



Council of the  
European Union

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**NOTE**

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From:	Budget Committee
To:	Permanent Representatives Committee/Council
Subject:	Discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2014 – <i>Draft Council recommendation</i>

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# **Draft COUNCIL RECOMMENDATION**

**of**

## **on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2014**

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Whereas:

(1) According to the revenue and expenditure account for the financial year 2014:

- |  |                         |
|--|-------------------------|
| - revenue amounted to  | EUR 143 940 117 720.62  |
| - expenditure disbursed from appropriations amounted to  | -EUR 141 192 864 094.11 |
| - cancelled payment appropriations (including earmarked revenue) carried over from year <i>n-1</i> amounted to | EUR 361 699 207.50      |
| - appropriations for payments carried over to year <i>n+1</i> amounted to                                      | -EUR 1 781 565 358.20   |
| - EFTA payment appropriations carried over from year <i>n-1</i> amounted to                                    | -EUR 5 526 599.22       |
| - the balance of exchange-rate differences amounted to   | EUR 109 930 505.17      |
| - the positive budget balance amounted to  | EUR 1 431 791 381.76    |

- (2) Cancelled payment appropriations for the financial year amounted to EUR 25 227 460.62;
- (3) EUR 1 304 124 840.15 (98.10 %) of the EUR 1 329 352 300.77 in appropriations for payments carried over to year *n* have been used;
- (4) The observations in the report by the Court of Auditors for the financial year 2014 call for certain comments by the Council, which are ANNEXED hereto;
- (5) The Council attaches importance to its comments being followed-up and assumes that the Commission will implement all of the recommendations in full, without delay;
- (6) The Council has adopted conclusions concerning special reports published by the Court in 2014 and 2015<sup>1</sup>;
- (7) Following the examination referred to above, implementation by the Commission of the budget for the financial year 2014 taken as a whole, on the basis of the observations made by the Court of Auditors, is such as to allow a discharge to be given in respect of such implementation,

HEREBY RECOMMENDS the European Parliament, in the light of these considerations, to give a discharge to the Commission in respect of the implementation of the budget of the European Union for the financial year 2014.

Done at Brussels,

*For the Council*  
*The President*

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<sup>1</sup> Docs. 5688/15, 9146/15, 6784/15, 7282/15, 7292/15, 8319/15, 8331/15, 9140/15, 9134/15, 9135/15 + COR 1, 9136/15, 9143/15, 10104/15, 12747/15, 13420/15, 14034/15, 14193/15, 14194/15, 14640/15, 15260/15 and 15265/15.

**INTRODUCTION**

1. The Council welcomes the Court's annual report and Statement of Assurance on the implementation of the EU budget for the financial year 2014, as well as the Court's favourable opinion on the reliability of the accounts, while stressing the importance of the independent audit work carried out by the Court, making full use of the Court's resources to fulfil its tasks as external auditor of the EU budget, as defined in Article 287 TFEU.
2. The Council recalls that efficient use of EU funds and sound financial management of EU funds, as well as delivery of results is of particular importance for the public perception of actions financed from the EU budget. Thus, the Council firmly supports the recommendations presented by the Court in its annual report, insisting on their full and timely implementation<sup>1</sup>, while taking note of the Commission's replies.
3. The Council welcomes the findings of the Court and invites the Commission to take them into consideration, where appropriate and possible also in the ongoing work on the preparation of the mid-term review of the multiannual financial framework (MFF), in line with Article 2 of Council Regulation No 1311/2013<sup>2</sup>, as well as in the preparation of the next MFF. In this context, the Council invites the Court to timely provide its contribution, including its findings on performance and delivery of results from the EU budget as specified in its various special reports.

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<sup>1</sup> Regarding recommendation 5 on Chapter 6, the Council only takes note of the Court's recommendation and of the Commission's reply that it does not accept this recommendation since it is convinced that it has acted within the margin offered by the existing regulatory framework.

<sup>2</sup> Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020 (OJ L 347, 20.12.2013, p. 884).

4. The Council notes the Court's change in methodology, updating its approach to the quantification of serious infringements of public procurement rules. While highlighting the need for comparability of figures year-on-year, the Council welcomes the Court's refinement of certain elements of its methodology and the consensus between the Court and the Commission on the evaluation of errors in this area.
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**CHAPTER 1**  
**THE STATEMENT OF ASSURANCE AND SUPPORTING INFORMATION**

1. The Council welcomes the favourable opinion given by the Court on the reliability of the accounts for the financial year 2014. It notes with satisfaction the Court's statement that the accounts present fairly, in all material respects, the financial position of the Union as at 31 December 2014 and the results of its operations and cash flows and changes in net assets for the year then ended, in accordance with the provisions of the Financial Regulation<sup>1</sup> and with accounting rules based on internationally accepted standards for the public sector.

The Council welcomes the fact that the Commission has made notable improvements in the presentation of the accounts and encourages it to ensure that the high quality of the accounts is maintained in the coming years, while taking into account the Court's observations on issues affecting the accounts, most notably the level of information on financial instruments under shared management.

2. The Council is pleased to note that EU budget revenue, which comprises own resources and other revenue, was legal and regular in all material aspects and that the estimated level of error for the expenditure area "Administration" was well below the 2 % materiality threshold. The Council is however concerned that most spending continued to be affected by a material level of error.

The Council regrets that the estimated level of error reported by the Court for payments as a whole was 4.4 %. The Council notes, in line with the Court's observation, the relative stability in the overall estimated level of error for the financial year 2014, showing a decrease by 0.1 percentage points in comparison with the previous year. The Council regrets the insufficient reduction of the estimated level of error. It remains well above the Court's materiality threshold of 2 % for all policy areas, except the expenditure area "Administration".

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

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

3. The Council notes with concern the Court's observation throughout almost all chapters of expenditure, that the estimated level of error could have been reduced substantially, in some cases close to materiality level, if the Commission, national authorities and independent auditors had made use of all information available to them, to prevent, detect and correct a significant proportion of the errors.

The Council encourages the Commission to continue to ensure strict supervision and to further strengthen its cooperation with Member States and to continue to provide appropriate and consistent guidance to national managing and audit authorities, in order to bring down the estimated level of error in Union spending. The Council calls upon Member States to continue cooperating with the Commission and to prioritise increasing the quality – rather than the quantity – of first level checks in order to prevent or detect and correct errors before declaring costs to the Commission. In this context, the Council highlights the obligation deriving from the Financial Regulation to identify weaknesses in control systems, analyse the costs and benefits of possible corrective measures and take or propose appropriate action, such as simplification of the applicable provisions, improvement of the control systems and redesign of the programme.

4. The Council welcomes the Court's alignment of the structure of the annual report with the MFF headings, as well as the increased visual representation of its findings. The Council encourages the Court to build upon the progress made so far in ensuring a high level of transparency and detail per spending area in its report and emphasises the need to ensure continuity and comparability between years and policy areas also in the future. In this context, the Council encourages the Court to provide a more detailed analysis of the expenditure in heading 3 (*Security and Citizenship*), in line with the increased spending in this area.

The Council welcomes the Court's analysis of the errors and its observation of the strong relationship between expenditure types (entitlement based or cost reimbursement) and the levels of error, as highlighted in Graph 1.6 of the Court's annual report. It notes that the level of error is not causally linked to the management mode. The Council encourages the Court to broaden its analysis of factors affecting the estimated level of error. On this basis, the Council calls upon the Commission to take the appropriate actions in line with Article 32(5) of the Financial Regulation and to provide the budgetary authority, in 2016, with a comprehensive report on the areas where the level of error identified is persistently high and their root causes. More specifically the Council requests the Commission to present in this context a timely overview, where appropriate on an aggregated level, based on systematic data that is already available such as control reports by audit authorities, the Commission's own controls, and audit results of the Court.

5. The Council considers that a simplification of the rules is of paramount importance in achieving a lower level of error. Simplification of rules, including in delegated and implementing acts, and improved guidance not only reduces the administrative burden on the beneficiaries and respective authorities, and thereby reduces the risk of error, but also allows for more efficient and less costly controls. The Council invites the Commission and Member States to take full advantage of the existing options when implementing the programmes under the new legislative framework for the period 2014-2020, by the appropriate use of the variety of simplification measures available.

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



6. The Council calls upon the Commission and Member States to undertake further actions aiming at strengthening the quality of management and control systems and making them more efficient, with special emphasis on first level checks. Furthermore, preventive measures by the Commission, such as interruption and suspension of payments should be applied strictly in line with the relevant rules. The Council also reiterates the need to apply financial corrections and recoveries, rigorously in line with the relevant rules, in order to protect the EU budget.

The Council, while acknowledging that financial corrections and recoveries are a very important instrument in the protection of the EU budget, stresses the importance of avoiding errors in the first place.

7. The Council welcomes the annual activity report of each Directorate-General of the Commission, the Commission's synthesis report<sup>1</sup> and the Communication from the Commission on the protection of the EU budget to end 2014<sup>2</sup>, which all together increase transparency and provide the budgetary authority with relevant and necessary information on the way the EU budget is protected. The Council calls upon the Commission to continue, where appropriate, the implementation of all available corrective measures, whilst acknowledging the multiannual nature of EU funding and of the corrective capacity of the Commission.

The Council notes that the estimated level of error reported by the Court was reduced from 5.5 % to 4.4 %, thus representing a decrease by 1.1 percentage points, due to the fact that the Court took into account the corrective measures applied by the Commission and Member States when these were made prior to payment or before the Court's audit.

8. The Council notes with concern the Court's assessment that the Commission has only limited information available on pre-financed amount to financial instruments under shared management and that it may need to make significant adjustments at closure of the 2007-2013 programming period.

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<sup>1</sup> Doc. 10555/15.

<sup>2</sup> Doc. 12928/15.

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

9. The Council appreciates the efforts made by the Court to respond to requests from stakeholders for more information on risk profiles and to assist the Commission in targeting its efforts, for example in taking action to deal with areas of persistently high levels of errors. For these areas, the Council underlines the need for cost efficiency within the control framework and to build on reliable controls already carried out, instead of adding additional layers of control. In this view, it encourages the Court, the Commission and Member States to improve the timely exchange of information and to explore ways to increase mutual understanding and transparency about their application of the principle of "Single Audit". The crucial aspect is the availability of information on sufficiently and continuously reliable audit results. The Council stresses the need for further exchange and disclosure of relevant and available information in this context.
10. The Council highlights the Court's finding that non-compliance with public procurement rules remains a major source of errors, affecting all spending areas. It recognises the complexity of those rules and welcomes the efforts made by the Commission to address weaknesses in this area. The Council encourages the Commission to aim at further simplification and together with Member States to further strengthen their efforts to prevent errors in public procurement and to effectively carry out measures set up in the 2013 Commission Action Plan on public procurement.

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## **CHAPTER 2**

### **BUDGETARY AND FINANCIAL MANAGEMENT**

1. The Council welcomes the inclusion of this specific chapter on "Budgetary and financial management" and expects such practice to be continued in the future.
2. The Council notes the Court's observation that 2014 was the year with the second highest level of payments, while the level of unpaid payment claims at the end of the year increased, and that most payments made in 2014 were related to the previous MFF (2007-2013). Furthermore, it also notes that although Member States contributions were consistent with the own resources decision<sup>1</sup>, the level of payments was, as in 2013, higher than the MFF ceiling, due to carry-overs and assigned revenue.

The Council also notes the Court's assessment that the level of outstanding commitments decreased, although temporarily as a result of the reprogramming of unused 2014 commitments in the later years. It calls on the Commission to continue monitoring the evolution of the amounts of outstanding commitments, by heading and by programme on a regular basis, and to settle or decommit them in a timely manner and in line with the relevant rules.

3. The Council, following the Court's recommendation, calls upon the Commission to consider in its budgetary and financial management the capacity constraints in some Member States in order to avoid the underutilisation of funds, while acknowledging the actions taken so far, such as the set up of the Task Force for Better Implementation, which has already generated improvements. At the same time, the Council welcomes the Court's recommendation to reinforce efforts to reduce excessive cash balances in financial instruments.
4. The Council commends the Commission's work in the context of the "payment plan to bring the EU budget back on a sustainable track"<sup>2</sup>, including the mitigating measures put in place by the Commission to improve the management of payment appropriations.

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<sup>1</sup> Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union (OJ L 168, 7.6.2014, p. 105).

<sup>2</sup> Doc. 9115/15.

The Council recalls its request to the Commission to provide the budgetary authority with a long term cash flow forecast in order to better match payments and funds available with needs with a view to, inter alia, prevent the possible build up of an excessive backlog. The Council stresses the Court's view that the high level of outstanding commitments requires a longer term perspective, and calls on the Commission to prepare and publish annually a long term forecast covering budgetary ceilings, estimated payments obligations and needs until the end of the current MFF, capacity constraints and potential decommitments.

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

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### **CHAPTER 3**

#### **GETTING RESULTS FROM THE EU BUDGET**

The Council welcomes the Court's approach in evaluating results of EU spending and measuring aspects related to performance, both in Chapter 3 and also, by means of a pilot exercise, in Chapters 6 and 7, complementary to its assessment of compliance. The Council considers the assessment of performance to be an important element in the annual evaluation of the sound financial management of EU funds. Therefore, the Council invites the Court to consider providing performance information in all other spending areas.

This year, in Chapter 3, the Court's assessment focused on the achievement of the Europe 2020 objectives. The Council considers it to be important that the EU budget supports the political goals of the EU and notes the Court's observation of the lack of alignment of the Europe 2020 strategy with the MFF in terms of timing and priorities. In addition, the Court considers that the long term and wide-ranging political objectives of the Europe 2020 strategy are not directly translated into the European Structural and Investment Funds partnership agreements and operational programmes.

The Council therefore supports the Court's recommendation to reinforce the focus on results in the partnership agreements and programmes, with a view to achieving coherence of the EU actions.

The Council welcomes the improvements in the performance framework achieved so far by the Commission under the current MFF, - such as the performance reserve and ex ante assessments – but agrees that progress still needs to be made to achieve a more results-oriented EU budget based on effective performance monitoring, measuring and reporting. The Council encourages the Commission, following the Court's recommendation, to identify the most suitable and effective system for the EU budget, in cooperation with the Court and Member States.

The Council also encourages close monitoring of the relevant output and result indicators and regular and transparent reporting as an integral part of the accountability process of the Commission. An improved performance reporting will contribute to the assessment of the programmes and the extent to which they have delivered the expected results. However, the Council, in this context is aware that performance indicators cannot be a sole element to guide policy design and that they should be analysed with caution, especially when drawing conclusions from preliminary findings on performance at the start of the multiannual programming period.

The Council welcomes the Commission's recent efforts to improve access to information on how the EU budget is spent, in particular the Open Data Portal, and emphasises the important role that transparency plays in the monitoring of EU funded projects.

Finally, the Council will engage constructively in discussions on how to improve the performance framework of the EU budget and to ensure that the EU budget delivers more and better results, where appropriate, in view of the MFF mid-term review and of the next MFF. It invites the Court to provide its input for this review in a timely manner and calls upon the Commission and Member States to take advantage of this opportunity to analyse possibilities for reinforcing a results-oriented approach within the EU. The Council is aware that the Commission is particularly committed to this goal and, while being cautious not to prejudge conclusions, welcomes the Commission's initiative "Budget for Results", including the organisation of a series of expert meetings on Performance-Based Budgeting.

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## **CHAPTER 4**

### **REVENUE**

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

Given that updates to the GNI data provided by Member States in 2014 led to adjustments to Member States' VAT and GNI-based contributions for previous years of an unprecedented size, the Council underlines the importance of mitigating the impact of revisions of national GNI data and the work on reducing the length of outstanding reservations through appropriate measures.

It supports the Court's recommendation to the Commission to continue its work on a common revision policy, aiming at establishing a regular and harmonised timetable for major revisions to the GNI-based contributions and lowering the risk of substantial adjustments caused by infrequent revisions each affecting a large number of years, and to limit the impact of major revisions on the GNI-based contributions. The Council also calls upon the Commission and, where appropriate, Member States to increase the predictability and transparency by improving the comparability of data between Member States and by providing early information on upcoming revisions and their financial impact.

Moreover, the Council welcomes the Commission's commitment, following a recommendation by the Court, to reduce the length of its next verification cycle in order to address reservations at an earlier stage, reduce the number of years covered by reservations at the end of the cycle, and thus increase budgetary certainty for Member States and their national treasuries.

## **CHAPTER 5**

### **COMPETITIVENESS FOR GROWTH AND JOBS**

The Council regrets that the estimated level of error reported by the Court for payments in the "Competitiveness for growth and jobs" policy area increased by 1.6 percentage points to 5.6 % in 2014. The Council is concerned about the trend of increasing level of error in this policy area under direct management.

The Council takes note of the Court's finding that the estimated level of error would have been 2.8 percentage points lower if the Commission, other authorities and contracted auditors had made better use of all the available information to prevent or detect and correct errors. The Council calls upon the Commission to strengthen its efforts to analyse and address the causes of persistently high error levels with a particular focus on the programmes that are subject to such error levels.

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

The Council notes that the principal risk identified by the Court relates to beneficiaries declaring ineligible costs, which are neither detected nor corrected before reimbursement by the Commission, notably in the area of "Research and innovation".

The Council fully supports the Court's recommendation that the Commission, other authorities and contracted auditors should use all the relevant information to prevent, detect and correct errors before the reimbursement of cost claims.

As regards the important area of "Research and innovation", the Council notes the Court's analysis that the design and implementation of the Seventh Framework Programme are at the root of the continued high level of error and is disappointed that this is likely to continue to be the case for the remainder of the payments related to the 2007-2013 programming period.



The Council strongly encourages the Commission to take into consideration the Court's observation that Horizon 2020 is designed to attract greater participation from SMEs and new entrants, that it introduces specific eligibility criteria and involves a high number of bodies implementing the programme, which entails an increased risk of error. It, therefore, calls upon the Commission to provide adequate support to such beneficiaries and bodies through guidance, in particular through the Commission's Common Support Centre, which has already yielded highly appreciated positive results and which the Council supports fully. Furthermore, the Council encourages the Commission and other bodies implementing Horizon 2020 to use all means of simplification available to them under this programme.

As regards other spending instruments, the Council notes with concern the ongoing weaknesses identified by the Court, notably the declaration of unsubstantiated and ineligible costs, as well as failures to comply with the rules on public procurement.

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

The Council notes the Court's findings that for "Research and innovation" the Commission seeks to obtain most of its assurance through *ex post* audits of reimbursed costs. The Council expects to see a reduction of the error levels, also under Horizon 2020, in particular as a result of simplification but also from an improved control strategy, *ex ante* and *ex post*, whilst keeping the administrative burden on beneficiaries balanced.

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

The Council takes note of the Court's conclusion that concerning the Trans-European Networks-Transport programme the Commission has - in its annual activity reports - included the results of audits carried out by the Court, but applied a different error quantification than the Court and that it has not systematically extrapolated the errors detected. This leads in the Court's assessment to an understatement of the risks to the regularity of transactions due to an understatement of errors and an overstatement of the effects of corrective actions on amounts at risk. The Council notes the Court's recommendation and calls upon the Commission to follow a consistent approach on the calculation of weighted average error rates and the resulting assessment of the amounts at risk.

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## **CHAPTER 6**

### **ECONOMIC, SOCIAL AND TERRITORIAL COHESION**

The Council regrets that the estimated level of error reported by the Court for payments in the "Economic, Social and Territorial cohesion" policy area increased by 0.4 percentage points to 5.7% in 2014, remaining well above the materiality threshold of 2%. At the same time, the Council takes note of the relative stability of the estimated level of error in comparison with previous years, at a time of significantly increased level of payments. The Council welcomes the Court's decision to continue to report separate estimated levels of error, underlining the difference in the level of error between the policy areas in this chapter.

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

The Council encourages Member States to take full advantage of the new 2014-2020 legal framework in order to improve the management of EU spending, and to use the new simplification provisions, and expects a positive impact on the estimated level of error for future spending. The Council also strongly invites Member States to avoid additional layers of complexity and/or administrative burden while establishing the eligibility criteria for EU funding. In addition, the Council invites the Commission to continue to provide appropriate and consistent training and guidance to assist in the implementation of new programmes.

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

##### **1.1. Regional and urban policy**

The Council welcomes the fact that in comparison with the previous year, the estimated level of error for this policy area decreased significantly by 0.9 percentage points.

However, it regrets that the estimated level of error reported by the Court for payments in the "Regional and urban" policy area stood at 6.1 %.

The Council takes note that the errors detected by the Court and not detected by national authorities contributed 3.3 percentage points to the estimated level of error.

The Council is concerned that the major source of errors for this policy area remains non-compliance with public procurement rules, followed by errors caused by breaches of eligibility rules, and errors related to the infringement of state aid rules. It urges the Commission to follow up the cases identified by the Court and to propose corrective measures where necessary and to strengthen cooperation within the Commission, as well as with Member States, including improvement of the guidance for national authorities.

In view of the Court's assessment of the reliability of checks at Member States' level, the Council reiterates the paramount importance of first level checks in containing the risk of error. It invites the Commission and Member States to intensify their efforts in addressing those weaknesses by taking into account all available information, including peer review and sharing of best practices, and undertaking possible corrective measures and actions.

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

The Council calls upon the Commission to continue applying suspensions and interruptions of payments whenever significant deficiencies in the functioning of management and control systems are identified, including, where appropriate, the use of net-financial corrections, in accordance with the relevant rules.

Despite the progress noted for 2014, the Council is concerned that the average disbursement rate of the financial instruments under shared management remains low. It asks the Commission to analyse the reasons for the delays in the disbursement of EU funds through financial instruments and to take appropriate actions.

The Council takes note of the Court's recommendation to the Commission to submit a legislative proposal to amend the applicable regulation concerning the extension of the eligibility period for financial instruments under shared management and of the Commission's reply thereto.

## **1.2. Employment and social affairs**

The Council regrets that the estimated level of error reported by the Court for payments in the "Employment and social affairs" policy area stood at 3.7%. It is concerned that, in comparison with the previous year, the estimated level of error for this policy area increased by 0.6 percentage points in 2014.

The Council takes note that the errors detected by the Court and not detected by national authorities contributed 3.2 percentage points to the estimated level of error, which would otherwise have been below the materiality level.

The Council points out with concern that the main sources of error in this policy area continued to be the declaration of ineligible projects and the reimbursement of ineligible or inaccurately declared costs.

The Council calls upon the Commission to continue providing appropriate and consistent training and guidance to the beneficiaries and to further reduce the administrative burden by promoting the use of the simplified cost options that are less prone to error, as assessed by the Court.

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

As in previous years, the Council remains concerned about the partial effectiveness of management and control systems. Weaknesses in national managing authorities remain the biggest cause of errors remaining undetected and uncorrected, as stressed by the Court. The Council, while acknowledging the efforts already made by the Commission and Member States, calls upon them to continue improving their supervisory and control systems.

The Council underlines the fact that information provided by national audit authorities is crucial for the Commission to be able to obtain assurance on the functioning of control systems and the regularity of payments to beneficiaries. The Council urges the Commission to continue close cooperation with national audit authorities, to assess their level of reliance, to enable improvements in terms of capacity building or methodology used, and to ensure that the same standards are applied for all audit authorities.

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## **CHAPTER 7**

### **NATURAL RESOURCES**

The Council welcomes the fact that the estimated level of error reported by the Court for payments in the "Natural Resources" policy area decreased by 0.8 percentage points to 3.6 % in 2014, but regrets that payments were affected by material error. The Council welcomes the decision by the Court to continue to provide two separate estimated levels of error for both pillars.

The Council acknowledges the efforts already made by the Commission and Member States, and calls upon them to continue improving their supervisory and control systems. The Council agrees with the Court's recommendation that Member States make further efforts to improve the quality of the Land Parcel Identification System (LPIS) and continue their efforts to ensure the reliability and completeness of data.

The Council notes that, as in the previous year, the Court included cross-compliance errors in its estimate of the level of error for this policy area. They had an impact on the overall estimated level of error of 0.6 percentage points. The Council welcomes the Court's announced adjustment of its approach from 2015 on, excluding cross compliance from the estimated level of error.

The Council encourages Member States to take full advantage of the new 2014-2020 legal framework in order to improve the management of EU spending and thereby to lower the risk of error and the Commission to provide appropriate and consistent training and guidance to assist in the implementation of new programmes.

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

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

The Council welcomes the fact that the estimated level of error reported by the Court for payments in the "Market and direct support" policy area decreased significantly by 0.7 percentage points to 2.9 % in 2014.

The Council takes note of the Court's findings that the estimated level of error would have been 0.6 percentage points lower - therefore bringing the estimated level of error very close to materiality level - if national authorities had made better use of all the available information to prevent or detect and correct errors before declaring the expenditure to the Commission.

The Council notes that most of the quantifiable errors detected by the Court related to the overstated number of eligible hectares. The Council is concerned that weaknesses continue to be identified in the LPIS databases. It calls upon the Member States concerned to improve the quality of information contained in the LPIS databases, including the size and eligibility of agricultural land, notably of permanent pasture. The Council encourages the Commission to continue analysing the root causes of problems in this area and, where appropriate, to consider simplifications.

Moreover, the Council underlines the high level of error detected by the Court in the administrative processing of aid applications by national authorities, contributing for 0.7 percentage points to the estimated level of error. It calls upon the Commission to continue to systematically request and closely monitor action plans by the Member States aiming at remedying the situation and to continue to apply financial corrections when necessary, in line with the conformity clearance procedures.

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

The Council welcomes the fact that in comparison with the previous year, the estimated level of error for this policy area decreased significantly by 0.8 percentage points. However, the Council regrets that the estimated level of error reported by the Court for payments in the "Rural development, environment, climate action and fisheries" policy area stood at 6.2 % in 2014.

The Council takes note of the Court's findings that the estimated level of error would have been 3.3 percentage points lower if national authorities had made better use of all the available information to prevent or detect and correct errors before declaring the expenditure to the Commission.



The Council notes that the errors which contribute the most to the estimated level of error related to the non-compliance with either the eligibility requirements, the agri-environmental commitments or public procurement rules. The Council encourages the Commission to make sure that the Member States concerned improve the action plans for reducing the rural development estimated level of error.

Moreover, the Council takes note of the errors detected by the Court made by national authorities, contributing for 0.6 percentage points to the estimated level of error. It calls upon the Commission and Member States to remedy the situation and for the Commission to continue to apply financial corrections when necessary, in line with the conformity clearance procedures.

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

### **2.1. EAGF - Market and direct support**

The Council welcomes the Court's observation that the Integrated Administration and Control System (IACS) makes a significant contribution to reducing the estimated level of error in the expenditure that it covers, despite some weaknesses identified in the LPIS and in the administrative treatment of claims. It urges the Commission and Member States to pursue their efforts to ensure that IACS remains an effective and functioning system.

The Council takes note of the persistence of weaknesses found in the paying agencies examined by the Court. The Council invites Member States to continue to improve the functioning of the relevant authorities. The Council encourages the Commission to ensure an appropriate follow-up of the errors detected by the Court and to take appropriate remedial actions, including through conformity clearance procedures.

Finally, the Council encourages the Commission to enhance its role of guidance to the certification bodies in Member States, in order to better prepare them to deliver opinions on the legality and regularity of EU expenditure.

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

The Council welcomes the fact that the Court assessed the Commission's conformity audits for "Rural development" as satisfactory.

The Council notes that the system weaknesses detected by the Court in its sample for 2014 were very similar to those found and reported in the previous years: deficiencies in administrative checks related to eligibility conditions and persistent weaknesses in checking public procurement procedures. It calls on the Commission to continue to work with the Member States to remedy the causes of errors, including through the action plans.

The Council underlines that the action plans are designed to implement targeted corrective actions to remedy the causes of errors and recognises the efforts from Member States to further reinforce their action plans in order to address any shortcomings detected during the audits. Therefore the Council calls on the Commission to pursue its efforts in providing targeted guidance and in increasing the mutual understanding with the national administrations involved.

Finally, the Council, following the Court's recommendation, calls upon the Commission and Member States to improve the quality of the audits carried out by national audit authorities in the field of fisheries.

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## **CHAPTER 8**

### **GLOBAL EUROPE**

The Council regrets that the estimated level of error reported by the Court for payments in the "Global Europe" policy area has increased by 0.6 percentage points to 2.7 % in 2014. It encourages the Commission to pursue its efforts to reduce the estimated level of error in a cost-effective manner.

The Council takes note of the Court's findings that the estimated level of error would have been 0.2 percentage points lower if the Commission or independent auditors had made better use of all the available information to prevent or detect and correct errors before declaring the expenditure to the Commission.

The Council notes that the Court detected errors in the clearing of pre-financing expenditure by the Directorate-General for Neighbourhood and Enlargement (DG NEAR, formerly DG ELARG). The Council welcomes that the former DG ELARG has corrected the related transactions last year and revised its internal instructions on clearing of pre-financing and that the Commission's commitment, following the Court's recommendation, to set up and implement internal control procedures to ensure that pre-financing is cleared on the basis of actual incurred expenditure not including legal commitments.

The Council notes with concern that the Court found that some controls to prevent ineligible expenditure for grant contracts in the Directorate-General for International Development and Cooperation (EuropeAid) failed. It welcomes the fact that the Commission has accepted the Court's recommendation to strengthen the *ex-ante* controls and encourages its quick implementation.

While acknowledging the actions already taken and given that the level of payments for heading 4 will be substantially higher than in precedent years, the Council stresses the importance of a full and swift implementation of the recommendations made by the Court to the Commission.

## **CHAPTER 9**

### **ADMINISTRATION**

The Council welcomes the fact that, as in previous years, the administrative and related expenditure of the institutions and bodies of the EU remained free from material error and that the estimated level of error reported by the Court for this policy area decreased to 0.5 %. It notes with satisfaction that the Court did not detect any significant weaknesses in the examined systems.

However, the Council takes note of the issues identified by the Court in some of the institutions and bodies audited. It invites the institutions and bodies concerned to further pursue the measures already taken and encourages them to address the remaining weaknesses pointed out by the Court without delay.

The Council notably regrets the shortcomings observed by the Court in the European Parliament's supervision of the procurement procedures organised by European political parties and of the reimbursement of costs to their affiliated organisations. It underlines the importance of reinforcing controls in that context, as recommended by the Court.

The Council also calls upon the European Economic and Social Committee to strengthen its procurement procedures, as suggested by the Court.

In addition, the Council highlights the need to remedy the weaknesses detected by the Court in the calculation of staff costs and the management of family allowances in several institutions, in close collaboration with the Office for the Administration and Payment of Individual Entitlements.