

Wednesday 3 July 2013

95. Instructs its President to forward this resolution to the Council, the Commission, the Court of Justice of the European Union, the European Court of Auditors, the OLAF Supervisory Committee and OLAF.

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## **Integrated internal control framework**

**European Parliament resolution of 3 July 2013 on the Integrated Internal Control Framework (2012/2291(INI))**

(2016/C 075/13)

*The European Parliament,*

- having regard to the Treaty on the Functioning of the European Union (TFEU),
  - having regard to Opinion No 2/2004 of the European Court of Auditors on the 'single audit' model (and a proposal for a Community internal control framework) <sup>(1)</sup>,
  - having regard to the Commission communication on a roadmap to an integrated internal control framework (COM(2005)0252),
  - having regard to the Commission communication on the Commission action plan towards an integrated internal control framework (COM(2006)0009),
  - having regard to the first half-yearly report on the scoreboard for the application of the Commission action plan towards an integrated internal control framework published on 19 July 2006 (SEC(2006)1009), pursuant to Parliament's request in its resolution on discharge in respect of the financial year 2004 <sup>(2)</sup>,
  - having regard to the interim progress report of the Commission published in March 2007 (COM(2007)0086), outlining progress and announcing some additional actions,
  - having regard to the Commission communication of February 2008 (COM(2008)0110) and the Commission staff working paper annexed thereto (SEC(2008)0259),
  - having regard to the Commission communication of February 2009 on the impact report on the Commission action plan towards an integrated internal control framework (COM(2009)0043),
  - having regard to Rule 48 of its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A7-0189/2013),
- A. whereas under Article 317 TFEU the Commission implements the budget on its own responsibility, on the basis of the principles of sound financial management, in cooperation with the Member States;
- B. whereas according to the Treaty, the Commission bears the ultimate responsibility for the implementation of the Union budget, although a huge responsibility lies with the Member States, with 80 % of the Union budget spent under the system of shared management by Member States;
- C. whereas the principle of effective internal control is one of the budgetary principles set out in the Financial Regulation following its amendment by Regulation (EC, Euratom) No 1995/2006, as proposed by the Commission in the action plan referred to above;

<sup>(1)</sup> OJ C 107, 30.4.2004, p. 1.

<sup>(2)</sup> OJ L 340, 6.12.2006, p. 3.

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- D. whereas the most effective means for the Commission to demonstrate that it is genuinely committed to ensuring transparency and sound financial management is to do all it can to support measures seeking to enhance the quality of financial management, with a view to obtaining a positive statement of assurance (DAS) <sup>(1)</sup> from the European Court of Auditors (ECA);
- E. whereas all the institutions and the Member States have to cooperate in order to restore European citizens' trust in the financial performance of the Union;
- F. whereas in order to support the strategic objective of receiving a positive statement of assurance from the ECA, the Commission adopted in January 2006 the action plan towards an integrated internal control framework (the 'Action Plan'), drawing on the recommendations of the ECA <sup>(2)</sup>, Parliament's resolution on discharge in respect of the financial year 2003 <sup>(3)</sup> and the ECOFIN conclusions of 8 November 2005;
- G. whereas the Action Plan addressed 'gaps' in the Commission's control structures at the time and identified 16 areas for action by the end of 2007, taking into account that improvement of financial management in the Union must be supported by close monitoring of controls in the Commission and the Member States;

#### *Implementation of the Action Plan*

1. Points out that the progress made in achieving the objectives of the Action Plan has to be measured not only by the achieving of each action but also by its impact on reducing errors in the underlying transactions;
2. Notes that the Commission itself stated that the Action Plan was fully completed at the beginning of 2009, although 3 of the 16 original actions could not be implemented or were being taken forward in other ways;
3. Points out in particular that Article 32 of the new Financial Regulation establishes the principle of effective and efficient internal control, and that Article 33 of the same regulation stipulates that when presenting revised or new spending proposals the Commission shall estimate the costs and benefits of the control system as well as the risk of error;
4. States also that, with regard to the concept of 'tolerable level of risk', a choice was made to complete this action by defining the concept of 'residual risk of errors';
5. Deplores the fact that the simplification of the 2007-2013 legislation has not been as extensive as hoped;
6. Deplores the fact that the commitment made by the Commission to reach a fully positive DAS has not been fulfilled, and points out in particular that, in its 2011 statement of assurance report, the Court concluded that overall payments were materially affected by error and assessed that the supervisory and control systems were in general partially effective;
7. Notes that the overall rate of error in underlying transactions increased from 3,3 % to 3,7 % in 2010, reaching 3,9 % in 2011; deplores the reversal of the positive trend that has occurred in recent years, and fears that the rate of error will grow in the coming years;
8. Notes that the Commission has maintained its objective of obtaining a positive DAS, whilst Parliament deeply deplored, in its resolution on discharge for 2011, the fact that payments remain materially affected by error;
9. Calls on the Commission to take the necessary steps to achieve a trend of a consistent decrease in the error rate;

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<sup>(1)</sup> Abbreviation of the French term 'Déclaration d'assurance'.

<sup>(2)</sup> Opinion No 2/2004 (the 'Single Audit' Opinion).

<sup>(3)</sup> OJ L 196, 27.7.2005, p. 4.

**Wednesday 3 July 2013***What is wrong?*

10. Shares the views of the Court of Auditors and the Commission <sup>(1)</sup> as regards the fact that the single audit scheme does not work yet and that the control systems set up by the Member States are currently not functioning to their full potential;
11. Makes reminder, in this regard, that in 2011, in the area of regional policy, for over 60 % of the errors identified by the Court of Auditors, Member State authorities had sufficient information to identify and correct some of the errors before asking for reimbursement from the Commission;
12. Shares in this respect the Court of Auditor's view that the first-level checks, namely the management and control systems in Member States, are insufficient; resulting in a considerably high burden to lower the error rate;
13. Notes that complex and opaque rules hinder the implementation and auditing of programmes; is concerned that this may result in a large number of errors and provide an opportunity for fraud; is therefore concerned that an increasing complexity of rules at national or regional level ('gold plating') results in further problems for the legal implementation of the Union budget and in an unnecessary increase in the error rate;
14. Notes that the Commission cannot fully rely on the findings of the national audit bodies of the Member States;
15. Notes that there is a fundamental discrepancy between the Court of Auditors, which, in the DAS audits, applies an annual approach, and the Commission, which, in the implementation of the budget, applies a multiannual approach;

*What is to be done?*

16. Calls on the Commission to strictly apply Article 32(5) of the new Financial Regulation if the level of error is persistently high, and consequently to identify the weaknesses in the control systems, analyse the costs and benefits of possible corrective measures and take or propose appropriate action in terms of simplification, improvement of control systems and redesign of programmes or delivery systems;
17. Calls on the Member States to strengthen their supervisory and control systems and, in particular, to ensure the reliability of their indicators and statistics;
18. Notes with concern that in 2010 and 2011, in regional policy, the Court of Auditors found that the Commission cannot fully rely on and draw assurance from the work of national audit authorities, and calls on the Member States to remedy that situation;
19. Calls on the Member States to assume full responsibility for their accounts and to submit reliable data to the Commission using national management declarations signed at the appropriate political level;
20. Calls on the Commission to motivate the Member States to cooperate with a view to ensuring that taxpayers' funds are used in accordance with the principles of sound financial management, either through appropriate benefits or through strict sanctions or the suspension of the flow of funds; asserts that this would help to renew EU citizens' trust in the EU and its institutions;
21. Calls on the Commission to harmonise all control procedures within its departments;
22. Notes with concern that the weaknesses in the work of national authorities revealed by the Court of Auditors could also be the result of 'an inherent flaw and conflict of interest of the shared management system itself' <sup>(2)</sup> as in order to get single audit status from the Commission, national audit authorities are required to be effective whilst at the same time the reported error rate should be below 2 %, which could be an incentive to under-report the irregularities;

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<sup>(1)</sup> Contributions by Kersti Kaljulaid and Manfred Kraff at the hearing on the integrated internal control framework organised by CONT on 22 April 2013.

<sup>(2)</sup> Contribution by Kersti Kaljulaid at the hearing on the integrated internal control framework organised by CONT on 22 April 2013.

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23. Calls on the Commission, consequently, to be more rigorous when certifying the national management and audit authorities and to put in place the right incentives and an effective system of sanctions;
24. Asks therefore, in accordance with Article 287(3) TFEU, that, in relation to the auditing of shared management, cooperation between national audit bodies and the European Court of Auditors be stepped up;
25. Calls on the appropriate EU institutions to assess whether setting the error rate at 2 % is appropriate and attainable for all areas of EU policy;
26. In this context, raises serious doubts about the usefulness of the statement of assurance, as, due to the complexity of the budget implementation in the area of shared management, there is also a shared responsibility for the legality and regularity of the budget administration between the Commission and the Member States, and between the Commission and regional administrations, whereas the political responsibility still lies only with the Commission;
27. Is therefore of the opinion that, in the context of the future revision of the EU Treaty, the concept of the statement of assurance should be reconsidered;

*Follow up on 2011 discharge to the Commission*

28. Reiterates its call to the Member States to issue national management declarations at the appropriate political level and asks the Commission to establish a template for such declarations;
29. Considers that the principle of a compulsory national management declaration should be incorporated into the interinstitutional agreement accompanying the decision on the Multiannual Financial Framework;
30. Points out that 'the ongoing absence of a credible system of national declarations will keep haunting the confidence and trust that EU citizens can have in the macro and EU money and EU money managers' <sup>(1)</sup>;
31. Makes reminder that the three first priority actions required from the Commission by Parliament when granting discharge for the year 2011 aim to pave the way to further progress in the DAS question;
32. Makes particular reminder that the Commission should annually adopt, for the first time in September 2013, a communication to the European Parliament, the Council and the Court of Auditors with a view to making public all the amounts in nominal terms recovered in the course of the preceding year through financial corrections and recoveries for all management modes at the level of the Union and the Member States <sup>(2)</sup>;
33. Insists that this communication should be presented in due time in order to be scrutinised by the ECA before publishing its annual report;
34. Reiterates its encouragement to the Commission to make progress in disclosing more precise and reliable data concerning recoveries and financial corrections and to present information reconciling as far as possible the year in which payment is made, the year in which the related error is detected and the year in which recoveries or financial corrections are disclosed in the notes to the accounts <sup>(3)</sup>;
35. Points out that all the actions taken in order to reduce the error rates should be complemented by a new culture of performance; the Commission services should define in their management plan a number of targets and indicators meeting the requirements of the Court of Auditors in terms of relevance, comparability and reliability; in their annual activity reports, the services should measure their performance in summarising the results achieved when contributing to the main policies pursued by the Commission; this 'departmental' performance will be complemented by a global evaluation of the performance of the Commission in the evaluation report provided for by Article 318 TFEU <sup>(4)</sup>;

<sup>(1)</sup> Contribution by Jules Muis at the same hearing.

<sup>(2)</sup> Resolution accompanying the decision to grant the 2011 discharge to the Commission, paragraph 1(a) (OJ L 308, 16.11.2013, p. 27).

<sup>(3)</sup> Resolution accompanying the decision to grant the 2011 discharge to the Commission, paragraph 61.

<sup>(4)</sup> Resolution accompanying the decision to grant the 2011 discharge to the Commission, points (ab), (ae) and (af) of paragraph 1.

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36. Makes reminder that the Commission should modify the structure of the above-mentioned evaluation report, distinguishing internal policies from external ones and focusing, within the section relating to internal policies, on the Europe 2020 Strategy as being the economic and social policy of the Union; the Commission should place the emphasis on the progress made in the achievement of the flagship initiatives;

37. Furthermore underlines that performance indicators should be fully integrated in all proposals for new policies and programmes;

38. Requests that the guidance given by Parliament to the Commission in paragraph 1 of the resolution accompanying its decision on discharge for 2011 as regards how to draft the evaluation report provided for by Article 318 TFEU should be incorporated into the interinstitutional agreement accompanying the decision on the Multiannual Financial Framework;

*Performance-based budget*

39. Shares the view expressed by the European Court of Auditors that it is not meaningful to attempt to measure performance without having budgeted on the basis of performance indicators<sup>(1)</sup>, and calls for the establishment of a performance-based public budgeting model in which each budget line is accompanied by objectives and outputs to be measured by performance indicators;

40. Asks the Commission to set up a working group composed of representatives of the Commission, the Parliament, the Council and the Court of Auditors with a view to considering the necessary measures to be taken in order to introduce such a performance-based budget and to draft a time-scheduled action plan in this regard;

*Simplification*

41. Calls on all the parties involved in the decision-making process concerning the post-2013 legislation and programmes to bear in mind the need to respect the categorical imperative of simplification by reducing the number of programmes and defining proportionate and cost-effective controls and simplified eligibility rules and cost methods;

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42. Instructs its President to forward this resolution to the Council, the Commission, the European Court of Auditors and the governments and parliaments of the Member States.

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<sup>(1)</sup> Contribution of Kersti Kaljulaid at the hearing on the integrated internal control framework organised by CONT committee on 22 April 2013.