



Council of the  
European Union

Brussels, 30 January 2015  
(OR. en)

5303/15  
ADD 1

FIN 25  
PE-L 2

**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 2013  
- *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 2013**

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 2013:

- revenue amounted to	EUR 149 503 658 993.56
- expenditure disbursed from appropriations amounted to	-EUR 147 566 887 878.68
- cancelled payment appropriations (including earmarked revenue) carried over from year <i>n-1</i> amounted to	EUR 436 586 912.65
- appropriations for payments carried over to year <i>n+1</i> amounted to	-EUR 1 325 132 086.83
- EFTA payment appropriations carried over from year <i>n-1</i> amounted to	-EUR 4 220 213.94
- the balance of exchange-rate differences amounted to	-EUR 42 155 591.14
- the positive budget balance amounted to	EUR 1 001 850 135.62

(2) Cancelled payment appropriations for the financial year amounted to EUR 33 747 914.67;

(3) EUR 902 060 168.60 (96.39 %) of the EUR 935 808 083.27 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 2013 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 2013 and 2014<sup>1</sup>;

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<sup>1</sup> As set out in documents 6987/14, 7099/14 + COR 1, 8301/14, 8565/14, 8598/1/14 REV 1, 9787/14, 9778/14, 10745/14, 11254/14, 13856/14, 13616/14, 13938/14, 14681/14, 14820/14, 15384/14, 15537/14, 15563/14, 15564/14 + COR 1 + COR 2, 15565/14 and 16332/14.

- (7) Following the examination referred to above, implementation by the Commission of the budget for the financial year 2013 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 2013.

Done at Brussels,

*For the Council*

*The President*

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INTRODUCTION

1. The Council welcomes the Court's Statement of Assurance (DAS) on the implementation of the budget for the financial year 2013.

Each year, the Court reports on the results of its annual audits of EU financial management of the previous financial year. The Council stresses the importance of the independent audit work carried out by the Court, making full use of the Court's resources to fulfil its tasks as defined in Article 287 TFEU, and the assurance it provides on the use of EU funds; it supports the Court's recommendations and conclusions necessary for obtaining a balanced overall evaluation of the sound financial management of EU funds.

2. The Council is pleased to note that the consolidated accounts of the European Union (hereinafter "the accounts") for the financial year 2013, were free from material error and present fairly, in all material aspects, the financial position of the Union and the results of its operations and its cash flows.
3. The Council also notes with satisfaction that revenue and commitments underlying the accounts for the financial year 2013 were legal and regular in all material aspects.
4. The Council remains concerned that the Court's estimate for the most likely error rate for expenditure as a whole in 2013 is 4.7 %, thereby payments from the budget continued to be materially affected by error. Moreover, the fact that supervisory and control systems audited by the Court were only partially effective in ensuring the legality and regularity of transactions is also a cause of concern for the Council. It recalls that better spending and sound financial management of EU funds is of particular importance for the public perception of actions financed from the EU budget. Thus, the Council firmly supports the recommendations presented by the Court in its annual report, insisting on their full and timely implementation, and takes note of the Commission's replies.

## Management of EU Funds

5. The Council takes note of the relative stability in the overall error rate for payments estimated by the Court for the financial year 2013 in comparison with the previous year, although the Council regrets that the error rate is still well above the Court's materiality threshold of 2 % for all policy areas, except administration. At the same time, the Council recalls that the Court's estimate of the error rate is not as such a measure of fraud, inefficiency or waste of funds. The Council recognises the efforts and actions taken by the Commission and Member States to implement the Court's recommendations of previous years in order to improve the management and control systems for EU funds and programmes in 2013, in spite of a significant increase in the volume of payments that year. The Council insists on increasing the effectiveness of the control systems, while ensuring the balance between costs and benefits of the controls. Moreover, the Council calls on the Commission to continue to apply both representative testing and risk-based checks, and to take the appropriate actions in line with Article 32(5) of the Financial Regulation if the level of error identified is persistently high.
  
6. According to the Court's findings, taken as a whole policies under shared management remain more affected by error. Notwithstanding the continuous efforts made by the Commission and Member States to improve the management and control systems, the error rate still remains above the materiality threshold. The Council is aware that the complex and multiannual nature of some programmes can lead to difficulties in managing them. The Council calls upon the Commission and Member States to undertake further actions aiming at strengthening the quality of the management and control systems and making them more efficient, including the first level verifications. Also, measures preventing errors such as interruption and suspension of payments should be applied strictly in line with the relevant rules. The Council also reiterates the need to apply financial corrections and recoveries, rigorously in line with the relevant rules, in order to protect the EU budget.

The Council regrets the Court's observation that for an important part of the transactions under shared management affected by error, national authorities had sufficient information to detect and correct the errors concerned. It calls upon the Commission to continue executing in full its supervisory role in order to ensure the maximum protection of the EU budget and to provide continuous guidance to Member States, in order to ensure that spending is in line with the rules, thus reducing the error rate.

7. The Council is disappointed about the recurrent increase in the error rate for most policies directly managed by the Commission and urges the Commission to continue improving its control systems, in particular the desk checks, while keeping the right balance between the costs of controls and achieving the policy objectives.
  
8. The Council notes with concern that, according to the Court's findings, eligibility errors contributed the most to the overall estimated error rate in 2013 and that they increased significantly from last year. The Council urges the Commission to identify the root causes of the reported irregularities, to focus on preventive measures, and to implement corrective actions where necessary. The Council also notes with concern that breaches of public procurement rules - non-compliance with EU and/or national rules - continued to contribute to the overall error rate for the EU budget as a whole. An important part of the errors in the area of public procurement, however, concerns shared management where national rules apply. The Council encourages Member States to simplify and streamline national rules, so that the so-called "gold-plating" does not add complexity and further administrative burden. The Council stresses that any simplification of the national public procurement rules should aim at limiting errors, whilst fully ensuring the protection of the Union's financial interests. Finally, in the light of the newly revised public procurement rules and procedures, the Council invites the Commission to ensure through its technical assistance that the recently updated guidelines on public procurement are disseminated and understood by all relevant actors.

9. The Council shares the Court's view on simplification and considers that a simplification of the rules is of paramount importance in achieving an unqualified audit opinion. Simplification of rules, including in delegated and implementing acts, and improved guidance not only reduces the administrative burden on the beneficiaries and respective authorities and thereby reduces the risk of error, but also allows for more efficient and less costly controls. The newly adopted legislative framework for the period 2014-2020 is an opportunity to achieve major progress towards simplification. The Council invites the Commission and Member States to take full advantage of this opportunity when implementing newly adopted programmes by using more extensively the variety of simplification measures that they offer and that were given a positive assessment by the Court.

Furthermore, the Council emphasises that the balance between risk of error and cost of control and audit, as well as the potential additional administrative burden (be it for beneficiaries, national administrations or the Commission) has to be carefully evaluated, focusing on better controls rather than on more controls.

Finally, the Council reiterates the need for the Commission to provide appropriate guidance and training to Member States and to beneficiaries in applying such measures, while helping them to fulfil their role in pursuing the policy objectives.



10. The Council considers that financial corrections and recoveries are a very important instrument in the protection of the EU budget. The Council welcomes the methodology and increased transparency on the effect of financial corrections in the Court's annual report for 2013. It notes that in 2013 the Commission reported financial corrections and recoveries for an amount of EUR 3.3 billion implemented as a result of the Commission's supervisory role. 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. The Council is also aware of the different approaches of the Court and of the Commission in evaluating the impact of financial corrections on the error rate. Although the two institutions fulfil different roles, the Council invites the Commission and the Court to reflect on how to provide comparable data in the future, including as regards corrective mechanisms.
  
11. The Council notes that the Court, in its annual report, assessed the Commission's budgetary and financial management in 2013. It took note of certain deficiencies identified by the Court concerning notably the clearing of prefinancing, the disbursement of funds from Financial Engineering Instruments and the assessment of payment needs. The Council shares the Court's evaluation and recommendations. It notably stresses the need to evaluate the reasons for the low absorption rate of Financial Engineering Instruments and thereby to strengthen the monitoring of payment flows in order to avoid any unnecessary retention of funds in these instruments. In addition, the Council calls upon the Commission to analyse the added value of such instruments and to make available the results of this analysis.

The Council notes with concern the Court's assessment as regards the high amount of outstanding commitments (RAL) at the end of 2013. It calls on the Commission to continue monitoring the evolution of the amounts of RAL, and to settle or decommit them in a timely manner and in line with the relevant rules.

Moreover, the Council urges 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, as well as to prepare a reliable forecast of the future payment requirements and budgetary priorities. 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 programming period.

12. The Council considers that the annual activity reports published by the Commission's Directors-General are valuable documents for the Commission's accountability, as well as for Member States and the public. They include reservations issued by the Directors-General and the amounts at risk quantified on the basis of the assessment of the use of resources and of the control procedures in place. The summary of all annual activity reports is presented in the Synthesis Report. According to the Court's findings, the amounts at risk evaluated by the Commission services and presented in the Synthesis Report are underestimated for certain policy areas and should therefore be given more careful consideration. In addition, the estimated impact of the corrective measures is not fully explained. The Council calls on the Commission to examine further possibilities for improving the Synthesis Report, in particular concerning the amounts at risk. The Council considers that, in order to ensure full and multiannual protection of the EU budget, the risks shall be evaluated thoroughly and take into account all available information in order to identify the areas where more focused action is required.
  
13. The Council appreciates the Court's work in assessing the results achieved from the EU budget and considers that progress still needs to be made to establish a proper performance framework within the EU. The assessment of performance is a crucial element in the annual evaluation of the sound financial management of EU funds. The Court's findings could also serve as a solid basis for evaluating the programmes' multiannual performance when reviewing EU spending.

**CHAPTER 1**  
**THE STATEMENT OF ASSURANCE AND SUPPORTING INFORMATION**

**1. Reliability of the accounts**

The Council welcomes the favourable opinion given by the Court on the reliability of the accounts for the financial year 2013. 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 2013 and the results of its operations and cash flows for the year then ended, in accordance with the provisions of the Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

The Council encourages the Commission to continue to ensure that the high quality of the accounts is maintained in the coming years.

**2. Legality and regularity of the underlying transactions**

The Council is concerned that an important share of spending continued to be affected by a material level of error. It takes note that the estimated error rate for payments as a whole slightly decreased by 0.1 percentage points in comparison with the previous year to 4.7 % and thus remained essentially stable.

The Council also notes that the Court aligned certain elements of its methodology with the Commission, as requested in the Council's recommendation for 2012, and included, where possible, financial corrections in its audit findings.

The Council welcomes this alignment. It reiterates, however, its wish to see year-on-year improvements in the financial management systems and in the error rates across all policy areas, with a view to obtaining an unqualified opinion from the Court.

The Council appreciates the Court's unqualified conclusion for "Revenue" and commitments. The Council notes the Court's statement that the supervisory and control systems for "Revenue" and "Administrative and related expenditure" functioned effectively, and that the most likely error rate estimated by the Court for "Revenue" and "Administrative and related expenditure" was below the 2 % materiality threshold.

The Council regrets the Court's conclusion that overall the supervisory and control systems examined by the Court were only partially effective in ensuring the legality and regularity of payments underlying the accounts, and that payments relating to the other policy groups remained affected by material error.

The Council encourages the Commission to further reinforce supervision and control structures, to further strengthen its cooperation with Member States and to continue to provide guidance to national managing authorities, in order to bring down the level of error in Union spending.

### **3. The Court's audit approach**

The Council takes note of the Court's intention to modify the structure of its future annual reports and to align it with the multiannual financial framework (MFF) headings. The Council welcomes any measures introduced by the Court in its audit work aimed at improving its working methods and the presentation of its audit findings. At the same time, the Council 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. The Council emphasises the need to ensure full transparency and representativeness of the sample of expenditure taken by the Court in all budget areas and recalls the importance of presenting estimated error rates in a comprehensive, consistent, comparable and uniform way between years and policy areas.

## CHAPTER 2

### REVENUE

The Council notes with satisfaction the Court's conclusion that the revenue part of the budget is not affected by material error, that the underlying transactions were considered free from error and that the control systems were assessed as being overall effective.

#### **1. Traditional own resources (TOR)**

The Council underlines that post-clearance audits of importers should be improved in order to maximise the effectiveness of collecting TOR. It welcomes the Commission's replies to the Court's recommendations, as well as the revised Customs Audit Guide which is a step towards a more harmonised approach to such audits. The Council encourages Member States to take this guide duly into account in their audit work.

#### **2. VAT-based own resources**

The Council notes with satisfaction the improvements achieved in lifting long-outstanding reservations regarding VAT-based own resources and encourages the Commission to continue its collaboration with Member States to resolve the outstanding issues as soon as possible.

#### **3. GNI-based own resources**

The Council welcomes the progress recently made in lifting long-outstanding reservations regarding GNI-based own resources. It notes, however, that no harmonised approach exists for presenting data on the non-observed economy in the EU.

The Council encourages the Commission to pursue its work in ensuring a high level of exhaustiveness of the GNI data in the GNI-verification process.

**CHAPTER 3**  
**AGRICULTURE: MARKET AND DIRECT SUPPORT**

The Council is disappointed that the payments examined by the Court in this policy group were affected by material error and that the most likely error rate was estimated by the Court at 3.6 %. Nevertheless, the Council takes note of the slight decrease of 0.2 percentage points in the most likely error rate in comparison with previous year.

The Council notes that, for the sample of the paying agencies that the Court examined in detail, the Integrated Administration and Control Systems (IACS) for one paying agency was assessed as effective, while for the four others it was found to be partially or not effective. It therefore urges the Commission and Member States to continue the efforts to improve their supervisory and control systems.

**1. Regularity of transactions**

The Council notes that 61 % of the audited sample of transactions were affected by error. The Council takes note that, according to the Court's assessment, a significant number of errors could have been detected and corrected by Member States themselves, before declaring the expenditure to the Commission.

The Council notes that most of the quantifiable errors detected by the Court relate to the accuracy or eligibility of aid payments, in particular the over-declaration of land. In this regard, the Council welcomes the Commission's intention to discuss with the Court the methodology for field measurements. The Council also takes note that the Court extended its audit scope to animal identification which has significantly influenced upwards the frequency of errors.

The Council notes with concern that systemic weaknesses identified in the Land Parcel Identification System (LPIS) database persist. It calls on the Commission to further enhance its work in terms of guidance and training at Member States' level in order to help them maintain the most accurate information in the database, while avoiding excessive administrative burden and cost.

The Council also urges Member States to pursue their efforts to improve the systems, the efficiency and the quality of their management and control systems, in order to avoid errors related to the incorrect calculation of entitlements, while ensuring a balance between benefits and costs of controls.

The Council also notes that the Court included cross-compliance errors in its estimate of the error rate for this policy group and that they had an impact of 0.5 percentage points on the overall level of error. At the same time, it underlines the Commission's argument that cross-compliance does not constitute an eligibility criterion and that therefore the checks on these requirements should not affect the appraisal of the legality and regularity of the underlying transactions. The Council welcomes the Court's intention to review its approach in forthcoming reports.

Moreover, the Council urges the Commission to ensure an appropriate follow-up of the errors detected by the Court and to put in place, when necessary, the appropriate action plans or to proceed with the clearance of accounts. When implementing those action plans, the Commission should take into account the proportionality between the costs for Member States and the expected benefits as regards the protection of the EU financial interests. 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 training and guidance to assist in the implementation of the new programmes.

## 2. Supervisory and control systems

The Council welcomes the Court's observation that the IACS makes a significant contribution to reducing the error rate in the expenditure that it covers, despite the weaknesses identified in the LPIS and in the administrative treatment of claims. It urges the Commission and Member States to continue their efforts to ensure that IACS remains an effective and functioning system.

The Council welcomes the Court's positive assessment of the quality of on-the-spot measurements.

The Council regrets the deficiencies found by the Court in the paying agencies audited in the procedure to ensure the recovery of undue payments, in the Reinforcement of Assurance procedure and in the control system applicable to EU aid for producer groups. The Council encourages the Commission to ensure an appropriate follow-up of the errors detected by the Court and to take appropriate remedial actions.

Finally, the Council welcomes the fact that, according to the Court's assessment, the new methodology applied by the Commission, consisting in taking into account all available information, represents an improvement for calculating the residual error rate.

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**CHAPTER 4**  
**RURAL DEVELOPMENT, ENVIRONMENT, FISHERIES AND HEALTH**

The Council, while welcoming the decrease of 1.2 percentage points, regrets that the most likely error rate for this policy group remained high at 6.7 %, and that, according to the Court, errors were found in all Member States where transactions were audited. At the same time, the Council acknowledges that rural development remains a particularly error prone spending area of the EU budget due to the inherent complexity of the programmes and eligibility conditions, as a consequence of the ambitious objectives of the rural development policy.

The Council points out that, according to the Court's assessment, the error rate could have been considerably lower if Member States' authorities had made better use of the available information to prevent, detect and correct errors before declaring the expenditure to the Commission.

The Council is concerned about the fact that the audited supervisory and control systems were found not to be effective or to be only partially effective. It recalls that Member States' authorities should put in place and implement the administrative and control systems in line with the legal requirements, and ensure the quality of the different levels of controls, including on-the-spot verifications.

The Council urges the Commission to further enhance its work towards simplification, guidance and training activities to address the shortcomings identified by the Court. It expects that the simplification measures adopted in the 2014-2020 programmes, such as simplified cost options for the reimbursement of payments, will be used more widely to contribute to a more efficient and correct use of funds.

## **1. Regularity of transactions**

The Council takes note that 54 % of the audited sample of transactions were affected by error.

The Council recognises the efforts made by the Commission, in collaboration with Member States, to identify the root causes of errors and to put in place, when necessary, remedial actions. It encourages the Commission to closely monitor the results of these actions together with the Member States concerned.

The Council notes that the Court included cross-compliance errors in its estimate of the error rate and that they had a limited impact of 0.2 percentage points on the overall level of error in this policy group. At the same time, it underlines the Commission's argument that cross-compliance does not constitute an eligibility criterion and that therefore the checks on these requirements should not affect the appraisal of the legality and regularity of the underlying transactions. The Council welcomes the Court's intention to review its approach in forthcoming reports.

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

The Council notes that the weaknesses detected by the Court in its sample for 2013 were very similar to those found in other Member States audited in the previous years. Therefore the Council, while acknowledging the importance of applying a preventive audit approach at national level, calls on the Commission to pursue its efforts in providing targeted guidance and in increasing the mutual understanding with the national administrations involved.

The Council supports the action plans set up in cooperation with Member States in order to identify the root causes of weaknesses relating to the ineffective implementation of procurement rules and to implement remedial actions. In that respect, the Council encourages the Commission to use the conformity clearance procedure, in accordance with the relevant rules.

The Council welcomes the Court's assessment that the implementation of the Commission's clearance of accounts procedures improved in comparison with last year.

Finally, the Council takes note that, according to the Court's assessment, the new methodology applied by the Commission, consisting in taking into account all available information, represents an improvement in the calculation of the residual error rate.

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**CHAPTER 5**  
**REGIONAL POLICY, TRANSPORT AND ENERGY**

The Council regrets that the most likely error rate for payments in this policy group remained high at 6.9 %, being, however, in line with the error rates presented by the Court for the last four years and well below the levels reported by the Court for Cohesion policy prior to 2009. The increase of 0.1 percentage points has to be seen in the context of the pressure to spend funds at the end of the programming period and the significantly increased volume of payments.

The Council encourages the Commission and Member States to take advantage of the new legislation relating to the 2014-2020 programming period in order to simplify and to facilitate the implementation of programmes and funds, and thereby to lower the risk of error.

**1. Regularity of transactions**

The Council takes note that the frequency of error in the audited sample of transactions was 57 %.

The Council recognises the complexity of spending and control structures under this policy group which is mainly implemented through multiannual programmes with management shared between the Commission and Member States. The Council points out that, according to the Court's assessment, the error rate could have been considerably lower if Member States' authorities had made better use of the available information to prevent, detect and correct errors before declaring the expenditure to the Commission.

The Council is concerned about the risk identified by the Court in this policy group resulting from pressure to spend funds, in particular towards the end of the eligibility period. It takes note of the Court's observation that pressure to absorb the EU funds at national level may jeopardise a consistent application of effective controls ensuring regularity of expenditure and sound financial management, and that this may result in the funding of projects which are too costly, not efficiently implemented or unlikely to achieve the intended results.

The Council is aware that transactions carried out during the financial year 2013 - the last year of the multiannual financial framework (MFF) - included a higher share of final payments that are more prone to error, and that the total volume of expenditure in 2013 was considerably higher than in the previous year. Nevertheless, the Council points out that additional efforts to bring down considerably the level and frequency of errors are necessary right from the first year of the new MFF.

The Council reiterates the importance of improving first-level checks and invites the Commission and Member States to examine the weaknesses identified by the Court in the existing verification systems, to analyse the costs and benefits of possible corrective measures and to take appropriate action.

As in previous years, failures to comply with public procurement rules and the declaration of ineligible costs were the most common sources of error identified by the Court for this policy group. The Council calls on the Commission and Member States to continue their efforts to ensure compliance with EU and national public procurement rules and eligibility requirements, to take their responsibilities for enhanced guidance and supervision, and to provide targeted training and guidelines to the relevant authorities and to beneficiaries.

Being concerned about the number of cases identified by the Court relating to the infringement of state aid rules, the Council urges the Commission to proceed in a timely manner with its action plan aiming at raising awareness and improving administrative capacity in national authorities.

The Council encourages the Commission to continue concentrating its available audit resources on the most risk-prone areas and focussing in particular on preventive measures, in order to better protect the EU budget.

Furthermore, the Council recalls the importance of the proper enforcement of rules and encourages the Commission to continue applying the policy of suspension and interruption of payments, in accordance with the relevant rules, whenever significant deficiencies in the functioning of management and control systems are identified, until corrective action is fully implemented.

The Council is particularly disappointed about the low disbursement rate of Financial Engineering Instruments observed at the end of 2012, in a situation of a considerable shortage of appropriations in the annual EU budgets on many budget lines and strict limitations to possible additional amounts which could be made available under the different ceilings of the MFF. It asks the Commission to analyse the reasons for the delays in the disbursement of EU funds through Financial Engineering Instruments and to take appropriate corrective measures.

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

The Council notes the Court's statement that, compared to the previous year, the Commission has strengthened its checks and in many cases requested national audit authorities to provide additional information, in order to be able to perform a more detailed analysis of deficiencies.

However, the Council remains concerned about the assessed partial effectiveness and compliance of national audit authorities and their limited effectiveness in ensuring the regularity of expenditure. It regrets the Court's observation that data on error rates and financial corrections reported by Member States are not always reliable or accurate. The Council underlines that national audit authorities, together with the bodies for first level verifications, are a crucial player in the chain of accountability under shared management.

The Council fully supports the Commission in its supervisory role. It welcomes the Commission's action to address the weaknesses identified by the Court and to review the work of national audit authorities, with the aim of getting reliable and accurate information for accepting or recalculating the error rates reported by them. The Council encourages Member States to pursue their efforts in ensuring the delivery of high quality results by their national audit authorities, and the Commission to continue to provide guidance.

The Council emphasises the importance of increasing the efficiency and cost-effectiveness of control systems set up by the Commission and Member States, while avoiding any possible additional administrative burden on beneficiaries and administrative bodies.

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

The Council welcomes the Court's assessment that the Commission's calculation of the amounts at risk is consistent with the available information and accurate.

The Council notes, however, that, according to the Court, the Commission has only limited assurance regarding the financial corrections reported by Member States, due to potential errors in the underlying information provided by them, and that this might result in an underestimation of the residual error rate. It invites the Commission and all other relevant actors to do their utmost to provide accurate, complete and reliable data on financial corrections, resulting in the robustness of the annual activity reports.

Moreover, the Council asks the Commission to disclose further details in its annual activity reports in order to increase transparency on the reasons for issuing reservations and on the method for quantifying the amounts at stake.

**CHAPTER 6**  
**EMPLOYMENT AND SOCIAL AFFAIRS**

The Council notes that the error rate estimated by the Court for this policy group remained almost unchanged at 3.1 %, being 0.1 percentage points lower than in 2012 and well below the levels reported by the Court for the Cohesion policy prior to 2009.

**1. Regularity of transactions**

The Council takes note that the frequency of error in the audited sample of transactions was 27 %.

The Council acknowledges the fact that the diversity of the activities financed under this policy group and the involvement of multiple, often small-scale partners increase the risk of non-compliance with the existing legislation, and results in ineligible costs being accepted or in calculation errors affecting the accuracy of claims, as highlighted by the Court. The Council, however, calls on the Commission and Member States to further strengthen the checks at all levels and to provide increased and comprehensive guidance to beneficiaries.

The Council takes note that, according to the Court's assessment, the error rate could have been considerably lower if Member States' authorities had made better use of the available information to prevent, detect and correct errors before declaring expenditure to the Commission.

The Council points out that the main sources of error in this policy group continued to be the declaration of ineligible projects, the reimbursement of ineligible or inaccurately declared costs, and failures to respect public procurement rules.



The Council calls on the Commission and Member States to continue addressing the major weaknesses which were identified by the Court in first-level checks carried out by national managing authorities and intermediate bodies. It also emphasises the importance of financial corrections, in accordance with the relevant rules, for the protection of the EU budget.

The Council is particularly satisfied that the Court, in its annual report, presented again a positive assessment of the impact of using simplified cost options on the likelihood of error and on the administrative burden for project promoters. It encourages the Commission to continue proposing a more extensive use of simplified cost options such as the declaration and payment of flat rate costs and lump sums instead of reimbursing real costs.

The Council also invites the Commission and Member States to consider and take advantage of all other existing simplification opportunities, whenever possible and appropriate.

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

The Council takes note of the Court's statement that compared to the previous year, the Commission has strengthened its checks and in many cases requested national audit authorities to provide additional information in order to be able to perform a more detailed analysis of deficiencies. The Council remains concerned, however, about the weaknesses identified in the Commission's supervision of national audit authorities and the Court's assessment that the examined control systems were only partially effective. It notes that for a large share of operational programmes the Commission had to adjust or considered unreliable the assessment results provided by national audit authorities, leading to an underestimation of the Commission's error rate. The Council welcomes in this context the Commission's efforts to adjust and recalculate data reported by national audit authorities on the basis of its own work and taking into account all other available information.

The Council invites the Commission and Member States to seek improvement in the quality and reliability of the information provided by national audit authorities, notably through better guidance on flat rate corrections and the audit sampling methodology to be applied.

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

The Council takes note of the weaknesses identified by the Court: error rates are not always reliable and some problems are under-reported, thus affecting the quality of information on financial corrections and the level of assurance provided in the annual activity reports. It invites the Commission to reflect on the possibility of involving national audit authorities to ensure the accuracy, completeness and reliability of the data reported on financial corrections.

Moreover, the Council supports the Court's recommendation to the Commission to disclose in its annual activity reports additional information on the reasons for not making reservations in cases where applicable guidance or approved audit strategies would result in a different assessment.

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**CHAPTER 7**  
**EXTERNAL RELATIONS, AID AND ENLARGEMENT**

The Council is encouraged that the most likely error rate for this policy group has decreased by 0.7 percentage points to 2.6 %. It welcomes this decrease as compared to the previous year and encourages the Commission to pursue its efforts to reduce the error rate in a cost-effective manner.

The Council takes note that the frequency of error in the audited sample of transactions was 29 %.

The Council also takes note that the Court detected a systemic error in clearing expenditure by the Directorate-General for Enlargement (DG ELARG) and that the Commission agreed to amend its clearance procedure accordingly. It welcomes the fact that all the previous recommendations made by the Court have been followed by DG ELARG.

The Council is nevertheless concerned about the Court's conclusion that the audited supervisory and control systems in the Directorate-General for Development and Cooperation (EuropeAid) were only partially effective in ensuring the legality and regularity of payments.

While acknowledging the actions already taken, the Council stresses the importance of promptly addressing the recommendations made by the Court. It urges the Commission to take the necessary measures to correct the weaknesses identified in its control mechanism, namely in relation to the clearance procedure, to improve its supervisory role and to ensure that the quality checks carried out by external auditors are more efficient.

**CHAPTER 8**  
**RESEARCH AND OTHER INTERNAL POLICIES**

The Council regrets that the estimated error rate increased significantly by 0.7 percentage points to 4.6 % in 2013.

The Council is aware that this policy group is prone to errors due to a high number of beneficiaries, of which small and medium-sized enterprises are a significant proportion. According to the Court, these beneficiaries have limited experience and administrative capacity, they are often new to the programme and less familiar with the rules and procedures.

It urges the Commission to address the deficiencies identified by the Court and to give priority to risk-based checks in its approach, and to provide well-targeted guidance to the beneficiaries.

**1. Regularity of transactions**

The Council takes note that 51 % of the audited sample of transactions were affected by error, while the same errors contributed to the estimated error rate as in previous years, namely incorrectly calculated personnel costs and other ineligible direct and indirect costs. The Council is aware that failures to comply with public procurement rules have become a more significant source of error in 2013, while having a limited impact on the error rate in this policy group.

The Council welcomes the simplification measures introduced in the 2014-2020 programmes aiming at lowering the level of eligibility errors. However, spending under the Seventh Framework Programme for Research (FP7) will continue until 2017 at least. Thus, the Council calls upon the Commission to continue its efforts in providing clear guidance and information on the eligibility criteria to all beneficiaries of EU funds in this policy group, including education and culture.

As regards the failure to comply with public procurement procedures, the Council acknowledges that only a limited number of transactions in this policy group are subject to public procurement rules. Nevertheless, the Council invites the Commission to remain vigilant in ensuring that these rules are applied correctly.

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

The Council notes the Court's conclusion that the Commission's control systems for FP7 are only partially effective in ensuring the regularity of transactions. It regrets, in particular, that external auditors continue to certify expenditure that does not meet the eligibility criteria. It calls upon the Commission to continue to provide guidance to external auditors in order to ensure full compliance of such controls with EU rules.

Furthermore, the Court assessed measures in the Commission's *ex-ante* controls, before authorisation of payments to beneficiaries. The Council urges the Commission to improve its verifications to avoid inconsistencies and the reimbursement of ineligible expenditure, whilst being mindful of the necessity not to impose unnecessary administrative burden and to find the right balance between costs and benefits of controls.

The Council welcomes the fact that the Commission is in general implementing efficiently its multiannual joint audit strategy between Directorates General (DGs) and executive agencies. It notes with concern, however, that the Court, in its report, identified certain delays in recovering unlawfully paid amounts and calls upon the Commission to increase the efficiency of its audit work and to recover the undue amounts without delay.

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

The Council welcomes the Court's observation that the annual activity reports provide a fair assessment of its financial management and that the Commission's findings correspond to the observations and conclusions of the Court in most respects.

**CHAPTER 9**  
**ADMINISTRATIVE AND RELATED EXPENDITURE**

**1. General observations**

The Council welcomes the fact that, as in previous years, the administrative and related expenditure of the institutions and bodies of the European Union remained free from material error and that their examined control systems were assessed as effective. However, the Council points out that, according to the Court, the estimated error rate of this policy group increased from 0 % to 1 %.

The Council takes note that 10 % of the audited sample of transactions were affected by error.

**2. Issues regarding individual institutions**

The Council invites the institutions concerned, in close collaboration with the Office for the Administration and Payment of Individual Entitlements, to address the weaknesses detected by the Court in relation to the accurate calculation and payment of salaries, pensions and the reimbursement of travel costs.

The Council calls on the European External Action Service to reinforce the guidance provided by the Headquarters in the preparation and support of the different procurement procedures launched in Delegations.

The Council welcomes the measures already taken and encourages the institutions concerned to address the remaining weaknesses identified by the Court.

### 3. Issues regarding agencies, joint undertakings and other EU bodies

The Council welcomes the Court's unqualified opinion on the reliability of the accounts of all agencies, joint undertakings and other bodies audited, as well as the unqualified opinion on the legality and regularity of the underlying transactions, with the exception of the European Agency for the Management of Operational Cooperation at the External Borders (FRONTEX), the European Institute of Innovation and Technology (EIT) and the ARTEMIS, ENIAC and Innovative Medicines Initiative (IMI) Joint Undertakings.

While noting with satisfaction that an increasing number of agencies (six in total) did not receive any comment from the Court, the Council is nevertheless concerned by some recurrent weaknesses in a number of agencies, joint undertakings and other bodies, and considers that they should be swiftly remedied. It therefore invites all actors to continue to implement corrective measures with regard to financial management and internal control. More specifically, the Council urges agencies, joint undertakings and other bodies to comply with the budgetary principles of annuality and budget accuracy, to respect the rules for procurement and recruitment, to address the weaknesses identified by the Court in the implementation of internal control systems and in the management of fixed assets and grants. It invites the Commission, when making budget proposals, to strictly scrutinise the level of carry-overs of agencies at the end of the financial year with a view to avoid over-budgeting.

The Council takes note of the Court's qualified opinion on the legality and regularity of the transactions underlying the accounts for EIT and FRONTEX. It encourages both to continue the reinforcement of the *ex-ante* and *ex-post* verifications of their transactions.

The Council also takes note of the Court's qualified opinion on the legality and regularity of the underlying transactions for the ARTEMIS, ENIAC and IMI Joint Undertakings. It recommends that they improve the implementation of their *ex-post* audit strategies and continue their efforts aiming at reducing the overall level of error<sup>1</sup>.

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<sup>1</sup> All recommendations related to the ARTEMIS and ENIAC Joint Undertakings shall be implemented by the ECSEL Joint Undertaking as their successor.

The Council is concerned about the weaknesses detected by the Court regarding the Fusion for Energy (F4E) Joint Undertaking. It calls on F4E to implement a system to regularly monitor the cost deviations of the ITER<sup>1</sup> project, to increase the transparency regarding the degree of advancement of the project's work and to improve the competitiveness of its procurement procedures.

Finally, the Council welcomes the actions taken by agencies and joint undertakings following past recommendations by the Court and encourages them to continue to improve their management and control procedures.

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<sup>1</sup> International Thermonuclear Experimental Reactor.



## CHAPTER 10

### GETTING RESULTS FROM THE EU BUDGET

The Council takes particular note of the Court's findings regarding the achievement of results from the EU budget and considers that progress still needs to be made to establish a proper performance framework within the EU.

The Council regrets that the implementation of the programming period 2007-2013 focused primarily on the disbursement of EU funds in line with the rules, and not on performance. The new legislative acts adopted for the 2014-2020 programming period include new measures focusing on getting results from the EU budget. Therefore, the Council calls on the Commission and Member States to take advantage of the opportunities provided by the 2014-2020 multiannual financial framework (MFF) to make efforts towards a more result-oriented approach, based on an objective assessment of the needs, and to develop a performance framework in order to achieve the results and impacts that were laid down in the sector-specific regulations.

The Council stresses the need for better measuring and reporting on the results of EU funds, as an integral part of the accountability process of the Commission. Measuring and reporting on the performance of programmes will aim at strengthening accountability in relation to the performance of EU actions and will contribute to the assessment of the programmes and the extent to which they have or have not delivered expected results.

The Council welcomes the Court's analysis of EU added value and the reverse concept of deadweight loss in its special reports, as well as in its annual report for 2013. It underlines that sound needs assessments should be the basis for all EU projects in order to maximise EU added value.

The Council will engage constructively in discussions on how to improve the performance framework of the EU budget in view of the midterm review of the MFF.

The Council welcomes the improvements highlighted by the Court and identified in the Commission's evaluation report, in particular with regard to the linking of programmes with the available performance information relevant for the "Europe 2020" Strategy. The Council considers, however, that further progress needs to be made, particularly as regards reporting on the "Europe 2020" Strategy targets. The achievements of the EU policies should be presented clearly, including actions that did not yield the expected results. The Council is aware that, for the current programming period, the results of the new performance framework will not be immediately visible. Nonetheless, it invites the Commission to pursue its efforts in fine-tuning a timely presentation of its performance-related reporting in order to be able to contribute to the discussions on the next MFF.

The Council considers that providing EU added value is of paramount importance for any EU funding and, in order to achieve this, EU funding should deliver synergies and economies of scale at EU level. In this context, the Council invites the Commission, the Court and Member States, as well as other interested parties, to further exploit the concept of EU added value as part of the EU performance framework.

The Council considers the assessment of performance as a crucial element in the annual evaluation of the sound financial management of EU funds. Therefore, the Council encourages the Court to continue conducting performance audits to a larger extent in the future. The Court's findings could also serve as a solid basis for evaluating the programmes' multiannual performance when reviewing EU spending.