RESOLUTION

of the European Parliament accompanying the decision concerning discharge in respect of the implementation of the general budget of the European Union for the 2002 financial year (Commission)

THE EUROPEAN PARLIAMENT,

— having regard to the general budget of the European Union for 2002,

— having regard to the definitive annual accounts of the European Communities for the financial year 2002 - Volume I - Consolidated statements on budgetary implementation and consolidated financial statements (SEC(2003) 1104 - C5-0564/2003, SEC(2003) 1105 - C5-0565/2003) [1],

— having regard to the annual report of the Court of Auditors concerning the financial year 2002, accompanied by the replies of the institutions audited (C5-0583/2003) [2], and the special reports of the Court of Auditors,

— having regard to the statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty [3] (C5-0583/2003),

— having regard to the Council recommendation of 9 March 2004 (C5-0145/2004),

— having regard to Articles 274, 275 and 276 of the EC Treaty and Articles 179a and 180b of the Euratom Treaty,

— having regard to Article 3 of Council Decision 2003/76/EC of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel [4],

— having regard to Annex 1(3) to Decision 2002/234/ECSC of the Representatives of the Governments of the Member States, meeting within the Council, of 27 February 2002 on the financial consequences of the expiry of the ECSC Treaty and on the research fund for coal and steel [5],

— having regard to the Financial Regulation of 21 December 1977, and in particular Article 89 thereof, and to the Financial Regulation of 25 June 2002 [6], in particular Articles 145 to 147 thereof,

— having regard to Article 93 of and Annex V to its Rules of Procedure,

— having regard to the report of the Committee on Budgetary Control and the opinions of the other committees concerned (A5-0200/2004),

A. whereas implementation of EU policy is characterised mainly by 'shared management' between the Commission and the Member States,

B. whereas 'implementation tasks shall be delegated to Member States' where the Commission implements the budget by shared management, according to Article 53(3) of the Financial Regulation,

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(1) OJ C 316, 29.12.2003, p. 1.

(2) OJ C 286, 28.11.2003, p. 1.

(3) OJ C 286, 28.11.2003, p. 12.

(4) OJ L 29, 5.2.2003, p. 22.

(5) OJ L 79, 22.3.2002, p. 42.

(6) OJ L 248, 16.9.2002, p. 1.

C. whereas one of the main aims of modernisation of the accounting system of the European Communities (MAS), as presented in the Commission communication of 17 December 2002 (COM (2002) 755), is to develop an integrated accrual system which would provide a fuller picture of the Communities' financial situation, registering all assets and liabilities as soon as they arise, rather than waiting until a receipt or payment is affected,

D. recalling that administrative reform has been one of the main objectives of the present Commission, that the White Paper 'Reforming the Commission' (COM(2000) 200) was adopted on 1 March 2000, and that the Commission committed itself to an ambitious programme designed to strengthen independence, accountability, efficiency, transparency and provide the highest standards of responsibility,

E. stressing its view that the discharge procedure is a process seeking, inter alia, to improve financial management in the EU by improving the basis for decision-taking in the light of the Court of Auditors' reports and the replies and opinions of the institutions,

F. recalling the need for clear performance indicators for each major spending department of the Commission in order to evaluate progress in financial management from year to year;

A. HORIZONTAL ISSUES

Shared management

General issues

1. Recalls that the two largest areas of expenditure in the budget, agriculture and the Structural Funds, are subject to shared management, and notes that the Court of Auditors recommends that these two areas should be monitored particularly attentively 'due to their complexity and the many layers of administration involved' (Annual Report for the 2002 financial year, point 0.11);

2. Endorses the Court of Auditors' view that there is a need for both the Commission and the Member States to pay greater attention to a form of management which separates the financing of a Community policy from its implementation and, in the case of the Community, affected 77,6 % of commitment appropriations in 2002;

3. Stresses that 'shared management' has its Community legal basis, in primary law, in Article 274 of the Treaty ('Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management»), as well as in secondary law, in Article 53(3) of the Financial Regulation (Where the Commission implements the budget by shared management, implementation tasks shall be delegated to Member States …);

4. Stresses that is clear from the above two provisions that the Commission has primacy in the management of the Community funds concerned; calls on the Commission, accordingly, to draw up measures that reflect the subordinate position of the Member States and are aimed at ensuring sound financial management in this area;

5. Considers that there are no rules that would give the Commission clear grounds for avoiding its financial accountability by transferring it to the Member States in cases where they are at the origin of the irregularity;

6. Considers, therefore, that meaningful use of the term 'shared management' must be based on the fundamental principle that the Union delegates some of its powers to the Member States and that the Member States are obliged to carry out their part of the work in accordance with the guidelines adopted by the Union;

7. Points out that the salient financial feature of shared management is that national authorities appointed by the Member States make payments to those entitled to aid and that, even if the Member States pay out Community funds, where fraud and irregularities are not discovered or reported the cost is borne by the EU budget and not by the Member States;

Commission's responsibility

8. Stresses that, even though the day-to-day management is shared, financial responsibility remains indivisible and ultimate responsibility for implementation lies with the Commission, in accordance with Article 274 of the Treaty (the Commission shall implement the budget ... on its own responsibility ..., having regard to the principles of sound financial management);

9. Calls on the Commission substantially to increase the number of 'sunset clauses' enshrined in legislation and detailed impact assessments;

10. Points out that Article 53(5), of the new Financial Regulation reiterates the indivisibility of financial responsibility as follows: 'in cases of shared or decentralised management, in order to ensure that the funds are used in accordance with the applicable rules, the Commission shall apply clearance-of-accounts procedures or financial correction mechanisms which enable it to assume final responsibility for the implementation of the budget in accordance with Article 274 of the EC Treaty and Article 179 of the Euratom Treaty';

Member States' responsibility

11. Points out that the Member States' responsibility is laid down in:

— Article 280 of the Treaty:

'The Community and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Community through measures to be taken in accordance with this Article, which shall act as a deterrent and be such as to afford effective protection in the Member States.

Member States shall take the same measures to counter fraud affecting the financial interests of the Community as they take to counter fraud affecting their own financial interests.

Without prejudice to other provisions of this Treaty, the Member States shall coordinate their action aimed at protecting the financial interests of the Community against fraud. To this end they shall organise, together with the Commission, close and regular cooperation between the competent authorities.',

— and in Article 274 as amended by the Amsterdam Treaty:

'Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principle of sound financial management';

Position of the Court of Auditors on shared management

12. Points out that since 1994 the Court of Auditors has noted in its declarations on the correctness of the accounts that the underlying transactions are often materially affected by errors, particularly in the case of payments made by the Member States in areas subject to shared management; regrets the fact that the 2002 financial year is no different from previous financial years in this respect

(a) 'in the case of the EAGGF Guarantee Section, the payments were, again, materially affected by errors. Arable crops are less exposed to the risk of error than animal premiums, whereas the other categories of expenditure, which are not subject to the integrated administration and control system (IACS), are exposed to greater risk, as well as being subject to less efficient controls;

(b) in the case of the structural measures, in spite of an improvement in supervisory systems and controls, especially at Commission level, the same types of error occurred at Member State level with the same frequency as in previous years' ([1]);

13. Points to the Court's most important audit results for the two main areas under shared management during the 2002 financial year ([2]):

AGRICULTURE

— the certifying bodies have reservations regarding expenditure of EUR 300 million owing to the way transactions are dealt with by the paying agencies (4.8(b));

— the Commission has not accepted the accounts in respect of one-quarter of the total amount declared (4.8(b));

— the certifying bodies' audits do not provide assurance that the information supplied to paying agencies by claimants under CAP schemes is correct (4.7(d));

— the IACS ([3]) is a valuable source of information concerning the legality and the formal correctness of EAGGF payments, but it only covers approximately 58 % of these payments (1.43) and is only fully implemented in 14 Member States (4.23), despite the fact that 'IACS inspection results represent an important source of evidence on the legality and regularity of the CAP transactions' (4.13); takes the view that Member States which fail to implement IACS should lose their corresponding right to agricultural support from the EAGGF Guarantee Fund;

— CAP expenditure taken over one year was, as in previous years, 'materially affected by error' (4.49);

([1]) Annual report for the 2002 financial year, point V.

([2]) Annual report for the 2002 financial year, chapters 1, 4, and 5.

([3]) Each Member State is required to set up an integrated administration and control system (IACS) which comprises an electronic database of farms and applications for aid, a system for identifying land, a system for identifying and registering animals and an integrated control system for administrative control and on-the-spot checks.

STRUCTURAL FUNDS

System faults

— not until the end of 2002 did the Member States give all managing and paying authorities and the intermediate bodies the necessary guidance for the management and control systems to be set up in respect of forms of intervention in the 2000 to 2006 programming period (5.27);

— not all the management and control systems examined by the Court meet the requirements, three years into the 2000 to 2006 programming period (5.32);

— approximately 15 % of total expenditure for the 2000 to 2006 period have been paid without the Commission having assurance that the national supervisory and control systems are operating as required (5.32);

Substantive audit

— of the areas at the final beneficiary stage affecting the eligibility of the expenditure for aid, the Court mentions the inclusion of actions or persons unrelated to the programmes concerned, failure to take account of revenue generated or other income when calculating the net cost of projects, the same expenditure being declared more than once, expenditure without supporting documents, use of arbitrary cost allocation rates, calculation errors, 'and several other failures to respect Community rules' (5.40);

14. Points to the Court's repeated highlighting of serious weaknesses in the Member States' supervisory control systems, and regrets the Member States' unwillingness to cooperate with the Commission to ensure that appropriations are used in accordance with the principle of sound financial management. Regrets, in addition, the fact that this obligation appears to be translating into action only slowly and with difficulty;

15. Points out the following key factors by way of explanation of this situation:

(a) the legal basis for shared management lies in secondary legislation (mainly sectoral legislation concerning the EAGGF Guarantee Section and the Structural Funds) and not in the Treaty;

(b) the Commission has the right of initiative for sectoral legislation and is fully responsible in legal terms for implementing the budget under Article 274 of the Treaty, but its powers may be limited by sectoral legislation adopted by the Council and Parliament;

(c) the Commission is not able to act in any other way than as laid down in sectoral legislation, which generally does not provide it with any means other than supervisory instruments and procedures and financial corrections;

16. Stresses that, without prejudice to the Commission's obligations as reflected in the Treaty, it is the legislative authority that defines the Commission's competence in the areas to which sectoral legislation applies; takes the view that there may be a risk of a mismatch between these two areas and that this may have an adverse effect on the scope for ensuring that the appropriations are used in accordance with the principle of sound financial management;

17. Points out that, pursuant to the Treaty, general political responsibility lies unequivocally with the Commission; notes that responsibility for the many weaknesses, as highlighted by the Court of Auditors, should be attributed both to the Commission's failure to ensure that those control systems are working and to the complex nature of the legislation and the shortcomings of the supervisory and control systems in the Member States;

Recommendations

18. Takes the view that it is absolutely necessary, *inter alia*, because of enlargement, to find the right balance between the Commission's responsibility and the legislative means it has at its disposal to exercise that responsibility;

19. Believes that in areas with shared management there is a need for a climate of coordination, cooperation and dialogue between the parties involved in implementing the budget, and that without such a climate it will be difficult to envisage the budget being implemented in accordance with the principle of sound financial management;

20. Believes likewise that such a climate of understanding can help forge a common perception of the risks and weaknesses in the implementation of the budget in these areas;

21. Points out that the Commission has a paramount interest in the full implementation of these supervisory and control provisions, and that indulgence in this area on the Commission's part only undermines its position in areas with shared management;

22. Calls on the Commission to improve implementation of the budget in the forthcoming financial years by:

IN GENERAL

(a) ensuring that exemptions are not incorporated in sectoral legislation concerning implementation of the Financial Regulation;

(b) taking greater account of Member States' dual role as both members of the Council and as national states with regard to the Commission's obligation to implement the budget in accordance with the principle of sound financial management;

(c) complying to the letter with the provisions of the Treaty and of secondary law in the Commission's and Member States' practice in areas with shared management;

(d) introducing, where applicable, new common standards to improve the national authorities' ability to carry out their part of the work;

(e) fully assuming the role of guardian of the Community's financial interests, which do not necessarily coincide with those of the individual Member States;

AGRICULTURE

(f) making proposals for higher fixed correction rates for system weaknesses,

(g) undertaking whatever action is needed to ensure that IACS is implemented in all Member States,

THE STRUCTURAL FUNDS

(h) carrying out a study of old and new Member States' administrative capacity and increasing the frequency of controls in countries and regions with relatively weak administrative structures;

(i) considerably improving its instruments for monitoring compliance with the additionality principle and the provisions on eligibility for aid;

(j) making full use of the right to carry out on-the-spot checks and use financial corrections in respect of the Member States;

23. Takes the view that shared management is well-suited as a form of management to implementing Community policies in the two major budget areas of agriculture and the Structural Funds, which have a very high number of final recipients of aid and involve very considerable amounts (77,6 % of commitment appropriations in the 2002 budget); stresses, nonetheless, that sound implementation of these policies requires both the Commission and the national authorities to carry out their respective tasks;

Auditing and shared management

24. Applauds the Commission's initiatives with a view to coordinating and harmonising the audit programmes and the methods introduced in order to achieve an integrated auditing approach;

25. Expresses its interest in this initiative, and asks to receive up-to-date information on successes achieved, reservations entered, obstacles removed and the timetable for future actions in the Commission's follow-up report;

26. Welcomes the approach underlying the 'confidence contracts'; is aware that there is a lack of information on the matter, given the embryonic nature of the pilot project, but asks to be informed in good time of the results and of the measures adopted to encourage signature of such contracts despite their voluntary nature; notes with pleasure the willingness of Austria and Denmark to submit themselves to this measure, and strongly urges all other Member States to follow their lead;

27. Is concerned at the absence of 'confidence contracts' for the area of the European Social Fund with the Member States ([1]);

28. Takes the view that both the Member States and the Commission should work towards establishing a single audit strategy for the shared management programmes; welcomes in this respect the efforts undertaken by the Commission and certain Member States to establish confidence contracts; takes the position that such efforts should be coupled with the carrying out of a reliable statement of assurance procedure, implemented annually at the level of the relevant authorities for the structural funds within the Member States, the result of which would be, in turn, taken up at Community level; takes note of the resistance expressed by a large number of Member States to the idea of such a yearly declaration of assurance as first proposed by the Commission at a meeting of the relevant ministers of the Member States on 7 October 2002; notes with criticism however the demonstrated unwillingness of the Commission to push forward such proposals more actively;

Recovery

29. Notes, in the light of the Commission's replies ([2]), the existence of a high degree of fragmentation in the area of the recovery of funds unduly paid;

30. Asks for information on the criteria for administrative harmonisation in this respect and the degree of compliance;

31. Calls on the Commission to provide, in its follow-up report, a comprehensive framework permitting standardised and regularly updated comparisons to be made and containing sufficient information on outstanding sums, numbers of dossiers closed and still open, and the efficiency levels of the individual recovery units;

([1]) Replies to the questionnaire - part 1, Commission's reply to question No 92 (PE 328.732/fin. 1).

([2]) Replies to the questionnaire - part 1, annex to question No 19, pp. 120-121 (PE 328.732/fin. 1).

The reform of the Commission

General aspects

32. Notes that uneven progress has been made in the implementation of the various actions set out in the White Paper; observes that, despite such progress, there are delays and difficulties to overcome in many areas;

33. Notes the Commission communication of 10 February 2004 on completing the reform mandate: progress report and measures to be implemented in 2004 (COM(2004) 93); acknowledges that adoption of virtually all of the 98 reform measures marks the completion of the legislative phase, but insists that the reform momentum needs to be maintained so as to ensure full implementation;

34. Points out that rapid progress must be made as regards 'administrative culture', in which connection every effort must be made to ensure that the system around the authorising officer by delegation works perfectly; considers that further efforts must be made in order to bring about an appropriate change in mentality as regards giving staff a sense of responsibility, so that each official or other employee, irrespective of his or her position within the hierarchy, feels actively involved in the collective task; expects management to be unstinting in its efforts to achieve this objective;

35. Insists that the efforts still required if the reform is to be optimised must be made as quickly as possible, with particular regard to human-resource management (identification of priorities, including 'negative' ones; redistribution of resources so that they can be allocated to priority activities; assessment of needs and appropriate training initiatives designed to fill 'skills gaps') and the implementation of the 24 control standards; expects such progress to be reflected in the forthcoming annual activity reports;

36. Welcomes the measures adopted by the Commission to ensure further progress in the harmonisation of the terms and conditions under which Directors-General express reservations in their annual reports; hopes that these measures will be applied in the next annual report drafting exercise, so as to enable the reservations expressed to be assessed and to facilitate identification of corrective measures;

37. Considers that the part of the reform linked to the amendment of the Staff Regulations is also important, since it constitutes an essential means of monitoring the reform of human-resource management; therefore expects the Commission to take Parliament's opinion into account;

38. Approves the Commission's efforts to establish a comprehensive 'whistleblower's doctrine', notes that such a doctrine is truly effective only if staff members are aware of it, and encourages the Commission to ensure that this information is freely available to its staff;

Decentralised financial control and risk assessment

39. Acknowledges that the Commission has worked hard to ensure the transition from a centralised to a decentralised control system (i.e. the Administration controlling itself), involving, *inter alia*, the transfer of more than 200 posts from DG Financial Control to, in some cases, other directorates-general, with a view to strengthening their internal control systems, and, in others, for the new internal audit function;

40. Points out that a key feature of any debate on the most appropriate structure and form for financial control is the question of striking a suitable balance between operational requirements and control requirements; takes the view that painstaking compliance with rules and directives does not necessarily always go hand in hand with effective problem-solving;

41. Considers that control efforts focusing solely on preventing formal errors can militate against improvements in effectiveness if they encourage an excessively rule-based approach, with the familiar consequences of a lack of flexibility and excessive red tape; is therefore of the opinion that risk assessment is a crucial component of internal control arrangements in so far as it alone makes it possible to ensure that internal control outcomes are commensurate with costs;

42. Notes that the 24 internal control standards making up the framework for internal controls at the Commission, as adopted by the Commission in 2000 and modified in 2001, have still not come fully into force; observes that Standard 11 reads as follows: 'Each DG shall systematically analyse risks in relation to its main activities at least once a year, develop appropriate action plans to address them and assign staff responsible for implementing those plans' ([1]);

43. Considers, in view of the vital role of risk assessment within internal control, that the Commission's report on the implementation of that standard is both disquieting and unsatisfactory ([2]); calls, therefore, on the Commission to give higher priority both to the performance of risk assessments and to implementation of the internal control system's other features; expects that the rules on internal control ([3]) will be applied rapidly and universally;

44. Deplores the lack of accountants in the Commission; notes the high turnover of accounting officers in 2002;

The reform of the accounting system

45. Considers that the future accounting system should ensure full accrual accounting capacity, data consistency and secure access;

46. Stresses that one of the questions thus far has been whether the Commission should adopt a 'big bang' approach and move directly to a fully integrated, single-package system, or phase it in by means of an interim phase which takes account of the needs of local systems;

47. Notes that the Commission prefers the latter, as a safer and surer method and because a large-scale validation exercise is necessary before local systems can be switched to the central system;

48. Notes the following progress in implementing the first stages of reform in 2003:

(a) definition of accounting standards;

(b) documentation of user requirements;

(c) definition of accounting events;

(d) chart of accounts for coding of all transactions;

(e) accounting manual;

49. Takes note of the feasibility study conducted by Price Waterhouse Coopers on the Commission's MAS (modernisation of the accounting system) project and its chief recommendations for the project's successful completion;

50. Recalls that the Financial Regulation is based on a dual system combining accrual accounting for the purposes of the general financial accounts and cash-based accounting for the budget accounts; notes that this arrangement of public-sector accounting practices is in line with the criteria of the International Federation of Accountants and is the system operated by most Member States; points out, however, that this system requires permanent reconciliation between budget implementation and out-turn;

([1]) http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC %20_2001_2037_Internal_Control_Standards_en.pdf.

([2]) 'Moreover, it is clear from the limited progress made in general, that DGs and services are some way short of having a fully embedded risk management culture in place (COM(2003) 391, point 3.2).

([3]) Replies to the questionnaire - part II, Commission's reply to question No 1 (PE 328.732/fin. 2).

51. Notes that this 'dual system' enables the use of double-entry bookkeeping for the general financial accounts, while single entry is maintained for the budget accounts which are used by the budgetary authority to verify the state of budget implementation;

52. Appreciates the Commission's efforts to keep to the timetable laid down by the legislation in force, while recognising that it is extremely tight, given the experience in several Member States which have embarked upon a similar process of modernising public-sector accounts; suggests, therefore, adopting a phased approach which focuses first of all on eliminating any significant security weaknesses and accounting discrepancies, secondly on ensuring that the 2005 accounts will be presented on an accrual basis, and lastly that a coherent and integrated system is put in place to support the new architecture;

53. Considers that all EU institutions and decentralised agencies must ensure that they also have accounting systems compatible with the new framework and based on principles and standards analogous to those required by the Financial Regulation;

54. Considers the full cooperation and input of all Commission departments (stakeholders) essential to the success of MAS; likewise expects DG Budget to take account as much as possible of user needs;

55. Underscores the high priority which Parliament attaches to data uniformity of the new system, and, in particular, to the establishment of a central invoice register and contractors' database that will provide full, accurate and detailed information on the status of the institutions' contractual relations;

56. Points to the 2005 deadline for the validation process of interfaces between local systems and the central system, after which data provided by non-validated systems will not be recognised; seeks assurances that this deadline will be met for all services without exception;

57. Recognises that Option 3, as presented in the abovementioned Commission communication on MAS, represents the only realistic, although interim, approach to meeting the key requirements of a modern accrual-based accounting system by 1 January 2005, as well as the sectoral needs of the operational services; stresses that the 2005 deadline, as required by the new Financial Regulation and thus a priority objective for Parliament, is not the end of the reform process, as the IT system supporting the new accounting architecture will still need to be installed to meet the goal of a fully integrated system (as laid down in Option 2);

58. Recalls the observer status on the Accounting Standards Committee and Project Oversight Board of both the Internal Audit Service and the Court of Auditors in the context of the MAS project; underlines their duty to follow closely the progress of the reform and to offer constructive and timely advice, as well as, where necessary, issuing early warnings that the project leaders must take into account when implementing the various stages;

The post-reform control structures

General issues

59. Recalls that the administrative reform has been one of the main objectives of the present Commission, that the White Paper 'Reforming the Commission' was adopted on 1 March 2000, and that the Commission has committed itself to an ambitious programme for strengthening independence, accountability, efficiency, transparency and the highest standards of responsibility; notes that a great number of very necessary and important steps in the right direction have been taken but that there are still potential obstacles to reform which have to be overcome;

60. Takes the view that the general conditions of contracts with the European institutions must oblige the contracting party to fully cooperate in clarifying the final ownership of important positions within that undertaking in the case where there is reason to suspect a possible conflict of interests;

61. Draws attention to the fact that the examination of the problems at Eurostat identify the need for safeguards against concealment of critical information;

62. Notes that the financial management and control structures now comprise the following key organisational elements:

(a) the directors-general as delegated authorising officers;

(b) the Internal Audit Service;

(c) the Audit Progress Committee;

(d) the Internal Audit Capabilities (DG level);

(e) the Accounting Officer, and

(f) the Central Financial Service in DG Budget;

63. Takes the view that the Eurostat affair has emphasised the need to review relations between the different actors and between the individual Commissioners and the College of Commissioners, as well as the functioning of the accountability chain, in order to ensure progress not only in the area of financial management but also in the governance structure of the Commission;

64. Reiterates the statement it made in paragraph 1 of its resolution of 4 December 2003 on the Commission report on the evaluation of the activities of the European Anti-Fraud Office (OLAF) [1] that 'it was a mistake to concentrate the competences for drawing up the budget and keeping accounts and for combating fraud in the hands of one Member of the Commission, because this inevitably creates a conflict of interests'; reiterates its demand that this conflict of interests be avoided in the future; calls on the Commission to take steps to separate Commissioner responsibilty for the functions of budgets and those of budgetary control;

65. Stresses the political importance that it ascribes to the statements made and conclusions drawn under the heading 'Eurostat' in its resolution of 29 January 2004 [2], with respect to the 2001 discharge, with a view to clarifying responsibility for the events at Eurostat; notes that the presentation to the legal authorities by OLAF of the Eurostat irregularities points to the need for vigilance should the outcome of the legal proceedings under way make it necessary to demand political explanations from the Commissioners concerned;

The directors-general as delegated authorising officers

66. Believes that, as a result of the introduction of a system requiring each director-general or head of service to present an annual activity report accompanied by a statement of assurance concerning the degree of effectiveness of his department's controls, efficiency, transparency and accountability are improving to such an extent that they have actually become a key tool in the Court of Auditors' annual assessment of budgetary management;

67. Reiterates the demands and recommendations set out in paragraph 20 of its abovementioned resolution of 4 December 2003 that the Financial Regulation provides for more effective supervision of the directors-general in their capacity as authorising officers, in order to prevent any misuse of power, that the Commission's Accounting Officer should verify the information supplied to him by the authorising officers, at least by carrying out spot checks, and that the 'internal audit capacities' in the directorates-general should no longer answer only to the directors-general but also to the Internal Auditor;

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[1] P5_TA(2003) 0551.

[2] P5_TA(2004) 0049.

68. Expressly regrets the fact that the Commission took no action on its demand, set out in paragraph 21 of its abovementioned resolution of 4 December 2003, that the Commission should submit the requisite legislative proposals for the amendment of the Financial Regulation and/or the implementing provisions relating thereto;

69. Believes that each individual Commissioner is accountable for the services under his responsibility and must ensure that their objectives have been achieved on the basis of full respect of the principles of sound financial management;

70. Expects the request made in the first indent of paragraph 30 of its resolution of 29 January 2004 for structural changes in the relations between the Commissioners and the directors-general to be acted upon;

The Internal Audit Service

71. Recalls that the Internal Auditor is independent in the discharge of his duties as set out in the Financial Regulation (Chapter 8, Article 85); stresses that Article 85 of the Financial Regulation refers directly to 'the relevant international standard' and that these standards are 'International Standards for the Professional Practice of Internal Auditing' as drawn up by the Institute of Internal Auditors (www.theiia.org);

72. Draws attention, in particular, to the following standards [1]:

'1100 Independence and objectivity:

The internal audit activity should be independent, and internal auditors should be objective in performing their work.

1110 Organisational independence

The chief audit executive should report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities.

1110.A1

The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results';

73. Takes, consequently, the view that the Internal Audit Service should be closely integrated into the Commission Presidency; emphasises that it is crucial for that Service to be established independently of the hierarchical structure of any individual directorate-general so that effective internal control may be guaranteed;

The Audit Progress Committee

74. Notes that the Audit Progress Committee was set up under the Charter of the Internal Audit Service of the European Commission (SEC(2000)1801/2) [2] with the principal task of monitoring the measures put in place by the DGs and services in the light of the analyses, evaluations and recommendations of the internal and external auditors;

75. Stresses that the Audit Progress Committee has the further function of assisting the College of Commissioners in its task of ensuring that the work of the Internal Audit Service is taken into account by the Commission's services, and that it may therefore make proposals to the Commission for suitable action;

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(1) http://www.theiia.org/iia/index.cfm?doc_id=1499.

(2) http://europa.eu.int/comm/dgs/internal_audit/charter/charter_en.pdf.

76. Welcomes the Commission's reply to the effect that the Audit Progress Committee has the task of making it aware of any possible area of conflict related to its work on which it believes the Commission should act, accordingly making its minutes available to the Secretary-General [1];

77. Notes that the Court of Auditors, in its Annual Report for 2001 [2], stated that the existing practice is 'contrary to the usual rules forbidding the chairman of an audit board from playing a role in the organisation that is likely to give rise to a confusion of interest' (9.56); believes that, in this connection, it would be desirable to revise the Committee's rules in order to:

(a) ensure the absence of conflicts of interest;

(b) attach its secretariat directly to the Secretary-General's office, as suggested by the Committee itself in its annual report; and

(c) ensure publicity for its annual reports, which should include an assessment of follow-up action on the recommendations of the auditors' reports;

The Internal Audit Capabilities (DG level)

78. Notes that, whilst the Financial Regulation only provides for an Internal Auditor, the Commission decided in 2000 to set up Internal Audit Capabilities (IAC) in each department in order to assist directors-general and heads of service in their new responsibilities as regards financial management;

79. Trusts that the Commission will improve the channels of communication between the central and peripheral auditing bodies and the central and peripheral control bodies [3];

80. Calls on the Commission to review the rules governing the Internal Audit Capabilities in the light of the new Financial Regulation;

81. Considers that this reform must ensure the smooth flowing and functional autonomy of relations between the Internal Audit Capabilities and the Internal Audit Service, consolidating where applicable all the links and relationships referred to in Vice-President Kinnock's communication to the Commission on the conditions for establishing Internal Audit Capabilities in each Commission service (SEC(2000) 1803/3) [4];

The Central Financial Service in DG Budget

82. Recalls that the reform places a strong emphasis on the decentralisation of financial controls; believes that this in turn highlights the urgent need to develop more suitable and accountable forms of central management supervision of the control systems operating in individual departments; takes the view that this central management supervision should result in a formal opinion on the quality of the departments' internal control systems, which should be published in its original form within the synthesis report;

83. Is concerned about the high turnover of administrative staff at the Commission and calls on the Commission to take the measures required to investigate and eliminate the causes of this problem within its organisation;

84. Believes that there must be a fluid relationship between the central financial control bodies and the individual DGs' or services' financial control organs, so as to ensure the same relationship as is considered desirable in the audit field;

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[1] Replies to questionnaire - Part 1; Commission's reply to Question No 28 (PE 328.732/fin. 1).

[2] OJ C 295, 28.11.2002, p. 1.

[3] Replies to questionnaire - Part 1; Commission's reply to Question No 28 (PE 328.732/fin. 1).

[4] http://europa.eu.int/comm/dgs/internal_audit/documents/audit_dg_sec1803_en.pdf.

85. Welcomes the Commission's statements to the effect that both the Internal Audit Service and the Internal Audit Capabilities could assess the control systems and that the results of the audits and controls will be transmitted to the Central Financial Service and will be included in the annual synthesis report ([1]);

The Accounting Officer's Department in DG Budget

86. Recalls that the Accounting Officer, according to Article 61(e) of the Financial Regulation, is responsible for 'laying down and validating the accounting systems and where appropriate validating systems laid down by the authorising officer to supply or justify accounting information';

87. Points out that Article 61(2) of the Financial Regulation states that in order to assume this responsibility the Accounting Officer 'shall obtain from authorising officers, who shall guarantee its reliability, all the information necessary for the production of accounts which give a true image of the Communities' assets and of budgetary implementation';

88. Agrees with the Commission on the need to maintain operational synergies for financial management without prejudice to the functional independence of the supervisory bodies and the proper recognition of the roles of those responsible for the services concerned;

The European Anti-Fraud Office (OLAF)

89. Welcomes the Commission proposal (COM(2004) 103) amending Regulation (EC) No 1073/1999 of the European Parliament and of the Council ([2]); reiterates paragraph 38 of its resolution on the 2002 annual report on the fight against fraud, in which it states that the legislative proposals submitted by the Commission point to some extent in the right direction but that the following points are totally unacceptable and must almost be regarded as provocation:

(a) instead of stipulating that OLAF should finally carry out to the full extent its long-neglected core task of internal investigations, the Commission's proposal expressly offers OLAF the possibility of not opening internal investigations even when there is sufficiently strong suspicion that acts of fraud or corruption or other illegal acts have been committed to the detriment of the financial interests of the Community;

(b) instead of assigning the secretariat of the OLAF Supervisory Committee administratively to the Secretariat of the European Parliament, the Commission now proposes that the Secretariat should be administratively assigned to the Commission, thereby calling into question the independence of the Supervisory Committee;

(c) instead of strengthening the rights of persons subject to an internal investigation, they are to be deprived of the possibility hitherto provided by the OLAF Regulation to appeal to the European Court of Justice if OLAF, in the course of its investigations, acts in a way which adversely affects them; this would open the floodgates to abuses of power (e.g. opening an investigation without sufficient grounds, inordinately long investigations) as such offences would no longer be subject to the scrutiny of a court;

90. Welcomes the Commission's intention to establish that communications from the DGs to OLAF should be forwarded to the relevant Commissioner ([3]);

([1]) Replies to questionnaire - Part 1; Commission's reply to Question No 189 (PE 328.732/fin. 1).

([2]) OJ L 136, 31.5.1999, p. 1.

([3]) Replies to questionnaire - Part 1; Commission's reply to Question No 12 (PE 328.732/fin. 1).

91. Recalls its abovementioned resolution of 4 December 2003 in which it supported the announcement made by the President of the Commission that he would accord greater priority to OLAF's core tasks, improve the flow of information between OLAF and the institutions, do more to safeguard the rights of defence of persons under investigation and enhance the role of the Supervisory Committee;

92. Cannot understand why the Commission was more than a year late in submitting the progress report required by Article 15 of Regulation (EC) No 1073/1999 and why now, after Parliament's adoption of its abovementioned resolution of 4 December 2003, the Commission required almost three months before taking a decision on a corresponding set of proposals on 9 February 2004; notes that these delays have made it practically impossible for improvements to be made to Regulation (EC) No 1073/1999 before the European elections;

93. Believes that the OLAF Supervisory Committee should be fully independent of the Commission;

94. Is deeply disturbed by the announcement of the Director of OLAF to the effect that he does not intend to follow the Ombudsman's recommendation to reopen the case of the firm of Blue Dragon; notes that the OLAF Supervisory Committee has raised serious doubts about OLAF's handling of the case; calls on OLAF to comply with the recommendations of the Supervisory Committee; welcomes the Commission's reopening of the case;

95. Notes that most of the 1 000 cases which OLAF inherited from UCLAF have been closed; calls on the Supervisory Committee to investigate how many of the cases were closed without any result; calls on the Supervisory Committee to pay particular attention to ensuring that cases have not been closed without proper justification;

Presentation of audit results

96. Stresses the importance of the principle of an auditee's right to comment on audit results submitted by an auditor, and draws attention to the fact that the effectiveness of parliamentary oversight over financial management in the EU is very much dependent on the quality and information value of the Court of Auditors' special reports and annual reports;

97. Stresses its view that the discharge procedure is a process seeking, *inter alia*, to improve financial management in the EU by improving the basis for decision-making in the light of the Court's reports and the replies and opinions of the institutions; welcomes the fact that, in practice, the Court contributes not only to correcting mistakes, but also to developing and improving management in the EU by identifying and pointing to sub-optimal solutions; points out that improvements naturally presuppose that an auditee is receptive to audit recommendations;

98. Notes that the Court of Auditors, despite its name, is not a court of law, does not have decision-making powers and can only achieve results on the strength of the quality of its reports;

99. Takes the view that the impact of examinations by the Court of Auditors is very much dependent on how the discharge authority deals with, and follows up, the results of the Court's examinations, and that improvement in the quality of reports, and in the way in which the competent committee deals with them, is therefore in the common interest of the Court and the discharge authority;

100. Observes that the Commission's position on the results of Court audits often varies, depending on the areas examined; notes that, with regard to own resources, the Commission often declares itself to be in agreement with the Court's recommendations, but that, with regard to the common agricultural policy, structural policy and external actions, it is frequently critical of the results of the Court's audits and its observations;

101. Takes the view that the Commission and the Court can self-evidently have differing views as to the importance to be accorded to the results of an audit, but points out that it is unsatisfactory for the two institutions not always to be in agreement about the underlying premises and criteria for an audit, since this affects the clarity of the message;

102. Looks to both the Commission and the Court of Auditors to make greater efforts in future to ensure that audit results are presented to the discharge authority as clearly and as unambiguously as possible;

103. Welcomes the positive development as regards cooperation between the Court of Auditors and Parliament's competent committee, and points in particular to the new procedure for submitting reports for the committee, under which, *inter alia*, special reports are made public at a meeting of the competent committee and at the relevant preparatory meetings;

104. Hopes that it will be possible for this personal contact, which is positive and highly important for continuing development of cooperation between the two institutions, to be maintained and expanded in the future; considers it appropriate for more precise rules and procedures to be laid down on how the competent committee deals with the Court of Auditors' special reports;

105. Calls on both sides to develop the procedure further so that both the results of audits and the Commission's replies are satisfactorily considered in committee; is convinced that consideration in the competent parliamentary committee makes a major contribution towards drawing attention to the problems identified in the audit report and thus helps to improve financial management in the Union;

106. Stresses also the Commission's crucial role in disseminating information on financial management to the discharge authority and the public; calls on the Commission to continue to ensure that policy implementation is given at least as much attention as policy development; takes the view that many instances of irregularities and 'creative management methods' are an inevitable consequence of the dominant tradition at the Commission of according far more importance and prestige to policy development than to the implementation of policies already decided on;

Corruption

107. Calls on the Commission to make greater efforts to support the anti-corruption strategies of the accession countries, candidate countries and of the Member States, in particular as regards areas such as public procurement, customs and border control services, and the financing of political parties;

108. Takes the view that there is a need everywhere to raise awareness concerning public administration transparency, accountability and efficiency and, by means of campaigns, to make the public aware that corruption jeopardises the economy and society as a whole; calls on the Commission to support national and, in particular, local NGOs working for greater public awareness of corruption;

109. Expects the Commission, therefore, to carefully consider to which NGOs it gives support and to insist that NGOs given support present accounts and audit statements drawn up by independent auditors, on the same basis as ordinary undertakings;

110. Calls on the Commission to undertake the necessary verification to ensure that the NGOs it supports practise transparency in their activities and that their governing bodies operate correctly;

B. SECTORAL ISSUES

Own resources

The taxpayers and the EU budget

111. Recalls that the European Union's revenue for financing its expenditure consists of three categories of 'own resources': traditional own resources (agricultural levies, sugar levies and customs duties), own resources calculated on the basis of VAT collected by the Member States and own resources calculated on the basis of the Member States' gross national product;

112. Notes that the Community's revenue via these own resources has hitherto been insufficient to finance the European Union's activities and policies, but points out that since 1970, when the system of Member States' financial contributions was replaced with own resources, and the introduction of own resources based on GNP in 1988, numerous changes have been made to the system, frequently under pressure from the Member States;

113. Points out that the VAT and GNP resources are based on macroeconomic statistics forwarded by the Member States and that the Court of Auditors is unable to test the underlying data directly; notes the Court of Auditors' view that '(these observations) cast doubt on the accuracy and reliability of the VAT statements produced by the Member States' (point 3.37 of the 2002 Annual Report) [1];

114. Considers that there are several good reasons for reorganising the financing of the EU budget, and that the aim should be to secure the European Union's financial independence from national contributions subject to the decisions of national parliaments, and funding for all the tasks to be undertaken in a Union of 25 Member States, without thereby further burdening European taxpayers;

115. Notes that the annual EU budget made up, in 2002, only 3,4 % of Member States' total tax revenue [2], and that many of the public's notions about the size of the EU budget simply have no foundation in reality;

116. Calls on the Commission to draw up a report on the possibilities of introducing a more direct link between taxpayers and the EU budget, since such a scheme would not only be financially advantageous, but would also be an important political instrument for achieving all the objectives set out in Article 2 of the Treaty;

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[1] OJ C 286, 28.11.2003, p. 88.

[2] The following table shows the EU budget (outturn figures) as a percentage of Member States' total tax income for the years 2000 to 2002:

Year	EU budget (outturn) [1] euro million	Total tax income EU-15 [2] euro billion	EU budget in % of Member States' tax income
	(1)	(2)	(3) = (1)/(2)/ 1 000
2000	83 331,1	2 414,4	3,5 %
2001	79 987,3	2 450,2	3,3 %
2002	85 144,5	2 488,1	3,4 %

[1] Payments in the year in question under payment appropriations of the year as well as under payment appropriations of the previous year carried forward.

[2] Total tax income of the 15 Member States. Social security contributions are not included.

Source: Commission services.

The Community's transit system

117. Welcomes the success of the hearing held to follow up the recommendations made by the first temporary committee in 1997; recalls that the background to the setting-up of the temporary committee was the introduction of the internal market and the need for rapid and effective customs clearance and an effective transit system to ensure the correct payment of VAT and customs duties, and that Parliament and the Council, as a result of the work of the committee of inquiry, called on the Commission to review the Community's transit system and implement the New Computerised Transit System (NCTS);

118. Is pleased that all the compulsory administrative measures have been taken in the Member States and that all customs offices in the EU are linked to NCTS; welcomes the fact that in the development stage of NCTS, account has already been taken of enlargement, and that NCTS is now showing itself to be a particularly flexible instrument;

119. Is aware that it is probably too early to assess the success of the system from the point of view of transit firms, but notes that the business world is apparently rather reluctant to use it; calls on the Commission to promote the transition to phase 3.2 of NCTS, which is mainly a national matter, since it is expected that the guarantee guidance function, which will only be implemented with phase 3.2, will act as a strong incentive to businesses to use the system;

120. Considers that the EUR 68 million which have so far been spent on the project can only pay off if there is a far greater number of users; also considers that one reason for the low level of use is the decision to apply a 'decentralised architecture', whereby the national customs administrations will use a national application, as opposed to a 'centralised architecture' based on a common application to which all customs administrations are linked;

121. Notes that the reality still lags far behind the recommendation of the committee of inquiry that all customs administrations should act as a single administration in relation to businesses; notes with regret that, while this objective is shared by the Commission and by business associations, the national customs administrations are being very passive;

122. Further notes that NCTS cannot directly prevent or combat fraud committed using false customs declarations, which can only be detected by physical checks; welcomes the fact that NCTS, by simplifying the administrative tasks of customs workers, can help free up human resources to combat this type of fraud; calls on the Member States to make use of the resources thus released for effective and comprehensive physical checks;

123. Notes that the Commission allows goods which have been incorrectly or falsely declared to be regarded as not being involved in the transit procedure, with the result that the guarantee cannot be reclaimed, that the papers have to be sent back to the country of entry into the EU, and that the campaign to combat fraud is impeded; calls on the Commission to put an immediate end to this practice and to propose an appropriate amendment to the Customs Code;

124. Notes that, in many customs administrations, staff numbers are being reduced rather than increased, with the result that false declarations and other irregularities, which can be exposed only by means of on-the-spot physical inspections, are going undetected; notes that the costs involved in increasing the number of inspection staff are more than offset by the increase in customs revenue; calls on the Commission to urge the Member States to increase the number of staff required for physical inspection duties, especially now that the share of customs revenue allocated to the Member States has been increased from 10 to 25 %;

125. Trusts that the Commission will abide by its statement to the effect that the objective of fraud reduction is being achieved and that NCTS will attain in full the objectives for which it was created [1];

126. Calls on the Commission to draw up, no later than 15 June 2004, a survey showing the implementation of the 38 recommendations made by the committee of inquiry in 1997;

127. Calls also on the Commission, in its competent committee and on the basis of a brief written report on the situation forwarded to that committee prior to the follow-up report, to report on (any problems with) the continued implementation of NCTS, with regard inter alia to the implementation of phase 3.2, the number of users, user satisfaction, implementation in the Member States (new and old) and the commitment of the national customs administrations;

Agriculture

Setting of export subsidy rates

128. Notes, in relation to the Commission's reply under point 25 of Special Report No 9/2003 concerning the system for setting the rates of subsidy on agricultural products [2], that neither the Commission nor the Court of Auditors has supplied the discharge authority with details on the content and nature of the 'extremely important circumstances' for which the Commission opted for 'a rate different from the theoretical calculated rate';

129. Recalls that the expenditure in the EU budget for export refunds is dependent on the quantity of products for export and the export refund rate set by the Commission, and that the investigation by the Court of Auditors as to how, by means of which procedures and on what basis the Commission decides to set that rate is therefore both welcome and useful, as the setting of the rate is an important cog in the entire export refund mechanism;

130. Understands that, in their reply to the auditors' observations, auditees will seek to defend and explain their actions; also understands that a special report is a snapshot of management at a particular time before the publication of the special report, and that changes may have been made during the period it takes to carry out and complete an audit;

131. Finds, despite the above acknowledgement, that the gap between the two institutions' understanding of, on the one hand, 'what the situation is' and, on the other hand, 'what the situation should be' puts the discharge authority in a difficult and unsatisfactory situation;

132. Reminds the Court of Auditors and the Commission that the object of an audit is to bring about constant improvements in the relevant management process and that the outcome of audits and replies thereto should be drawn up in such a way as to be comprehensible to the European public, and expects rapid progress towards that objective;

133. Notes that the Court last investigated this matter in 1990 [3] and concluded in regard to the method of setting export refunds that 'documentation of the facts, the Commission's consideration of the facts, the decisions taken and the outcome was not maintained, and, as a consequence, independent third party and audit and management control were virtually impossible' (Special Report 9/2003, paragraph 9);

134. Recalls that, in its resolution on the Court's Special Report No 2/90, Parliament concluded that 'for reasons of public accountability, the Commission's internal decision-making procedures must be recorded and justified in writing so that its reasoning can be followed by the monitoring bodies at any time' (Special Report 9/2003, paragraph 10);

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[1] Replies to the questionnaire - part 1; Commission's reply to question No 60 (PE 328.732/fin. 1)

[2] OJ C 211, 5.9.2003, p. 1.

[3] Special report No 2/90 on the management and control of export refunds (OJ C 133, 31.5.1990, p. 1).

135. Notes that, in its latest report, the Court concludes that:

(a) the Commission has access to extensive market information but that this is not always up-to-date, complete or objective;

(b) in many cases it is unclear how the information is used and what impact it has on the final refund rates set;

(c) in setting the refund rates, the Commission gives no details of its working methods or any systematic and coherent justification for the rates set (Special Report 9/2003, paragraph 39);

136. Regrets the slow progress made in the 13 years between the two audits, and calls for further improvement following the recommendations of the Court of Auditors and the discharge authority and the full implementation of its 2002 comprehensive action plan;

137. Expects the Commission to account in its follow-up report for the following:

(a) the slow and limited nature of the progress made in the 13 years between the two audits (Special Report 9/2003, paragraph 39);

(b) the results achieved by the working group set up by the Commission in response to the Court's audit (Special Report 9/2003, paragraph 40a, footnote 7);

(c) to what extent DG Agriculture meets standard No 15 of the internal control standards, which reads:

'The procedure used in the DG for its main processes shall be fully documented, kept up to date and available to all relevant staff and shall be compliant with the Financial Regulation and all relevant Commission decisions' [1];

138. Also expects the Commission to submit as soon as possible:

(a) an overall framework for the information to be included in the calculation of the rate;

(b) reliable documentation for the information selected;

(c) quality control of the information selected;

(d) a clear statement of the division of tasks and responsibilities internally in the Commission;

(e) a clear and unambiguous description of the procedures to be followed; and, in particular,

(f) a description of control procedures and criteria for assessment;

139. Calls on the Court of Auditors to keep it informed of the Commission's implementation of the recommendations set out in paragraph 40(a) to (h) of Special Report 9/2003;

The prefinancing regime

140. Notes with interest the Court of Auditors' investigation of the Commission's administration and the national authorities' implementation of the prefinancing regime, which is an important part of the export refund system, which in turn is a part of the common agricultural policy adopted by the Council;

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[1] http://europa.eu.int/comm/commissioners/schreyer/Reform/SEC %20_2001_2037_Internal_Control_Standards_en.pdf.

141. Recalls that this is a very complex area, in which the Commission actively intervenes on the agricultural markets after taking difficult decisions, in which very considerable sums are paid out daily from the EU budget and which the Court of Auditors has described in earlier special and annual reports as a high-risk area;

142. Notes that some 11 % of the refunds paid in 2000, some EUR 600 million, were paid out under the prefinancing regime (Special Report 1/2003 [1], paragraph 2);

143. Notes that the Commission's own investigations in 1997 into the national authorities' checks on the regime revealed such significant shortcomings that the Commission imposed financial corrections of over EUR 166 million on the Member States (Special Report 1/2003, paragraph V), but did not subsequently carry out an in-depth analysis of the regime's procedures;

144. Considers that financial corrections reflect not only the Member States' ability and willingness to implement a regime correctly, but also the possibility of implementing the regime correctly; believes in a general sense that many legal provisions concerning the common agricultural policy are so difficult to interpret, and the checking provisions in many cases so lacking in transparency, that the Member States' authorities do not have much opportunity to implement the regimes correctly;

145. Finds it hard to understand why the Commission does not pay greater attention to large financial corrections or treat them as alarm signals that may mean that a regime and its associated procedures should be made subject to a thorough investigation with a view to simplification or amendment;

146. Notes the Court of Auditors' conclusions to the effect that:

(a) the legal provisions are hard to interpret, which makes it difficult for the Member States to implement the regime;

(b) the prefinancing regime makes the already complex export refund system still more complicated;

(c) the checking provisions are so unclear that there are large discrepancies not only between Member States but also between regions within the same Member State regarding the nature and extent of the checks;

(d) the original purpose of the system has fallen by the wayside,

and that the Court of Auditors recommends, in the light of these conclusions, that consideration should be given to the removal of the regime;

147. Regrets that the Commission, while sharing some of the Court of Auditors' points of view, has not followed up the Court's recommendation to work towards the removal of the prefinancing regime, but has instead adopted two new regulations which further complicate an already complex system;

148. Considers that the prefinancing regime operates in practice as a provider of free capital to those undertakings which make use of the export refund regime;

149. Is aware that the common agricultural policy is adopted by the Council, and that the Commission therefore has only a limited influence over it; regrets, however, that the Commission is not making a greater effort to make it clear to the Council that a detailed follow-up to the Court of Auditors' recommendations is an important step on the necessary road to improving the EU's financial management; calls, therefore, on the Commission to submit a proposal by December 2004 for the abolition of the pre-financing scheme;

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[1] OJ C 98, 24.4.2003.

150. Deeply regrets that the Council has still not adopted the Commission proposal for a Council regulation amending Regulation (EC) No 1258/1999 on the financing of the common agricultural policy (COM(2002) 293), which seeks to extend from 24 to 36 months the maximum period to which an expenditure correction may apply, and has received favourable opinions from both the Court of Auditors ([1]) and the European Parliament ([2]);

Support for less-favoured areas

151. Recalls that the support scheme for agricultural holdings in less-favoured areas is one of 22 support measures for agriculture and that it has been in existence since 1975 and was radically overhauled in 1999; stresses that the overall budget for the scheme is EUR 2 billion a year, approximately 50 % of which comes from Community funds, accounting for 1 % of the overall annual budget and 12.5 % of the total budget for rural development measures, while 55,8 % of all farms in the EU receive support under this regime;

152. Recalls that the term 'less-favoured area' was first defined in 1975, when Community support for such areas was introduced, and that since that time only slight adaptations have been made to this definition (Special Report 4/2003 ([3]), paragraph 5), so that current Community legislation now distinguishes between three categories of less-favoured area, which are:

— mountain areas,

— other less-favoured areas, and

— areas affected by specific handicaps;

153. Notes that since 1975 support rules have never been subject to a general assessment, and calls on the Commission to submit to Parliament, in good time for consideration during the next discharge procedure, a comprehensive evaluation report, whether or not all the Member States have complied with the legal obligation to supply the data required for such a report;

154. Notes two points of apparent concern:

(a) it is the Member States' responsibility to classify areas as less-favoured;

(b) in some Member States, these areas have been expanded considerably over the years ([4]);

155. Notes, furthermore, that this increase inevitably concerns the last two categories, where 'less-favoured' and 'handicaps' are determined with the aid of statistical criteria related to national averages;

156. Recalls that criteria may be adapted, and that changes may be made to the statistical basis used for the classification of 'normal' areas, which means that the definition of those areas which may be included in the last two categories is somewhat more flexible than, if not more vague than, the definition of areas that are clearly mountainous, as the rising number of the latter confirms;

([1]) OJ C 285, 21.11.2002, p. 1.

([2]) OJ C 273 E, 14.11.2003, p. 66.

([3]) OJ C 151, 27.6.2003.

([4]) The Court of Auditors points out that between 1975 and 1998, the percentage of less-favoured areas in Italy rose from 37,7 to 53,6 % and in Ireland from 51,2 to 70,9 % (SR4/2003:8). Previous reports show that the percentage in the Federal Republic of Germany went up from 33,1 to 50,9 % in 1986 and from 50,9 to 53,5 % in 1989, and in France from 40 to 45,1 % in 1989 (Annual Report for 1990, paragraph 9.21 (OJ C 324, 13.12.1991).

157. Notes with satisfaction that the Commission responded to the Court of Auditors' previous remarks in 1993 by attempting to carry out an investigation into the classifications, but deeply regrets the fact that, under pressure from some Member States, the Commission failed to complete the investigation;

158. Is concerned at the Commission's difficulty in effectively asserting the Community's interests over national interests, and agrees with the Court that the provisions are seriously flawed in allowing the classification to be determined or altered by the individual Member States instead of by the Community;

159. Calls on the Commission to undertake, in its next follow-up report, a comprehensive and thorough review of the current classification of all less-favoured areas and, in addition, to draft a proposal for a periodic review of the situation of less-favoured areas and introduce an effective system not only to prevent the areas concerned from being extended but also allowing them to be reduced;

160. Notes that the individual Member States use a very wide range of different indicators to establish the boundaries of less-favoured areas (17 indicators for productivity, 12 for economy and three for population) (Special Report 4/2003, paragraph 33 and Annex II), and that the Court noted during its audit on the spot that the wide range of different indicators may lead to discriminatory treatment of beneficiaries, particularly in border regions;

161. Calls, in this connection, for a review, no later than 15 June 2004, of the suitability and relevance of the current series of indicators, restricting them where possible and for them to be defined (or redefined) in such a way that they provide fewer opportunities for 'manipulation' by the Member States;

162. Regrets the fact that the Commission has not reacted to the risk of negative repercussions deriving from the unfortunate combination of Member States' responsibility for classification of less-favoured areas, the use of the wide range of indicators and the lack of evaluation;

163. Considers it absolutely essential for the Commission to monitor the situation, since individual Member States cannot be expected to send it information which may entail the Member State in question receiving less support; also takes the view that the Commission should have paid more attention to the inherent and obvious conflict of interest in the scheme between the Member States' and the Community's interests;

164. Calls on the Commission to investigate, and publicise in its next follow-up report, the effect of the introduction, since 1990, of conservation of the countryside as one of the grounds for entitlement to compensatory payments and the impact it has had on the scale of support payments;

165. Calls on the Commission to review the existing regime on overcompensation, so as to ensure that farms in similar conditions receive similar compensation and that the Member States take measures to prevent overcompensation that are mutually comparable, also supplying a clear and workable definition of the term 'overcompensation';

166. Suggests, in addition, that the compensatory allowances regime should include an appraisal of the structure of holdings' expenditure, so that, where the cost structure in a certain region is significantly higher than that of the average agricultural holding in other, normal regions, then this circumstance should be taken into account when granting compensatory allowances;

167. Calls on the Commission to adapt and update the definition of 'good farming practices', and to ensure that the Member States apply this condition consistently and supply the requisite documentation which proves that they have actually done so; points out, in this connection, that, in the 2004 budget, Parliament made available appropriations so that the use of environmental indicators might be further developed;

168. Believes that the Commission should play a much more active role in the management and supervision of the compensatory allowance scheme and should, to this end, establish uniform minimum standards of control to be complied with when applications for aid are examined or on-the-spot checks are carried out; also believes that the Commission should brief Parliament on the

extent to which Member States have satisfied the requirements of Article 48(2) of Council Regulation (EC) No 1257/1999 [1] and on exactly what action it is taking in response; expects the Commission to lay down penalties in the event that Member States fail to comply and do not supply the requisite information about the manner in which they have administered the support scheme, for example, by reducing or suspending the payment of compensatory allowances;

169. Believes, furthermore, that since the Financial Regulation requires support measures to have specific and quantifiable objectives, it would be better if the indicators for less-favoured areas were established on the direct basis of concrete objectives and the criteria for granting aid to farms were defined in performance-related terms; this would help prevent manipulation by the Member States;

170. Is concerned that, while the Management Committee plays a crucial role in implementing the support scheme, there is virtually no supervision of its activities and decisions;

171. Suggests that the Commission review the existing 22 agricultural support measures and consider whether some of them could be combined in the interests of more effective monitoring;

The Structural Funds

Implementation of the budget in 2002

172. Draws attention to the following analysis:

in 2002, implementation of commitment appropriations was close to 98 % (see table 1). However, for payment appropriations the implementation rate was considerably lower, as was also the case in 2000 and 2001.

TABLE 1

Implementation of EU budget, 2000-2002

	Commitment appropriations			Payment appropriations		
	Authorised appropriations	Implemented	Implementation rate	Authorised appropriations	Implemented	Implementation rate
	(EUR million)		(%)	(EUR million)		(%)
2000	96 620	79 601	82,4	95 034	83 440	87,8
2001	106 924	103 333	96,6	97 160	79 987	82,3
2002	100 977	98 875	97,9	98 579	85 144	86,4

Source: Annual accounts of the European Communities for 2001 and 2002.

[1] '*Article 48*

1. The Commission and the Member States shall ensure effective monitoring of implementation of rural development programming.

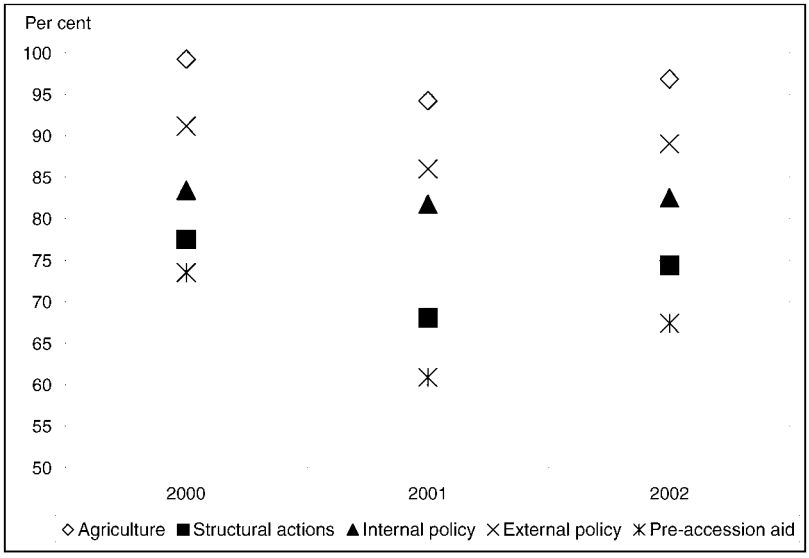
2. Such monitoring shall be carried out by way of jointly agreed procedures.
Monitoring shall be carried out by reference to specific physical and financial indicators agreed and established beforehand.
Member States shall submit annual progress reports to the Commission.

3. Where appropriate, monitoring committees shall be established.' (OJ L 160, 26.6.1999, p. 80).

The budget consists of seven headings: 1. Agriculture; 2. Structural actions; 3. Internal policies; 4. External policies; 5. Administrative expenditure; 6. Reserves; and 7. Preaccession aid. Implementation rates for payment appropriations vary significantly between the headings, with lowest rates for structural actions and preaccession aid, see figure 1.

FIGURE 1

Implementation rates, payment appropriations, 2000 to 2002



Note: Implementation rates for administrative expenditure (heading 5) and Reserves (heading 6) are not included in the figure as the appropriations for these headings are of a different nature than for other headings.

Source: Annual accounts of the European Communities for 2001 and 2002.

The varying characteristics of the headings should be noted when comparing the implementation rates, for example, for agriculture (heading 1), the implementation rate will, to a large extent, reflect developments in world market prices of agriculture products as well as the euro-dollar exchange rate. A low implementation rate may therefore rather indicate, for example, a more advantageous development in the euro-dollar exchange rate than inefficient management.

For other parts of the budget (Structural Funds, internal policies, external policies and preaccession aid), appropriations are mainly linked to multiannual programmes. The implementation of such programmes goes through various phases, from the calling and choosing of projects to actual implementation by contractors following tendering procedures. A low implementation rate may therefore indicate problems in one or more of these phases. Shared management exists for several programmes, i.e. some phases of implementation are mainly managed by the Commission, others mainly by the relevant authorities in Member States/beneficiary countries.

Structural Funds

In 2002, the implementation rate for payments to structural actions was just below 75 %. Around three quarters of the under-implementation was due to lower than expected payments on old programmes (see table 2). All types of old programmes experienced very low implementation rates, for example, the three largest headings (Objective 1, Objective 2 and Community initiatives) all had implementation rates below 20 % .

TABLE 2

Payments for structural actions, 2002

	Authorised appropriations	Implemented appropriations	Difference	Implementation rate
	(EUR million)			(%)
New programmes (2000 to 2006)	24 289	22 326	1 964	91,9
Old programmes (before 2000)	7 314	1 173	6 141	16,0
Of which:				
Objective 1	3 388	609	2 779	18,0
Objective 2	1 600	243	1 357	15,2
Objective 3	500	0	500	0,0
Other actions	240	80	160	33,2
Community initiatives	1 478	181	1 297	12,2
Innovative actions/ technical assistance	108	61	47	56,2
Total	31 603	23 499	8 104	74,4

Source: Annual accounts of the European Communities for 2002.

In 2002, payments on old programmes represented reimbursements of actual expenditure in Member States. The Commission based its proposal for payment appropriations on forecasts received from Member States. Thus, the very low implementation rates indicate that closure of old programmes progressed much more slowly than expected by the Commission and Member States.

Preaccession aid

Preaccession aid (heading 7) consisted of three programmes: Phare (administrative assistance), ISPA (structural assistance) and Sapard (agriculture) [1]. All three programmes had relatively low implementation rates of payments — with Sapard showing a significantly lower rate than the two other programmes (see table 3).

[1] In 2002, amounts paid out to candidate countries from the Solidarity Fund were also included in heading 7. However, these amounts are not included in this analysis of implementation of preaccession aid.

TABLE 3

Implementation of payments for preaccession aid, 2002

	Authorised payment appropriations	Implemented payment appropriations	Implementation rate	Outstanding commitments (RAL)
	(EUR million)		(%)	(%)
Sapard	370	124	33,5	1 469
ISPA	506	398	78,7	2 642
Phare	1 596	1 101	69,0	4 305
Total	2 472	1 623	65,7	8 416

Source: Annual accounts of the European Communities 2002.

Sapard had been considerably delayed, as it had taken longer than expected to establish decentralised management and control systems in candidate countries, a condition under the programme. For example, accreditation of the competent authorities did not take place until the second half of 2002 for Poland, Romania and Hungary. These three countries represented two thirds of appropriations [1].

For ISPA, the Commission explained that commitment appropriations were delayed and concentrated in the end of the year due to the fact that the ISPA management committee did not meet until mid-July. This naturally also caused delays in the implementation of payment appropriations.

For Phare, the Commission explained the low implementation rate by low payment requests from beneficiary countries by comparison with initial forecasts, as well as a concentration of commitment appropriations at the end of the year.

At the end of 2002, a considerable amount of outstanding commitments had been accumulated for all three programmes. For Sapard and ISPA, the outstanding commitments totalled more than EUR 4 billion. Contrary to Sapard and ISPA, Phare was established earlier than 2000. However, of the outstanding commitments at the end of 2002, less than 12 % related to years earlier than 2000.

173. Notes with satisfaction that implementation of commitment appropriations was higher in 2002 than in 2001 and 2000, but regrets that implementation of payment appropriations remained at an unsatisfactory low rate, leading to a very high surplus of the EU budget for the third year in a row;

174. Is in particular worried about the continuing low implementation of payment appropriations for structural actions and preaccession aid, although the level of payment appropriations implemented in 2002 for these two headings in the budget was higher than in 2000 and 2001;

175. Notes that the main reason for the low implementation rate for payment appropriations for structural actions in 2002 was the far slower than expected closure of the old programmes; notes the Commission's progress report to the discharge authority examining the causes of this delay and evaluating means of preventing similar delays in closure for the programmes for 2000 to 2006;

176. Is surprised that the Commission has not published the guidance notes relating to the Sapard programme in all the languages of the new Member States, as requested in paragraph 81 of Parliament Resolution of 8 April 2003 [2] concerning discharge for the 2001 financial year; insists that the Commission remedies this situation at the earliest opportunity;

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[1] The Commission's explanations on implementation of preaccession aid are available in section 2.6.5 of the Commission's Report on Budgetary and Financial Management for the Financial Year 2002.

[2] OJ L 148, 16.6.2003, p. 21.

Member States' forecasts

177. Notes that a significant number of Member States failed to submit their forecasts for payment applications for the budget years 2002 and 2003 before the deadline of 30 April 2002 as required under the terms of Article 32(7) of Council Regulation (EC) No 1260/1999 [1] on Structural Funds; observes further that the overall error rate for the forecasts for all programmes amounted to 73 %, with two thirds of this total being attributable to the excessively unrealistic forecasts coming from five Member States;

178. Urges the Commission to consider introducing a sanctions mechanism in the Regulation (EC) No 1260/1999 for the upcoming programme period (2007 to 2013), particularly in the case where the 2004 and 2005 forecasting exercises fail to demonstrate a continued improvement;

179. Calls on the Commission to consider a system whereby a difference between the amount requested and actual requirements of more than x % in a specific year will entail the obligation to submit estimates for subsequent years accompanied by a report drawn up by an independent auditor, and, if this difference persists, the amount granted may be reduced by the same proportion as the surplus;

Simplification

180. Notes that the Commission has taken an initiative to ensure simplification, clarification, coordination and flexible management of the structural policies for 2000 to 2006, and notes the Commission's report to the discharge authority on measures taken and on to what extent the measures have contributed to faster and/or better implementation;

The N+2 rule

181. Welcomes the N+2 rule as a means of providing Member States with an incentive to implement Structural Fund programmes and considerably reducing the volume of RAL; insists that this rule must be consistently and conclusively applied, not only during the current programming period (2000 to 2006) but also during the next programming period (2007 to 2013);

182. Welcomes the Commission's announcement that it will provide Parliament every quarter with a breakdown of the situation as regards the application of the N+2 rule, as Parliament requested in paragraph 27 of its Resolution of 22 October 2003 [2] on Structural Funds; trusts that cooperation between the two institutions in connection with this 'monitoring' activity will bear fruit, with particular regard to the identification of the reasons for the constant problems encountered in project realisation and of the best methods for managing projects;

Reasons for underutilisation

183. Takes the view, having regard to continued underutilisation of payment appropriations under the Structural Funds, which are a part of non-compulsory expenditure and one of Parliament's high-priority objectives, that the Commission must improve its analysis of the reasons for underutilisation;

184. Requests the Commission to draw up an analysis discussing in detail:

(a) all stages in the management of a project plus associated activities;

(b) which stages come under Member State and Commission management and responsibility respectively;

(c) indicators for satisfactory/unsatisfactory implementation of the various activities at each stage;

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[1] OJ L 161, 26.6.1999, p. 1.

[2] P5_TA(2003) 0448.

(d) what problems have been identified at what stage;

(e) a comprehensive analysis of the problem which clearly identifies the source (Member States or Commission);

185. Requests the Commission to note that a significantly improved analysis of the reasons for underutilisation is necessary in order to counter the widespread (erroneous) view that the Union's executive authority, the Commission, is refusing to implement the policy adopted by the Union's legislative authority, Parliament and the Council, in this domain;

186. Takes the view that the Commission can usefully publish the results of its checks in the Member States concerning the application of vital elements such as, for instance, the additionality principle, financial control, expenditure eligibility and public procurement because, in addition to improving management transparency, it will enable the institutions and bodies involved to compare their results in the same way that present and future programme staff can benefit from former colleagues' experience;

187. Welcomes the Commission's initiative to ask the Member States to submit yearly reports on the implementation of control activities in 2002 and expresses the wish to receive a summary report thereon;

Structural Fund effectiveness

188. Asks the Commission to include in its annual cohesion report to Parliament an assessment of the influence of the Structural Funds on the degree of economic inequalities between regions, comparing the results obtained by region and by fund, and referring where relevant to the influence on effectiveness of the quality of the institutions in the beneficiary regions;

Implementation of Regulations (EC) No 1681/94 and (EC) No 438/2001

189. Notes the findings of the review carried out by OLAF and the Regional Policy DG into the systems and procedures used by the Member States for reporting irregularities and the recovery of amounts unduly paid; notes, on the basis of those findings, that, in 2002 and 2003, the Member States were still uncertain as to the correct application of some of the provisions of Commission Regulations (EC) No 1681/94 [1] and (EC) No 438/2001 [2]; notes the follow-up and/or simplification measures announced by the Commission with a view to the elimination of such uncertainty; calls on the Commission to report back to Parliament on the progress made towards the attainment of that objective;

Issues related to the future of the Structural Funds

190. Asks the Commission to undertake an initiative to guarantee, as far as possible, the allocation of Objective 2 funds to the areas most gravely affected by structural problems, with national decisions being harmonised at Community level [3];

191. Shares the Commission's hope that delays can be avoided for the legislative proposals for the forthcoming programming period and that the procedure can be prepared by 1 January 2007 [4];

192. Shares the Commission's concern over the problems related to translation that will arise soon, and urges it to prepare the appropriate budgetary forecasts [5];

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[1] OJ L 178, 12.7.1994, p. 43.

[2] OJ L 63, 3.3.2001, p. 21.

[3] Replies to the questionnaire - Part I; Commission's reply to question no. 75 (PE 328.732/fin. 1)

[4] Replies to the questionnaire - Part I; Commission's reply to question no. 78 (PE 328.732/fin. 1)

[5] Replies to the questionnaire - Part I; Commission's reply to question no. 79 (PE 328.732/fin. 1)

193. Urges the Commission not to relax its efforts to obtain a review of the systems for administration and supervision of Community initiatives so as to secure a 'reasonable guarantee' ([1]);

194. Strongly welcomes the coupling of the map of regions eligible for Structural Fund aid with the map of authorisations of national regional aid ([2]);

195. Calls on the Commission to study the effects of the participation of private funds in co-financing projects benefiting from the Structural Funds, and to adopt measures where appropriate to encourage such participation;

Internal policies and research

196. Notes that responsibility for implementing internal policies is divided among 13 directorates-general;

197. Asks the Commission to devise procedures to enhance the consistency of the *ex ante* and mid-term evaluation processes so as to ensure that a more consistent information basis is created for *ex post* evaluation;

198. Calls on the Commission to submit a report on the progress of and the activities planned to enhance the integration of the social and environmental objectives laid down in Lisbon and Gothenburg in the programming and evaluation of the Structural Funds at both Community and Member State level;

199. Congratulates the Court of Auditors on its interesting analysis of selected annual activity reports and declarations for 2002 of certain directorates-general ([3]), and notes that:

(a) all the directorates-general concerned claimed to have reasonable assurance that the funds for which they were responsible had been legally and regularly spent (6.11);

(b) all the directorates-general examined included reservations concerning the regularity of payments for the multiannual research programme and the failure to implement internal control standards (6.19);

200. Fully endorses the Court's conclusion that 'the weaknesses reported in the reservations are not consistent with the reasonable assurance given in the declarations of the directors-general' (6.19);

201. Looks to the Commission to intensify implementation of internal control standards, to put a figure to the financial or economic effect of the reservations and to bring coherence and consistency to relations between 'reservation' and 'reasonable certainty';

202. Notes that the rates of utilisation of payment appropriations (Chapter B2-7) for transport policy, particularly security in this sector, are once again inadequate, although there are reasons for this, such as delays in the implementation of actions by contractors and stricter rules applied by the Commission, entailing a slowdown in payments;

203. Notes that the Court of Auditors has consistently developed and expanded its examination of the management system for the trans-European transport networks (TEN-T) which it launched in the 2001 annual report, and that it has monitored in detail the Commission's follow-up of the 2001 recommendations;

([1]) Replies to the questionnaire — Part I; Commission's reply to questin No 83 (PE 328.732/fin. 1).

([2]) Replies to the questionnaire - Part II; Commission's reply to question no. 39 (PE 328.732/fin. 2).

([3]) Directorate-General for Energy and Transport, Directorate-General for Research, Directorate-General for the Information Society and the Directorate-General for Legal and Internal Affairs.

204. Notes, in particular, that the Court adheres to its previous view that in order to remedy a number of weaknesses in Commission decisions, there is a need to strengthen the legal framework for the TEN-T programme by concluding contracts between the Commission and the recipient after the Commission's decisions to grant aid have been taken (6.25);

205. Expresses concern regarding the highly disappointing progress made with several TEN-transport projects, despite the high level of utilisation of payment appropriations; the Court of Auditors in its 2002 annual report indicated that some of the projects monitored in 2002 would have proceeded even without Community financial assistance, which may suggest that some projects are not of sound quality or that implementation mechanisms are inadequate;

206. On the basis of the conclusions of the Court of Auditors, calls on the Commission to use part of these resources to fund projects in the transport sector which would have difficulty securing funding from other sources;

207. Notes that the Court puts forward the following recommendations, among others, with a view to improving controls:

(a) more precise definition of 'eligibility of costs' (6.27);

(b) introduction of a standardised cost claim form (6.26);

(c) coherent and consistent application of the TEN-T rules in all Member States (6.38);

(d) checks to be more effective and better documented (6.40);

(e) *ex post* financial and technical audits to complement on-the-spot checks prior to final payment (6.41);

208. Welcomes the fact that the Commission, in its replies to the Court of Auditors, has announced its willingness to comply with the Court's recommendations and, in some cases, that it has already started to do so;

209. Calls on the Court to continue its detailed monitoring of the management system for the trans-European transport networks and to report [1] on the following questions which are of fundamental importance for the discharge authority:

(a) which of the recommendations proposed by the Court in 2001 and/or 2002 has the Commission accepted and satisfactorily implemented?

(b) which recommendations does the Commission reject, what is its justification for rejecting them and what is the Court's position on that justification?

(c) which recommendations is the Commission in the process of implementing and what is the Court's view regarding the pace at which these accepted recommendations are being implemented?

210. Notes that the Court points out that the five directorates-general [2] involved in implementing the research framework programmes manage and coordinate *ex post* audits in different ways and that they do not follow the same procedures when selecting contractors to be audited (6.47.);

211. Considers that the Commission could introduce a coordination or synthesis system which will make it possible to obtain synergies from the remarks contained in the audit reports for each Directorate-General;

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[1] Possibly in the form of a letter to the chairman of its competent Committee on Budgetary Control before the next annual report.

[2] Directorate-General for Research, Directorate-General for the Information Society, Directorate-General for Energy and Transport, Directorate-General for Industrial Policy and Directorate-General for Fisheries.

212. Calls on the Commission, following, *inter alia*, the criterion of simplification, to consider how it would be possible to avoid the numerous errors at the final recipient level, where audits have shown that in many cases expenditure was over-declared (6.51); also expects the Commission to step up the process of recovering amounts unduly paid;

213. Welcomes the introduction of audits to certify statements of expenditure under the sixth framework programme for research and technological development, and expects to receive a final report on the audits carried out in relation to previous framework programmes;

214. Calls on the Commission to carry out a study, on the basis of an analysis of the geographical destination of funds under the fifth framework programme, into how research funding can help to strengthen regional development and thereby counteract the increasing concentration of scientists and researchers in an ever smaller number of universities and research institutions, using new technologies to achieve scientific cooperation and promote deconcentration;

Employment and social affairs

215. Expresses general satisfaction with the implementation rates of budget headings for employment and social affairs in terms of internal policies;

216. Deplores, however, the very low rate of implementation of headings B5-502 (Labour market), B5-502A (Labour market - expenditure on administrative management), and B5-503 (Preparatory measures for a local commitment for employment);

Environment, public health and consumer protection

217. Expresses general satisfaction with the high implementation rates of the budget headings for environment, public health and consumer policy;

218. Welcomes the decision by the Commission to transfer part of the administrative appropriations in budget heading B7-8110A to operational expenditure to reduce under-utilisation of funds; urges the Commission to transfer any administrative appropriations that will probably not be used by the year end to lines for operational expenditure, by means of requests for transfers of appropriations; this would allow optimum use to be made of the available funds;

219. Underlines the fact that the impact of environment programmes is often hampered by the lack of assessment of environmental impacts of other Community legislation and programmes, especially in the field of the Structural Funds, and believes that a systematic use of strategic environment assessments (SEAs) can be a powerful instrument to avoid such problems in future;

220. Is concerned about the low number of officials in DG Environment dealing with infringement procedures, in particular as environment-related cases represent almost one-half of the infringement cases started in 2002 and over one third of all complaints related to bad application of EU law, and calls upon the Commission to significantly increase the number of officials in this sector in accordance with its task of being the guardian of the Treaties, thus responsible for the correct implementation of EU environmental legislation;

221. Calls for increased use of environmental criteria in selection procedures for Community appropriations (invitation to tender, awarding of contracts) in order for the EU to take the lead in greening public procurement;

Equal opportunities

222. Notes that, in the framework of the establishment of the budget for 2002, the Commission organised its activity around six priority objectives, namely the euro, sustainable development, development cooperation, the Mediterranean, enlargement, and the new governance, and that these objectives have guided the Commission's work planning, the process of drawing up the budget and the use of resources; while endorsing the priorities, notes that under Article 3(2) of the Treaty the promotion of gender equality is a fundamental principle of the EU and a horizontal objective of all Community actions and policies; calls on the Commission, therefore, to ensure that gender equality

is henceforth one of the priority objectives of its strategic planning, in such a way as to ensure gender mainstreaming in the definition of income and expenditure under all policies included in the budget;

223. Welcomes the fact that the Action Programme for equality between men and women (2001 to 2005) will be opened up in 2002 to the participation of the accession countries; stresses that, under the 2002 budget and, in particular, in the framework of Community assistance to the accession countries, gender mainstreaming should be applied to all measures; calls, therefore, on the Commission to submit a state-of-progress report on the projects and actions for promoting equality in those beneficiary countries of the Community's contribution, as well as on the level of that contribution; calls on the Commission, in addition, to draw up an interim evaluation report on the 2001 to 2005 action programme, including data on the funds allocated to the projects undertaken in the different fields of the programme;

224. Regrets, in the absence of proof to the contrary, the circumstance of funds having been allocated from the indubitably important Community initiative EQUAL to activities whose impact on promoting equality has not been assessed;

Enlargement

Enlargement and sound financial management

225. Points out that the forthcoming enlargement to include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia is the largest ever enlargement in terms of both scale and diversity;

226. Draws attention to the fact that the enlargement will put pressure on economic resources, will make complicated decision-taking procedures even more complicated, and will thus make further demands in terms of financial management; considers that the Commission and the Member States ought to use the opportunity to initiate a process designed to enhance financial management transparency in order to boost public confidence in Community management;

227. Calls on the national supreme audit institutions to play an active part in this process with a view to adopting a specific policy on auditing EU funds, drawing up an annual report on the management and use of EU funds in their country, and submitting it to their government and parliament, the other Member States' governments, parliaments and audit institutions, the Commission and the European Parliament;

228. Considers not only that there should be more audits of the use of EU funds, but also, in particular, that auditing should be made more effective, and urges all the parties involved to do everything possible to ensure that:

(a) common audit standards are introduced in the present and future Member States;

(b) the national supreme audit institutions in the present and future Member States are provided with mechanisms which will make it possible to perform the same audit tasks as those performed by the Court of Auditors at Community level;

(c) cooperation between national supreme audit institutions is encouraged;

229. Congratulates the accession countries on the progress they have made in meeting the criteria for their accession;

230. Takes the view that enlargement will make great demands in terms of the information to be provided by the Commission to the discharge authority and to the public, and that it can be improved if the Commission:

(a) structures the information in the report on budgetary and financial management in the financial year (Article 128(3) of the Financial Regulation) in such a way that it corresponds to the various policy areas;

(b) provides detailed information on implementation of the various funds in the individual Member States;

(c) states clearly, in a concise overview, which DGs are involved in the implementation of the various policy areas;

(d) compiles information in such a way that it can be used by national supreme audit institutions in their own audits;

(e) publishes its audits of Member States' management and control systems;

(f) adjusts in general to the fact that information must be compiled in such a way that it is accessible and comprehensible to all, not only to Member State finance ministries;

231. Takes the view that, since far and away the largest proportion of the EU budget is implemented on a shared-management basis, meaning that the Commission delegates budget implementation duties to the Member States, i.e. to 15 and, after 1 May 2004, 25 heterogeneous ministries and administrative bodies and traditions, EU standards ought to be laid down which make it possible to verify that all 25 Member States use budget appropriations in accordance with the principle of sound financial management, i.e. in accordance with the principles of economy, efficiency and effectiveness;

232. Notes that it is the Commission's responsibility to ensure that EU legislation is implemented by the Member States; notes that the average infringement case takes three years before a final judgment is handed down and that there have only ever been two cases where a Member State was fined for not implementing EU legislation; is concerned that enlargement will increase the workload of the Commission with regard to its monitoring of the implementation of legislation and will further slow the infringement procedure; is concerned that no Commissioner is responsible for such an important issue; urges the incoming Commission President to include special responsibility for infringements in the portfolio of one of the new Commissioners;

Preaccession environmental projects and twinning arrangements

233. Calls for particular attention to the needs of national, regional and local authorities in institution-building in the environmental sector when awarding aid before or after accession;

234. Notes that twinning is seen not only by the Commission but also by the candidate countries as an important way of strengthening the latter's administrative capacity; would nonetheless like to see the following improvements made to the programme so that the Commission can achieve the desired outcomes:

(a) setting of specific and realistic objectives;

(b) all stages of project preparation should be rationalised;

(c) payment procedures should be speeded up and simplified;

(d) use of twinning on the basis of an informed choice between various instruments;

(e) the Commission should establish a network of seconded national experts (preaccession advisers) so as to preserve specific experience and expertise;

235. Expects that the Commission will produce a global report, no later than 15 June 2004, on the successes and shortcomings of the 503 projects approved between 1998 and 2001 ([1]);

236. Calls for the extended decentralised information system (EDIS) to be implemented in all the applicant countries as soon as possible and once a Commission audit has validated the quality of their management and control systems; notes that thanks to EDIS the Commission should be able to move from ex ante to *ex post* control of tendering and contracting;

237. Calls on the applicant countries to draw up sustainable and viable environmental and financial strategies;

238. Draws attention to the importance of cooperation with the international financial institutions with regard to financial aid;

239. Draws attention to the need to improve absorption capacity by allocating more resources to project design and the organisation of tendering procedures;

240. Wishes to know the level of participation of private companies in the twinning projects and the effects of such participation ([2]);

External measures

Organic issues

241. Notes that, as a result of the complicated reorganisation of Commission departments dealing with external relations, the Court regards 2002 as 'a transitional year'; considers that the reorganisation could have been more extensive since there are still six different DGs and various departments sharing responsibility for external relations ([3]);

242. Therefore urges that the number of DGs responsible for external policy be substantially reduced;

243. Notes with satisfaction that the Court's audit concentrated on the supervisory and control systems designed to ensure the legality and regularity of transactions and welcomes the Court's findings that both 'administrative procedures and organisational structures have been adjusted appropriately by both the EuropeAid Cooperation Office and the Humanitarian Aid Office to cater for the introduction of the new Financial Regulation which entered into force on 1 January 2003' (7.40);

Controls relating to external measures

244. Notes that the Court finds it questionable whether the Director-General of the EuropeAid Cooperation Office had sufficient information to declare that he had obtained reasonable assurance as to the quality of the supervisory and control systems set up to ensure the legality and regularity of the underlying transactions (7.39);

245. Notes also that the Court attributes the lack of quality in the supervisory and control systems to the fact that no overall auditing strategy was established to ensure that sufficient information was available at senior management level (7.10);

246. Looks to the Commission, therefore, to lay down guidelines for the use of independent external auditors, their selection, their terms of reference and reporting requirements; considers that the Court's recommendation in this respect should be accompanied by guidance designed to improve the drafting of these guidelines;

([1]) Replies to questionnaire - part I; Commission's reply to question No 99.

([2]) Replies to the questionnaire - Part I; Commission's reply to question No 103

([3]) External relations, EuropeAid, Trade, ECHO, Enlargement and Development

247. Stresses that, under any circumstances and as recommended by the Court, it should be the Commission or its delegations - and not the implementing organisations - that decide on the selection of external auditors and lay down detailed terms of reference and precise requirements in respect of the presentation of audit reports (7.44);

248. Underlines the importance of evaluating the results of the reform of the external aid management as soon as sufficient experience of new structures and procedures has been gained; would welcome a specific evaluation report from the Court of Auditors;

249. Stresses that major and recurrent implementation problems like the ones encountered in the TACIS region and in other regions should routinely be reported by the Commission to the Budgetary Authority and the Court; emphasises that these reports should include analyses of causes as well as accounts of action taken or planned in response to the problems - all in clear language and indicating how further succinct information on different aspects can be obtained;

250. Stresses that greater coherence between different EU policies can improve the efficiency of EU expenditure; points to the simultaneous provision of macrofinancial assistance to Moldova and the maintenance of high import barriers against most products which that country could export to the EU as a clear example of incoherent policies causing an efficiency loss;

251. Fully shares the Court's view that there is a need for stronger measures to render cross-border cooperation over the external borders more effective; calls on the Commission and Council to ensure that Neighbourhood Programmes are launched without delay and that a Neighbourhood Instrument is created, so that a definitive end can be put to the problems caused by the mismatch of the instruments currently used for cross-border cooperation;

252. Welcomes, also, the Court's call for consideration to be given to amending Commission Regulation (EC) No 2760/98 [1] on the Phare cross-border cooperation programme, so as to make regions bordering third countries also eligible for support;

253. Expects the Commission to provide an explanation each time it does not follow a provision laid down in a budgetary remark;

Development policy

254. Draws attention to the principal objective of the Community's development policy, which is to reduce poverty with a view to its eventual eradication [2], and highlights the endorsement given by the Commission and all Member States to the Millennium Development Goals (MDGs) as the means by which this objective is to be achieved;

255. Recalls that in the past a lack of statistical data hampered attempts to analyse the level of poverty focus in the Commission's development programmes; welcomes the introduction of the Common Relex Information System (CRIS) which, along with other databases, gave fully reliable figures for the first time in 2002;

256. Congratulates the Commission on meeting the global benchmark, introduced in the 2002 budget, requiring 35 % of annual development commitments to be allocated to 'social infrastructure and services' as defined by the OECD Development Assistance Committee (DAC); observes, however, that aid reported to the DAC under this heading amounted to only 31,4 % and that the shortfall was made up of 'macroeconomic assistance with social sector conditionality', which was included in the benchmark formula at the request of the Commission and for which the link to poverty reduction is less direct;

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[1] OJ L 345, 19.12.1998, p. 49.

[2] The European Union's Development Policy, conclusions of the 2304th meeting of the Development Council 10 November 2000.

257. Notes that the benchmark formula requires the 35 % to be allocated 'mainly (to) education and health' which are the two sectors most prominent in the MDGs; observes, further, that the figures reported to the DAC for 2002 commitments in these sectors ([1]) remain far from this target, and that structural adjustment programme conditionalities are most unlikely to make up such a large shortfall; notes, however, that the regional figures for Asia and Latin America show notable progress; calls on the Commission to build on this achievement by making improvements in the figures for other geographical areas in future years;

258. Points out that the figure for 'social infrastructure and services' includes an allocation of 13,5 % for 'government and civil society' of which the largest single element is EUR 319,9 million for 'economic and development planning'; notes that this is principally aimed at administrative support and that its direct relevance for poverty reduction is therefore questionable;

259. Regrets that the Commission has not provided an analysis of its contribution towards achieving the MDGs but has limited its study ([2]) to measuring the progress made by developing countries towards this objective; considers that assessment of the effectiveness of Commission programmes is hampered by the absence of such an analysis;

260. Supports the Commission's policy of deconcentrating decision-making to the external delegations, 44 of which completed the process in 2002; welcomes the improvements that have already resulted from this ([3]); derives reassurance from the reinforcement of delegation staff and the training programmes established for them, as well as from the controls exercised by headquarters; warns nevertheless that delegation staff should not be burdened with excessive levels of reporting to headquarters as this would risk negating the benefits of deconcentration;

261. Expresses concern at the increase in the use of macroeconomic assistance in 2002, and particularly at the Commission's willingness to use this modality in cases where other donors consider minimum requirements have not been met; notes that the Commission has drawn up an analysis of the risk associated with external assistance, and calls for this to be communicated to Parliament without delay; takes the view that budget support is more effective when targeted on a specific sector, and that key horizontal fields ([4]) may be addressed through a sector-wide approach in the area of public finance;

262. Recognises the achievement of the Commission in reducing year-on-year levels of abnormal RAL but remains concerned that the total level continues to rise when successive budget years are added into the figures; calls on the Commission to redouble its efforts to bring this problem under control;

Humanitarian aid

263. Notes that the 2002 annual report from the Humanitarian Aid Office - ECHO (COM(2003) 430), setting out the humanitarian actions financed by the Commission to a total, over the year in question, of EUR 537,8 million, provides large numbers of details which, albeit useful, do not allow the reader to form a global picture of Community action, since insufficient attention is paid to horizontal issues;

264. Calls on the Commission to find and utilise a larger number of NGOs and charity partners;

([1]) 4,1 % for education and 3,0 % for health. These figures include sector-specific budget support.

([2]) Outlined in the Annual Report on the EC Development Policy and the Implementation of External Assistance in 2002, Chapter 3.

([3]) Among improvements observed by the Commission are: reduction in time taken for tenders and calls for proposals and implementation of better-quality programmes.

([4]) Public service, public contracts, external audit etc.

265. Takes the view that no NGO or organisation should be able to bid exclusively or to receive 100 % of the appropriations entered against any one budget heading;

266. Calls on the Commission to supplement its future annual report with a general presentation of the strategic lines followed over the financial year, including an analysis of the value added supplied by Community humanitarian aid and an outline of ECHO's procedures; believes the report should also include a presentation of the methods used to estimate humanitarian requirements, together with detailed information on the assessments and audits carried out during the year concerned by the report, as well as their conclusions; considers, finally, that other horizontal issues should be included, e.g. the risk of manipulation, abuse and looting, and measures to ensure that humanitarian aid reaches its proper destination, where they impact on the definition and implementation of Community humanitarian aid;

267. Trusts that the evaluation of the food security instrument in 2004 will provide a sound diagnosis and that, in the case of integration into the overall development programme, there will be no devaluation or dilution of the food security objectives ([1]);

Transparency of the Commission's operations vis-à-vis the European Parliament

268. Deeply regrets that, since 2000, the Commission has failed to submit an annual report to the European Parliament on the operations financed under Council Regulations (EC) No 975/1999 ([2]) and (EC) No 976/1999 ([3]) (on the European Initiative for Democracy and Human Rights, Chapter B7-70, where the 2002 appropriation amounted to EUR 104 000 000) in breach of Article 18(2) and Article 19(2) of those Regulations; demands that the Commission provide the European Parliament immediately with the annual reports for 2001, 2002 and 2003, which, as laid down in the Regulations, should include 'a review of any external evaluation exercises which may have been conducted'; calls on the Committee on Budgetary Control to review the Commission's failure in this regard and also to provide a qualitative analysis of the results achieved by the Commission's operations under this chapter of the budget;

Administrative expenditure

The invalidity pensions scheme of the European institutions

269. Expresses its satisfaction at the Special Report No 3/2003 of the Court of Auditors on the invalidity pensions scheme of the European institutions ([4]) and notes with satisfaction that, according to the Court's medical experts, invalidity pensions are awarded correctly (point III);

270. Draws attention to the fact that periods of sick leave have considerable economic consequences and it is therefore necessary and important for the institutions to apply a general policy laying down the measures necessary to manage all aspects of sick leave in an appropriate manner;

271. Deplores the fact that, according to the Court, the institutions are not able to guarantee fully:

(a) the necessary assistance for staff who are unable to work for long periods;

(b) the efforts required to reduce absences as far as possible, in the interests of staff and the corresponding department,

(c) that regular attendance at work is not adversely affected by inappropriate assignments of duties or inappropriate working conditions (Special Report 3/2003, paragraph 21);

([1]) Replies to the questionnaire - Part I; Commission's reply to question No 104 (PE 328.732/fin. 1)

([2]) OJ L 120, 8.5.1999, p. 1.

([3]) OJ L 120, 8.5.1999, p. 8.

([4]) OJ C 109, 7.5.2003.

272. Regrets that, as stated by the Court, the imprecise allocation of roles and responsibilities between the parties involved, the department in which the official or other servant works and the medical and personnel services, has led to a situation where only the most mechanical and bureaucratic aspects of the management of absence actually function — reporting absence and maintaining records — whilst it is not clear who is responsible for essential functions and activities of an effective and forward-looking policy on the management of sick leave, such as:

(a) contact with the member of staff during his or her absence;

(b) monitoring absence rates for each member of staff and in the institution as a whole, and the benchmarks to be applied;

(c) identifying patterns of absence which cause concern and taking the necessary measures;

(d) deciding whether to carry out medical checks and in what circumstances;

(e) deciding whether interviews should be conducted with the member of staff after his return to work, and by whom, in what circumstances, how and for what purpose (Special Report 3/2003, paragraph 22);

273. Expresses its deep concern on noting that the inadequacies and shortcomings in policy on the management of absences and cases of invalidity are due to 'a lack of senior management commitment' (Special Report 3/2003, paragraph 74c);

274. Points out that the Court estimates that around EUR 10 million could be saved each year if monitoring systems were set up making early detection and treatment possible for people who are absent on sick leave repeatedly or for prolonged periods (Special Report 3/2003, paragraph 55);

275. Considers that a sound workplace is characterised by a low rate of sick leave and that improved opportunities for development, greater variety of work, greater recognition and increased opportunities for the future strengthen the motivation not to be absent from work;

276. Expects the institutions to carry out an analysis of sick leave as soon as possible, with a breakdown of leave by department, gender, age, category and duration of sick leave, with the aim of acting on the Court's recommendations as regards the introduction of a general policy on the management of sick leave and invalidity;

277. Expects the institutions to draw up a report every two years on the implementation of the above measures, and expects the senior management of the institutions to pay greater attention to the scheme's economic management as well as to the aspects concerning the working environment and personnel management;

Procurement practices

278. Notes that the calls for tender issued by the Commission before 2000 for the supply of office paper specified a whiteness degree of just 80 % but notes, further, that the corresponding calls for tender issued since 2000 have specified a degree of whiteness of more than 90 % and that this has resulted not only in higher costs for the Community budget but also in the elimination of competition and a deterioration in the ecological situation with regard to paper use; calls on the Commission, therefore, to set the specified degree of whiteness at an appropriate level once again so that due account may be taken of those factors which affect the environment and competition;

Financial instruments

279. Recalls its resolution of 21 November 2002 [1] on the EIB Annual Report for 2001 which called on the EIB, the Court of Auditors and the Commission to amend the tripartite agreement; is satisfied that the new tripartite agreement signed on 27 October 2003 significantly improves the procedures involving the three institutions; is particularly satisfied with the clarification that the Court of Auditors is authorised to audit both the guarantee and the underlying transaction when the EIB provides loans guaranteed by the EU budget; recalls that such EIB loans guaranteed by the EU budget amounted to almost EUR 14 billion at year-end 2002;

280. Fully supports the conclusions of the Court with regard to the Financial Mechanism (paragraphs 10.35 and 10.39 of the 2002 Annual Report), that final payments should be carried out only on the basis of appropriate certificates issued by the competent authorities of the Member States and that greater efforts are needed to identify suitable investments and to take into account overall project realisation, particularly in order to avoid damage to the environment;

281. Calls on the Commission to report as soon as possible to Parliament and to the Court of Auditors on the findings of the internal audit of its banking operations, currently being carried out under the direct responsibility of the Commission, which should address the need for changes in the control environment, including *ex post* controls;

282. Calls on the Court to include in its work programme an audit of projects financed through EIB loans backed by a Community guarantee; recommends that environmental projects in the Baltic Sea basin of Russia [2] be included in the audit programme;

283. Recalls that the audit of the financial management of the Guarantee Fund for external actions is subject to audit by the Court of Auditors in accordance with procedures to be agreed upon by the Court of Auditors, the Commission and the European Investment Bank; calls for a revision of these procedures in the spirit of the new tripartite agreement;

284. Notes that the fee structure for the management of the Guarantee Fund for external actions was negotiated on a commercial basis with the EIB; regrets that neither the Commission nor the Court has been provided with detailed information on the EIB's cost structure with regard to the treasury management of the Guarantee Fund; calls on the Commission to submit a proposal for the amendment of the current Council Regulation on the Guarantee Fund so that it may take over the portfolio management from the EIB from 2005 onwards;

285. Recalls that the Commission holds 30 % (EUR 600 million) of the shares of the European Investment Fund (EIF), the cumulative portfolio of signed EIF operations (investment in venture capital funds and in the SMU guarantee markets) amounting to about EUR 7 billion at year-end 2002; notes that there is currently no agreement in force for the audit of the EIF by the Court of Auditors; emphasises that, pursuant to Article 248 of the Treaty, the Court is none the less entitled to undertake a comprehensive audit of the EIF and its operations; calls on the Court to include an overall audit of the EIF in its work programme so as to ensure that the financial management of the Fund is sound (compliance with the principles of economy, efficiency and effectiveness);

286. Takes the view that the rulings of the Court of Justice (in Cases C-11/00 and C-15/00) on EIB and European Central Bank cooperation with OLAF must be applied, by analogy, to the EIF as well; calls on the EIF, therefore, to take an immediate decision on internal OLAF inquiries in accordance with the Regulation (EC) No 1073/1999;

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[1] OJ C 25 E, 29.1.2004, p. 390.

[2] Council Decision 2001/777/EC (OJ L 292, 9.11.2001, p. 41).

287. Is concerned by the statement made by the Court of Auditors (point 10.36 of the Annual Report) that the EEA financial mechanism clearly caused undesirable displacement; shares the Court's view (point 10.35) that greater efforts are needed to identify suitable investments; calls for any environmental damage caused during project realisation to be avoided or made good, and insists that final payments should be carried out only on the basis of appropriate certificates issued by the competent authorities or by an independent auditor;

288. Notes that the Commission has not yet answered the question posed by the Court of Auditors (point 10.33 of the Annual Report) as to whether the regional authorities in Galicia gave preference to national products in breach of the Protocol on the Statute of the European Investment Bank which states: 'Neither the Bank nor the Member States shall impose conditions requiring funds lent by the Bank to be spent within a specified Member State'; recalls that, where appropriate, the recovery of undue payments may be required; calls, in this instance too, on the Commission to submit a report on this issue by September 2004 at the latest and to include in that report, where appropriate, an assessment of similar problems with regard to the Cohesion Fund where, in the past, the Commission had complained about non-compliance with the provisions relating to the award of public contracts.