



Council of the  
European Union

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**NOTE**

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From: Budget Committee

To: Permanent Representatives Committee/Council

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Subject: Discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2015  
– *Draft Council recommendation*

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**Draft**  
**COUNCIL RECOMMENDATION**  
**of**  
**on the discharge to be given to the Commission**  
**in respect of the implementation of the general budget**  
**of the European Union**  
**for the financial year 2015**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 319 thereof,

Having carried out the examination provided for in Article 319(1) TFEU,

Whereas:

(1) According to the revenue and expenditure account for the financial year 2015:

- revenue amounted to	EUR 146 623 630 294.45
- expenditure disbursed from appropriations amounted to	-EUR 143 484 740 003.31
- cancelled payment appropriations (including earmarked revenue) carried over from year <i>n-1</i> amounted to	EUR 675 429 004.31
- appropriations for payments carried over to year <i>n+1</i> amounted to	-EUR 1 294 470 333.92
- EFTA payment appropriations carried over from year <i>n-1</i> amounted to	-EUR 4 428 001.55
- the balance of exchange-rate differences amounted to	EUR 182 315 866.64
- the positive budget balance amounted to	EUR 1 346 878 818.00

- (2) Cancelled payment appropriations for the financial year amounted to EUR 28 585 352.01;
- (3) EUR 1 758 506 605.41 (98.40 %) of the EUR 1 787 091 957.42 in appropriations for payments carried over to year *n* have been used;
- (4) The observations in the report by the Court of Auditors for the financial year 2015 call for certain comments by the Council, which are ANNEXED hereto;
- (5) The Council attaches importance to its comments being followed-up and assumes that the Commission will implement all of the recommendations in full, without delay;
- (6) The Council has adopted conclusions concerning special reports published by the Court in 2015 and 2016<sup>1</sup>;
- (7) Following the examination referred to above, implementation by the Commission of the budget for the financial year 2015 taken as a whole, on the basis of the observations made by the Court of Auditors, is such as to allow a discharge to be given in respect of such implementation,

HEREBY RECOMMENDS the European Parliament, in the light of these considerations, to give a discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2015.

Done at Brussels,

*For the Council*

*The President*

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<sup>1</sup> Docs. 6014/16, 7221/16, 10379/16, 7084/16, 15186/15, 6910/16, 6026/16, 6878/16, 8874/16, 8873/16, 10380/16, 8825/16, 9466/16, 8165/16, 9494/16, 10381/16, 15300/16, 11346/16, 10628/16, 5430/17, 11369/16, 10683/16, 13231/16, 10021/16, 10503/16, 14181/16, 10474/16, 15676/16, 13226/16, 14867/16, 13103/16, 14171/16, 14381/16, 14127/16, 15534/16 and 5334/1/17.

**INTRODUCTION**

1. The Council welcomes the Court's annual report and Statement of Assurance on the implementation of the EU budget and the analysis of the audit findings and conclusions provided by the Court. It stresses the importance of the independent audit work carried out by the Court, as defined in Article 287 TFEU.
2. The Council recalls that efficient use of and sound financial management of EU funds, as well as delivery of results are of particular importance for the perception of the public on actions financed from the EU budget. Thus, the Council firmly supports the recommendations<sup>1</sup> presented by the Court in its annual report, insisting on their full and timely implementation, while taking note of the Commission's replies.
3. The Council appreciated the Court's work in assessing the results achieved from the EU budget and considers that it is an important additional element on the annual evaluation of sound financial management of EU funds. The Council encourages the Court to continue increasing the focus of performance in its future annual reports. The Council welcomes the findings of the Court, in particular, on performance and delivery of results from the EU budget, as specified in its annual report and its various special reports, and invites the Commission to take them into consideration, where appropriate and possible, during the preparations of the next multiannual financial framework (MFF).

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<sup>1</sup> Regarding recommendations 1 and 3 on Chapter 6, the Council only takes note of the Court's recommendation to the Commission to fundamentally reconsider the design and delivery mechanism for the European Structural and Investment Funds, and to submit a legislative proposal to amend the applicable regulation concerning the extension of the eligibility period for financial instruments.

4. The Council welcomes the stability in the structure of the Court's annual report, and it encourages the Court to build upon the progress made so far in ensuring a high level of transparency and detail per spending area in its report, while emphasising on the need to ensure continuity and comparability between years and policy areas also in the future. In this context, the Council encourages the Court to provide a more detailed analysis of the expenditure in heading 3 (*Security and Citizenship*), in line with the relative increased spending in this area.
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## CHAPTER 1

### THE STATEMENT OF ASSURANCE AND SUPPORTING INFORMATION

1. The Council welcomes the favourable opinion given by the Court on the reliability of the annual accounts of the European Union (hereinafter "the accounts") for the financial year 2015. It notes with satisfaction the Court's statement that the accounts present fairly, in all material respects, the financial position of the Union as at 31 December 2015 and the results of its operations and cash flows and changes in net assets for the year then ended, in accordance with the provisions of the Financial Regulation<sup>1</sup> and with the accounting rules based on internationally accepted standards for the public sector.

The Council encourages the Commission to continue with this practice and to ensure that the high quality of the accounts is maintained in the coming years. The Council takes note of the Court's observations on key audit matters, most notably the level of information on financial instruments under shared management and calls on the Commission to ensure appropriate consideration to those observations.

2. The Council is pleased to note that the revenue underlying the accounts was legal and regular in all material aspects and that the estimated level of error for the expenditure area "Administration" was well below the 2 % materiality threshold.

The Council notes with satisfaction, in line with the Court's observation, that the overall estimated level of error improved in recent years confirming that the estimated level of error relating to the 2007-2013 programming period was significantly lower than the estimated level of error reported for the previous 2000-2006 programming period.

The Council is however, disappointed that that the overall estimated level of error reported by the Court for 2015 payments stood at 3.8 %, even though relatively lower than in 2014 (4.4 %) and that all spending areas, bar "Administration", continued to be affected by a material level of error.

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<sup>1</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, (OJ L 298, 26.10.2012, p. 1).

Nonetheless, the Council recalls that the Court's estimated level of error is not a result of a measure of fraud, inefficiency or waste of funds per se.

The Council reiterates its wish to see year-on-year improvements in the financial management systems, such as simplification of the complex rules and the regulatory framework, and in the estimated level of error across all policy areas, with a view to eventually obtaining an unqualified opinion from the Court.

3. The Council appreciates the efforts and actions taken by the Commission and Member States to implement the Court's recommendations and it calls upon Member States to continue cooperating with the Commission and to prioritise on increasing the quality – rather than the quantity – of first level checks in order to prevent or detect and correct errors prior to declaring expenditure to the Commission. The Council encourages the Commission to continue to ensuring strict supervision and to further strengthen its cooperation with Member States, and to continue providing appropriate and consistent guidance to national managing and audit authorities, in order to prevent errors thereby leading to a reduction in the estimated level of error across the Union's spending. Moreover, the Council calls on the Commission to identify weaknesses in control systems, analyse the costs and benefits of possible corrective measures and take or propose appropriate actions, such as simplification of the applicable provisions, improvement of the control systems and redesign of the programme, as foreseen in the Financial Regulation.

Furthermore, the Council reiterates its call upon the Commission to provide the budgetary authority with a comprehensive report on the areas where the estimated level of error identified is persistently high and outline its root causes.

The Council regrets that the Commission and national authorities (including audit bodies) did not make full use of the available information to prevent, detect and correct a significant proportion of the errors, which would have otherwise substantially reduced the estimated level of error bringing it closer to the materiality threshold across all the chapters of expenditure.

4. The Council acknowledges that the estimated level of error is not causally linked to the management mode and it welcomes the Court's analysis of the errors and its observation of the strong correlation between expenditure types (entitlement based or cost reimbursement) and the estimated level of error. The Council notes that the estimated level of error for entitlement based expenditure is significantly lower than the estimated level of error for reimbursement expenditure. Furthermore, the Council welcomes the Court's analysis of the classification and distribution of corrective measures implemented in 2015.

The Council considers that financial corrections and recoveries are important instruments for the protection of the EU budget. The Council calls on the Commission to continue, where appropriate, the implementation of all available corrective measures. The Council is aware of the multiannual nature of financial corrections and assesses its overall impact on the protection of the EU budget in that context. Therefore, the Council encourages the Court and the Commission to work together in order to converge their approaches in the evaluation of the impact of financial correction on the estimated amount at risk at closure and to provide comparable data.

5. The Council considers that the simplification of rules is of paramount importance in achieving a lower level of error. Simplification of rules, including those in delegated and implementing acts, as well as improved guidance, not only reduces the administrative burden on national authorities and beneficiaries, thereby reducing the risk of error, but also allows for more efficient and less costly controls.

The Council invites the Commission and Member States to take full advantage of the existing options when implementing the programmes under the current legislative framework for the period 2014-2020, by making the appropriate use of the variety of simplification measures at their disposal. In this context, the Council understands that the nature of simplification entails time lags and expects that the positive effect on the reduction in the overall estimated level of error, relating to the reforms implemented in the new legislative framework, will probably be observed in the coming years. The Council welcomes further simplification measures and hopes that these lead to additional reduction in the future estimated level of error.



Furthermore, the Council emphasises that the balance between the risk of error and the cost of control and audit, as well as the potential additional administrative burden (be it for beneficiaries, national administrations or the Commission) have to be carefully evaluated, focusing on better controls rather than on more controls. In this effort, the Council calls on the Commission to continue applying both representative sampling and risk-based checks.

6. The Council welcomes the Commission's efforts in order to overcome the problem of limited information available on pre-financed amounts of financial instruments under shared management, in particular for the 2007-2013 programming period.

The Council, following the Court's observation, calls on the Commission to ensure that all the available information on financial instruments under shared management is shared in an adequate and transparent manner.

7. The Council encourages the Court, the Commission and Member States to improve the timely exchange of information on sufficiently and continuously reliable audit results with a view to an efficient application of the principle of "Single Audit". The Council stresses the need to facilitate the exchange and disclosure of the relevant and available information and to build on reliable controls already undertaken instead of adding additional layers of control.
8. The Council notes with satisfaction the Court's finding that non-compliance with public procurement rules decreased relative to preceding years reflecting the efforts made by the Commission and Member States to address weaknesses in this area.

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**CHAPTER 2**  
**BUDGETARY AND FINANCIAL MANAGEMENT**

1. The Council notes the Court's observation that so far, 2015 was the year with the highest level of commitments due to the late adoption of operational programmes and the transfer of commitments from 2014. Furthermore, it also notes that although Member States' contributions were consistent with the Own Resources Decision<sup>1</sup>, the level of payments was, as in 2014, higher than the MFF ceiling, attributed to carry-overs and assigned revenue. The Council notes the increase in the level of outstanding commitments RAL ("Reste à Liquider").

The Council calls on the Commission to continue monitoring the evolution of the amounts of outstanding commitments, by heading and by programme on a regular basis, and to settle or decommit them in a timely manner and in line with the relevant rules.

2. The Council, following the Court's recommendation, calls upon the Commission to consider in its budgetary and financial management the capacity constraints in some Member States in order to avoid the underutilisation of funds, while acknowledging the actions taken so far, such as the establishment of the Task Force for Better Implementation, which has already led to some improvements. At the same time, the Council welcomes the Court's recommendation to recover idle cash balances in financial instruments under shared management, in accordance with the relevant legal provisions. Furthermore, the Council encourages the Commission to carefully assess and evaluate the use of financial instruments and to take stock of the lessons learned in view of possible future proposals for new instruments.

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<sup>1</sup> Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union (OJ L 168, 7.6.2014, p. 105). This Decision entered into force on 1 October 2016, and applies retroactively as from 1 January 2014.

3. The Council recalls its request to the Commission to provide the budgetary authority with a long term cash flow forecast, in order to avoid a possible build-up of outstanding unpaid claims and to improve the predictability of national contributions. The Council stresses the Court's view that the high level of outstanding commitments requires a longer term perspective, and calls on the Commission to prepare and publish on an annual basis a long term and transparent forecast covering budgetary ceilings, estimated payments obligations and needs until the end of the current MFF, capacity constraints and potential decommitments. While acknowledging the information provided by the Commission in the context of the Mid-term Review/Revision of the current MFF, the Council welcomes the Commission's engagement to provide a forecast beyond 2020 by the end of 2017 in line with Point 9 of the Interinstitutional Agreement of 2013 on budgetary discipline, on cooperation in budgetary matters and on sound financial management.

Moreover, the Council stresses its request to the Commission to provide, on a regular basis, clear, exhaustive, transparent and timely information about the needs for payment appropriations and the availability of funds in the annual budget. In this context, the Council invites the Commission to accompany any proposal modifying the agreed level of commitment appropriations with information on the corresponding impact on payment appropriations over the lifetime of the programming period.

4. Finally, the Council recalls the importance it attaches to the respect of the principle of unity of the EU budget.

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**CHAPTER 3**  
**GETTING RESULTS FROM THE EU BUDGET**

1. Achieving results and focusing on performance is of a paramount importance, especially in the context of budget discipline and scarce resources. Whilst the progress on compliance of spending with the existing rules and efforts to improve the internal control framework must continue, the Council acknowledges that building a solid performance framework within the Institutions and Member States should be sought at all levels of management of EU funds.

In that context, the Council welcomes the Commission's initiative "Budget Focused on Results" that was launched in 2015 with the ultimate aim of gathering experts from Institutions and Member States, which provides a platform for reviewing and debating various aspects of performance-oriented budgeting to be applied at EU level.

At the same time, the assessment of performance is an important element in the annual assessment of the sound financial management of EU funds. The Council welcomes the fact that for the 2015 discharge, the Court provided again a performance appraisal in a specific spending area i.e. Horizon 2020 programme and that certain aspects related to performance were also included in Chapters 6 and 7.

2. The legal framework of the Horizon 2020 programme introduces several important elements for performance management such as objectives and key performance indicators. The Council takes note of the Court's observation that the objectives and indicators agreed by the legislative authority for Horizon 2020 represent a real improvement on the previous framework programme. It notes, however, that the Court observed numerous weaknesses in the design of the performance management framework of the Horizon 2020 programme, in particular the use of indicators for monitoring and reporting. The shortcomings concerned in particular the inconsistent way of using performance terminology such as "outputs", "results" or "impacts", or too significant focus on inputs and outputs rather than results and impacts. For certain indicators the baselines, milestones or targets were missing or were to some extent ambiguous. The Court also observed that certain objectives were fixed without fully complying with SMART criteria or were not fit for management purposes as they were too general or too large in their scope.

However, the Council is aware that measuring performance in the area of research is inherently difficult. The results and impacts of research by their nature are difficult to predict and entail rather a generally longer term to bring to fruition. The Council takes note of the difficulties to get sufficiently robust evidence for the interim evaluations of the Horizon 2020 programme because of the fact that for several indicators only limited data will be available before 2018 or 2019. In the Court's view, this may lead to interim evaluation findings which do not adequately capture the results and impacts of programmes. The Council asks the Commission to mitigate, as far as possible, these difficulties.

3. The Council invites the Commission to continue its efforts in providing consistent and coherent measurements of performance at all levels of management of the programmes in order to enable their meaningful assessment against the objectives set. This includes also the alignment of operational levels with the strategic objectives. The Council underlines, however, that the building up of the performance framework should respect the balance between the cost and benefits of getting the performance information, and that the number of necessary indicators shall be set as to provide relevant data while avoiding creating additional administrative burden. The Council also recalls that monitoring and reporting on performance should be seen as part of a decision making process and not as an exercise on its own. The collection of indicators should feed into an analytical process that leads to a better oriented policy formulation. Any performance-based framework not linked to a policy action will only lead to additional layers of bureaucracy.
4. The Council welcomes and supports the Court's assessment of the performance of programmes and projects in the "Economic, Social and Territorial cooperation" (Chapter 6) and "Natural Resources" (Chapter 7) policy areas. It invites the Court to further extend such reviews across all MFF headings.

On the specific case of rural development, the Council takes note that the main shortcomings reported by the Court are the same as the ones already identified last year, namely the deficiencies in targeting measures and selecting projects and the insufficient evidence that costs were reasonable.

The Council, while recalling that the principle of sound financial management shall be respected when implementing the Union's budget, invites the Commission to improve its guidance to Member States, focussing on a better targeting and selection of projects and a more thorough assessment of the reasonableness of costs.

Finally, the Council underlines the importance of assessing performance in order to make the results of EU interventions more evident, and stresses the need for Member States and the Commission, where feasible, to focus their analysis on result indicators rather than on outputs, taking into account the lifecycle of the programmes.

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## CHAPTER 4

### REVENUE

1. The Council notes with satisfaction the Court's conclusion that the revenue part of the budget was not affected by material error, that the underlying transactions tested were found to be free from error, and that the examined GNI- and VAT-based own resources systems were assessed as being effective whilst the systems for traditional own resources were assessed as being overall effective. However, the Council takes note of the Court's assessment that in relation to traditional own resources key internal controls in visited Member States were only partially effective.
2. The Council stresses the importance it gives to the predictability of EU revenue. It notes the Court's observation that the main risks in respect of other revenue include the Commission's management of fines, and errors in calculation of contributions relating to the EU and other agreements and correction mechanisms for budgetary imbalances. The Council underlines that fines should be recorded when confirmed as budgetary revenue, in line with the Financial Regulation.
3. The Council welcomes the substantial reduction in the number of GNI reservations in place. It encourages the Commission and Member States to continue their efforts towards further reducing the number of outstanding GNI and VAT reservations. The Council also stresses the need to further harmonise and shorten the verification cycle of reservations, which will contribute to limiting the possibility and size of yearly adjustments.

In connection with traditional own resources, the Council notes with concern the shortcomings identified by the Court in the management of the items recorded in the B accounts. The Council invites the Commission to provide Member States with additional guidance to improve their management.

4. The Council underlines the importance of post-clearance controls to safeguard the financial interests of the Union. It stresses the need for harmonised checks notably as regards the identification, selection and inspection of the importers audited by Member States and the delay of subsequent debt notifications. It recalls in this context the importance of an effective recovery of customs debts including from debtors which are not located in an EU Member State.

Moreover, the Council calls upon the Commission to improve its systems for performing and reviewing the calculations of contributions from the European Economic Area and the European Free Trade Association and the calculation of correction mechanisms.

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## CHAPTER 5

### COMPETITIVENESS FOR GROWTH AND JOBS

The Council notes the fact that the estimated level of error reported by the Court for payments in the "Competitiveness for growth and jobs" policy area decreased by 1.2 percentage points to 4.4 % in 2015, while regretting that the estimated level of error remains significantly above the materiality threshold of 2 %.

The Council appreciates that, according to the Court's findings, the errors that could have been prevented or detected and corrected by using all available information dropped from 2.8 % in 2014 to 0.6 % in 2015. The Council is concerned, however, about the relative importance of certain quantified errors, which have a significant impact on the overall estimated level of error and calls on the Commission to analyse the causes and take action to avoid such errors in the future.

The Council reiterates its appeal to the Commission to continue its efforts to address the causes of errors with a particular focus on the programmes that are subject to persistently high error levels and to strengthen its efforts to fully implement the findings already made. It notes with satisfaction the Court's observation that compliance with procurement rules improved significantly compared to previous years.

#### **1. Regularity of transactions**

The Council notes that, as in previous years, the main risk identified by the Court relates to beneficiaries declaring ineligible direct, indirect or personnel costs, which are neither detected nor corrected before reimbursement by the Commission.

Accordingly, the Council fully supports the Court's recommendation that the Commission, national authorities and independent auditors should use all the available information to prevent, detect and correct errors before the reimbursement of cost claims and encourages the Commission to improve its *ex-ante* controls, as is intended, including through audit certificates.

The Council takes note of the Court's analysis that the root causes for most of the errors are the misinterpretation of complex eligibility rules, in particular, under the Seventh Research Framework Programme. In that regard, it welcomes the Commission's attempts to simplify the reimbursement system within the existing rules to the extent possible. The Council calls on the Commission to consistently apply the simplifications introduced for the Horizon 2020 programme and to implement effective checks in the context of an appropriate balance between trust and control, with a view to further reducing the estimated level of error for the programming period 2014-2020. In that regard, the Council encourages the Commission to provide adequate support to beneficiaries and bodies through guidance, in particular, through the Commission's Common Support Centre, which has already yielded highly appreciated positive results.

## **2. Management and control systems**

The Council welcomes the introduction of the Common Audit Service and hopes that it will contribute to improving the harmonisation of *ex-post* audits and recoveries of ineligible costs under the Seventh Framework Programme and Horizon 2020, whilst reducing administrative burdens. In this regard, the Council supports the Court's recommendation to the Commission to issue common guidelines on audit recommendations for the recovery of ineligible costs to avoid inconsistencies and legal uncertainty.

The Council notes with satisfaction the Court's findings on the positive results of the implementation of *ex-post* audits, in particular in relation to the Seventh Framework Programme, including the Commission's approach on extrapolations of corrections which lead to recoveries, thus, protecting the budget. In addition, the Council supports the Court's recommendation for close monitoring of the implementation of extrapolated corrections to avoid inconsistencies.

The Council calls on the Commission to apply lessons learnt to the extent possible to its Horizon 2020 *ex-post* audit strategy in a consistent and timely manner.

### 3. Reliability of the Commission's annual activity reports

The Council welcomes the Court's finding that the Commission's annual activity reports in this policy area provide a fair assessment of financial management in relation to the regularity of transactions and corroborate the Court's findings and conclusions in most respects.

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## CHAPTER 6

### ECONOMIC, SOCIAL AND TERRITORIAL COHESION

The Council takes note of the fact that the estimated level of error reported by the Court for payments in the "Economic, Social and Territorial cohesion" policy area decreased by 0.5 percentage points to 5.2 % in 2015, remaining, however, well above the materiality threshold of 2 %. At the same time, the Council acknowledges the Court's observation that the estimated level of error relating to the 2007-2013 programming period was significantly lower than the estimated level of error reported for the previous 2000-2006 programming period.

The Council is concerned about the Court's findings in that the estimated level of error would have been 2.4 percentage points lower if national authorities had made better use of all the available information to prevent or detect and correct errors before declaring the expenditure to the Commission, and it notes that errors made by managing authorities and intermediate bodies in Member States contributed to another 0.6 percentage points to the estimated level of error in this chapter.

While acknowledging the complex spending structure and the multiannual character of the instruments in this policy area, as well as the multiple EU and national regulations to be taken into account by the beneficiaries, the Council calls on the Commission and Member States' authorities to make additional efforts to ensure the regularity and sound financial management of EU funds, to take full advantage of all possibilities of simplification, and to avoid unnecessary layers of complexity or administrative burden that do not add value to the results set to be achieved.

The Council takes note of the Court's observations on the increased probability of greater delays in the implementation of the 2014-2020 programmes compared to the 2007-2013 programmes. Nevertheless, the Council notes that the sharp increase in the rate of project selection during 2016, as reported by the Commission<sup>1</sup>, may lead to the acceleration of the implementation of the 2014-2020 programmes in the remaining years of the current programming period.

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<sup>1</sup> Doc. 15784/16 (COM(2016) 812 final), Report from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions: European Structural and Investment Funds 2014 – 2020: 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015.

## 1. Regularity of transactions

The Council welcomes the considerable reduction of the impact on the estimated level of error emanating from infringements of public procurement and state aid rules observed by the Court relative to previous years.

It notes that in 2015 the inclusion of ineligible expenditure in the beneficiaries' cost declarations and the selection of the wholly ineligible projects or beneficiaries have become the principal sources of error in this policy area.

The Council urges the Commission to follow up on the cases of errors identified by the Court, to propose corrective measures where necessary, and to strengthen cooperation within the Commission, as well as with Member States.

It invites the Commission to continue providing appropriate and consistent training and guidance to assist beneficiaries and national authorities in the implementation of the programmes. This should include guidance to Member States to clarify the notion of recoverable VAT.

The Council regrets the Court's observation that several attempts aimed at simplification in recent years have had only a limited impact on the regularity of transactions while, at the same time, increased levels of control have caused significant additional administrative burden on national administrations and beneficiaries. Nevertheless, the Council acknowledges that it is too early to measure the impacts of the simplification efforts on the 2014-2020 period. The Council underlines the importance of simplification and of avoiding unnecessarily complex rules that increase administrative burden. It invites the Commission to continue actively promoting the use of simplified cost options, in particular for those areas which the Court confirmed to be more prone to error.

In view of the Court's assessment of the insufficient reliability of checks at Member State level, the Council reiterates the paramount importance of first level checks to prevent the risk of error. It invites the Commission and Member States to intensify their efforts in addressing those weaknesses by taking into account all available information and supporting documentation and by strictly following up management verifications to prevent irregularities.

The Council encourages the Commission to continue concentrating its available audit resources on the most risk-prone areas, at the level of the programme and/or the beneficiary, while ensuring an appropriate degree of proportionality between the costs and benefits of controls.

## **2. Supervisory and control systems**

The Council remains concerned about the weaknesses identified by the Court in the Commission's and Member States' management and control systems. Insufficiently reliable checks carried out by national managing authorities and intermediate bodies are the biggest cause of errors remaining undetected and uncorrected. The risk of insufficient assurance provided by national audit authorities, in particular the understatement of errors or their improper extrapolation, can negatively impact the Commission's ability to correctly assess the amounts at risk and may hinder its efforts in moving towards a single audit approach.

As in previous years, the Council underlines the fact that information provided by national audit authorities is crucial for the Commission to be able to obtain assurance on the functioning of control systems, the regularity of payments to beneficiaries and, where necessary, the stringent implementation of financial corrections.

While acknowledging the efforts already made by the Commission and Member States, notably in the compliance with public procurement and state aid rules, the Council calls upon them to further improve their supervisory and control systems. It urges the Commission to continue its close cooperation with national and regional audit authorities, to assess their level of reliance, to enable improvements in terms of capacity building or methodology used, and to ensure that the same standards are applied by all the audit authorities.

### 3. Other issues

Despite the progress noted for 2015, the Council is concerned about the fact that the average disbursement rate of financial instruments under shared management remains low and that some Member States face difficulties to use their endowments in full. The Council asks the Commission to analyse the reasons for the delays in the disbursement of EU funds through financial instruments and to take the appropriate actions. It underlines, however, that financial instruments should not be oversized and that their use can only be successful under specific conditions and circumstances.

With regard to the errors, the weaknesses in the information reported by Member States, and the limited possibilities for auditing the implementation of financial instrument operations before closure, the Council calls on the Commission, in cooperation with Member States, to further improve the completeness and accuracy of data pertaining to implementation and to ensure that all expenditure is included sufficiently early in the closure declarations to allow enough time for audit authorities to conduct their checks.

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**CHAPTER 7**  
**NATURAL RESOURCES**

The Council takes note that the estimated level of error reported by the Court for payments in the "Natural Resources" policy area stood at 2.9 % in 2015, remaining, however, above the materiality threshold of 2 %. The Council welcomes the Court's approach of excluding cross compliance from the estimated level of error as from 2015.

As 2015 was the last year when most payments were made on the basis of the rules prevailing before the CAP reform, the Council looks forward to assessing the effects in terms of simplification and potential reduction of the estimated level of error under this policy area in the next Court's report. The Council encourages Member States to take full advantage of the new 2014-2020 legal framework in order to improve the management of EU spending and thereby to lower the risk of error and the Commission to provide appropriate and consistent training and guidance to assist in the implementation of new programmes.

**1. Regularity of transactions**

**1.1. EAGF - Market and direct support**

The Council takes note of the fact that the estimated level of error reported by the Court for payments in the "Market and direct support" was 2.2 % in 2015 and that it remained at the same level of the previous year when excluding cross-compliance.

The Council takes note of the Court's findings that the estimated level of error would have been 0.3 percentage points lower - therefore bringing the estimated level of error below the materiality level - if national authorities had made better use of all the available information to prevent or detect and correct errors before declaring the expenditure to the Commission.



The Council notes that most of the quantifiable errors detected by the Court related to the overstated number of eligible hectares. The Council agrees with the Court's observation that there have been considerable improvements over recent years. It calls upon the Member States concerned to continuously improve the quality of information contained in the Land Parcel Identification System (LPIS) databases, including the size and eligibility of agricultural land, notably of permanent pasture, taking into account that small errors are, to a large extent, impossible to avoid at a reasonable cost.

The Council underlines the high level of error detected by the Court in the administrative processing of aid applications by national authorities, contributing for 0.6 percentage points to the estimated level of error. It calls upon the Commission to continue to systematically request and closely monitor action plans by Member States aiming at remedying the situation and to continue to apply reductions and suspension of payments and financial corrections when necessary, in line with the conformity clearance procedures.

## **1.2. Rural development, environment, climate action and fisheries**

The Council welcomes the fact that in comparison with the previous year, the estimated level of error for this policy area decreased by 0.7 percentage points. However, the Council regrets that the estimated level of error of 5.3 %, as reported by the Court for 2015 payments in the "Rural development, environment, climate action and fisheries" policy area, still stood significantly higher than the materiality threshold.

The Council takes note of the Court's findings that the estimated level of error would have been 1.7 percentage points lower if national authorities had made better use of all the available information to prevent or detect and correct errors before declaring the expenditure to the Commission.

The Council notes that the errors which contribute most to the estimated level of error related to the non-compliance with either the eligibility requirements, the public procurement rules or the agri-environmental commitments. The Council encourages the Commission to further simplify the design of measures and cost options that, together with the implementation of the action plans in Member States, could contribute to the reduction of the estimated level of error under rural development.

Moreover, the Council takes note of the errors detected by the Court made by national authorities which contributed to 1.5 percentage points to the estimated level of error. It calls upon the Commission and Member States to remedy the situation and for the Commission to continue applying financial corrections when necessary, in line with the conformity clearance procedures.

## **2. Supervisory and control systems**

### **2.1. Agriculture**

The Council welcomes the Court's assessment that the Commission's conformity audits are compliant with the relevant international auditing standards. Likewise, the Council welcomes the Court's reliance on the Commission's assessment of Member States' systems.

The Council supports the Court's finding that the Commission has to verify the data supplied by Member States when calculating financial corrections. The Council encourages the Commission to update its audit manual and recalls that the efforts to check the figures provided by Member States should be proportionate to the potential financial risk at stake.

### **2.1.1. Market and direct support**

The Council considers that the Integrated Administration and Control System (IACS) makes a significant contribution to reducing the estimated level of error in the expenditure that it covers, despite some weaknesses identified in the LPIS. It encourages the Commission and Member States to pursue their efforts to ensure that IACS remains an effective and functioning system. The Council invites Member States to continue to improve the functioning of the relevant authorities.

### **2.1.2. Rural development**

The Council notes that the system weaknesses detected by the Court in its sample of some paying agencies for 2015 were very similar to those reported in the previous years: deficiencies in administrative checks related to eligibility conditions in particular those concerning public procurement procedures.

In this regard, the Council regrets that some paying agencies had not included any targeted action in their action plans, as observed by the Court. The Council underlines that the action plans are designed to implement targeted corrective actions to remedy the causes of errors. Therefore, the Council encourages the Commission to pursue its efforts in providing targeted guidance to the Member States involved, including effective actions on public procurement.

## **2.2. Fisheries**

The Council, following the Court's recommendation, calls upon the Commission to ensure the compliance of its conformity audits with international auditing standards.

**CHAPTER 8**  
**"GLOBAL EUROPE" AND "SECURITY AND CITIZENSHIP"**

1. The Council takes note that the estimated level of error reported by the Court for 2015 payments in the "Global Europe" policy area stood at 2.8 %, representing an increase of 0.1 percentage points compared to 2014. It encourages the Commission to pursue its efforts to reduce the estimated level of error in a cost-effective manner.

The Council regrets the Court's finding that the estimated level of error would have been 1.6 percentage points lower if the Commission or independent auditors had made better use of all the available information to prevent or detect and correct errors before declaring the expenditure to the Commission.

2. The Council notes that the Court detected some control weaknesses in the Commission's systems at the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) and at the Directorate-General for International Development and Cooperation (DG DEVCO) which led to the acceptance of ineligible costs. The Council welcomes the fact that the Commission has accepted the Court's recommendation to introduce new measures to enhance the quality of expenditure verifications.

The Council notes with great concern the Court's observation that there was a risk that funding channelled through a twinning instrument under the European Neighbourhood and Partnership Instrument could have yielded a profit for the implementing Member State partner. It welcomes the fact that the Commission has accepted the Court's recommendation for DG NEAR to take action in ensuring that this type of funding is in accordance with the non-profit rule.

3. The Council welcomes the fact that for the first time the Court has included in its Annual Report an analysis of the "Security and Citizenship" policies. It encourages the Court to consider increasing its audit scope in this area in order to assess, in particular, the effectiveness of the Asylum, Migration, and Integration Fund and of the Internal Security Fund and to provide a deeper analysis of this policy area.

Whilst acknowledging the actions already taken and also given the increase in the level of payments under "Security and Citizenship" and "Global Europe", the Council stresses the importance of a full and swift implementation of the Court's recommendations by the Commission, which relate to "Global Europe".

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## CHAPTER 9

### ADMINISTRATION

1. The Council welcomes the fact that, as in previous years, the administrative and related expenditure of the EU institutions remained free from material error with an estimated level of error of 0.6 %, which is well below the materiality threshold. It notes with satisfaction that no serious weaknesses were identified by the Court in the supervisory and control systems and in the examined annual activity reports.
2. The Council takes note of a limited number of errors detected by the Court, notably in the recruitment and procurement procedures and in the management of staff allowances.

The Council calls upon the Commission to continue its efforts in addressing the weaknesses related to the verification of family allowances granted to its staff and to implement thoroughly the corrective measures taken so far. It welcomes the planned development of the Sysper notification system with a view to provide for a better monitoring of notification leading to more accurate calculations of family allowances in the future.

The Council regrets the Court's observation related to the management of funds within the European Parliament, particularly to the control of allocations for political groups. The Council underlines that respect to the principle of transparency is instrumental to the Union's accountability towards its citizens. It therefore underlines the importance of strengthening the control framework and providing better guidance to the political groups through reinforced monitoring of the application of the rules of the Financial Regulation, in line with the Court's recommendation.

The Council also regrets the shortcomings observed by the Court in the European External Action Service, notably concerning the procurement procedures for low value contracts under the responsibility of delegations. It regrets that supervisory and control systems in delegations are not yet fully sound and reliable. It calls on the European External Action Service to reinforce its guidance on the design, coordination and execution of procurement and selection procedures in delegations and to provide more training opportunities to its staff in delegations to avoid similar weaknesses in the future.

3. Taking in to account the considerable share of the European Schools' funds deriving from the EU budget, the Council is also concerned with the observations made by the Court in its report on the annual accounts of the European Schools for the financial year 2015.

As in previous years, the Court detected significant weaknesses in the accounting and internal control systems of the Schools. These include inadequacies in the preparation of accounts, the execution of procurement and recruitment procedures, payments, and *ex-ante* controls. Conversion of accounting principles to the International Public Sector Accounting Standards also remain incomplete. According to the Court, these ongoing shortcomings in budgetary management have persisted for several years. The Council stresses its strong support to the recommendations issued by the Court and calls upon the Commission to work with the Secretary General of the European Schools to ensure that all measures recommended by the Court are implemented with immediate effect. The Council emphasises that the provisions of the Financial Regulation, in particular with respect to sound financial management, must be fully respected in the future.

4. With regard to decentralised and executive agencies, as well as other EU bodies, the Council underlines its concern about the high level of carry-overs of committed appropriations evaluated by the Court in many of its specific annual reports. The Council acknowledges that such carry-overs often result from events beyond the agencies' control, such as the late presentation of invoices and cost declarations, or from the multiannual nature of their operations, procurement procedures and projects. However, it calls on the agencies and other bodies concerned to improve their financial programming and monitoring of the budget implementation in order to reduce the level of committed appropriations carried over to the following year to the strict minimum necessary. Carry-overs should be limited to duly justified cases, in line with the budgetary principle of annuality.

The Council calls on the Commission to provide clear guidelines on the level of information on budgetary implementation to be provided by agencies and Joint Undertakings in their annual accounts and reports on their budgetary and financial management.

5. The Council recalls the Interinstitutional Agreement of 2013 on budgetary discipline, on cooperation in budgetary matters and on sound financial management. It stresses the importance of respecting the agreed progressive reduction of staff by 5 % between 2013 and 2017, covering all institutions, bodies and agencies. The Council invites the Court to report on the application of this measure and its results, including decentralised and executive agencies and other bodies.
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