



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 8 October 2013

14555/13

**PE 446
BUDGET 53
INST 527
JAI 870**

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 2 October 2013

The meeting was chaired by Mr LIBERADDZKI (S&D, PL).

Items 1 and 2 on the agenda

The agenda was adopted.

***** *Electronic vote* *****

Item 3 on the agenda

Amendment of Regulation (EU) No 912/2010 setting up the European GNSS Agency

CONT/7/11894

Rapporteur for the opinion: Ms AYALA SENDER (S&D, ES)

Rapporteur for the responsible committee (ITRE): Ms SARTORI (PPE)

- Adoption of draft opinion

The draft opinion was adopted, as amended, with 14 votes in favour and one abstention.

Item 4 on the agenda

European Union Agency for Law Enforcement Cooperation and Training (Europol) and repeal of Decisions 2009/371/JHA and 2005/681/JHA

CONT/7/12432

Rapporteur for the opinion: Ms AYALA SENDER

Rapporteur for the responsible committee (LIBE): Mr DIAZ de MERA GARCÍA CONSUEGRA (PPE, ES)

- Adoption of draft opinion

The draft opinion was adopted, as amended, with 15 votes in favour and one against.

Item 5 on the agenda

Mandatory automatic exchange of information in the field of taxation

CONT/7/13025

Rapporteur for the opinion: Mr RIVELLINI (PPE, IT)

Rapporteur for the responsible committee (ECON): Mr CUTAŞ (S&D, RO)

- Adoption of draft opinion

The draft opinion was adopted unanimously, as amended, with 16 votes in favour.

Item 6 on the agenda

General budget of the European Union for the financial year 2014 - all sections

CONT/7/13255

Rapporteur for the opinion: Mr GEIER (S&D)

Rapporteurs for the responsible committee (BUDG): Ms JENSEN (ADLE, DK)
Ms HOHLMEIER (PPE, DE)

- Adoption of draft opinion

The draft opinion was adopted, as amended, with 12 votes in favour, one against and one abstention.

***** End of electronic vote *****

Item 7 on the agenda

Discharge 2012: EU general budget - European Commission

CONT/7/13844

Rapporteur: Mr PIEPER (PPE, DE)

- Exchange of views with the Member of the European Commission responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud, *Algirdas Šemeta*, and consideration of the following documents:
 - The follow-up to the discharge for the 2011 financial year (COM(2013)0668 final)
 - The Synthesis of the Commission's management achievements in 2012 (COM(2013)0334 final)

- The Annual Report to the Discharge Authority on internal audits carried out in 2012 (Article 99(5) of the Financial Regulation), in the presence of the Commission's Internal Auditor, *Philippe Taverne* (COM(2013)0606 final)
- The report on "Protection of the EU Budget"

The rapporteur welcomed the information provided in the newly issued Commission communication to the European Parliament on the "Protection of the European Union Budget to end 2012".

This document provided a comprehensive analysis of the financial corrections and the recoveries implemented in 2012 per Member State (MS) and the rapporteur expressed his satisfaction with the additional clarification and transparency of shared management expenditure. He pointed out the high level of recoveries identified in Spain, Italy, Greece, Poland and Romania and the large differences between recoveries under the ESF and the ERDF. He asked about measures taken by the Commission to remedy this situation. He also referred to a "gold-plating" issue raised in the EP resolution and criticised weak follow-up on it by the Commission.

Mr SEMETA delivered the speech in the annex.

Ms KALJULAI, Member of the European Court of Auditors, welcomed the papers tabled by the Commission as valuable material. In general she felt that the Commission was acting faster when it came to recovering or suspending erroneous spending. Nevertheless, she complained that even if the erroneous expenditure is replaced the quality of the new projects is not guaranteed. In her view, Member States needed to be better motivated in detecting errors and she stressed that many errors could already have been corrected at Member State level.

Mr VAUGHAN (S&D, UK) reiterated the importance of sound spending, in particular in times of crisis. He insisted on simplification and focusing more attention on individual MS. He considered that the Commission should be more transparent in interruption and suspension procedures and asked it to provide responses to the suggestions put forward by the EP in the last discharge resolution.

Ms GRÄBLE (EPP, DE) criticised what she qualified as the Commission's excessive optimism with regard to the error rate in the MS and questioned the reliability of the numbers provided in the Commission communication. She pointed to the low level of advances that had been recovered and asked the Commission to provide a clearer picture of the recoveries in the MS in crisis and the results of the internal audits. She stated that the Commission should focus more on prevention measures rather than correction measures.

Mr GEIER (S&D, DE) felt that the higher amount of recoveries reflected efficient work by the Commission. He welcomed the fact that corrections were executed and considered that the situation was improving against a broader picture of developments over the years. He asked that the error rate be evaluated taking into account the amount of corrections and recoveries.

Mr TAVERNE from the internal audit told Ms GRÄBLE, who inquired about the situation in the European Institute of Innovation and technology (EIT) in Budapest, that the results of the internal audit were available on the EIT website and no further details could be given at this stage.

Commissioner SEMETA reaffirmed that the role of the Commission was to protect the EU budget and such measures as interruption or suspensions of payment make it possible to correct errors and to replace a "wrong" expenditure with a good one. He stated that payment retroactivity would be eliminated in the next programming period. The Commissioner also agreed with Ms GRÄBLE on the prevention vs. correction issue and gave assurance that the Commission made use of preventive measures as much as possible. Nevertheless, correction was needed when errors were found too late. In his view, control measures had not been stepped up because of the crisis. He regretted that many simplification measures proposed for the next MFF had disappeared during the negotiating process. In terms of transparency, he referred to Note 6 to the annual account which contained the list of MS affected by the interruption and suspension of payments. He underlined the fact that the use of corrective measures was aligning in the ESF and ERDF, the latter having caught up in recent years. Finally, he proposed a workshop to discuss the issues tackled in the Commission communication in more detail.

Mr PIEPER concluded by saying that a written question would be submitted to the internal audit service. He expressed his concern about the amount of money lost over the years and called for concrete remedies for each Member State concerned and for the Commission to be involved in implementing the programmes in critical countries.

Mr LIBERADZKI, chairing the meeting, gave a reminder of the end of the EP's term, and noted the EP's role and responsibilities and the responsibilities of the Commission to protect EU financial interests.

Item 8 on the agenda

Future role of the Court of Auditors (ECA). The procedure for the appointment of Members of the Court of Auditors: European Parliament consultation

CONT/7/09305

Rapporteur: Ms AYALA SENDER (S&D, ES)

- Consideration of draft report
- Deadline for tabling amendments: **17 October 2013, 12.00**

The rapporteur said that the report aimed to trigger a debate on how to improve the assessment of the EU budget and its spending. The report addressed in particular the future role of the ECA in assisting the Parliament and the Council in overseeing the implementation of the EU budget and underlined the fact that the ECA was adapting its working methods and products to a new environment and new challenges. In this sense, she welcomed the role played by the ECA in auditing the new financial instruments. In her view, the ECA should support and advise from the outset by issuing comprehensive opinions on the preparation and discussion of programmes and legislative proposals. Performance audits by the ECA should evaluate Union policy instruments. Ms AYALA SENDER felt that the current DAS (Statement of Assurance) framework adds limited value and that an independent DAS could be made on a cyclical basis or be delegated to the Commission. According to the rapporteur, the ECA needed a change in both its governance structure and the appointment of its members in order to better meet performance audit objectives. As for the governance structure, she suggested that a governing body consisting of the 28 heads of the National Supreme Audit Institutions meet three times a year and set a work programme, which would be implemented by a management board of no more than nine members composed of a representative sample of large and small MS, with an appropriate gender balance. As for the appointment procedure, Ms AYALA SENDER referred to a number of selection criteria, including in particular knowledge and experience of the EU institutions. The role of the EP in the appointment should include a right of veto. In this context, she criticised the Council's decision to appoint a member despite a negative opinion of the EP.

Mr CALDEIRA welcomed the initiative and said that the ECA had not yet given full consideration to the report, but that it would in the coming weeks. He warned against suggestions that could interfere with the specific roles that the treaty conferred on the different institutions and insisted on the role of the ECA as external auditor. As such, the ECA assisted the EP in providing independent information, assessment and assurance in seeking better spending of the EU budget. In this sense, the ECA's role included a mix of financial, compliance and performance auditing to ensure the credibility of its activity. The ECA remained on the forefront of a changing environment and traditional instruments such as DAS were coupled with an annual report to ensure better assessment of EU spending. Mr CALDEIRA warned against moving towards a purely ex ante audit.

Mr GERBRANDY (ALDE, NL) welcomed the report but expressed some criticism of the number of ECA members, which in his view should not include representatives of all MS. He also stated that the choice of the annual programme should remain with the ECA. Concerning the appointment of members, he complained about the politicisation of applications, and mentioned the Spanish, Irish and Dutch cases. As for the appointment of the Croatian member, he insisted that a decisive role should be given to the EP. Mr AUDY (EPP, FR) underlined the need for audit bodies to be independent, as required by international standards. Therefore, no role in the audit should be given to the Commission. He announced some amendments to these points of the report.

Item 9 on the agenda

CONT delegation to Bulgaria in the context of "Decommissioning of nuclear power plants" and "EU Funds (28 to 30 October 2013)

CONT/7/11814

Head of delegation: Ms GRÄßLE (PPE)

- Exchange of views on the preparation of the delegation

Item 10 on the agenda

Coordinators' meeting

The meeting was held in camera.

Item 11 on the agenda

Any other business

No other business was discussed.

Item 12 on the agenda

Next meeting(s)

- 4 November 2013, 15.00 – 18.30 (Brussels)
- 5 November 2013, 9.00 – 12.30 (Brussels)

Dear Chairman, Honourable Members, Ladies and Gentlemen,

The three reports and the Communication that I will present today aim at informing you, the discharge authority, about what the Commission has put in place and is implementing to reply to your recommendations, improve its performance and protect the EU Budget.

[1) THE SYNTHESIS REPORT OF MANAGEMENT ACHIEVEMENT IN 2012]

Starting with the Synthesis Report, I would like to stress that this important accountability instrument presents a transparent overview of our achievements, but also of the weaker spots and crosscutting issues flowing from the Annual Activity Reports

[QUALITY OF THE ANNUAL ACTIVITY REPORT]

I am pleased to note that the Court of Auditors considers that the Annual Activity Reports give a 'fair assessment of financial management in relation to regularity'.

Fifteen Directors-General and two Directors of Executive Agencies issued a total of twenty-nine reservations.

The overall amounts estimated at risk range between EUR 2.6 and 3.5 billion, meaning between 1.9 and 2.6% of all executed payments. At the same time, the financial corrections and recoveries implemented have increased noticeably amounting to EUR 4.5 billion Euros, compared to EUR 1.8 billion in 2011.

I will explain later on that this assessment reflects rather well the actual budget exposure of the last years.

[THE WAY FORWARD]

The Synthesis report contains a number of concrete instructions to the Commission's services.

These instructions focus in particular on the following issues:

- the quantification of procurement procedure errors,
- the harmonization of materiality criteria, which is fundamental for improving coherence and transparency of the annual reporting tools,
- the promotion of the extensive use of simplified cost options to replace burdensome national eligibility rules,
- the effective use of interruptions and suspensions of payments. In 2012, for cohesion policy, an amount of €4,9 billion has been subject to interruption and 4 programmes were suspended (IT, DE, CZ and SK),
- the active implementation of financial corrections leading to a substantial increase in the amounts that have been excluded from irregular expenditure, as I will explain in my presentation of the Report on the protection of the EU Budget.

Moreover, the new provisions of the Financial Regulation reinforce the reporting obligation of the Member States under shared-management. I stress again here the Commission willingness to encourage the use of national declarations once the new reporting framework is in place and works properly. I am organising with Jan Mulder a working group on that subject in order to propose a common template and issue recommendations beginning of next year.

Last but not least, the Commission is progressively developing a performance culture throughout all its services, focusing now on the implementation of the new generation of programs under the Financial Perspectives 2014 to 2020.

[ART 318]

Finally, as regards the Evaluation Report under article 318 of the TFEU the Commission has taken your suggestions for improvement on board.

In particular on timing, the Commission adopted the Report in parallel with the Synthesis, in June this year.

All policy areas are covered and the contributions of funding programmes to the achievement of Europe 2020 initiatives are included where such information is available.

[2) REPORT ARTICLE 99.5 ON INTERNAL AUDITOR'S ACTIVITIES IN 2012]

The Synthesis report is built on a number of contributions from the Commission's services. The report on the Commission's Internal Auditor's activities in 2012 is one of them.

It summarises the key audit findings, significant risk exposure and issues of control or corporate governance in the Commission's Services and executive agencies.

Amongst the 29 audit engagements finalised in 2012, let me focus on two horizontal performance audits which illustrate how internal audit helps the Commission improving its management and move towards a 'performance culture':

Firstly, in the audit on the Annual Activity Report process, the Internal Audit Service found that the process is well established overall but needs further improvement, notably:

- o in reporting on the performance and respect of sound financial management principles,
- o in the structure of the reports to better serve the diverse audiences that examine the Annual Activity Reports,
- o in the quality control process by the Commission's central services to ensure reliability of the information presented.

These improvements will be applicable for the 2013 exercise onwards.

Second, in the audit of the staff allocation process, the IAS recommended developing a corporate framework for managing and monitoring of staff allocation to better address the human resources needs. In particular, it requests more transparency on the use of resources allocated to priority tasks and a more effective identification of training needs linked to the expertise actually needed in the Services.

Let me conclude by stressing that in accordance with the priority given by the Commission on establishing a new performance culture in its services, the Internal Audit Service is dedicating today up to 50% of its resources to Performance Audit engagements.

[3) FOLLOW UP TO THE 2011 DISCHARGE RECOMMENDATIONS]

The European Parliament has identified a number of these issues in the framework of the discharge 2011 as well. Therefore, in presenting the report on the follow up to the discharge recommendations, I will concentrate on the progress made with regards to the four priority actions put forward in your resolution.

[FIRST PRIORITY ACTION]

Your first priority action called on the Commission to prepare a Communication on the protection of the EU budget.

The Communication, which I will present later on, demonstrates that although Member States and the Commission cannot prevent all individual errors, our corrective systems protect adequately the EU budget in the long run.

[SECOND PRIORITY ACTION]

The Commission also made good progress with regards to the second priority action related to error rates.

Just to name a few of our actions:

- the practices concerning interruption and suspension of payments to Member States with weak controls have been intensively used and, where possible, harmonised,
- the audit and financial correction procedures has been speeded up,
- the use of simplified cost options reducing the risk of error for the European Social Fund and the Regional Development Fund has been actively promoted with Member States.

With regards Agriculture the Commission has assessed the root causes of errors in the implementation of rural development policy.

In consequence, some Member States (Portugal, Spain, Bulgaria and Italy) have already amended their rural development programs in order to reduce the risk of errors and, for the new programming period (2014-2020), further harmonisation of interruption and suspension mechanisms are included in the Commission proposal.

[THIRD PRIORITY ACTION]

As I explained before, the Commission is fully committed to the implementation of your third priority action regarding the improvement of the Evaluation report (article 318 TFEU) and enhanced use of performance audits.

The Commission proposals for the new generation of programmes will further improve the process. They include elements aimed at delivering a stronger performance framework, such as the definition of SMART objectives and RACER performance indicators, focussing on efficiency and effectiveness in reaching the EU 2020 priority goals.

[FOURTH PRIORITY ACTION]

Regarding the fourth priority action on "Revenues and traditional own resources", let me recall the ambitious action plan adopted by the Commission on fighting tax fraud and tax evasion.

As for VAT and customs duties, the Commission put forward a proposal for a Directive on the fight against fraud to the EU's financial interests by means of criminal law in July 2012.

In June 2013 the Commission also adopted the Communication to the Council and the European Parliament on the EU strategy to step up the fight against cigarette smuggling.

[FOLLOW-UP REPORT CONCLUSION]

The high level of implementation of Parliament's requests demonstrates that we do share the same goals as regards the sound financial management of the EU Budget and that the Commission is committed to delivering results.

[4] COMMUNICATION ON THE PROTECTION OF THE EU BUDGET]

Dear Chairman, Honourable Members, Ladies and Gentlemen, let me finally present you the first Communication on the protection of the EU Budget.

The Commission's priority when it comes to the execution of the EU budget is of course to add value and achieve the agreed EU policy objectives. But the Commission has also the responsibility, together with the other financial actors, to protect the financial interests of the EU.

Therefore, the actions implemented to protect the EU Budget should be taken into consideration when assessing the effectiveness of the Commission's supervisory and control systems.

This Communication and its Annex aim at providing an overview of the legal and organisational framework in place and also to show the tangible results of the corrective actions for the budget as a whole and the most important spending areas.

I would like to focus on the following new elements:

The first new element is that the amounts of financial corrections and recoveries are compared to the volume of payments made. For example, for 2012 the total amount of financial corrections is 4.4 billion euro, which corresponds to 3.2% of the payments made.

Due to the multi-annual nature of EU spending, financial corrections usually take place in the years after the original expenditure was made from the EU budget. Corrections made in 2012 relate mostly to errors of previous years. But that does not mean our management and control systems are not effective in protecting the EU Budget over time.

Therefore, as the second new element, specific information on the link between spending and corrections over several years is included to reflect the trend and amplitude of the corrective measures implemented.

In particular, the total amounts of financial corrections and recoveries for the period 2009-2012 correspond to 2% of the average volume of payments for the same period.

Even if the corrections concern mainly payments made in previous years, the relative amplitude of their impact is an indicator that deserves being taken into account together with the indicator represented by the error rate estimated by the Court of Auditors which, for 2009, 2010 and 2011, was respectively 3,3%, 3,7% and 3,9%.

If we look further backwards, we observe that since 1994 under shared-management, more than € 17,5 billion have been definitely corrected and corrections for about two more billion € are in the process of being implemented.

Regarding the Regional and Cohesion Funds, financial corrections for the programming period 2000-2006, which is now in the closure phase, total about 8 billion euro. This corresponds to 4% of the total contribution (197 billion euro).

The third new element is that detailed information and comparisons between Member States are provided concerning payments received and financial corrections implemented.

Recognising both the complexity of the subject and the new elements introduced, the Commission is willing to discuss further with your committee and provide additional explanation. Therefore, I would suggest organising a workshop on the subject.

[CONCLUSION]

In conclusion, I want to underline that the Commission can demonstrate it has effective preventive and corrective measures in place to protect the EU budget from ineligible use.

The Commission is aware of the political importance of this document, which will from now on be presented every year. The Commission is confident that the Communication can be a useful input to the 2012 and future discharge debates. Thank you.