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NOTE

from: General Secretariat of the Council
to: Delegations

Subject: Summary of the meeting of the European Parliament **Committee on Budgetary Control (CONT)**, held in Brussels on 28 and 29 February 2012

28 February 2012, 15.00 - 18.30 (Meeting Room József Antall 4Q2)

- 1. 2010 Discharges: Presentation of the Council recommendations by *Bjarne Corydon*, Minister of Finance of the Kingdom of Denmark, in the presence of *Algirdas Šemeta*, Commissioner for Taxation and Customs Union, Audit and Anti-Fraud**

Ms Vestager, Danish Minister for Economics and the Interior, delivered the speech in annex I.

Mr Fjellner (EPP, SE) rapporteur, considered that MS were responsible for many errors and regretted their making EU law more complex when implementing Directives, which according to him also contributed to increasing the error rate. Moreover, he highlighted the Court of Auditor's finding that 58% of the errors could have been detected at MS level. He also recalled that three MS had voted against the discharge Recommendation. Ms Vestager considered that complex implementing provisions could be explained by compromises that had to be struck within national parliaments when implementing EU law. Concerning the error rate, she thought that errors should be broken down according to their type if progress was to be achieved in this field.

As for the three MS that voted against the Recommendation, she explained that although some of their reasons were shared by other MS, the majority endorsed the Recommendation. She told Ms Gräßle (EPP, DE) that she did not think that blaming and shaming a specific MS would help, but agreed with her that recoveries and financial corrections may help decrease the error rate in MS. She also agreed with Mr Geier (S&D, DE) about interruptions and suspensions of payments, which according to her should be applied as soon as rules are broken. As she was urged three times by MEPs (Staes, Verts-BE; Sondergaard, Gue-DK) to take a clear stance on the Council discharge, she recalled the long dispute between the EP and the Council on the discharge procedure, quoted Article 319 TFEU and called on the EP for a mutual agreement to be found with the Council.

2. 2010 discharge: EU general budget, Section III, Commission
CONT/7/06929, 2011/2201(DEC)

and

ECA special reports in the context of the 2010 Commission discharge

CONT/7/07186, 2011/2225(DEC)

Responsible: CONT –

Opinions: AFET, DEVE, INTA, BUDG, ECON, EMPL, ENVI, ITRE, IMCO, TRAN,
REGI, AGRI, PECH, CULT, JURI, LIBE, AFCO, FEMM, PETI

Mr Fjellner, rapporteur, highlighted four priority action areas that should be addressed to overcome some Commission weaknesses in managing the EU budget. He specifically mentioned the implementation and monitoring of the Financial Engineering Instruments which are used in cohesion policy, the Commission's internal governance structure, the use of pre-financing and the creation of an effective sanctioning mechanism in the area of Cohesion policy.

M Šemeta, Commissioner for Taxation and Customs Union, Audit and Anti-Fraud, delivered the speech and provided the answers in annex II.

M Šemeta told Mr Geier that no break was foreseen for the financial engineering instruments and that they should be looked at within the multiannual Financial Framework. As Mr Mulder insisted on an annual declaration of assurance to be provided by MS, Mr Šemeta recalled that MS were reluctant even to introduce annual management declarations and looked forward to cooperation by the EP in achieving that aim.

Concerning the audit of the European Stability Mechanism, the Commissioner told Mr Mulder that an audit had been scheduled . He assured Mr Bradbourn (ECR, UK) of the fact that sanctions were used very actively and recalled that regional financing amounting to several million euro had been suspended in 2011.

3. Discharge for 2010: 8th 9th and 10th European Development Funds
CONT/7/07173, 2011/2212(DEC)

Mr Ehrenhauser (NI, AT) regretted that issues in this area appeared to be 'evergreen' and referred to an estimated error rate of 3,4% . Ms Hohlmeier (EPP, DE) thought that MS should consider the advantage of running programmes in a more effective way, instead of running the risk of implementing parallel projects in development countries. She also criticised the reference to EIB bonuses made in the report, as she considered that beyond the CONT's remit . Mr Schmidt (ALDE, SE) raised doubts about budgetary support, because of local government corruption and the need to ensure its the effectiveness of the support. The representative of the Commission welcomed a hearing on budgetary support and announced a study to investigate error rate fluctuations. He also reported on training provided to staff in order to reduce errors.

4. Staff Regulations of Officials and Conditions of Employment of Other Servants of the EU
CONT/7/08220, 2011/0455(COD)

Ms Gräßle justified some 11 amendments she had suggested to the JURI report on this issue concerning, inter alia, home travelling time, compensatory leave (flexible working time), automatic promotion, rules on leave, in particular for officials in the EEAS and conflicts of interest.

Mr Eherenhouer fully supported Ms Gräßle on the working time issue. He announced amendments regarding protection for whistleblowers, supported by Ms Macovei (EPP, RO). Mr Ayala Sender considered that officials should be involved more in some aspects of the Regulation. She warned against making the EU civil service less attractive by being excessively strict about travelling time and leave. Mr Mulder raised the issue of difficulties in recruiting people in some MS and asked whether figures were available and considered that an alignment of leave for EEAS officials was needed, as EU officials were now working with national staff.

5. Discharge 2010: EU general budget, European Parliament
CONT/7/06988, 2011/2202(DEC)

Mr Liberadzki (S&D, PL), rapporteur, focused on two main features of his report: security and good implementation of the budget. As for security aspects, he referred to some points raised by Ms Ivanova (EPP, BG) concerning thefts from offices and car parks. He disagreed with Ms Mathieu (EPP, FR), supported by Ms Gräßle and Mr Gerbrandy, that cash payments should stop and recalled that practical reasons justified them. He reminded Mr Balcytis (S&D, LT) that EP staff has to be spread over three sites because of Treaty provisions. Amendments were also announced by Mr Eppink (ECR, BE) regarding the House of European History, and building policy (Sondergaard), digitalisation (Gerbrandy), Lux prize for film, which, according to Ms Ceskova (ECR, CZ), who was supported by Mr Sonik (EPP, PL) should no longer be awarded, and the travel agency (Gräßle, supported by Balcytis).

Deadline for tabling amendments: 5 March 2012, 18 h.

6. European Court of Auditors Opinion N° 7/2011 on the proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006
CONT/7/08707

Mr Fazakas, Member of the European Court of Auditors responsible, delivered the speech in annex III. Mr Cretin, Member of the European Court of Auditors, added that, despite the attempt to harmonise provisions applicable to all funds, the Regulation introduced a distinction between 'common' provisions, which applied to all of the five funds, and 'general' provisions, which only applied to three of them, and not to the Rural Development and Fisheries Funds. Moreover, he considered that the new provisions should allow the ECA to assess whether accredited national bodies for managing Structural Funds were fit for the task.

Mr Vaughan (S&D, UK) underlined the fact that the new Regulation focused on reducing the error rate. As for the accreditation procedure, he welcomed it, but considered that the Commission should remain accountable. He expressed some concerns on macroeconomic conditionality, as some regions might be penalised by errors made at MS level.

As for financial corrections, he supported the Commission proposal to move to a net reduction for non-complying MSs. According to Ms Gräßle, the original intention to bring together the management of the different funds had not been achieved, but considered that it was not for the EP to redress the proposal through amendments. Mr Audy (EPP, FR) expressed doubts regarding the accreditation system, given the cost arising from audits which each Member State had to organise and called for financial management at EU level to be explored .

The representative of the Commission recalled that the EU added value of the new system was to be found in the shift of focus from input to results. He underlined the importance of macroeconomic conditionality, which would be applied if recommendations in the excessive deficit procedure were not complied with by a MS. He stressed accreditation as key feature of the reform.

2010 Discharge: Agencies

7. - Discharge for 2010: performance, financial management and control of EU agencies

CONT/7/07206, 2011/2232(DEC)

Responsible: CONT –

Opinions: AFET, DEVE, INTA, BUDG, ECON, EMPL, ENVI, ITRE, IMCO, TRAN,
REGI, AGRI, PECH, CULT, JURI, LIBE, AFCO, FEMM

- Discharge 2010 : Translation Centre for the Bodies of the European Union

CONT/7/07237, 2011/2219(DEC)

- Discharge for 2010: Cedefop, the European Centre for the Development of Vocational Training

CONT/7/07181, 2011/2213(DEC)

- Discharge for 2010: European Police College (CEPOL)

CONT/7/07256, 2011/2230(DEC)

- Discharge for 2010 : Community Fisheries Control Agency

CONT/7/07263, 2011/2234(DEC)

- Discharge for 2010: European Aviation Safety Agency

CONT/7/07246, 2011/2224(DEC)

- Discharge for 2010: European Centre for Disease Prevention and Control (ECDC)

CONT/7/07250, 2011/2227(DEC)

- **Discharge for 2010 : European Chemicals Agency**
CONT/7/07265, 2011/2235(DEC)

- **Discharge for 2010: European Environment Agency**
CONT/7/07232, 2011/2217(DEC)

- **Discharge for 2010: European Food Safety Agency**
CONT/7/07248, 2011/2226(DEC)

- **Discharge 2010 : European Institute for Gender Equality**
CONT/7/07441, 2011/2264(DEC)

- **Discharge 2010 : European Medicines Agency**
CONT/7/07238, 2011/2220(DEC)

- **Discharge for 2010: European Monitoring Centre for Drugs and Drug Addiction**
CONT/7/07230, 2011/2216(DEC)

- **Discharge for 2010: European Maritime Safety Agency**
CONT/7/07244, 2011/2223(DEC)

- **Discharge for 2010: European Network and Information Security Agency**
CONT/7/07252, 2011/2228(DEC)

- **Discharge for 2010: European Railway Agency**
CONT/7/07254, 2011/2229(DEC)

- **Discharge 2010 : European Training Foundation**
CONT/7/07242, 2011/2222(DEC)

- **Discharge 2010 : European Agency for Health and Safety at Work;**
CONT/7/07235, 2011/2218(DEC)

- **Discharge for 2010 : Euratom Supply Agency**
CONT/7/07267, 2011/2236(DEC)

- **Discharge for 2010: European Foundation for the Improvement of Living and Working Conditions**
CONT/7/07226, 2011/2214(DEC)

- **Discharge 2010 : Eurojust**
CONT/7/07240, 2011/2221(DEC)

- Discharge 2010: Europol
CONT/7/07351, 2011/2255(DEC)

- Discharge for 2010: European Union Agency for Fundamental Rights
CONT/7/07228, 2011/2215(DEC)

- Discharge for 2010 : European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX).
CONT/7/07258, 2011/2231(DEC)

- Discharge for 2010: European GNSS Agency
CONT/7/07260, 2011/2233(DEC)

<i>2010 Discharge: Joint Undertakings</i>
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- Discharge for 2010 : ARTEMIS - Embedded Computing Systems.
CONT/7/07277, 2011/2240(DEC)

- Discharge for 2010: CLEAN SKY - Aeronautics + Environment
CONT/7/07275, 2011/2239(DEC)

- Discharge 2010 : ENIAC Joint Undertaking
CONT/7/07442, 2011/2265(DEC)

- Discharge for 2010 : Fuel Cells & Hydrogen Fuel Cell (FCH)
CONT/7/07281, 2011/2242(DEC)

- Discharge for 2010 : Initiative on Innovative Medicines (IMI);
CONT/7/07279, 2011/2241(DEC)

- Discharge for 2010 : Joint Undertaking for ITER and the development of fusion energy
CONT/7/07269, 2011/2237(DEC)

- Discharge for 2010 : SESAR Joint Undertaking
CONT/7/07271, 2011/2238(DEC)

Ms Macovei, rapporteur, underlined the increasing number of EU agencies and recalled that 24 were under the discharge procedure for 2010. She made some horizontal remarks based on findings that recurred in agencies, such as the large number of carryovers, public procurement weaknesses, conflicts of interest and governance issues.

Concerning this latter aspect, she criticised boards that were too large, which, according to her, might affect decision-making, given the frequent turnover of members. She highlighted the fact that the ECA report had not been the only source for drafting her report. In general, she observed that running costs of agencies should be reduced.

Concerning Joint Undertakings, she highlighted some horizontal shortcomings affecting all of them, such as carryovers, procurement, late payment of contributions by MS, conflicts of interest.

Mr O'Shea, Member of the European Court of Auditors responsible for the discharge of Agencies, underlined the frequent contacts between the ECA and the Agencies and noticed that the performance of Agencies had improved. In particular, he stressed the good results of CEPOL, which had obtained a 2010 unqualified audit after many years of bad reporting. The same applied to EMA. Mr O'Shea disagreed with Ms Macovei, and stressed that all Agencies had produced reliable accounts free from material errors.

Mr Balko, Member of the European Court of Auditors responsible for the discharge of Joint Undertakings, highlighted the fact that the Joint Undertakings agreed with the remarks set out in the ECA report and were ready to address them.

Ms Herczog (S&D, HU) underlined the fact that Agencies provided an important EU added value, accounting for less than half a percent of the EU budget. She considered that remarks to ECA should be removed from the present report as it might be better to include them, if necessary, in the specific report concerning the ECA. She considered that, for instance, carryovers could not always be seen as mismanagement, and could be justified on a case-by-case basis. As for the conflicts of interest, she thought it inevitable, as most specialised bodies had difficulties finding appropriate staff and hiring people from the industry might be the inevitable result.

Ms Mathieu (EPP, FR) announced some amendments, in particular concerning mergers of agencies, which she criticised.

Mr Gerbrandy disagreed with what he considered an excessively critical report and asked Ms Macovei to withdraw the wording of her report calling into question the independence of the ECA. In particular, he disagreed with the specific criticism referring to the European Environment Agency. A representative of the Chemicals Agency and a representative of the Environmental Agency took the floor, as coordinators of the Agencies. They both assured CONT that Agencies remained available for an open dialogue and objected to what they considered an excessively critical tone in the report.

Ms Macovei considered that work was still ongoing with shadow rapporteurs. She said to Ms Herczog that conflicts of interest might be inevitable, but remained a danger to be addressed and announced that a meeting would take place on the following day with the Director of the Environment Agency.

Deadline for tabling amendments: **5 March 2012, 12.00**

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8. Work programme 2012 of the European Court of Auditors CONT/7/08708

Mr Caldeira, President of the Court of Auditors, delivered the speech in annex IV.

Mr Caldeira told Ms Gräßle that the ECA opinion on the Staff Regulations was being finalised but would not be ready by the end of the week. Responding to Mr Theurer on whether the given discharge to the Council should include the EEAS, Mr Caldeira said that ECA was looking at how this new body, which included staff from MS, should be audited. He told Mr Audy that the ECA had redeployed staff to core functions and could ensure more work with fewer resources. He also assured Mr Audy of the independence of the peer review of the ECA performance audit, although he explained that it had not been easy to assemble a board of non-EU members from independent audit bodies similar to the ECA. He also replied to a question on the European Stability Mechanism put by Mr Sondergaard, and recalled that the new treaty provided for an auditing board in which ECA would have a member to represent it.

2010 Discharge: Other Institutions

9. - Discharge 2010: EU general budget, Council

CONT/7/07008

2011/2203(DEC) COM(2011)0473[03] – C7-0258/2011

- Discharge 2010 : EU general budget Court of Justice

CONT/7/07028

2011/2204(DEC) COM(2011)0473[04] – C7-0259/2011

- Discharge 2010 : EU general budget, Court of Auditors

CONT/7/07047

2011/2205(DEC) COM(2011)0473[05] – C7-0260/2011

- Discharge 2010 : EU general budget, Economic and Social Committee

CONT/7/07067

2011/2206(DEC) COM(2011)0473[06] – C7-0261/2011

- Discharge 2010 : EU general budget, Committee of the Regions

CONT/7/07087

2011/2207(DEC) COM(2011)0473[07] – C7-0262/2011

- Discharge 2010 : EU general budget , European Ombudsman

CONT/7/07107

2011/2208(DEC) COM(2011)0473[08] – C7-0263/2011

- Discharge for 2010: EU general budget, European Data Protection Supervisor

CONT/7/07127

2011/2209(DEC) COM(2011)0473[09] – C7-0264/2011

Ms Ayala Sender (S&D, ES), rapporteur, announced a possible postponement of the Council discharge, to allow further informal contacts with the Danish Presidency. Mr Sondergaard (GUE, DK) raised the issue of the questionnaire that had not yet been answered by the Council. According to Ms Grässle, the Council needed to reply the questionnaire. She also disagreed that the report mentioned an agreement on a procedure between the two institutions. Mr Geier (S&D, DE) considered that neither institution could be satisfied with the present stalemate and suggested discussing some kind of procedure with the Council. Mr Theurer (ALDE, DE), Chair, recalled the political nature of the Council discharge and suggested that national parliaments might be involved.

He also recalled that a letter proposing an MoU had been addressed by the Council to the EP but it had never been answered by the EP. Ms Grässle expressed the opinion that a conference with national parliaments should be organised and considered that a reply should be sent to the Council on its proposal for an MoU. Ms Ayala Sender concluded by recalling that her draft report mentioned the questionnaire, and she suggested postponing discharge as no answer had been given by the Council. Nevertheless, discussions with the Council should be continued, ideally with a view to an agreement.

Mr Ayala Sender also addressed subject of the EESC and considered that its discharge should also be postponed, as a ruling by the Civil Service tribunal was awaited. The issue was also under examination by OLAF.

10. Protection of the European Union's financial interests - Fight against fraud - Annual Report 2010

CONT/7/06487, 2011/2154(INI)

Responsible: CONT –

Opinions: REGI – Decision: no opinion

Mr Balčytis (S&D, LT) recalled that information provided by the Commission under the Irregularity Management System (IMS) was quite large, even if not easily readable, as the tables provided were not comparable. He acknowledged that Member States had been failing to provide data to the Commission in a timely manner or the data they had provided was inaccurate, which made it impossible to evaluate objectively the true scale of fraud in EU Member States. He therefore called on the Commission to take full responsibility for determining what the homogeneous comparable data and the reporting principles throughout the Member States should be. Mr Deutsch (EPP, HU) underlined the problematic report from the Commission that appeared to bluntly criticise the lack or reliability of the data from MS for the relevant year.

Mr Kessler, Director-General of the European Anti-Fraud Office (OLAF), told Mr Deutsch that unreliable data from MS did not concern only one year, but had been a problem for years. He urged the Commission to make a huge effort to gather data and convince some reluctant MS to cooperate.

Nevertheless, Mr Kessler expressed the personal opinion that the IMS needed to be reformed, as the concept of irregularity on which was based was too loose and prevented concentration on fraud, which was OLAF's core activity. According to him, the concept of irregularity was not objective. Requiring MS information about proceedings actually initiated to address irregularities would already represent sensible progress towards collecting objective data. While therefore urging a change in legislation, he stressed he would remain committed to making every effort to implement current the IMS. Mr Audy agreed that the IMS should fight fraud, not irregularities.

- Deadline for tabling amendments: **5 March 2012, 12.00**

11. Voting time

CONT adopted the following draft reports, as amended:

- European Investment Bank (EIB) - Annual Report 2010

CONT/7/06847, 2011/2186(INI)

Rapporteur: Iliana Ivanova (PPE)

Responsible: CONT –

Opinions: DEVE – Bart Staes (Verts/ALE)

ECON – Syed Kamall (ECR)

ENVI – Crescenzo Rivellini (PPE)

- Amendment of Council Regulation (EC) No 1083/2006 as regards certain provisions relating to risk sharing instruments for Member States experiencing or threatened with serious difficulties with respect to their financial stability

CONT/7/08114, 2011/0283(COD)

Rapporteur for the opinion: Crescenzo Rivellini (PPE)

Responsible: REGI – Danuta Maria Hübner (PPE)

Mr Rivellini announced that he would vote against the report.

12. Next meeting(s)

- 26 March 2012, 15.00 – 18.30 (Brussels)
- 27 March 2012, 9.00 – 12.30 and 15.00 – 18.30 (Brussels)

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

It is a pleasure for me to speak in front of this Committee today and to fulfil the Council's role foreseen by the Treaty in respect of the annual discharge procedure: to give a recommendation to the European Parliament on the discharge to the Commission for the implementation of the budget for 2010.

I would like to take this opportunity to present to you not only the Council's recommendation to give a discharge to the Commission, but to reaffirm at the same time the importance which the Council attaches to a sound financial management of EU funds.

The European Court of Auditors provided us this year with a two-edged message in its annual report:

On the one hand, it gave a clear opinion on the reliability of the annual accounts and confirmed a generally stable quality in the implementation of the budget, compared to previous years. The Council deduces from the Court's audit findings and conclusions that the positive evolution observed during recent years in the financial management - both by the Commission and by Member States - has now stabilised, and that the important measures taken by all parties continue to bear fruit.

On the other hand, a large share of payments from the EU budget continued to be materially affected by error, and supervisory and control systems remained only partially effective in ensuring the legality and regularity of transactions. Particular weaknesses persisted in the policy group "Agriculture and Natural Resources" where Rural Development still suffered from a high incidence of error. And for "Cohesion, Energy and Transport" the most like error rate increased considerably to 7.7 %, contrary to the extensive improvements noted during last year's discharge procedure in the "Cohesion" area.

It is evident that we are still far from the overall aim of an unqualified audit opinion from the Court. The Council therefore reaffirms its wish to see year-on-year improvements in error rates and financial management systems. It encourages the Commission to fully assume its responsibilities in the implementation of the EU budget, to reinforce its supervision and control structures, and to strengthen its cooperation with and its guidance to Member States' authorities.

Any possible effort needs to be made to limit the risks to the legality and regularity of transactions and to further bring down the level of error in Union spending, in order to make best and most effective use of EU funds for the benefit of Europe's citizens and taxpayers. We should all be aware that, in these times of financial and economic crisis, the European public is particularly attentive to a correct spending of EU funds.

One important element for the Council on the way towards an unqualified audit opinion is the systematic interruption and suspension of payments, whenever there is evidence about significant deficiencies in the functioning of management and control systems, and until corrective action is fully implemented. The Council calls on the Commission to correct identified errors without delay through the recovery of amounts unduly paid, through withdrawals and through financial corrections, and to ensure full transparency concerning the implementation of corrective action.

The Council recognises the high value of a stable regulatory framework for the current programming period. Nevertheless, regular and thorough evaluation of its functioning is necessary to identify weaknesses and possibilities for improvement. The ongoing revision of the Financial Regulation and the negotiations on the sectoral legislation relating to the next multiannual financial framework are good and necessary opportunities to put in place useful and appropriate modifications.

However, the right balance between added value and additional administrative and control burden needs to be maintained. The Council therefore recalls that further simplification of programme structures and management systems must be the guiding principle of such modifications. The complexity of existing regulations remains an element of concern. Rules have to become clearer, more coherent and easier to implement, be it for operational programmes, financial management or public procurement.

As in previous years the area of public procurement remained also in 2010 one of the major sources of error, in particular under shared management. The Council encourages all parties to scrutinise closely and carefully the current legislation on EU public procurement, notably the relevance and effectiveness of existing rules, and to put their experience forward so that it can be taken into account in the ongoing negotiations on the revision of the Financial Regulation and on the modernisation of procurement rules.

Let me also turn to the weaknesses identified by the Court in 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, based on their assessment of the use of resources and of the control procedures, are useful tools to ensure the legality and regularity of transactions. Nevertheless, the Council emphasises that the annual activity reports need to be complete and comparable in order to fully secure internal accountability within the institution. It therefore calls on the Commission to secure a coherent application across Directorates-General of the underlying principles, to take into account all available audit results, including those of audits carried out outside the Commission, and to enlarge, where applicable, the scope and scale of reservations.

Last but not least, the Council welcomes the new chapter in the annual report in which the Court presents its opinion on the Commission's self-assessment of performance, as well as the Court's assessment of the performance of the Commission, based on specific audits carried out in the context of special reports. The Council recalls the importance of analysing the effectiveness of EU spending through the setting of SMART annual and multiannual objectives, interim milestones and performance indicators.

During the last months, the Council examined in detail the implementation of the EU budget for 2010 by the Commission on the basis of the observations made by the Court in its annual report. The ECOFIN Council reminded once more all actors - Commission and Member States - that further progress needs to be achieved in the coming years.

The Council's considerations led to its recommendation to the European Parliament - adopted by the ECOFIN Council on 21 February - to give a discharge to the Commission in respect of the implementation of the budget for 2010.

The Council also adopted discharge recommendations for the 24 bodies set up by the European Union and having legal personality, which actually receive contributions charged to the EU budget. While considering that some of these agencies could still further improve their financial management as suggested by the Court, the Council was able to recommend a discharge for all of them.

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.

Thank you very much for your attention.

I want to thank the Danish Presidency and the Council for the balanced comments and conclusions made in this important discharge recommendation to the European Parliament.

The Council highlights the progress which has been made over the years. It acknowledges also that our efforts are already focused on the main areas where improvements are necessary.

The picture is however varying between policy areas and management modes. In some of them, we were able to stabilise the good results over the years. In others, in particular Cohesion policy, the positive trend was interrupted in 2010.

I can assure you that the Commission is strongly focused on significant improvements and will consider seriously the recommendations from the Council and the European Parliament.

The Commission regrets that three Member States were not in a position to vote favourably the discharge recommendation. However, it can share some of their concerns as regards the lack of performance of certain Member States and the difficulties to get timely the necessary data from national authorities.

It hopes that, partly thanks to Commission's proposals, the situation will improve in the future in a way that allows them to take part again in the large majority which adopted the Council recommendation.

As highlighted in last year discharge resolution, it is of utmost importance that Member States cooperate effectively with the Commission to ensure that the EU Budget is executed in accordance with the sound financial management principles.

This could be done, for example, by enhancing the cost-efficiency of the programmes and by simplifying the rules and processes as proposed by the Commission in the Financial Regulation and in the Multiannual Financial Framework.

In the short term the Commission will continue - together with all stakeholders involved - to address the weaknesses mentioned in the Annual Report of the Court of Auditors as well as in the Council discharge recommendations.

The next critical step for further improvements in the longer term is the adoption of the Financial Regulation's review and of the sectoral legislation for the next Multiannual Financial Framework.

The Commission made ambitious proposals aiming at strengthening the impact of EU funds on the one hand and at streamlining corrective and management mechanisms at the other hand.

The Council discharge recommendation indicates a wide range of areas where improvements are necessary and includes many concrete orientations which the Commission will follow up without delay.

Since the discharge procedure was launched in November last year, we had intense discussions on important aspects of financial management in the EU and EU financial governance.

I am very thankful for the fruitful, constructive and open debates in this Committee which give clear indication and guidance in view of the necessary measures to be taken.

I am fully aware of the high expectations you have vis-à-vis the Commission to address identified weaknesses, to achieve further improvements and to effectively perform its supervisory role in the area of shared management.

The Commission already started to act on the main issues raised by the Rapporteur and discussed in this Committee.

I am pleased to present to you a first outline of concrete measures which the Commission intends to take in the short term in order to address the four priority actions of the draft report on discharge.

The **first priority action** refers to the implementation and monitoring of the Financial Engineering Instruments which are used in cohesion policy to further strengthen the impact of funds.

The main concern refers to the effective monitoring of these instruments.

The monitoring is currently ensured through evaluation, reporting and audit mechanisms.

I am pleased to say that the current regulatory framework will be significantly enhanced with the amendment to the relevant Regulation adopted last December by the Parliament and the Council.

In particular, Member States are now obliged to systematically report on the effective implementation of financial instruments. The Commission will thus start receiving from mid-2012 specific data from Member States concerning financial instruments.

This new reporting tool will include:

- a description of financial instruments and their implementation arrangements;
- an identification of bodies involved in the implementation;
- the EU contribution and national co-financing paid to the financial instruments; and
- the amounts of assistance paid to final recipients.

On the basis of this data, the Commission will deliver the first annual report on financial instruments by October 2012.

Moreover, a comprehensive guidance note was already issued in early 2011 which complemented the guidance and technical assistance made available to Member States since 2007.

Yesterday, you received a letter co-signed by Johannes Hahn and myself accompanying a comprehensive analysis of these instruments, the lessons learned and the measures taken and proposed by the Commission under the current programming period and for the future.

For the next programming period, the Commission proposes to further enhance monitoring mechanisms for these instruments and would welcome the support of the European Parliament in this area.

The **second priority action** is focused on the Commission's internal governance structure. This important issue was also discussed in the context of the budgetary discharge for the financial year 2009.

In the meantime, significant improvements have been made in this area in particular as regards the reliability of the Commission management representations.

The last November update of the standing instructions for the preparation of Annual Activity Reports covers the vast majority of the points raised by the Rapporteur.

In particular additional detailed guidance was provided to the Directors-General as regards the estimation of the residual error rate and risks.

In the most recent discussion and also now in the draft discharge report it is asked to add the Commissioner's signature to the Annual Activity Reports.

As you know, the Commission's current accountability structure bases its assurance process on a clear division of responsibility between the managerial and the political levels.

This governance structure has not been questioned by the Court of Auditors, on the contrary.

However, the Commission understands the need to demonstrate that the Commission, as a College, assumes its political responsibility for the management of the resources delegated to its Directors-General and Heads of services.

To address this question, Commissioners have been formally requested to hold regular meetings with their Directors-General, including at least two specific meetings per year, to discuss issues related to internal control, audit and fraud, including the draft Annual Activity Report.

In addition, Directors-General have to confirm formally in their Annual Activity Report that main elements of this report and assurance declaration, including the reservations envisaged, have been discussed bilaterally with the Commissioner in charge. Since last year all statements signed by the Directors-General contain a specific sentence to this effect.

The College, by adopting the Synthesis Report, takes full political responsibility for the management by its Directors-General and Heads of Service based on the assurances and reservations made by them in their Annual Activity Reports.

The Synthesis report is adopted in one of the weekly Commission meetings after having been examined and discussed by the College.

The Commission is keen to further improve this accountability exercise and will consider any necessary adjustment in this respect.

Finally, the Commission's Internal Auditor was invited last year by the Audit progress Committee to consider any possible improvement that would add value to his Overall Opinion and better reflect his independent and professional judgement on the performance of the Commission's internal control.

Let me now come to the use of pre-financing as covered by the **third priority action**.

The increase in pre-financing is justified by the spending cycle of a new programming period and those payments are made in accordance with the shared management legislation.

As requested, the Commission will inform in more details the European Parliament about the increase use of pre-financing from 2005 until 2010.

The Commission shares the view that pre-financings deserve proper and regular attention. A compromise needs to be found that ensures the beneficiaries receive the needed funds to start the agreed projects while effectively protecting the financial interests of the EU.

An appropriate level of pre-financing takes therefore into account various factors, such as the actual funding needs, risks associated to the action, its duration and the cost-effectiveness of monitoring and controls measures.

The Commission has already taken into consideration all these elements and proposed a regular clearing of pre-financing in the revised Financial Regulation.

In the trilogue meeting of 13 January 2012, a compromise has been achieved which now foresees a cost-effective approach towards the regularity of such a clearing process (*maximum 2 pre-financings open at the same time for external aid and a regular clearance for the other policy areas*).

The **fourth priority action** asks for the creation of an effective sanctioning mechanism in the area of Cohesion policy.

The Commission agrees that the instruments to supervise the implementation of EU programmes should be further strengthened.

It has included in its proposals for the next programming period several elements which reinforce and streamline Commission activities in this regard.

I just want to mention the main changes proposed by the Commission:

- Firstly, the introduction of net financial corrections to Member States in case irregularities affecting annual accounts are detected by the Commission or by the European Court of Auditors;
- Secondly, clearer procedures and conditions under which payments can be either interrupted or suspended [*additional criteria such as serious deficiency in the quality and the reliability of the monitoring system/indicators*]. Moreover, interruptions can be decided for 9 months instead of the present 6 months and are more proportionate to the concerned part of the payment;
- Thirdly, impose financial corrections for failure of programmes authorities to achieve on targets set out in the performance framework and programme ;
- Fourthly, the Commission proposed innovative elements aiming at further preventing errors and streamlining the delivery mechanisms such as the annual management declaration of assurance and accreditation of bodies at national level, a wider use of simplified costs or stricter rules for retrospective projects (*clearly prohibiting projects physically completed or fully implemented before the funding application*).

The Commission has also made proposals to clarify some eligibility rules which will also contribute to an effective prevention of errors. For example, the proposal clearly prohibits the possibility for managing authorities to select projects physically completed or fully implemented before the funding application (the so-called retrospective projects).

Finally, the weaknesses in the Member States reporting are also addressed. For example, as a preventive measure, the future quarterly reporting to the Commission on the state of progress of programmes implementation will obligatory include an early indication of upcoming problems or delays.

However, the Commission is open to consider constructively suggestions or ideas in the framework of the negotiations on the next Financial Framework that could further contribute to improve in a cost-effective manner the management of the EU Budget.

Let me now address briefly the draft report on the Court of auditors' Special reports.

This report deals with the findings and recommendations included in the Special Reports of the Court of Auditors. I believe this new element in the discharge procedure - now presented in this form for the second time - is very appropriate indeed.

The Court's performance audits on management issues give a highly valuable input as regards the effectiveness and the efficiency of Commission's and other financial actors performance and systems.

These audits help us identifying which weaknesses, in the design of the systems or in their implementation, should be addressed in a cost-effective way in order to decrease further the error rate and get a non qualified Court's assessment.

The Commission will closely follow up the Parliaments requests regarding the Special Reports.
Dear Chairman, Dear Rapporteur, Honourable Members,

The Commission is fully committed to endorse its final responsibility regarding the implementation of the budget.

I have presented to you an outline how the Commission sees its current and future work in order to address the identified weaknesses and to achieve the expected improvements.

I will in the next few days confirm in writing the Commission's commitment to the outlined main points in a more detailed way.

I would like to conclude by underlining the Commission's firm commitment to address effectively all priority actions detailed in the Discharge Resolution.

Thank you for your attention.

Mr President, Ladies and Gentlemen!

Thank you for the unique opportunity to present the European Court of Auditors' Opinion (No 7/2011) on the proposal on Common provisions on European Funds for the period 2014-2020 the honourable members of the Committee on Budgetary Control.

Before going into the details let me congratulate to Mr. Derek Vaughan, the rapporteur of your Committee for his high quality Working paper. I am grateful for his openness by initiating a very fruitful consultation between his team and the experts of the Court of Auditors. Our detailed discussion highlighted that the Court's Opinion and your Commission's working document follow a common approach and are fully in line with one another. This accordance has been strengthened by Mr Vaughan's readiness to take on board concrete proposals expressed in the Court of Auditors' Opinion.

Ladies and Gentlemen!

Let me recall that the draft Regulation laying down the common provisions raises a number of 'political' issues, which are and should be the within the competencies of politicians, i.e. you, the democratically elected members of the European Parliament. Therefore in its Opinion the Court of Auditors carefully avoided "to support or to condemn" any proposal of the draft Regulation on the grounds that it is up to you, the legislator to decide whether proposals are welcome and taken on board or not. The Court considers its role by providing advice on the implications, the potential advantages or disadvantages of what is proposed - by drawing on its audit findings evidences, conclusions and recommendations.

Following the positive experience of our Opinion of 2005 regarding the regulation for the period 2007-2013, the today's Court's Opinion is based on the main conclusions and recommendations of a number of recently completed audits. In particular these audits relate to:

the co-financing of Financial engineering instruments for SMEs;

the co-financing of transport infrastructures in seaports;

the actions undertaken by the Commission to correct deficiencies in Member states' management and control systems, and

the closure of Structural Funds programmes for the 2000-2006 programming period.

In this context it is very encouraging that the Working document of your Committee by following similar approach goes beyond general problems and elaborates on important, concrete details and technical issues.

By presenting our Opinion, I would rather prefer to go paragraph by paragraph to discuss with you our conclusions points by points. But I am afraid that your time would not allow me to do so. That is why I would like draw your attention to four general issues:

The establishment of the legal framework for the Cohesion spending for the period 2014-2020 offers a unique opportunity to clarify the concept of European added value to be used when setting expenditure priorities. In order to achieve this EU added value, the Court has suggested recasting expenditure programmes in terms of acceptable output; with programmes based on a set of concrete objectives; and disbursements linked to the achievements of results. However, despite the claimed focus on results the proposed framework for 'Common Provisions Regulation' for the period 2014-2020 remains fundamentally input-based and the management structure oriented towards compliance rather than performance. In addition the Common Strategic Framework (CSF) funds can be spent in a very wide range of activities, thus making it more difficult to build up a critical mass allowing EU interventions to have a tangible impact.

The introduction of ex ante conditionalities is a key development, which could reinforce the “intervention logic” of EU actions by facilitating the necessary integration of CSF funding with other EU policies. In this respect and given the significant part of CSF funds proposed for Research and Innovation, such coordination will be of particular interest in this area.

Several aspects of the regulatory requirements proposed by the Commission are deferred to a later stage. In particular, key elements of the future Cohesion scheme will be covered by both delegated acts and implementing acts. The Court notes that matters to be covered by delegated acts are supposed to be non-essential elements of the EU legislation. In this case they deal in reality with key elements of the future Cohesion scheme. Their impact may go beyond the concrete issues, and create significant effects also for other parts of the regulation. That is why, it's so important to ensure coherence between the various details and across the Common Provisions Regulation as a whole.

In this context it is also important to emphasize the necessity to ensure the conformity between the Common Provisions Regulation and the Financial Regulation.

The proposed reduction of the capping rate for national allocations as well as the application of a macro-economic conditionality would require careful consideration to avoid counterproductive effects towards the overall Cohesion objectives.

Regarding the management and control arrangements I would like to emphasize the following three issues:

The arrangements for Cohesion spending are and remain complex although some efforts are made to reduce beneficiaries' administrative burden. In connection with the often mentioned necessity of simplification of rules and procedures your Working paper rightly indicates that "...simplification should be 'smart', i.e. avoiding unnecessary administrative burden while guaranteeing adequate control and overly complicated rules unless they are required to achieve the policy objectives".

It should also be clearly stated that proposed changes aiming to achieve simplifications for the final beneficiaries, in many cases, generate additional workload for the EU and national administrations. It indicates once again the importance of appropriate preparation and of the deployment of necessary resources.

The proposed regulation intends to coordinate the implementation of a significant number of large funds. Adequate institutional capacity is necessary to ensure that EU funds are correctly spent properly to support durable economic development. In order to achieve long-term and broad policy objectives, the systems of implementation and control "...should be effective from the start". An effective supervision and accountability from the Commission on the use of the funds would support Member States' capacity to use these funds successfully.

The Commission should therefore have a supervisory role in the accreditation of management and control bodies and confirm that these bodies fully satisfy the conditions set by the accreditation process.

This will also mitigate the risk of leaving the detection of any failure to subsequent checks, which may lead to more frequent checks; action plan requirements; and financial corrections. It should be observed in this respect that there is no assurance that financial correction mechanisms compensate in an adequate manner the errors uncovered, and that all material issues are resolved at the closure of the operational programmes. There is equally no evidence that financial correction mechanisms translate into lasting systems' improvements as to avoid errors uncovered to occur again. This means that effectiveness of national management and control systems should be ensured from the start. As your Working paper rightly indicates "...a proper preventive control, in particular through an accreditation process involving the Commission, will help avoid any difficulties with regards to financial corrections." Such preventive measures will help to avoid the costs for interruptions, suspensions, and financial corrections.

Thank you for your attention

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

Allow me to start by congratulating you, Mr Theurer, on becoming the Chair of the Committee. It is an honour for me to present the Court's 2012 Annual Work Programme to you today.

I think we are all very conscious of the daunting challenges facing Europe and its public finances at the present time. More than ever citizens and taxpayers expect effective accountability for every euro of EU funds raised and spent.

As the external audit institution of the EU, the Court promotes accountability by auditing and reporting publicly on the use of EU funds and the results achieved. The Court's 2012 work programme sets out the annual reports, special reports and opinions that the Court expects to produce during the year and the audit work it plans to carry out.

1.1.1. Annual reports

During 2012, the Court will publish 51 annual reports on the 2011 financial year. That figure includes the annual reports on the implementation of the EU budget and the European Development Funds as well as the specific annual reports on agencies, joint undertakings and other EU bodies.

A significant proportion of the Court's resources and efforts are devoted to meeting its annual reporting obligations and the tight timetable of the Financial Regulation.

Each annual report contains a statement of assurance - or 'DAS' - on the reliability of the accounts and the legality and regularity of the transactions that underlie them. The Court's audit evidence is based on assessing systems and testing transactions directly. Where it can, the Court takes account of the results of the work of other auditors and management representations.

As you know, the Court's annual report on the EU budget is the major item in the work programme. In the annual report on the 2011 budget the Court intends to produce more information on EU expenditure under shared management. "Agriculture and natural resources" will be split into two specific assessments; one on "Agriculture: Market and Direct Support" the other on "Rural Development, Environment, Fisheries and Health". Similarly, there will be two specific assessments covering Cohesion policy, Energy and Transport; one on "Regional Policy, Energy and Transport", and the other on Employment and Social Affairs".

But to ensure comparability year-on-year, Chapter 1 of the report will present the results of transaction testing for 2011 on the same basis as and alongside the results from 2010.

The Court also intends to develop further its reporting on performance issues in the annual report. In particular, we will take account of the views expressed on chapter 8 of the 2010 Annual Report during the discharge procedure as well as the features of the first evaluation report to be presented by the Commission to the discharge authorities as required by Article 318 of the Treaty.

1.1.2. Special reports

In addition to annual reports, the Court publishes special reports. They present the results of the Court's performance and compliance audits on specific management or budgetary topics.

Unlike annual reports, special reports cover topics selected by the Court. They often cover a number of financial years and they do not have statutory deadlines for their publication.

The Court's work programme sets out the selected audit tasks and preliminary studies on which the Court will work in 2012. They have been selected on the basis of the risk of irregularity or poor performance, the potential for improvement, and public interest. In this way, the Court aims to reflect the primary concerns of its stakeholders and the main financial management challenges facing the European Union.

The priorities the Court has identified for 2012 include the pressing concerns of linked to the financial crisis and achieving growth & employment. They also include the long-term challenges on the environment, climate change, sustainable development and the "greening of policy". And they recognise the important role the EU plays as a global partner for development.

In total, the Court plans to publish 22 special reports in 2012 - exceeding the target of 12 to 15 reports per year that we set for the 2009 to 2012 period. Already this year we have published reports on nuclear decommissioning and EU assistance to Croatia. Further reports will cover a variety of topics that fall within the different headings of the current financial framework headings.

For example, as regards Growth and Employment, the Court is carrying out audits on the Member States' management and control systems and the Closure of 2000-2006 Structural Funds programmes as well as on Financial Engineering, Seaports and Ageing workers.

As regards the Preservation and Management of Natural Resources, the Court is covering topics such as the modernisation of agricultural holdings, the Single Area Payment Scheme, and organic products.

In other areas, the Court aims to issue reports on topics that range from EU assistance to the African road network to the effectiveness of EUROSTAT in improving the process for producing EU statistics.

The Court also plans to carry out a number of preliminary studies, including on balance of payments assistance and the Commission's management of the financial crisis.

A key way in which the Court's special reports add value is by making recommendations that, if implemented, would contribute to improving financial management. In 2012, the Court will publish a dedicated **follow-up report** to provide greater focus on the action taken to address the recommendations of previous special reports.

1.1.3. Opinions

Taken together the Court's audits and reports provide it with a wealth of experience and a stock of results that it can draw on to inform the EU policy making process.

For example in 2011, the Court published a **position paper** on the implications for public accountability and public audit in the EU of measures taken in response to the financial and economic crisis. And we also published an **opinion** on the Commission's green paper on the modernisation of public procurement policy.

In 2012, a priority will be to provide opinions and observations on the new sectoral regulations. An opinion has already been published on the proposals covering the structural and cohesion funds. And opinions on the legislative proposals relating to common agricultural policy and the own resources of the European Union are being prepared.

1.1.4. Further developing the Court

In 2012, the Court will also be looking to prepare for the future and develop itself further as an institution.

As you know, the Court is committed to upholding high standards of ethics and transparency. We strengthened our governance framework in 2011 by producing new ethical guidelines for all Members and staff of the Court. And this month, the Court adopted a specific code of conduct for its Members. Amongst other things, the code requires declarations of interests by the Court's Members to be published on our website.

As regards our audit methodology, we have been updating our manuals and procedures to reflect new international standards. We are also arranging a new peer review to be focused on performance auditing. The Court is currently in the process of identifying potential peers available in 2012 - a task that is proving more difficult than anticipated due to the growing use of peer review by other Supreme Audit Institutions.

Finally, during 2012, the Court intends to publish its strategy for 2013 to 2017. As you know, we have been consulting our main stakeholders, such as this Committee, about their needs and expectations of the Court in order to help identify the key challenges the Court must address. Like other European institutions, it is clear that the Court will be expected to find new ways to do more with less. The Court will, therefore, be setting objectives and developing initiatives this year to improve further its added value and efficiency over the period of its next strategy.

The views of this Committee are an essential input to the Court's strategy setting process. And I would like to thank the Committee for the views that have already been expressed, in particular during the semi-annual meetings between the Court and the Committee as well as at the meeting held in Strasbourg in November last year prior to my presentation to the Plenary of the Court's 2010 Annual Report.

Mr Chairman, Honourable members of the Committee,

The European Parliament and the Court of Auditors have a mutual obligation to ensure accountability to citizens for the use of EU funds. It is a challenging goal that we must work together to achieve. The Court looks forward to making its contribution this year by delivering the 2012 annual work programme that I have presented to you today.

Thank you for your kind attention.
