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from: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 24 October 2006

to: Mr Javier SOLANA, Secretary-General/High Representative

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Subject: Annex to the report from the Commission to the European Parliament on the  
follow-up to 2004 Discharge decisions  
- Commission staff working document

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Delegations will find attached Commission document (2006) 1376.

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.10.2006  
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**COMMISSION STAFF WORKING DOCUMENT**

**Annex to the report from the Commission to the European Parliament on the follow-up  
to 2004 Discharge Decisions**

{COM(2006) 641 final}

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## INTRODUCTION

This Working Document completes the Report from the Commission to the Parliament on the Follow-up to 2004 Discharge Decisions {COM(2006) 641 final}. It presents in detail the answers to the 150 specific recommendations made by the European Parliament in the comments accompanying its Resolutions on the 2004 Discharges.<sup>1</sup> In the Working Document reference is made to the Commission's proposal for a revised Financial Regulation<sup>2</sup> and the Commission's draft Regulation on the "linked" implementing rules<sup>3</sup> which follow up the simplification measures suggested in the proposal for amending the Financial Regulation. The latest revision of the Implementing Rules of the current Financial Regulation entered into force on 22 August 2006<sup>4</sup>. Further information can also be found in e.g. the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (OJ No C 139 of 14.6.2006), the 2005 Synthesis Report on the Annual Activity Reports "Synthesis of the Commission's management achievements in 2005" (COM(2006) 277 final of 7.6.2006), the Commission's Action Plan towards an Integrated Internal Control Framework (COM (2006) 9 final of 17.1.2006), the Commission's communication on risk management (SEC(2005) 1327 of 25.10.2005 and the Commission's Green Paper on the European Transparency Initiative (COM (2006) 194 final of 3.5.2006).

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<sup>1</sup> For each specific recommendation a reference is given to the relevant Parliament document. The references for recommendations 1-112 are all for the 2004 General Budget Discharge (Mulder).

<sup>2</sup> Modified Proposal for a Council Regulation amending regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (COM(2006) 213 final of 18.5.2006).

<sup>3</sup> SEC(2006) 866 final of 4.7.2006.

<sup>4</sup> Commission Regulation 1248/2006 of 7 August 2006, amending Regulation 2342/2002 of 23 December 2002.

**Annex to the report from the Commission to the European Parliament on  
the follow-up to 2004 Discharge Decisions**

## Reliability of the accounts

1. Address urgently the shortcomings related to the establishment of the opening balance for 2005 in order to avoid consequences for the reliability of the 2005 financial statements. (§ 3)

**Commission's response:**

***The recommended action has been taken. The Commission has established its opening balance sheet and it was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation.***

2. The authorising officers have to validate the figures needed for the establishment of the opening balance 2005 and the accounting officer has to present this financial information and be sure that it gives a "true and fair view" (paragraph 1.45 of the Court's annual report), thus enabling the President of the Commission to sign the accounts on behalf of the Commission as a college and in accordance with the Treaty. (§ 4)

**Commission's response:**

***The recommended action has been taken. The authorising officers validated their opening balance sheet figures and the Commission established its opening balance sheet, which was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation. It should be noted that the accounts are adopted by the Commissioner responsible for the Budget on behalf of the Commission and not the President of the Commission.***

3. The results of the review of unknown bank accounts related to Commission activities launched by the Commission in October 2005 should be communicated completely to Parliament and be followed-up, while the accounts thereby established should be audited and the funds credited to the accounts should be entered in the general budget. (§§ 6 and 7)

**Commission's response:**

***The recommendation is accepted. The Commission has completed the review that it started at the end of October 2005 on bank accounts opened and/or managed by staff members other than the Commission's Accounting Officer.***

***The Commission lodged with Parliament in June 2006 a complete list of these accounts. That list contains details about the legal bases under which they were opened and operate. Where possible, accounts that are no longer really needed will be closed.***

***These accounts are open to audit by the European Court of Auditors which received the details collected in this review.***

4. The Commission should ensure a sound policy (avoiding excessively generous advances and excessively long delays for closing programmes and projects) as regards pre-financing in order to limit the financial importance of unused amounts and/or amounts not yet finally accepted as eligible expenditure and it should put forward a proposal to Parliament's responsible committee on how it plans in future to manage pre-financing in line with those principles. (§ 9)

**Commission's response:**

***The recommendation is accepted. In the context of the review of the Financial Regulation, it has been proposed that the rule governing interest generated by pre-financing be simplified (new Art. 5(4) FR). The amount of interest generated by pre-financing payments would be assigned to the programme or the action concerned, and set off against the final payment to the beneficiary. This would contribute to improving the management of pre-financing.***

## Integrated internal control framework

5. Ensure together with Member States that the Court of Auditors will be able to find audit evidence of progress towards an adequate management of the risk of error. (§ 16)

**Commission's response:**

*The recommendation is accepted. The objective of the Commission's action plan towards an Integrated Internal Control Framework [COM(2006)9] is to ensure and provide evidence that supervisory systems and controls are in place to keep the risk of illegality or irregularity of the transactions within reasonable limits.*

*The Commission has had preliminary contacts with the Dutch Ministry of Finance, which is carrying out a feasibility study regarding a possible national statement to be prepared by the Netherlands as part of its commitment to providing support to the Commission in improving control over EU funds and the ultimate aim of a positive DAS. The Commission strongly supports this pro-active initiative and is keen to see this approach being considered by other Member States.*

6. Ensure a close monitoring of progress in financial management in the Commission and in the Member States. (§ 17)

**Commission's response:**

*The recommendation is accepted. An important step forward was achieved with the adoption of the Inter-institutional Agreement where Paragraph 44 states: "Member States therefore undertake to produce an annual summary at the appropriate national level of the available audits and declarations." The sectoral legislation relating to agriculture (Commission Regulation 1663/95 Article 7(5)) has already adapted along these lines. Implementation relating to structural measures will proceed via the coordinating body foreseen in the proposed legislation. A corresponding Implementing Rule has also been drafted. This improved reporting from Member States will be taken into account in ongoing Commission monitoring activities and in drawing up the DG's Annual Activity Reports.*

7. Publication and presentation to COCOBU of a detailed scoreboard for each area of the financial perspectives with precise targets to be achieved in a set timeline for the implementation of measures identified as necessary for establishing an integrated internal control framework and to report on progress to its competent committee every six months. (§ 19)

**Commission's response:**

*The recommendation is accepted. It is important that the Commission runs the Commission's action plan towards an Integrated Internal Control Framework [COM(2006)9] to its end within the expected time frame, therefore a six-monthly reporting to Council and the European Parliament has been agreed. The first progress report was issued on 19 July 2006 (SEC(2006) 1001)..*



8. The integrated control framework should be implemented as from 1 May 2009, allowing the Commission to set a target date for a positive DAS. (§ 19)

**Commission's response:**

*The recommendation is accepted. The Commission's action plan towards an Integrated Internal Control Framework [COM(2006)9] foresees 16 actions under four broad themes aimed at simplifying and harmonising control practices, via information sharing and the use of a 'single-audit' approach to better target the limited control resources available. At this stage, priority actions have been launched, while others which depend on the results of prior actions, will be developed during 2007. Sufficient progress is expected to be made by the beginning of 2009.*

9. Submission as part of the preparation of the 2005 discharge procedure of further detailed information at Commission level and Member State level, and at regional level if needed, on measures implemented and not implemented, reasons for delays, deadlines, effectiveness of implementation and such like, so as to be allowed to have a complete overview of results obtained and outstanding issues still to be dealt with. (§ 20)

**Commission's response:**

*The recommendation is accepted. A six-monthly reporting to Council and the European Parliament has been agreed.*

10. Ensure a successful outcome of the 16 actions foreseen in the Action Plan towards an integrated internal control framework in the interests of the European Union and its citizens. (§ 22)

**Commission's response:**

*The recommendation is accepted. The Commission highlights that this ambitious work programme will need the active cooperation of all services and Member States partners in order to ensure a successful outcome.*

11. As regards financial control, ensure simplicity and transparency, and when designing schemes and programmes, consider the relationship between the desired outcomes of a particular scheme, the complexity of the rules governing it and the likelihood of an error occurring. (§ 26)

**Commission's response:**

*The recommendation is accepted. The Commission's action plan towards an Integrated Internal Control Framework [COM(2006)9] sets simplification as a goal for the next programming period. The legislative authority should pay the necessary attention to the feasibility of expected controls and their cost/benefit, so that the correct application of controls is as straightforward as possible. For example, the Commission's proposal for the Rules for Participation for the 7th Framework Programme foresees that greater recourse would be made to the use of flat rates (including scale of unit costs) and lump sums within the terms of the Financial Regulation.*

## Declarations

12. Production of a report on the effectiveness of the existing regulatory framework regarding management, assurance and certification systems of declarations of the Member States' various bodies, taking into consideration:
- the precise degree of implementation of the existing legislation by Member States and the regulatory mechanism;
  - its bureaucratic and administrative cost to the European taxpayers;
  - its value added in the prevention of misadministration and the recovery of Community funds;
  - its influence in the correct attribution of responsibilities;
  - the coherence of the various existing declaration systems;
  - the advantages of instituting a single Member State declaration procedure in the context of the Financial Regulation instead of disperse sectoral legislation and depending on the results of the above mentioned analysis, elaboration of the appropriate legislative proposals. (§ 27)

**Commission's response:**

*The recommendation is not accepted. It asks for a report which would cover the results of several current actions of the Commission's action plan towards an Integrated Internal Control Framework [COM(2006)9]. It is too soon to assess the effectiveness of measures that are currently being set up. The Commission refers Parliament to the regular progress reports (in particular on action 3, 5, 6, 7, 10, 11, 13) which will provide consolidated information on the results achieved in co-operation with the other institutions, Member States and relevant bodies in the Member States as regards the effective functioning of the control systems. Furthermore, the Commission has already established a consolidated assessment of the gaps in the control systems and intends to provide further clarification on outstanding questions while implementing the specific actions (action 12). An additional reporting on the current status of control systems would absorb capacities in the Commission and Member States which are directed at the improvement of the existing framework.*

13. Strive for the same geographical location of paying agencies (Common Agricultural Policy - CAP) and managing authorities (Structural Funds) and whenever possible combine the two in each Member State in order to enable it to keep a good track of where, when and how EU funds are being spent in each Member State. (§ 33)

**Commission's response:**

*The Commission will not be taking the recommended action. The rules for the new Rural Development Fund take a significant step in this direction. However, it would not be feasible to combine CAP paying agencies and Structural Funds*

*managing authorities, given the differences between the two systems which are justified by the nature of the support granted.*

*Managing authorities for the Structural Funds are already required to keep track of where, when and how funds are being spent. They must have good information systems and must monitor projects and carry out on-the-spot checks. Paying authorities are required to carry out further systematic checks on payment claims received from projects. There is scope, however, for improving the performance of SF managing and paying authorities and the Commission is discussing best practices in these areas with Member States.*

14. As responsibilities are entrusted to so many existing audit bodies, initiatives aimed at bringing about standardisation of audit arrangements should be welcomed and supported. (§ 34)

**Commission's response:**

*The Commission is taking the recommended action. Steps to align standards for controls and audits per policy family are included in the Action Plan towards an integrated internal control framework (particularly Actions 14 and 16). This action responds to the recommendation of the European Court of Auditors in its Single Audit opinion (2/2004, points 45-48). The gap analyses conducted by the Commission services for the various management modes confirmed that there was scope for such alignment and the Council, too, accepted the need for moves in this direction. This has resulted, for example, in more harmonised provisions on audit methodology in the regulations for the Structural Funds for the 2007-13 period.*

15. Request assurance from each Member State that their control responsibilities have been fully met, and in particular that the risk of error in the underlying transactions is being sufficiently managed. (§ 36)

**Commission's response:**

*The recommendation is partially accepted. The Commission considers that assurance given at the Member State level on the functioning of the control systems would enhance the Commission's insight into Member States management and control systems. In its conclusions on the Roadmap to an integrated internal control framework (COM(2005) 252), the ECOFIN Council of 8 November 2005 considered the key proposal made by the Commission of annual management declarations to be provided by Finance Ministers. However, the proposal was refused. As part of the Action Plan, the Commission has promoted operational level management declarations and synthesis report at national level. With the adoption of the Inter-institutional Agreement an important step forward was achieved. Paragraph 44 states: "Member States therefore undertake to produce an annual summary at the national level of the available audits and declarations". The Commission has proposed further provisions to this extent in the revised Financial Regulation (Art. 53b) and Implementing Rules.*

16. Simplification of the underlying legislation is a pre-requisite for the strengthening of the internal control. (§ 38)

**Commission's response:**

*The recommendations is accepted and in implementation with action 1 of the Commission action plan towards an Integrated Internal Control Framework [COM(2006)9]. A six-monthly reporting to Council and the European Parliament has been agreed.*

17. In order to achieve a positive DAS, priority should be given to sound financial management for funds under shared management and provisions to this end could be laid down, as appropriate, in the basic legislative acts concerned. (§ 38)

**Commission's response:**

*The recommended action has been taken. To provide for a control structure capable of delivering reasonable assurance on the legality and regularity of transactions, in the legislation for the 2007-13 programme period existing control requirements have been clarified and the framework has been strengthened with a number of new provisions. These include, in the Structural Funds, an annual audit opinion intended to provide reasonable assurance that the statements of expenditure presented to the Commission are correct and an ex ante compliance assessment. In agriculture, rural development expenditure will fall largely under Guarantee rules (for example accredited paying agencies, annual certification and clearance of accounts procedures). These elements, with the envisaged management declarations and national synthesis reports, are already foreseen in the new rules (Council regulation 1290/2005 (Article 8) and Commission Regulation 885/2006 (Articles 3 and 7).*

18. Consider with the Council the alternative approach inspired by the Council's interest in declarations at sector level as expressed in paragraph 9 of the ECOFIN Council conclusions of 9 November 2005. (§ 41)

**Commission's response:**

*The recommendation is accepted. An important step forward was achieved with the adoption of the Inter-institutional Agreement where Paragraph 44 states: "Member States therefore undertake to produce an annual summary at the appropriate national level of the available audits and declarations." For agriculture, the envisaged management declarations and national synthesis reports are already foreseen in the new rules (Council regulation 1290/2005 (Article 8) and Commission Regulation 885/2006 (Articles 3 and 7)). Implementation relating to structural measures will proceed via the coordinating body foreseen in the proposed legislation. This improved reporting from Member States will be taken into account in ongoing Commission monitoring activities and in drawing up the Directors-General's Annual Activity Reports.*

19. In the context of the implementation of the Action Plan towards an Integrated Internal Control Framework, present proposals as regards the form and content of complementary arrangements to be taken by Member States for the consolidation of individual certificates and/or audit reports within each major sector. Confirm along with the Court of Auditors that consolidation at central Member State level and for each area of the financial perspective by which the quality of individual reports

and/or audit reports is guaranteed will be an effective measure in support of an overall declaration at political level covering all Community funds in shared management. (§§ 45 and 46)

**Commission's response:**

*The recommendation is accepted. Action 5 of the Commissions action plan towards an Integrated Internal Control Framework [COM(2006)9] strives for the promotion of operational level management declarations and synthesis report at national level With the adoption of the Inter-institutional Agreement an important step forward was achieved. Paragraph 44 states: "Member States therefore undertake to produce an annual summary at the national level of the available audits and declarations". Further provisions on this will be included in the revised Financial Regulation (Art. 53b) and Implementing Rules for which the Commission's proposals were adopted on 4 July 2006.*

20. Apply fully Article 53(5) of the Financial Regulation under which the Commission assumes final responsibility for the implementation of the budget in accordance with Article 274 of the Treaty through "clearance-of-accounts procedures or financial correction mechanisms" and set up more intense programmes when assurance from Member States cannot be gained. (§ § 51 to 53 and 55)

**Commission's response:**

*The Commission is taking the required action. For Structural Funds, it applies financial corrections whenever audits detect ineligible expenditure. However, the Commission considers that the main incentive to improve systems is effective audit work and timely follow up to ensure recommendations are implemented.*

*In agriculture, the clearance of accounts procedure, a proven control mechanism, continues to operate for EAGGF Guarantee expenditure. The Commission imposes financial corrections where risks to the Fund are identified. Furthermore, the Integrated Administration and Control System (IACS), which the European Court of Auditors considers to be effective in limiting the risk of irregular expenditure, operates a dissuasive system of sanctions on farmers, whereby penalties (in the form of payment deductions) are imposed on those making incorrect declarations.*

## Transparency

21. Expect that transparency initiative will lead to concrete actions and legislative initiatives that will lead to transparency regarding the way EU funds are spent and managed. (§ 56)

**Commission's response:**

*The recommendation is accepted. With the European Transparency Initiative, the Commission also expects that the results of the open debate covering a broad spectrum of issues will gain support for the Commission's commitment to better account for the use of public money.*

22. Induce Member States to give public access to information about the projects and beneficiaries of EU funds in shared management. (§§ 57 and 58)

**Commission's response:**

*The recommendation is accepted. The Commission is responsible for implementing the EU budget. It is accountable to the taxpayer and considers it to be in the general public interest to provide information on how EU funds are spent, which it already does for the EU-funded policies which it manages centrally and directly.*

*Information on beneficiaries of Community funds spent in partnership with Member States is currently in the hands of each Member State and any disclosures on the subject are left to their discretion. The extent to which information is made public differs significantly and often based on national law or practices on data protection.*

*Any coherent overall obligation on Member States would therefore have to be based on a new EU legal framework, directly applicable in all Member States, to ensure a consistent approach to all beneficiaries of EU funds.*

*The Commission issued a Green Paper on this issue in May 2006. The consultation of the public is ongoing until end of August. Besides, the Commission has proposed such an obligation in its revised proposal to modify the Financial Regulation. Negotiation is on-going in the Council.*

23. Resolve the problems in the application of the rules of ex ante and ex post publicity to the funds managed under centralised direct management, in that retrieving the information is difficult because the Directorates-General have different ways of publicising the data on the internet. (§ 59)

**Commission's response:**

*The recommendation is accepted. The Commission is already working on devising the best way of providing information to the public and has given a commitment to provide this information for the EU-funded policies which it manages centrally and directly in a more user-friendly manner. The Internet site will also contain*

*links to websites of the Member States where data on the beneficiaries of EU funds under shared management can be found.*

24. Increase openness with regard to the different types of expert groups advising the Commission and the committees working within the comitology procedure and make information easily available to the public about the different types of expert groups, including data about the activities and membership of those groups. (§§ 60 and 61)

**Commission's response:**

*The recommendation is partially accepted. The Commission is committed to achieve high levels of openness and transparency. Article 16 of the framework agreement between the Parliament and Commission already ensures the communication of the Commission's committees and expert groups, which are also rendered public through existing websites.*

*Nevertheless, publication of lists of members of expert groups must respect the protection of freedoms and fundamental rights of physical persons and their private lives when dealing with personal data (Application of Regulation 45/2001 on the treatment of personal information (OJ L 8, 12.1.2001)).*

*Finally, for certain sensitive domains, it may be appropriate not to identify members of the expert groups in order to avoid external pressures that could hinder their expected independence and impartiality.*

## Annual activity reports

25. The Commission, and in particular the central departments responsible for the guidelines for annual activity reports and declarations, should give priority to the elaboration of indicators which have a direct link to legality and regularity. (§§ 70 and 71)

**Commission's response:**

*The recommendation is accepted. The 2004 Synthesis action on objectives and indicators is ongoing and aims precisely at analysing and defining relevant objectives and indicators for legality and regularity of operations. In addition, the Action 3a of the Commission's action plan towards an integrated internal control framework [COM (2006)9] should in future provide the ECA with a standardised and comprehensible set of indications on internal control to support the reasonable assurance.*

26. Commission's Directorates-General should better describe the source of their assurance and ensure that their declarations give a true and fair view of the adequacy of their management of the risk of error in the underlying transactions. (§ 73)

**Commission's response:**

*The new guidelines for the setting up of the Directorates-general 2005 Annual Activity Reports already ask for an appreciation of the effectiveness of management and control systems and of the elements of the management and control systems that support the assurances required in the annual declaration and whether weaknesses exist that could lead to reservations.*

*Based on this analysis, the Directorates-General are required to assess the nature, cause and impact of identified weaknesses, justify judgements concerning their materiality and define their impact on the assurance contained in the annual declaration.*

*Action 3a of the Commission's action plan towards an integrated internal control framework [COM (2006)9] should in future provide the ECA with improved presentation of the key internal control indicators used to support reasonable assurance. Ongoing work on the 2004 Synthesis action on objectives and indicators, which aims at analysing and defining relevant objectives and indicators for legality and regularity of operations, will also contribute to this objective.*

27. Forward position to COCOBU in the form of a detailed and comprehensive report explaining and discussing the following issues:

- the Director-General for Budget should give a formal opinion on the quality and efficiency of the internal control systems;
- the Secretary-General, who has ultimate operational executive responsibility for the bureaucracy, should give a formal declaration of assurance as regards the quality of the individual declarations from the line managers (Directors-General);



- the internal auditor of the Commission should give his assessment of the quality and effectiveness of the controls as described in the management's annual activity reports and Synthesis report in the form of an audit opinion as regards the adequacy of the Secretary-General's assurance statement;

- the responsible Commissioner should co-sign, possibly in the form of a negative assurance so as to avoid any undermining of the responsibilities attributed to the authorising officers, the declaration given by the Director-General, as this would bridge the gap between the Director-General's individual assurance declarations and the College's institutional assurance declaration.

In case of disagreement, explain how the Commission will be able to obtain the assurance required to fulfil its responsibility under Article 274 of the EC Treaty. (§§ 79 and 80)

**Commission's response:**

*The Commission would like to point out that it is its firm conviction that, under the existing accountability architecture issued from the reform, the implementation of the proposed measures would call into question Directors-General's individual responsibility and the differentiation between political (College) and management responsibilities/accountabilities (Director-General).*

*Moreover, an opinion on the quality and efficiency of the internal control systems can only be given following detailed verification of those systems and, according to article 86 of the Financial Regulation, is one of the responsibilities of the Commission's Internal Auditor. The role of the Secretary General is not conceived to produce formal declarations of assurance concerning the Annual Activity Reports and would lead both to a potential interference between Commissioners and their Directors-General and to an important increase in administrative processes (against the main simplification goal). Finally, the Commission's Internal Auditor is already responsible for issuing independent opinions on the quality of management and control systems and a double signature of the Annual Activity Reports would lead to a blurring of responsibility and to a "de-facto" de-responsibilisation of Directors General.*

*The adoption of the synthesis report is the major act where the Commission fully assumes its political responsibility for the implementation of the budget under the Treaty and where the Commission's political accountability to the discharge authority is expressed.*

*First, when adopting the Synthesis, the Commission takes stock of the way management and internal control are addressed by its services and in particular of the reservations expressed.*

*Second, the Commission instructs the services to implement the specific action plans laid down to remedy to the deficiencies disclosed in the Annual Activity Reports.*

*Third, the Commission recalls the responsibility of Commissioners for following up on the implementation of the above remedial actions in the services under their portfolio.*

*Finally, the Synthesis report adopted by the College identifies any systemic problems and adopts corrective actions needed at the Commission level to address major cross-cutting management and internal control issues.*

*It is the Commission's firm opinion that, either by its content or its form, the Synthesis report is therefore fully in keeping with the Commission's Treaty responsibility and that it serves the common goal of enhanced accountability and clear lines of responsibility.*

## Further horizontal recommendations

28. In line with private sector best practice, the accounting officer should be upgraded to Chief Financial Officer with special responsibility for the quality of the Commission's financial reporting and its system of internal control as a whole. (§§ 82 and 83)

**Commission's response:**

*The Commission has taken the recommended action. Its proposal for amending the Financial Regulation provides that the responsibilities of the accounting officer will be adapted. It will require that, before the adoption of the accounts by the institution, the accounting officer shall sign them off, certifying that they present a reasonable true and fair view of the financial situation of the institution. He shall satisfy himself that the accounts have been prepared in accordance with the accounting rules, methods and accounting systems established under his responsibility as laid down in the Financial Regulation for the accounts of his institution, and that all revenue and expenditure is entered in the accounts. However, the authorising officers shall remain fully responsible for the proper use of the funds they manage as well as the legality and regularity of the expenditure under their control.*

*The accounting officer shall be empowered to check the information received as well as to carry out any further checks he deems necessary in order to sign off the accounts. The accounting officer shall make reservations, if necessary, explaining exactly the nature and scope of such reservations.*

*While the accounting officer does, in accordance with the Financial Regulation, validate the systems used by the authorising officers, this does not mean that he assumes responsibility for the system of internal control as a whole. It is not envisaged that the accounting officer be responsible for the system of internal controls, which remain the responsibility of the authorising officers, as laid down in Art. 60(4) of the Financial Regulation.*

29. The Chief Financial Officer who is accountable for the quality of the Commission's financial reporting and its system of internal control must have the necessary competence and adequate resources to ensure such quality, and that this includes a means of testing the assurances given by the Directors-General. (§ 84)

**Commission's response:**

*The Commission has taken the recommended action. Its proposal for amending the Financial Regulation provides that the responsibilities of the accounting officer will be adapted. It will require that, before the adoption of the accounts by the institution, the accounting officer shall sign them off, certifying that they present a reasonable true and fair view of the financial situation of the institution. He shall satisfy himself that the accounts have been prepared in accordance with the accounting rules, methods and accounting systems established under his responsibility as laid down in the Financial Regulation for the accounts of his institution, and that all revenue and expenditure is entered in the accounts.*

*However, the authorising officers shall remain fully responsible for the proper use of the funds they manage as well as the legality and regularity of the expenditure under their control.*

*The accounting officer shall be empowered to check the information received as well as to carry out any further checks he deems necessary in order to sign off the accounts. The accounting officer shall make reservations, if necessary, explaining exactly the nature and scope of such reservations.*

*While the accounting officer does, in accordance with the Financial Regulation, validate the systems used by the authorising officers, this does not mean that he assumes responsibility for the system of internal control as a whole. It is not envisaged that the accounting officer be responsible for the system of internal controls, which remain the responsibility of the authorising officers.*

*As regards resources available to the accounting officer, they include the central accounting department of the Directorate-General for Budget and the local accounting correspondents in the Directorates-General and Services, in addition to the reporting facilities in ABAC.*

30. Set up a network for financial control organisations and bodies, including an annual meeting in the presence of the members of its Committee on Budgetary Control, to discuss and exchange experiences as regards general EU internal control systems (including internal audit) and accountability issues and thereby foster more effective cooperation between Member States and the European Union (§ 88)

**Commission's response:**

*The recommended action has been taken. Such a network already exists for the Structural Funds under coordination arrangements provided for in the regulations. It involves all national authorities with responsibilities for audit of Structural Funds. The Commission convenes the members to an annual "Homologues' Group" meeting, at which technical issues of audit coordination and methodology are discussed, and to ad hoc technical meetings in Brussels. Documents are exchanged through a dedicated website. The European Court of Auditors is invited to all meetings. In agriculture, Paying Agency Directors meet regularly to discuss the implementation of CAP rules as well as to exchange ideas on best practice.*

31. As part of the interinstitutional dialogue on this subject in 2006, make a detailed proposal on the level of tolerable risk of error, indicate which areas of the budget are high, medium or low risk and adapt control and audit activities accordingly. (§§ 95 and 97)

**Commission's response:**

*The recommendation is accepted. Action 4 of the "Commission's action plan towards an Integrated Internal Control Framework"[COM(2006)9] aims to "initiate inter-institutional dialogue on the basis principles to be considered regarding the risks to be tolerated in the underlying transactions". The Commission has already made significant progress by including the issue in the*

***proposed revision of the Financial Regulation and drafting the corresponding Implementing Rules which will define the practical application of these principles.***

32. Along with the Court of Auditors, make public information about the strengths and weaknesses of Member States' control systems. (§ 104)

**Commission's response:**

***As regards the Commission, the Directorates-General managing the bulk of the budget enter reservations in their declarations where the information they have built up from their own and the Member States' audit work on the functioning of systems indicate significant deficiencies posing a material risk to the Community budget that can not be adequately managed through the normal corrective mechanisms of the control system. In those cases, the Member States' control systems concerned are explicitly mentioned in the annual activity reports.***

## Revenue

33. As regards the GNI own resource, invites the Commission to inform its competent committee on which measures it has or will take to improve the reliability, comparability and exhaustiveness of national accounts (§ 109)

**Commission's response:**

*Since the introduction of the fourth own resource based on GNP/GNI, the Commission has been working in close co-operation with Member States to improve the reliability, comparability and exhaustiveness of national accounts. The measures taken in this context are notably described in the reports from the Commission to the European Parliament and the Council on the application of the GNP Directive (COM (96)124 final of 27.03.1996) and of the GNI Regulation (COM (2006) 199 final of 8.05.2006). The Commission is willing to inform directly the competent European Parliament committee about these measures.*

## Common Agricultural Policy

34. Require certifying bodies to test the operation of the primary-level controls in order to provide assurance that the information supplied by claimants is correct (paragraph 4.60). (§ 113)

**Commission's response:**

*The recommendation is partially accepted. The Commission takes the view that the comprehensive system for the management and control of agricultural expenditure already provides reasonable assurance as to the effective management of the risk of error in the legality and regularity of the underlying transactions in agriculture.*

*However, in order to further improve and reinforce the overall system for providing reasonable assurance, the Commission is prepared to implement the Court's recommendation that the certifying bodies should do more work to verify and validate inspections statistics and post-payment checks. To this end, the certifying bodies will be required in the new guideline on reporting to review more in detail the administrative capacity of the paying agency as regards on-the-spot checks. They will have to gain assurance as to whether the system (for on-the-spot checks) in place has operated satisfactorily by reviewing in detail elements like accuracy of control statistics, instructions and manuals, human resources, training and competencies of controllers, agreements with delegated bodies, monitoring and supervision systems in place by the paying agency, application of sanctions etc.*

35. Extend post-payment checks to as many Member States as possible in order to attain reasonable assurance on compliance with Community legislation. (§ 114)

**Commission's response:**

*The Commission has taken the recommended action. 10 audit visits were carried out in 2004 and 2005. Eight further missions on the application of Regulation 4045/89 to cover general aspects are envisaged for 2006. In that respect, the compliance units will continue in 2006 to evaluate the Regulation as part of their missions covering specific sector related issues. Furthermore, an amendment to Regulation 4/2004 laying down detailed rules for the application of Regulation 4045/89 was adopted by the Commission on 10 January 2006. These changes address the weaknesses indicated by the Court in the 2004 Annual Report with regard to reporting requirements.*

36. Introduce a minimum of common terminology according to the different climate zones in the Union and use these in order better to target EU forestry measures and spending. (§ 115)

**Commission's response:**

*The Commission is taking the recommended action. With the adoption of Council Regulation (EC) N° 1698/2005 a more targeted approach has been introduced into rural development. In its implementing rules, which are currently under*

*discussion, the Commission has proposed common definitions of 'forest' and 'other wooded land'.*

37. Complete the accreditation of the EAGGF paying agencies in some new Member States as soon as possible. (§ 116)

**Commission's response:**

*The Commission has taken the recommended action. All paying agencies (PAs) in the new Member States (NMS) have received final accreditation.*

*Each NMS is responsible for the accreditation of the PAs. Provisional accreditation was granted provided the PAs' control systems reached the minimum acceptable standard. Final accreditation was only granted when all significant issues identified in the pre-accreditation audits were resolved. The Commission has closely monitored the situation, notably via audit missions to each paying agency in each NMS.*

38. Focus human resources, which have to deal with the administration of the premiums of the major instrument for afforestation (whose amount largely exceeds the funds allocated to the programme), on current objectives. (§ 117)

**Commission's response:**

*The Commission has taken the recommended action. Continuity needs to be ensured in forestry. The existence of long-term contracts providing compensation for loss of income is a core element to make afforestation of productive agricultural land attractive to farmers. Thus, by its nature, such support needs to span more than one programming period. The Commission has responded to the Court's observations and proposed a reduction of the aid ceilings and a shortening of the maximum period to compensate income foregone resulting from the afforestation of agricultural land from 20 to 10 years. The Council, in its Regulation (EC) N° 1698/2005, decided on a reduction to 15 years.*

*As to the human resources in particular, it has to be highlighted that the Commission services currently focus on the implementation of the current objectives, i.e. those fixed for the programming period 2007-2013. The management and execution of payments resulting from previous periods is the competence of the Member States.*

39. Table proposals to avoid that the premiums of the major instrument for afforestation largely exceed the funds allocated. (§ 117)

**Commission's response:**

*The Commission has taken the recommended action. Continuity needs to be ensured in forestry. The existence of long-term contracts providing compensation for loss of income is a core element to make afforestation of productive agricultural land attractive to farmers. Thus, by its nature, such support needs to span more than one programming period. The Commission has responded to the Court's observations and proposed a reduction of the aid ceilings and a shortening*



*of the maximum period to compensate income foregone resulting from the afforestation of agricultural land from 20 to 10 years. The Council, in its Regulation (EC) N° 1698/2005, decided on a reduction to 15 years.*

40. Evaluate the verifiable character of sub-measures at the time of approving the rural development programmes. (§ 120)

**Commission's response:**

*The Commission is taking the recommended action. In the 2000-2006 programming period it checked, during the examination of the Rural Development Plans (RDPs), that the measures defined by the Member State were acceptable and relevant. It refused to accept certain proposals because their added value, and/or their controllability, was inadequate, e.g. fertilizer reduction by less than 20 %. However, the checks on verifiability were not exhaustive during the programme approval period (2000/2001).*

*For the 2007-2013 programming period the following steps are envisaged:*

*1. The Commission will issue guidance and discuss with MS what undertakings can be reasonably controlled by the MS. This guidance document will establish a classification of controllability for the different undertakings. It shall be used by the Commission services in the assessment of Rural Development Programmes and may lead, where necessary, to a refusal of measures.*

*2. The proposition of a control system aligned as far as possible with control systems related to cross compliance for first pillar payments as well as the clearer allocation of responsibilities between Member States and Commission will strengthen controllability.*

41. Ensure, together with the Council and Parliament, that initiatives financed are sufficiently verifiable when implementing the proposals for agri-environment expenditure in the 2007 to 2013 planning period, without increasing control costs and bureaucracy. (§ 122)

**Commission's response:**

*The Commission is taking the recommended action as regards verifiability of measures. For the next programming period, the Commission inserted in the draft proposal for the implementing regulation the following provision (art.48 (1)):*

*“...Member States shall ensure that all the rural development measures they intend to implement are verifiable and controllable. To this end, Member States shall define control arrangements that give them reasonable assurance that eligibility criteria and other commitments are respected.”*

*As to the calculation of aid levels (i.a.) for agri-environment expenditure, the following is added (art. 53 (2) a):*

*“...Member States shall ensure the following for the calculations and the corresponding aids referred to in paragraph 1:*

*(i) they contain only elements that are verifiable,...*

## Structural measures

42. Along with Member States, take all necessary measures in order to bring "day-to-day management" up to the required standard. (§ 125)

**Commission's response:**

*The Commission is taking the recommended action. It recently issued a note of good practice for day-to-day checks by management in Member States. It requires improvements whenever it finds in its audits that the checks are not being done properly. Where the deficiencies are serious, it agrees action plans with the national authorities and monitors implementation of the plans.*

43. Managing authorities should not be allowed any longer to delegate actual payment decisions. (§ 126)

**Commission's response:**

*The Commission will not be taking the recommended action. In the Structural Funds, while the processing of payment claims from beneficiaries can be delegated to intermediate bodies in accordance with the provisions of the regulation, the managing authority remains responsible for payment decisions and is therefore expected to issue instructions on the standards to be applied and to supervise the activity. The paying authority carries out further checks for the purposes of certification before claiming reimbursement from the Commission. The Commission therefore does not consider that it is a problem if the managing authority delegates payment functions to an intermediate body, provided both the managing and paying authorities carry out their supervisory roles properly.*

44. Disseminate good practices of controls to Member States (§ 128)

**Commission's response:**

*The recommended action has been taken. In 2006 the Commission issued notes setting out good practice on day-to-day management checks and performance of the certification function by paying authorities. In 2003 guidance was issued on the execution of sample checks by audit bodies to promote satisfactory and consistent standards for this work. The Commission has also published detailed audit manuals for the Structural Funds and the Cohesion Fund. Control and audit methodology is discussed at regular bilateral and multilateral coordination meetings between the Commission and Member States.*

45. For the next programming period, implement together with Member States the proposed sectoral declarations at central Member State level, make arrangements for Commission's approval of management and control bodies set up at that central level and present as soon as possible a proposal which would require the audit body proposed in the 2007-2013 regulations to certify the claims made on all structural funds in the course of any given year, and not just the claims under the 2007-2013 programmes, because 2000-2006 expenditure continues until 2010. (§§ 131 to 133)

**Commission's response:**

*The recommended action is being taken. In its proposal made in July 2006 for an amended Financial Regulation and its implementing rules, the Commission has incorporated the Council's commitment to produce at the appropriate national level annual summaries of audits and declarations and has specified their content and timing. The regulations for the 2007-13 period of Structural Fund programmes require the Member States to submit to the Commission before lodging of the first interim payment claim and at the latest within twelve months of the approval of programmes a description of the management and control system, and the main bodies involved, and an assessment of their compliance with requirements. The Commission can object to arrangements that appear not to guarantee the necessary independence or separation of functions. With regard to the recommendation to require the audit authority to certify claims from 2000-06 period programmes, however, the Commission has no legal basis for making an annual audit opinion mandatory for 2000-06 programmes. Payment claims made in 2007 and 2008 will continue to be certified by paying authorities in accordance with the current regulations and, before closure starting in 2010, the winding-up body will issue an audit declaration on all the expenditure declared throughout the programme period.*

46. In cooperation with the Member States, ensure that the lessons drawn from the closing of programmes for the 1994/1999 period are applied for the 2000/2006 period and future periods of the implementation of Structural Fund programmes and Cohesion Fund projects. (§ 134)

**Commission's response:**

*The recommended action has been taken. The Commission has already issued a detailed guidance document for the 2000-06 period closure. In the new period the new regulatory requirements (ex ante compliance assessment and annual audit opinion) will ensure that the supervisory and control systems can operate effectively from the beginning, despite simultaneous work on closing 2000-06 programmes. The provisions on partial closure should also achieve an even more significant improvement in the closure arrangements.*

47. Present every six months a scoreboard showing Member States' progress as regards efficient implementation of supervisory and control systems as described in the regulations. (§ 135)

**Commission's response:**

*The recommended action has been taken. Such information is already provided, on an annual basis, in the Annual Activity Reports of the Directorates General concerned. In the AARs the Directorates General identify weaknesses in national systems in particular Member States. These assessments are based on the Commission's own audit activity and management information and on the Member States' annual control reports. The Directorates General follow their annual work programme and review progress on a regular basis. Periodically, the Commission*

*services issue other reports on the operation of management and control systems, such as that on ERDF systems which was presented to Parliament in April 2003.*

## Internal policies, including research

48. Work towards a maximum of standardised procedures in internal policies, thereby facilitating financial controls and reducing the administrative burden for beneficiaries. (§ 136)

### Commission's response:

*The Commission is taking the recommended action. The Commission shares the concern that a maximum number of common procedures should be sought, particularly as regards Research, where management involves several Directorates-General. In addition to its implementation of the internal control standards introduced at Commission level, the Research family is striving to define as many common methods as possible and as many mutually compatible tools as possible whether shared or integrated. Concerning simplification of the implementation modalities:*

*1/ \* The Commission has established an Action Plan for the Rationalisation and Acceleration of FP6,*

*2/ \* in the Commission's Staff Working Paper on FP7 adopted on 6 April 2005, a first set of 10 measures is proposed. These include more extended use of flat-rate financing and lump sum financing; a single common electronic registration desk for participants to submit their basic legal, administrative and financial data; consistent application of ex-ante controls guaranteeing the protection of Community's financial interests; full operational autonomy entrusted to consortia avoiding micro-management by the Commission's services; simplification of eligible costs based on contractors' usual accounting and management practices and principles.*

*3/\* In addition, the workshop of 16/17 June 2005 on simplification, with participation of the Court of Auditors, representatives of Member States and stakeholders, helped to consolidate these proposals and to identify further actions.*

*4/\* A Sounding Board of smaller participants (SMEs, small research institutes and universities) has been set up to ensure that their interests are taken into consideration when establishing FP7 rules.*

*5/\* A further conference on simplification with representatives of participants in Community-funded RTD projects was held in September 2005 and a dedicated web site established to consult participants and gather their views.*

*The Commission's proposal for the EC Rules for participation (COM(2005) 705 final), adopted on 23 December 2005, includes the first set of rules reflecting these discussions.*

*Regarding the Trans-European Network of Transport programme (TEN-T), the Commission has taken the first steps towards simplifying the administrative process (by merging the preliminary and detailed application for non-MIP proposals in 2004). Cost statement models are annexed to the TEN Decision since*

**2005. The Commission is examining how to further simplify the application and evaluation process.**

49. Establish a common or integrated IT system for the management of the fifth, sixth and further framework programmes for research, technological development and demonstration activities. (§ 136))

**Commission's response:**

***The Commission is taking up the recommended action. The situation depends on the Framework Programme:***

***Concerning the 5th Framework Programme:***

***The formal implementation period of the 5th Framework Programme is closed, though projects are still ongoing. The action that has been taken was to implement a common data warehouse with information on financed projects that can be used for consultation or reporting. Moreover a common expert registration tool and a common electronic submission tool (Pro-tool) have been created and used.***

***Concerning the 6th Framework Programme:***

***A common management structure for supervision (IT Programme Steering Committee) was implemented in Summer 2004 between all research DGs replacing earlier arrangements.***

***A Commission corporate IT system has been implemented for those procedures where the different services use similar, integrated workflows (Proposal submission, Expert registration and selection, Proposal evaluation, Contract Preparation, Contract Management). However, the research family has also to meet the needs of other programmes which are managed outside the framework programme supported by dedicated IT-Systems. For federating these systems a common data warehouse is under development and "calibration exercise" are recommended by the supervising body (IT Programme Steering Committee) because of different user requirements and workflows.***

***Concerning the 7th Framework Programme:***

***The specific development can take place when the business procedures for FP7 and their supporting reference documents are available. In the meantime, however, the following actions are being taken:***

***Follow a two-step strategy towards IT provision accepted by the IT Programme Steering Committee:***

- Step 1 (for initial operations of FP7 from 1st January 2007): adapt existing FP6 IT systems to FP7 processes as they emerge (this requires FP7 processes to be streamlined and information systems to be developed in parallel). Analyse in that context the results of the integration of the IT systems developed for FP6 and improve the systems where possible.***

• *Step 2 (within 2-3 years from initial operations of FP7): renew the information systems in the light of the establishment of external agencies, and of the experience of the initial operations in FP7. For that process, mandate accordingly an IT steering group and embrace "RUP" development methods (in accordance with the governance recommendations of DG DIGIT) for all services, in order to narrow down the gap between business decisions/actions and IT decisions/actions.*

50. Simplify procedures in order to remedy the persistent high risk of errors caused by incorrect declarations of costs by final beneficiaries. (§137)

**Commission's response:**

*Concerning the clarification of the procedures and instructions in previous Framework Programmes, this recommendation has been accepted. It has been implemented within the Action Plan elaborated following the Synthesis Report of the Annual Activity Report 2001.*

*Several measures have been adopted in order to improve the contract management such as:*

*For FP5:*

- *towards the contractors: informing them at the time of signature of contract and at the time of payment of each cost statement and reminding them of the possibility of financial audit; reminding co-ordinators of their responsibilities; improving and structuring the CORDIS 5FP management helpdesk on contract questions; providing contractors with the main results and problems identified during financial audits, in order that they avoid similar errors and problems; increasing the number of "desk audits";*
- *towards the Commission's officials: further and common training DGs on financial management issues in order to ensure that a reasonable number of projects is being managed by closing off contracts as soon as possible (ensuring the timely financial closure of projects), minimising contract extensions etc.*

*For FP6:*

- *towards the contractors : the model contract web site is kept updated with all the relevant information relating to special clauses and associated guidance for their use, guidelines for amendments, guide to financial issue, FAQs, translations of model contracts, etc. to ensure that contractors are aware of contractual issues;*
- *towards the Commission's officials : a number of documents have been provided to clarify and coordinate actions between the research DGs; two cross-DG seminar on legal aspects relating to FP6 projects have been held in December 2004 and February 2005.*

*Regarding the Trans-European Network of Transport programme (TEN-T), the Commission has taken the first steps towards simplifying the administrative process (by merging the preliminary and detailed application for non-MIP*



*proposals in 2004). Cost statement models are annexed to the TEN Decision since 2005. The Commission is examining how to further simplify the application and evaluation process.*

51. Increase the number of on-site project assessments in the area of employment and social affairs. (§139)

**Commission's response:**

*The Commission is taking the recommended action. Given the high volume of projects within the European Social Fund (ESF) programmes and in order to maximise the use of resources available, the audit strategy adopted by the Directorate-General for Employment, Social Affairs and Equal Opportunities was intended, in the first instance, to give priority to the audit of the systems implemented by the Member States. The different stages of this strategy are:*

- a desk analysis of the management and control systems set up by the Member States (based on the descriptions provided under Article 5 of Regulation 438/2001) and audits on-the-spot at the level of the national authorities;*
- a limited number of controls of projects for testing the systems set up;*
- the strengthening of the control of projects by establishing a contract with a provider to carry out the controls.*

*The audit strategy followed by the aforementioned Directorate-General resulted in the identification of a certain number of systemic weaknesses and in the implementation of the necessary improvements and financial corrections by the Member States. For ESF, one indicator of the improvements made to the management and control systems set up in the Member states is the percentage of programmes with systems that were judged non compliant by the Director-General for Employment, Social Affairs and Equal Opportunities in its annual activity report. This percentage dropped from 46% in 2004 to 16% at the end of 2005.*

52. Ensure, together with Member States, that appropriations from the Structural Funds are properly allocated in the area of employment and social affairs. (§ 140)

**Commission's response:**

*The recommended action has been taken. Evaluations of programme proposals and performance are carried out at the beginning, in the middle and at the end of the programme cycle. Their results are considered in the initial design of programmes, in the review of their performance mid-way in the programme period, and in the thinking about the general objectives and direction of the policy respectively. At individual project level, the selection criteria are intended to ensure that only projects contributing to the programme's objectives are accepted for co-financing, and managing authorities are required to monitor how projects perform and to consider the lessons to be learned from their implementation.*

53. Issue a memorandum concerning good practice as regards controls on management of national expenditure and assess the results of all kinds of financial resources in the area of employment and social affairs. (§ 141)

**Commission's response:**

*The problems with updating the follow-up of recommendations, in the electronic system, arising from audits in the Directorate-general for Employment, Social Affairs and Equal Opportunities were remedied in 2005. The Commission has already issued notes of good practice in day-to-day management checks, for the certification function of paying authorities, and guidance on the execution of sample checks by audit bodies. It has also published detailed audit manuals for the Structural Funds and the Cohesion Fund.*

54. Continue, together with Member States, efforts to ensure greater social cohesion in the area of employment and social affairs. (§ 143)

**Commission's response:**

*The Commission notes that the European Council of March 2006 approved the new objectives for the streamlined open method of coordination on social protection and social inclusion, which make clear that greater social cohesion and, in particular, efforts to promote social inclusion, remain key priorities for the Union and the Member States. From 2007, the open method of coordination will be supported by the new PROGRESS programme.*

55. Verify continuously whether cost-reimbursement systems could be simplified and the procedures and instructions governing the various programmes be formulated more clearly in the area of employment and social affairs. (§ 145)

**Commission's response:**

*The recommended action has been taken. Regarding direct management, the four programmes currently managed by DG Employment, Social Affairs and Equal Opportunities have been regrouped into a single programme entitled PROGRESS, which will enter into force in 2007. Common instructions will be issued to cover the financial implementation of cofinanced projects to ensure harmonised and simpler application, and information sessions targeting beneficiaries will come on stream as grants are awarded, to prepare the ground for the financial management of the projects.*

*Ex-ante sampling checks on documents supporting final financial statements presented by beneficiaries have also been stepped up among operational units, thereby minimising the possibility of undue payments. The DG in question has introduced an additional ex-ante sampling check into its financial circuits, considerably improving the level of assurance.*

*In parallel to that, the proposed amendments to the Financial Regulation and its implementing rules recommend a simplification of the procedures, which would clarify the specific rules applicable at Commission level.*

*As far as ESF is concerned, the procedures and instructions governing the management and control systems of the Member States have been developed in such a way as to ensure that the same standards apply across all programmes and that the assessment of those systems can be done without jeopardising the principle of equal treatment.*

*A set of Regulations was approved at the beginning of the current programming period to ensure that Member States were aware of the standards applicable during the whole period. Moreover, guidance and clarification have been provided on an ongoing basis through dissemination of that information in the respective Committees.*

*Furthermore, in 2003, a Commission's Communication was issued in order to simplify certain issues pertaining to the management and control of programmes.*

56. Take practical measures to facilitate procedures for the adoption of proposals for participation in Community programmes in the area of employment and social affairs. (§ 146)

**Commission's response:**

*The Commission is taking the recommended action. Computerisation of grant requests and their evaluation is being finalised (via SWIM – the Saga Web Input Module system). In 2007, most budget programmes and lines in the area of Employment and Social Affairs will offer grant applicants the possibility of making their request electronically. Online assistance will be available to help applicants fill in the forms, and to recall the principles that must be abided by when establishing the budget of an action to be cofinanced.*

*The system will automate the gathering of essential data, and enable the creation of tables comparing applications within the framework of each call for proposals. This will considerably reduce the time spent dealing with calls for proposals: the evaluation procedure will be faster, and decisions and notifications to applicants about acceptance or refusal of their projects will be speeded up considerably.*

57. Develop further assistance to applicants in the context of multi-annual programmes in order to avoid the submission of project applications not eligible for funding or of poor quality in the area of environment, public health and food safety. (§ 148)

**Commission's response:**

*The Commission is taking the recommended action. The Commission has already done a lot but will do more. According to the draft Implementing Rules linked to the ongoing revision of the Financial Regulation (linked IR) the Commission will improve the 'grant management'.*

*In order to assist the applicants, to improve the quality of proposals and to increase the efficiency of the calls for proposals, the Commission will lay down joint standards for application forms for similar grants and monitor the size and readability of the application forms, provide information and guidance to the applicants in several languages about the rules applicable to the award of grants*

*by means of organising seminars and providing handbooks. In the same spirit, it should inform as soon as possible the applicants of the possibility of success of their applications. The procedure of submission and the procedure of evaluation may be divided in different stages, allowing to reject at an early stage the proposals which cannot have any prospect of success after this stage of the procedure. In order to clarify which costs may be eligible for Community financing an indicative list is provided for. Provisions are inserted to determine the conditions for submission of the applications, especially for applications submitted by electronic means. Finally, additional information may be asked of the applicants during the award procedure, in particular in the case of evident material errors in the applications.*

*In order to protect the interests of the beneficiaries and to increase legal certainty, modifications of the content of the call for proposals have to remain exceptional, and applicants have to benefit of a supplementary deadline if these modifications are substantial. They shall be subject to the same conditions of publication as the call itself.*

*The Commission is considering the possibility of restricting a call for proposals to a targeted category of beneficiaries. An example is twinning schemes in external relations where the target organisations are national administrations of the Member States who should "twin" with administrations in third countries and provide them with experience.*

58. Examine procedures to see if the implementation of payment appropriations could be improved (increase payment rates above 80%) in the area of environment, public health and food safety. (§ 149)

**Commission's response:**

*The Commission is taking the recommended action. For the public health programme, efforts are made to bring the programming cycle forward, aiming to have the Financing Decision for expenditure in the Public Health activity adopted earlier. The call for proposals is also more focused and specific, thus decreasing the number of proposals received and allowing the shortening of the evaluation process.*

*In addition, the Director General has put in place a formal structure to ensure that SANCO's management team is more regularly informed in a structured way on issues related to financial management. Reports on budget implementation are now presented and discussed in a budget committee that feeds the information into the management committee.*

*It is worthwhile mentioning also the creation of an executive agency in the field of public health (Commission Decision No 2004/858/EC, OJ L 369/73 of 16.12.2004). As a result, a significant body of qualified staff dedicated to this activity will be handling the programme implementation, which therefore should lead to improved efficiency.*

*As for the environmental aspect, in order to address timely the concentration of financial transactions in the last quarter of the year, DG ENV has issued several*

*notes promoting the multi-annual planning concept and a more balanced way of committing throughout the year. This should have a positive impact on the first payments posted to these commitments. Financial reporting on budget execution is issued every fortnight to management. Meanwhile DG BUDG has developed an 'early warning tool' aiming to minimise the risk of end-of-year surpluses of appropriations by means of comparing the real budget execution with the forecasting.*

59. Avoid unnecessary delays in awarding grants or selecting projects to be financed in the area of environment, public health and food safety. (§ 150)

**Commission's response:**

*Commission departments are likewise keen to speed up the signing of grant agreements.*

*It should be borne in mind that the length of the project selection process also depends on the requirements of financial regulations and on the length of time required to carry out an in-depth evaluation of proposed projects, so that objectives can be verified and available financial resources allocated as efficiently as possible.*

*In addition, it is hoped that the outcome of the process to change the current Financial Regulations and Implementing Rules will contribute to a further simplification of procedures that ought to be followed, which can then also contribute to reducing any delays.*

60. Ensure proper implementation of annual calls for proposals for specific consumer protection projects in the area of environment, public health and food safety. (§ 153)

**Commission's response:**

*The Commission is taking the recommended action. Despite the fact that the legal base only establishes the need to have the Call for Specific Projects at least once every two years, SANCO has made a call in 2004, 2005 and 2006. The 2006 call is currently open (deadline 30 June). The 2005 call was processed within the three months required by the EP.*

61. Translate the lessons learnt during the execution of the current consumer programme in designing the new programme for 2007-2013, allowing for alternative beneficiaries that would be better equipped to undertake the actions envisaged. (§ 153)

**Commission's response:**

*The Commission is taking the recommended action. On the new programme, actions on specific projects in favour of consumer organisations have been deleted. Experience has shown that, even if they may give consumer organisations a short term boost, they do little to develop the capacity of the consumer movement in a sustainable way. However, capacity building actions for national consumer organisations remain a priority through other support instruments, like training*

*for NGO's staff. This has proven to be a very cost effective means to give effective support to consumer organisations, because it enhances their long term capacity and sustainability.*

62. Follow-up effectively observations by the Court concerning internal audit capabilities and failures to meet accepted standards in the area of internal market and consumer protection. (§ 154)

**Commission's response:**

*The recommended action has been taken: new auditors were recruited to the two vacant posts in the second half of 2004. At present all the three internal auditor posts have been filled in. Staff limitations will thus no longer prevent the Internal Audit Capability of DG SANCO from carrying out its annual audit plan.*

63. Take further action to reach the audit target of 20 % of projects and 35 % of total project costs in the area of transport and tourism. (§ 156)

**Commission's response:**

*The Commission will not be taking the recommended action: in 2004, when DG TREN started auditing Trans-European network projects (TEN) the sample initially selected covered more than 35% of the total costs of the projects finalised in 2003, which DG TREN considered highly significant. The aim of maintaining this target was fixed at this time together with the intention of covering 20% of the projects finalised. After issuing the drafts of the first batch of 20 audits, DG TREN realised that for cost efficiency reasons the target of auditing 20% of the projects was not realised. It has appeared from the experience gained that audits of TEN projects are rarely followed by financial adjustments as the budget of the projects (mainly public works for road/trains) is always largely overrun and as in most cases, audit adjustments are compensated by eligible costs in excess of the amount foreseen in the decision. Overpayment risk is thus very low. Furthermore, TEN beneficiaries are almost the same from one year to another (public authorities or national bodies).*

*DG TREN decided to stick to its audit policy of auditing a large part of the budget and to cover as many beneficiaries as possible but with a risk based approach and with reasonable audit costs. DG TREN considers the number of 20 audits of TEN projects per year as sufficient, this figure covers more than 10% of the projects finalized each year. At the same time this sample size will always cover a significant part of the total costs of the projects finalised each year.*

64. Define model costs statements in the area of transport and tourism. (§ 156)

**Commission's response:**

*The recommended action has been taken and cost statements model are annexed to the TEN Decision since 2005.*

65. Distinguish between studies and works for audit purposes in the area of transport and tourism. (§ 156)

**Commission's response:**

*The Commission is taking the recommended action. DG TREN already introduced clear definitions in the decision text of binding models for the financial and technical reporting. This inclusion has been welcome by the budgetary authority in its report 2004. The new draft TEN Regulation (applicable in 2007) contains clear definitions of works and studies. However, DG TREN will further discuss this point with the Court in order to find an agreement on definitions that address the concerns of both institutions.*

66. Increase payment appropriations deployed for transport safety. (§ 158)

**Commission's response:**

*The Commission is taking the recommended action. The low rate of execution of payment appropriations in 2004 is due to the delayed launch of the call for proposals which lead to less advance payments than foreseen. The 2005 consumption of payment credits is better even though it is globally difficult to obtain bank guarantee permitting to launch advance payments.*

67. Increase commitments and payments available for protecting passengers' rights. (§ 159)

**Commission's response:**

*The Commission is taking the recommended action. This budget line was created in 2004. It is thus the first year that the credits were available for this policy. DG TREN has developed a policy in this sector and the available appropriations in 2005 are much higher than in 2004. The execution rate in 2005 amounted to 79% on commitments and to 91% on payments. The execution in 2005 is thus much higher than in 2004 and the execution 2006 appears to be at the same level.*

68. Increase in future payment appropriations available for the TEN-T budget. (§ 161)

**Commission's response:**

*The Commission is taking the recommended action. The payment credits for TEN-T between 2004 and 2006 have slightly increased. However, the projects nature does not permit the Commission to increase massively the level of used payment credits. The duration of projects and the procedures linked to the closure of commitments (i.e. on-the-spot visits, audits, etc) make it difficult for the Commission to further decrease significantly the existing RAL.*

69. Reduce the risk of errors, in the light of the specificities characterising beneficiaries of grants within EU programmes on education, culture, youth and the media. (§ 162)

**Commission's response:**

*The Commission is taking the recommended action. A whole set of measures to this effect are foreseen in the proposed legal bases for the new programmes in the fields of education, culture, youth and the media. The various measures will be*

*spelled out in the implementing rules applicable to each of the programmes as well as in accompanying guidelines and other related documentation. These documents currently in preparation will be published when the programmes have been finally adopted. They will include elements like the use of lump sums in line with the Financial Regulation and simplified contracting arrangements for small scale grants.*

70. Identify solutions to procedural difficulties and bottlenecks in the management of projects encountered by beneficiaries of grants and present them in the form of lessons to be learnt and disseminated among those beneficiaries, as well as to be used for improving inputs for internal procedures in the area of culture and education. (§ 164)

**Commission's response:**

*The Commission is taking the recommended action. The preparation of the new programmes in the fields of education, youth and culture took careful account of the results of related external evaluations and stakeholder reviews. The new programmes have thus been constructed in the light of the findings and results achieved. Various measures have been incorporated in order to simplify management structures throughout the lifetime of a project including selection procedures, contractual arrangements and financial rules. Relevant documentation and guidance is currently under preparation awaiting adoption of the programme proposals by the competent authorities. Documentation and guidance will also be provided to potential and actual beneficiaries throughout the lifetime of the programmes.*

71. Use widely assessment indicators on the evaluation of the future Lifelong Learning, Culture, Media, Youth and Citizens for Europe Programmes. (§ 165)

**Commission's response:**

*The Commission is taking the recommended action. Detailed evaluation measures have been incorporated into the proposals for the new programmes. The comprehensive series of assessment indicators proposed for the ex-ante evaluation for the Lifelong Learning programme will be updated and agreed with the programme committee at the start of the new programme period. For the other programmes the Commission is currently working on developing equivalent indicators*

72. Strengthen multi-lingual procedures in relation to calls for proposals addressed to citizens and potential beneficiaries of EU programmes in the area of culture and education. (§ 166)

**Commission's response:**

*The Commission is taking the recommended action. Noting that every citizen is entitled to communicate with the Commission in any of the official languages it is also the intention of the Commission to publish calls for proposals for the larger programmes in all the official languages. Under centralised indirect management*



*the national agencies managing programmes in the field of education play a crucial role in informing the citizen and potential beneficiaries in their language.*

73. Increase the implementation rate of some key press and communication-related budget lines to ensure a communication policy capable of reflecting the current need for debate about the future of the Union in the area of culture and education. (§ 167)

**Commission's response:**

*The Commission is taking the recommended action. Measures have been taken in 2005 like the adoption of the action plan to improve the communication of the Commission on Europe as well as the adoption of the Plan-D for Democracy, Dialogue and Debate which already have lead to an increase of 8% in the budget implementation rate of DG COMM's budget.*

74. Look at a very broad range of Community policies and measures from the point of view of equal opportunities pursuant to the provisions of the Treaty of Nice. (§ 170)

**Commission's response:**

*The Commission is taking the recommended action. The Commission is already applying the gender mainstreaming principle pursuant to the EC Treaty. In the Roadmap on equality between women and men 2006-2010 (COM(2006) 92), the Commission has reaffirmed the dual approach of gender mainstreaming and specific actions, underlining that gender mainstreaming must be strengthened in all policies and in particular in the areas identified in the Roadmap.*

*The Roadmap presents key measures and actions that the Commission will implement in six priority areas during the period 2006-2010. The priorities are: achieving equal economic independence; enhancing reconciliation of work, private and family life; promoting equal participation of women and men in decision making; eradicating gender-based violence and trafficking; eliminating gender stereotypes in society; promoting gender equality outside the EU. Moreover, the Roadmap devotes a specific chapter to "Improving governance for gender equality", where particular attention is given to support gender impact assessment and monitoring progress which are both fundamental tools for gender mainstreaming.*

75. Provide budgetary data concerning funding allocated to the promotion of gender equality in the different budget lines. (§ 171)

**Commission's response:**

*The Commission will take the recommended action. At present some Commission services (RELEX, ECHO, RTD) apply in some of their activities gender budgeting. This will be the basis for a feasibility study of gender budgeting methodology in EU budget which is under preparation. This action is planned to be financed from Equal opportunities budget line of PROGRESS programme*

*The Commission has introduced the new impact assessment guidelines, which do now also include the issue of gender equality to be considered when assessing the*

*social impact of a proposal. To consider the aspect of gender equality in accordance with these guidelines facilitates the integration of the gender dimension in the subsequent monitoring, reporting and evaluation of an activity.*

76. Deliver relevant information on gender mainstreaming policies in the discharge reports. (§ 172)

**Commission's response:**

*The Commission will take the recommended action and deliver relevant information on gender mainstreaming policies in the discharge reports upon request.*

*Furthermore the Commission would like to highlight that it is actively applying the gender mainstreaming principle pursuant to the EC Treaty. In the Roadmap on equality between women and men 2006-2010 (COM(2006) 92), the Commission has reaffirmed the dual approach of gender mainstreaming and specific actions, underlining that gender mainstreaming must be strengthened in all policies and in particular in the areas identified in the Roadmap. The Roadmap devotes a specific chapter to "Improving governance for gender equality", where particular attention is given to support gender impact assessment and monitoring progress which are both fundamental tools for gender mainstreaming.*

77. Increase payment implementation rate as regards the "Daphne" programme. (§ 174)

**Commission's response:**

*The Commission accepts the recommendation. The Commission has initiated the following actions to increase the payment implementation rate for the Daphne programme:*

*- improved reporting formats for the final implementation report and the final financial statement, including guidelines and a standard format for payment requests. All documents are available on the Daphne web page;*

*- recruitment of one additional person to strengthen the Daphne team.*

*Early results are encouraging: while the rate of execution for the whole year was 24% in 2004 and 39% in 2005, it was already 33% by the end of May 2006.*

78. Collaborate with Member States to the proper implementation of appropriations committed, particularly as regards Structural Funds in the area of gender equality. (§ 175)

**Commission's response:**

*In the recently adopted Roadmap for equality between women and men, 2006-2010, the Commission stresses that accountability is central to effective governance. The Commission inter-service-group on gender mainstreaming represents an important forum for coordination between Directorates-General and for follow-up of gender equality activities foreseen in the Roadmap. Moreover, in*

*the Roadmap the Commission undertook to take greater account of the gender perspective in the impact assessment of Community policies and legislation and to explore the possibilities of developing gender budgeting at EU level, particularly in the Structural Funds within the possibilities of shared management. This would help enhance sound financial management and proper implementation of the appropriations committed. In addition to that, DG REGIO has set up a High Level Group for gender mainstreaming in the Structural Funds with a view to improving the implementation of a gender perspective in the Funds' operations. Since its creation on 1st June 2004, the high level group has met four times: twice in 2004 and twice in 2005. The Group has played a useful role in sharing best practices between Member States.*

*On a more global basis, the cooperation between Member States and the Commission on the proper implementation of the Funds is done throughout the programming period through the implementation of the audit strategy mentioned under point 51 , through the establishment of interpretation/guidance notes and the dissemination of information to the Technical Working Group of the ESF Committee.*

*This is common to all programmes which are implemented with ESF funding.*

79. Take practical measures aimed at making the submission of proposals to participate in the different Community programmes easier and at reducing the expenditure incurred during submission in the area of gender equality. (§ 176)

**Commission's response:**

*The Commission is taking the recommended action. Computerisation of grant requests and their evaluation is being finalised (via SWIM – the Saga Web Input Module system). In 2007, most budget programmes and lines in the area of Employment and Social Affairs will offer applicants the possibility of making their requests electronically. Online assistance will be available to help applicants fill in the forms, and to recall the principles that must be abided by when establishing the budget of a cofinanced action.*

*The system will automate the gathering of essential data, and enable the creation of tables comparing applications within the framework of each call for proposals. This will considerably reduce the time spent dealing with calls for proposals: the evaluation procedure will be faster, and decisions and notifications to applicants about acceptance or refusal of their projects will be speeded up considerably.*

80. Further improve the implementation of the budget and reduce RAL in the area of freedom, security and justice. (§ 177)

**Commission's response:**

*The Commission accepts the recommendation. It should be borne in mind that the increase in outstanding commitments in the area of freedom, security and justice is a reflection of increased activity in this area. Similarly, the implementation rate for payments depends on the capacity of beneficiaries or Member States to implement the actions for which grants are being made within the agreed timeframe.*

*DG JLS has already adopted a number of measures to improve budget implementation and control the increase in RAL, stepping up human resources assigned to financial management, introducing new indicators to measure budget implementation and outstanding commitments, and optimising the management of final payments, notably via an approach based on risk analysis and sampling checks.*

81. Provide appropriate training for Member States' officials in time for the new programmes in the area of freedom, security and justice. (§ 178)

**Commission's response:**

*The Commission accepts the recommendation. The introduction of control systems inside the Member States is primarily their own responsibility, but Commission monitoring visits and ex-post checks and audits by the Court of Auditors provide an opportunity to identify practices that should be improved at the level of individual Member States. The Commission will step up these visits and inspections.*

*In addition, in early 2006, after consultation with the Member States, the Commission adopted the rules for implementing the European Refugee Fund for 2005-2010. These implementing rules will be the subject of a special training and communication drive to provide any additional practical information that may be required. Special ERF Committee meetings have been organised in 2006 covering the rules for management and checks, and monitoring visits to the Member States began in early 2006.*

82. Approve the financial regulation of Eurojust. (§ 179)

**Commission's response:**

*The Commission has implemented the recommendation. The Decision giving Eurojust the derogations requested for its Financial Regulation was adopted by the Commission on 30 March 2006 (C(2006)1479) and notified by the Secretariat General to Eurojust on 31 March 2006.*

## External actions

83. Clarify with the UN agencies the Court's right of access to projects managed by such agencies in order to enable the Court to carry out the necessary on-the-spot checks. (§ 180)

**Commission's response:**

*Issues relating to the implementation of the verification clause are addressed in the regular meetings of the working group established under article 13.1 of the Financial and Administrative Framework Agreement and in the UN-EC sub-group which has been created to better operationalise the verification clause.*

84. Inform Parliament's competent committee when and why the Commission contributes in a substantial way to UN agencies. (§ 181)

**Commission's response:**

*Detailed information on the financial contributions of the Commission to the UN Funds, Programmes and specialized agencies is compiled annually and has been made available to Parliament (Committee on Budgets) in 2005. Information available covers contributions, by UN body, from 1999, with more detailed information available since 2004. The report is available on-line on [http://ec.europa.eu/comm/europeaid/reports/final-statistiques-un-2004-vers9\\_en.pdf](http://ec.europa.eu/comm/europeaid/reports/final-statistiques-un-2004-vers9_en.pdf).*

85. EuropeAid to pay particular attention to the implementing level in its overall risk assessment and to intensify its audits of implementing organisations. (§ 183)

**Commission's response:**

*The Commission is taking and has in recent years already taken a number of actions to address these issues. These include a comprehensive audit strategy and the establishment of annual audit plans based on a risk analysis of the projects to be audited.*

*Improvements in the quality of the already extensive control checks are also being pursued, notably through the use and improvement of standard contract provisions, including the audit certificates to be submitted by the beneficiaries of Community funds prior to final payments. For instance, standard Terms of Reference including a reporting model for expenditure verifications included in terms and conditions of grant and service contracts have been recently issued. These specifically address compliance with the contract terms including those relating to procurement and eligibility.*

*At project level, the standardised toolbox of planning, partners' selection and monitoring instruments in use in the Commission allows due account to be given to risks and to take action to manage or mitigate them all along the project lifecycle.*

***In October 2005 the Commission adopted a Communication on risk management which sets a more strategic and comprehensive methodological framework to deal with risks at each level of its activities. Introduced on a pilot basis this year, this methodology complements existing risk assessment mechanisms and should allow for a better integration of implementing partners into the Commission approach to risk management.***

86. Ensure that information on all audits, including those contracted by delegations and implementing organisations, is introduced in EuropeAid's CRIS financial information system as soon as possible, thereby linking it to the respective project monitoring information and making it available for the headquarters' services. (§ 184)

**Commission's response:**

***Audit contracts managed by the Commission are all recorded in CRIS. As regards CRIS-Audit, the Commission intends to further improve its operation building on the experience gathered. The aim is to simplify and standardise the data to be introduced with a view to allow a better exploitation of the system at both Headquarters and Delegations. The Commission will examine the feasibility to include audits contracted by implementing organisations in CRIS.***

87. Place equal emphasis on both programme quality and commitment and disbursement rates. (§ 186)

**Commission's response:**

***In order to increase the quality of aid delivery as well as aid disbursement rates, EuropeAid has over recent years constantly improved its quality support and monitoring functions. These include the reorganisation of the Office in March 2005 which reinforced geographical coordination and the structure for quality support (through a new Operations Quality Support Directorate and Quality Support Groups), as well as the refinement of key performance indicators relating to financial management, quality and speed.***

***Indicators were refined and expanded to cover especially qualitative aspects of implementation such as rating of on-going projects in terms of relevance, efficiency, effectiveness, impact and sustainability (Results-Oriented-Monitoring), indicators in relation to the percentage of projects performing without major problems, percentage of assistance spent on budget support and sector approaches, and an indicator tracking the Commission internal coverage of quality support assistance in the design phase. More 'traditional' indicators on e.g. financial management were refined to include contracting levels as a step after commitments.***

***All data is based on detailed performance indicators per regional programme. The aggregate data is the basis for discussions on external assistance performance in the group of External Relations Commissioners and is made available to the public at large on the EuropeAid website:***

***[http://europa.eu.int/comm/europeaid/general/index\\_en.htm](http://europa.eu.int/comm/europeaid/general/index_en.htm).***

88. Inform Parliament's competent committee on the Commission's current concrete measures and future plans to reduce the risks of implementing and funding projects in a notably highly corruption-prone environment with feeble checks and balances and governance structures, including whether and to what degree the resulting risks are manageable under the provisions of the Treaty. (§ 187)

**Commission's response:**

*The Commission has already provided information on the risks involved in external aid to Parliament. These risks were outlined in the Commission's staff working paper SEC (2004) 318, transmitted to the Council, the European Parliament and the European Court of Auditors the 12 March 2004.*

89. Deplores the Commission's intention to move to a "results-based approach" to development policy without establishing a methodology to measure the specific results of Community cooperation against the key objectives of the Millennium Development Goals (MDGs). (§ 189)

**Commission's response:**

*The Millennium Development Goals are overall objectives tailored to the national level, and essentially defined in terms of their expected outcome and impact. It is therefore methodologically impossible to separate the respective roles of the government and the various donors in achieving these goals. By way of example, the increase in the proportion of schoolchildren starting the first year of primary school and completing the fifth year (Indicator No 7) is the result of a collective effort involving the construction of new schools, teacher training, financing of salaries, the drawing up of programmes and numerous other measures, and it is not possible to apportion an observed increase to any particular component in the system of actors and donors.*

90. Regrets that the Commission's total reported allocation for basic education and basic health in 2004 was only 4,98%, which was far from meeting the 20% benchmark established by Parliament, calls for a meaningful dialogue with the Commission on how this figure may be improved and insists that greater priority be given to the main MDG sectors of health and education in the next round of Country Strategy Papers. (§§ 191 and 192)

**Commission's response:**

*As outlined in the European Consensus and the Africa strategy, the pursuit of the Millennium Development Goals (MDG) and tackling the MDGs directly are at centre stage in the European Community's development policy. Sectoral strategies in education and health are anchored on the corresponding MDGs. The programming guidelines on the 10th EDF identify the MDGs among as priorities. Specific guidelines are provided for programming in health HIV/AIDS and population, education and gender equality.*

*The European Community's approach is based on the principle of country ownership. This means that partner countries have the prime responsibility to reach the MDGs through credible policies, adequate financing and, where*

*necessary, system reform. In the process of the programming dialogue, the partner country and the European Commission arrive at a common decision on whether or not education and/or health should be amongst the focal domains of their cooperation taking into account donor coordination, complementarity and division of labour between donors in line with the Paris Declaration and the Council conclusions on Aid Effectiveness.*

*As far as aid instruments are concerned, the EC started under the 9th EDF to move away from a project-based approach towards a budget support in the context of a result-focused approach. Where conditions allow, this can take the form of sector budget support linked to the implementation of a national sector policy, or general budget support, part of which is linked to outcomes in social sectors, usually health and education. In both cases, funds are typically released in annual tranches according to sectoral performance monitored on the basis of outcome indicators which usually are drawn from the MDG indicators, e.g. the primary enrolment rate or the primary completion rate, broken up by gender and for which annual targets have been fixed. Where the conditions are not in place for budget support, project modality will be chosen.*

91. As regards budget support, notes the finding of the Court in its Special Report No 2/2005 that the shared responsibility for public finance management between the EuropeAid Cooperation Office and the Development Directorate-General "only works because of good interpersonal relations". (§ 194)

**Commission's response:**

*The excellent coordination between AIDCO and DG DEV in the area of public finance management is indeed partly the result of good inter-personal relations, but it would be quite wrong to attribute this harmonious collaboration exclusively to those relations; it is rather the result of a common vision shared by both DGs.*

92. Welcomes the increase in average staff per EUR 10 000 000 managed from 4.1 in 1999 to 4.8 in 2004; regrets that this figure remains well below the average for European donors and is now falling. (§ 196)

**Commission's response:**

*The indicator 'Staff per 10 million funding' follows the average number of posts (FTE) per 10 million euros committed during a year. EuropeAid has refined the indicator and now follows it on an annual basis. It is indeed so that the average of EuropeAid is lower than that of most Member States. This can of course only change if more staff is allocated for the implementation of development cooperation. No recent comparison of Member States' staffing levels are available (the most recent ones were published in the EU Donor Atlas of 2004).*

*The indicator will fluctuate per year for EuropeAid as the total amount is only based on commitments, and this will not always be the same. In time, the indicator should stabilise around 4.8.*



93. Calls on the Commission to ensure that administrative capacity for development policy in Bulgaria and Romania is strengthened before they accede to the EU. (§ 197)

**Commission's response:**

*The recommended action has been taken. According to the last CMR reports related to Bulgaria and Romania, issued in October 2005, the situation is the following:*

*It was considered that Bulgaria must establish a humanitarian aid and development policy in line with EU principles and needs to make further progress in setting up the institutional framework for the implementation of the EU acquis in the area of development.*

*As for Romania, the administrative capacity of Romania's institutions in charge of humanitarian aid and development policy still needs to be further strengthened so that policies in line with EU principles can be implemented. In June 2005 the EU agreed to commit to new intermediate and global Official Development Assistance (ODA) targets and Romania must make adequate budgetary provisions upon accession. It was also considered important that the administrative capacity to manage Romania's ODA resources be developed.*

*In order to further assist these countries in that domain, an administrative capacity support measure has been developed within DG Development*

94. As regards Special Report No 10/2004 on devolution to EC delegations, improve cost indicators and speed up work on the development of indicators on the speed and quality of aid delivery, in order to allow a better assessment of the costs and benefits of the devolution process. (§ 198)

**Commission's response:**

*In 2004 indicators mainly related to commitments and payments, the average size of programmes, spread of commitments through the year, speed of payments, progress on the implementation of devolution, and indicators relating to the speed of clearing old and so-called dormant commitments.*

*Over 2005 the Commission has developed and refined a number of performance indicators which now relate to financial management, quality and speed. Indicators were refined and expanded to cover especially qualitative aspects of implementation such as rating of on-going projects in terms of relevance, efficiency, effectiveness, impact and sustainability, indicators in relation to the percentage of projects performing without major problems, percentage of assistance spent on budget support and sector approaches, and an indicator tracking the Commission internal coverage of quality support assistance in the design phase. More 'traditional' indicators on e.g. financial management were refined to include contracting levels as a step after commitments.*

*All data is based on detailed performance indicators per regional programme. The aggregate data is the basis for discussions on external assistance performance in*

*the group of External Relations Commissioners and is made available to the public at large on the EuropeAid website:*

*[http://europa.eu.int/comm/europeaid/general/index\\_en.htm](http://europa.eu.int/comm/europeaid/general/index_en.htm).*

*The Commission is aware that performance indicators need constant adaptation.*

*For 2006 it plans to integrate the indicators more in its internal planning and reporting cycles between headquarters and the 77 delegations field offices and 29 regionalised Delegations (delegations in third countries reporting to a Commission Delegation with regional responsibility) responsible for implementing most of external assistance. Quality and impact indicators will most likely be refined as well, as the Commission will expand the independent monitoring function it has in place for on-going projects and programmes to their completion phase. During 2006 indicators covering thematic issues will be developed as well. Furthermore, indicators for workload will be developed to assist the Commission in better adapting to changing assistance profiles in the different regions in the world. The Commission expects the work on the refinement of quality, impact and performance indicators to continue during 2007.*

95. As regards Special Report No 10/2004 on devolution to EC delegations, further improve the quality of support provided by headquarters to the delegations. (§ 199)

**Commission's response:**

*With the creation of EuropeAid in 2001 all expertise in the area of project and programme management was brought together in one functional set-up. Since then, EuropeAid has been reorganised twice, in both cases to respond better to the changing needs of a post-devolution environment. The reorganisation of March 2005 resulted in a better monitoring and support role for headquarters, through reinforced geographical coordination, more quality and support focus through a new Operations Quality Support Directorate and a reinforced structure for quality support (QSG): revised identification sheets and checklists in order to better assist delegations in identifying critical issues.*

*Other support functions that have been improved are:*

- the support on demand on sector policy dialogue with national counterparts, methodological issues related to sector approaches, programme / project identification and formulation;*
- the constant improvement of operational guidelines and practical tools including training and workshops; and the*
- exchange of best practices with delegations and the organisation of thematic networks.*

*Other monitoring functions that have been improved are: the refinement of EuropeAid key performance indicators; delegation reporting (review of the frequency and coherence of the so-called External Assistance Management Report (EAMR) on assistance with the objectives of the Annual Management Plans; and*

***the closer monitoring of Delegation commitments, contracting and payment levels through the publication of semester figures.***

96. As regards Special Report No 10/2004 on devolution to EC delegations, continue efforts to ensure that staffing needs both at headquarters and in the delegations are met, and to further enhance training. (§§ 195 and 200)

**Commission's response:**

***The Commission has taken the recommended action. Officials leaving to take up "devolution" posts in delegations have followed a general training programme organised by DG RELEX, with specific pre-posting sessions. More detailed training on activities associated with devolution has been jointly organised with EuropeAid for each wave of new appointments of officials to delegations. Regarding devolution the needs of staff in delegations take priority over the needs of headquarters staff. Training offered at headquarters is open to all delegation staff, and a quarter of all training is delivered locally in delegation regions. Access is being facilitated by the introduction of e-learning tools, with the first available ones covering questions of gender equality and trade-related assistance. Tools for CRIS and project cycle management should follow shortly.***

97. As regards Special Report No 10/2004 on devolution to EC delegations, increase efforts to try to reduce delays in project implementation which occur outside the delegations. (§ 201)

**Commission's response:**

***The recommendation refers to the Court's findings in some of the ACP countries, where the lack of capacity of the National Authorising Officer can result in delays in project implementation. The Commission is aware of this problem and already takes measures to improve the performance of national administrations. In a number of ACP countries, specific programmes of support to NAOs office have been established to further enhance institutional capacities in their functions of coordination, monitoring of implementation and review of EC assistance.***

98. As regards Special Report No 10/2004 on devolution to EC delegations, the 24 internal control standards in place in the delegations must be applied effectively. (§ 203)

**Commission's response:**

***The Commission is taking the recommended action. Since 2004 all Delegations are required to carry out annual self assessments on the compliance with ICS. Two such assessment exercises have been carried out in January 2005 and January 2006. Headquarters are monitoring the implementation of ICS in Delegations through a number of tools, including regular reporting requirements, inspections and IAC audits and are pursuing their efforts to further improve the effectiveness of the systems in place.***

99. As regards Special Report No 4/2005 on economic cooperation in Asia, ensure that application procedures are not unnecessarily complex, that delegations give adequate

assistance to applicants and that there be a greater focus on the sustainability of projects. (§ 206)

**Commission's response:**

*The Commission recently began a major simplification drive, which has resulted in a practical guide to contractual procedures in the area of external aid, which entered into force on 1 February 2006.*

*As pointed out by the Commission in its replies to the Court's Special Report: Support to applicants is given through public briefing/information days, regular updating of websites, including Frequently Asked Questions (FAQ).*

*As regards sustainability of projects, since 2002 the EC has introduced a system of quality support measures that strengthen the examination of project design at the identification and formulation stages. The sustainability plans are now carefully looked at through this procedure.*

100. As regards Special Report No 4/2005 on economic cooperation in Asia, clarify the operational framework for EU aid to Asia, focussing on a small number of better defined key priorities which in turn would help to improve effective aid implementation and enable a more result and impact-oriented approach (§ 207)

**Commission's response:**

*The Commission is taking the recommended action. It intends to take measures to that effect through the programming exercise for the period 2007-2013. EU economic cooperation in Asia is governed by Council Regulation (EEC) No 443/92. It states that economic cooperation shall serve the mutual interests of the EU and its partner countries, contributing to the development of the ALA countries (Asia and Latin America countries) by helping them to build up their institutional capacity so as to create an environment more favourable to investment. Particular attention is given to enhancing the role of businessmen, technology and know-how from the EU Member States, particularly in the private sector and small and medium-sized enterprises (SMEs). The economic cooperation has three overall objectives: improvement of scientific and technological cooperation; improvement of the institutional structure; and support for undertakings by means of trade promotion, training and technical assistance schemes. The Council Regulation stresses that regional cooperation is an important element of economic cooperation, including regional policies, intra-regional trade and regional institutions for economic integration.*

*With the introduction of Country and Regional Strategy Papers in combination with Multi-annual Indicative Programming in 2001, the Commission elaborated a consistent strategic approach towards the beneficiary countries in Asia. The introduction of the Strategy document allowed better prioritization and streamlining of its operations both at the country and regional level. The Commission aimed to achieve better focus of all its development expenditure, including expenditure on economic cooperation.*

***In the programming exercise for the period 2007–2013, the Commission is further continuing to prioritise its assistance, both in terms of selecting a number of limited sectors and themes where to focus its cooperation funds, as well as by utilising new instruments to deliver the aid, such as budgetary support and sector wide approaches.***

101. As regards Special Report No 4/2005 on economic cooperation in Asia, step up work in developing the appropriate indicators against which to measure progress made and ensure the necessary monitoring in order to evaluate the results obtained. (§§ 190 and 208)

**Commission's response:**

***Since the reform of EC external assistance, the Commission has introduced the system of Country Strategy Papers, Regional Strategy Papers and multi-annual indicative programmes. The ten MDG-related indicators selected in December 2002, have been progressively included in these documents in order to serve to measure the performance of the countries in poverty reduction.***

***At project/programme level, the Commission has institutionalized the logical framework approach which applies to all DAC-eligible activities and which provides the definition of the project objective, purpose, results, activities as well as verifiable indicators and predefines means of verification. Independent monitoring, as well mid-term and/or final evaluations are then used to verify this. The aggregate data is the basis for discussions on external assistance performance in the group of External Relations Commissioners and is made available to the public at large on the EuropeAid website:***

***[http://europa.eu.int/comm/europeaid/general/index\\_en.htm](http://europa.eu.int/comm/europeaid/general/index_en.htm).***

***For the 2007-2013 round of country programming which has started already, the Commission is in the process of developing recommendations for the use of meaningful indicators in each of the domains of concentration covered by the programming documents. This is part of the general and constant effort to increase the quality of the interventions which includes the definition of indicators at the level of projects and programmes.***

102. Introduce in the current review of the Financial Regulation and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities(20) an adequate simplification of contractual procedures and of procedures for grants, as regards in particular small-scale projects, so that flexibility may be achieved in the application of the rules, along with efficiency and sound financial management. (§ 209)

**Commission's response:**

***The recommendation is accepted and fully in line with the Commission's legislative proposals in the context of the revision of the FR and implementing rules. For low-value contracts and grants, the Commission proposes to let the***

*authorising officer decide whether or not exclusion criteria need to be verified, depending on his/her risk assessment.*

## Pre-accession strategy

103. Invites the Commission to rethink the design of pre-accession projects in terms of better targeting and simplifying objectives and conditions. Agrees with the Court that this would reduce the risk of errors in implementation. Is convinced that simplifying project design would also facilitate the assessments of results. (§210)

### Commission's response:

*The recommended action has been taken. The design of the pre-accession projects has continuously been a matter of concern and an area where the Commission has sought improvement as well-designed projects indeed reduce risks of errors in implementation and facilitate the assessment of results.*

*The successive periodical revisions of the PHARE guidelines have reflected the will to improve in this field as, for example, the last guidelines, governing the period 2004-2006, focused on enhancing multi-annual planning, improvement of project design in the Candidate Countries and, pending the introduction of the new Instrument of Pre-Accession (IPA), evolving the Economic and Social Cohesion of PHARE closer to the structural funds approach.*

*The new IPA will, as a single instrument, replace five current instruments and represents a major opportunity to further rationalise and simplify procedures, and improve the coherence and coordination of Community assistance.*

*The introduction of this instrument should allow a further overall improvement in the quality of projects.*

104. Notes that weaknesses in the management capacity of Bulgaria and Romania remain. Urges the Bulgarian and Romania authorities to continue enhancements in the supervision of pre-accession assistance. Urges the Commission to improve its management and targeting of those funds. (§212)

### Commission's response:

*The recommended action has been taken. The Commission has spread best practices and provided information and training, e.g. through the system of "lessons learned" in 2005. The Commission has drawn the attention of the national authority to the need for urgent corrective measures in relation to the present Decentralised Implementation System with ex-ante control of procurement and award decisions. As the Commission is aware of weaknesses in the implementing bodies, any increase of the amounts of the pre-accession assistance is conditional on the management and control capacity. As for the management and targeting of these funds, the Commission has issued guidelines, reinforced reporting, spread best practices and provided information and training e.g. through the system of "lessons learned" in 2005 and carried out regular systems and projects audits. For ISPA, the Commission decided on 28 June 2006 to waive the ex ante approval requirement referred to in Article 12(1) of Council Regulation No 1266/99 for all implementing agencies in Romania, based on a positive assessment of their management and control systems. In Bulgaria, progress is*

*acknowledged for ISPA in the key area of administrative capacity (in particular as regards adequate staff and training). However, the area of public procurement is still a reason of serious concern.*



## Administrative expenditure and issues concerning the agencies

105. Ensure that the needs of the agencies are properly addressed in the current reform of the Financial Regulation. (§ 214)

**Commission's response:**

*The recommendation is accepted. The agencies' framework Financial Regulation (2343/2002) has been adopted on the basis of the general Financial Regulation and most provisions are therefore in line. The objective has been to assure, among the Institutions and the bodies, the homogeneity of budgetary and financial management rules. This aim for homogeneity has had as a consequence the consolidation of the accounts of the Institutions and bodies. The framework FR has been prepared by the Commission in close cooperation with the bodies concerned. Once adopted, the revised general FR will require a parallel adaptation of the agencies framework FR. This will be the occasion to proceed to a more extended scrutiny of applicable provisions to take account of past experience and of these bodies' particularities, notably their size and the size of their budget.*

106. Agencies to be accountable to Parliament's respective committees. (§ 215)

**Commission's response:**

*The recommendation is rejected. According to Art 185 (2) of the Financial Regulation, the bodies set up by the Communities having legal personality and receiving grants charged to the budget are already accountable to the European Parliament, through the discharge procedure.*

*According to article 54 (1) of the Financial regulation the Commission may not entrust to third parties the executive powers it enjoys under the Treaties. When entrusting tasks of public authority to bodies referred to in article 185 or to executive agencies, the Commission remains accountable to the legislative and budgetary authorities.*

107. European Personnel Selection Office (EPSO) to respond positively to requests for assistance with recruitment from the agencies and the Commission to make other horizontal services in addition available to the agencies, such as training and the legal service. (§ 216)

**Commission's response:**

*The agencies are independent institutions and it is their responsibility to comply with the relevant rules and procedures for e.g. staff recruitment. Where the agencies request it, the Commission provides assistance and support, e.g. to help them to understand and interpret the rules.*

*On 16 December 2005 the Commission adopted guidelines for personnel policy in regulatory agencies, which recommend a standardisation of agencies' selection procedures through a greater involvement of EPSO. Moreover, EPSO has already initiated a structured approach to cooperation with the agencies. A 2 days seminar*

*for the agencies was run by EPSO in October 2005 addressing a series of issues linked to selection procedures, including legal and organisational aspects, as well as the use of new communication/information tools and IT management tools. The further development of this cooperation is on-going and will be pursued both bilaterally and with all agencies. In one case, EPSO has assisted an agency in the organisation and completion of an internal selection procedure.*

*As regards other horizontal issues, the Commission already provides training for agencies on financial issues. Training is provided on request giving an overview of financial management, of procurement rules and of the impact of the revision of the Implementing Rules of the Financial Regulation. The Commission also provides advice to the agencies, who have access to the Commission's Financial Helpdesk. Over 100 replies to consultations on issues of financial management were provided in 2005. The Commission is continuously represented by various customised training sessions and briefings in the IALN ("Inter Agency Legal Network") on recent financial management issues, especially related to procurement. The Commission accounting services provides extensive guidance for the agencies, in particular as regards the consequences of the accounting reform (accrual based accounting).*

*The IAS provides the agencies with risk management and control assessments coupled with detailed audit recommendations. It is also providing assistance to agencies for setting up their own internal audit function and is planning to establish a systematic support to agency internal auditors (website, "agency auditnet" network, ...).*

*The Legal Service of the Commission already provides help to the agencies via the Directorate General responsible for the contact with the specific agency. The role of the Legal Service is to provide support to the services of the Commission. Therefore, the Directorate General responsible for the contact with the specific agency should always be the focal point of contact. If need be, the agencies could ask for members of the LS being detached to them or recruit more lawyers themselves, which would be completely in line with their autonomy.*

*Moreover, as a result of a series of meetings between the Commission services and the executive agencies, a model Service Level Agreement (SLA) was drawn up, giving these agencies access to a number of services delivered by DG ADMIN in the fields of recruitment, medical services, access control, training, security and hygiene at work, etc. Agencies can choose to sign such an SLA and obtain the said services at "production" cost. The Commission will examine which elements of these Service Level Agreements could be extended to the regulatory agencies.*

*The agencies should also be encouraged to further develop their inter-agency cooperation whenever appropriate in order to share costs and knowledge.*

108. Report on the state of play concerning internal audit in the agencies, describing the internal audit capability available within each agency and the internal audit services provided by the Commission in terms of provision both of guidance and of internal audits. (§ 217)

**Commission's response:**

***The Commission is taking the recommended action and will issue a report before the end of 2006, at the end of a cycle of agency audits undertaken by the IAS.***

109. As regards the European Agency for Reconstruction, the Commission to review the financing agreement with the UN. (§ 218)

**Commission's response:**

***The recommendation has been taken. Article 13.1 of the EC/UN Financial and Administrative Framework Agreement (FAFA) has established a Working Group within which these consultations take place and which serve to clarify the practical application of this agreement between the EC and the UN. The 2nd meeting of the Working Group concluded that operationalisation of the verification clause was one of the issues that require further development. A sub-working group has been created to discuss the verification clause, including the Court's right of access to projects. This sub-group has met in December 2005 and the matter will be discussed in more detail on the occasion of the 3rd meeting of the Working Group. The 3rd annual consultations on the FAFA took place in April 2006.***

110. As regards the European Agency for Reconstruction, the Commission to bring forward a proposal after a proper final evaluation to see whether the mandate of the agency could be altered in such a way that that existing expertise and know-how could be used to provide reconstruction assistance wherever needed, for example in Iraq, Afghanistan, Pakistan, India and the countries affected by the Tsunami, as a second stage after immediate humanitarian needs have been addressed by the Humanitarian Aid Office. (§ 218)

**Commission's response:**

***The Commission does not agree with this recommendation. The Commission issued its report on the future of the EAR on December 23rd 2005. Following an in-depth evaluation, the conclusion of the report is to discontinue the EAR, but seek the extension of its current mandate for a further two years, until 31 December 2008, to gradually phase out its activities under CARDS. At the same time the Commission would prepare the implementation of the future IPA Regulation in a de-concentrated manner, through its Delegations in the countries concerned, from 2007. The report was immediately transmitted to the Council, as mandatory, and to the European Parliament, for information.***

***The report, recognising the success and efficiency of the Agency in delivering reconstruction assistance in the Western Balkans, highlights the importance of an even closer linkage between the political process (SAP), including the political dialogue, and the financial assistance and its implementation, as well as the necessary preparation of beneficiary countries to assume their own financial responsibility for the implementation of the EC assistance. The Commission's proposal for a Council Regulation amending the Agency Regulation was sent to the Council on 6 April 2006 (COM(2006) 162 final).***

*When it comes to reconstruction aid in general, the Commission has a system in place to ensure that this aid is implemented efficiently and in good coordination with other multi-lateral donors. The current system is flexible and works well.*

*In the specific case of the tsunami, reconstruction efforts are taking off. The Commission has already committed around half of the EUR 350 million it has pledged to long-term reconstruction, and the special report issued by the Court of Auditors on the humanitarian aid in response to the Tsunami is in general positive.*

111. Help the European Environment Agency resolve the dispute with the Danish authorities concerning reimbursement of inappropriately paid taxes. (§ 219)

**Commission's response:**

*The Commission is taking the recommended action. Some of the monies have been repaid but not all of it. The remainder has been promised but there are still discussions ongoing at the level of the Danish authorities about who should repay what. The Danish Protocol is working on the pre-2005 tax return. Negotiations are continuing at the highest political level.*

112. Commission to step up its efforts to settle the dispute between the Commission and the Translation Centre for the bodies of the European Union concerning payment of employer's pension contributions. (§ 220)

**Commission's response:**

*The Commission has repeatedly tried to arrive at a solution, proposing approaches to the Management Board of the Translation Centre, including offers for a negotiation on some periods under consideration. None of these was successful and the Commission has now decided to lodge a complaint before the Court of Justice.*

## European Development Funds

113. Calls on the Commission to make greater efforts to establish an appropriate mechanism to measure the impact of Community assistance on the achievement of the Millennium Development Goals in multi-donor environments. (§3)

**Commission's response:**

*The Millennium Development Goals are overall objectives tailored to the national level, and essentially defined in terms of their expected outcome and impact. It is therefore methodologically impossible to separate the respective roles of the government and the various donors in achieving these goals. By way of example, the increase in the proportion of schoolchildren starting the first year of primary school and completing the fifth year (Indicator No 7) is the result of a collective effort involving the construction of new schools, teacher training, financing of salaries, the drawing up of programmes and numerous other measures, and it is not possible to apportion an observed increase to any particular component in the system of actors and donors.*

114. Trusts that indicators to measure the output of aid will be put in place for the period 2007-2013. (§4)

**Commission's response:**

*Creating and implementing the appropriate indicators at the level of projects and programmes is part of the Commission's constant effort to improve actions at the level of projects and programmes. This is equally true for actions that come under the 2007-2013 programming period.*

*Since the reform of EC external assistance, the Commission has introduced the system of Country Strategy Papers, Regional Strategy Papers and multi-annual indicative programmes. The ten MDG-related (MDG = Millennium Development Goals) indicators selected in December 2002, have been progressively included in these documents in order to serve to measure the performance of the countries in poverty reduction.*

*At project/programme level, the Commission has institutionalized the logical framework approach which applies to all DAC-eligible activities and which provides the definition of the project objective, purpose, results, activities as well as verifiable indicators and predefines means of verification. Independent monitoring, as well as mid-term and/or final evaluations are then used to verify this. The aggregate data is the basis for discussions on external assistance performance in the group of External Relations Commissioners and is made available to the public at large on the EuropeAid website:*

*[http://europa.eu.int/comm/europeaid/general/index\\_en.htm](http://europa.eu.int/comm/europeaid/general/index_en.htm).*

*For the 2007-2013 round of country programming which has started already, the Commission is in the process of developing recommendations for the use of meaningful indicators in each of the domains of concentration covered by the*

*programming documents. This is part of the general and constant effort to increase the quality of the interventions which includes the definition of indicators at the level of projects and programmes.*

115. Calls for the percentage of European Union development cooperation spending earmarked for basic education and health in the developing countries to be substantially increased. (§5)

**Commission's response:**

*According to the internationally accepted reporting methodology, the commitments of the Commission for "basic social services" reached 20.9 % in 2005. According to the definition applied by the OECD and the UN this indicator comprises basic education (primary education, basic life skills for youth and adults, and early childhood education), basic health (basic health care, basic health infrastructure, basic nutrition, infectious disease control, health education, and health personnel development), population policies/programmes and reproductive health (population policy and administrative management, reproductive health care, family planning, STD (STD = sexually transmitted disease) control including HIV/AIDS, and personnel development for population and reproductive health), and aid to water supply and sanitation (if poverty-focused).*

*Moreover, the Commission has explained on numerous occasions, why it does not agree with the imposition of input targets for EC aid. It is the principle of national ownership rather than the concept of input targets that lies at the centre of the EU development policy approach. This means that we respect the need for Governments to define through the national budget (submitted to their national Parliaments) the overall resource distribution that meets national priorities. The same goes for the search for complementarity that should reflect the experience and capacity of each donor in the beneficiary countries. Governments need to determine themselves the donors with whom they judge they can work best in each sector.*

*Hence the sectors in which the Commission is engaged in a particular country should not be determined from outside. While the Commission is of course guided by the EC's overall development priorities, particular levels of financial commitment would distort the process at the expense of development effectiveness. Moreover, in setting input targets we would also risk to lose sight of the vital interactions between MDGs: for example, a primary school water supply and sanitation project will contribute to basic education and basic health, but would be classified under neither heading.*

116. Insists the greater priority be given to the main Millenium Development Goal sectors of health and education in the next round of Country Strategy Papers. (§6)

**Commission's response:**

*As outlined in the European Consensus and the Africa strategy, the pursuit of the Millennium Development Goals (MDG) and tackling the MDGs directly are at centre stage in the European Community's development policy. Sectoral strategies in education and health are anchored on the corresponding MDGs. The*

*programming guidelines on the 10th EDF identify the MDGs among as priorities. Specific guidelines are provided for programming in health HIV/AIDS and population, education and gender equality.*

*The European Community's approach is based on the principle of country ownership. This means that partner countries have the prime responsibility to reach the MDGs through credible policies, adequate financing and, where necessary, system reform. In the process of the programming dialogue, the partner country and the European Commission arrive at a common decision on whether or not education and/or health should be amongst the focal domains of their cooperation taking into account donor coordination, complementarity and division of labour between donors in line with the Paris Declaration of March 2006 and the Council conclusions on Aid Effectiveness of April 2006.*

*As far as aid instruments are concerned, the EC started under the 9th EDF to move away from a project-based approach towards a budget support in the context of a result-focused approach. Where conditions allow, this can take the form of sector budget support linked to the implementation of a national sector policy, or general budget support, part of which is linked to outcomes in social sectors, usually health and education. In both cases, funds are typically released in annual tranches according to sectoral performance monitored on the basis of outcome indicators which usually are drawn from the MDG indicators, e.g. the primary enrolment rate or the primary completion rate, broken up by gender and for which annual targets have been fixed. Where the conditions are not in place for budget support, project modality will be chosen.*

117. Calls on the Commission to support all provisions in the Cotonou Agreement, in particular Article 23(g) concerning trade development, including the promotion of fair trade. (§8)

**Commission's response:**

*The Commission supports fair trade in a number of ways, including through political support for the Fair Trade movement and by encouraging funding for Fair Trade related activities. Where appropriate, it is possible to fund fair trade initiatives within EDF programmes, although so far, this has been mostly done in the form of cofinancing projects under the NGO budget line. Concerning Cotonou Article 23 g, it should be kept in mind that under the EDF partnership the selection of particular activities is done in dialogue with the beneficiaries and aims at concentrating support on a limited number of areas within each country or region for maximum effectiveness. The Commission is preparing an all ACP commodity support programme (budget €45 million), which is to contain activities in support of Fair Trade. At a more general level, the Commission has considerably stepped up financing trade-related assistance over the past years and will continue to do so in the future, consistent with President Barroso's statement at the G8 meeting in Gleneagles in October 2005. Trade-related assistance is a central priority in the current 10th EDF programming dialogue, at regional level and also receives particular attention at national level, with a view to increasing synergies between the two levels.*

118. Asks to be kept informed every six months on progress with modernisation of the new integrated IT system (ABAC-FED) and its implementation at head office and within the delegations. (§10)

**Commission's response:**

*Although the developments of the central ABAC component are progressing satisfactorily, it has been decided to postpone the implementation of the new IT system (ABAC-FED) until January 2008. The supplementary delay was needed in order to render CRIS (EuropeAid's local system) fully accrual compliant before end 2006.*

*There is a clear commitment to give the highest priority for making CRIS accrual compliant before the year end. The Accounting Officer will check at the latest by 15 October 2006 whether this goal can be achieved.*

119. Calls on the EIB and the Commission to provide information on EDF funds managed by the EIB (amounts by type of use, overview of results) and to include it in their reports on the EDF. (§11)

**Commission's response:**

*The Commission has no legal responsibility for the operations financed from EDF which are managed by the EIB. These funds are paid directly to the EIB by the Member States and are subject to the audit and discharge procedure laid down in the Statutes of the EIB. Detailed rules for auditing by the Court of Auditors are set out in the tripartite agreement between the Court of Auditors, the Commission and the EIB which does apply to all operations financed under the 9th EDF and preceding EDFs.*

*The Commission is obliged by the Financial Regulation applicable to the 9th EDF to include in the EDF accounts the financial statements and information supplied by the EIB on the funds it manages. Consequently, EDF (EIB and Commission) financial statements are jointly presented by the EDF accountant.*

*The Commission highlighted the overall amounts for funds managed by the EIB in its 2004 EDF management report, but it is not the Commission's role to provide detailed information about the management of the funds in its report.*

120. Calls on the Commission to take appropriate action on internal control weaknesses (insufficient audits and follow-up + heavier workload for the delegations due to weaknesses in national authorising officers' management capability) and to report on that action. (§13)

**Commission's response:**

*The Commission is of the opinion that, while they do already offer the necessary safeguards, the various components of the internal control framework would benefit from further strengthening. A number of measures have been taken over recent years to address the questions raised above. Regarding audits of projects and programmes (external audits), EuropeAid stepped up its audit function in*



*2004, introducing a global audit strategy to be applied both by EuropeAid and by delegations. Annual audit plans are established on the basis of a risk analysis of projects and programmes to be audited. Efforts have also been made to improve the reporting and consolidation of audit results. A centralised monitoring of audits has been introduced. EuropeAid ensures that checks and their monitoring by delegations are adequate by sampling a selection of the audits.*

*The Commission has also further improved the model terms of reference for the certification audits that must be used by beneficiaries and implementation bodies when selecting and contracting auditors. The conditions set strengthen the evaluation of compliance with contract terms by beneficiaries, especially regarding procurement and eligibility of expenditure.*

*The Commission intends to continue on this path and further improve the existing mechanisms.*

121. The Commission should endeavour to ensure that its control environment is protected, extended, strengthened or made more effective. (§15)

**Commission's response:**

*The Commission is firmly committed in ensuring that its control environment offers needed guarantees regarding the use and destination of the Community funds and intends to pursue its efforts to further reinforce it.*

122. The Commission should endeavour to ensure that protection is provided for anyone reporting fraud, irregularities and maladministration both within the Commission and its intermediary organisations and within national authorising services and beneficiary organisations. (§15)

**Commission's response:**

*The Commission has the proper rules in place to protect its own staff, but would draw attention to the fact that the protection of whistleblowers in other institutions, bodies, services or organisations does not fall within its remit.*

123. Calls on the Commission to provide more details in future Financial Management Reports, particularly so as to enable comparisons to be made of the amounts allocated to projects, budgetary support and non-programmable aid coming under the ninth EDF to those for previous EDFs and in order to have an overview of the related administrative expenditure. (§16)

**Commission's response:**

*Annex 7 of the Commission report for 2004 already allows comparisons between sums allocated to projects, budget support and non-programmable aid under the ninth EDF with those under earlier EDFs. The Commission intends to update the table in its 2005 report.*

*As pointed out in its reply in the report on the follow-up to the 2003 discharge, the administrative costs linked to the implementation of development aid in ACP*

*countries (EDF and budget lines) are mostly included under policy area 21 "Development and Relations with the ACP countries" of the general EU budget. The total costs under this policy area amounted to 238.9 million Euro in 2004. This figure includes the expenditure related to staff at headquarters, in Delegations, as well as external staff, plus expenditure on buildings and related expenditure.*

*It is not possible to quantify how much of this expenditure relates specifically to the ACP or the EDF, as part of policy area 21 relates to development policy in all parts of the world (ex.: food aid, grants to NGOs, support for the environment, eradication of poverty diseases, etc, as well as policy definition) which is not financed by the EDF, although it concerns ACP countries as well as other developing countries.*

*To have a full picture of administrative costs related to the implementation of aid in ACP countries, one would have to add the administrative expenditure linked to funding from other policy areas of the budget (11 "Fisheries", 23 "Humanitarian aid", 19 "External relations", etc.) This would be an extremely difficult exercise.*

*Moreover, it should be noted that the 9th EDF made it possible to fund some administrative costs directly from the EDF. These costs amount to a total of 233 million Euro covering the whole 5-year period of the 9th EDF.*

*To sum up, as activities related to the EDF are integrated into the Commission's other activities concerning development aid and political relations with developing countries, the total administrative costs charged to the general budget cannot be divided between EDF activities and other activities in a meaningful way.*

124. Calls on the Commission to clarify the breakdown of Commissioners' responsibilities for the EDF and external aid. (§18)

**Commission's response:**

*As Commission Michel stated during his hearing in COCOBU on 26 January 2006, the division of responsibilities between himself and Commissioner Ferrero-Waldner is complex but works well in practice.*

125. Urges the Commission to speed up implementation of external aid. (§19)

**Commission's response:**

*Implementation of the EDFs is accelerating markedly. Regarding commitments, whereas considerable amounts remained uncommitted at the end of previous EDFs, the Commission may well achieve its goal of committing all 9th EDF funds (including sums transferred from previous EDFs) before the end of the 9th EDF (late 2007). This means that the level of commitment is considerably higher than in the past. Regarding payments, there has been a clear and sustained increase since 2000. The current level of payments is higher than ever before.*

*This solid growth in payments has not prevented a relatively large RAL, although this development must be seen in context. As the 9th EDF entered into force in*

*2003, it follows that the level of RAL should also rise. The implementation of a new EDF begins with financing agreements drawn up with ACP countries, which appear as commitments in the budget. Only after this are programmes implemented and paid. The launch of a new EDF is therefore initially followed by a substantial increase in the level of commitments, with the level of payments only rising after a certain lapse of time.*

*Although the total of the RAL increased in 2005, it should be noted that the RAL/payments ratio has been falling since 2000. This ratio is an indicator of the time it takes for RAL to be absorbed, or more concretely, how long it takes for projects to come to fruition, and is more revealing than the level of RAL as such. The ratio was 5.5 years in 2000 and approximately 4 in 2005.*

*However, the Commission believes that progress can still be made, while still abiding by the restrictions of the ninth EDF Financial Regulation.*

*The Commission also launched an analysis and follow-up for idle commitments, which resulted in the decommitment of a total of EUR 476 million in 2005.*

126. Asks the Commission to make more effort to set quantifiable objectives as defined in the Financial Regulation. (§20)

**Commission's response:**

*The Commission fully agrees with the Parliament, that a more rapid execution is just one of the criteria to assess performance of the EDF. Besides increased quantity, improvements in quality are the other important objective for EuropeAid. As part of its effort to report on progress with the quality aspects, the Commission included in its 2005 financial management report quantified indicators, in particular in relation with the Result Oriented Monitoring of the implementation of the projects. A set of internationally recognised indicators provide an independent assessment of the extent to which the projects are achieving their objectives, against a benchmark that is clearly established. The comparison between objectives and results is carefully scrutinised under such monitoring.*

127. Calls on the Commission to look into the feasibility of administrative, legislative, technical and other measures to ensure that, before further increases are planned, RAL in the field of external aid is better kept under control and reduced, and to report thereon. (§21)

**Commission's response:**

*Although RAL developments are relatively under control, thanks to actions taken by the Commission since 2000, the Commission is determined to take extra measures to speed programme execution and close projects as soon as possible.*

*The various operators (i.e. delegations and operational services at headquarters) will take particular care to fix and follow up objectives. A process involving strengthened rapid detection measures will check the state of play regarding contracts, payments, recovery and commitments in a regular and formal manner. A strengthened proactive detection and reaction system is being set up to detect*

***cases where results are falling short of stated objectives, particularly in the field of contract conclusion and with projects which risk becoming dormant.***

128. Calls on the Commission to adjust its instruments to assess economic reforms and the quality of public financial management as conditions for eligibility for budget support within the meaning of Article 61(2) of the Cotonou Agreement. (§22)

**Commission's response:**

***The Commission has adjusted its instruments to assess economic reforms and the quality of public finance management, notably through the analysis framework drawn up under the PEFA (Public Expenditure and Financial Accountability) Programme.***

***The methodological guide to general budget support is currently being revised. The new version, which will include the PEFA analysis framework, will set out the analyses to be carried out regarding economic policy and public finance management, so that financing proposals clearly reveal whether countries are eligible for budget support, especially as defined in Article 61.2 of the Cotonou Agreement, as interpreted by the Commission, as set out in Court of Auditors Special Report No 2/2005.***

129. Calls on the Commission to improve, where possible, its relations at local level with other donors, particularly as regards information on the allocation and disbursement of budgetary assistance, with a view to improving the design and programming of public finance reforms and, thereby, the assessment of the quality and effectiveness of such reforms. (§25)

**Commission's response:**

***The Commission already plays a very active role in local coordination with donors regarding budget support and the monitoring of public finance reforms, and intends to continue to do so. Its active commitment to promoting public finance evaluation through the Public Expenditure and Financial Accountability (PEFA) Programme on the ground will only strengthen that role.***

130. Urges the Commission to step up and place on a more systematic footing its cooperation with supreme audit institutions and, where possible, to call on governments of beneficiary countries to secure more active parliamentary involvement in audit and the public finance reform process. (§26)

**Commission's response:**

***Written guidelines for Commission delegations in ACP countries will be circulated during summer 2006, recalling the importance of support for the supreme audit institutions and reviewing various different ways of lending support.***

***Regarding the parliaments, it should be noted that Commission budget support operations are intended to strengthen mechanisms for external control, including parliamentary control, of government budget management. The Commission view***

*is that promoting their role in the process of public finance reform should primarily involve building their technical capacity.*

131. Notes that the Commission is considering different modalities for supporting and promoting the role of the supreme audit institutions in the ACP states. Asks for an assessment of the various options under consideration and of progress in their implementation to be submitted in time for the next discharge exercise. (§28)

**Commission's response:**

*The Commission is already implementing and has identified a number of SAI support programmes in ACP countries. Written guidelines for Commission delegations in ACP countries will be circulated during summer 2006, recalling the importance of support for the supreme audit institutions and reviewing various different ways of lending support. An evaluation report measuring efforts in this area could be drawn up one year after the guidelines are sent out.*

132. Calls on the Council and Commission to continue to work on incorporating the EDF into the general budget. (§31)

**Commission's response:**

*In December 2005 the European Council decided unanimously to pursue the Community's cooperation with the ACP countries for the period 2007-2013 through a tenth EDF. The Commission shall maintain its aim to try to harmonise as much as possible the implementation procedures and financial regulations of the 10th EDF with those of the Community budget.*

133. Asks for a report outlining the state of play of the devolution process, describing the expected benefits with quantifiable indicators and setting out the benefits so far achieved and detailing the control structures in place in delegations, including the state of implementation of internal control standards. (§34)

**Commission's response:**

*The Commission produced a report during the summer of 2005, the *Qualitative Assessment of the Reform of External Assistance in 2005 (SEC(2005)963)* analysing and summarising the qualitative effects of the reform process as a whole. This report was sent to Council, Parliament, Court of Auditors and included a large distribution inside the Commission. No update of this report is foreseen.*

134. As regards STABEX funds, reiterates the request it made to the Commission last year to work with the beneficiary countries to enhance monitoring and ensure that the outstanding funds are committed as rapidly as possible. (§35)

**Commission's response:**

*The instructions that the Director-General of EuropeAid gave delegations in December 2004 have been systematically followed up. The Commission appointed an official as STABEX coordinator at the end of 2005.*

*The format of the annual reports to be sent by the National Authorising Officer has been clearly defined, with the requirements regarding total bank balances in Europe and locally and interest related to those accounts set out in detail. This data has been cross-checked with information concerning secure STABEX accounts and related interest.*

*Delegations were also asked to retrace the evolution of the implementation of STABEX funds in the six-monthly External Assistance Management Reports and the Annual Report.*

*These actions resulted in the production of 42 STABEX 2005 Reports for 43 ACP countries (some of which were admittedly overdue).*

*When the provisional accounts were established in 2005 total bank balances stood at EUR 501 million. In June 2006, frameworks of mutual obligations (FMOs) in the circuit for the year totalled approximately EUR 300 million, of which 151 million had already been finalised.*

*A new service contract with an external consultant is being prepared, to fine tune the initial inventory work and respond to the additional information received from or requested by delegations, to improve the STABEX data base and bring it on stream at the Commission, and to mine the STABEX archives for useful information.*

135. Expresses concern that the Commission is complying with only the minimum requirements for certain control standards. Asks the Commission to report on compliance with control standards. (§36)

**Commission's response:**

*The reference to the “baselines requirements” is used by the Commission in the context of the annual self-assessment of the implementation of the internal control framework (24 Internal Control Standards). Such requirements help Commission’s services identify the concrete actions to be put in place to ensure the proper application of each standard in order to obtain a sound control environment.*

*Thus, such requirements are indeed to be considered as proper standards. Reporting on effectiveness is occurring through the yearly Annual Activity Report, as for all Directorates-General. As far as Delegations are concerned, EuropeAid and the Directorate-General for External Relations adapted these baselines to their specific environment (“in actions to be implemented in delegations”) and require all delegations to carry out a yearly self-assessment since 2004.*

136. Urges the Commission to clarify its reply to the request for additional explanations on key issues made by the Court of Auditors in paragraph 8(a) of Chapter 1 of its annual report covering the increase in resources for the ninth EDF, with specific reference to the item concerning aid granted to the Democratic Republic of Congo. (§37)

**Commission's response:**

*The Financial Management Report highlights the most significant events and detailed information is displayed in the financial statements which the report accompanies. Information concerning the increase of the resources of the ninth EDF for the Democratic Republic of Congo has been provided under note 1 to the accounts.*

*The additional allocation of EUR 105 million to the DRC was a 2003 Council decision to re-use repayment of outstanding debt arrears from the DRC to the European Investment Bank in response to the political priorities set by the Council. If it had not made use of this additional allocation, the EU would not have been able to meet the commitments that it had made to support the transition to democracy in the DRC.*

137. Calls on the Commission to make representations to United Nations and other organisations with a view to: 1) ensuring public awareness of EU contributions and involvement, 2) laying down provisions enabling proper assessment, audit and control operations to be carried out, including in connection with projects and programmes conducted jointly with or through these international organisations or NGOs. (§38)

**Commission's response:**

***Visibility:***

*The visibility of Community aid is taken very seriously by the Commission, and it is striving to raise its profile, particularly with regard to operations implemented by UN partners and other international organisations. The Commission (in the person of Commissioner Ferrero-Waldner) wrote to the UN and the World Bank to remind them of their contractual obligations in this area. The response from both organisations was extremely positive, and led to a common process of reflection and a concentration on ways to improve visibility.*

*On a general level, the Commission Communication "The European Union in the world – Towards a communication strategy for the European Union's external policy 2006-09", adopted in February 2006, sets out a communication strategy that targets European citizens and the local population in partner countries.*

*The subject of visibility was again raised at the annual review of the framework agreement on financial and administrative matters with the United Nations, which took place in New York in April. The UN acknowledged the importance of respecting the contractual clauses that covered visibility. It was agreed that an action plan should be adopted before the summer, and that guidelines on communication and visibility should be drawn up.*

*Regarding the World Bank, an agreement on visibility was signed between the Commission (Commissioner Ferrero-Waldner) and the Bank (Mr Wolfowitz) in Berlin on 2 June 2006. The agreement is intended to clarify the Bank's responsibilities and strengthen coordination between the two institutions in the areas of visibility and communication.*

***Verifications :***

***The Financial and Administrative Framework Agreement (FAFA) between the Commission and the UN foresees a verification clause setting up the framework for the Commission's verifications missions concerning actions administered by the UN or co-financed by the EC.***

***A Working Group has been established between the Commission and the UN within which consultations take place on the practical application of EC/UN Agreement. The third annual consultations took place in April 2006. The verification clause was one of the main items to be discussed and, as well as upholding the existing agreement, it has been decided to draw up agreed term of reference for verifications missions. Considerable work has also taken place to assess compliance by international organisations with international standards in the fields of accounting, internal control, procurement and audit.***



## Recommendations in the resolutions concerning individual agencies

138. Parliament affirms the principle that all Community agencies, whether or not they are subsidised, are subject to discharge by Parliament, even when another discharge authority intervenes in accordance with their basic texts and takes the view that there is a need to review all texts that go against this principle. (DOC: P6\_TA-PROV(2006)0167 § 1)

**Commission's response:**

*The recommendation is not accepted. There is no principle according to which all Community agencies are subject to discharge by Parliament. By virtue of Article 276 of the EC Treaty the European Parliament gives a discharge to the Commission in respect of the implementation of the budget. Discharge for the agencies is regulated by provisions of the secondary legislation. In accordance with Article 185(2) of the Financial Regulation, agencies receiving grants charged to the budget get a specific discharge from the European Parliament. However, the provisions in the Financial Regulation do not exclude that the legislative authority, when adopting the legal base for a community body not receiving community grants, decides that this body should be subject to the discharge authority of Parliament. This is already the case of the Translation Centre for the Bodies of the European Union. Any extension of Parliament's discharge authority to other Community bodies not currently subject to this would require legislative changes, which can be considered by the legislative authority on a case-by-case basis.*

139. Parliament notes that Community agencies do not always have a good image or good press and that many of them do not deserve such a negative image; points out that EU citizens should be made aware of this, with appropriate means being used to explain as often as is necessary the raisons d'être and achievements of the agencies; calls on the Commission to act accordingly, using whatever means it considers necessary. (DOC: P6\_TA-PROV(2006)0167 § 4)

**Commission's response:**

*The recommendation is rejected. The agencies are independent on the way they implement their information and communication policy and the Commission does not interfere in this type of activity.*

140. Parliament notes that the enlargement of the European Union in 2004 has affected the structures and operating arrangements of the Community agencies in many ways, and that several of the agencies draw attention to these effects in their activity reports, focusing in particular on the increase in the number of administrators; calls on the Commission to assess the real or supposed problems encountered and to recommend the regulatory changes required. (DOC: P6\_TA-PROV(2006)0167 § 5)

**Commission's response:**

*The recommendation is partially accepted.*

*If the remark of the European Parliament refers to numbers of staff hired in the non-executive agencies after the enlargement, it does not appear that the number of staff in these agencies rose significantly after the enlargement, except for the recently created agencies which had to settle down and hired staff as foreseen in their management plans for first years of creation.*

*If the remark of the European Parliament refers to the number of members of the Management Boards of the non-executive agencies, the Commission agrees that the enlargement processes had an important impact on these numbers as most of the founding regulations of the non-executive agencies provide for the rule that each member State should be represented in the Management Boards.*

*Within the proposal for an Interinstitutional Agreement on the operating framework for future European regulatory agencies there is already a provision envisaging reduced Management Boards in non-executive agencies to be created under the first pillar.*

141. Parliament notes that the Commission has made a commitment to harmonising the way in which activity reports concerning its directorates-general are presented; calls for a similar approach to be taken in respect of the activity reports of the Communities' agencies, which differ significantly in terms of content; calls on the Commission to point out to the Communities' agencies the information and activity indicators that they must provide. (DOC: P6\_TA-PROV(2006)0167 § 6)

**Commission's response:**

*The recommendation is partially accepted.*

*Annual activity reports issued by the Communities' agencies are not harmonised and do not follow the Commission's guidelines set up for its services. In fact, agencies' structures and activities differ substantially and may not adapt to the Commission's demands concerning its own directorate-generals and services.*

*Concerning indicators, the Commission will inform the Agencies about the internal developments of the 2004 synthesis action on objectives and indicators.*

142. Parliament calls on the Commission to help the agencies follow as closely as possible the work plan agreed for the year ahead, allowing activities to be properly planned and implemented, and particularly to avoid major, last-minute changes to the work load. (DOC: P6\_TA-PROV(2006)0167 § 14)

**Commission's response:**

*The proposed recommendation is already taken on board by the Commission.*

*Despite the fact that planning, programming and monitoring are managing tools that have to be used by the Agencies in their current management and so, within the responsibility of the management board, the Commission always tries not to ask for substantial modifications in the agencies' work plans. Nevertheless, it may happen that, for certain very sensitive issues (e.g. avian flu) the Commission might ask for changes according to the new political priorities defined.*

143. Parliament asks the Commission to improve synergies between agencies by making cooperation more effective, avoiding duplication of work and addressing shortcomings, in particular as regards common areas such as training, the implementation of Community policies across the board, the use of the latest management systems and solving problems relating to sound management of the budget. (DOC: P6\_TA-PROV(2006)0167 § 15)

**Commission's response:**

*The Commission already provides the Agencies with access to its libraries and help desks and offers specific training namely in the domains of human and financial resources management. Training is provided on request giving an overview of financial management, of procurement rules and of the impact of the revision of the Implementing Rules of the Financial Regulation. The Commission also provides advice to the agencies which have access to the Commission's Financial Helpdesk. Over 100 replies to consultations on issues of financial management were provided in 2005. The Commission is continuously represented by various customised training sessions and briefings in the IALN ("Inter Agency Legal Network") on recent financial management issues, especially related to procurement. The Commission accounting services provides extensive guidance for the agencies, in particular as regards the consequences of the accounting reform (accrual based accounting).*

144. As regards the European Agency for Reconstruction, urges the Agency to seek guidance to improve its treasury management policy in order to make best use of the often considerable sums maintained in current bank accounts. (DOC: P6\_TA-PROV(2006)0169 § 8)

**Commission's response:**

*The recommended action has been taken. The Commission services have met the European Agency for Reconstruction (EAR) personnel in order to provide advice on how to improve the agency's treasury management, in the light of the European Court of Auditors' remarks. The EAR also pointed out that the average amount of funds available on their bank accounts is now significantly lower than in 2004 since the Commission have better adapted their funding to the real needs of the Agency.*

*The Commission has also provided EAR with guidance (including details of the persons to contact at the bank) in order to ensure that:*

- funds held on their accounts are properly remunerated;*
- interest statements are received from the bank and their calculation verified;*
- conditions applied by the bank to the Commission are also granted to the agency (when applicable).*

*Finally, the EAR have informed the Commission that their bank reconciliations were regularly carried out during 2005.*

145. As regards the European Agency for Reconstruction, in order to improve the reliability and supervision of the management of the budget as regards programmes that are shared with other bodies (UNMIK, IOM, etc.), urges the Court of Auditors, the Commission and those responsible for the UN in Kosovo to act as soon as possible to review and improve the implementation of the Financial and Administrative Framework Agreement signed by the Commission and the UN on 29 April 2003 and to keep Parliament informed as to progress made. (DOC: P6\_TA-PROV(2006)0169 § 11)

**Commission's response:**

*The recommendation has been taken Article 13.1 of the Fafa has established a Working Group within which these consultations take place and which serve to clarify the practical application of this agreement between the EC and the UN. The 2nd meeting of the Working Group concluded that operationalisation of the verification clause was one of the issues that require further development. A sub-working group has been created to discuss the verification clause, including the Court's right of access to projects. This sub-group has met in December 2005 and the matter will be discussed in more detail on the occasion of the 3rd meeting of the Working Group. The 3rd annual consultations on the EC/UN Financial and Administrative Framework Agreement (FAFA) have taken place in April 2006*

146. As regards the European Agency for Reconstruction, in order to address the serious problems of unreliability and accusations of corrupt practices currently surrounding award of public procurement contracts and concessions for highly sensitive projects such as mobile telephony, urges the Commission and the Agency, in close cooperation with UNMIK and its Financial Investigation Unit (FIU), to lay down clear and transparent public procurement rules, to establish internal and supreme audit institutions and to keep Parliament informed as to progress made. (DOC: P6\_TA-PROV(2006)0169 § 12)

**Commission's response:**

*The recommendation has been implemented. As for the funds managed by the EAR, transparent public procurement rules exist for the agency as it has to comply with the legal framework established by the Financial Regulation and reflected in the Practical guide for contract procedures applicable to the external aid budget of the EC (PRAG). Moreover, and regarding the funds managed by UNMIK, a Senior Procurement Adviser, reporting directly to the Director has been recruited to co-ordinate within the Agency the approaches taken with regard to calls for tenders, evaluation and contracting/procurement. A clear division of tasks between the operational, procurement and finance sections has also been put in place.*

*The services of the Agency are being audited internally by the internal auditor that has been appointed in 2004.*

*The application of public procurement and concessions (an application of the public procurement legislation in force) is the responsibility of UNMIK and of the Provisional Institutions of Self Government, according to their respective areas of competence.*

*The EC is providing, as part of the Stabilisation and Association Process, general support to reform of the public administration and for the development of EU compatible legislation. This assistance will have in the long term beneficial effect on the functioning of the Kosovo administration.*

*Within that context, EC funded Agency management programmes in Kosovo address following issues related to public procurement, internal and external audit:*

*- the second phase of assistance to reform Kosovo's public procurement system further enhancing the policy, monitoring and review capacities of public procurement institutions, particularly, the Public Procurement Regulatory Commission. This aims to bring about the establishment of a modern and transparent public procurement framework in line with the *acquis communautaire* and is also a priority under the new European Partnership covering Kosovo. The existing Public Procurement law has been identified as being cumbersome and difficult to implement. The first phase of EU assistance developed a new draft law on public procurement. This law agreed by all stakeholders, including the World Bank, is under discussion by the government.*

*- EC assistance provided to the Internal Audit Department of the Ministry of Economy and Finance. This included 30 pilot audits carried out in selected municipalities and ministries, an internal audit manual prepared as part of an EC funded internal audit and a control programme aiming to ensure that public funds are effectively and transparently planned, managed and controlled. The programme also assisted the Ministry of Economy and Finance in developing a policy paper on public internal financial control setting out legal and policy frameworks. This will work as a benchmark measuring existing public audit and control systems against EU and internationally accepted standards.*

*- EC assistance is provided in order to help establish a strong and independent Supreme Audit Institution in Kosovo. This project includes the training of 60 future auditors in accounting and financial management. Furthermore, assistance is also provided to contracted-out audits until the time when institution will have built sufficient capacity to fulfil its mandate. Assistance is also focusing on the preparation of a strategic plan, essential to give direction to the institution, and on the drafting of a new law on the Supreme Audit Institution which would replace the current UNMIK Regulation.*

*- EC assistance also funds the activities of Italy's Guardia di Finanza which manages the Financial Identification Unit which investigates public bodies in receipt of public funds from the Kosovo Consolidated Budget.*

147. As regards the European Agency for Reconstruction, with a view to maximising transparency and improving budgetary control, calls on the Commission and the Court of Auditors to include within the annual report on the European Agency for Reconstruction a chapter on the activities of both OLAF and the FIU in respect of programmes and projects carried out in Kosovo that have received

Community funding. (DOC: P6\_TA-PROV(2006)0169 § 13)

**Commission's response:**

***The Commission agrees to give an annual overview of the activities of OLAF in the framework of the Investigation Task Force established by decision 2003/16 of UNMIK with regard to Community funded projects and programmes in Kosovo, while respecting the need to protect the confidentiality of investigations.***

148. As regards the European Agency for Reconstruction, Parliament notes the Commission's intention to end the Agency's mandate at the end of 2008 and to hand over the Agency's activities to the Commission's own delegations and local offices; takes the view that, under its mandate, the Agency has achieved positive results despite both numerous criticisms from the Court of Auditors throughout its existence and a lack of support from the Commission; takes the view that the know-how acquired by the Agency's staff could be used once again by the Commission; calls on its competent committee to see whether phasing out the Agency would not have a negative impact on the economic and political progress needed and whether the Commission's own delegations and local offices can perform the same tasks as defined in the Agency's mandate. (DOC: P6\_TA-PROV(2006)0169 § 14)

**Commission's response:**

***The Commission does not accept this recommendation.***

***The Commission issued its report on the future of the EAR on December 23rd 2005. The conclusion of the report is to discontinue the EAR, but seek the extension of its current mandate for a further two years, until 31 December 2008, to gradually phase out its activities under CARDS. At the same time the Commission would prepare the implementation of the future IPA Regulation in a de-concentrated manner, through its Delegations in the countries concerned, from 2007. The report was immediately transmitted to the Council, as mandatory, and to the European Parliament, for information.***

***The report, recognising the success and efficiency of the Agency in delivering reconstruction assistance in the Western Balkans, highlights the importance of an even closer linkage between the political process (SAP), including the political dialogue, and the financial assistance and its implementation, as well as the necessary preparation of beneficiary countries to assume their own financial responsibility for the implementation of the EC assistance. The Commission's proposal of a Council Regulation amending the Agency Regulation was issued to the Council on 6 April 2006.***

***In order to fulfil its tasks in accordance with the underlying legal framework under the best conditions, the Agency has continuously received the necessary support from the Commission. However, at this stage, everybody's priority is now to ensure a smooth transition of the Agencies' programmes to the Commission Delegations. The EAR Task Force has been created by the Director General of DG ELARG to facilitate this process.***

***As far as the know-how acquired by EAR staff is concerned, it is expected that a large number of Agency staff will apply for posts in the EC Delegations' office that will begin to ensure the implementation of EC assistance under the new IPA***

*regulation from 2007 onwards, with full respect for the need for open and transparent selection procedures. As mentioned in several occasions, and in order to minimise the risk and ensure continuity of the operations, the aim is to maintain this operational capacity by offering to the expatriate staff and the Local Agents presently in the Agency the opportunity to continue, as far as possible, with the same type of work with the Commission, with due respect to recruitment and/or contracting rules.*

149. As regards the European Agency for Reconstruction, Parliament notes the problems faced by the Agency in recruiting suitable staff because of the short-term mandate of the Agency; considers that instead of phasing out the Agency according to a pre-set timetable, the time span of the mandate should depend on political and economic criteria and developments; considers furthermore that the mandate should be lengthened and broadened for policy reasons and notes that this would also help to improve the Agency's ability to recruit and keep suitably qualified and experienced staff; considers that experience gained by and with the reconstruction agency could be used to provide reconstruction assistance wherever needed, for example in Iraq, Afghanistan, Pakistan, India and the countries affected by the Tsunami, as a second stage after immediate humanitarian needs have been addressed by the Humanitarian Aid Office. (DOC: P6\_TA-PROV(2006)0169 § 15)

**Commission's response:**

*The Commission does not accept the recommendation. The recruitment of suitable staff for the Agency depends not just on the length of the term but also on the certainty on the possible work content and prospects. A well developed phasing out plan within fixed timetables should not be a handicap for the proper work of the Agency within the agreed mandate.*

*The Commission issued its report on the future of the EAR, recognising the success and efficiency of the Agency in delivering reconstruction assistance in the Western Balkans, on December 23rd 2005. Following an in-depth evaluation, the conclusion of the report is to discontinue the EAR, but seek the extension of its current mandate for a further two years, until 31 December 2008, to gradually phase out its activities under CARDS. At the same time the Commission would prepare the implementation of the future IPA Regulation in a de-concentrated manner, through its Delegations in the countries concerned, from 2007. The report was transmitted to the Council, as mandatory on April 6th, 2006, and to the European Parliament, for information.*

*In the carefully prepared Commission communication on the future of the EAR, the following political and economical parameters were decisive for the proposal of phasing out.*

*The report, highlighted the importance of an even closer linkage between the political process (SAP), including the political dialogue, and the financial assistance and its implementation, as well as the necessary preparation of beneficiary countries to assume their own financial responsibility for the implementation of the EC assistance. This is best done under direct supervision of the Commission (Headquarters and Delegations). The IPA regulation is*

*particularly designed to this aim as the process towards full decentralisation of EU aid by beneficiary countries is one of its main objectives.*

150. As regards the European Maritime Safety Agency, Parliament stresses that the Agency must make a clear distinction between commitment and payment appropriations in its budget; is pleased to note that the Agency is in contact with the Commission with a view to drawing up appropriate presentation models for its budget data, and expects future budgets to be presented in the appropriate form. (DOC: P6\_TA-PROV(2006)0178 § 8)

**Commission's response:**

*The Commission confirms that the Agency already took into account the recommendation to draw up appropriate presentation models for its budget data. From the 2007 budgetary exercise onwards, the budget will be presented in the appropriate form.*