

Draft Council Recommendation on the discharge to be given to the Commission for the 2004 financial year (23 February 2006)

Caption: After having examined the annual report of the Court of Auditors, the Budget Committee submits a draft Council Recommendation to the Permanent Representatives Committee (Coreper) concerning the discharge to be given to the Commission in respect of the implementation of the European Union general budget. The Budget Committee also invites Coreper to suggest that the Council adopt this draft Recommendation.

Source: Council of the European Union. Note from the Budget Committee to the Permanent Representatives Committee/Council on the discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2004 - Draft Council Recommendation, 5971/06 FIN 44 PE-L 8. Brussels: 23.02.2003. 27 p.

Copyright: (c) European Union, 1995-2012

URL:

http://www.cvce.eu/obj/draft_council_recommendation_on_the_discharge_to_be_given_to_the_commission_for_the_2004_financial_year_23_february_2006-en-90eab413-39ee-41cc-9694-3b5b2f2333a4.html

Publication date: 05/09/2012

Note from the Budget Committee to the Permanent Representatives Committee/Council on the discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2004 – Draft Council Recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Communities for the financial year 2004

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 276 thereof,

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Article 180b thereof,

Having carried out the examination provided for in EC Article 276(1) and EAEC Article 180(1),

Whereas:

(1) According to the revenue and expenditure account for the financial year 2004:

- revenue amounted to EUR 103 511 946 247
- expenditure disbursed from appropriations amounted to EUR 99 195 366 915
- cancelled payment appropriations (including earmarked revenue) carried over from 2003 amounted to EUR 1 302 286 952
- appropriations for payments carried forward from 2004 to 2005 EUR 2 829 903 395
- EFTA-payment appropriations carried over from 2003 EUR 338 136
- the negative balance of exchange-rate differences amounted to EUR 50 047 046
- the positive budget balance amounts to EUR 2 738 577 707

(2) Cancelled payment appropriations for the financial year amount to EUR 2 062 708 460;

(3) EUR 944 074 922 (77 %) of the EUR 1 220 026 565 in appropriations for payments carried forward from 2003 to 2004 have been used;

(4) The observations in the report by the Court of Auditors for the financial year 2004 call for certain comments by the Council, which are ANNEXED hereto;

(5) The Council attaches importance to its comments being followed up and assumes that the Commission will implement all of the recommendations in full, without delay;

(6) The Council has adopted conclusions concerning special reports for 2004 and 2005, as set out in addendum 2;

(7) Following the examination referred to above, implementation by the Commission of the budget for the

financial year 2004 taken as a whole, on the basis of the observations made by the Court of Auditors, is such as to allow a discharge to be given in respect of the implementation,

HEREBY RECOMMENDS the European Parliament, in the light of these considerations, to give a discharge to the Commission in respect of the implementation of the budget of the European Communities for the financial year 2004

Done at Brussels,

For the Council
The President

ANNEX

Introduction

1. The Council regrets that the Court was still unable to give, in the eleventh year in a row, a Statement of Assurance (DAS) for a large part of the transactions underlying the EU accounts. However, it takes note that the Court finds that transactions taken as a whole are legal and regular for revenue, commitments, administrative expenditure and pre-accession strategy. Moreover, it notes with satisfaction that the Court has been able to identify progress regarding the supervisory and control systems relating to pre-accession strategy and to the parts of common agriculture policy where the integrated administration and control systems (IACS) are properly applied.

The Council notes that in the Court's opinion the accounts of the European Communities are reliable except for one reservation, as they faithfully reflect the revenue, expenditure and the financial position at the end of 2004.

2. The Council recalls the importance of continuing to improve financial management and of having controls working correctly and effectively so that for all transactions underlying the EU accounts a DAS should be achieved in the medium term. It emphasizes the need to continue working towards the achievement of an effective integrated internal control framework and recalls that the Council's position on a roadmap towards an integrated internal control framework is already set out in the Council conclusions of 8 November 2005. The Council notes the recent Commission Communication on an Action Plan towards an Integrated Internal Control framework and intends to undertake its examination when and where appropriate.

3. The Council takes note of the improvements made by the Commission in its administrative organisation and its management of the EU budget in the context of the reform process started in 2000.

4. Regarding controls, the Council stresses the importance of taking further measures and improvements along the lines recommended by the Court, among others in the Court's opinion No. 2/2004 ("single audit model"). It underlines that it is important to continue with the identification of weaknesses in the design and the operation of schemes and to introduce appropriate remedial actions in the areas of direct, shared and joint management.

Improvements regarding the clarity of the Directors-General's formulation of reservations should also be pursued.

5. The Council agrees that the timely introduction of the full accrual-based accounting system in January 2005 gives an encouraging signal as to enhanced financial management of the Community funds and expects the Commission to complete the reform by establishing the opening balances for the preparation of the 2005 annual accounts and thus ensuring the accuracy of accounting information.

6. The Council considers that the use and presentation of indicators need further improvements, in order to

strengthen the quality and transparency of the internal control system, resulting in a better comparability of year to year developments. It therefore underlines the need for further development by the Commission of reliable, cost-effective and easily understandable indicators to be audited on an annual comparable basis by the Court.

7. The Council recalls the importance of the protection of the Communities' financial interests, as well as the fight against fraud and any other illegal activities detrimental to the Communities' financial interests, and of strengthening cooperation between Member States and between them and the Commission in this field.

Chapter 1

The statement of assurance and supporting information

1. Reliability of the accounts

The Council notes with satisfaction the Court's positive opinion concerning the reliability of the accounts in accordance with the provisions of the Financial Regulation, and with the accounting principles, rules and methods set out in the Annexes to the consolidated financial statements.

The Council regrets that the Court's opinion remains qualified by the reservation concerning miscellaneous revenue and advances due to the uncertainty of the transactions relating to the various debtors item. It expects that full implementation of the action plan for the modernisation of the European Communities' accounting system will enable the Commission to record these transactions correctly and completely.

2. Legality and regularity of the underlying transactions

The Council notes with satisfaction that the Court considers that in areas where supervisory and control systems are implemented that allow for an adequate risk management, i.e. revenue, commitments, administrative expenditure and pre-accession strategy, the transactions, taken as a whole, are legal and regular.

The Council is pleased that the Court has been able to conclude for CAP expenditure that the IACS is an effective system to limit the risk of irregular expenditure, where properly applied.

The Council regrets that payments have still been materially affected by errors in the areas of CAP expenditure not subject to integrated administration and control system (IACS), structural measures, internal policies and external actions.

Moreover, the Council notes that the Court has still identified risks of varying degrees in the area of pre-accession strategy at the level of implementing organisations in the candidate countries.

The Council encourages the Court to improve further the clarity of the DAS as regards factors contributing to more efficient and effective control systems in each sector from year to year and invites the Court to examine the impact on the DAS of the multiannuality of many programmes and the corresponding control systems. It welcomes the Court's intention to inform as soon as possible the Council about forthcoming changes, adaptations or new aspects in its approach as regards the DAS methodology.

The Council would appreciate it if the Court were to include in its future annual reports an analysis of the implementation of internal control standards covering more financial years to enable better identification and evaluation of possible improvements over the years.

The Council urges all stakeholders in the budgetary implementation process to continue their work to improve financial management so that reasonable and verifiable assurance can be given that controls are in place which work correctly and effectively.

3. Community internal control framework

The Council recalls its conclusions on the roadmap to an integrated internal control framework of 8 November 2005. In this context, it supports the work aiming at the achievement of an effective integrated internal control framework.

It underlines the utmost priority of improving the cost-benefit ratio and promoting simplification and the requirement to build on existing control structures when addressing the weaknesses in the implementation of the supervisory and control systems. The Council requests that reasonable assurance be sought in a way that the current level of administrative and control costs does not increase and ensures elimination of multiple internal controls.

The Council notes the contacts undertaken between the Court and the National Supreme Audit Institutions, especially in the framework of the Contact Committee of the Heads of the Supreme Audit Institutions of the EU and invites them to pursue their collaboration while respecting the independence and competences of each. The Council considers that the work of independent National Supreme Audit Institutions could where appropriate be usefully taken into consideration by the Court.

4. Action plan for the modernisation of the accounting system

The Council notes with satisfaction the progress made by the Commission as regards the transition to the new accounting system implying the introduction of accrual-based accounting. It expects that the opening balance for 2005 will be ready in time for the establishment of the 2005 financial statements.

It invites the Commission to take necessary measures to ensure that all aspects of the opening balance are fully covered by rules and instructions similar for all services concerned. The Council wishes the modernisation project to be completed in a way that it gives a true and fair view of the financial position and invites the Commission to step up efforts to avoid that shortcomings affect the reliability of the 2005 financial statements.

5. The Commission's internal control system

The Council welcomes the progress made by the Commission as regards the reform of its internal control system and the positive impact on the legality and regularity of the Commission's internal management of expenditure.

The Council encourages the Commission to improve its management reporting tools i.e. annual activity reports, declarations by the Directors-General and the synthesis report, by further progress in the implementation of the key elements of the internal controls and by increasing the effectiveness of the procedures and tools used.

5.1. 2004 Synthesis report

The Council welcomes the Commission's efforts to improve transparency concerning its obligation to render account for its management in the Synthesis report of the annual activity reports. The Council supports the aim of the Commission to concentrate on further improvements in developing the performance of the existing systems inter alia by promoting accountability and enhancing effective performance management.

5.2. Annual activity reports and declarations of the Directors-General for the financial year 2004

The Council notes an improvement in the quality of guidelines for annual activity reports and declarations given by the Commission's central departments. In particular, monitoring aspects have been included, explanations on the links between the systems in shared management are given, weaknesses giving rise to reservations have been identified and conclusions on the impact of reservations are given.

The Council underlines, nevertheless, that the guidelines are to be implemented in a more homogeneous manner in order to increase the assurance provided. In particular, it is concerned that in some cases, despite important reservations entered in their declarations, the Directors-General gave a positive overall assessment of their assurance for the particular area.

Moreover, the Council considers that the use and presentation of indicators need further improvements. It underlines the need for further development of indicators. The Council invites the Commission to take measures to provide appropriate information on key controls and on the characteristics of errors in order to allow the Court to assess progress. It also stresses the importance of indicators on the effectiveness of action plans and the activity reports of Directors-General which indicate the state of implementation.

Chapter 2

Budgetary management

The Council notes with satisfaction the overall progress in the Commission's budgetary management that has led to an increased level of spending within the major expenditure programmes, in particular as regards Structural Funds, and therefore to a reduced surplus.

While noting that estimates have improved and that forecasting errors have diminished, the Council considers that there is still scope for further improvement. In this context, it encourages the Commission, in collaboration with Member States, to make more accurate and realistic budget estimates, and to improve the multi-annual programming to take into account Member States' ability to absorb the funds within the foreseen period.

As in previous years, the Council regrets that the level of outstanding commitments continued to increase overall, in particular regarding Structural Funds in comparison with the Commission's forecasts, although it notes that much of the increase is understandably due for technical reasons to enlargement. Therefore it invites the Commission to update its analysis on outstanding budgetary commitments for Structural Funds in order to identify the implications for the current and future programming periods.

The Council takes note that the year n+2 rule resulted only in very few decommitments in 2004.

The Council is concerned about the increased time-lag between commitments and payments and therefore it invites the Commission to pay specific attention to the risk that spending on the current programmes will be delayed even further than expected into the next period.

Concerning information on budgetary implementation, the Council notes with satisfaction the improvements introduced in the Commission's report on budgetary management on the cumulative state of implementation of Community programmes. Nevertheless, it recommends the Commission to provide supplementary information allowing comparison of actual with expected performance. Finally, as regards in particular Structural Funds, the Council invites the Commission to provide an analysis on the operation of the year n+2 rule and its effects on budgetary execution.

Chapter 3

Revenue

1. Specific assessment in the context of the Statement of Assurance: Traditional own resources

The Council welcomes the fact that the Court considered the overall results concerning the reliability of the accounts recording traditional own resources and the legality and regularity of underlying transactions to be satisfactory.

As in previous years, it notes that systematic problems relating to the maintenance of the B-accounts, (revenue due to the Commission but not yet made available because it is unsecured or under appeal) remain,

such as delays in making entries, wrong entries, omissions and incorrect cancellations. In this context, the Council expects that the adoption of Council Regulation No. 2028/2004¹, which requires the write-off of amounts of traditional own resources that are not recovered by a specific deadline, will help to obtain more reliable and accurate B-accounts.

The Council also notes with satisfaction that the Court's examination of electronic customs clearance systems has not identified substantial shortcomings, and shares its view concerning the importance of setting up fall-back mechanisms.

It notes the difficulties in implementing a systematic use of risk analysis in targeting customs inspections detected by the Court. In this context, it takes note of the recent amendment of the Customs Code, Regulation No. 648/2005² aiming to implement a Community-wide riskmanagement framework.

Concerning the Court's follow-up on sugar levies, the Council notes with satisfaction that the system was operating in a satisfactory manner. Nevertheless, it invites the Commission to improve its checks on Member States' communications.

2. Specific assessment in the context of the Statement of Assurance: VAT/GNI own resources

The Council welcomes the fact that the Court judged the VAT and GNI resources to be correctly calculated, collected and entered in the Community accounts by the Commission.

Concerning the VAT resources, the Council notes with satisfaction that the Commission's inspections were of good quality. However, it is aware of the high number of reservations on unsettled issues and it encourages the Commission to continue its efforts to reduce the number of long-standing reservations.

As regards the GNI resources, the Council takes note of the detected differences regarding the quality of supervisory and control systems in respect of the National Accounts compilation and it invites the Commission to continue to encourage best practises through the GNI Committee in this respect.

Concerning the compliance with ESA 95 requirements in respect of illegal activities in GNI, the Council encourages Member States to comply with this requirement before the 2006 deadline in order to obtain fully comparable GNI estimates.

Chapter 4

The Common Agricultural Policy

1. Specific assessment in the context of the Statement of Assurance

The Council welcomes the Court's statement that the Integrated Administrative Control System (IACS), which covers 59 % of CAP expenditure and about EUR 25 billion, is an effective control system to limit the risk of irregular expenditure, if properly applied. However, the Council regrets that, as in previous years, CAP expenditure was still materially affected by errors. It also notes that controls and checks implemented under IACS are effectively enforced in fourteen Member States and that the system was not yet applicable in the ten new Member States in 2004.

The Council agrees with the Court that further progress should be made concerning the control system in areas that are not checked through IACS (e.g. subsidies paid on the basis of quantities produced) where recurrent errors still occur.

2. Post-payment checks

The Council regrets that post-payment checks under Regulation No. 4045/89 carried out by Member States (37 % of all agriculture expenditure) do not, according to the Court, satisfactorily provide reasonable assurance that underlying operations are in line with Community rules. Therefore, it endorses the Court's

view that the Commission should make those checks a more valuable tool in the identification of irregular CAP payments, in particular by addressing the deficiencies in the data, by reporting on the value of transactions tested and irregularities detected, as well as by assessing the quality of checks performed.

3. Clearance of accounts

The Council notes the Court's view that the quality and the content of certifying bodies' reports are generally satisfactory, although further attention is required in a number of areas such as advances and securities; debts; follow-up of financial errors detected during previous certification audits; sampling and error evaluation; checking maximum guaranteed quantities. It also notes with concern the weaknesses identified in the field of rural development regarding in particular the complexity of the current system and the difficulties to check it.

4. Annual Activity Report of the Director-General

The Council takes note that the Court can only derive limited assurance from the Director General's declaration, because it relates to expenditure which may subsequently be the subject of financial corrections. The Council calls on the Commission to indicate separately in the Director General's declaration verified expenditure and expenditure subject to further checks.

5. Assessment of areas of CAP spending

The Council is pleased that for area aid as a whole (arable crop subsidies) the majority of payments were consistent with Community rules. It also notes with satisfaction the relatively low error rates confirmed by IACS checks of the animal premium schemes (20 % of CAP expenditure). However, it draws the Commission's attention to the need to remedy the weaknesses identified by the Court in the area of spending on animal premiums as well as in the area of subsidies paid on the basis of quantities produced.

6. SAPARD

The Council notes with satisfaction that, on the basis of the audit work performed by the Court, the SAPARD supervisory and control systems were generally efficient, although some problems still remain.

7. Follow-up to previous observations

a) Common Market Organization (CMO) in the banana sector

The Council regrets that the Commission has not yet completed the CMO in-depth review, with an aim of better defining the objectives of the CMO and to improve its management and urges it to finalise this review.

b) Pre-financing of Export Refunds

The Council endorses the Court's opinion, that a system reliant on advancing payment up to four months is fundamentally flawed, and calls on the Commission to present proposals to repeal pre-financing.

c) Potato and cereal starch

The Council welcomes the Commission's simplified and clarified method for calculating the monthly production refund. However, it urges the Commission to take on board also the other recommendations suggested by the Court.

Chapter 5 Structural measures

1. Management and control systems for structural measures: the main regulations and processes

The Council shares the Court's concern about the inherent risks to the legality and regularity of expenditure for structural measures arising from the variety of bodies and authorities which intervene in the management process, from the great number of programmes with a multitude of projects, from potential weaknesses in the management and control systems and from the risk of different interpretations as far as eligibility is concerned.

The Council considers that the Commission and the Member States should seek to optimize the effectiveness, economy and efficiency of the current control systems. Moreover, the Council invites the Commission to assess the management and the control systems governing the multiannual programmes.

2. Specific assessment in the context of the statement of assurance

Audit of the management and control systems

The Council welcomes the progress made by the Commission in the implementation of the internal control standards, while pointing out that further efforts are required in order to fully comply with the baseline requirements of these internal control standards.

Concerning the implementation of operational programmes, the Council underlines that, in spite of new measures by the Commission aiming at more effective management and control, improvements are still required to achieve compliance with the Community regulations in the current period.

The Council is concerned that, in the framework of its specific assessment of structural measures expenditure, the Court has ascertained failures relating to the respect of regulatory requirements - unclear definition, allocation and separation of functions - problems with the audit trail and failures to carry out adequate checks. It invites the Commission to assess the implementation of the current regulations concerning inter alia sample checks on operations, paying authorities and winding up bodies' activities.

The Council agrees with the Court's observation that, as a whole, the legislative framework provides a sound basis for the management and control of structural measures expenditure. It urges the Commission to ensure that the management and control systems meet the regulatory standards, to regularly review the operation of the systems and, in cooperation with the Member States, that the financial control objectives set out in the Regulations are achieved.

Moreover, it urges the Commission to take further measures to improve the performance of the day-to-day management checks of operations, and it also recalls the importance of making checks at the premises of beneficiaries, rather than relying solely on documentation.

Closing of 1994 to 1999 programmes

The Council notes with dissatisfaction the weaknesses and delays identified by the Court in the closing of the European Regional Development Fund programmes, the European Social Fund programmes and the European Agricultural Guidance and Guarantee Fund for 1994-1999. Therefore it invites the Commission to make any necessary proposals for appropriate financial corrections and subsequently recover irregular expenditure.

It also invites the Commission to ensure that lessons from the closing of programmes for the 1994 to 1999 period are applied for the 2000 to 2006 and subsequent periods.

3. Analysis of annual activity reports

The Council acknowledges that initial steps have been taken to improve the information of the annual activity reports and declarations of the Directors-General. It considers important that management and control systems in the Member States should demonstrate that the underlying operations for the programme period 2000 to 2006 are legal and regular. Therefore, the Council invites the Commission to take into account all the Court's remarks, and to present in each annual activity report the measures taken to limit the risk of error in the underlying transactions together with an assessment of their effectiveness.

4. The implementation of the Instrument for Structural Policies for pre-accession (ISPA)

The Council takes note that the Commission identified shortcomings in the management and control systems in one applicant country and interrupted payments to that country on several occasions during 2004.

Chapter 6

Internal policies, including research

The Council is concerned by the fact that, despite the progress made in certain areas, the Court did not obtain sufficient assurance as regards the legality and regularity of payments. It shares the Court's view on the need for changing the legal framework so as to simplify cost reimbursement systems, and for clarifying the procedures and instructions governing the different programmes.

1. Evaluation of the Commission's supervisory and control systems

The Council, while taking note of the progress made in certain areas, regrets that the implementation of the Internal Control Standards (ICS) is not yet fully operational. Moreover, the Council is concerned about the fact that the testing carried out by the Court has led it to conclude that no major improvement has been noted in this area and that the incidence of errors remains high. Therefore, it invites the Commission to ensure the implementation and functioning of baseline requirements of the ICS, particularly to further improve its risk management, to use the audit results to develop management and control systems as well as to clarify and simplify the procedures and instructions of the programmes in this area.

The Council shares the Court's opinion on the great importance of the ex post audit function in the Commission's internal control system and favours strongly to maintain at least the current number of audits.

2. Management and control procedures of the 6th Research and Technological Development (RTD) Framework Programme

The Council endorses the Court's view relating to the importance of a common IT system for the management of indirect RTD actions and encourages the Commission to pursue its efforts to overcome the difficulties in particular in integrating the heterogeneous needs of the different Directorates-General. It urges the Commission also to accelerate the process of improving the effectiveness of audit certificates in detecting errors in the costs declared by beneficiaries.

Chapter 7

External actions

The Council notes that the Commission has continued to improve its supervisory and control systems and that both Directorate-General 'Humanitarian Aid' (ECHO) and EuropeAid Cooperation Office (EuropeAid) completed the implementation of internal control standards (ICS) supplemented by instructions, guidelines and training programmes concerning especially the administrative and financial procedure. Moreover, it notes with satisfaction the extension of the requirement to comply with ICSs to the Delegations and the implementation of all baseline requirements, as confirmed by the Court.

ECHO

The Council notes with satisfaction the good results of the functioning in practice of the supervisory and

control systems, the Court considering the risk assessment carried out by ECHO as satisfactory. It notes that ECHO had concentrated its efforts to reduce the risks in the selection procedure of the partners for implementation together with a system of audits of those selected. The Council draws the Commission's attention on the Court's observation as to the need for clearer instructions regarding external audits and follow-up.

EuropeAid

The Council notes the progress achieved by EuropeAid by ensuring that ex post verifications were carried out following a new standardised methodology.

As far as external audits at the level of organisations implementing projects funded by EuropeAid are concerned, the Council agrees with the Court's positive appreciation on the quality of audits. However, it underlines that these audits have to be strengthened, in particular regarding the reporting of the results and the respect of the conditions for EU financing.

Concerning external audits, the Council agrees with the Court on the need to continue to better develop the reporting systems. It urges the Commission to increase audits and to improve terms of reference and follow-up. The Council regrets that audits of transactions carried out at implementing organisation level, on the spot, highlighted important weaknesses in internal controls and a significant number of errors in transactions.

Level of Delegations

As regards the supervisory and control systems at Delegations' level, the Council notes with satisfaction that the procedures were generally sufficient to ensure that the commitments and payments processed by the Commission were legal and regular. It considers, however, that results of project audits should be systematically communicated to and followed up by headquarters, that information relating to audit should be recorded in EuropeAid Common Relex Information System (CRIS) and linked to project management information and that the terms of reference for the audits of projects should be more specific in their requirements in order to facilitate the quality control checks to be carried out by the Commission.

Chapter 8

Pre-accession strategy

1. Specific assessment in the context of the Statement of Assurance

The Council welcomes the Court's statement that supervisory and control systems at the level of the Commission's central services, Delegations and certifying authorities are basically sound and worked in practice for all pre-accession instruments (Phare, Turkey, ISPA and Sapard) and that no material errors in the underlying transactions tested were identified.

The Council is pleased to note the improvement of the supervisory and control systems in the new Member States which has led the Commission to grant the Extended Decentralised Information System (EDIS) to them, after a thorough assessment and verification process. Nevertheless, for Bulgaria, Romania and Turkey the Council invites the Commission to continue to ensure the effective performance of its *ex ante* approval by the EC Delegations as the national supervisory and control systems in those countries are not satisfactory.

As far as Phare and Turkey programmes are concerned, the Council finds it encouraging that the Court was able to see improvements in the Commission's internal control environment and invites the Commission to continue the work towards clearer instructions to the contracted auditors, appropriateness of expenditure declared and more successful transfer of experience gained from the implementation of the decentralised system of management (DIS).

2. The operation of systems for the control of national co-financing agreements

The Council underlines the Court's comments in relation to national co-financing, in particular concerning weaknesses in reporting, late delivery of Final Declarations, the need for a better overview of these projects, the establishment of eligibility rules for and verification of parallel co-financing and it invites the Commission to pursue its efforts in order to improve the management of these agreements.

Chapter 9

Administrative expenditure

1. Specific assessment in the context of the Statement of Assurance

The Council welcomes the fact that the errors identified by the Court did not materially affect the legality and regularity of administrative expenditure as a whole.

It notes with satisfaction the efforts and the progress made by the Institutions to adapt their supervisory systems and controls to the new Financial Regulation, but underlines that they have not fully implemented the Internal Control Standards.

The Council takes note that the 2004 financial year has introduced specific risks resulting from the adoption of the new staff regulations, the introduction of a new system for calculating staff remuneration and the implementation of the new system in the framework of the new Financial Regulation at the same time.

In this context, the Council shares the Court's view that particular attention should be paid to the various technical weaknesses detected in the implementation of the NAP (new payroll system), to an accurate application of the staff regulations in respect of travel allowances, to the improvement of the control systems concerning the transfer of part of the staff emoluments and the pension payments, as well as to the strengthening of the supervisory systems for procurement.

*

**

Concerning the accounts of the Euratom Supply Agency, the Council welcomes the fact that the Court considers them to faithfully reflect its economic situation and assets and that the transactions underlying the accounts are, taken as whole, legal and regular.

2. Agencies and other decentralised bodies (ADB)s³

Although decentralised agencies are subject of specific recommendations, the Council recalls that, according to the Treaty, the Commission is ultimately responsible for the implementation of the budget. In this context, the Council considers it necessary to include the following general comments.

The Council notes with dissatisfaction the increasing number of Agencies for which the Court gave a qualified opinion on their accounts or on the legality and regularity of the underlying transactions.

The Council is concerned about the shortcomings detected in the procedures used for staff recruitment and public procurement, and therefore urges Agencies, with an extended assistance of the Commission from whose experience and interinstitutional services they can benefit, to comply with the relevant legislation in force.

As regards the recurrent cases of non-respect of the budgetary principles and the limitations of the systems of internal control, the Council calls on the Agencies, to take the appropriate measures to remedy these weaknesses.

Concerning the accounts, the Council encourages the Agencies and the Commission to intensify their cooperation in order to further improve the implementation of the accrual-based accounting system.

3. European Schools

The Council welcomes the fact that the Court found no important anomalies.

Chapter 10

Financial instruments and banking activities

1. The Commission's monitoring of its financial shareholdings

The Council notes with satisfaction that the monitoring and management information concerning the participation in the assets of the European Bank for Reconstruction and Development (EBRD) provides the Commission with reasonable assurance that its activities are in compliance with EU policies and do not conflict with applicable EU legislation. However, it stresses the fact that the Commission should increase the level of assurance concerning the participation in the European Investment Fund (EIF) and, as a consequence, urges the Commission to improve its management information, in order to ensure accountability.

2. Overview of assets held by financial institutions on behalf of the Commission

The Council shares the Court's concern about the lack of a complete overview of existing assets held by financial institutions and invites the Commission to take appropriate measures in order to ensure that the assets are subject to regular and adequate monitoring.

3. The Guarantee Fund for external actions

The Council welcomes the fact that the Guarantee Fund was managed in a satisfactory way and that the Commission is engaged in discussion with the European Investment Bank, in order to obtain an audit certificate on the outstanding balance of the loans covered by the Guarantee Fund.

¹ Council Regulation (EC, Euratom) No. 2028/2004 of 16 November 2004 amending Regulation (EC, Euratom) No. 1150/2000 implementing Decision 94/728/EC, Euratom on the system of the Communities' own resources.

² Regulation (EC) No. 648/2005 of the European Parliament and of the Council of 13 April 2005 amending Council Regulation (EEC) No. 2913/92 establishing the Community Customs Code.

³ Decentralised agencies are subject of specific recommendations recorded in separate documents.