



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 7 November 2013

15805/13

**PE 500
BUDGET 62
INST 574**

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 4 and 5 November 2013

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

Items 1, 2 and 3 on the agenda

Item 4 on the agenda

Follow-up to the 2011 discharge to the European Parliament
CONT/7/14393

Rapporteur: Ms ORTIZ VILELLA (PPE)

- Exchange of views with the Secretary-General of the European Parliament, *Klaus Welle*

The item was postponed to the CONT meeting on 25 November 2013.

4 November 2013, 16.30 – 18.30

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

Item 5 on the agenda

European Union Agency for Railways and repeal of Regulation (EC) No 881/2004

CONT/7/11848

Rapporteur for the opinion: Mr LIBERADZKI (S&D)

Rapporteur for the committee responsible (TRAN): Mr ZĪLE (ECR)

- Adoption of draft opinion

The report was adopted, as amended, by fourteen votes in favour and one against.

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

Item 6 on the agenda

Exchange of views with Neven Mates, Member of the European Court of Auditors

CONT/7/14394

Rapporteur: Mr AYALA SENDER (S&D)

- Exchange of views

On 9 July 2013 Mr MATES had been appointed by the Council Croatian member of the ECA after the European Parliament had delivered a negative opinion. At the hearing in CONT on 27 May 2013 he had declared that he would withdraw his candidacy in the event of a negative opinion. On 8 October 2013, Mr MATES sent a letter to the Chairs of both BUDG and CONT making himself available to "provide any explanation or clarification..." concerning his decision not to withdraw his nomination.

He was invited by CONT for an exchange of views on 4 November 2013.

Mr MATES pointed out that in his written reply to the last question in the questionnaire he had stated that, in the event of a negative opinion, he would quite likely withdraw his candidacy, after careful consideration of all objections to his nomination that might be raised in the process. He acknowledged that his answer had been more straightforward at the hearing and in a letter of 6 June to Mr THEURER. He had nevertheless stressed that it was not up to him to change the rules of the Treaty. Mr MATES said he was convinced that he had not been rejected because of a lack of the qualifications required by the Treaty. Indeed, neither the report nor any subsequent information referred to a lack of qualifications. He therefore considered that the EP was linking this last question to a right of veto for which the Treaties had made no provision.

Nevertheless, he pointed out that, in accordance with the relevant procedures, he had written a letter of withdrawal of his candidacy to his government, and had brought it to the attention of his Prime Minister, but his resignation had not been accepted.

Ms AYALA SENDER (S&D, ES), rapporteur, thanked Mr MATES for coming and underlined the critical relationship between the Council and the EP. She said that she trusted Mr MATES with regard to the letter of resignation which he had sent to his Government, but considered that the EP ought to have been better informed about this. Mr MATES apologised that his intention to follow this resignation procedure had not been clearly transmitted to the EP.

Mr MULDER (ALDE, NL), supported by Mr STAES (Greens, BE), said that Mr MATES could no longer be trusted, that he had wrongly assumed that his rejection was not based on any lack of skills, since he could not read the minds of the MEPs who had voted, and that in any case Mr MATES had worsened his position by submitting his letter of resignation to his government, since he had demonstrated a lack of independence (Mr LIBERADZKI, S&D, PL, and Mr AUDY, EPP, FR also agreed that this had shown a lack of independence).

Mr MATES told Mr GERBRANDY (ALDE, NL), who inquired about the use of hearings if the EP opinion was not taken into account by the Council, that in his view a few pages summarising the reasons why the candidate was unfit for office would strengthen the influence of the EP's opinion. He considered that Member States should be given reasons rather than just a "yes" or "no" opinion. He told Mr MULDER that he hoped to rebuild trust through the quality of his future reports. Ms GRÄSSLE (EPP, DE) considered that the issue was not about Mr MATES, but rather about the relationship between the EP and the Council, which was in a bad shape, and also referred to the discharge procedure. She called on the EP to pay close attention to the ECA's activities in order to ensure that it was efficient and result-oriented.

Mr THEURER summed up the debate by saying that the hearing procedure was not only about assessing skills, but also about evaluating the candidate's character, and stressed the EP's role as a directly elected body. He considered that Mr MATES had apologised for the misunderstanding and that this had to be examined by the political groups. He added that Mr MATES' appearance could

be seen as a confidence-building exercise. As for the rules on the appointment of the ECA members, he announced that these would be discussed with the National Parliaments at an upcoming meeting.

Ms AYALA SENDER concluded by thanking all MEPs for their opinions and told Mr MATES that the issue was not of an intergovernmental nature (involving the Member States), but rather involved the interinstitutional relations between the EP and the Council. She considered that this was a matter of conscience for Mr MATES, since mutual trust was an issue of fundamental importance for the EP. The EP's opinion was not only about qualifications, but also about trusting the candidate. She announced that the EP would soon be adopting a report on the procedure for the appointment of ECA members and cooperation between the EP and the Council in finding the best candidates to be appointed to the ECA.

Item 7 on the agenda

Presentation of the European Court of Auditors' Annual Report concerning the financial year 2012 by the President of the Court, Vítor Manuel da Silva Caldeira

CONT/7/14392

Rapporteur: Mr PIEPER (PPE, DE)

- Replies by the Member of the European Commission responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud, ***Algirdas Semeta***, including a presentation of the key figures in the final consolidated annual accounts of the European Union for the financial year 2012 in the presence of the Deputy Director-General and Accounting Officer of the European Commission, ***Manfred Kraff***

Mr CALDEIRA delivered the speech set out in ANNEX I.

Mr SEMETA delivered the speech set out in ANNEX II.

Mr PIEPER welcomed what he regarded as an informative report. He regretted that an unqualified DAS could not be delivered and underlined the higher error rate, which had increased to 4.8% in 2012 compared to 3.9% in 2011. This was not encouraging and in his view explanations should be sought from the Commission, after Mr Barroso had undertaken to obtain an unqualified DAS from the ECA. Mr PIEPER did not consider that the change in methodology was worth addressing, as it accounted only partially for the higher error rate. He referred to agriculture, and in particular rural development, regional development and public procurement, as the policy areas which had been most affected, and pointed to the failing controls in a small number of Member States. He then referred to the Commission report on the protection of the EU budget and inquired about the

administrative costs for recovering EUR 4.4 billion, and wondered how much of that amount had been returned to the EU budget. He complained about the high error rate detected in the regional spending of three MS (Spain, Italy and Greece) and considered that the ministers responsible ought to be heard by the EP, as would be the case for a Spanish minister. He also addressed the issue of the replacement of projects in the event of financial corrections and considered that this practice should be dropped.

He concluded by stating that the Commission should be granted discharge only if substantial changes were undertaken, and mentioned in particular dropping 'automaticity'. Finally, he underlined the importance of measuring the performance of EU spending and considered that leverage, the multiplier effect and innovation should represent benchmarks for assessing the EU added value of projects.

Mr VAUGHAN (S&D, UK) considered that cases in which a financial correction had intervened should not be regarded as errors by the ECA. Ms GRÄBLE (EPP, DE) considered that the error rate score had been affected by 'manoeuvring' by the audited bodies. She also criticised high co-financing rates (up to 95%) since, in her view, they reduced the ownership of beneficiaries.

Mr MULDER complained that all figures relating to the error rate had worsened compared to the previous year and that the ECA had changed the methodology for calculating that rate. He concluded by saying that respect for the ECA was rapidly subsiding because of the Council's approach in appointing its members, and referred to the case of the Croatian member. Mr STAES (Greens, BE) also criticised that approach. On the issue of Member States affected by a high error rate, he called on the Commission to adopt an action plan involving the EP and the Council, in order to prevent MS from 'covering' for each other in the discharge procedure.

Mr CALDEIRA told the rapporteur that the DAS procedure was not the appropriate forum for carrying out country-specific audits and pointed to the historical perspective, which showed that the error rate was in overall decreasing. He also told Mr VAUGHAN that a financial correction did not always offset errors. This was particularly the case when the Member State in question was unable to recover the money from the beneficiary, leaving the taxpayer to foot the bill. Together with Ms ANDREASEN, he insisted that the error rate did not mean fraud, since the latter required a deliberate action in order to obtain a benefit. He also assured Mr SONDEGAARD (GUE, DK)

that the ECA had informed OLAF whenever fraud was suspected. He also told him that the frequency of errors should not be confused with the error rate. He also explained to Mr MULDER that the ECA had changed its methodology in order to bring it into line with international auditing standards. Moreover, this allowed comparability across policy areas. He also clarified to Ms GRÄBLE that audited bodies were allowed to present evidence within the framework of an adversarial procedure. As for the comparability of the error rates with the previous financial framework exercise, he told Mr KALFIN (S&D, BG) that this would send the wrong message, since it was essential to look forward to the improvements needed within the next programming framework. As for the RAL (outstanding payments), he acknowledged that these had doubled over the 2007-2013 programming period (from EUR 50 billion to EUR 114 billion).

Mr SARVAMAA (EPP, FI) noted that only two agencies had received a qualified opinion, namely the European Institute for Technology and FRONTEX. He said that they would be invited to the discharge hearing, together with the Railways Agency, which was this year's coordinator, and the Fundamental Rights Agency (the next coordinator).

Mr SEMETA, in his concluding remarks, asked MEPs not to forget that 95% of budget spending was fully compliant. Moreover, the error rate estimated by the ECA could not be compared with any other national system, since no one applied such a methodology. The only comparable system was that of the US, whose error rate was similar to that of the EU.

He also underlined the positive DAS on accounts, despite the fact they were not easy to keep. He told Mr VAUGHAN that the Commission was setting up a comprehensive system for measuring performance. With regard to financial correction, he pointed out that this can only be carried out in accordance with existing legislation. Net recovery would be the suggested rule in the next programming period, and he called on the co-legislator to endorse this reform.

As for "poorly behaving" Member States, he recalled that the Commission had already adopted specific action plans, and mentioned in particular the agriculture sector. Despite the fact that the change in methodology had not been criticised by the Commission, he stressed that if the ECA had taken the same approach as in previous years, the situation of direct management areas such as external relations and research would have improved. He concluded by saying that developing a genuine culture of performance would be at the centre of the Commission's action to improve sound financial management, together with the Member States and the other financial stakeholders.

Item 8 on the agenda
Coordinators' meeting

This Item was dealt with in camera

Item 9 on the agenda
Any other business

No other business was discussed.

Item 10 on the agenda
Next meeting(s)

- 7 November 2013, 9.00 – 12.30 and 15.00 – 18.30 (Brussels)
 - 14 November 2013, 9.00 – 12.30 (Brussels) - Interparliamentary meeting with the national parliaments
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Chairman Theurer, honourable members,

I would like to thank you for this opportunity to present the Court's annual reports on the implementation of the 2012 EU budget and the European Development Funds. Europe's citizens have the right to know how their money is being spent and whether it is being used properly. They also have a right to know whether it is delivering value, particularly at a time when there is such pressure on public finances.

The Commission is the prime manager of EU funds. It must provide information in the EU accounts and other reports on the use of those funds, on the regularity of financial operations and on the results achieved.

The Court's role is to provide an independent assessment on those three elements of EU financial management in accordance with the Treaty and professional audit standards and good practices.

The Court presents the results of its assessment of the implementation of the EU budget in its annual report in order to assist the European Parliament in the discharge procedure.

Chapter 1 of the Court's annual report provides the statement of assurance on the reliability of the accounts and on the legality and regularity of the financial operations underlying those accounts.

Chapters 2 to 9 provide specific assessments for revenue and the main areas of expenditure. Finally, Chapter 10 is about 'Getting results from the EU budget'.

So what is the Court's assessment of **EU financial management in 2012**?

The overall picture is broadly similar to that presented in last year's annual report. But there are a number of specific points in the annual report that I would like to draw to the attention of the members of the committee. Those points relate to:

- the legality and regularity of payments;
- financial corrections and recoveries;
- the pressure on EU finances; and
- finally, the need to create a performance culture over the period of the coming financial framework.

I will start with the **overall picture**:

- The EU accounts are reliable, as they have been since 2007. Revenue and commitments underlying the EU accounts are legal and regular in all material respects but payments continue to be materially affected by error.
- As regards 'getting results from the EU budget', the Commission is not in a position to provide sufficient, relevant and reliable evidence on what the EU's policies have achieved in a way that is suitable for the purposes of the discharge procedure.

The Court's opinion on the **legality and regularity** of payments has remained broadly the same because it reflects an underlying reality that has not significantly changed.

The Court issues its adverse opinion based on the audit evidence it obtains from assessing supervisory and control systems and testing samples of transactions.

As in previous years, the supervisory and control systems the Court examined are only partially effective in ensuring the legality and regularity of payments *when EU expenditure is incurred*.

Based on testing of samples of transactions, the Court's estimate for the most likely error rate for expensed payments underlying the EU accounts is 4.8 %. The Court is 95% confident that the rate of error in payments lies between 3% and 6%.

Those errors are not confined to any specific area of the budget. All policy groups covering operational expenditure are materially affected by error. Administrative expenditure is the only area where no material level of error was found.

The Commission's own reports confirm this overall picture. The Commission acknowledges that errors occur across the budget and that the overall level is likely to be material. 14 directors-general of the Commission make reservations in their annual activity reports in respect of the legality and regularity of expenditure and the synthesis report puts the amounts at risk of error at between 1.9% and 2.6% of total payments – a figure the Commission itself recognises as likely to be an underestimate.

As can be seen from Chapter 1, the Court's overall estimate of the most likely error rate has increased from 3.9% in 2011 to 4.8% in 2012.

The Court's estimates of the most likely error rates for agriculture, regional policy, rural development and employment and social affairs all show increases compared to 2011.

Rural development remains the most error-prone spending area with an estimated error rate of 7.9%, followed by regional policy with an error rate of 6.8%.

There are also increases in the error rate estimated for policy groups *research and other internal policies* and *external relations, aid and enlargement*.

In these latter cases, part of the increase can be attributed to two methodological improvements the Court has introduced for the 2012 audit.

The Court's samples of transactions in these areas no longer include advance payments made during the year. In other words, they comprise interim payments, final payments and advances that were cleared during the year.

This change is in line with the principles of accrual accounting, thus providing – the Court believes – a better picture of the underlying reality of EU financial management.

The second methodological improvement relates to the treatment of serious failures to apply procurement rules. From 2012 EU institutions and bodies are treated in the same way as Member States authorities and other international organisations.

These changes improve comparability between different policy groups and they will improve comparability over time. Together they add 0.3 percentage points to the Court's overall estimate of the most likely error rate in 2012 compared to 2011.

Chairman, honourable members,

The Court's 2012 annual report includes many illustrative examples of the errors found and considerable analysis. Together, they provide some insight on where and how errors occur and why they matter. To give a few examples of the analysis provided:

- First, over two thirds of the estimated error rate pertains to the ineligibility of claims for payment and serious failures to respect procurement rules.
- Second, the highest contribution to the error rate comes from the areas where most money is spent, namely regional policy, agriculture, rural development and employment and social affairs.
- Third, The Court's testing of transactions shows that the proportion of transactions affected by error is high in these policy groups, ranging from 35% up to 63%.
- Fourth, the Court's transaction testing shows that over half of the errors the Court found under shared management could have been corrected by national authorities before submitting claims for reimbursement to the Commission.

But the Court's findings do not suggest that errors are confined to specific Member States. In fact, the Court's assessments of supervisory and control systems it examined showed there to be weaknesses at a wide range of national and regional authorities.

Nor are errors confined to expenditure which is jointly managed by Member States.

The Court calculates that the estimated rate of error on shared management expenditure was 5.3% compared to 4.3% on all other forms of operational expenditure.

The errors that the Court finds matter because they represent cases where EU funds were not used in accordance with the relevant legislation and thus not in accordance with the wishes of Parliament and the Council, as legislator and budget authority.

They also matter because errors represent money that should not have been paid out.

It is sometimes possible to get that money back. This brings me to the issue of **financial corrections and recoveries**.

The Court devotes a number of paragraphs in the 2012 annual report to this topic. It is a complex subject which the Court and the Commission approach from differing but complementary perspectives.

The Commission seeks to protect the budget from the effects of irregularity; the Court is obliged to report on whether transactions are legal and regular.

In the 2012 annual report, the Court explores the effect of financial corrections and recoveries on Member States, on beneficiaries and on the statement of assurance.

The impact of financial corrections depends on the regulations applicable. For agriculture most financial corrections do not lead the Member States concerned to recover payments from beneficiaries, while for cohesion most corrections are flat rate corrections which do not lead to detailed correction at project level.

So, in effect, most financial corrections fall on national taxpayers.

The Court emphasises this point because the annual report is also addressed to national parliaments and national authorities.

Chairman, honourable members,

In seeking to improve EU financial management, we cannot afford to ignore the mounting pressure on public finances at EU and national level.

The Court highlights the signs of the growing **pressure on the EU budget for payments** in the 2012 annual report.

As you know, in 2012, the Commission was already finding it difficult to meet all requests for payment.

The pressure on payments was also reflected in the increase in the amount of outstanding commitments. By the end of 2012, they represented more than two years of total EU budgeted payments.

The Commission will also need to fund payments to meet liabilities in the Union's balance sheet. At the 2012 financial year end, the outstanding commitments and liabilities needing to be funded together amounted to around 313 billion euro.

In the Court's opinion, the Commission should plan for its future cash-flow requirements by preparing and publishing a long-range cash-flow forecast.

Chairman, honourable members,

It is not always the actors who are to blame for the quality of the performance, sometimes the problem lies with the script they are given.

Current legal frameworks for spending do not do enough to encourage better spending.

The new financial framework period provides a chance to change that. The Court agrees with the Commission that there is a need to create a performance culture.

That will mean addressing the weaknesses the Court finds in the current performance management and reporting system, for example:

- Spending programmes do not consistently use SMART objectives and suitable indicators;
- performance data are not good enough; and
- projects financed by EU spending are too often not sustainable.

The Union needs to address these issues if the next generation of spending programmes are to deliver – and be seen to deliver - added value to Europe and its citizens.

The Court recommends a focus on performance in the coming programming period. This requires laying down clear objectives, relevant indicators, and expected results.

Chairman Theurer, honourable members,

EU institutions will need to work together to improve EU performance and accountability in the coming years.

The Court and its annual reports have – and will continue to have - an important contribution to make to the success of that collective endeavour. We look forward to playing our part alongside this parliament and the other EU institutions.

Thank you for your kind attention.

Dear Chairman,
Mr Rapporteur,
President Caldeira,
Honourable Members of this Committee and of the Court of Auditors,

[Introduction]

The publication of the Annual Report of the Court of Auditors is one of the decisive moments of the budgetary discharge procedure.

We are grateful for the enormous task which the Court once again has accomplished and we welcome the findings and recommendations expressed in this report.

I am pleased that the Court concludes that the Accounts are free from material misstatements and that the error rate for revenues and administrative expenditure are far below the Court's materiality threshold of 2%.

In addition commitments in all areas of expenditure receive a positive opinion. This means that the control systems governing the upstream preparation of projects, grants and contracts are reliable. At the same time I am concerned that this year the most likely error rate for payments increased. Finally, the Commission agrees with the need to develop a new culture of performance. This is why it made concrete proposals for the next Multiannual Financial Framework that the European Parliament will most likely approve in two weeks in Strasbourg.

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

The estimated average error rate for payments and clearings of pre-financing in 2012 is reported as 4,8% of all payments made in that year, compared to 3,9% in 2011.

As the Court states itself, one third of the increase is related to the new sampling methodology in direct expenditure.

The remaining increase of 0,6% would be largely compensated if flat rate corrections imposed by the Commission before Member States send the related payment claims would have been taken into account by the Court.

[Sources of error in spending programmes with high error rates]

I will explain for different areas some of the elements which over the years have been identified as risk drivers and what we are currently doing in order to eliminate or at least reduce them for the next programming period.

[High risk of error caused by (national) complex eligibility rules]

In the case of programmes managed by Member States authorities, the Court confirms that breaches to national rules account for a significant part of the overall estimated error rate.

Therefore, the Commission has launched an ambitious simplification initiative aiming at replacing complex national eligibility criteria by extending the use of simplified cost options.

At the moment, Member States use these simplified cost options for 26% of European Social Fund operations. In 2012, the European Court of Auditors did not find any errors related to these operations. For the other ESF operations the frequency of errors (great or small) was about 40%. In the key area of research, the Commission proposed simplified rules of participation, under the programme Horizon 2020. The golden rule "one project – one funding rate" aims to make funding easier. In the same perspective, a single flat rate for indirect costs has been introduced.

[Origin of errors in the area of Cohesion]

For the area of Cohesion the Commission acknowledges that the situation has not improved compared to 2011. High error rates result from a combination of factors.

- First, complex management structures never make financial management easier. Member States with multi-layer systems, like for instance Spain or Italy have, greater difficulties compared to Member States with a small number of Operational Programmes and intermediate bodies.

- Poor management verifications of expenditure by Member States also result in more errors. Some of the reasons for the poor reliability of the management verifications include the focus on formalities instead of substance, a lack of control of public procurement rules, pressure to certify expenditure in order to avoid de-commitment and a general lack of administrative capacity and resources.
- Insufficient guidance and training to beneficiaries concerning the complex system of legal rules at national and EU level leads also to non-compliant expenditure declarations.

[Improvements proposed in Member States]

What does the Commission concretely do to address the issue of the high error rates in the Member States?

- Firstly, the Commission has a strict policy on interruptions and suspensions. As soon as there is evidence of serious and persistent weaknesses in a management and control system, the Commission stops payments. In 2011 we decided 91 interruptions for 2.6 billion EURO. In 2012 this increased to 116 interruptions with a value above 5 billion EURO. Payments can be resumed only after a fact finding mission/audit of the Commission and/or if the responsible audit authority has certified that the problems have been fully addressed.
- Secondly, the Commission has carried out in 2013 specific thematic audits in order to verify, on a risk basis, management and control structures. These audits included re-performing management checks and the substantive testing made by the Audit Authorities as well as audits on public procurement and the management and control of financial engineering instruments.
- Thirdly, as I have already mentioned, the Commission is actively promoting the use of simplified cost options.

[Origin of errors in the area of Agriculture]

The increased error rate in agriculture concerns again mainly rural development and is related to eligibility of investment projects, declaration of ineligible VAT or non-compliance with public procurement rules.

To address the weaknesses observed, the Commission and the Member States have established a partnership to identify the main root causes of errors, and to draw up actions plans. In 2012 the first action plans for 14 Member States were developed and the national authorities concerned have regularly reported to the Commission on their implementation. In 2013 we expanded the exercise to all MS.

Moreover, a number of Member States modified their rural development programmes in order to clarify or change the conditions for individual support schemes.

[DG AGRI auditors checked whether certain Member States had fully implemented EU procurement rules, whether the local management checks included on the spot visits, whether the projects fulfilled the applicable eligibility rules of the Operational Programmes and whether they had been selected by organisations excluding any conflict of interests.]

[Origin of errors in the area of internal policies and external action]

The increased error rates in the area of internal policies and external action are mainly due to the Court's new sampling methodology. In Chapter 7 "external aid", the new element of sampling represents 68% of the payments audited and contributed to 3,2% of the total error rate, which is 3,3 %. For Chapter 8 "research and other internal policies", it represents 62% of all payments audited and contributed to 2,1% of the total error rate which is 3,9%.

The Commission is looking into the cases and observations raised by the Court in order to avoid similar problems in the short term. In the longer term, Horizon 2020 will lead to further simplification reducing the risk of errors.

[Optimistic view on the protection of the EU budget]

After all measures have been used to improve the performance of Member States authorities, such as guidelines, training and audits on the spot with recommendations; the Commission has the duty to protect the EU Budget by using preventive and corrective measures.

The Note 6 annexed to the annual accounts and the recently published Communication on the protection of the EU Budget provide an overview of those measures and their impact in financial terms, taking duly into account the multi-annual dimension of the majority of our programmes.

In 2012, new interruptions decisions have been taken for a total amount of €4.9 billion, covering Regional, Cohesion, Social and Fishery funds.

Thanks to its robust, multi-layered system of controls and audits, the financial corrections and recoveries implemented by the Commission have increased noticeably, amounting to EUR 4.4 billion Euros in 2012, compared to EUR 1.8 billion in 2011.

The volume of financial corrections and recoveries for the period 2009-2012 correspond on average to 2% of the payments for the same period.

Regarding the Regional and Social Funds, financial corrections for the programming period 2000-2006, which is now in the closure phase, total about 8 billion euro. This corresponds to a substantial 4% of the total contribution (197 billion Euro).

For Agriculture the cumulative financial corrections decided under EAGF clearance of accounts procedures between 1999 to end 2012 amount to 8.3 billion Euro. This corresponds to 1.5% of the payments in that period (565 billion Euro).

If you consider the volume of the corrections and recoveries over the years, you see that the corrective capacity of the system ensures that a considerable part of the annual error rates estimated by the Court is likely to be corrected and recovered in the following years.

In this context I would like to come back to the importance of flat-rate-corrections. These corrections are applied, where the exact amount of unduly spent funds cannot be precisely identified. Even if these corrections do not directly impact the final beneficiaries, they fully protect the EU budget.

For example, in 2012, the Commission identified serious problems in a Romanian operational programme but was not in a position to quantify exactly their financial impact. The Commission and the Romanian authorities agreed on a 25% flat-rate correction covering all expenditure incurred as at end 2012. On this basis, the expenditure incurred in breach of law was excluded from Union expenditure and, after offsetting the agreed financial correction, the Commission paid only a very small amount to Romania in December 2012.

For the next programming period, the Commission proposed that serious irregularities detected by the Commission or the Court of auditors that affect accounts submitted by the Member States lead to net financial corrections.

This new instrument is essential to improve effectively the situation in Member States. In these particular cases, where serious and recurrent systemic weaknesses have been observed, the process triggering the interruption of payments, the suspension of programmes and finally the net corrections should be based on objective and transparent criteria.

Moreover, in order to reduce the risk of ineligible expenditure, the Commission has proposed ending the practice of retroactive funding by which deficient projects can be replaced by old already finalised ones.

[Let's speak about performance]

Let me finally address the sound financial management and the performance culture which the Court is rightfully more and more focusing on. I agree that improvement is needed in this area but at the same time, one has to recognise that we have already started providing more information on the added-value of the EU programmes, being in the draft budget, the Synthesis report or the evaluation reports, including the one based on article 318 of the Treaty.

As you know, the Commission drew lessons from the past experience and took duly account of the Court's recommendations in preparing the proposals for the next MFF which have been examined and negotiated in details by the co-legislators before their adoption.

Clear objectives and key performance indicators are included in all Commission proposals as summarized in the new performance framework with three important elements:

- 1)it includes a set of main objectives to be achieved, with appropriate links to the EU 2020 objectives;
- 2)it includes indicators which focus on EU added-value, efficiency, effectiveness and overall impacts on the economy and society;
- 3)the new performance framework contains strong arrangements for monitoring and evaluation to ensure the availability of the necessary data. This will allow timely reporting on results and performance.

The framework will enable us to measure performance, to address weaknesses and to change direction when needed.

Moreover, the Commission is committed to building the necessary architecture of better performance reporting into the annual activity reports and globally in its Article 318 evaluation report.

Intensive work and discussions are lying ahead of us. I can assure you that the Commission is at your disposal to facilitate in the best way the upcoming debate on the discharge for the financial year 2012.

Ladies and Gentlemen, thank you for your attention.
