

Speech by Jan O. Karlsson (15 November 2000)

Caption: Speech by the President of the European Court of Auditors Jan O. Karlsson, on the occasion of the presentation of the Annual Report concerning the financial year 1999 to the European Parliament in Strasbourg on 15 November 2000.

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Speech by the President of the European Court of Auditors Jan O. Karlsson on the occasion of the presentation of the Annual Report concerning the financial year 1999 to the European Parliament at Strasbourg on 15 November 2000

In the event of differences, the spoken text shall prevail

Mr(s) President, distinguished Members, ladies and gentlemen!

On behalf of the Members of the European Court of Auditors, I would like to thank you for inviting me to present the 23rd Annual Report of the Court. As in previous years, this presentation marks the start of the discharge procedure for the financial year 1999.

The report follows the format used for the past two years with chapters covering revenue and each of the expenditure areas under the headings of the financial perspectives. You will also find a chapter dedicated to the Statement of Assurance and, attached to the report, you will find the Court's observations on the implementation of the sixth, seventh and eight European Development Funds.

The different chapters of the Annual Report address four main concerns :

- first, there is an analysis of the budgetary implementation and of the budgetary management practices within the specific financial perspective heading;
- then, you will find that the Court has paid more attention to the follow-up of previous observations, in response to the demands expressed by this Parliament (and by Council). In each of the chapters, the Court reports on the progress made in a number of areas on which it had reported in the past;
- Thirdly, in response to the request of the EP, the Court has expanded its audit work on the Statement of Assurance and provides now additional information per area of expenditure in each chapter;
- Finally, in each of the chapters, the Court presents a number of other key audit findings. Many of these findings are also reported upon more in detail in the Court's Special Reports.

Since the last discharge procedure the Court has adopted 24 Special Reports, containing the results of audits which focus on a wide range of specific areas in which the Community's financial management can be improved. Although these Reports are not part of today's presentation, they are to be taken into account in the discharge procedure.

The total income for the 1999 financial year amounted to 86,9 bio euro. The GNP based resources represent 43% of this total, VAT based resources represent 36% and traditional own resources are 15% of the total. The remaining 5% are composed of the surplus resources of the previous year and other income.

This means that four fifths of the Community resources (GNP plus VAT) are calculated and fixed by using statistical data. I would like to point out two major observations of the Court in this context:

- first, for several years already, the Court commented on the use of a statistical aggregating system (SEC79) which, for all other purposes, has already been replaced by a newer system (SEC95);
- Further, in the context of the combat against VAT fraud, the Court identified a method based on a comparison between fiscal and statistical intermediate consumption data, that can be particularly useful in pointing to areas where the risk of fiscal fraud is high. Therefore, it invites the Member States to consider the use of this method.

In the customs area, the Court reports upon the complexity and variable application of the outward processing procedure. However, it also supports the Commission's proposal to modernise customs arrangements with an economic impact.

With regard to the 1999 expenditure, a total amount of 93,6 bio euro was entered into the accounts as new commitments and payments for an amount of 80,3 bio euro were registered. This is respectively 96% and 92% of the available appropriations for the year. In respect of the financial perspective estimates, the utilisation rates are 91% and 83%.

Expenditure from the Community budget is spread over many different areas. It is, therefore difficult to draw general conclusions on budgetary implementation. However, the following points are worth noting:

- Half of the 1999 expenses are recorded under the Common Agricultural Policy heading. As reported in Chapter 2 of the Annual Report, the high rate of expenditure (almost 99% of final appropriations) is explained in part by numerous transfers that reflect on the poor quality of the initial estimates both of revenue and expenditure. The Court invites both the Commission and the Member States to improve the quality of the estimates.
- Also for the Structural Funds, there were numerous transfers of appropriations that significantly altered the structure of the 1999 budget. Further, there were major differences between programme amounts and the amounts allocated by the financial perspectives and the majority of Structural Funds interventions had to be rescheduled. In this area, there was also an under-utilisation of commitment and payment appropriations and a concentration of transactions at the end of the year.
- In areas where the Community programmes are implemented directly by the Commission, such as internal policies and external actions, implementation rates are somewhat lower and there is also a heavy concentration of commitments and payments at the end of the year. The Court repeats its comments of previous years upon the negative effects of this, for instance poor and hasty decisions, heavy workload creating a risk for errors, and so on.
- Finally, in both the chapters on internal policies and external actions, the Court finds that the Commission's own comments on budgetary implementation are inadequate. The Court welcomes, therefore, the clear commitment in the Commission's answer to improve fundamentally its budgetary and accounting reporting.

The Court has produced an annual statement of assurance since the 1994 budgetary year. Each year, the Court has expressed serious criticism on the legality and regularity of the payments and the transactions underlying them. This year, this is again the case.

Indeed, the audit of the 1999 payments revealed once again an unacceptable incidence of error which affected their amount or the reality or eligibility of the transactions underlying them. The majority of these errors occurred in areas of the Community budget managed by the authorities in the Member States. They mainly comprise non-compliance with eligibility rules, overclaims, insufficient justification and calculation errors.

There are also other failures to comply with regulations and systems weaknesses for which the effect on payments cannot be directly evaluated but which increase the risk of errors occurring. The most frequent examples here are problems in implementing regulatory control checks, insufficiently detailed supporting documentation and failure to comply with tender procedures.

Thus for 1999, the Court did not obtain the necessary evidence from its audit activities to ensure that the underlying transactions were legal and regular, except for own resources, the commitments and administrative expenditure.

On the other hand, for the sixth, seventh and eighth European Development Fund, the Court gives a positive statement of assurance.

Not only is it the duty of the Court to report upon the errors found in its audits, but we should also be vigilant that our audits findings are interpreted and used correctly. Therefore, let me remind you that the

high incidence of errors found by the Court cannot and must not be seen as an indication of the level of fraud affecting the Community budget. Most of the payment errors found by the Court are due to problems of inadequate financial management and control and it is only in a small proportion of the errors found that further investigation by OLAF or the Member States' authorities is justified.

Another risk of misinterpretation is that objectives for corrective actions are set in terms of diminishing error rates and obtaining a positive statement of assurance. As the Court already pointed out in previous reports, a medium term improvement requires a combination of general and specific measures, including the clarification and improvement of control procedures, particularly at the level of Member States. In this context, the Court welcomes the Commission's plan for improving financial management presented to the discharge authority in the context of the discharge for 1998.

This reflection leads me to some comments on the reform of the Commission. The Court welcomes the efforts of the Prodi Commission to build a modern and robust structure of management and control and at the same time to focus on the way political priorities are set and resources allocated.

Many of the weaknesses that the Commission now seeks to overcome, have been emphasised by the Court on many occasions. For instance, the proposals of the Commission to increase the responsibility of authorising officers for the execution of commitments and payments, while bringing to an end the centralised system of prior approval of transactions by the financial controller, together with the creation of an independent internal audit service, is in line with a key requirement for improved financial management laid down in the Court's Opinion 4/97.

Another element of the reform that corresponds closely to a key priority identified by the Court is the increased focus to be placed on results and performance measurement, within a framework of resource allocation that is consistent with pre-determined priorities and objectives that are clearly defined and measurable.

Also at sector level, the Commission has now announced reform programmes, which can be seen as a response to concerns expressed by the Court over a number of years, for example, the proposals for improving the management of external aid programmes. This initiative is clearly based on an analysis very similar to that of the Court, most comprehensively set out in the Annual Report for 1997.

Whereas the Court encourages the Commission to proceed from principles to practice as quickly as feasible, it needs to be recalled that as yet much of the reform is still on paper only. The implementation of this new reform will need a genuine change of the management culture of the Commission; a process that will certainly take time.

The Annual Report 1999, when reporting upon the follow-up of previous observations, shows how difficult it is for the Commission to implement the needed changes which have been agreed upon.

In some cases, such as the reforms of the measures for the subsidised use of skimmed milk and skimmed milk powder, or in the programme of assistance to South Africa, as well as in certain areas of traditional own resources, the Commission has indeed taken actions to remedy specific weaknesses reported upon by the Court.

But, in other areas, corrective action has been slow. For instance, for the milk-quota system, the Court found that the overall situation had not significantly changed and that, contrary to the Court's view, increased quotas had been established, thereby giving rise to greater surpluses in the milk market and a heavy financial burden for public storage and disposal measures. In the case of import of dairy products at preferential rates, the Court considers that nothing has been done so far to avoid similar breaches of regulations as those reported in its Special Report 4/98.

In the area of the European Regional Development Fund, the Court followed up 52 observations for which it believed a financial correction should be made. There were only 14 cases where the Court is satisfied with

the corrective measures taken by the Commission. In the area of the Social dialogue, the Commission has not undertaken all the measures it had agreed to carry out in its replies to the Court's observations.

In the Internal Policies area, the Court re-audited nine contracts at the Transport and Energy DGs and eight contracts at the Research DG. The Commission had only followed up three of the seventeen contracts, with actions continuing on six others.

In its 1996 annual report, the Court identified a number of weaknesses in the management of an export promotion fund for Nicaragua and Honduras. In its discharge recommendation published in 1998, the Council called on the Commission to review its relations with the regional bank and to recover amounts unduly credited by this bank. At the end of 1999, the Commission was still in the process of setting up a new organisation.

Through these and other examples, it is clear that the Commission has hitherto not only been slow in implementing corrective measures but that it particularly faces problems when it comes to recovering unduly paid amounts. In its 2001 programme, the Court has therefore planned an overall audit (covering all budgetary areas) of the Commission's recovery procedures.

As I indicated before, the Commission's financial management is only part of the overall management of Community funds. Member States are responsible for the day-to-day management of the bulk of the Community funds, in the areas of the Common Agricultural Policy and the Structural Funds.

This annual report and the special reports published since the last discharge continue to draw attention to serious and persistent weaknesses in Member States' management and control systems. For instance, an important category of errors reported in the Statement of Assurance are irregular deductions made by central or local administrations on agricultural subsidies. Also, in the area of CAP, the Court calls upon Member States and the Commission to make checks more effective by comprehensively applying to all Common Markets Organisations inspection procedures comparable to those of the Integrated Administrative and Control System.

Ladies and Gentlemen! The dramatic events in the recent past have clearly demonstrated the increasing importance of management and control issues on the European agenda. It should be clear to each and every one of us, whether as representatives of European institutions or of Member States that this reflects a permanent change in the values and opinions of European taxpayers. They require, in exchange for their confidence and their contribution, that the European funds are being spent in a meaningful and honest way.

The commitment taken by the Commission should be seen as a constructive reply to this challenge, a reply that deserves our support. On the other hand, the Commission will be aware that it has now raised high expectations and that it is obliged to put into practice its good intentions and to produce results.

It rests with the budgetary authorities, which have successfully triggered the reform that addresses public financial management concerns, to continue and even reinforce their efforts to ensure that this reform will succeed. In practice, they will thus have to devote sufficient attention and resources to the follow-up of and the feedback upon the reform process.

You here in the European Parliament will be in the forefront of this.

The new President of the Italian Corte dei Conti, who was officially installed in his office a few weeks ago, said in his instalment address :

“I was convinced that relations between the Corte dei Conti and the Italian Parliament would be significantly improved if the two chambers of Parliament would strengthen the instruments that are designed to ensure that Parliament systematically takes the results of audits carried out by the Corte dei Conti into consideration.”

I will make those words mine. They imply that we wish to see a development of the working organisation and methods of this Parliament to reflect this need for structural change.

Last but not least, we will also need the co-operation of the Member States. Being responsible for the day-to-day management of the bulk of Community funds, the Member States need to strengthen their financial controls and to take up fully their responsibilities in the fight against fraud against the Community budget.

It is only when all actors (Commission, EP, Council, ECA, Member States) commit themselves to the reform and co-operate in its achievement, that the confidence of the European taxpayer in the Community financing can be restored.

I thank you for your attention