliament's primary source for obtaining updated information on the Agencies should also in future be the written questions to and hearings of the directors of the Agencies which are an integrated part of the discharge procedure.

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