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COUNCIL OF
THE EUROPEAN UNION

Brussels, 24 January 2014

5679/14

PE 30
BUDGET 3
INST 56

NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Summary record of the meeting of the European Parliament **Committee on Budgetary Control (CONT)**, held in Brussels on 20 and 21 January 2014

The meeting was chaired by Mr THEURER (ALDE, DE)

Items 1, 2 and 3 on the agenda

The agenda was adopted. the vote on ITEM 7 was postponed to the CONT meeting on 22 January 2014.

Item 4 on the agenda
Discharge 2012: EU general budget - European Commission
CONT/7/13844
Rapporteur: Mr PIEPER (EPP, DE)

- Exchange of views with the Member of the European Commission responsible for Employment, Social Affairs and Inclusion, ***Lászlo Andor***, in the presence of the Member of the European Court of Auditors responsible, ***Lazaros Lazarou***

This item was not covered.

Item 5 on the agenda
2012 Discharge to the Agencies
CONT/7/14927
Rapporteur: Mr SARVAMAA (EPP, FI)

The committee held a hearing with the Directors of seven agencies, designated by the rapporteur:
- the European Asylum Support Office (EASO);
- the European Food Safety Authority (EFSA);
- the European Insurance and Occupational Pensions Authority (EIOPA);
- the European Institute of Innovation and Technology (EIT);
- the European Union Agency for Fundamental Rights (FRA);
- the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX); and
- the European Railway Agency (ERA).

Representatives of several other agencies also attended the hearing.

Mr Pietro RUSSO, Member of the European Court of Auditors (CoA), presented an overview of the results of the Court's annual audits of the agencies for the 2012 financial year. He stressed that the financial risk related to the agencies was relatively low compared to the total EU budget, but the reputational risk for the Union was high, since agencies were highly visible in the Member States.

He said that, in the CoA's opinion, the transactions underlying the annual accounts for 2012 were legal and regular for all agencies, except the EIT and FRONTEX. Concerning the EIT, the CoA found that no ex post verifications had been carried out for the 2010 grants (amounting to EUR 11 million or 23 % of all final grant payments and clearings made in 2012). On FRONTEX, Mr RUSSO recalled the CoA's opinion that there was insufficient appropriate audit evidence.

Mr RUSSO welcomed the fact that the agencies had further improved their procedures by taking corrective action in response to the CoA's comments from previous years, but considered that there was still considerable room for improvement. He considered that, in particular, agencies working with grants needed to improve their procedures.

The rapporteur, Mr SARVAMAA (EPP, FI), and two of shadow rapporteurs - Mr STAES (Greens/EFA, BE) and Mr de JONG (GUE/NGL, NL) - asked questions and requested clarifications, especially from the EIT and FRONTEX, on the weaknesses identified, as well as on the possible conflicts of interest concerning experts working with some agencies (EFSA), human resources management and recruitment procedures, transparency, and public access to information.

On behalf of the agencies' network, Mr VERSLYPE, Executive Director of the ERA and rotating president of the network, presented agencies' approach in response to the CoA's and rapporteurs' questions. He emphasised the efforts made by agencies and their will to cooperate with EU institutions. He particularly stressed the importance of the Commission's Roadmap in order to implement the interinstitutional Common Approach on EU agencies, as well as the new interinstitutional working group on budgetary issues which would be established.

The EIT and FRONTEX directors gave detailed explanations relating to the problems identified, mainly linked to the specificity of their work, i.e. the special tasks of FRONTEX linked to external border security. Some other directors (EFSA, EIOPA) also took the floor in the same non-controversial spirit.

The rapporteurs expressed their satisfaction with the explanations provided.

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

Item 6 on the agenda
The evaluation of the Union's finances based on the results achieved: a new tool for the European Commission's improved discharge procedure
CONT/7/13706
Rapporteur: Mr THEURER (ALDE, DE)

- Adoption of draft opinion

The report was adopted, as amended, by unanimity with 20 votes in favour

Item 7 on the agenda
Enquiry report on the role and operations of the Troika (ECB, Commission and IMF) with regard to the Euro area programme countries
CONT/7/14609
Rapporteur for the opinion: Mr THEURER (ALDE, DE)
Rapporteur for the responsible Committee (ECON): Mr KARAS (EPP, AT)
Mr HOANG NGOC (S&D, FR)

- Adoption of draft opinion

Postponed.

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

Item 8 on the agenda
Discharge 2012: EU general budget - European Commission
CONT/7/13844
Rapporteur: Mr PIEPER (EPP, DE)

- Exchange of views with the Member of the European Commission responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud, ***Algirdas Semeta***, in the presence of the Member of the European Court of Auditors responsible, ***Kersti Kaljulaid***

Ms KALJULAID delivered the speech in Annex 1.
Mr SEMETA delivered the speech in Annex 2.

Mr SEMETA explained to Mr PIEPER that financial corrections and recoveries were the last action in a chain of remedies that include the suspension and interruption of payments. They may therefore relate to past financial years (e.g. 2006, as mentioned by the rapporteur). He considered that this was part of a multiannual approach that had been endorsed by the CoA. He told Ms ANDREASEN (ECR, UK) that the CoA takes into account financial corrections made in the audited year only if they had been corrected at the level of the beneficiary. As for the complaint that new credit projects could replace those affected by errors at the initiative of MS, he stated that this was foreseen in the legislation adopted by the EP and the Council. The notion of serious deficiencies that justified financial corrections in the cohesion area had also been defined in the legislation. A delegated act to be adopted end of February would detail such legislation.

He provided Ms GRÄßLE (EPP, DE) with some explanations on OLAF's powers to conduct inquiries. A Commission proposal on OLAF's procedural guarantees was expected to be adopted in March by the College. He told Mr MULDER (ALDE, NL) that the template for the management declarations was at the interservice consultation stage.

Mr THEURER considered that a behavioural change in the Member States' approach was needed. According to Mr GEIER (S&D, DE) the possibility of transferring funds between MS when errors had not been detected by the MS would provide MS with an incentive to detect errors.

Item 9 on the agenda
Discharge 2012: EU general budget - European Commission
CONT/7/13844
Rapporteur: Mr PIEPER (EPP, DE)

- Exchange of views with the Secretary-General of the European Commission, ***Catherine Day***, in the presence of the Member of the European Court of Auditors responsible, ***Baudilio Tomé Muguruza***

Mr MUGURUZA delivered the speech in Annex 3.

Ms DAY stated that the Commission was striving to improve the report pursuant to Article 318 TFEU to reflect the strategic planning. MS would need some time to implement the measures foreseen in the Multiannual Financial Framework. In view of a performance-based approach, projects had been shaped in view of their EU added value, efficiency, effectiveness and overall impact. Performance indicators had been foreseen and management plans had been aligned to the annual activity report. She complained that the simplification agenda of the Commission had only been partially achieved because the legislation had departed from the initial Commission proposal due to excessive details and specifications which make it more burdensome and result in a general lack of flexibility. She announced a simplification scoreboard that would show what the EP and the Council had added to the programming provisions.

Ms DAY told Mr PIEPER that error did not mean fraud and that the error rate usually increased towards the end of a programming period, when payments were concentrated. She considered that the MS, who managed 80% of the EU budget, could have avoided many errors if legal provisions had been simplified. She considered that stepping up interruptions and financial corrections would help the Commission to reduce the overall error rate in the next programming period.

She told Ms GRÄßLE that 13 000 written questions were received every year. This represented a huge workload for the staff of the Commission. Answers therefore needed to be to the point and concise. A rule had therefore been established to keep the maximum length of the reply to 25 lines. Despite the fact that exemptions from the 25-line rule were possible, no written answer had ever needed to be longer.

As for the allocation of contracts without a tender, she explained to Ms GRÄßLE that this was the case when a negotiated procedure could apply, such as contracts requiring specific expertise.

She told Mr MULDER that last autumn the Commission had launched a check of the legislation to see if it was fit for purpose, and mentioned the work of the Stoiber Group.

She also underlined that any change to the conditions for staff working in cabinets could only take place in accordance with procedures. She told Mr STAES (Greens/EFA, BE) that Commissioners ending their mandate were subject to a code of conduct. Ms DAY announced a legislative proposal to improve the work of OLAF, in particular to address investigations concerning MS that would not be covered by the EPPO (to De JONG, GUE/NGL).

Item 10 on the agenda
Exchange of views in the context of OLAF investigations
CONT/7/14933

- Exchange of views with the Secretary-General of the European Commission, ***Catherine Day***, and ***Paola Testori Coggi***, Director General of DG Health and Consumers

Ms DAY, Secretary-General of the Commission, replied to some questions about her role in the events related to the resignation of Commissioner Dalli.

She explained to Ms GRÄßLE and Mr STAES that Commission Decision of 15 November 2005 conferred to the SG the task of assisting the President in the activities necessary to coordinate the work of the college. The decision to postpone the interservice consultation for the draft Tobacco Directive had been taken in order to keep the focus on the MFF files that were to be discussed at the then upcoming European Council.

Ms TESTORI COGGI, Director-General at SANCO, told Mr MULDER that she never had the impression that Commissioner DALLI was trying to weaken the draft Directive. She explained that her email of 7 September 2012 mirrored the Legal Service conclusion that no total ban of smokeless tobacco products was allowed under the suggested legal basis (Article 114 TFEU). She stated that the EP and the Council had weakened the Commission proposal for the Tobacco Directive much further. She concluded by saying that in the end the proposal was adopted before Christmas, as originally planned.

Ms Day told Ms GRÄßLE that she had never heard about a tacit agreement that the tobacco agreement with some tobacco manufacturers would be discontinued in the event of a change to the tobacco legislation. Ms TESTORI COGGI said that an explicit provision of that agreement states the opposite, as it foresees that changes to the legislation would not discontinue it.

Ms DAY strongly contended that different versions of events were being given by the Commission, stated that some information could not be given because of judicial proceedings in some MS and referred to the extensive information already provided to the EP.

Mr THEURER concluded by saying that discussions should continue on how the Commission and officials could be better protected from the activities of certain lobbyists.

Item 11 on the agenda
Discharge 2012: EU general budget - European External Action Service
CONT/7/14039
Rapporteur: Mr DEUTSCH (EPP, HU)

- Exchange of views with the High Representative of the Union for Foreign Affairs and Security Policy, ***Catherine Ashton***, in the presence of the Member of the European Court of Auditors responsible, ***Baudilio Tomé Muguruza***

Mr MUGURUZA delivered the speech in Annex 4.

Mr O'SULLIVAN, EEAS Chief Operating Officer, read a note on behalf of Ms ASHTON, and apologised for her absence, which was due to the ongoing IRAN-EU 3+3 talks in Geneva.

After underlining the increasing visibility of the EEAS and the EU added value it delivered, he stressed the importance of creating a network of EU delegations that would allow national diplomatic services to concentrate on national priorities. He considered the colocation of EU and national services essential. Mr O'SULLIVAN also referred to the review of the service's management structure. He mentioned in particular savings in the remunerations and allowances resulting from transforming some senior top management posts into AD 7 and AD 5 posts. Internal mobility mechanisms had been introduced and posts were being opened up to EP staff. Gender balance had significantly progressed both in delegations and at HQ. A task force had been set up to assist delegations with security contracts. He welcomed the cooperation with other institutions and in particular with the CoA, which had carried out a comprehensive performance audit of the EEAS. The rapporteur thanked the EEAS for the 237 written replies already provided.

Mr O'SULLIVAN told the rapporteur, who had asked further details, that the EEAS' EUR 500 million budget was in line with that of the diplomatic service of a medium-sized MS and represented the cost of staffing and running 149 delegations. Staff costs were not decided by the EEAS, but reflected the EU Staff Regulations. He considered that the high level of senior staff contributed to keeping salary expenses high, but recalled that MS had complained about diplomats being hired at lower levels. Local agents were paid in line with parameters applied by other international organisations. A flat rate accommodation allowance would be introduced, to give more flexibility to staff.

He told Ms GRÄßLE that the EU Special Representatives (EUSRs) were dedicated to specific geographic or thematic functions, which meant that their work complemented that of the EEAS. The EEAS would in any case agree to shift funds for the EUSRs from Heading 4 to Heading 5. He agreed that too many security contracts in delegations were renewed and that he was addressing the issue. He stated that the Memorandum of Understanding between the EEAS and OLAF would be signed within weeks.

As for the breakdown of top posts amongst MS nationals, he referred to the reply provided in writing.

He agreed with Mr MULDER that colocation of offices was a promising area of synergy and told him that the issue of a delegation in Panama was being studied. Security of phones and mobiles would be the priority for spending the extra budget of EUR 6 million made available.

Item 12 on the agenda
Are tools in place to monitor the effectiveness of European Social Fund spending on older workers? (Court of Auditors Special Report 25/2012)
CONT/7/13707
Rapporteur: Mr BALČYTIS (S&D, LT)

- Consideration of draft report
- Deadline for tabling amendments: **27 January 2014, 12.00**

The rapporteur stressed that a lack of consistent information and reliable data from MS meant that effectiveness of the ESF could not be monitored. He considered that specific indicators had to be established in the programmes to assess the effectiveness of the action and whether money was spent appropriately. The Commission was expected to set up a system for collecting data from MS and data collection principles should also be established.

Ms ORTIZ VILLELLA (EPP, ES) considered that common indicators were not easy to establish, in view of the complementary action of the EU.

The representative of the Commission welcomed the draft report and stressed that the new regulation contained performance indicators. MS had to define a frame to assess performance of the programmes and provide a mechanism to make evaluations. The Commission was investing in guidance to be provided to MS.

The rapporteur thanked the Commission for providing binding indicators.

Item 13 on the agenda
Discharge 2012: EU general budget - European Parliament
CONT/7/13896
Rapporteur: Mr IVAN (S&D, RO)

- Exchange of views with the Vice-President of the European Parliament with primary responsibility of the budget, ***Gianni Pittella***, the Secretary-General, ***Klaus Welle*** and the Internal Auditor of the European Parliament, ***Robert Galvin***, in the presence of the Member of the European Court of Auditors responsible, ***Baudilio Tomé Muguruza***

Mr MUGURUZA recalled that in 2012, the European Parliament, together with the Council, was one of the institutions subject to the in-depth audit of the supervisory and control systems done by the Court. In this respect, the Court did not detect serious weaknesses in the supervisory and control systems. Minor shortcomings were found in some procurement procedures that should be improved through appropriate checks and better guidance. As regards the payment of social allowances to staff members, the 2012 audit showed that Parliament had implemented measures to mitigate the risk.

Mr WELLE stressed that measures had been adopted to implement the reduction of budgetary resources and the 5% staff reduction. Four areas of the EP Secretariat had undergone modernisation, in particular the new DG for the scientific area, the DG for assessment studies, the canteen logistics and the translation and interpretation services. Paper use had been sensibly reduced and the IT SYSPER 2 system was to be replaced for security reasons. Savings were also made in relation to buildings, and he mentioned the completion of the Konrad Adenauer building in Luxembourg.

The rapporteur underlined the good cooperation with the Secretariat of the EP and welcomed the clear replies that had been provided.

Mr GALVIN, Internal Auditor of the European Parliament, read out a detailed report and concluded that budget management risk had been reduced in all the DGs of the EP Secretariat.

In his replies to specific questions, Mr WELLE stated that the estimated costs for repairing the roof of the hemicycle should amount to EUR 2.3 million and were expected to be carried out within the agreed deadline. The House of EU history could be staffed through a redeployment of staff. He stressed again savings in translation and interpretation, the reduction by 60% of print services, and that costs for EUROPARL TV had decreased from EUR 9 million to EUR 5 million. He also explained that a new wi-fi system was being set up for security reasons. Visitors would only have access to the internet, while full access to internal data would be subject to an identification procedure. He told Ms AYALA SENDER (S&D, ES) that 60 posts for IT services were still to be filled due to difficulties in hiring staff at the proposed level.

Item 14 on the agenda
Any other business

No other business was discussed.

Item 15 on the agenda
Next meeting(s)

- 22 January 2014, 9.00 – 12.30 (Brussels)
- 22 January 2014, 16.00 – 18.30 (Brussels)
- 23 January 2014, 9.00 – 12.30 (Brussels)

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
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DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA
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Speech by Kersti Kaljulaid, Member of the European Court of Auditors

Discharge hearing – 21 January, 2014

Mr Chairman, Honourable Members of Parliament,

Commissioner Šemeta,

During recent hearings my colleagues have already briefed you on the 2012 Annual Report results about the different areas of the EU budget. Today I will provide you with a Chapter 1 view of the 2012 Annual Report and use this occasion to reflect on the possible impact of the arrangements for spending EU funds in the next programme period.

What has changed as compared to 2011?

In many ways the overall picture is similar to last year, described, as usual, by the statement of assurance.

The statement of assurance gives you an opinion on the accounts and three opinions on the regularity of transactions distinguishing transparently between subject matters with completely different natures. The objective is to summarise the situation, but also to distinguish meaningfully between different aspects of EU financial management:

This year again – sixth time in a row – the accounts received a clean opinion from the Court. This tends to go unnoticed. However, it is crucial that the Commission continues to produce clear and understandable accounts in line with international accounting standards.

As regards the regularity of transactions, the Court this year again concluded that revenue and commitment transactions were free from material error. A positive opinion on revenue means that the Commission – based on the Member State estimates - calculates and collects correctly the Member State contributions. A positive opinion on commitments is important as it shows that the Commission has not exceeded the budgetary limits when it has been making promises to pay.

Payment transactions, on the other hand, continue to be affected by material error. The Court's estimate for the most likely error for expensed payments underlying the 2012 EU accounts was 4.8% which is 0.9% higher than last year when it was 3.9%. The Court has highlighted in chapter 1 that one third of the increase in the 2012 most likely error is due to the developments in its sampling approach.

Improvement of sampling approach

In 2012, the Court has improved its sampling approach. All transactions are now examined at a point when the final recipients of EU funds have submitted cost claims and the Commission has accepted that these claims justified payment from the EU budget. This approach fits the logic of accruals accounting and allows the Court to address multiannuality by including closure transactions in its sample population. Also, we can now provide comparable information across the EU budget: One can see that in 2012 the estimated error for shared management was 5.3% which compares with 4.3% for all other spending modes.

Analysis of 2012 results

The 2012 audit results show that the error is not confined to specific parts of the budget. The 2012 most likely error estimated by the Court increased in all operational spending areas.

The main sources of error remain broadly unchanged: serious failures to respect public purchasing rules are the biggest contributors to the error rate followed by ineligible projects or costs and incorrect declaration of agricultural area. In this respect I can just repeat the point I have made many times in recent years – Member States do not use the current control systems to their full potential, because, even if the errors are discovered by us or by the Commission, all the trouble it causes is limited to finding something else to declare.

The framework regulation for the 2014-2020 programme period represents a change compared to the previous period and provides an opportunity for the Commission to move towards automatic net corrections.

Net financial corrections

Your committee has played a crucial role in ensuring that the Commission provides clarifications on how and when these net financial corrections will come about. The Commission in its prompt reaction to your committee's request assumes that the new provisions will lead it to make a greater number of net corrections and that this will consequently lead to a changed behaviour of Member State authorities.

Whether these new provisions will in reality result in more net corrections and whether these will consequently result in lower levels of error depends on many factors.

It is currently not possible to predict the impact of the changes without knowing how they will be implemented in practise. However, one important factor will be the capability of the Commission or other EU bodies to detect serious deficiencies leading to net corrections.

Taking account of financial corrections

Let me come to an issue which raised a lot of interest and questions in previous discussions - the link between the level of error estimated by the Court and the amount of financial corrections imposed by the Commission.

In its recent written and oral communication the Commission has been insisting that the Court does not take into consideration financial corrections in its estimated error rate and that the amount of 3,7 billion financial correction implemented in 2012 should be compared to, or even partly netted off, from the 2012 error rate of 4.8% estimated by the Court.

It is important to clarify that around 80% of the 2012 corrections made in the Cohesion area relate to the closure of the 2000-2006 programme period where the Court reported significantly higher error levels. It is to be expected that correction levels relating to the 2000-2006 closure exercise are high now – and it is also clear that they have no relation whatsoever to the errors of 2012.

Furthermore, some of the financial corrections are applied for issues which are unrelated to the errors the Court found or corrections on issues the Court considers non-quantifiable.

The Court does take into account financial corrections initiated by the Commission. But only those which have led to detailed correction of project expenditure or reimbursement during the year. These corrections have reduced the estimated error rate for 2012.

Whether a correction impacts at project level or not depends very much on the actions taken by Member State authorities. And in the current system the Commission has few tools to achieve project-level corrections. On the other hand, it appears that the Court's stance on these issues can have an impact on Member State action: We now see that where we refused to net off flat-rate corrections without further corrections at project level for 2012, our stance has produced a positive change for 2013.

Link between financial corrections per Member State and error rate

The Commission also assumes that the amount of financial correction per Member State can be used as a reliable indicator for the level of error in the Member State. The Commission in its 'Protection of the EU budget' paper and based on the financial correction data presented in Note 6 to the accounts has singled out three Member States as contributing around 80% to the overall rate of error.

The Court's audit results combined over the recent years show that the error is more widespread than that.

To focus only on those three Member States whom the Commission imposed a significant amount of financial corrections in the previous programme period would probably not give you a complete and up-to-date picture.

Budgetary management

Finally, let me come to the increasing pressure on EU public finances. In 2012, the Commission was unable to meet all payment requests. As you know a similar pattern also emerged in 2013. The pressure on the EU budget is mirrored by the increasing amount of outstanding commitments. In addition, the Commission will also need to meet its outstanding liabilities. It is essential that the Commission has a realistic view about its liabilities. Therefore, it might be useful for the Commission to publish some kind of mid-term cash flow forecast – a view of fiscal sustainability.

Closing words

Mr Chairman, Honourable Members of the Committee,

I would like to end by thanking your committee for the constructive working environment during this 2012 discharge procedure and your continuous support for improvements in our work.

Thank you for listening.

CONT

HEARING ON 2012 DISCHARGE

"DISCHARGE 2012: EU GENERAL BUDGET – EUROPEAN COMMISSION"

21 January 2014

09:15-10:15

Room: Altiero Spinelli (1G-3)

Brussels

Hearing following the ECA presentation of the Annual Report of the Court of Auditors concerning the financial year 2012, in particular Chapters 1 (The Statement of Assurance and supporting information) and Chapter 10 (Performance issues)

1. 2. SPEECH

Dear Chairman,

Mr Rapporteur,

Honourable Members of this Committee and of the Court of Auditors,

[Introduction]

My hearing today comes after a series of dialogues you had with my fellow Commissioners in charge of important policies supported by significant financial interventions.

Since the presentation of the Court's annual report in November last year, I and my services have been in close contact with the rapporteur and Members of this Committee.

I believe that we have together identified the main issues at stake. This discharge procedure can help all financial actors, including the Member States, to focus on the best way to ensure the sound financial management of the EU Budget under the new programming period.

New programming period means new rules, instruments and processes that aim at reducing further the risk of error and at delivering the expected added-value in a transparent and cost-effective manner.

Let me come now to the Court's annual report.

I am pleased that the Court has signed off the accounts of the European Union for the sixth time in a row and that the audit concludes that EU revenue, all commitments and administrative expenditure are free from material error.

The Commission welcome the Court's recommendations and commits to implement them in order to address effectively the problems identified.

[Follow up to ECA recommendations]

In our recent contacts, the Court expressed its appreciation vis-à-vis the way the Commission follows up on its recommendations, in particular as regards the special reports.

The Commission, via its Audit Progress Committee, has agreed with M. Otbo to further improve the monitoring of actions undertaken by the Commission's services and facilitate the feedback from the Court about the measures taken and their impact. In particular, Services will be asked to publish their action plans into the system that is accessible to the Court, to inform it and enable it to comment on the adequacy of these actions. Use of common language and the ranking of recommendations will also be considered.

[Dealing with the increase of the most likely error rate]

However, despite the effective implementation of the Court's recommendations, I am concerned that the most likely error rate estimated by the Court for payments increased from 3,9% in 2011 to 4.8% in 2012.

As you know, a third of this increase is related to the Court's new sampling methodology in direct expenditure.

Furthermore, if flat rate corrections imposed by the Commission before Member States send their payment claims would have been taken into account by the Court, the error rate for 2012 would be broadly in line with the ones for the previous years. *[See boxes 1.2 and 1.3 of the Court’s Annual Report 2012 (Romania: 81 mio. EUR; Czech Republic: 259 mio. EUR; and Slovakia: 32 mio. EUR) but the actual impact is based on extrapolation of these corrections to the concerned population of transactions]*.

[Main focus of our activities]

From the Court's report it is clear that, once again, we have to focus our efforts on the area of shared management.

[Commission actions to address origin of errors in Cohesion]

The Commission does address actively the sources of errors with the Member States and focus its efforts on the most risky programmes and less performing national authorities.

In order to deal with complex management structure or insufficient guidance to beneficiaries in **Cohesion policy**, the Commission has carried out specific thematic audits in 2013. They allowed identifying the necessary actions to be carried out by the national authorities concerned, including recommendations as regards their administrative setup and targeted training actions towards beneficiaries and national controllers.

Moreover, the Commission encourages actively Member States to use simplified cost options. As you know the Court did not find any errors in the 26% of **ESF** operations using these simplifications.

In **regional policy**, the focus was given in particular on the reliability of the Audit Authorities work. By end 2013, DG REGIO's review of the audit authorities has covered 47 Regional and Cohesion Funds audit authorities in charge of 96% of the budget of both funds. For 91% [*41 out of 45 AAs for which the review is completed in 2013*], the results are positive.

For the others, action plans have been established and, where needed, payments have been interrupted until the weaknesses are properly addressed. It is worth stressing that 2/3 of the interruptions procedures in 2013 were based on national audit reports.

For **agriculture**, problems like ineligible investment projects and non-compliance with public procurement rules are addressed by a series of concrete actions in the framework of partnerships with the MS, with obligation to report on actions taken. This method led to several concrete changes on the spot such as the cancellation of certain support schemes, changes to control procedure or enhanced information to the beneficiaries.

[Reliance on Member States' controls]

The Commission cooperates with and assists the Member States but it does not rely "blindly" on them. Thanks to the increased number of the Court's and the Commission's system oriented audits [*from 2009 till 2013, 47 audit authorities have been audited by REGIO covering 96% of the budget and 85 by EMPL covering 99% of the budget*] the Commission is becoming more and more aware of the strengths and weaknesses of national controls.

On this basis the Commission develops evidence based risk charts for each programme. The risk chart is regularly updated on the bases of audits carried audit by the DG's external auditors, the control reports by the AAs and the overall Annual Control Report.

These risk charts are used when elaborating the Enquiry Planning Memoranda (EPM) and audit programmes in order to concentrate scarce resources on the riskier programmes/systems.

This methodology not only allows the Commission to allocate its audit resources in a more efficient way. It enables also the Commission to define the risk profile of each Member State and Region in relation to their performance.

When they perform well, those Member States and Regions are subject to less audit controls while the others will be put under stricter scrutiny. A higher risk profile will also trigger the preventive and corrective measures.

[Interruptions and suspensions]

As soon as there is evidence of serious weaknesses in Member States' management and control systems, the Commission stops payments. In 2012, interruptions in regional, cohesion, social and fisheries funds amounted to 5 billion EURO [*2,6 billion EURO in 2011*].

[Communication on the protection of the EU Budget]

Where errors have occurred, the Commission has no other choice than to apply corrective measures. As explained in the recent Communication on the protection of the EU budget, the financial corrections and recoveries have increased noticeably, amounting to 4.4 billion euro in 2012, compared to 1.8 billion euro in 2011.

For the period 2009-2012 these corrective measures correspond on average to 2% of all payments.

Although one cannot compare an annual error rate with the results of a multiannual correction mechanism, we consider that the error rate estimated by the Court at the level of the final beneficiaries cannot be seen as the only indicator for assessing the performance of the Commission as regards the programmes under shared-management.

Moreover, I want to stress that if the Commission is responsible for protecting the EU financial interests, the protection of the national tax payers money belongs in first instance to the Member states themselves.

[Communication on net financial corrections]

The Commission shares the Parliament's vision that the start of the new financial period 2014-2020 must be seized to strengthen the Commission's supervisory role by using optimally the new arsenal of preventive and corrective measures put at its disposal by the co-legislators.

The Commission has rapidly reacted to your letter addressed in November to President Barroso. It adopted on 13 December 2013 a Communication on the net financial corrections.

Like in agriculture, Member States will lose definitely money in the Cohesion policy if the Commission or the Court of Auditors detects serious deficiencies that should have been found by the national authorities themselves.

The process triggering the net financial corrections shall be systematic, that means applied without discretion, and based on objective and transparent criteria.

[Example of net financial corrections for CAP]

For the Common Agricultural Policy, NET financial corrections are already a "routine" process.

For example, a Rural Development audit mission in Finland in May 2011 found that although the overall control system was effective, exceptional conditions for buying certain equipment were neither well defined nor controlled.

Further checks found individual errors amounting to 2.7 % of the payments which represent an amount of about 1 million EUR.

The amount will be repaid by Finland to the EU budget in March 2014 and will be accounted as assigned revenue.

This is one of the 147 CAP financial corrections adopted in 2013 by the Commission for an amount of 1.1 billion EUR.

[New accountability framework – management and national declarations]

I agree with the rapporteur that the net financial corrections are a last recourse instrument, aiming in first instance at protecting the EU budget while having the potential to influence the behaviour of underperforming Member States.

Therefore, I believe that the responsibilisation of Member States through the introduction of the management declarations by national management authorities is a promising step.

The management declaration accompanying the accounts of expenditure will state whether the information is complete and reliable, the expenditure is legal and regular, what issues occurred and what actions are taken by national authorities. It will be subject to an independent audit opinion.

However, the Commission shares the view of the European Parliament as regards the added-value of the voluntary national declaration at political level.

This instrument is likely to reinforce accountability of national authorities managing the EU funds notably by involving the national parliaments in the monitoring of those financial actors.

The inter-institutional working group established by the Commission, but inspired by Jan Mulder, has taken up its tasks. The first two meetings were productive and a set of recommendations and a template of a voluntary National Declaration is expected to be ready soon.

[Performance]

Finally, the Commission introduced a new performance framework to better demonstrate the added-value delivered by the EU action to our citizens and businesses.

It includes a set of specific objectives and key performance indicators defined in all legal acts adopted by the co-legislators for the new MFF.

Moreover, the Commission's annual reporting process will dedicate special attention to the monitoring and reporting of progress, using milestones and intermediary reviews. Where needed, adjustments to the programmes will be proposed.

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Ladies and Gentlemen,

Together with the simplification of rules and the new accountability setup under shared-management, the implementation of effective preventive and corrective instruments will be our key priorities from now.

The Commission has the highest interest to ensure that the EU Budget is spent in accordance with sound management principles. In line with the legislation in force, the new instruments will start progressively to deliver their potential.

The discharge on the budgetary year 2012 is therefore the best opportunity to promote the effective and timely implementation of the new framework. We will continue our work in close contact with the rapporteur and the Members of the Budgetary Control Committee to further develop an adequate approach for the new programming period.

Thank you for your attention.

Presentation of Chapter 9 of the Annual Report 2012 of the ECA

to the Budgetary Control Committee of the European Parliament

(Brussels, 21 January 2014)

Item 9: Discharge 2012 EU general budget, European Commission, hearing with SG of Commission, Ms C. Day

Speaking note of Mr Tomé Muguruza, reporting Member for Administrative Expenditure

Dear Chairman,

Dear Members of the Budgetary Control Committee of the European Parliament,

Chapter 9 of the Court's Annual Report presents the results of the specific assessment of administrative expenditure of the Institutions and other bodies of the European Union. While the conclusion of Chapter 9 applies to all Institutions and other bodies of the European Union taken as a whole, this Chapter includes observations and recommendations applicable to individual Institutions and Bodies.

The policy group "Administrative and other expenditure" represents 7 percent of the total payments made in 2012 and mainly comprises:

- expenditure for human resources like salaries, allowances and pensions;
- it also includes expenditure for buildings, equipment, energy, communications, and information technology.

For the purpose of the audit, in 2012 the Court introduced three major improvements in its audit approach in comparison to previous years.

- The first improvement relates to the number of audited transactions covering the administrative and other expenditure of all Institutions and Bodies. In 2012 the representative random sample audited by the Court in this field consisted of 151 transactions, while in 2011 it audited 56 transactions. This larger sample leads to having a stronger basis for building the audit opinion;

- The second improvement concerns the harmonisation of the approach to the treatment of procurement errors across all policy areas and corresponding Chapters in the Court's report. As from 2012, serious errors in procurement procedures detected by the Court account for the error rate;

- The third and last improvement introduced by the Court in 2012 refers to the audit of the supervisory and control systems of the Institutions and Bodies. In this regard, the Court performs in-depth examinations of two Institutions or Bodies per year on a rotation basis. These examinations cover basically human resources and procurement procedures. In 2012 the Institutions audited were the European Parliament and the Council. In 2013, this examination will cover recruitment procedures and procurement procedures performed by the Commission. The Court will thus be able to report extensively on this issue in next year's Annual Report and follow-up on the shortcomings identified in the Annual Report for 2011 in the design and performance of procurement procedures.

As far as conclusions are concerned, similar to previous years, the result of this assessment is positive and the Court concludes that transactions underlying administrative and other expenditure in 2012 were, in all material respects, legal and regular.
More concretely, the Court found that only one of the 151 transactions tested were affected by error and the most likely error estimated by the Court is zero percent.
The Court also concludes that the supervisory and control systems for the Institutions' administrative expenditure comply with the requirements of the Financial Regulation.
Dear Chairman and Members of the Budgetary Control Committee,
As regards the Commission, the Court did not detect serious weaknesses in the supervisory and control systems.
However, it still found shortcomings in the management of social allowances. As in previous years, these shortcomings find their origin in the lack of up-to-date information in some staff members' personal files as regards social allowances received from national sources or as regards their personal situation.
Extensive discussions have taken place between the Court's services and the service responsible for the management of social allowances, the Paymaster's Office, on action to be taken and systems to be implemented as a result of the Court's recommendations.
The Court will monitor the implementation of the measures taken and report on them.
Dear Chairman and Members of the Budgetary Control Committee,
I am at your disposal for any question or clarification you might have.
I thank you for your attention.

Baudilio TOMÉ MUGURUZA

Member of the Court

Presentation of Chapter 9 of the Annual Report 2012 of the ECA,

to the Budgetary Control Committee of the European Parliament

21 January 2014

Speaking note of Mr Tomé Muguruza, reporting Member for

Discharge to EEAS

Dear Chairman

Dear Members of the Budgetary Control Committee of the European Parliament

and

Dear High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the Commission,

As I told you this morning, Chapter 9 of the Court's Annual Report presents the results of the specific assessment of administrative expenditure of the Institutions and other bodies of the European Union as a whole and does not provide an assessment per institution or body. This Chapter, however, includes observations and recommendations applicable to individual Institutions and Bodies, and specifically on the European External Action Service.

I will briefly remind you of the Court's audit approach, which comprised in 2012:

- First: a representative random sample of 151 transactions, which represented a significant increase in comparison to previous years;
- Second: a more precise classification of procurement errors to make it harmonised across all policy areas and corresponding Chapters in the Court's report. As from 2012, serious errors in procurement procedures detected by the Court account for the error rate;
- Third: an in-depth audit of the supervisory and control systems of the Institutions and Bodies. In this regard, the Court performs in-depth examinations of two Institutions or Bodies per year on a rotation basis. These examinations cover basically human resources and procurement procedures. In 2012 the Institutions audited were the European Parliament

and the Council. In 2013, it is the Commission and the Court of Justice. As regards the External Action Service, the audit of the systems for the recruitment of temporary and contract staff and for the performance of procurement procedures will be done in the context of the Statement of Assurance audit for 2015. The Court will then be able to report extensively on these issues.

As I mentioned in previous presentations, similar to previous years, the result of this assessment is positive and the Court concludes that transactions underlying administrative and other expenditure in 2012 were, in all material respects, legal and regular.

The Court also concludes that the supervisory and control systems for the Institutions' administrative expenditure comply with the requirements of the Financial Regulation.

Dear Chairman and Members of the Budgetary Control Committee,

You may remember that in its audit on the 2011 accounts of the External Action Service, the Court found some errors in relation to:

i) payment of social allowances and benefits to staff members;

ii) conclusion of contracts with temporary staff;

iii) management of a contract for the provision of security services;

iv) and, procurement procedures.

I would like to inform you that in the Court's sample for the audit of the 2012 accounts, none of these errors were found in relation to the European External Action Service, except for minor errors in the payment of social allowances and benefits to staff members.

These shortcomings find their origin in the lack of up-to-date information in some staff members' personal files as regards social allowances received from national sources or as regards their personal situation.

The Court notes that payroll operations for the staff of the External Action Service are performed by the Paymaster's Office.

The Court also notes that the External Action Service and the Paymaster's Office jointly examine action to be taken and systems to be implemented as a result of the Court's recommendations.

The Court will monitor the implementation of the measures taken and report on them.

I am at your disposal for any question or clarification you might have.

I thank you for your attention.

Baudilio TOMÉ MUGURUZA