



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 30 November 2012**

**17149/12**

**PE 562  
BUDGET 56  
INST 711  
JAI 862**

**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 26 and 27 November 2012

---

The meeting was chaired by Mr THEURER (ALDE, DE), Ms IVANOVA (EPP, BG) and Mr STAES (GREENS, BE).

***Items 1 and 2 on the agenda***

The agenda was adopted.

***Item 3 on the agenda***

The following minutes were approved:

- 17-18 September 2012 PV – PE496.393v01-00
- 26 September 2012 PV – PE496.544v01-00
- 27 September 2012 PV – PE496.638v01-00
- 8-9 October 2012 PV – PE497.957v01-00
- 15 October 2012 PV – PE498.072v01-00

***Item 4 on the agenda***

**Follow-up to the 2010 discharge to the European Parliament**

CONT/7/10892

Rapporteur: Mr LIBERADZKI (S&D, PL)

- Exchange of views with the Secretary-General of the European Parliament, ***Mr WELLE***

The chair, Mr Theurer (ALDE, DE), complained that the Secretary-General of the Council had refused to appear for the second time in the 2010 discharge procedure and welcomed Mr WELLE, Secretary-General of the EP, in the framework of the follow up to the 2010 discharge procedure.

The Rapporteur, after expressing the view that budget and savings should be subordinated to having an effective EP, recalled the main areas where savings had been introduced by the Secretary-General and highlighted in particular the fact that travel costs had decreased by 16% and resulted in EUR 15 million of savings; the introduction of in-house security also brought savings; EuroParlTV had become cheaper; the Journalist prize had been stopped. Mr WELLE added that savings had been introduced for translation and interpretation, that in-house security allowed substantial savings (EUR 5 million) and enhanced loyalty. Some decisions still needed to be taken, in particular concerning the travel office. He recalled that a small unit on cost and quality control had been created and was involved in developing a new IT system for financial management. Mr WELLE told Ms ORTIZ VILELLA (EPP, ES) that work on its roof would prevent access to the Brussels hemicycle until the end of 2013 and that the estimated cost had risen to EUR 5 million. Furthermore, he announced that the Belgian authorities had granted a building permit for the House of European History and that completion of work on it scheduled for April 2014, although it would only be opened to the public in September 2015; the Commission had agreed in writing to contribute to its running costs. In reply to Mr EHRENHAUSER (NA, AT) he said that the plenary had set a budget of EUR 7 million for EuroParlTV and that it was for the EP Bureau to set the guidelines concerning its functioning. He reminded Ms GRÄSSLE (EPP, DE) of the changes that had been introduced to enhance transparency in reimbursing groups of visitors, and considered that cash payments should be traceable. He disagreed with Ms GRÄBLE that staff promotions were quicker at the EP Secretariat than in other Institutions, and mentioned the leaps in salary allowed by the ad hoc system at the Commission. Concerning the building strategy, Mr WELLE told Mr GEIER that buying still allowed savings in a 20year time span perspective.

***Item 5 on the agenda***

**2011 discharge: EU general budget, Section III, Commission**

CONT/7/10295

Rapporteur: Mr GEIER (S&D, DE)

- Exchange of views

Mr BALKO, Member of the European Court of Auditors responsible, delivered the speech in Annex I.

Ms GEOGHEGAN-QUINN, Commissioner responsible for Research, Innovation and Science, delivered the speech in Annex II.

The rapporteur stressed the European Court of Auditors' concern that the error rate in the Research area had doubled to 3% over the last year and asked the Commissioner how the materiality threshold of 2% could be achieved. He wondered in particular whether the splitting of responsibilities between General Directorates was the cause of the increase of the error rate.

Ms GEOGHEGAN-QUINN told the rapporteur that simplification was key in fighting the error rate and that she had established a group of Commissioners involved in innovation issues with the aim of getting them and their services to work together. She stressed that having common rules was not enough to achieve simplification if implementation of the rules was not the same in all Commission departments. Another instrument she mentioned to reduce the risk of errors was the new Financial Regulation together with a common IT system. She also referred to the importance of raising awareness of the applicable rules among both the beneficiaries and the audit authorities and recalled that to this end 11 seminars had already been organised within 13 MS in 2012 and 7 more scheduled in 2013. She regretted that France and the UK were resisting organising such seminars (to Mr THEURER). She also highlighted the importance of independent auditing and explained to Mr PIEPER (EPP, DE) that external auditors were useful, as the error rate of certified beneficiaries was noticeably lower. The Commissioner agreed with Mr AUDY (EPP, FR) that the follow-up to simplification in the Research programmes was at stake, because of the very large number of amendments tabled in connection with the ITRE Committee's vote concerning the HORIZON 2020 Package on 28 November 2012. She called upon the CONT Committee to try to convince the ITRE Committee to dismiss most of the amendments. Ms GEOGHEGAN-QUINN agreed with Mr THEURER that an increase in the number of SMEs as beneficiaries of the programmes may conflict with the aim of decreasing the error rate because of their lesser capacity to deal with complicated rules, and she therefore insisted on the need for simplification.

***Items 6 and 9 on the agenda***  
**Coordinators' meeting (*in camera*)**

These items were not covered.

***Item 7 on the agenda***

**2011 discharge: EU general budget, Section III, Commission**  
CONT/7/10295

Rapporteur: Mr GEIER

- Exchange of views

Mr ANDOR, Commissioner responsible for Employment, Social Affairs and Inclusion, delivered the speech in Annex III.

Mr ISPIR, Member of the European Court of Auditors responsible, delivered the speech in Annex IV.

The rapporteur welcomed the 2,2 % estimated error rate for the employment area and highlighted the fact that such a figure could be improved only through enhanced involvement of the Member States. He pointed out that gold-plating by Member States was the root cause of a large number of errors, since national provisions made eligibility criteria more complicated. Moreover, half of the errors could have been detected by the national authorities. Mr ANDORS agreed with Mr GEIER's analysis and replied that a number of seminars had been organised by the Commission to support Member States. Mr ANDOR explained that Member States were allowed to introduce more detailed provisions on the basis of the subsidiarity principle, in order to better define the eligibility criteria to take account of the diversity of economic and social reality prevailing in the region. In his view, tripartite dialogues (involving the Member States, the Court of Auditors and the Commission) were key to convince National authorities of the benefits of simplification and better auditing. Mr ISPIR considered, however, that tripartite dialogues should remain an exceptional procedure. Mr ANDOR agreed with Mr PIEPER that regularity was not enough and that the outcome of the policy had to be taken into account, too. He told Ms GRÄBLE that ESF performance had been excellent, even in countries with high unemployment rates, and added that the crisis had destroyed a large part of the expected results in reducing unemployment. Replying to Ms ANDREASEN (EFD, UK) he stated that the high youth unemployment rates in some MS could not be the only assessment of the Commission's lack of success, as the economic development chosen by a specific country (he made the example of Spain) may have discouraged young people from investing in vocational training.

Moreover, he recalled that the training programmes for unemployed people helped preserve the human resources that will be needed after the crisis. Mr THEURER considered it unfair that some political parties on the one hand protected the freedom of Member States to make their economic choices, insisting on subsidiarity, and on the other hand held the Commission responsible for its lack of success in combating unemployment. Mr THEURER also inquired how national governments should be guided in the choice of the economic sectors to support and Mr ANDOR agreed that conditionality was key in the new MFF, in particular through focusing on ex ante assessment of investment priorities. He told Ms GRÄSSLE that the ESF had been flexible enough to enable EUR 10 billion to be mobilised in 8 Member States, involving half a million young people. Mr ANDOR gave some details on the functioning of the Task Force in Greece and the coordination role of the Commission. In particular he pointed out to Ms GRÄBLE that he had drawn the attention of the Greek government to the programme aimed at improving administrative capacity. He also explained that 154 programmes of the 2000-2006 programming period had been terminated and 85 were still under discussion, mainly due to the time needed to collect information through national authorities. He assured Ms GRÄSSLE that the Globalisation Adjustment Fund was an indispensable instrument with a huge added value, which had helped many people who had been made redundant to find new jobs through some 100 projects in a number of Member States. Concerning the self-employment response to unemployment, Mr ANDOR told Mr RÜBIG (EPP, AT) that the microfinance facility might be the right answer. He told Mr GEIER that the financial engineering instrument received special attention, given its innovative nature, but that it had not exceeded the 2% error rate.

***Item 8 on the agenda***

**2011 discharge: EU general budget, Section III, Commission**

CONT/7/10295

Rapporteur: Mr GEIER

- Exchange of views

Mr THEURER welcomed Mr MATEJ, deputy minister at the Ministry of Finance of the Czech Republic, who appeared at CONT in the framework of the 2011 discharge at the initiative of MR GEIER to refer on the extent of the action taken by his government in tackling problems regarding the implementation of the regional policy.

Mr MATEJ stated that proper spending was a priority of the Czech government, which had conducted a screening of the audit and management system in 2011, in cooperation with the Commission. A roadmap and an action plan had been agreed with the Commission in March 2012.

Mr MATEJ outlined 5 basic aspects of the action to be taken by the Czech Republic, namely audit, as regards both its methodology and quality, organisational structure of the audit, ensuring the independence of the audit authorities, new methodology for management verifications by the Managing Authorities, treatment of irregularities and reform of the civil service (still to be adopted by the Parliament).

Mr GEIER, rapporteur, welcomed Mr MATEJ, who was a pioneer as regards appearances by representatives of Member States. In his view, such exchanges were essential to CONT, as 80 % of the budget was managed by the Member States and therefore their role in ensuring an unqualified statement of assurance by the Court of Auditors was essential. He recalled in particular the influence that a high level of error rates exercised on the budgetary procedure, which had been held up by better spending issues.

Mr MATEJ acknowledged his country's high level of error rate , but was confident that the new measures in place would help to bring about a reduction in it. He explained to Ms BRZOBOHATA (S&D, CZ) that the audit authorities would be staffed as appropriate and that new recruitments were planned. He assured Mr MYNÁŘ (S&D, CZ) that his government was conducting investigations on the cases of alleged fraud and told Ms ČESKOVA (ECR, CZ) that there was no systemic fraud at national level and dismissed the allegation as speculative. Mr MATEJ, replying to Mr PIEPER, also ruled out any interference of the central government into Czech Regional programmes and gave some details on the suspension of two programmes by the Commission (a North West regional programme and a Ministry of Education training programme).

***Item 10 on the agenda***

**European Investment Bank - Annual Report 2011**

CONT/7/11152

Rapporteur for the opinion: Mr AUDY (PPE, FR)

Rapporteur for the responsible committee (ECON): Mr MAURO (PPE)

The rapporteur outlined the essential points of his draft opinion for the ECON Committee, and namely his support for an increase in the fully paid-in subscribed capital of the EIB, to allow the bank to provide up to EUR 60 billion in additional long term lending, but asked for an assurance

that this did not exceed the subscribed capital ratio set at 2,5; he reaffirmed the importance of the EIB's maintaining the triple A rating, supported the project bonds financing; suggested regulatory supervision of the EIB, called for remuneration of the guarantee granted by the EU in order not to distort competition with commercial banks and asked that the EU become a shareholder of the EIB. Mr EPPINK (ECR, BE) wondered whether the EIB would have enough absorption capacity, and whether it could find good and sufficient projects to fund with the capital increase. He also disagreed with Mr AUDY on the EU becoming a shareholder of the EIB, as this might create a conflict of interests. Mr GEIER also questioned the absorption capacity of the EIB and asked, on behalf of Ms HERZOG, about the role of the EIB in the Baltic sea and in the Danube Strategies. Mr STAES (Greens, BE) inquired about the EIB funding of Ford in Turkey while the same enterprise was closing down its Belgian and British plants.

Mr de CRAYENCOUR, Director of Institutional Affairs at the EIB, explained to Mr AUDY that the 2,5 ratio was linked to the EUR 222 billion subscribed capital, and not just to the fully paid-in subscribed capital. Concerning the EU budget guarantee, he stated that it covered the country risk: since the mandate to invest in third countries was given by the EU, such risk was for the mandator. He further explained that commercial banks were not affected by this, as they mainly waited for the EIB before starting lending in a third country. Concerning supervisory mechanisms, Mr de CRAYENCOUR stressed that the EIB had always been in favour of additional supervision, but raised the issue of the lack of an appropriate legal basis in the Treaties. Replying to Mr EPPINK and Mr GEIER on the absorption capacity, he acknowledged that this was a challenging issue. Nevertheless, he explained that the EIB, as a bank, had a vested interest in funding good projects, since, unlike structural funds, loans needed to be reimbursed. As for investment funding in Turkey, he recalled that it was in the mandate of the EIB to invest 10% of its activities in third countries. Nevertheless, he excluded all correlation between the closure of the two Ford plants in Belgium and in the UK with the financing of the Turkish plant, since the latter was not creating new capacities.

Calendar:

Deadline for amendments, 3 December 2012;  
Vote at CONT, 10 January 2013.

***Item 11 on the agenda***

**Special Report No 6/2012: ‘European Union Assistance to the Turkish Cypriot Community’**  
CONT/7/09664

Rapporteur: Mr KALFIN (S&D, BG)

- Consideration of amendments

The rapporteur recalled that 107 amendments had been tabled, but considered that a large majority of them related to the particularly sensitive background of Cyprus and only few of them were related to the substance of the report. In addressing the amendments, he therefore suggested two criteria, namely to concentrate on the report of the Court of Auditors and to stick to the agreed language of EP and Council resolutions. Mr EPPINK and MR STAES agreed with this approach and considered that the sole issue was whether EU money had been well spent by the Commission. The representative of the Commission recalled that the Court of Auditors had called for a multiannual financial perspective for the assistance and considered that this was with a view to good management of EU funding, although the bigger political picture of the reunification of Cyprus had to be kept in mind, as stated in Article 11 of the Multiannual Financial Framework. Mr KALFIN strongly disagreed with the multiannual financial perspective suggested by the Commission, although he could understand the Commission's desire to have one. He considered that the Commission should submit its request for a Multiannual Financial Framework for the scheme to the Council.

***Item 12 on the agenda***

**Any other business**

No other business was discussed.

***Item 13 on the agenda***

**Next meeting(s)**

- 6 December 2012, 9.00 – 12.30
- 17 December 2012, 15.00 – 18.30
- 18 December 2012, 9.00 – 12.30



**PRESENTATION TO THE COMMITTEE ON BUDGETARY CONTROL – 26 November  
2012**

**– Chapter 8 of the 2011 Annual Report –  
2011 Discharge: EU general budget, Section III, Commission**

Dear Chairman of the Committee on Budgetary Control Mr Theurer, Dear Rapporteur Mr Geier, Dear Members of the European Parliament, Dear Mrs Geoghegan-Quinn, Ladies and Gentlemen,

It is my pleasure and honor to present to you the results of the audit work of the European Court of Auditors concerning the management of the EU research expenditure in the year 2011, as reported in Chapter 8 of the Court's Annual Report - Research and other internal policies.

The majority of operational expenditure concerned in this Chapter, namely 56%, is formed by the research Framework Programmes, where the main risk of irregularity remains that the beneficiaries may overstate eligible costs in their cost claims, and that this may not be detected and subsequently corrected by the Commission's supervisory and control systems. This risk continues to be exacerbated by the complexity of the rules for calculating eligible costs currently still in force. For this reason, the report acknowledges the simplification measures introduced by the Commission's Decision C(2011) 174 of 24 January 2011 on three measures for simplifying the implementation of the rules applicable to FP7, although it was too early for the Court to assess their impact.

Let me present to you the results of the Court's audit in two main part – the regularity of transactions and the effectiveness of systems.

As regards the first part - regularity of transactions for the policy group as a whole, the Court's testing of its sample of transactions found 49 % of them to be affected by error, and the most likely error estimated by the Court is 3,0 %. 74 of the sample of 150 transactions were affected by error, the main source of which was the over-declaration of costs by beneficiaries for projects funded by the research Framework

Programmes. The errors were found in all cost categories: in personnel costs and in other direct costs, as well as in indirect costs.

Although the frequency of error (that is, the proportion of audited payments affected by one or more quantifiable or non-quantifiable errors) and the most likely error estimated by the Court are higher for 2011 than for 2010 (which were 39% and 1,4% respectively), this increase may look less surprising if we realize that, already in 2010, despite the fact that the most likely error estimated for the policy group as a whole was 1,4% and thus below the materiality threshold of 2% , the Court stated an emphasis of matter according to which the interim and final payments for the research Framework Programmes were subject to material error, and explained that it found a significant level and frequency of error in those payments.

Ladies and Gentlemen, I am very well aware that the reasons for the increased frequency and level of error reported for 2011 in Chapter 8 are of great interest to this Parliament and especially to the Members of this Committee. I shall just refer to the remarks made in this sense by Mrs Ayala Sender and by Mrs Ivanova during the last Thursday's plenary debate on the Court's Annual Report. First of all, those reasons need to be looked at in a broader context. As stated in paragraph 1.14, the Court's estimate of the most likely error concerning payments for 2011 is higher, among others, in the policy group Research and other internal policies. Furthermore, according to paragraph 1.15 of the Annual Report, the frequency of errors detected by the Court increased for almost all policy groups, thus including Research and other internal policies. The reasons for this are indicated already in the Commission's reply to this paragraph, which refers to the critical phase which the EU multiannual programmes entered, with increasingly complex payments which are necessarily more prone to errors. What does this mean concretely in the case of Chapter 8? This was referred to already by Commissioner Šemeta during the presentation of the Annual Report to this Committee on the 6 November, when he pointed to the increased risk profile of the payments made in 2011, when more interim and final payments were made, to which much more complex conditions are attached than to advance payments, and took the view that the increased error rate found in Chapter 8 is a good example of the cyclical nature of the EU spending programmes. Indeed,

advance payments are less error prone because they are basically paid upon the signature of the grant agreement or upon adopting a grant decision. In contrast, interim and final payments are more error prone, because, when claiming them from the Commission under FP7, the beneficiaries must classify their costs into 16 cost categories, as a result of the combination of the type of activity (i.e. research, demonstration, management and other) and the type of costs (i.e. personnel, subcontracting, other direct and indirect). There are also three methods for calculating indirect costs (i.e. actual, simplified actual, and flat rate) and there are three reimbursement rates, whose use is related to the type of activity and legal status of the beneficiary. Also, in order to reflect better the economic reality of transactions, the sample of payments audited by the Court in 2011 in the context of Chapter 8 contained more interim and final payments and less advances than in 2010. The Court found a higher percentage of transactions affected by error (that is, a higher frequency of error) in both the advances and the interim and final payments, whereas the errors in the advances were mostly non-quantifiable. The Court also found a higher number of quantifiable errors, and thus an increased error rate, in the research Framework Programmes' interim and final payments, but also a high error rate in the non-Framework Programmes' interim and final payments.

As to the second main part of the Court's audit work – the assessment of the supervisory and control systems put in place by the Commission for preventing, detecting and correcting errors, the Court concluded that they were partially effective for the policy group as a whole, as well as for both of its components. More precisely, the assessment of the supervisory and control systems for the research Framework Programmes focused on, first, the ex-ante desk checks. These were found to be partially effective, because of weaknesses such as the retroactivity of the project start-date without a prior written request from the beneficiary, payment delays, or inconsistencies in the authorisation procedure, which the Court, however, did not consider as substantial. Second, the audit certification of cost claims by independent auditors was also found to be partially effective because, in 25 cases where the independent auditor had issued an unqualified opinion (out of 31), the Court detected errors, 14 of which had a financial impact above 2 %. Third, the Commission's ex-post financial audits were assessed as effective, despite some weaknesses noted in the audit documentation and methodology applied by external audit firms carrying out audits on the Commission's behalf, and despite the fact that

recovery of amounts unduly paid is a lengthy process. Also, the Court found that the Annual Activity Reports of Directors-General of the Directorates-General audited provide a fair assessment of financial management as regards the legality and regularity of underlying transactions, and that the information they provide corroborates the Court's observations and conclusions. The Directorates-General for Research and Innovation and for the Information Society and Media (now CONNECT) are also given in paragraph 1.22 of Chapter 1 of the Annual Report as examples of DGs where improvement has been noted in the Annual Activity reports of their Directors-General.

The measures which the Court recommends the Commission to take as regards the current FP7, and the FP6 are directed into three areas: First, to intensify its efforts to address the errors found in interim and final payments. Second, to enhance its initiatives to make beneficiaries and independent auditors aware of the errors detected during the Court's and the Commission's ex-post audits. And third, to ensure that the external audit firms conducting audits on the Commission's behalf align their procedures with its guidelines and standard practice and in particular enhance the quality of their audit documentation. I am pleased to see that the Commission's replies to all three recommendations are positive.

As to the more far reaching measures, those can be obviously taken only as part of the next research framework programme Horizon 2020, as also pointed out by the Commission in its replies. The corresponding legislative package contains courageous proposals for addressing the causes of the errors found when implementing the research Framework Programmes, and mainly measures for simplification, which, as we all know, had been consistently called for not only by the Court of Auditors. In its Opinion 6/2012 on the Horizon 2020 Rules for participation, the Court stated that, overall, the measures proposed in the draft rules will significantly contribute to addressing the urgent and important issues faced by the Union's research funding and linked with the complexity of the research Framework Programmes, but also pointed out that the success of the measures depends on their effective implementation, and made several recommendations. I believe therefore that the Opinion is optimistic, while at the same time balanced, and cautious where necessary, and that as such it will be useful to all the stakeholders.

Similarly the Court's current performance audit "*Has the Commission ensured efficient implementation of FP7?*", which covers the FP7 rules for participation, the processes and the setting-up of new instruments, should be helpful in the context of the new Framework Programme, Horizon 2020.

Finally, like the last time (which was actually in January of this year), I would like to express my gratitude to Mrs Máire Geoghegan-Quinn and her colleagues for all their effort and for the constructive co-operation.

Mr Chairman, Mr Rapporteur, Ladies and Gentlemen, thank you for your attention.



**Commissioner Máire GEORGEAN-QUINN**

**SPEECH**

**DISCHARGE HEARING**

**Brussels, Monday, 26 November 2012, 16:00**

## SPEECH-DISCHARGE HEARING

Brussels, Monday, 26 November 2012, 16:00,

Mr. Theurer, Mr. Geier, dear Vice-Chairs, honourable Committee Members, Mr. Balko, colleagues,

It is a pleasure to be here again in order to respond to your questions as part of the Commission's discharge procedure for the year 2011.

The Court of Auditors' annual report has been issued and it is now the time for a discussion with all of you on the chapter related to research policy.

I would like to start with some introductory remarks:

- The Court of Auditors' picture of the legality and regularity of research expenditure as presented in its annual report does not depart far from the Commission's own view and therefore there are no serious disagreements.
- As you know the chapter of the Court's report that we are considering today covers not just the research programme, but also other internal policies, such as the Competitiveness and Innovation Programme, the Lifelong Learning Programme, immigration and asylum policy, and so on.
- Therefore, although the Research Framework Programmes are the biggest individual element, they only represent a little over half of the total expenditure. As a consequence, the different areas I mentioned all contribute to the total error rate.
- The error rate for the chapter as a whole is 3.0%. This is higher than last year and this is regrettable. As far as the Research part is concerned, the Court of Auditors' picture of the legality and regularity of research policy expenditure is corroborated by our own findings.
- Regarding the frequency of error, as both Mr Balko and Mr Semeta have pointed out, this is in some way due to the cyclical nature of EU spending, and until now we have not been able to identify a consistent pattern.

- I would point out that we have always been entirely transparent with you in this matter. During the last discharge hearing I informed you that our own audits had identified an error rate for the 7<sup>th</sup> Framework Programme of between 3.5% and 4.5%.
- This was also included as the cause of a reserve by all the Directors General responsible for research expenditure in their annual activity reports for 2011. Moreover, the financial statement accompanying the Horizon 2020 proposals clearly stated that we anticipated, without changes to the current rules, an error rate of around 5%;

This is an unacceptable situation. So I have been working, with my services, on ways to reduce this error rate. We have identified three areas: simplification of rules and procedures; prevention of errors; and correction and control of errors:

First, simplification of rules and procedures:

The last changes that we made to the rules were in January 2011 – introducing more possibilities for the use of average salary rates and flat rates for SME owner managers. These changes were appreciated by the stakeholders and were also well received by the Court of Auditors. We hope that these measures will have a positive effect right until the end of the programme.

There is now also a modified Financial Regulation. I am very grateful to the rapporteurs, Mrs Grässle and Mr Rivellini, for ensuring that this Regulation also includes some simplifications that will assist beneficiaries and the Commission in trying to ensure lower error rates. I am thinking, for example, about the abolition of interest on pre-financing.

However, as we are approaching the end of the FP7 programming, further changes to the rules or legal framework for FP7 are not a viable short term option. Any proposal would take more than one year to become effective, and would create uncertainty in the legal framework that would not be at all appreciated by the beneficiaries.

As regards simplification of processes, we are constantly reviewing and improving our internal process, including ex ante controls, to reduce the time taken to negotiate and sign contracts and the time taken to pay participants.



Second, as regards preventive measures, we will continue our efforts to provide better and more tailored guidance to beneficiaries and independent auditors on the most frequent errors made and how to remedy them. A paper on how to avoid the 10 most common errors was sent to the 20,000 beneficiaries of FP7, and posted on the participant portal. Based on this paper, my staff have already made eleven presentations in thirteen Member States and associated countries this year, with a total audience of around 1800 people. This initiative has been very well-received, and will continue in 2013. This is also a measure that addresses the concerns of the Court as regards the quality of audit certificates.

In this respect, while we accept the Court's findings that the certificates produced by independent auditors are not always fully reliable, our own analyses show that the average error rate is 50% lower where there is such a certificate.

Third, as regards the correction of errors, we will continue our ex post controls, and continue to make recoveries where ineligible expenditure is discovered – either by my own staff or by the Court. We will ensure that audit firms carrying out audits on our behalf are rigorous in their documentation and follow-up procedures. These audits will lower the residual error rate, but they do need to be balanced against the additional burdens put on beneficiaries and the overall cost of controls.

The European Parliament told us in the so-called Mrs. Carvalho report of November 2010, that it was concerned, and I quote, "that the current system and the practice of FP7 management are excessively control-oriented, thus leading to waste of resources, lower participation and less attractive research landscapes".

A balance of trust and control is therefore very important.

∞∞∞∞

Although our options for the remainder of FP7 are limited, in particular as regards the further simplification of the rules, our common challenge now is to establish an effective framework for the future. In the proposals for Horizon 2020 we have proposed a number of simplifications, both to reduce the burden on beneficiaries and to reduce the error rate.

At the heart of these simplification proposals is a single funding rate for all participants and all activities and a flat rate for indirect costs. However, we also included proposals for a simplification of time-recording requirements and for the wider acceptance of beneficiaries' own accounting practices.

In this respect, I note the Opinion of the Court of Auditors on these rules, which acknowledges the simplification brought by the proposed system. I quote from this opinion: "the Court considers that the radically simplified cost-funding model will improve the reliability of the model, decrease the risk of irregularities in beneficiaries' cost claims, make project accounting less complex, and eliminate some of the verification steps required under the current FP7 funding model, thereby facilitating and accelerating the application process".

I would like to take this opportunity to thank the Court for its thorough analysis and I am happy to report that the Council has, in general terms, already supported these simplifications.

We are now awaiting the Parliament's adoption of the reports on our proposals. On key aspects of the simplification effort, in particular on the proposed single reimbursement rate ('one project – one funding rate') and the 'single flat rate for indirect costs', I am concerned that many amendments do not serve the objectives of delivering radical simplification for participants and of substantially reducing error rates.

In particular, past experience with the reimbursement of real indirect costs has shown that it is one of the biggest sources of error and of legal conflicts. As the Court stated in its opinion on these new rules, and again I quote "the introduction of funding of the direct costs of research (one reimbursement rate) together with a nominal fixed contribution towards indirect costs for all beneficiaries and types of activity make the cost-funding model simpler and less error-prone."

I hope, therefore, that I can rely on this Committee to be consistent with its demand for lower error rates, and so to support the simplification that the Commission has proposed during the upcoming vote on the Horizon 2020 package.

The challenge of attaining an acceptable error rate, whilst still maintaining an attractive, internationally competitive research policy, will remain. But I am convinced that the Horizon 2020 proposals, together with the simplification elements contained in the revised Financial Regulation, will provide a major breakthrough in achieving simple, fair and efficient investment in research and innovation at the European level.

The proposals will also help us to get the best value for money for every Euro spent. I am determined to do this, since European taxpayers demand as much and deserve to get the very best out of their investment.

In conclusion, I would like to assure you again of my commitment to sound financial management. I am also committed to supporting excellent research, more innovation, and an attractive and accessible research and innovation policy to provide investment in jobs and growth. I am confident that we can strike the right balance between these two objectives, and that both these objectives will be met during the remaining years of FP7 and, in the future, under Horizon 2020.

Thank you.

Mr Chairman,

Honourable Members of the Committee and of the European Court of auditors,

It is a great pleasure for me to have the opportunity to address you in the context of the budgetary discharge for the year 2011.

And it is an honour to do so in relation to the new chapter on "Employment and Social Affairs". Employment and social issues are at the heart of the European project and vital for addressing the crisis. At this crucial juncture in the crisis and in the budget negotiations, few things are more important than showing to our citizens that we spend the budget correctly.

Let me start by saying that the 2011 DAS results confirm the positive developments in this area over the previous years.

These results are particularly remarkable since their achievement has been accompanied by an increase of almost 40% in the volume of payments in 2011 compared to 2010. Most operational programmes are now at cruising speed.

In my view 3 elements have made a particularly important contribution to the achievement of these results:

- First, DG EMPL's strict policy on interruptions and suspensions. This policy is clear and simple: when we identify significant weaknesses, we stop paying. The Commission has made an important investment in audit and legal work, and Member States are now reacting much faster as they are confronted with a credible threat. But to stop paying is not enough, nor is it the ultimate objective. Fixing the problems has also required proactive and close cooperation between the Commission and Member States. I think we now see the positive results: implementation is up and errors are down.
- Secondly, we are pushing the simplification agenda hard, in particular by encouraging Member States to fully leverage the opportunities included in the regulation. We are continuously providing support to Member States in this regard and we are reasonably pleased with the progress made on simplification, but not yet fully satisfied. The DAS results show that more can be done: still a significant part of the error rate could have been

avoided if all programmes would have used simplified cost options. And gold plating is still plaguing us from time to time, leading to errors, administrative burden for beneficiaries, and delays where these could have been avoided. Therefore, we will continue with our efforts to foster simplification as recommended by the Court.

- Third, the improvements in DG Employment Annual Activity Report have been instrumental. A stricter approach has been applied, with less tolerance for residual error rates above 2%. As a result we see faster reactions from Member States in ensuring that the necessary corrections are made and required actions effectively implemented.

All these elements are, I believe, good and important. However results reported by the Court also show that there is still room for improvement.

Allow me to mention two specific examples where action is already being taken, following the presentation of the 2011 DAS report.

First, it is time to realise that complexity very often comes from rules defined at national and not EU level. We estimate that breaches of national rules account for 86% of the error rate reported by the Court for Employment and Social Affairs. For this reason we must continue our efforts to promote the use of simplified cost options and work with the Member States to convince them to adapt their rules where these are unnecessarily complex and burdensome.

The second point I wish to draw your attention to is that the Court has observed that for 76% of ESF errors the Managing authorities had sufficient information to detect and correct at least part of those errors prior to certification.

I can therefore only concur with President Caldeira that there needs to be a greater degree of commitment on the part of national authorities to the management and control of the EU money.

As a follow-up to the observations brought by the Court in this year's report, we have already implemented a number of actions in this respect:

- We have recently written to all Managing Authorities on the need to further strengthen management verifications and called for actions on their part.

- We are continuing to organise seminars and bring direct technical assistance to national authorities in their simplification efforts. In 4 Member States targeted seminars have already taken place in 2012, and in the coming weeks 3 more will be organised.
- These follow-up actions will be complemented by a thematic audit on the effectiveness of management verifications, on a risk basis. This should drive home a clear message: we have made considerable progress in recent years but we must still keep up our joint efforts with Member States in the pursuit of our objectives towards a clean bill of health on Community spending in our policy field.

Mr Chairman,

Honourable Members,

Member States are "*the first line of defence*" when implementing ESF. Most eligibility rules – *the* key source of errors - are under their responsibility.

In this context, the participation of Member States in the contradictory process with the Court of Auditors through Tripartite meetings has proven to be an effective way of enhancing mutual understanding, contributing to a "sense of responsibility" and allowing to clarify complex issues.

They are also a vital educational tool for managing authorities, which have to implement the Court's recommendations.

Therefore I consider, with Commissioner Semeta, that the organisation of tripartite meetings is a good practice and a critical step in the contradictory process that should be maintained.

Mr Chairman,

Honourable Members,

I hope that these achievements, our commitment to keep progressing towards a positive DAS and the follow-up given to the Court's and your Committee's recommendations will be positively reflected in the debates around the Commission's 2011 Discharge.

And I hope they will also be taken into account in discussions on the financial framework for 2014-2020. The social challenges Europe is facing are increasing. They require an effective and ambitious European answer, and responsibly managed financial resources. You can trust us to deliver on that.

I thank you for your attention.

Draft Speech of Mr.Ovidiu Ispir, Member of the European Court of Auditors

Presentation of Chapter 6 “Employment and social affairs” of the 2011 Annual Report of the European Court of Auditors to the Committee on Budgetary Control of the European Parliament.

Brussels, 27<sup>th</sup> November 2012

Mr. Chairman, Honourable Members of the European Parliament, Commissioner Andor , Ladies and Gentlemen,

Today I would like to speak to you on the results of the Court’s Statement of Assurance audit in the area of ‘Employment and Social affairs’, as presented in Chapter 6 of our Annual Report on the 2011 financial year.

Total interim and final payments for the year in this Budgetary area amounted to 10,39 billion euro and the European Social Fund accounts for 97% this spending and is subject to management shared between the European Commission and the Member States.

An important fact to keep in mind for this year’s audit is that it is the first year for which there was a specific audit appraisal in the area of ‘Employment and social affairs’ with a full sample of 180 transactions in the area. Until now, ESF expenditure has been reported on as part of ‘Cohesion’ spending , amalgamated with ERDF, transport and energy transactions. It was felt that spending in this significant area had its own significant transactional profile, different enough from other Cohesion spending to warrant separate appraisal and exhibiting different error types and potentially a different error rate. This year’s report therefore presents a situation in respect of ESF spending which can be used going forward to see its true level of error and the trend in its development.



The main risk for ESF expenditure results from the intangible nature of investments in such as training, the diverse range of activities involved and the many, often small scale promoters, undertaking projects. The rules within which beneficiaries have to operate are often many and complex. All of these circumstances lead to errors which are not always picked up by the management and control systems put in place to ensure that expenditure declared to the Commission by Member States are free of error.

The audit approach consisted of the testing of a sample of 180 interim and final payments, an assessment of a number of audit authorities for the 2007-2013 programme period and a review of Management Representations in the form of the Annual Activity Report of DG EMPL.

### **What were the audit results ?**

The Court found that 40% of the transactions sampled were affected by error and that the most likely error in the population is estimated at 2,2%. Calculated according to statistical methods , the lower error limit was found to be just under 1% , while the upper error limit was 3,4%.

Although this was the first year of a specific appraisal for ‘Employment and social affairs’, we have many years experience in auditing ESF transactions and the type of error we expected to see were exactly what we found in this first full sample for the area.

The Court detected the reimbursement of ineligible costs in 13% of the 180 transactions sampled with a further 3% subject to calculation error. Regarding non quantifiable errors, 40 transactions were found where managing authorities or beneficiaries failed to comply with procedural requirements and in 23 of these cases the Court was of the opinion that the failures were serious.

Despite a seemingly positive trend in the evolution of the error rate in the area, which can more easily be observed from this year on as ‘Employment and social affairs’ has now its own separate appraisal, there remains a material level of error affecting the legality and regularity of transactions which is escaping detection by the first level checks set up by the managing authorities and intermediate bodies in the Member States. Worryingly the Court’s auditors considered that sufficient information was available to Member State authorities to have detected and corrected the errors before the related expenditure was declared to the Commission, in 76% of the transactions affected by error. There is still clearly a lot of work yet to be done.

### **Effectiveness of systems – Audit Authorities**

The Court also assessed the compliance of the national audit authorities in Latvia and in Sicily with key regulatory requirements and their effectiveness in ensuring the regularity of payments. The audit authority in Latvia was rated as being effective and that of Sicily as being partially effective. The latter was found to have understated its error rate to the Commission, at least partly as a result of problems with its audit sampling and extrapolation of errors. The work of the Commission also considered the reported error rate as being unreliable. The Court's review of the Commission's supervision of audit authorities found that when weaknesses had been revealed in Member States, the Commission had notified them about corrective action to be taken.

### **Recommendations**

The Court would like to acknowledge the efforts made by the Commission to simplify funding arrangements, allowing a focus on results and outputs rather than complex administrative procedures, whilst at the same time attempting to strengthen and improve supervisory and management control. However there is still significant room for improvement, as the audit has shown national management and control systems as being only partially effective and expenditure certified to the Commission by Member States remains affected by material error.

In this context the Court asks the Commission to continue its efforts and recommends that it:

- Requires compliance with ESF eligibility requirements and assesses the use of national rules with a view towards further simplification and the elimination of error,
- Reminds Member States of their responsibility to ensure the correctness and regularity of declared expenditure and to make effective 'first level checks',
- Encourages national authorities to apply all corrective mechanisms, such as interruptions or suspensions, prior to certification of expenditure to the Commission,
- Provide guidance to audit authorities on such as sampling and audit scope and to verify the accuracy of information disclosed by them,
- Further encourage the use by Member States of permitted simplified cost options.

Thank you for your attention.