



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 25 February 2013

6819/13

**PE 88
BUDGET 12
INST 103
JAI 141**

NOTE

from: General Secretariat of the Council
to: Delegations

Subject: Summary record of the meeting of the European Parliament **Committee on Budgetary Control (CONT)**, held in Brussels on 18 and 19 February 2013

The meeting was chaired by Mr THEURER (ALDE, DE).

Items 1 and 2 on the agenda

The agenda was adopted.

Item 3 on the agenda
Approval of minutes

Minutes of previous meetings were approved.

Item 4 on the agenda

2011 discharge: EU general budget, European Parliament
CONT/7/10318

Rapporteur: Ms ORTIZ VILELLA (EPP, ES)

- Consideration of draft report

The rapporteur acknowledged a broad consensus on her report from shadow rapporteurs and summarised its content. In particular, she mentioned intelligent savings that were made possible without affecting the adequate functioning of the EP, the internalisation of security, and the

conclusions of the internal audit on some DGs that needed to better address their resources spending, building policy (roofs), and the travel agency. Mr GERBRANDY (ALDE, NL) voiced some criticism on transparency and mentioned the need for a full plenary debate on the EP discharge. He also announced amendments on the control of access, since MEPs should not feel that wearing an electronic card is a burden, welcomed the reduction of paper through e-meeting applications, criticised flat rate allowances for MEPs, since in his view all expenses should be justified, and complained that the bureau refused to follow CONT on Europarl TV. He also considered that protocol participation of Bureau members in trips should be avoided for the sake of economy. Mr THEURER announced that a plenary meeting devoted to the EP discharge had been agreed with the President. Mr de JONG (GUE, NL) supported Mr GERBRANDY on allowances and Europarl TV. Mr GARRIGA POLLEDO (EPP, ES) welcomed the report and stressed the issue of repairing the roof, since it was affecting the proper functioning of the house. Mr GEIER (S&D, DE) regretted the focus on Europarl TV, since 20 broadcasting companies used its services and this ensured transparency. He disagreed on the issue of allowances, since this did not reflect a general culture in MSs and recalled that MPs of the German High Court were not required to justify every single expense. Mr THEURER considered that flat rates were allowed by the new Financial Regulation in other areas and considered that reckoning down to the last cent could lead to more expenses. Ms ORTIZ VILELLA concluded that a compromise was needed on Europarl TV and warned against changes in allowances that could lead to less advantageous solutions, since in her view transparency had already been boosted.

Deadline for tabling amendments: **26 February 2013, 12.00**

Item 5 on the agenda

Fight against Tax Fraud, Tax Evasion and Tax Havens

CONT/7/11731

Rapporteur: Mr STAES (Verts/ALE, BE)

- Consideration of draft opinion to ECON

The rapporteur for the opinion pointed out the enormous amount of tax evasion and the increasing avoidance of taxes through semi-legal systems across Europe (he mentioned brass-plate companies in some MSs). He underlined that bigger companies were more prone to such practices. As for VAT fraud, he stressed the negative effects on EU own resources and called on the Commission to change the VAT model. He considered that customs checks were not functioning properly in MSs, resulting in significant VAT losses. He regretted that a Modernised Customs Code could not be introduced, despite the income that it could generate, and that the Council had blocked the reverse

charge mechanism. Mr RÜBIG (EPP, AT) supported the rapporteur, stressing that SME were the most affected by the bad functioning of the system and he raised the issue of FTT. Mr MULDER (ALDE, NL) agreed that action was needed to change the situation, but warned against criminalising tax practices by way of bilateral agreements before they were addressed EU wide. He raised the issue of the agreements with tobacco companies to combat smuggling and asked whether the 10% share for the EU could be renegotiated upwards. Mr AUDY (EPP, FR) called for an EU-wide customs authority, supported by Mr SKYLAKAKIS (LDE, EL). Ms MACOVEI (EPP, RO) raised the issue of a fiscal identification number and noted discrepancies in applying VAT rules by MSs. She wondered when the discussion would be resumed in the Council. She also regretted that the quick reaction mechanism had been blocked by the Council. Mr VAUGHAN (S&D, UK) supported her on the need for a uniform VAT system across MSs.

The representatives of the Commission provided some explanation and in particular pointed out that the Modernised Customs Code could not be introduced because of the economic crisis. As for the VAT reform, the Commission was seeking a mandate from the Council. A reverse charge mechanism would be discussed at the ECOFIN Council on 5 March and the Commission representative estimated that a majority of MSs were in favour. The representative of OLAF explained that the first tobacco agreement would only be renegotiated in 2016.

Deadline for tabling amendments: **26 February 2013, 12.00**

Discharge 2011: Other Institutions

Items 6 to 13 on the agenda

- **European Council and Council**
- **European External Action Service (EEAS)**
- **Court of Justice**
- **Court of Auditors (CoA)**
- **European Economic and Social Committee (EESC)**
- **Committee of the Regions**
- **European Ombudsman**
- **European Data Protection Supervisor**

Rapporteur: Ms CESKOVA (ECR, CZ)

- Consideration of draft reports

Ms CESKOVA stressed that the Council discharge had been most problematic throughout the last discharge procedures and called on the Council to increase transparency. She reiterated that effective budgetary control through cooperation between the EP and the Council was needed, the main elements of which should comprise formal meetings between representatives of the Council

and CONT, answering questions put by CONT and submitting documents to serve as background for budgetary control. She recalled that the Commission had agreed with the EP approach to grant a separate discharge to the institutions. She added that the Council was the only institution that had not replied to the questions put by CONT and referred in particular to 52 questions that had been sent to the Council. She stated that the Irish Presidency had only agreed on an informal meeting, which was scheduled on 19 February 2013. She concluded by saying that the Council was the only institution for which she had left both alternatives open, namely to grant or to postpone discharge (until the Council answered the questions). The Irish Presidency declined to take the floor.

Mr SONDERGAARD (GUE, DK) supported the rapporteur and considered that the Council should also answer EP questions from previous discharge procedures. He welcomed the fact that the draft report no longer mentioned the Gentlemen's Agreement, which in his view was just a unilateral engagement. He also considered that an informal meeting with the IE Presidency would provide no results.

Mr KALFIN (S&D, BG) agreed that the Council should provide the requested information and suggested that the Court of Justice could be asked to arbitrate between the EP and Council positions.

Mr AUDY (EPP, FR) wondered why discharge was granted to the European Council (EC) but postponed for the Council, and asked whether PEC had replied to the questionnaire. He added that there was no ground not to grant discharge to the Council.

Mr GEIER (S&D, DE) recalled that the three experts that were invited to a specific workshop could not agree on Council discharge, except, in his view, for the EP right to access Council documents¹. In his view, the Court of Justice should be involved on the issue of EP right of access to Council documents, rather than on discharge. Mr SKYLAKAKIS (ALDE, EL) agreed with the rapporteur, while Mr DEUTSCH (EPP, HU) wondered about the legality of the Council position on discharge. Ms GRÄSSLE (EPP, DE) underlined that Mr AUDY's position was isolated in the EPP group, which was against granting discharge. Ms ANDREASEN (EFD, UK) disagreed with what

¹ For the summary of the workshop see doc. 14413/12.

she considered as an excessive criticism of the Council and added that the fact that the Council did not reply to the questions was not sufficient ground to postpone discharge. She also wondered whether the EP was ready to accept reciprocity and give access to its documents to the Council.

Mr THEURER said that the issue of a separate discharge for the EC could be a further source of conflict. Ms CESKOVA clarified that according to the EP Legal Service only one report for the Council and the EC discharge was needed for the 2011 discharge procedure. Things would be different in 2012 because of the new provisions of the Financial Regulation.

Ms CESKOVA concluded that the EP had the right to put questions to the Council and receive replies, and that a legal suit should be filed before the Court of Justice if a negotiated solution on how to proceed on the Council's discharge could not be agreed with the Council.

As for the other institutions, Ms CESKOVA briefly referred to the EESC, in particular regarding transparency of staff salaries, to the Data Protection Supervisor on recruitment related issues, to temporary staff and procurement issues at the EEAS, to Human resources issues at the Court of Justice, and to the external audit of the Court of Auditors (ECA). She stated that replies received from those Institutions were sufficient to propose granting them discharge. Mr KALFIN supported the conclusions of the rapporteur, although expressing some criticism on the issue of tele-working at the Court of Justice. Mr GEIER also shared the approach of the rapporteur but raised the issue of a case of bullying at the ECA. Mr SKYLAKAKIS pointed out the Court of Justice's increased backlog, which might have a negative impact on the EU economy. Mr DEUTSCH agreed that the Court of Justice should be staffed appropriately and expressed some criticism towards the EEAS building policy; moreover he considered that the EP should be given access to the EEAS internal audit. Ms GRÄSSLE considered that EEAS staff should be paid more, but should not be allowed so much leave. She also mentioned the percentage of staff from MSs at the EEAS. Ms ANDREASEN criticised what she considered too mild an approach to the EEAS discharge; in her view the EP should be tougher towards a new institution to strengthen controls and prevent future shortcomings. She proposed postponing the EEAS discharge on grounds of public procurement, national staff and recruitment problems that still needed to be addressed. Ms CESKOVA concluded by saying that she would maintain her proposal of granting discharge, given that little criticism was contained in the ECA report and when this had been the case, as for the EESC, the replies received were satisfactory.

Ms CESKOVA read a statement on behalf of Mr CZARNECKI (ECR, PL), rapporteur, for the Court of Justice, ECA and EEAS. He suggested granting discharge to all these institutions, but pointed out that the need for reinforcement of the General Court needs human resources and considered that the proposal for the creation of additional judges for this Court, which was still under examination in the Council, could contribute to moderating that trend. As for the ECA, he quoted the external auditor PricewaterhouseCoopers' opinion that "the financial statement gives a true and fair view of the financial position of the Court". However, some improvements were requested, in particular concerning the time plans for the special reports and the gender balance at the level of directors and heads of unit. Regarding the EEAS, he pointed out in particular some observations made by the ECA on the incorrect payments to staff members, the non-recovery of VAT as well as the non conformity with the procurement rules. He suggested that key performance indicators should be developed to monitor improvement of budget execution in the coming years, because of the high amounts of appropriations carried over. He also considered that EEAS should have a better and more balanced representation

Discharge 2011: Agencies

Items 14 to 44 on the agenda

- **European Agency for the Cooperation of Energy Regulators (ACER)**
- **Body of European Regulators for Electronic Communications (BEREC)**
- **Translation Centre for the Bodies of the European Union**
- **European Centre for the Development of Vocational Training (CEDEFOP)**
- **European Police College (CEPOL)**
- **European Banking Authority**
- **European Aviation Safety Agency**
- **European Centre for Disease Prevention and Control (ECDC)**
- **European Chemicals Agency**
- **European Environment Agency**
- **Community Fisheries Control Agency**
- **European Food Safety Agency**
- **European Institute for Gender Equality (EIGE)**
- **European Insurance and Occupational Pensions Authority (EIOPA)**
- **European Institute of Innovation and Technology (EIT)**
- **European Medicines Agency**
- **European Monitoring Centre for Drugs and Drug Addiction**
- **European Agency for Maritime Safety**
- **European Network and Information Security Agency (ENISA)**
- **European Railway Agency**
- **European Securities and Markets Authority (ESMA)**
- **European Training Foundation**
- **European Agency for Safety and Health at Work**
- **Euratom Supply Agency**
- **European Foundation for the Improvement of Living and Working Conditions**

- **EUROJUST**
- **European Police Office (Europol)**
- **European Union Agency for Fundamental Rights**
- **European Agency for the Management of Operational Cooperation at the External Borders (FRONTEX)**
- **European GNSS Agency**

and

Discharge 2011: Joint Undertakings

Items 45 to 51 on the agenda

- **Embedded Computing Systems**
- **Clean Sky - Aeronautics and Environment**
- **ENIAC - Electronic Numerical Integrator and Computer**
- **FCH - Fuel Cells and Hydrogen**
- **IMI - Initiative on Innovative Medicines**
- **Joint Undertaking for ITER and the development of fusion energy**
- **SESAR Joint Undertaking**

- Consideration of draft reports

The rapporteur, Mr GERBRANDY (NL, ALDE) presented the main points of a draft report on discharge to be given to the 30 decentralised agencies and to the joint undertakings for the financial year 2011. In his view, the findings of the ECA gave a rather satisfying picture of the agencies' budgetary management, as no major irregularities were found. However, a few issues of a horizontal nature needed to be pointed out:

- a) The need to preserve the agencies' independence. In the rapporteur's opinion, the structure of some management boards could hamper this independence due to the conflicting interests of the represented MSs. As an example he mentioned the three new supervisory agencies.
- b) The "effectiveness" of the agencies - the rapporteur called for an analysis of opportunities for merging the small agencies when implementing the Roadmap. He acknowledged the sensitive nature of that issue but insisted on finding at least more efficient ways of cooperation. He also suggested appointing an independent coordinator responsible for the implementation of the tasks identified in the Roadmap.

- c) The excessive administrative burden. The rapporteur asked for adaptation of the administrative and financial rules that would allow for more efficient and "fit to size" operation of the agencies, which were often small in size.
- d) The conflict of interest issues. The rapporteur called for the development of suitable EU guidelines, taking into account that the existing OECD guidelines did not cover the external experts.
- e) The relationship with the EP. In the rapporteur's view the current system of the "liaison MEP", set up on an ad-hoc basis, should be expanded and made more permanent, with a view to increasing the democratic accountability of the agencies.

In terms of the specific comments to the agencies, the rapporteur suggested granting discharge to the ECDC (which had received an unqualified opinion of the Court), as the remedial measures had been taken and in his view were satisfactory. For CEPOL, in connection to its move out of its current premises, the rapporteur suggested moving it to The Hague. Furthermore, the Fundamental Rights Agency should be given more attention, in his view, due to a few harassment cases reported in recent years involving the board of directors. The rapporteur invited the agency to present clarifications on this issue. Finally, with regard to the three new supervisory agencies, he recognized that their complex financing structure required some adaptation of the Financial Regulation.

As regards the joint undertakings, he noted with concern the unqualified opinions of the Court while pointing out the high budgets managed by the joint undertakings (EUR 877 million in total for 2011). In his view the low execution rates put at risk the ability of the joint undertakings to implement assigned programmes; therefore he invited the ECA to look into the financial management of the joint undertakings and to present a special report if necessary.

Mr SARVAMAA (EPP, FI) agreed on the main points of the draft report, but criticised the fact that some important elements were missing. In his view the EP had to scrutinise very closely how the EU taxpayer's money was spent. He said that his group would table amendments, notably on the conflict of interest and the issue of transparency with regard to the EFSA and the EEA. In his view it was of paramount importance to reflect on the problems that were detected last year. Neglecting them would harm the agencies concerned and the EU taxpayers.

Mr BALCYTIS (S&D, LT), speaking on behalf of Ms AYALA SENDER, presented the opinion of the S&D group. He supported the comments already made and recognised that improvements had been made, as presented by the Court in its annual report. Nonetheless he announced some amendments.

Mr GERBRANDY welcomed the critical remarks from the shadow rapporteurs and agreed that the conflict of interest and transparency were the most important issues. However, since they had been under discussion for many years in the CONT, it was not suitable to postpone a discharge because of them.

In his view, the EP was not meant to play a prosecutor's role but to undertake an independent political check on the application of financial regulations. The rapporteur explained that in his view the problems found last year were solved.

In his concluding remarks, Mr THEURER appealed for the application of the principle of proportionality to the discharge of the agencies.

Item 52 on the agenda

2011 Discharges: Presentation of the Council recommendations by Brian Hayes, Minister of State of the Republic of Ireland, in the presence of Algirdas Šemeta, Commissioner for Taxation and Customs Union, Audit and Anti-Fraud

Mr HAYES, on behalf of the Council, delivered the speech in Annex I.

Mr SEMETA, on behalf of the Commission, delivered the speech in Annex II.

Mr GEIER, rapporteur, highlighted the link between the discharge procedure and the MFF debate. Better spending by MSs was key to engage new resources for the incoming years. He agreed with Mr SEMETA on the active involvement of MSs and called for more national statements of assurance. He complained about the high error rate that could have been detected by MSs and outlined the priorities of his report. He considered that an annual oversight of mismanagement of EU funding by MSs was a key instrument and considered that corrections were needed to address the error rate. He criticised MSs for gold-plating of EU provisions, which led to complication of rules and therefore to high error rates. He considered that rural development should be subject to the same provisions applied by DG Regio, which had proved beneficial in reducing the error rate. As regards the R&D dossiers, he called on the Commission to do better, since the dossiers were not under shared management. He also raised the issue of better training of auditors and pointed to the

evaluation report as a valid instrument. Mr PIEPER (EPP, DE) disagreed with the rapporteur who, in his view, over-criticised the MSs and noted that the Commission bears ultimate responsibility for the management of the EU budget. In his view, better training of the auditors was not enough and a more effective instrument should apply. As for annual reports from MSs, he said that they needed to be more transparent and to be drafted in English or in one of the working languages. He disagreed with the naming and shaming approach and announced amendments to reinforce the language on Eurostat and introduce some wording on Olaf (in particular on the resignation of Mr Dalli). Ms GRÄSSLE called for more transparency in the Council discharge procedure and asked whether the Council had looked at the impact of the crisis in MSs, pointing out the high levels of youth unemployment. She asked whether the Presidency would come to the plenary to discuss the discharge. Mr AUDY supported Ms GRÄSSLE, requesting the Presidency's presence at the plenary, and wondered whether the joint management was not running out of gas.

Mr HAYES told Ms GRÄSSLE and Mr AUDY that he would come to the April plenary. He agreed with Mr GEIER that taxpayers wanted proper spending and that the objectives under the MFF should be achieved. MSs needed support and better guidance to reduce the error rate, and simplification was crucial. He regretted that the estimated error rate had increased to 3.9%, but underlined a big improvement compared to the trend in 2006 and 2007. He agreed with Mr PIEPER that reliability of data was crucial. He also disagreed with the naming and shaming approach and said that an improvement of national public administrations was key to achieving the objectives of the EU budget. He told Ms GRÄSSLE that EUR 6 billion had been devoted to reducing youth unemployment in the MFF. He also agreed with Mr THEURER that there was no point in funding without clear auditing of the money spent.

Item 53 on the agenda

2011 discharge: EU general budget, Section III, Commission

CONT/7/10295

and

Item 54 on the agenda

The Court of Auditors' special reports in the context of the 2011 Commission discharge

CONT/7/11720

Rapporteur: Mr GEIER

- Consideration of draft report.

Mr SEMETA delivered the speech in Annex III.

The rapporteur thanked the Commissioner for taking on board a number of EP points but pointed out some aspects that needed to be addressed, such as own resources, in particular when linked to customs duties, and asked whether money was lost because of the delay in bringing in a simplified customs procedure. Mr THEURER inquired about the margin of flexibility, given the discrepancies between payment and commitment appropriations. Mr AUDY recalled that EUR 9 billion was missing from the EU budget. Ms GRÄSSLE added that the problem had become more acute since an increased co-financing rate had increased MSs spending, and warned against such a co-financing rate in the MFF. Mr SEMETA replied that he would forward questions on flexibility of the MFF to Commissioner LEWANDOWSKI. He agreed with Mr GEIER that better collection of customs duties was crucial for the EU budget. He recalled that the customs code could not be introduced due to the economic crisis, since it required spending to be implemented.

- Deadline for tabling amendments: **26 February 2013, 12.00**

Item 55 on the agenda

2011 discharge: 8th, 9th and 10th European Development Funds (EDF)

CONT/7/10315

Rapporteur: Mr SØNDERGAARD

Rapporteur for the responsible Committee (DEVE): M. BERMAN (S&D)

- Consideration of draft report

The rapporteur noted with concern that over the last two years the most likely error rate had increased by 3.1% and was now 5.1%. He mentioned a few points that were addressed by his report, in particular the partial effectiveness of the management and control systems, the illicit capital outflows, the budget support to developing countries, and the "budgetisation" of the EDF. Ms BRZOBOHATA (S&D, CZ) considered that discharge should be granted, since aid was provided to developing countries and suggested not mentioning data from NGOs.

Mr SCHMIDT (ALDE, SE) largely agreed with the rapporteur, but called for amendments to stress the importance of the opening of developing countries to free trade, since in his view this was key to their development, and mentioned the successful experience of some EU MSs that had followed this approach in the past. He regretted that few MSs had kept their commitment to contribute 0.7% of their GDP. Mr THEURER expressed some worries about the use of EU aid in Pakistan, where allegedly some NGOs were using EU funding to support terrorists.

- Deadline for tabling amendments: **26 February 2013, 12.00**

Item 56 on the agenda

Recommendation to the EEAS and to the Council on the 2013 review of the organisation and the functioning of the EEAS

CONT/7/11087

Rapporteur: Mr KALFIN

Rapporteur for the responsible Committee (AFET): M. BROK (PPE)

- Consideration of draft report

The rapporteur noted that the EEAS was a recently created institution and that 2011 was its first operational year. He recommended that the EEAS should constantly look for synergies through interaction with MSs and recommended that the benchmarks be defined in relation to the EU MSs' diplomatic services in the same country. He pointed to the geographical and gender imbalance within the EEAS. He considered that the balance at ambassador level was good, but called on the High Representative to implement the agreement that one-third of posts be filled by staff from MSs, including middle and senior management posts. Ms GRÄSSLE welcomed the report but considered that ambassadors should not be authorised to manage all of their delegation's finances, as if they were wearing two hats, and called for more synergies with MSs, in particular in the building policy. She also complained about the length of staff leave in delegations. Mr AUDY considered that an audit review of the EEAS and national embassies should be carried out by the ECA and by national Courts of Auditors to identify potential resource savings. Mr KALFIN told Ms GRÄSSLE that the political and management functions of Heads of delegations should not be decoupled. He told Mr AUDY that the idea of a review was good but was not sure that the Courts of Auditors were the appropriate institutions to carry it out.

The representative of the EEAS announced a performance audit of the EEAS to be started soon by the ECA. As for sharing of premises, he observed that in some delegations this was already the case. He recalled that leave was enshrined in the Staff Regulations and was not specific to the EEAS. He agreed with the approach of the rapporteur as regards the "two hats" worn by heads of delegations when spending money.

- Deadline for tabling amendments: **26 February 2013, 12.00**

In camera

Item 57 on the agenda

Coordinators' meeting

This item was not covered.

Item 58 on the agenda

Work programme 2013 of the European Court of Auditors

CONT/7/11795

- Presentation by *Vitor Manuel da Silva Caldeira*, President of the Court

Mr Caldeira delivered the speech in Annex IV.

Answering a question on the possible separation of discharge of the Council and the EC put by Mr THEURER, Mr CALDEIRA considered that the issue had to be regarded from the budget point of view and whether it was possible to identify a distinction between what falls under the responsibility of each of the two Institutions. He agreed to have a bilateral meeting to see what was precisely aimed at and requested by CONT.

Mr CALDEIRA told Mr AUDY, who inquired about the early warning role of the ECA when the budget equilibrium is not respected, that the ECA had already raised this warning in its 2011 report.

Mr CALDEIRA explained that the landscape review on EU public accountability and audit deficits co-funding may provide a better picture for the audit of the EEAS, which he qualified as a quasi institution (to Ms GRÄSSLE). He also recalled that an audit of the EEAS was under way. As Mr THEURER had mentioned concerns voiced by the World Bank (WB) during his recent visit to Washington about its relationship with the ECA (given that the EU is its second donor), Mr CALDEIRA announced that transparency and information issues would be addressed with a delegation of the WB during a visit to the ECA on 27 February 2013. He was confident that a pragmatic solution might be found.

Item 59 on the agenda

Any other business

No other business was discussed.

Item 60 on the agenda

Next meeting(s)

- 21 February 2013, 9.00 – 12.30 (Brussels)
- 18 March 2013, 15.00 – 18.30 (Brussels)
- 19 March 2013, 9.00 – 12.30 and 15.00 – 18.30 (Brussels)

Mr President,
Honourable Members of the European Parliament,
Commissioner Šemeta,
Ladies and Gentlemen,

It is my great honour to present to you, the Council's recommendation on the discharge to be given to the Commission for the implementation of the EU Budget in 2011.

I had the opportunity last November, before the beginning of the Irish presidency, to meet with Mr. Theurer. I am happy to be able to participate today, during Ireland's presidency of the Council of the European Union, in this discussion at your important committee. Today is an important milestone in the delivery of our Presidency Discharge programme.

Everyone present knows that at a time of economic and financial difficulty the sound financial management of EU funds is ever more important. The citizens of Europe expect us to be attentive to the necessity to enhance European spending and to the sound financial management of EU funds. This can ensure credibility in the public perception regarding the programmes and actions financed from the EU budget.

Let me now turn to the Council recommendations;

During recent months the Council has conducted a detailed examination of the Commission's implementation of the budget for 2011, based on the European Court of Auditors' annual report. Last week, at the ECOFIN Council, we discussed the Court's audit results and observations, as well as the replies given by the Commission and the other institutions. The Council then adopted the recommendation to give a discharge to the Commission.

The Council's recommendation, welcomes the Court's clean opinion on the reliability of the annual accounts. While the Council considers that the Court's audit findings confirm the relative stability in the error rate observed in recent years, the recommendation reiterates the wish of the Council to see year-on-year improvements in financial management systems and lower error rates. The Council's recommendation, therefore, reaffirms a number of elements which should be followed-up and implemented by the Commission and I would now like to address these in a little more detail.

(Error rates)

The Council broadly supports the Court's assessments, observations and recommendations presented in its annual report. The Court's overall estimate for the most likely error rate of 3.9% was slightly higher than last year, increasing from 3.7%. The Council took note that 0.1% of the increase resulted from changes in the Court's methodology.

The Court's report shows that a number of transactions, notably in important policy areas such as agriculture, cohesion and research, remained prone to error and above the material error threshold of 2%. The estimated error rate for agriculture, market and direct support amounted to 2.9%, while the policy group of rural development, environment, fisheries and health had the highest error rate at 7.7%. The policy group for cohesion, energy and transport showed some positive developments with the error rate for the policy group as a whole decreasing from 7.7% to 5.1%. The estimated error rate for research and other internal policies was 3.0%.

As in previous years, a significant number of the errors identified by the Court were found in the area of public procurement, in particular under shared management where Member States' national rules also apply. The Council notes that the revision of the Financial Regulation has created possibilities to modernise and simplify procurement procedures and rules and that this, together with the ongoing review of procurement procedures, should lead to improvements in this area in the coming years. The Council encourages the Commission and Member States to further align their rules in order to achieve the maximum benefits, with a view to reducing error rates.

(Member State and Commission efforts)

To quote a well known phrase “prevention is better than cure”. It is incumbent upon the Commission and also on Member States to ensure that limited EU funds are spent in the best and most effective way, for the benefit of European citizens and taxpayers. An important element for the Council in its discharge recommendation is to urge the Commission and Member States to continue their efforts to strengthen controls for the efficient and effective management of EU funds. The Council also reiterates the need for guidance from the Commission to Member States and beneficiaries to help them to fulfil their role and to further bring down the frequency of eligibility errors.

(Suspensions and corrections)

Having said that, the timely and systematic interruption and suspension of payments and the rigorous implementation of recoveries and financial corrections are important in protecting the Union's financial interests. The Council recognises that corrective measures are taken by the Commission following the identification of errors but also that these measures are sometimes only possible with a certain delay due to the multi-annual nature of programmes. Let me also emphasise the importance of obtaining timely and transparent information about the quality of financial management of EU funds, both at Commission and Member State level. We all need to know the financial impact of the detected errors, based on comparable data from the Commission and from national authorities.

(Commission's internal management system)

I will now turn to the internal management systems of the Commission. The Council considers that the Annual Activity Reports established by the Commission's Directors-General and the reservations issued in these reports are important and useful documents which provide accountability and transparency to Member States and the public. Reservations should therefore be applied systematically, whenever appropriate, in order to enhance the value of the reports. Nevertheless, the Council emphasises that the presentation and content of the Annual Activity Reports need to be harmonised in order to improve their comparability across policy areas.

(ECA report Chapter on EU Budget results)

I would also like to point out that the Council appreciates the new chapter presented in the Court's report which assesses the results achieved from the EU budget. From the Council's point of view, this is a useful additional element in the annual evaluation of the sound financial management of EU funds. It could be further developed for the programmes of the next multiannual programming period which are currently being designed. There is a need to have robust mechanisms for measuring and reporting on the performance of programmes, with timely, reliable and comparable data from the Commission and Member States. This will ensure that EU programmes deliver their expected outcomes and that their impact and the added value resulting from activities at EU level can be made clear.

(Discharge to Agencies and Joint Undertakings)

Finally, I would also like to state that the Council has also adopted discharge recommendations for thirty bodies set up under the Treaties, and having legal personality, which receive EU budget contributions. While the Council considered that some of these agencies could further improve their financial management as suggested by the Court, the Council was able to recommend discharge for them all. In addition, the Council adopted recommendations to give a discharge to six executive agencies and seven joint undertakings on the basis of the Court's specific reports.

(Conclusion)

To conclude, the Council recommendations highlight the wish to see year on year improvements in the error rate published by the Court. I want to make it clear that this will be a long process and while improvements may only be visible over time, some improvements in the trend can already be identified between the current (2007 to 2013) and past (2000 to 2006) programming periods.

As the Court rightly points out, EU policy objectives need to become much simpler, and rules must become clearer, more coherent and easier to implement. The ongoing discussions on the programmes for the new multiannual financial framework provide a good opportunity to achieve major progress towards simplification with due attention being paid to the control and prevention of errors. Of course the achievement of results from EU policies must remain the overarching priority when setting up programmes and actions while bearing in mind the need to avoid excessive administrative and control burdens.

With the implementation of these recommendations and the opportunities presented by both the new financial regulation and the ongoing discussion on the design of new multi-annual programmes under the new MFF, a further improvement in error rates should be visible over the next number of years.

All of us, the Council, the Commission and, of course, the European Parliament can work together towards this shared and valuable common objective.

Thank you very much for your attention.

Dear Chairman,
Dear Minister Hayes,
Honourable Members of this Committee,

The Council recommendation is an important milestone of the annual discharge procedure and a good indicator how the Member States perceive the performance of the European budget management. I welcome the balanced comments and conclusions made in the recommendation to the European Parliament and thank the Irish Presidency for having managed to get it approved with a very large majority in ECOFIN last week.

The Council highlights on one hand the progress achieved over the years. It confirms also that the Commission has focused its efforts on areas where improvements are necessary.

However, the Council recommendation is also very clear when it comes to identify the actors who should contribute to improving the situation, in a sustainable manner.

As regards the management and controls, the Commission will never get a positive DAS alone, without the active involvement of the Member States, responsible in first line for 80% of the EU budget. This is the spirit and the letter of Article 317 of the Treaty. Now the new Financial Regulation entered into force, it is time to act!

In the Council recommendation, there are seven references to the need for more simplification of processes and rules at EU and at national levels.

The Council and this House are the co-legislators. You have an important responsibility in putting in place a legal framework that, as the Commission proposed, includes radical simplified measures, such as in research or cohesion areas. The Court of Auditors repeats for years that this step is instrumental to reduce the risk of errors caused by too complex rules and burdensome procedures. The implementation of the Court of Auditors' recommendations is an essential point to improve financial management in the EU. The Commission will therefore put emphasis on the implementation of the remaining open recommendations.

The discharge recommendation also highlights the importance of better spending and European added value as well as of the performance of our projects and programmes. The Article 318 Evaluation report which was presented in November last year for the second time will be one of the key instruments to assess the results achieved. As agreed, the Commission will further develop this report together with you.

Finally, I would repeat what I said in ECOFIN last week: the error rate estimated by the Court of Auditors is an important performance indicator for the EU budget. But it is not the only one deserving your attention. Preventive and corrective measures are essential management instruments that enable the Commission to protect the EU budget under its multiannual character. I have asked my services to further improve the reporting on these measures and to make it more users-friendly in order to reveal fully the importance and effect of the actions taken by the Commission.

The Commission will actively follow up the Council recommendations in a way that is consistent with the requests from the discharge authority. We count on the co-legislators to support the Commission's proposals and the Member States to assume their responsibilities under shared-management.

Thank you for your attention.

Dear Chairman,
 Dear Rapporteur,
 Honourable Members of this Committee,

This year the discharge process takes place in the period where the institutions are discussing the sector related regulations for the Financial Framework 2014 to 2020. I do hope that several aspects of this years' discharge debate will be reflected adequately in the post 2013 regulations.

The draft discharge reports are balanced and constructive. They point in the right direction and ask for the appropriate actions by all financial actors. I welcome also the priority given to performance related issues.

After having received the draft discharge reports, the Commission services were already discussing concrete measures to address the requested actions. I am pleased to present to you a concrete set of measures related to the four priority actions included the draft report on discharge.

The **first priority action** refers to an annual Communication of the Commission on the protection of the Union Budget.

The Commission welcomes the initiative as it demonstrates the importance of the Commission's preventive and corrective capacities to protect the EU's taxpayer's money. Many different reporting instruments with regard to financial corrections and recoveries, interruption and suspension of payments or compensations and retentions are already implemented.

Now we will streamline all these activities among all services involved to provide the Parliament with a comprehensive and reliable overview of all preventive and corrective actions and their impact on the protection the EU budget.

The **second priority action** is focused on the error rate estimated by the Court of Auditors in shared management and research. This priority action is also linked to several sub-actions addressed to DG REGIO, DG AGRI, DG Research and Innovation as well as to DG TAXUD. I would like to address some of the horizontal aspects under this priority action.

First of all, the harmonisation of the practices concerning interruptions and suspensions. These instruments are of utmost importance to the Commission to protect the EU budget and are therefore already intensively used.

The Commission informs you on a regular basis – four times a year – about the latest developments. The strict application of interruptions and suspensions will be continued and for Cohesion policy the Commission practices concerning interruptions and suspensions has been already further harmonised in 2012.

However, the current legal framework does not foresee suspensions for all policy areas (*e.g. Agriculture and rural development*) which hampers the requested harmonisation. Therefore, the Commission seeks to improve the rules by introducing such measures for the next programming period and counts on the legislative authority's support.

Secondly, the requirement for the Member States to communicate to the Commission the draft eligibility rules in order that it may verify their compatibility with the relevant Union rules. Today, the Commission takes actions as soon as it detects national eligibility rules which are either too complex or not compliant with EU regulations.

In the preparation of the programmes for the next period, the Commission will work bilaterally with the Member States to seek systematically possibilities to apply simplified cost options that would be used instead of national eligibility rules.

As regards the European Social Fund, considerable progress is being made already on spreading the use of simplified cost options. Here as well, those simplified schemes are replacing de facto in full or in part national eligibility rules.

If the systematic ex-ante examination and validation of national eligibility rules seems difficult to organise in practice, the Commission will explore any possible process, such as promoting best practices and organising peer reviews, that would help Member States to streamlining and simplifying their national rules and ensuring their compatibility with the European legislation. Thirdly, the request to collect information from Member States concerning the degree to which national rules render Union legislation on budget management unnecessarily complicated, the so-called "gold-plating."

In the case of programmes managed by Member States authorities, breaches to national rules could account for a significant part of the overall estimated error rate.

For instance, as regards the ESF, our in-depth analysis shows that breaches to national rules contribute to 86% of the overall error rate.

In the course of implementing the 2007-2013 Cohesion programmes, the Commission has examined with Member States bilaterally the rules that were found excessively complex and proposed way to make them more simple and operational without losing the necessary link to the policy objective. The same exercise is carried out for the preparation of the 2014-2020 programmes and is still on-going as we speak.

In agricultural policy, and in particular in Rural Development, the Commission is already implementing action plans in collaboration with Member States to identify the root causes of errors and possible remedial actions.

An integral part of this work is to identify too complicated and or unnecessary additional national conditions in view of the objectives pursued. You will be informed of the outcome of this review as soon as possible.

I would now like to come to the request concerning the support to management and control authorities of the Member States in identifying the systemic sources of errors and including guidance to those authorities in their simplification efforts.

This is a critical issue. The Commission services are already active to provide guidance and support on various aspects with regard to simplification and systemic sources of errors.

For instance, in Cohesion policy, comprehensive guidance was provided in the area of simplified costs, of implementation of public procurement issues and on retrospective projects.

DG EMPL launched in 2011 a pilot action plan for Member States who were facing systemic errors. The action plan has resulted in concrete legislative changes streamlining national rules on employment aid. The Commission therefore supports this priority action and will continue its activities as requested.

In the draft discharge report the Commission is requested to harmonise the criteria for making reservations in the Annual Activity Reports and the different methodologies used to quantify public procurement errors in agriculture and cohesion.

The Commission shares and supports this call for greater coherence and has updated its internal guidance for the determination of error rates and the financial impact of public procurement errors. It has also updated the criteria on which the General-Director decides to qualify or not the declaration of assurance with a reservation in the case of errors in public procurement procedures.

In addition, an exercise was launched in 2012 to update the existing quantification used by the Cohesion services. The aim is to prepare a decision for all shared management services and possibly other services as well.

The final horizontal point under the second priority action requests to speed up the audit and financial correction procedures. I am pleased to say that following previous discharge recommendations, this became the current practice since 2012 in the cohesion area. This concerns in particular the closure of contradictory procedures earlier than planned, enabling the about 100 operational programmes to be timely closed for launch the financial correction procedure still in 2012. The details of this new approach will be provided in the annual activity reports of the Services concerned. Other policy areas will follow but for the next financial period, a lot depends on the sector-related legislation.

Let me now come to the Evaluation report and particularly performance related issues as covered by the **third priority action**.

I can ensure you that an improved performance measurement of the efficiency and effectiveness of our policies and programmes is a priority. The Commission has included in its proposals for the post-2013 legislation several elements to establish a stronger performance framework based on the principles of efficiency and effectiveness.

The next Multiannual Financial Framework provides also for stronger monitoring and evaluation arrangements. This is necessary to produce the relevant and meaningful data we need for an improved reporting on the EU added-value.

The Commission is committed to include this aspect in the standing instructions on the Annual Activity Reports covering the programmes and policies of the next Multiannual Financial Framework.

However, the actual results of the activities to improve performance reporting will only start to show results over coming years.

In the context of the Evaluation report, the Europe 2020 flagship initiatives will be taken into account. The reporting should tell us whether financial programmes attained their objectives and how they contribute to the Europe 2020 goals.

The **fourth priority action** concerns revenues and traditional own resources, a topic of utmost importance.

The Commission is invited to provide the Parliament with an evaluation of the cost of postponing the full application of the Modernised Customs Code.

As it stands, all stakeholders unanimously agreed to postpone the full application of the Code. Member States were obviously financially not in a position to develop the necessary IT systems in time, due to the financial and economic crisis.

The Commission will keep this Committee informed of the developments and will consider under which conditions the requested study could be realised. Under the current circumstances the requested evaluation would not have the expected impact and results.

As regards the identification of the channels and schemes allowing for tax evasion and tax avoidance and the promotion of appropriate countermeasures, on 6 December last year the Commission adopted a comprehensive and ambitious action plan on fighting tax fraud and tax evasion.

The plan includes the Quick reaction Mechanism against VAT fraud that the Commission proposed in July 2012. It provides that Member States would be able to apply a "reverse charge mechanism" which makes the recipient of the goods or services liable for VAT.

This would significantly improve the Member States capacity of effectively tackling complex fraud schemes, such as carousel fraud. In order to deal with possible new forms of fraud in the future, it is also foreseen that other anti-fraud measures could be authorised and established under the Quick Reaction Mechanism.

The plan was also accompanied by two recommendations to Member States on how to treat tax havens and how to deal with aggressive tax planning.

The first Recommendation foresees a strong EU stance against tax havens. Member States are encouraged to identify tax havens and place them on national blacklists, using common criteria. Specified measures to persuade these non-EU countries to apply EU governance standards are also set out.

The second Recommendation is on Aggressive Tax Planning. Member States are encouraged to reinforce their Double Tax Conventions, to prevent them from resulting in no taxation at all. They should also adopt a common General Anti-Abuse Rule.

Other initiatives include a Taxpayers' Code, an EU Tax Identification Number, a review of the anti-abuse provisions in key EU Directives, and common guidelines to trace money flows.

The fourth priority action also raises the issue of the impact of uncollected revenues on the availability of the Union Own resources.

The Commission is currently contributing to a study commissioned by the EP in the estimation of the VAT and Customs gap. The study called “levelling the Playing field on the Single Market”, gives a particular focus to the customs and VAT gaps and their impact on the economies of the Member States and the Internal Market.

Moreover, in 2008 the Commission made public a study on the estimation of the VAT gap. In reply to your request, an update of this study will be carried out in 2013. The results will be made public and transmitted to the EP.

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Finally I would like to come to **National Declarations**, a topic which was also intensively discussed in this Committee. I would like to confirm the Commission’s strong commitment to the timely fulfilment of the so-called two-step approach.

The Financial Regulation now foresees the possibility to introduce national declarations on a voluntary basis which completes the first step. I agree that we should not lose the political momentum following the adoption of the new Financial Regulation.

The Commission is therefore willing to propose to the European Parliament and Council the setting up of an informal working group on national declarations.

In my view the informal working group could already start its work on short notice and would allow a constructive and practical dialogue of all stakeholders involved.

Dear Chairman, Dear Rapporteur, Honourable Members of this Committee,

In the next coming days I will confirm in writing and in a more detailed way the Commission's commitment to the outlined main actions and initiatives.

Thank you for your attention.

Mr Chairman,
Honourable Members of the Committee,
Ladies and gentlemen,

Thank you, Mr Theurer, and your Committee for this opportunity to address you.

Today, I have the honour to present the Court's 2013 Annual Work Programme and its strategy up to 2017. In establishing them, the Members of the Court profited greatly from our dialogue with the Members of the Committee.

Together our institutions play essential and complementary roles in ensuring effective democratic accountability to citizens for the public funds put at stake to meet EU objectives.

Put simply, the Court's aim over the next five years is to work closely with this Parliament and other partners to help improve EU accountability.

This objective is at the heart of our institution's mission and we believe it is how we can best add value for citizens in the current context.

The EU's growing public accountability and audit challenges

The EU is facing growing public accountability and audit challenges. A number of factors are contributing. I will highlight three.

First, EU institutions are being called upon to support coordinated action between Member States outside the EU Treaty framework. This has resulted in parallel accountability structures with complex interrelations. The European Stability Mechanism is a case in point.

Second, the assignment of new tasks to EU institutions within the Treaty Framework also has significant implications. For example, the ECB's role in the Single Supervisory Mechanism raised once more the issue of the accountability of central banks and financial supervisory authorities to parliaments at both European and national level.

Third, the EU is increasingly using policy instruments intended to promote sustainable public finances, growth and jobs which do not readily lend themselves easily to public scrutiny or audit. For example, EU regulatory measures tend to put implementation costs on national authorities or businesses and require adequate provision for impact assessment from the outset. Similarly financial instruments that use public funds to leverage private finance put potential assets and liabilities off balance sheet and require accountability arrangements which satisfy the needs of both the providers of private finance and taxpayers.

Finally, the package of proposals relating to the next multi-annual financial framework will affect the financial management arrangements in many policy areas. A number of changes could have significant implications for the Court's audit approach.

ECA: Helping the EU to improve public accountability

Against this background, the Court's main priority in the next five years will be to provide products which help improve EU accountability for the public funds put at stake to meet EU objectives.

Identifying where accountability and financial management are most at risk is a first step. To that end, in 2013, the Court will prepare two **landscape reviews**: one on EU public accountability and audit deficits and the other covering EU financial management risks.

Landscape reviews are a type of Court opinion that aims to provide stakeholders with a general overview of public finance related issues that the Court believes policy makers should consider when developing new proposals.

But the Court will also continue to provide **opinions on specific legislative proposals** once they have been drawn up, either at the request of other institutions, or if appropriate, on its own initiative. For example, the Court will pay particular attention to the new legislative proposals on the framework regulation for agencies under article 208 of the new Financial Regulation on the general budget.

In 2012, the Court provided its opinion on many of the proposals in the legislative package for the new multi-annual financial framework. In 2013, it will continue to follow closely developments at the various stages and levels of the legislative process.

As regards **the Court's annual report** on the implementation EU budget, it will need to reflect the changes in the objectives, rules and control systems operating in many policy areas after 2013.

For financial year 2012, the Court will maintain the current structure and presentation of the annual report and ensure comparability with the previous years in the current financial framework. But from the start of the new financial framework period, the Court's audit approach will need to be updated to take account of any new information and assurance provided by the Commission or national authorities on the basis of the internal control framework. The Court is already preparing itself for the possible eventualities. This might lead the Court to re-appraise the structure of the specific assessments it provides.

The Court's approach to **the Commission's annual reporting on performance** is another area where developments are expected. As the Court noted in December in response to the Commission's second evaluation report under article 318 of the Treaty, the building blocks for a reliable performance management and reporting system need to be put in place. The Commission is free to consult the Court at any point during the future process of developing the evaluation report. Thereafter, the Court will consider where and how the information given in the evaluation report can be incorporated into its annual audit work.

As regards **special reports**, the Court will target its audit work on topics where risk, public interest and the potential to add value through audit are considered as being high. The focus will be primarily on performance issues, in particular those related to growth and jobs, added value, public finances, and the environment and climate action.

These priorities are already reflected to a large extent in this year's annual work programme. In fact, half the 20 special reports the Court intends to publish in 2013 relate to aspects of sustainable growth. For example, the two that were published in January covered investments in energy efficiency and municipal waste management infrastructure projects.

As regards topics related to the preservation and management of natural resources, the Court plans to publish a report in 2013 on adding value to agricultural and forestry products and to adopt a report on the Financial instrument for the Environment.

In 2013 External actions will also be covered by audits related to Egypt, the Palestinian Authority, the Democratic Republic of the Congo and aid to central Asia.

As regards the response to the financial crisis, the Court is working on audits related to banking system supervision and to the management of balance of payments assistance.

The Court's special reports include many recommendations which are designed to help improve performance. Assessing whether they are accepted and implemented is itself an important input to the accountability process. In 2013, the Court will publish its second dedicated **follow-up report** to provide greater focus on the action taken to address the recommendations of previous special reports and the results achieved.

Further developing the Court

If the Court is to maximise the value of its contribution to EU accountability, it will need to be – and to be seen to be - a highly professional, high-performing organisation. That is a key to ensuring our credibility.

But to achieve this objective in an evolving EU environment, means we must be prepared to develop our institution further and faster. Over the next five years, the Court will be prioritising:

- further developing itself as a professional audit institution;
- making best use of its knowledge, skills and expertise; and
- demonstrating its own performance and accountability.

Indeed, a number of related initiatives are already underway. For example, the Court is undergoing a peer review of its performance audit practice, which will also follow up the recommendations of the previous peer review in 2008.

The Court has also set up a working group to streamline our processes to make us more responsive to the needs of our stakeholders and better able to deliver high quality, timely reports and opinions as efficiently as possible.

In addition, we are developing, with the assistance of an external consultant, our communications and external relations strategy. And we are updating our key performance indicators to be reported in our annual activity reports for financial years 2013 onwards.

Mr Chairman, Honourable members of the Committee,

Over the next five years, the Court of Auditors is committed to working closely with the European Parliament to improve EU accountability, so that citizens may rest assured that their financial interests are being protected and that their money is being used wisely and in compliance with the rules.

Thank you for your kind attention.
