



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.12.2002
SEC(2002) 1378 final

ACTION PLAN

**Commission Action Plan pursuant to the recommendations of the Court of Auditors in
its Annual Report relating to the 2001 budgetary year**

INTRODUCTION

The White Paper On Reform¹ highlighted the need to improve the accountability and empowerment of financial actors to increase the effectiveness of Commission activities. It is in this context that the Council, in its recommendation concerning the 2000 discharge, asked the Commission to draw up an Action Plan² for the next discharge exercise, listing the undertakings made by the Commission to improve its management.

The Commission announced that it would present this Action Plan as part of the 2001 discharge. The purpose of this document is to indicate the corrective measures to be taken to follow the recommendations of the Court of Auditors as well as the impact expected from these measures.

This Action Plan is based on the Commission's replies to the Annual Report of the Court of Auditors relating to the 2001 financial year. It examines the measures to be implemented sector by sector to improve financial management of the Commission and thus obtain a satisfactory statement of assurance (DAS).

The Annual Report is a first step in the discharge procedure. The Commission's replies to the Court's observations are thus of particular importance for the discharge procedure. The Commission should take into account the observations addressed to it and present a guide to the corrective measures it envisages. These commitments, grouped by sector of expenditure in this Action Plan, all aim to improve financial management.

In the **own resources** sector, the Commission will continue to ensure that Member States' procedures concerning traditional own resources comply with the Community rules and undertakes to deal with any irregularity identified by the Court and, if necessary, to take appropriate measures to recover amounts due.

As regards the **common agricultural policy**, in July 2002 the Commission sent the Council and Parliament recommendations for a new common agricultural policy as part of its mid-term review. It proposes adopting appropriate measures for **durum wheat**, following the examination by the Court of Auditors, which has been backed up by an external assessment and internal analyses.

The incomplete implementation of the **milk quotas** scheme has led to infringement procedures being initiated against certain Member States. The penalties have been strengthened and harmonised following the recommendation of the Court of Auditors. The Commission will also assess the market organisation for **beef** in 2004/05 and will analyse the impact of the various instruments available in this sector and, in particular, the new extensification premium introduced by Agenda 2000. The Commission has already taken steps to improve the CATS data base (Clearance Audit Trail System) and the IACS system (Integrated Agricultural Control System) following the recommendation of the Court of Auditors.

For **structural operations**, the Commission will look closely into the causes of the differences between actual and forecast payments. On the Commission's initiative, the simplification of future programming procedures is currently under review. However, effective implementation of these measures will require the full cooperation of the Member States. The pre-accession instruments are currently preparing the accession countries for programming and managing assistance under the Structural Funds and Cohesion

¹ COM(2000)200, 1.3.2000.

² "The Council notes nevertheless that the Court's report does not contain sufficient information on, at least, trends in the incidence of errors observed in the sectors concerned. In these circumstances, the Council can only reiterate its request that the Court provide at least enough information for an objective comparison of progress made in relation to the objectives set, and to adopt a method that makes it possible to assess the results from one year against another. The Council reiterates its request to the Commission to develop such objectives in the context of improvements to the action plan."

Fund. The Commission will continue its efforts to improve payment and control procedures in the Member States.

In the area of **internal policy**, the recommendations relating to research expressed by the Court of Auditors in its 2001 Report were in general accepted by the Commission. In most cases, the actions put forward were already carried out even before the annual report was published and will not only be continued but intensified.

As regards **external action**, the establishment of an integrated audit programme on external aid is planned between now and the end of 2002. For food aid, the Commission has taken a number of measures to check that procedures are properly applied and regular mid-term reviews, final reviews and audits are organised.

Regarding **enlargement**, the Commission has set out the options that each candidate country could consider to boost integration and will continue this approach to provide these countries with the assistance they need.

For **administrative expenditure**, the Commission's accounting officer will adopt the accounting rules and methods to be applied for the harmonisation of the way in which the financial statements of the satellite bodies are presented. The European Schools will continue to work towards more uniform presentation of their accounts.

As regards improvement of the **reliability of the accounts and the reform of the Commission**, the Commission is determined to modernise the accounting framework and system; a new accounting framework is needed to allow it to meet the requirements of the new Financial Regulation (shift to an integrated system of accounts and stricter application of the generally accepted accounting principles). The Commission will present a detailed communication on the modernisation of accounts by the end of 2002.

The Court's Annual Report shows that the situation in the policy areas covered by the EU budget varies considerably. This Action Plan sets out the main strategies to be followed for each sector following the observations of the Court of Auditors.

The year 2001 is the first year for which complete Annual Activity Reports were produced by all Directors-General and Heads of Service (by 1 May 2002); this initial exercise was a positive outcome of the administrative reform which has been initiated. When the Annual Activity Reports are drawn up for 2002, the Commission intends to attach particular importance to including the follow-up to the Court's recommendations.

It is against this background that the Action Plan is being submitted to the Council at the same time as the follow-up report to the 2000 Council recommendation. This exercise represents an effective contribution to transparency and accountability.

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I - RECOMMENDATIONS TAKEN UP

OWN RESOURCES	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p style="text-align: center;">Summary</p> <p>The Commission continues to ensure that Member States' procedures concerning traditional own resources comply with the Community rules and undertakes to deal with any irregularity identified by the Court and, if necessary, to take appropriate measures to recover amounts due.</p>	

<p><i>Recommendation 1</i></p> <p>Presentation of the revenue in the revenue and expenditure account</p> <p>The introductory sections of the <i>Etats financiers</i> (Volume II, Tome 1 and Volume IV) contain a table of prime importance entitled 'Budget outturn'. This table omits a lot of interesting data, whereas other data such as the balance for the financial year, are pointlessly duplicated elsewhere.</p> <p><u>The 'revenue' part of the Financial Statements (implementation of the budget, Volume II, Part 1) should also be made clearer</u>, as regards structure and content. In particular the detailed budgetary headings should be observed, the headings should be indexed, the terminology in the regulations should be used, the figures for forecast and actual revenue should be presented in parallel and, more generally, <u>there should be harmonisation of the various parts of the revenue and expenditure account and the general budget.</u> (paragraphs 1.17./1.18.).</p>	<p><i>Action 1</i></p> <p>Presentation of the revenue in the revenue and expenditure account</p> <p>In Volume IV for 2001, the Commission substantially improved the presentation of the implementation of revenue and expenditure and the link with the outturn table. <u><i>It is considering expanding the revenue table to include data relating to implementation for the year n-1 and implementation rates compared with forecasts.</i></u></p> <p>It intends to continue to work towards greater transparency in the sense desired by the Court.</p> <p>The 'Budget Revenue' heading contained in Volume II, Tome I) Part A of the états financiers describes the implementation of the budget. However, <u><i>the Commission will ensure that the link between the budget and the revenue and expenditure account is made clearer</i></u> (paragraph 1.18.).</p>
<p><i>Recommendation 2</i></p> <p>Presentation of VAT-GNP resources and the UK correction in the revenue and expenditure account</p> <p><u>The Court takes the view that the actual data for the VAT and GNP bases used to calculate the balances and the adjustments of the balances are now entered in the revenue and expenditure account</u>, just like the forecast data concerning these items. <u>However, the calculation operations concerning the burdens on the Member States in respect of these resources should also be set out.</u></p> <p><u>The Court claims that a special table should be drawn up for the UK correction</u> (Chapters 15 and 35) and the essential information given concerning the basic data and the calculation operations on which the overall amount of the UK correction and its financing are based (paragraphs.1.19/1.20).</p>	<p><i>Action 2</i></p> <p>Presentation of VAT-GNP resources and the UK correction in the revenue and expenditure account</p> <p>The Commission shares the Court's view on the calculation of the burdens on the Member States in respect of the balances. <u><i>It intends to present such calculations in the next accounting report.</i></u></p> <p><u><i>The Commission will look at whether or not it is appropriate to include in the revenue and expenditure account tables on the basic data for the definitive calculation of the UK correction and its financing</i></u> (paragraphs. 1.19/1.20).</p>
<p><i>Recommendation 3</i></p> <p>Financing the UK correction</p>	<p><i>Action 3</i></p> <p>Financing the UK correction</p>

<p>Every year <u>the Commission prepares a working document</u> which explains in some detail the calculation and financing of the definitive correction concerning year n-4.³ This explanatory document does not form part of the budgetary procedure for fixing the amount of the UK correction and its financing, but is only provided to the Council for information purposes, after the adoption of the Supplementary and Amending Budget. In 2001 this document was presented to the Council on 5 September, after the adoption of SAB No 3/2002. <u>Considering the relevance of the document mentioned before, it would be appropriate to make it available to the two arms of the budgetary authority in due time.</u></p> <p>Taking into account the limitation to the scope of the audit, the Court obtained a reasonable assurance that the VAT and GNP resources were correctly assessed and collected. However, <u>the Commission should put forward proposals for the simplification of the final calculation of the financing of the United Kingdom correction</u> (paragraphs. 1.38/1.39/1.40).</p>	<p>The main purpose of the working document on the result of the final calculation of the UK correction and its financing is to explain the method of calculation, while using the latest available figures. It is not always possible to submit this document in advance of the adoption of the relevant SAB, although this was done in 2002. The final calculation is explained in the explanatory memorandum to the SAB itself. <u>The Commission will examine the possibility of including further details of the calculation of the final correction in the relevant SAB.</u></p> <p>The new Own Resources Decision and its accompanying working document on the calculation of the UK correction ('the calculation method') does give some scope for simplifying for budgeting the result of the final calculation of the UK correction. This in turn could simplify the final calculation for financing of the correction. <u>The Commission intends to pursue this opportunity for the year 2001 calculation, to be budgeted in 2005</u> (paragraphs 1.39/1.40).</p>
<p><i>Recommendation 4</i></p> <p>Use of a new budgetary nomenclature for revenue</p>	<p><i>Action 4</i></p> <p>Use of a new budgetary nomenclature for revenue</p>
<p>The Financial Regulation⁴ stipulates that the budgetary nomenclature in the context of the budgetary procedure must be set out in titles, chapters and articles. The form of classification used, which must accommodate the very disparate characteristics of the different types of revenue, is uneven. The Court takes the view that <u>the extreme concentration in Title 1 (98.3% in 2001) should be avoided by separating the traditional own resources from the VAT and GNP resources and the correction for the United Kingdom.</u> The surplus available from the previous financial year (Chapter 30) should come under a separate title as it has nothing in common with the balances, corrections and refunds concerning the VAT and GNP resources and the UK correction included under the same title (Chapters 31, 32, 33 and 35) (paragraph 1.21).</p>	<p>The Commission considers that the structure of the budgetary nomenclature must not be based only on quantitative principles. <u>It will examine the possibilities of adapting, if need be, the budgetary nomenclature for revenue</u> (paragraph 1.21).</p>
<p><i>Recommendation 5</i></p> <p>National instructions relating to the control system</p>	<p><i>Action 5</i></p> <p>National instructions relating to the control system</p>
<p>For a number of warehouses examined, the frequency of physical controls carried out did not reach the levels prescribed by national guidance. The Court takes the view that <u>Member States could improve the national instructions in respect of the control system for customs warehouses so that type, scope and frequency of controls are clearly set out.</u> Instructions should also indicate at which level of the customs service decisions about the control modalities should be taken. Finally Member States should ensure that scheduled controls are carried out (paragraphs 1.32/1.36).</p>	<p><u>Under the Customs 2002 programme a document is currently being drafted entitled 'inventory on control areas'. The document provides customs administrations with an exhaustive list of control areas and sub-areas as well as common definitions of control methods.</u></p> <p>The Commission will continue to seek assurance that Member States' procedures in the field of traditional own resources comply with Community rules. <u>The Commission is also engaged in ensuring that any non-conformity with</u></p>

³ Final calculation of the 1997 correction of the United Kingdom's budgetary imbalance and of its financing, distributed to the Budgetary committee of the Council on 5 September 2001.

⁴ Article 19(3).

	<p><u>Community regulations highlighted by reports of the Court are pursued and that action is taken where necessary to collect amounts of own resources or interest due.</u></p> <p>The Commission recognises that the picture in relation to controls is uneven. Within the Customs 2002 programme, project groups of customs experts and Commission representatives <u>are working on the development of a common risk management model, standard formats for exchange of control information and selection of risk categories</u> (paragraphs 1.30/1.31/1.35/1.36).</p>
<p>Recommendation 6</p> <p>Separate account</p>	<p>Action 6</p> <p>Separate account</p>
<p>In 2001, as in previous years, problems were found with the maintenance of the B accounts in several Member States. In Germany, it is not at present possible to confirm the B account balance, because the database does not allow a breakdown into single entries. The management of the B accounts in Italy is not yet uniform and calculation errors can occur at local and regional level without being detected by controls. Errors in entries in the B accounts were also found in Belgium and France, and inspection reports by the Commission referred to B account errors in Ireland, Sweden and Finland. <u>These errors, though minor in terms of the amounts, reflect a weakness in the accounting for own resources under the Community transit system</u> (paragraph 1.27).</p>	<p>In its response to the Annual Report for 2000 the Commission expressed the opinion that the current separate accounting system can lead to both systematic and one-off errors. Hence the Commission's efforts to improve the structure of the system and the close attention it pays to the subject during its own inspections in Member States. <u>Action is already under way to resolve any financial consequences arising from the Court's observations in France and Italy. Appropriate action will be initiated on the Court's further observations once all the relevant information from Member States has been received</u> (paragraph 1.27).</p>
<p>Recommendation 7</p> <p>Administrative cooperation for the protection of VAT revenue</p>	<p>Action 7</p> <p>Administrative cooperation for the protection of VAT revenue</p>
<p>The Court considers that <u>the following measures could be taken in order to increase the effectiveness of administrative cooperation between Member States and the Commission:</u></p>	
<p>a) <u>the SCAC and SCAF committees</u>, could, under the guidance of the Commission, develop best practice in respect of the development of an anti-fraud strategy;</p>	<p>a) The Commission agrees that SCAC should develop best practice in respect of the development of an anti-fraud strategy. In this context, SCAC has set up an ad hoc group with the aim of <u>pooling best practice in preventing and tackling carousel fraud</u>;</p>
<p>b) <u>exchange of information between Member States could be facilitated by the further development of the VIES to combat fraud, of bi- or multilateral agreements as well as by the introduction of corrective actions in cases where Member States do not provide timely information;</u></p>	<p>b) These problems are dealt with in the Commission's proposal for administrative cooperation, <u>although the Commission takes the view that antifraud information should be exchanged outside the VIES system</u>;</p>
<p>c) <u>special control units to tackle specific VAT fraud cases could be set up</u> to give Member States better opportunities to fight fraud on the condition that these units are integrated in, or work closely with, the CLOs and with the assistance of OLAF;</p>	<p>c) The Commission endorses this recommendation. <u>The need for special control units to tackle specific VAT fraud has been addressed in several Commission working papers and reports</u>;</p>
<p>d) <u>the scope of the information exchange mentioned in Articles 11 and 12 of Council Regulation (EC) No 218/92 should be clarified and made more explicit; information</u></p>	<p>d) The Commission endorses this recommendation and points out that <u>the Council is currently discussing a new draft of Articles 11 and 12 of Council Regulation</u></p>

exchanges between Member States could be made more efficient by harmonising the competences and capabilities of CLOs in Member States (paragraph 1.54).	<i>218/92/EEC on the basis of the Commission proposal on <u>administrative cooperation</u>. The weakness of the CLOs has been addressed in several Commission reports, but again <u>primarily requires action at national level</u> (paragraph 1.54).</i>
	<p>As far as OLAF's operational competence in the field of VAT is concerned, <u>the Commission included in both its action plan for 2001-2003</u> on protecting the Communities' financial interests and the fight against fraud⁵ and its work programme 2001⁶ <u>a proposal for a European Parliament and Council Regulation establishing a system for cooperation between the Member States' authorities and the Commission with a view to protecting the financial interests of the Communities against illegal activities, including VAT-related activities and money laundering.</u></p> <p>The Commission services <u>are preparing a separate proposal under Article 280 of the EC Treaty, laying down specific provisions which confer a role on the Commission in coordinating administrative cooperation</u> (paragraph 1.53).</p> <p>For those recommendations that fall solely within the competence of the Member States, the Commission has organised follow-up and an evaluation of progress. <u>The Commission will present its conclusions in a report to the Council and the European Parliament under Article 14 of Regulation (EEC) 218/92</u> (paragraph 1.54.).</p>
<i>Recommendation 8</i>	<i>Action 8</i>
Analysis of budgetary management	Analysis of budgetary management
Actual revenue	Actual revenue
The monthly amounts of agricultural duties made available by France averaged 4.7 million euro from January to April 2001. <u>In May 2001 they increased sharply to 10.3 million euro</u> and remained thereafter at the higher level. For the whole of 2001 this represented an increase over 2000 of 74%, contrary to the general trend of import duties. (paragraph 1.7).	<u>The Commission will contact the French authorities to discover the underlying reason for the change and take any action</u> that might be required to protect the Community's financial interests (paragraph 1.7).
<i>Recommendation 9</i>	<i>Action 9</i>
Use of statistics to combat VAT fraud	Use of statistics to combat VAT fraud
As part of the Annual Report concerning the financial year 1999, ⁷ the Court recommended that <u>a method of comparing tax sources with statistical sources, tested by both France and Italy, be extended to other Member States and used as a possible means of combating fraud</u> . In its reply <u>the Commission committed itself to discussing this method with</u>	<u>This item was discussed at both meetings of the Advisory Committee on Own Resources (ACOR) held in 2001.</u> The conclusion, shared by Italy and France, was that, regrettably, statistical information about theoretical VAT receipts requires such extensive disaggregation to be useful in targeting tax controls that other risk indicators are more readily accessible, more reliable and easier to use. In

⁵ COM(2001) 254 final of 15.5.2001.

⁶ See sheet 2001/098.

⁷ Paragraphs 1.63-1.70.

<p><u>the Member States.</u></p> <p>In its recommendation⁸ on the discharge to be given to the Commission in respect of the implementation of the general budget for the European Communities for the financial year 1999, the Council welcomes with interest the Court's recommendation and suggests that this matter should be examined by the Advisory Committee on Own Resources. Although the Commission has taken adequate steps in carrying out this commitment, the Member States have been unable to come to an agreement. <u>The Court again recommends that the Commission should continue its efforts in this very important area</u> (paragraphs.1.42/1.43/1.44).</p>	<p>addition, Member States concluded that ACOR was not the most suitable forum for any further development. However, the findings remain available for use wherever Member States consider that they may prove useful input for their risk analysis systems. Furthermore, <u>the Commission systematically raises this matter on VAT own resources' control missions, in order to ensure that national authorities give full consideration to the implications of discrepancies between theoretical and actual VAT</u> (paragraphs.1.43/1.44).</p>
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⁸ Document SN 2088/01 – DGF II.

THE COMMON AGRICULTURAL POLICY	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p style="text-align: center;">Summary</p> <p>In July 2002 the Commission sent the Council and Parliament recommendations for a new common agricultural policy as part of its mid-term review. It proposes adopting appropriate measures for durum wheat, following the examination by the Court of Auditors, which has been backed up by an external assessment and internal analyses.</p> <p>The incomplete implementation of the milk quotas scheme has led to infringement procedures being initiated against certain Member States. The penalties have been strengthened and harmonised following the recommendation of the Court of Auditors. The Commission will also assess the market organisation for beef in 2004/05 and will analyse the impact of the various instruments available in this sector and, in particular, the new extensification premium introduced by Agenda 2000. The Commission has already taken steps to improve the CATS data base (Clearance Audit Trail System) and the IACS system (Integrated Agricultural Control System) following the recommendation of the Court of Auditors.</p>	

<i>Recommendation 1</i>	<i>Action 1</i>
IACS inspection reporting	IACS inspection reporting
<p>In the context of the appraisal of the legality and regularity of the underlying transactions, the Court has audited a sample of 156 transactions. It compared its results with</p> <p>The Court considers that <u>the reporting of IACS inspection results needs to be improved and, in particular, to distinguish between the results of risk-based and random checks (paragraph 2.44.).</u></p>	<p>As for arable aid schemes, The Member States are required to send a report that shall among other things give the result of the checks carried out. <u>For this purpose the Commission requires from the Member States to report separately the results of cases selected on a risk and random basis with effect from 2000 on the basis of a questionnaire which the Commission services have created.</u> As for animal premium schemes, Member States are not required to report their inspection results in the way proposed by the Court, however the breakdown between random and risk-based checks has indeed been examined regularly, as appropriate in the context of audits of agricultural expenditure conducted by the Commission services; the aim being to ensure that the selection of farmers for on-the-spot checks is representative as provided by Regulation No 3887/92. Furthermore, IACS legislation has been strengthened in this respect by Article 19(1) of Regulation no 2419/2001, applicable as from 1 January 2002, which provides that Member States “shall select randomly between 20% and 25% of the minimum number of farmers to be subject to on-the-spot checks.” This regulatory requirement will adequately ensure the properly based audit conclusions implied by the Court’s remark (paragraph 2.44.).</p>
<i>Recommendation 2</i>	<i>Action 2</i>
The Clearance Audit Trail System (CATS)	The Clearance Audit Trail System (CATS)
<p>The Commission has a database containing all the information on EAGGF-Guarantee payments that have been made in the 15 Member States in the course of the previous financial year. The Court has established that most of the data have many shortcomings. <u>The Commission should take the necessary steps to make the CATS database more reliable and useful (paragraph 2.47.).</u></p>	<p><u>For the future, the quality controls on the CATS data will be enhanced by using a series of checks, similar to those undertaken by the Court; in addition stricter quality controls (e.g. on the use of code lists) will be built in the programme used by the Member States for sending the computer data to the Commission from the financial year 2002 onwards (paragraph 2.47.).</u></p>
<i>Recommendation 3</i>	<i>Action 3</i>

Clearance of accounts	Clearance of accounts
Certifying bodies: some of these bodies were appointed late. Some paying agencies do not meet the accreditation criteria. <u>The Commission should take measures allowing to improve this situation (paragraphs 2.53.-2.55.).</u>	<u>The Commission will ensure that the certifying bodies are appointed earlier in the year and will ensure that this is done in 2002. It will also closely monitor the procedure for accrediting new paying agencies (paragraphs 2.53.-2.55.).</u>
<i>Recommendation 4</i> Milk levy :	<i>Action 4</i> Milk levy :
<u>The Court reiterates that the Commission should take action to ensure that corrections are applied for system weaknesses which pose a financial risk for EAGGF (paragraph 2.71.).</u>	<p>Previous financial corrections applied for supplementary levy referred to two elements: the amount of levy uncollected and the calculated interest for late payment of that levy. Recent Judgements of the European Court of Justice state that the Member States cannot be required to pay over levies which they have not yet collected (particularly where levies have been challenged in the national courts) - that, if certain monies remain unpaid or are paid late, this is not in itself a violation of the Member States' obligations.</p> <p>The Commissions draws attention to the fact that the reason why large amounts of levy have been uncollected is essentially due to legal action being brought before the national courts by producers who refuse to pay the levy.</p> <p>Furthermore, it should be recalled that the Commission has adopted a new Regulation implementing the quota regime (R. 1392/2001) which considerably reinforces the sanctions applicable in case of irregularity or fraud, so meeting the recommendation made by the Court of Auditors.</p>
<i>Recommendation 5</i> CMO durum wheat:	<i>Action 5</i> CMO durum wheat:
In its follow-up to its observations in the 1997 annual report, the Court notes that the aid for durum wheat greatly exceeds the amount needed to achieve the goal of maintaining producers' incomes. A reform of the CMO would have allowed substantial budgetary savings. <u>The Court considers that its previous recommendations are still relevant (paragraphs 2.87.-2.89.).</u>	In line with the Court of Auditors' analysis of this sector and the evaluation by independent experts, the Commission proposes reducing the specific additional payment to €250/ha in traditional areas and abolishing the aid scheme altogether in non-traditional areas. <u>In order to increase the production of high-quality durum wheat there is a proposal to introduce a special payment of €15/t for durum wheat sold to the industry under contracts guaranteeing fulfilment of certain quality criteria (paragraphs 2.87.-2.89.).</u>
<i>Recommendations 6 and 7</i> Special report on bananas:	<i>Actions 6 and 7</i> Special report on bananas:
There have been shortcomings in the implementation of the CMO's objectives, some of which have not been achieved, and some of the measures taken have had unforeseen and undesired results. In its special report, the Court sets out a number of recommendations for <u>defining the CMO's objectives better and tightening up the controls. As the Commission has committed itself to conducting its first major evaluation around 2004, it should ensure that it keeps to this timetable and that, in particular, it includes an evaluation of the synergies developed by the various types of</u>	<p><u>The level of detail in the definition and quantification of objectives is similar to the other market organisations and will be reviewed in depth when the market organisation is evaluated under Article 32 of Regulation (EEC) No 404/93 (evaluation planned for 2004).</u></p> <p>Moreover, a tariff-only system will be introduced on 1 January 2006 at the latest (Article 16(1) of Regulation (EEC) No 404/93, as amended by Regulation (EC) No 216/2001).</p>

<u>support for the banana sector (paragraphs 2.115. to 2.117.).</u>	More specifically, <i>the Member States' customs procedures on imports have yet to be improved and the Commission will continue to insist that the Member States find a permanent solution to the problem (paragraphs 2.115. to 2.117.).</i>
<i>Recommendation 8</i> Special report on oilseeds:	<i>Action 8</i> Special report on oilseeds:
<u>The Court recommends that the Commission should reassess the support given to products which may be grown instead of oilseeds (paragraph 2.123.).</u>	<i>Support for cereals, an alternative crop to oilseeds, was re-examined during the mid-term review under Agenda 2000. As for the position of oilseeds, it should be noted that they will not be affected by the reduction of the intervention price for cereals. On the other hand, oilseeds will benefit from the corresponding increase in direct payments in the general arable regime, from €63/t to €66/t (paragraph 2.123.).</i>
<i>Recommendation 9</i> Special report on the extensification premium for beef and veal:	<i>Action 9</i> Special report on the extensification premium for beef and veal:
The Court has detected a number of weaknesses in the implementation of the aid, but has above all tried to gauge the actual influence which the premium has had on farming methods. The Court considers that the impact is limited. <u>It therefore recommends that the efficiency of the aid should be assessed (paragraph 2.127.).</u>	<i>The Commission has planned and will carry out the assessment of the common organisation of the market in beef and veal in 2004/2005 and will analyse the impact of the various instruments planned in this sector, particularly the new extensification premium introduced by Agenda 2000 (paragraph 2.127.).</i>
<i>Recommendation 10</i> Control systems	<i>Action 10</i> Control systems
<u>The Commission should reperform and verify a selection of IACS inspections on an annual and representative basis (paragraph 2.44.).</u>	<i>The Commission considers that IACS allows to limit to a large extent the incidence of errors. Furthermore, the Commission is continuously improving the control system by amending the relevant regulations and by initiating their full implementation and development in Member States. It is the case for example for the implementation of the bovine identification system or the introduction at the latest by 1 January 2005 of a geographical identification system (paragraph 2.44.).</i> <i>The reperformance of controls has been a routine part of almost all IACS-related missions for many years, and indeed continues to be an essential component of any on-the-spot audit by the Commission services. This is fully reported in the Commission's audit reports.</i>

STRUCTURAL OPERATIONS

Recommendations of the European Court of Auditors	Action taken by the Commission
Summary <p>The Commission will look closely into the causes of the differences between actual and forecast payments. However, effective implementation of these measures will require the full cooperation of the Member States. On the Commission's initiative, the simplification of future programming procedures is currently under review. The pre-accession instruments are currently preparing the accession countries for programming and managing assistance under the Structural Funds and Cohesion Fund. The Commission will continue its efforts to improve payment and control procedures in the Member States.</p>	

<p><i>Recommendation 1</i></p> <p>Budgetary management: payment forecasts</p> <p>Despite the introduction, in cooperation with the Member States, of a system for forecasting payment requests,⁹ the estimates of the necessary payment appropriations needed are still not very reliable. Moreover, in cases where the available information is such as to modify these estimates no account is taken of it for the purpose of updating budget forecasts (amending letter, supplementary and amending budget).¹⁰ Under these circumstances, as in the case of commitment appropriations, <u>budgetary estimates of payment appropriations continue to be unrelated to the process for adopting interventions and to the progress of the interventions themselves</u> (paragraph 3.14).</p>	<p><i>Action 1</i></p> <p>Budgetary management: payment forecasts</p> <p>It is no easy task to predict the budget implementation of payment appropriations.</p> <p><u>The Commission will look closely into the causes of the differences between actual and forecast payments. It has requested the Member States to improve the quality of their forecasts by drawing them up programme by programme and sending them by e-mail</u> (paragraph 3.15).</p> <p><i>The low rate of payments in 2000 and 2001 for assistance measures covered by the 2000-06 period is due mainly to their late start. For the programmes for which the commitments were made in 2000, the Commission will have exact information on the implementation rate at the beginning of 2003, after the rule of automatic decommitment in year n + 2 is applied for the first time (paragraph 42).</i></p> <p><i>In the Communication from the Commission to the Council and the European Parliament - Evolution of budget execution of the Structural Funds, in particular outstanding commitments (COM(2002) 328 final of 20.9.2002), the Commission has already examined in detail the differences between Member States' forecasts and the outturn and set out payment prospects for the period leading up to 2010.</i></p>
<p><i>Recommendation 2</i></p> <p>Budgetary management: revenue and expenditure account</p> <p>The Commission has discontinued (in its revenue and expenditure account) the 'lessons to be learnt' sections, which were a feature of the previous financial year. This is <u>despite the fact that the structural shortcomings observed in recent years would have required much more detailed analysis with a view to suggesting at the right time improvements to be made in the future to the financial and budgetary frameworks</u></p>	<p><i>Action 2</i></p> <p>Budgetary management: revenue and expenditure account</p> <p><u>The Commission intends to submit more detailed information on appropriations forecasts and the build-up of transactions at the end of the financial year in the next revenue and expenditure accounts.</u> As regards the discontinuation of the 'lesson to be learnt' sections, the Commission takes the view that there is no loss of information because detailed analyses are always given in the revenue and expenditure accounts.</p>

⁹ The Commission's reply to paragraph 3.13 of the Annual Report concerning the financial year 1999.

¹⁰ In addition, the working documents drafted by the Commission within the framework of the preliminary draft budgets provide no indication as to how these estimates are reached.

(i.e. the financial perspective and the procedures for drawing up estimates of appropriations) as well as the programming and management provisions contained in the regulations governing the structural measures. <u>It would also have been beneficial for the Commission to consider its own responsibility as regards delays in the programming procedure, shortcomings in the estimates of appropriations and the increase in transactions at the end of the financial year.</u> (paragraphs 3.18/3.19).	(paragraphs 3.18/3.19).
<p><i>Recommendation 3</i></p> <p>Implementation of the programmes: simplification</p>	<p><i>Action 3</i></p> <p>Implementation of the programmes: simplification</p>
<p>One of the main objectives of the new legislative framework¹¹ was to speed up and simplify programming procedures. However, the proper programming work, which took place in several successive stages,¹² proved to be especially cumbersome and difficult to manage. It was typified by a lack of clarity in the division of responsibilities between the Commission and the Member States and by the absence of a precise pre-established programming framework. Long negotiations between the Member States and the Commission proved to be necessary¹³ but in spite of that the operational framework for the intervention was still not completely defined. This situation is explained in general by persistent uncertainty about the responsibilities of the Commission and the Member States and by legislation which is still complex in terms of the programming, management and booking of expenditure. The establishment of the areas eligible for Objective 2 interventions is a specific example of difficulties in getting the programming phase off the ground. <u>The Court therefore recommends that the necessary measures should be taken so as to prepare in due course an appropriate framework for future programmes, in particular in the context of the future enlargement</u> (paragraphs 3.30, 3.33 and 3.41).</p>	<p><u>On the Commission's initiative, the simplification of future programming procedures is currently under review.</u> The Commission hopes that the timetable for adoption of the texts by the European Parliament and the Council will allow the programmes to be negotiated before the beginning of the period in which they are scheduled to be implemented. <u>The pre-accession instruments are currently preparing the accession countries for programming and managing assistance under the Structural Funds and Cohesion Fund.</u> The Commission already pointed to the fragmented nature of zoning for Objective 2 in its second report on economic and social cohesion. <u>It also referred to the possibility of giving the Member States greater responsibility for Objective 2 zoning in future</u> (paragraphs 3.33 and 3.41).</p> <p>As regards the current programming period, simplification measures will be discussed with the Member States at a joint meeting of the CDCR, STAR, ESF and FIFG on 19-21 November 2002 on simplification (follow-up to the ministerial meeting of 7 October 2002). The Commission will also adopt a simplification package by the end of 2000 containing certain amendments to Regulations No 1685/1999 (eligibility of expenditure) and No 438/2001 (management and control systems).</p> <p><i>The provisional timetable for deliberations on the period after 2006 is as follows:</i></p> <ul style="list-style-type: none"> - adoption of the 2nd progress report on 29 January 2003 - organisation of a seminar on 3 and 4 March on the method for implementing the future cohesion policy (this point will

¹¹ Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds (OJ L 161, 26.6.1999, p. 1). The new legislative framework for the 2000-2006 period stipulates, for each intervention, that:

- total Community assistance shall be broken down by year, on the basis of financing plans which are compatible with the applicable financial perspectives;
- the first commitment shall be made when the corresponding decision is adopted;
- subsequent instalments shall be committed automatically on 30 April of each year.

¹² Plans, Community support framework, single programming document, operational programmes and additional programming.

¹³ In its opinion No 10/98 on certain proposals for regulations in the context of Agenda 2000 (the part concerning the Structural Funds, paragraphs 4.1 to 4.7, the programming procedure), the Court questioned the actual usefulness of the various programming stages, in which only the last document, the programming supplement, implements the strategy and main priorities of the intervention and contains details about the measures.

	<p><i>be discussed at the meeting of Directors on Monday)</i></p> <p><i>- adoption of the 3rd report on economic and social cohesion planned for December 2003: this report will set out the guidelines for the future cohesion policy.</i></p>
<p><i>Recommendation 4</i></p> <p>Implementation of the programmes: eligibility of types of expenditure</p>	<p><i>Action 4</i></p> <p>Implementation of the programmes: eligibility of types of expenditure</p>
<p>In addition to these problems with programming procedures, <u>the legislation governing expenditure proved to be complex, and uncertainty persisted as regards the interpretation of a number of basic questions such as the eligibility of certain items of expenditure</u>, the rates at which revenue-yielding investments were jointly financed or the definition of the final beneficiary.</p>	<p>The proposed amendments to Regulations 1685/2000 and 438/2001 (see action 3) should clarify the question of treatment of advances as eligible expenditure and the obligation to keep supporting documents. As for the financing of revenue-yielding infrastructure projects, <u>in July 2002 DG REGIO presented a guidance note on the financing of revenue-generating infrastructure projects to the Committee on the Development and Conversion of Regions. This note, too, will be finalised shortly and sent to the Member States</u> (paragraph 3.32).</p>
<p><i>Recommendation 5</i></p> <p>Implementation of the programmes: SFC data base</p>	<p><i>Action 5</i></p> <p>Implementation of the programmes: SFC data base</p>
<p><i>The dividing up of the management of structural measures amongst various Commission departments meant that it was still difficult to arrive at an understanding of the overall situation. Moreover, the common database for the Structural Funds, which is intended to make electronic exchanges of information possible, was not operational when the programmes were being negotiated. At the end of 2001 some information in particular concerning the IFOP, was still missing (paragraph 37).</i></p>	<p>A common database called SFC (Structural Funds Common System) has been operational since the end of 2001 and is used by the four DGs responsible for the Structural Funds. It contains the tables in the Structural Funds vade-mecum, with a breakdown of resources by Objective, Fund, Member State and Community Support Framework (CSF). <u>Further information on the FIFG was added in 2002.</u></p>
<p><i>Recommendation 6</i></p> <p>Specific appraisal in the context of the statement of assurance: closure of operations pre-dating 2000</p>	<p><i>Action 6</i></p> <p>Specific appraisal in the context of the statement of assurance: closure of operations pre-dating 2000</p>
<p>The checks which the Member States are required to perform before the completion of each form of intervention from the period 1994-1999 are an essential component in the reliability of their systems and the regularity of requests for payments. Despite some improvements which are intended to bring about uniform application of the rules, <u>the control systems still do not ensure that the checks on which final declarations of expenditure rely are rigorous and reliable enough</u>. In 2001 the Commission finally closed 53 1994-1996 Objective 2 interventions (16 ERDF and 37 ESF). At the end of 2001 there were still 53 interventions open, representing 575 million euro of commitments outstanding (including 44 ERDF for a total of 540 million euro and nine ESF for a total of 35 million euro). The closure procedures applied to 1994-1996 Objective 2 measures and Cohesion Fund projects are substantially identical to those for the preceding period. <u>In view of the closures that will occur from 2002 onwards the Commission should therefore reinforce its initiatives, including improving the coordination of the work of the departments that are responsible for the different</u></p>	<p>The Commission undertook a very substantial programme of audit activity in 2001 to obtain assurance with regard to the implementation of Regulation 2064/97 by the Member States. As a result of the detailed recommendations communicated to the bodies concerned, significant efforts have been made by Member States to complete the necessary control work in line with the requirements of the Regulation prior to closure. For this, it has put in place procedures intended to give reasonable assurance that non-eligible expenditure will not receive co-financing. <u>The Commission will ensure that all material shortcomings are adequately dealt with prior to closure. It will also maintain and develop the effective coordination between the Structural Funds services which has been operating in relation to preparations for closure. In addition, closure audits will be carried out on a selection of programmes to check on the reliability of the information provided by the Member State at closure, and to identify and exclude all irregular expenditure.</u> This programme of audits started with audits of certain Objective 2 programmes implemented between 1994</p>

<u>structural measures</u> (paragraphs 3.62 and 3.81).	and 1996, most of which have been closed. (paragraph 3.81).
<i>Recommendation 7</i>	<i>Action 7</i>
Specific appraisal in the context of the statement of assurance: follow-up of audits on closure	Specific appraisal in the context of the statement of assurance: follow-up of audits on closure
The procedures for examining final payment requests still took the form of interdepartmental consultations, and respective responsibilities had not been amended since the previous period. The follow-up of such audit observations continued to rely on various databases that had been set up without any coordination as the unified database announced by the Commission could not be operational before 2002 ¹⁴ (paragraph 3.48).	<u>From 2003 a new application (Sysaudit) will cover the planning and follow-up of Commission audits for the Structural Funds.</u>
<i>Recommendation 8</i>	<i>Action 8</i>
Specific appraisal in the context of the statement of assurance: management and inspection systems established by the Member States for the period 2000-06	Specific appraisal in the context of the statement of assurance: management and inspection systems established by the Member States for the period 2000-06
The regulatory management and control arrangements for the 2000-2006 period have been strengthened. However, their implementation is already marred by delay, the structures are not yet all operational and independent auditing of the operations effected has not begun. The Court detected in interim payments the presence of ineligible expenditure of the same types as for previous periods, which suggests that some of those involved are not sufficiently conversant with the rules applicable. In order to satisfy itself that the management and control systems meet the standards imposed by the regulations, the Commission is required to examine the functioning of the systems at regular intervals. For that, on-site visits are necessary. However, a small number of visits were made in 2001 by DG REGIO and PECHÉ, one was made by DG EMPLOI and DG AGRI made none at all. As a result, the Commission did not have adequate assurance in regarding the reliability of these systems. In some Member States ¹⁵ weaknesses, such as the absence of checks on paid invoices or equivalent documents, are present in the procedures for verifying the reality and eligibility of expenditure. As a consequence expenditure declarations are drawn up without any check on whether the expenditure was actually incurred. <u>The Commission should therefore try to complete its checks in the Member States as soon as possible and should ensure that the control standards and rules of eligibility, as well as the sanctions to be imposed for non-compliance, are circulated and understood at every level</u> (paragraphs 3.66, 3.67 and 3.82).	Despite the delay in establishing the systems to meet the higher standards, Member States have now made significant efforts to put the necessary structures in place and are better informed of the requirements and better able to meet them than before. The Directorates-General for the Structural Funds have audited these systems both on the spot and on the basis of the descriptions provided under Article 5 of Regulation No 438/2001. In these audits, the Commission is focusing on the controls necessary to ensure accurate, regular and eligible expenditure from the bottom up. <u>It will continue auditing these systems in future years, giving priority to programmes not yet covered and to the Cohesion Fund, for which similar requirements have now been laid down in Regulation 1386/2002 of 29 July 2002. It will take appropriate measures when deficiencies are detected.</u> (paragraphs 3.68 and 3.82). At the start of 2003 the Commission will present to Parliament a report summarising the conclusions of its examination of the new systems in the Member States.
<i>Recommendation 9</i>	<i>Action 9</i>
Rationalisation of budgetary support and improvement of financial management procedures for local employment actions	Rationalisation of budgetary support and improvement of financial management procedures for local employment actions

¹⁴ See Annual Report 2000, Commission's reply to paragraph 3.70.

¹⁵ Spain (FIFG), Portugal (ESF), Germany (ERDF and ESF) and Finland (ERDF).

<p>In the case of a sample of innovative and preparatory local employment projects which were directly funded by the Commission, <u>the Commission's financial management procedures had not been sufficiently stringent in some cases</u>. In addition, value for money on such projects was not assured due to a degree of overlap between the different innovative measures and the authorisation of such projects (paragraph 3.118).</p>	<p>The Commission agrees with the Court's general recommendation to rationalise budgetary support and improve financial management procedures for local employment actions under innovative and preparatory measures. <u><i>It undertakes to implement these budget lines in the best possible way with the available human resources</i></u> (paragraph 3.118).</p>
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INTERNAL POLICIES	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p style="text-align: center;">Summary</p> <p>The recommendations relating to research expressed by the Court of Auditors in its 2001 Report were in general accepted by the Commission. In most cases, the actions put forward were already carried out even before the annual report was published and will not only be continued but intensified.</p> <p>However, although the Court's recommendations on the system of costs and the concept of value per activity to be applied to research projects under the 6th framework programme have been proposed by the Commission, they have had to be revised to secure the approval of the Council and Parliament (DG RTD).</p> <p>The Commission launched an improvement of the management of education and youth programmes with the entry into force of the new Socrates II and Youth programmes at the start of 2000. This improvement tightens up the management of decentralised operations involving the national agencies set up by the Member States; the Commission has also stated its intention to use an executive agency in future instead of a Technical Assistance Office (DG EAC).</p>	

<i>Recommendation 1</i>	<i>Action 1</i>
TEN-T programme-Evaluation	TEN-T programme-Evaluation
For the TEN-T programme, the Commission should strengthen the legal and control framework (for instance requiring offer letters between Member States and final beneficiaries and developing and implementing clearer rules with regard to the eligibility of costs). <u>The evaluation of proposals should be improved by using more intensively external experts and should be properly documented.</u> Administrative procedures and IT-systems should be modified taking into account the specific requirements of the TEN-T programme. Completed TEN-T actions should be regularly audited (paragraph 4.74)	The Commission is already well advanced in some of the directions indicated by the Court. The revision of the standard texts of the Commission decisions as well as the introduction of additional annexes with more detailed specifications, definitions and requirements intends to provide an improvement to the current situation. The recommendations made by the Court with regards to the evaluation of proposals, the administrative procedures and the IT systems are taken into consideration. <u>TEN-T ex-post audits will be included in the audit programmes for the years 2002 – 2003</u> (paragraph 4.74)
<i>Recommendation 2</i>	<i>Action 2</i>
Sanctions	Sanctions
The Commission is encouraged to protect the Community's financial interests by imposing the sanctions provided for in Council Regulation No 2988/95 ¹⁶ . In addition to the recovery of the wrongly obtained advantage, these sanctions should be visible and provide for proportionate administrative measures and penalties in order to be both effective and dissuasive. <u>These sanctions could be defined in model contracts or introduced by means of a specific sectoral rule.</u> (paragraph 4.51)	The reference to Regulation No 2988/95 also appears in the rules on participation for the 6th framework programme contained in the standard contracts for this programme. <u>The contracts will, where appropriate, provide for the penalties to which the Court of Auditors alludes.</u> This action also comes under actions 73 and 94 of the White Paper on the reform of the Commission which provide for standard contracts and the fraud-proofing of legislation and contract management. <u>In addition, the Commission's Action plan for 2001 - 2003 on the fight against fraud foresees the preparation of an initiative to integrate administrative measures and sanctions in the field of direct expenditure.</u>
<i>Recommendation 3</i>	<i>Action 3</i>

¹⁶

Council Regulation (EC, Euratom) No 2988/95 (OJ L 312, 18.12.1995).

Monitoring TEN-T actions	Monitoring TEN-T actions
<u>It is recommended to complement the regular on-the-spot checks, performed by the officials in charge of monitoring TEN-T actions, by ex-post financial and technical audits.</u> (paragraph 4.33).	In conformity with the Court's recommendation <u>DG TREN's central financial audit cell will include a sample of TEN-T actions in its audit programme for the years 2002-2003</u> (paragraph 4.33).
<i>Recommendation 4</i>	<i>Action 4</i>
Model contracts for indirect RTD actions	Model contracts for indirect RTD actions
Model contracts for indirect RTD actions <u>should provide for participants bearing unlimited joint and several liability for the use made of the Community financial contribution</u> (with the exception of participants such as public universities). (paragraph 4.50)	The principle of unlimited joint and several liability of participants was explicitly contained in the Commission's amended proposal on the rules for the participation of organisations in the 6th framework programme. The unlimited scope of liability was dropped at the request of the Council and Parliament. <u>However, in the text adopted, the principle of joint and several liability has been retained</u> (paragraph 4.50).
<i>Recommendation 5</i>	<i>Action 5</i>
Recovery	Recovery
The efforts to <u>recover overpaid Community funds from beneficiaries need to be intensified</u> , specifically with regard to DGs RTD, INFSO and TREN (paragraph 4.76).	The increase of the audit efforts has already resulted in a greater level of recovery and in particular <u>as far as the 5th framework programme is concerned, the Commission has simplified its recovery procedures. The Commission will continue its efforts with regard to recoveries.</u>
<i>Recommendation 6</i>	<i>Action 6</i>
Special Report No 2/2002 (Socrates and Youth for Europe)	Special Report No 2/2002 (Socrates and Youth for Europe)
In its Special Report N° 2/2002 (Socrates and Youth for Europe) the Court made a number of recommendations for improving the management of these programmes which should be taken into consideration. These <u>include the replacement of the TAO with a Community agency, clearly defining the relationship between the Commission and national authorities, improving control and monitoring at all levels and providing effective and timely evaluations</u> (paragraph 4.77).	A number of the Court's recommendations actually correspond to improvements already decided on or introduced by the Commission on the entry into force of the Socrates II and Youth programmes that, from 2000, succeeded the Socrates I and Youth for Europe programmes examined by the Court. In particular, <u>the Commission announced its intention of relying on an executive agency for the future management of programmes in the field of education and youth. It has significantly strengthened its reliance on a network of national agencies.</u> The Commission has already begun <u>intensifying its scrutiny and monitoring of programmes</u> , among other things by increasing the number of field visits. <u>Evaluation frameworks have been defined for these programmes, including indicators and timetables designed to ensure effective evaluation.</u>
<i>Recommendation 7</i>	<i>Action 7</i>
Legal framework of the TEN-T programme	Legal framework of the TEN-T programme
The Commission should aim for a homogeneous implementation of the TEN-T programme applying the same provisions to all beneficiaries in all Member States. <u>The legal framework of the TEN-T programme should be strengthened in order to improve the protection of the Community's</u>	The Legal Service of the Commission has given an opinion, stating that <u>it is not necessary to conclude contracts in addition to Commission Decisions.</u> The Commission Decisions are to be notified directly to both the Member State and the final beneficiaries in accordance with Art. 10 of

<p><u>financial interests</u>. Where contracts are not concluded with final beneficiaries, offer letters could be implemented by Member States based on a framework set by the Commission. These offer letters, requiring a written acceptance by the beneficiary, should define the terms and conditions of the grant thus enhancing the awareness of beneficiaries to the specific requirements to be met when implementing the action (paragraph 4.31).</p>	<p>regulation 2236/95. The Commission acknowledges however that until the end of 2001 only the Member State was notified, and the Member State informed the beneficiary (paragraph 4.31).</p>
<p><i>Recommendation 8</i></p> <p>Eligibility criteria for proposals</p>	<p><i>Action 8</i></p> <p>Eligibility criteria for proposals</p>
<p>DG TREN <u>should rigorously apply eligibility criteria for proposals (in particular with regard to the reception dates); strengthen the evaluation process by widening the use of external experts, and properly document all controls operated (paragraph 4.35).</u></p>	<p><u>Late receipts of proposal are justified by appropriate extensions. Regarding the evaluation process a wider use of external evaluators is a sensitive issue : on the one hand the Commission itself is responsible for ensuring compliance with Community policy ; on the other hand reasons of sensitivity on the side of the Member States as promoters of the projects assuring a major part of the funding. In some cases reasons of confidentiality in case of private promoters may be an additional difficulty.</u></p> <p>The integration of the TEN-T procedures in the official Manual of procedures will clarify the requirements concerning the appropriate documentation of controls (paragraph 4.35).</p>
<p><i>Recommendation 9</i></p> <p>Current databases to the central DG TREN IT-</p>	<p><i>Action 9</i></p> <p>Current databases to the central DG TREN IT-</p>
<p><u>A migration from the current databases to the central DG TREN IT-system should be done as quickly as possible, taking into account the specific requirements of TEN-T. In the meantime, solutions should be sought on how to cope with key functions with regard to proposal, contract and/or project management which are as yet missing or incomplete in the current IT systems (paragraph 4.36).</u></p>	<p><u>The integration of TEN-T into the central DG TREN IT project management system is under way (paragraph 4.36).</u></p>
<p><i>Recommendation 10</i></p>	<p><i>Action 10</i></p>
<p>In order to comply with the Commission's Internal Control Standards, DG TREN is also invited to apply the procedures approved by its Director-General, modified where necessary to reflect the actual procedures in place for managing the TEN-T programme. Operational procedures should then be kept up-to-date (paragraph 4.34).</p>	<p>The revision of the Manual is in progress and the new release will incorporate the procedures, which are applicable to the TEN-T programme (paragraph 4.34).</p>

EXTERNAL ACTION	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p style="text-align: center;">Summary</p> <p>The establishment of an integrated audit programme on external aid is planned between now and the end of 2002. For food aid, the Commission has taken a number of measures to check that procedures are properly applied and regular mid-term reviews, final reviews and audits are organised. Since 2000 the spending departments have been pursuing an active policy of systematic examination and closure of old or dormant external aid budgetary commitments wherever possible.</p>	

<p><i>Recommendation 1</i></p> <p>Increase in outstanding commitments</p> <p>These trends (the cumulative value of outstanding commitments dating back five years or more increased from 933.9 million euro at the end of 1998 to 1589.6 million euro at the end of 2001) underline the need for constant monitoring of the OCs in order to contain them. <u>It is important that the Commission equip itself with the means to obtain reliable and complete accounting and management information to facilitate the management of the measures financed.</u> This information should make it possible to carry out in-depth analyses of the development of the OCs and the nature of the payments made (advances or others) in order to compare the rate of disbursement of the aid with the progress of implementation on the ground (paragraph 5.10).</p>	<p><i>Action 1</i></p> <p>Increase in outstanding commitments</p> <p>The Commission is aware of the need to monitor the share of old OCs in its external aid management portfolio, and it endorses the Court's comment on the need for constant monitoring of the OCs in order to contain them. Since 2000 the spending departments have been pursuing an active policy of systematic examination and closure of old or dormant external aid budgetary commitments wherever possible.</p> <p><u>As regards the accounting and management information needed to carry out a more detailed analysis of the evolution of the OCs, the CRIS Data Entry instruments and the accounting system as adapted to the new requirements of the Financial Regulation with regard to different types of payments should make it possible to undertake such analysis from 2003</u> (paragraph 5.10).</p>
<p><i>Recommendation 2</i></p> <p>Systematic audit programmes</p> <p><u>The Commission should deal with this matter quickly in order to ensure that systematic audit programmes are established,</u> including by clearly stipulating the responsibilities required within the Commission, so that the conclusions of audit reports are acted upon (paragraph 5.21).</p>	<p><i>Action 2</i></p> <p>Systematic audit programmes</p> <p>It is <u>envisaged that, between now and the end of 2002, an integrated audit programme on external aid be established</u> to cover the external audit activities of delegations and headquarters alike (paragraph 5.21).</p>
<p><i>Recommendation 3</i></p> <p>Humanitarian aid</p> <p>The Court recommends that:</p> <ul style="list-style-type: none"> the Commission takes further steps to ensure that organisations responsible for handling EU funds strengthen their internal control systems, in particular to ensure the adequacy of supporting documentation and their tendering procedures. <u>The Commission should lay down more specifically the minimum standards which are required;</u> <p><u>the Commission takes the steps necessary to ensure that sufficient reviews and audits are carried out by it, or on its</u></p>	<p><i>Action 3</i></p> <p>Humanitarian aid</p> <p>In the area of Humanitarian Aid the Commission feels that the ECHO Partner vetting, instructions, communication, guidelines, dialogues, evaluation, monitoring, controls and audits are extensive and relatively exhaustive. The minimum standards, in particular in respect of supporting documentation and tendering, are defined in the Framework Partnership Agreement. <u>In the light of the reform, new financial regulations and implementing rules, a new Framework Partnership Agreement is being drafted.</u></p> <p>Echo operates an extensive number of reviews and controls: both at the stage of the appraisal of each operation by its</p>

<p><u>behalf, to enable it to judge whether the internal control procedures applied by its implementing partners are adequate, and takes corrective action if necessary (paragraph 5.50.).</u></p>	<p>Technical Assistants, the appraisal by the operational desk and the liquidation by the finance unit. ECHO officials have carried out a substantial number of audits over the last years. <u>In June 2002 ECHO contracted an external audit company to undertake audits, which will substantially increase the audits already carried out. By this means all partners are expected to be audited every 2 years. Furthermore, the human resources devoted to auditing have tripled.</u></p>
<p><i>Recommendation 4</i></p> <p>The monitoring system</p>	<p><i>Action 4</i></p> <p>The monitoring system</p>
<p><u>Whereas the monitoring system can now identify projects' weaknesses, additional work needs to be carried out to be able to analyse their underlying causes. Furthermore the quality, performance and methodology of the monitoring system should be regularly evaluated by the Commission (paragraph 5.77).</u></p>	<p><u>The Commission expects to continue improving and developing the methodology. There are also firm plans to assess, after the system has been in use for two or three years, the usefulness of the monitoring reports and their application in practice (paragraph 5.77).</u></p>
<p><i>Recommendation 5</i></p> <p>Management of macro-economic assistance</p>	<p><i>Action 5</i></p> <p>Management of macro-economic assistance</p>
<p>The Court recommended that:</p>	
<ul style="list-style-type: none"> the added value of the European Union's interventions in comparison to the World Bank and the International Monetary Fund should be more clearly established; 	<ul style="list-style-type: none"> A systematic effort is made to ensure adequate complementarity with IMF/WB programmes;
<ul style="list-style-type: none"> <u>consideration should be given to creating a more harmonised approach between MFA and SAF</u>, so that countries in similar situations are dealt with in a similar manner; 	<ul style="list-style-type: none"> Within the limits resulting from the specificity of the various instruments and the different legal bases, the Commission agrees with the need for setting up a more harmonised approach between MFA and SAF. In this regard a manual establishing methodological guidelines defining harmonised guiding principles for budget assistance to third countries is being prepared;
<ul style="list-style-type: none"> the <u>Commission's decision making for the various phases of the management of macro-economic assistance should be more transparent</u>, and in particular the Commission should document its justification for waiving conditions; 	<ul style="list-style-type: none"> The Commission will ensure, in all cases, that reasons for granting waivers are adequately documented;
<ul style="list-style-type: none"> the <u>Commission's monitoring of the quality of financial management in beneficiary countries should be considerably improved</u> and involve all relevant Directorates General; 	<ul style="list-style-type: none"> The Commission is enhancing the delegations' capacity to monitor the political and economic conditions in beneficiary countries;
<ul style="list-style-type: none"> <u>more priority should be given to carrying out evaluations</u> (paragraph 5.85). 	<ul style="list-style-type: none"> <u>A greater focus on evaluation is already a part of the general reform. Evaluations of selected MFA programmes are planned to take place from 2003 onwards, and all SAFs approved since 2000 include financial provision for a final independent evaluation</u> (paragraph 5.85).
<p><i>Recommendation 6</i></p> <p>Proposals made by NGOs</p>	<p><i>Action 6</i></p> <p>Proposals made by NGOs</p>

<p><u>Delegations should be allowed sufficient time for giving their opinion on proposals made by NGOs. The Commission should also examine alternative procedures to shorten the time between the NGO's submission of proposals and the signing of the contracts</u> (paragraph 5.78).</p>	<p>The Commission welcomes the Court's comments on the actions taken. <i><u>The consultation process will involve delegations, and sufficient time will be allowed for them to comment</u></i> (paragraph 5.78).</p>
<p><i>Recommendation 7</i></p> <p>Assessment work</p>	<p><i>Action 7</i></p> <p>Assessment work</p>
<p><u>The Commission should consider having a greater part of the assessment work carried out by the Delegations on the basis of clear instructions and guidance from the central services, subject to subsequent monitoring</u> (paragraph 5.75).</p>	<p><i><u>The existing procedures foresee an active involvement of delegations in the assessment of proposals, and the Commission will ensure that proposals are received in due time for them to be assessed</u></i> (paragraph 5.75).</p>
<p><i>Recommendation 8</i></p> <p>Information and management system</p>	<p><i>Action 8</i></p> <p>Information and management system</p>
<p><u>An information and management system containing data on experts and contractors should be developed</u> (paragraph 5.67).</p>	<p>While this information is not currently recorded in a computerised database, this is clearly the intention. <i><u>A Commission-wide database of contract information is already being developed</u></i> (paragraph 5.67).</p>

ENLARGEMENT	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p style="text-align: center;">Summary</p> <p>The Commission has set out the options that each candidate country could consider to boost integration and will continue this approach to provide these countries with the assistance they need.</p>	

<i>Recommendation 1</i>	<i>Action 1</i>
Shortcomings in the Commission's methodology for approving national management of Sapard	Shortcomings in the Commission's methodology for approving national management of Sapard
When the Commission monitors compliance with the conditions for decentralised management, <u>it should ensure that the shortcomings identified by the Court are sufficiently covered</u> . The Commission should also review that the items mentioned in its own audit reports are rectified (paragraph 6.31).	In the Commission's view, <u>the significant shortcomings concern the lack of filed evidence as to the experience of staff. These matters will be addressed</u> (paragraph 6.31).

ADMINISTRATIVE EXPENDITURE

Recommendations of the European Court of Auditors	Action taken by the Commission
Summary	
<p>The Commission's accounting officer will adopt the accounting rules and methods to be applied for the harmonisation of the way in which the financial statements of the satellite bodies are presented.</p> <p>The European Schools will continue to work towards more uniform presentation of their accounts.</p>	

<p><i>Recommendation 1</i></p> <p>Presentation of the satellite bodies' financial statements</p> <p>The way in which the satellite bodies' financial statements are presented <u>should be harmonised. The presentation should also take account of the special nature of the satellite bodies in order to highlight their economic outturn more</u> (paragraph 7.26).</p>	<p><i>Action 1</i></p> <p>Presentation of the satellite bodies' financial statements</p> <p><u>The new Financial Regulation extends the scope of consolidation to include satellite bodies</u> and stipulates that they must apply the same accounting rules as the institutions so that their accounts can be consolidated with those of the Commission for the 2005 financial year at the latest. To that end, the Commission's accounting officer will adopt the accounting rules and methods and the harmonised accounting plan to be followed by all the institutions, agencies and satellite bodies. Harmonisation of the way in which financial statements are presented will thus be achieved (paragraph 7.26).</p>
<p><i>Recommendation 2</i></p> <p>Audit of the European Schools</p> <p><u>The efforts already made to achieve greater uniformity in the presentation of the Schools' accounts should be continued with a view to making their consolidation less difficult. The Schools' accounting plan fails to provide for any fixed-assets accounts and the property which is supposed to be entered on the inventory is not recorded in the general accounts: the fixed assets are not entered in the individual balance sheets of the Schools or of the Office of the Representative of the Board of Governors. In its report concerning the 2000 financial year, shortcomings in the inventory-keeping were highlighted</u> (paragraph 7.34).</p>	<p><i>Action 2</i></p> <p>Audit of the European Schools</p> <p><u>The European Schools will continue to work towards more uniform presentation of their accounts.</u> The Board of Governors has instructed the Schools to work towards more uniformity in the accounts. The Schools are currently taking the necessary steps to complete the inventories as soon as possible. <u>The inclusion of fixed assets in the general accounts is currently being discussed between the Office of the Representative of the Board of Governors and the Schools</u> (paragraph 7.34).</p>

FINANCIAL INSTRUMENTS	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p style="text-align: center;">Summary</p> <p><u>1. It is of great importance that the reports relating to the implementation of the scheme are reliable.</u></p> <p><u>The figures on commitments, contracts signed, draw-downs and repayments are verified by the EIF and monitored by the Commission. Until the new fiduciary and management agreement entered into force the EIF provided information on commitments and draw-downs twice a year. Under the new framework agreement the information will be provided four times a year.</u></p> <p><u>2. The Court recommends that the Commission and the EIF should study the way to find remedies for the weakness it has observed in the speed and the extension of the schemes' implementation.</u></p> <p>The differences detected by the Commission in the take-up of the facilities were taken into account in defining the framework for implementation of the multiannual programme for enterprise and entrepreneurship (MAP).</p> <p>The new multiannual programme for enterprise and entrepreneurship (MAP) proposes modifications and extensions of the ETF Start-up Facility and the SME Guarantee Facility and introduces a new action, the Seed Capital Action. All three actions are to be managed by the EIF and aim to address recognised market failures in order to improve SMEs' access to finance.</p>	

<p><i>Recommendation 1</i></p> <p>Reporting problems as regards implementation of the Start-up facility</p> <p>Since there are no precise targets to be achieved, <u>it is particularly important that reports on the implementation of the facility and on employment and job creation are reliable</u>, that the relevant figures are accurate and that the facility is coherent with others managed by the EIF and running parallel to it.</p> <p>The information on commitments and draw-downs made by the EIF for investments in venture-capital funds is available for the full year 'n' during the first quarter of the following year ('n+1'). On the other hand, information on employment from SMEs concerning year 'n' is transmitted to the Commission through the venture-capital funds and the EIF in the third quarter. The Commission considers that it is reasonable to keep the existing deadlines, rather than to oblige SMEs to either change their financial reporting cycle or send a report in two parts. <u>The Court notes that the budgetary authority is not informed about the development of the scheme before budgetary decisions are made in year 'n+1' (paragraphs 8.14/8.15).</u></p>	<p><i>Action 1</i></p> <p>Reporting problems as regards implementation of the Start-up facility</p> <p>Like the Court, the Commission and EIF attach great importance to the reliability of figures provided regarding the implementation of the facility. Figures regarding commitments, contract signature, draw-downs and repayments are verified by the EIF and monitored by the Commission.</p> <p>The Commission considers that the collection and analysis of statistical data including employment is best addressed in the context of evaluation. In accordance with the Council Decision, an ex-post evaluation was recently carried out.</p> <p><u>Until the new fiduciary and management agreement entered into force the EIF provided information on commitments and draw-downs twice a year. Under the new framework agreement the information will be provided four times a year (paragraphs 8.14/8.15).</u></p>
<p><i>Recommendation 2</i></p> <p>Problems concerning the fair distribution of programmes throughout the Community</p> <p>The Court is aware of the difficulties inherent in the implementation of the schemes audited. The Court recognises that a fair balance has to be struck between potentially profitable uses for the funds and requirements</p>	<p><i>Action 2</i></p> <p>Problems concerning the fair distribution of programmes throughout the Community</p> <p>The SME Guarantee Facility has established itself as an effective instrument reaching a sizeable population of SMEs active in a wide range of different activities.</p>

<p>owing to the character of these funds as public money intended to be used for public interest objectives Nevertheless, the Court recalls that difficulties remain in establishing the ETF Start-up and to a lesser extent establishing the SME Guarantee facility equitably throughout the Community.</p> <p>In accordance with the above <u>the Court recommends that the Commission and the EIF should study the way to find remedies for the weakness observed by the Court in the speed and the extension of the schemes' implementation (paragraphs 8.31/8.32).</u></p>	<p>The differences in the take-up of the Facilities were identified by the Commission at an early stage and largely taken into account in defining the framework for implementation of the MAP. <u>The new MAP proposes modifications and extensions of the ETF Start-up Facility and the SME Guarantee Facility and introduces a new action, the Seed Capital Action. All three actions are to be managed by the EIF and aim to address recognised market failures in order to improve SME's access to finance (paragraphs 8.30/8.31).</u></p>
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ACTION RESULTING FROM THE STATEMENT OF ASSURANCE FOR 2001

Recommendations of the European Court of Auditors	Action taken by the Commission
Summary	
<p>As regards improvement of the reliability of the accounts and the reform of the Commission, the Commission is determined to modernise the accounting framework and system; a new accounting framework is needed to allow it to meet the requirements of the new Financial Regulation (<i>shift to an integrated system of accounts and stricter application of the generally accepted accounting principles</i>). The Commission will present a detailed communication on the modernisation of accounts by the end of 2002.</p> <p>The Commission will take all the necessary steps to ensure the correct implementation of the new Financial Regulation which is applicable from 1 January 2003. With a view to more effective management in recovering funds paid unduly in the area of expenditure directly managed, the Commission communication of December 2000 redefined the roles of the various actors and spelt out improvements in terms of computer aids and procedures. A Commission communication on improving the recovery of debts arising from direct and indirect management of Community expenditure was approved by the Commission on 3 December 2002.</p>	

<i>Recommendation 1</i>	<i>Action 1</i>
Accounting principles and practices	Accounting principles and practices
<p>For several years the Commission has been developing a new accounting framework which complies with the principles of accruals-based accounting. Nevertheless, the new Financial Regulation¹⁷ states that the reformed accounting system will only gradually be brought in and that it will not be fully operational until the financial year 2005. A draft action plan was submitted in June 2001.¹⁸ <u>By the end of May 2002, no start had been made on implementing this action plan, which has remained at the draft stage.</u> The deadline for adopting the new Financial Regulation is not justification for these delays in implementation. <u>In short, the provisions of the Financial Regulation will not be sufficient, in themselves, to make up for the present shortcomings in the accounting system and a good many practical measures need to be taken</u> (paragraph 9.8).</p>	<p>The Commission is strongly committed to the modernisation of the accounting system. By the end of 2002 the Commission will take a decision on the options for development, the proposed calendar for implementation and the projected costs and allocation of resources. Furthermore, <u>given that the new Financial Regulation requires the production of accrual accounts by 2005, urgent and wide-ranging action is necessary.</u></p> <p>A new accounting framework is necessary to enable the Commission both to meet the requirements of the new Financial Regulation: <u>evolution towards an integrated system of accounting and respect of generally accepted accounting principles</u>; at present. The new accounting framework has to conform with generally accepted accounting principles for the <u>production of accrual-based accounts; improvement of the financial statements</u>, so that they give an accurate picture of assets and liabilities, the financial situation, budget execution, the entity's outturn and the cash flow for the year.</p> <p>The reform of accounting is a major exercise. <u>In particular, the question of implementing accrual accounting principles will be examined in detail</u> to identify the accounting treatment of each type of transaction for each different service or activity.</p> <p><u>The move towards accrual accounting will be supported by a parallel development in the functionality of the computerised accounting system.</u></p> <p>The Commission will regularly inform the Discharge authority and the European Court of Auditors of the progress</p>

¹⁷ See Council Regulation (EC, EURATOM) of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002).

¹⁸ See Annual Report concerning the financial year 2000, paragraph 9.32.

	made in this exercise (paragraphs 9.6/9.8).
<i>Recommendation 2</i>	<i>Action 2</i>
External action	External action
As at 31 December 2001, the total shown in the balance sheet under sundry debtors for the amounts held by financial intermediaries (980 million euro, including 73 million euro of interest) comes from a non-accounting record. <u>The procedure that is followed does not enable the Commission to demonstrate the justification for the sums thus entered in the accounts. Consequently, the declarations by the Directors-General of the Enlargement DG and the EuropeAid Cooperation Office include reservations concerning the reliability of the estimates in their fields which amount to 685 million euro (paragraph 9.25).</u>	As the Court points out, non-accounting records are inherent to the Commission's current accounting system and are necessary for drawing up the annual accounts. The Commission wishes to highlight the enormous amount of work carried out by the various Directorates-General in order to draw up the list of financial intermediaries. This work will be useful for the changeover to integrated accounting as all the relevant information will already have been collected. <u>From that point onwards, the use of non-accounting records will be minimal as the recently adopted new Financial Regulation requires that prefinancing payments be identified</u> (paragraph 9.25).
<i>Recommendation 3</i>	<i>Action 3</i>
Bank accounts	Bank accounts
<u>A provision of 564 million euro for risks and liabilities was entered in the consolidated balance sheet as at 31 December 2001 to cover the cost of dismantling the JRC's installations, the activities of which have ceased (374 million euro) or are still in progress (190 million euro). Apart from the fact that the cost of deploying the JRC's own staff (estimated at between 75 and 100 million euro) was not included in this provision, the amount of the provision is the result of an internal evaluation by the JRC. Until the technical evaluation on which it is based has been the subject of an independent examination involving consultation of the parties involved, its probative value will remain limited.</u> (paragraph 9.31).	The Commission took a first step by entering in the 2001 budget a provision for risks and liabilities to cover the dismantling of the entire JRC installations, based on a study carried out by the Commission. <u>A contract will be placed with an external evaluator. It is hoped that the first draft report of the evaluation will be available by the end of January 2003</u> (paragraph 9.31).
<i>Recommendation 4</i>	<i>Action 4</i>
Off-balance-sheet commitments	Off-balance-sheet commitments
Commitments against differentiated appropriations still outstanding at 31 December 2001 totalled 86 760 million euro. Of these, commitments still outstanding for more than two years accounted for 28 840 million euro, of which 9.790 million euro had not been the subject of any payment during the last two years. <u>Of the latter amount, the Court considers that some 1 318.2 million euro (13%) no longer represent an obligation to make payments</u> (paragraph 9.32).	During the period mentioned by the Court, the Commission paid some €147 million against these outstanding commitments; a further €745 million in commitments were examined, but the Commission departments considered that they should remain open for various reasons –contract still valid, awaiting final report, legal dispute ongoing, etc. At the end of April 2002, the Commission had reviewed one quarter of all the commitments to be examined. The Report also shows that the rate of examination is planned to accelerate by the end of 2002. <u>The Action Plan aims at examining all potentially abnormal RAL by the end of 2003</u> (paragraph 9.3)
<i>Recommendation 5</i>	<i>Action 5</i>
Observations concerning items on the consolidated balance sheet - Pension rights	Observations concerning items on the consolidated balance sheet - Pension rights

<p>The total of the consolidated balance sheet for the financial year 2001 shows an increase of 76% compared with the total for the previous financial year. <u>This increase is mainly due to a change in the accounting policy applied by the Commission in respect of pension rights.</u> This change in method comes in the wake of an observation by the Court,¹⁹ asking for the annual liability representing the rights acquired during the financial year to be deducted from the economic result. However, the Commission does not record this expenditure, as it has entered the total amount of the potential debt for pensions in the financial statements for a single financial year and, in compensation, has entered revenue for the same amount, thus neutralising the impact on the economic result. In so doing, it is not complying with the Court's request. At the time, moreover, the Commission considered that a thorough accounting analysis²⁰ was required. <u>The Court is consequently of the opinion that it would be useful for the Commission to continue its analysis of the way in which the pensions scheme is treated in the accounts, bearing in mind the Community context</u> (paragraph 9.17).</p>	<p>For several years now, the Commission has been supplying detailed information on pension rights in the annex to the annual accounts (in the off-balance-sheet commitments). A major step forward was made in the 2001 accounts, when the provisions for pension rights were entered for the first time as liabilities in the accounts, although no IPSAS²¹ has been introduced to date.</p> <p><i><u>The Commission feels that the method used is correct, but is nevertheless willing to discuss with the Court the best method of entering pension rights in the financial statements.</u></i></p> <p><i><u>As part of the reform, the Commission has made several proposals concerning the pension scheme, including the carrying out of a feasibility study on the possible setting-up of a pensions fund. This study, which is still under way, will estimate the financial impact of such a step and will enable the potential financial impact on the accounts of the institutions to be assessed.</u></i></p>
<p><i>Recommendation 6</i></p> <p>Observations concerning items on the consolidated balance sheet - Yield on advances and payments on account made to third parties</p>	<p><i>Action 6</i></p> <p>Observations concerning items on the consolidated balance sheet - Yield on advances and payments on account made to third parties</p>
<p>The interest yielded by the advances and payments on account is not always notified to the Commission by the financial intermediaries. Where it is notified, it is not always recorded as budgetary revenue. At 31 December 2001, <u>interest on the funds held by the financial intermediaries known at central level (see paragraph 9.25) amounted to 73 million euro, of which only 28 million euro were recorded as budgetary revenue. When the sums received in this way are allocated to measures or programmes, they are not automatically recorded as budgetary expenditure. it follows from this that the accounts do not reflect the whole of the Community contribution</u> (paragraph 9.27).</p>	<p>The Commission will ensure that such interest is entered in the accounts on a regular basis and will regularise the past situation.</p> <p><i><u>The new Financial Regulation requires that estimates of amounts receivable be drawn up when prefinancing payments are made and that interest yielded by funds which remain the property of the European Communities be entered in the budget as miscellaneous revenue.</u></i></p> <p>This new provision will ensure that the interest yielded by Community funds is accounted for more rigorously from 1 January 2003.</p> <p>Furthermore, <i><u>the Commission will spell out in the new implementing rules for the new Financial Regulation, which will be applicable as from 1 January 2003, that interest arising from prefinancing of actions under the pre-accession instruments is not to be considered the property of the Commission</u></i> (paragraph 9.27).</p>
<p><i>Recommendation 7</i></p> <p>Timetable for the submission of declarations and reports</p>	<p><i>Action 7</i></p> <p>Timetable for the submission of declarations and reports</p>
<p>The declarations of the Directors-General and the</p>	<p>The Commission acknowledges that in the first year of</p>

¹⁹ Annual report concerning the financial year 2000, paragraph 7.6.

²⁰ See the Commission's reply to paragraph 7.6 of the Annual Report concerning the financial year 2000.

²¹ IPSAS: International Public Sector Accounting Standards.

<p>Commission's summary report are spontaneous expressions of opinion²² which the external auditor (the Court) cannot disregard in the context of its Statement of Assurance. <u>However, the dates set by the Commission for submitting these declarations are incompatible with the timetable for the Annual Report laid down by the Financial Regulation.</u> The reports of the Directors-General are the basis for the Summary report which the Commission sends to the European Parliament, the Council and the Court (see paragraphs 9.9-9.100) at the end of July, despite the fact that, according to Article 88(1) of the Financial Regulation, the Court is required to send the observations likely to be included in its Annual Report to the Commission by 15 July at the latest²³ (paragraph 9.54).</p> <p><u>This timetable therefore does not enable the Court to make a detailed examination under proper conditions of the declarations and reports submitted both by the authorising officers and by the Commission itself. The deadline set by the Charter for authorising officers by delegation for the submission of annual reports (15 March) would be much more suitable.</u> The alterations to the timetable provided for by the new Financial Regulation make it even more necessary for the Commission to review the deadlines for the submission of the declarations and annual reports by its departments (paragraph 9.55).</p>	<p>annual reports and declarations it was impossible to keep to the timetable initially laid down in the Charter for authorising officers by delegation (Communication of 27 June 2001). <u>Under action 10 of the Summary Report²⁴ the Commission intends to examine the methodology and guidelines for the coming financial year and will, on that occasion, take the first step towards establishing the timetable</u> (paragraphs 9.53/9.54).</p>
<p><i>Recommendation 8</i></p> <p>State of progress of the reform</p> <p>Recoveries</p>	<p><i>Action 8</i></p> <p>State of progress of the reform</p> <p>Recoveries</p>
<p><u>The deadline for Action 96 of the White Paper on more effective management of the recovery of unduly paid funds (see paragraph 9.26) was set for July 2000. In December 2000 the Commission adopted a communication²⁵ laying down the principles for a reform of its procedures and an action plan for this purpose consisting of operational decentralisation and greater support for its Legal Service. In the wake of administrative difficulties, the deadline was deferred until 30 June 2002</u> (paragraph 9.67).</p>	<p>With a view to more effective management in recovering funds paid unduly in the area of expenditure directly managed, the Commission communication of December 2000 redefined the roles of the various actors and spelt out improvements in terms of computer aids and procedures.</p> <p><u>The operational decentralisation of the debit note to authorising departments will apply from 1 January 2003, when the new Financial Regulation, the Implementing Rules, and the internal procedure provisions concerning recovery come into force.</u></p> <p>In 2002 further improvements were put in place:</p> <ul style="list-style-type: none"> - on the computer side, the first stage in improving monitoring was completed;

²² Management representations.

²³ Article 88a of the Financial Regulation, in conjunction with Article 88 thereof, stipulates that the Court must present the DAS to the European Parliament and the Council at the same time as the Annual Report (by 30 November at the latest). For practical reasons, since 1994 the DAS has formed an integral part of the Annual Report.

²⁴ Action 10: The Secretariat-General, in collaboration with the Budget DG, the Personnel and Administration DG and the Internal Audit Service, will review and enhance before end of 2002 the methodology and guidance for producing the Annual Reports for 2002, paying particular attention to the question of materiality, the definition of the scope of potential reservations to be included in the accompanying declarations, and the handling of cross delegations.

²⁵ SEC(2000) 2204/3 of 12 December 2000.

	<p>- more staff were assigned to recovery; coordination of dossiers at the recovery stage has also been centralised;</p> <p>- OLAF set up a new unit to monitor the financial aspect of irregularities investigated in connection with direct expenditure.</p> <p><u>A new Commission communication on improving the recovery of debts arising from direct and indirect management of Community expenditure was approved by the Commission on 3 December 2002 (paragraph 9.67).</u></p>
<p><i>Recommendation 9</i></p> <p>Observations concerning items on the consolidated balance sheet - Participations and loans granted from the budget</p>	<p><i>Action 9</i></p> <p>Observations concerning items on the consolidated balance sheet - Participations and loans granted from the budget</p>
<p>ECIP (European Community Investment Partners) is a financial instrument created during the 1980s to support joint ventures founded by companies established within the Community and companies in developing countries (ACP,²⁶ Latin America and Asia). <u>The Court considers that the Commission's accounts do not give a true picture of this instrument's situation for the following reasons (paragraph 9.20).</u></p>	<p>The Commission has made progress in the field of accounting and reporting, although some problems are still to be ironed out.</p> <p><u>It should be emphasised that most of the activities of the European Community Investment Partners (ECIP) will be wound up, recovered or converted into a definitive subsidy before the end of 2002.</u> The programme cannot be definitively wound up until the last joint venture has been completed.</p> <p><u>The Commission will make a more thorough examination of the status of this instrument and the relevant recovery orders (paragraph 9.20).</u></p>
<p><i>Recommendation 10</i></p> <p>Observations concerning items on the consolidated balance sheet - Bank accounts</p>	<p><i>Action 10</i></p> <p>Observations concerning items on the consolidated balance sheet - Bank accounts</p>
<p>In 2000 the Commission opened three bank accounts with the Central Bank of Jordan. These accounts were intended to meet the needs of three MEDA programmes. The funds paid into these accounts were regarded as expenditure by the authorising department concerned at the Commission. On 31 December 2001, the deposits on these accounts totalled 639 927 euro. <u>Apart from the fact that these amounts had been classed, in advance, as the equivalent of budgetary expenditure, they were not shown under disposable assets on the Commission's balance sheet as the accounting officer was not aware the accounts had been opened. Such practices are contrary to the most elementary principles of internal control and the Commission should forbid them from being used by its authorising officers by subdelegation (paragraph 9.29).</u></p>	<p><u>The Commission will take all the necessary steps to ensure the correct implementation of the Financial Regulation so that this situation does not occur again.</u></p> <p>The funds paid into these accounts were regarded as expenditure since they were to be transferred to recipients (paragraph 9.29).</p>

²⁶

African, Caribbean and Pacific countries.

EUROPEAN DEVELOPMENT FUND (EDF)	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p style="text-align: center;">Summary</p> <p>The analysis of financial management in 2001 incorporated the data provided by the Court of Auditors for last year and was much improved as a result. The Commission will continue its efforts to improve this analysis.</p>	

<p><i>Recommendation 1</i></p> <p>Inadequate improvement of the presentation of the accounts</p> <p>The Court has repeatedly called on the Commission to present the EDF accounts in a form that is more consistent with accounting principles.²⁷ The Commission included a consolidated balance sheet for the sixth, seventh and eighth EDFs in the EDF balance sheet for 2001. However, the presentation of the consolidated balance sheet and the balance sheets of the various EDFs was not sufficiently harmonised and the information value of the accounts was still inadequate (see paragraphs 19 to 21). <u>The Court considers that further improvements should be made in the presentation of the EDF accounts. Moreover, the accounts should be published in the Official Journal, which would comply better with Community practice as regards financial information</u> (paragraph 5).</p>	<p><i>Action 1</i></p> <p>Inadequate improvement of the presentation of the accounts</p> <p>The Commission is aware of the need to improve and simplify the presentation of its annual report so as to make it more accessible, while also meeting the requirement laid down in the Financial Regulation to publish a significant volume of information and to feature the specific characteristics of each EDF. A study was carried out by an external consultant for that purpose in 2001. The consultant's conclusions were submitted during the last quarter of 2001, with the result that it was no longer possible to amend the accounting entries already made.</p> <p><u>The recommendations set out in the study include publishing a consolidated balance sheet of the three EDFs being implemented: this document is incorporated into the 2001 annual report and provides an overview of the available cash assets, receivables and the recorded amount of payments.</u></p> <p>Pursuant to Article 68 of the Financial Regulation, financial statements for 2001 formed the subject of a Communication from the Commission to the Court of Auditors, the European Parliament and the Council dated 29 April 2002 (COM 211 final) (paragraph 5).</p>
<p><i>Recommendation 2</i></p> <p>Incomplete analysis of financial management</p> <p>In support of the EDF financial statements for the financial year 2001, the Commission also provided an analysis of their financial management.²⁸ This document is more detailed than the one for the financial year 2000 whose inadequacies the Court had pointed out in its previous Annual Report.²⁹ However, there is still room for improvement, in particular with regard to the explanation of the slow implementation of the EDFs. <u>The Commission should therefore show and comment on the cumulated implementation rates of the</u></p>	<p><i>Action 2</i></p> <p>Incomplete analysis of financial management</p> <p>The analysis of financial management in 2001 incorporated the data provided by the Court of Auditors for last year and was much improved as a result. The Commission will continue its efforts to improve this analysis. The analysis concentrated on the individual EDFs and on the different instruments. Although some comments were provided on the accumulated implementation rate of the different EDFs, <u>the Court's comments are noted and this analysis will be carried</u></p>

²⁷ Annual Reports on the activities of the sixth, seventh and eighth EDFs for the financial years 1999 (paragraph 9) and 2000 (paragraph 5).

²⁸ Pursuant to Article 67(2) of the Financial Regulation of the eighth EDF.

²⁹ Annual Report on the activities of the sixth, seventh and eighth EDFs for the financial year 2000, paragraphs 4 and 5.

various EDFs. It should also analyse thoroughly the causes of under-implementation instead of mentioning them briefly whilst announcing the improvements that it expects to achieve via decentralisation (paragraph 6).	out in greater depth in the future (paragraph 6).
<i>Recommendation 3</i> Difficult transition between EDFs	<i>Action 3</i> Difficult transition between EDFs
<p>In order to avoid the implementation delays that affected the previous EDFs, the Commission has started adapting certain accompanying texts that would be necessary for the implementation of the agreement when it enters into force. One of these regards the rules for contracts. It has still not presented the proposal for a Financial Regulation and could therefore put the legislative authority in the difficult position of having to adopt this text as soon as possible before the entry into force of the Cotonou agreement. Generally, <u>the Commission should look into the possibility of setting up a legislative support framework so as to avoid transition problems when it introduces new EDFs.</u></p> <p>The Court recognises that development aid policy involves constraints that are likely to make implementation slow. It therefore asks the Commission to show more realism in establishing its forecasts so as not to give rise to unjustified expectations. <u>At the same time, it asks the Commission to give more emphasis to reforms aimed at limiting this slowness, so that the eighth and the ninth EDFs do not suffer from the same excessive implementation delays found for the previous EDFs</u> (paragraphs 16 and 17).</p>	<p><u>The Commission presented a proposal on 11 June 2002 and has taken all necessary measures to ensure that this regulation is adopted before the entry into force of the 9th EDF.</u></p> <p><u>The Commission plans to improve its financial implementation forecasts and to make them a more important management tool.</u></p> <p>The reforms decided on by the Commission in May 2000 will have full effect in the medium term.</p> <p>However, in view of the implementation problems often encountered in the ACP countries, implementation of programmable aid will always be influenced by the capacities of the partner countries, hence the major efforts made by the Commission in this area (paragraphs 16 and 17).</p>
<i>Recommendation 4</i> Guidelines for audits	<i>Action 4</i> Guidelines for audits
<p><u>Precise guidelines should be drawn up and they should be applied in a uniform way. They should be based on the best practice observed in the many audits already carried out.</u> In particular, the terms of reference of the audit contracts should include:</p> <ul style="list-style-type: none"> - details of the checks to be carried out on the various types of expenditure, including the search for infringements of tender rules, over-invoicing and purchases at higher than market prices; - the establishment of the main cases of ineligibility for EDF financing; - rules for the presentation of the summary audit reports, envisaging the quantification of the coverage of the audit and the cases of ineligibility found as well as a detailed account of the expenditure audited, together with an indication of whether the expenditure has been accepted or rejected or is doubtful (paragraph 26). <p>Therefore, the current audit mechanism does not yet make it possible to ensure that Community financing is verified in an appropriate and uniform way. <u>The Commission should improve its system by specifying the nature of the audit work</u></p>	<p><u>The Commission is preparing a series of instruments providing an improved framework for audit activities.</u> The Court's observations on this point, which the Commission's departments agree with, will be taken into account in drawing them up. <u>These instruments include manuals containing standard terms of reference and report layouts. It is also essential for these to be a computerised system in order to have an overview of the audit activities carried out and/or supervised in the delegations</u> (paragraph 26).</p> <p>The introduction of the CRIS AUDIT system should make it possible in future to keep track of audits so as to have a general overview in terms of the number of audits and the financial coverage of expenditure, as indicated by the Court of Auditors. In this spirit, <u>a statistical sample to allow satisfactory coverage of expenditure audited and limit the risk of error needs to be envisaged in the future.</u></p> <p><u>Introduction of the CRIS system will also make it possible to improve monitoring of audit results in terms of recovery orders for ineligible expenditure and in terms of return on future action at the time when financing agreements are drafted and projects drawn up (as suggested by the Court).</u> A system of this kind would also allow appropriate corrective action to be taken as regards the implementation</p>

<p>to be carried out and the structure and contents of the audit reports more clearly in the financing agreements and the terms of reference. It should improve their actual implementation and its analysis and monitoring of the necessary corrective action (paragraph 30).</p>	<p>of projects.</p> <p><i>Preparations are being made to develop the monitoring and reporting of audits by delegations through the existing database (Common Relex Information System) (paragraph 29/30).</i></p>
<p><i>Recommendation 5</i></p> <p>Follow-up of the observations: recoveries facilitated by surplus funds</p>	<p><i>Action 5</i></p> <p>Follow-up of the observations: recoveries facilitated by surplus funds</p>
<p>In December 2001³⁰ a budget of 9 million euro for the 2002-2004 period was allocated to ad hoc projects (meetings, seminars, workshops and studies) involving expenditure that is, by its nature, difficult to distinguish from the expenditure relating to the ACP Secretariat's normal operations.</p> <p><u>The Court recommends that the Commission prevent this budget being used to finance activities that are covered by the flat-rate operating subsidy paid to the ACP Secretariat. In addition, the Court recommends that the Commission reduce, as far as possible, the advances earmarked for these ad hoc projects, so that the Secretariat is not provided with funds in excess of its requirements.</u> The reduction in its cash resources should encourage the ACP Secretariat to practise more rigorous management (paragraph 46/47).</p>	<p>The Commission intends to comply with the Court's recommendation to the effect that funds from Financing agreement No 6508/REG on ad hoc projects should not be used for the activities covered by the flat-rate financing paid to the ACP Secretariat. <i>In so far as possible, it will attempt to reduce advances to 50%</i> (paragraph 45).</p>

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Financing decision of 21 December 2001.

EUROPEAN COAL AND STEEL COMMUNITY (ECSC)

Recommendations of the European Court of Auditors	Action taken by the Commission
Summary	
The Court's recommendations concern the follow-up of ECSC commitments which are still open and the management of building loans to officials.	

<p><i>Recommendation 1</i></p> <p>Commitments still open</p> <p>At the end of the financial year, dormant commitments had been cancelled to the tune of 58 million euro. These cancellations regarded rehabilitation aid and social measures (23,2 million and 15,5 million euro respectively), interest rebates (10,3 million euro) and research (9,1 million euro). It should be noted that, in 2001, the Commission cancelled amounts that it should have cancelled during previous financial years. <u>In view of the liquidation of the ECSC on 23 July 2002, the Court suggests that the Commission should carry out a special examination of all the commitments that are still open and cancel those that it can assume will not to be used in the future</u> (paragraph 13).</p>	<p><i>Action 1</i></p> <p>Commitments still open</p> <p><u>The Commission shares the Court's concern regarding cancellations of dormant commitments and regularly examines commitments that are still open with a view to cancelling them where necessary</u>, as shown by the relatively high level of cancellations in 2001.</p> <p>Caution is nevertheless required since cancellations cannot be reversed. <u>As regards interest rebates, a minimum level of appropriations needs to be maintained in case a sub-borrower were to supply additional documentation proving entitlement to the late payment of a rebate</u> (paragraph 13).</p>
<p><i>Recommendation 2</i></p> <p>Missing reports</p> <p>The Commission (DG Personnel and Administration) is required to draw up an annual report concerning the situation of loans to officials, which amounted to 34,8 million euro at the end of 2001. Until 1987, this report was forwarded to the Council. Since then, it has only been sent to the various Commission departments. The most recent report available relates to the period 1994 to 1995. <u>In reply to the Court's report concerning the financial year 2001, the Commission committed itself to drawing up the missing reports by the end of 2001. It did not comply with this commitment</u>³¹ (paragraph 14).</p>	<p><i>Action 2</i></p> <p>Missing reports</p> <p>The Commission is aware of the problems that have accumulated over the last few years with the management of building loans. The situation has to do with the Commission's decision to stop granting building loans before expiry of the ECSC Treaty and the existence of a fairly complex administrative set-up chiefly based on systematic double checking by the department managing the loans. <u>The latter's priority has tended to be to carry out a minimum of essential day-to-day management tasks. Now that the ECSC Treaty has expired, the Commission is able to give the assurance that the delayed annual reports will be presented in the autumn of 2002</u> (paragraph 14).</p>
<p><i>Recommendation 3</i></p> <p>Management of loans to officials</p> <p>Up until July 1999, the Commission's departments used a certain database for the management of loans to officials. Following various problems, it exported the data to another database without validating them. The Commission only started the task of validating the data for the financial years after 1999 at the beginning of February 2002. Furthermore, there is a gap of two to three months between DG ADMIN's data (the personnel and administration Directorate-General)</p>	<p><i>Action 3</i></p> <p>Management of loans to officials</p> <p>The Commission has completed validating the data for the years 1999 to 2002. The task of validating data for years prior to 1999 is in hand.</p> <p><u>From September 2002 monthly balance sheets will be closed not more than six weeks after the reference period</u> (paragraph 15).</p>

³¹

Annual Report concerning the ECSC for the financial year 2000 (OJ C 366, 20.12.2001).

<p>and the data held by DG ECFIN (the economic and financial affairs Directorate-General), which is responsible for drawing up the ECSC's monthly and annual balance sheets. <u>The Court notes with concern the weaknesses found in the management of these loans and recommends that urgent steps should be taken to restore sound management</u> (paragraph 15).</p>	
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II - RECOMMENDATIONS NOT TAKEN UP

OWN RESOURCES	
Recommendations of the European Court of Auditors	Action taken by the Commission
<i>Recommendation</i>	
Cost of collecting traditional own resources	Cost of collecting traditional own resources
<p>The own resources decision³² of 29 September 2000 entered into force, following ratification by all Member States, on 1 March 2002. Under this decision, the amount that Member States retain by way of collection costs is raised from 10% of traditional own resources to 25%, effective for duties established after 31 December 2000.</p> <p>The decision affects the great majority of the traditional own resources made available in 2001. During 2001, pending ratification of the decision, Member States continued to retain 10%. There is thus a repayment now due to them which is provided for in Supplementary and Amending Budget No 2 to the 2002 budget. This liability is referred to in a note to the Commission's balance sheet as at 31 December 2001.³³ <u>The Court considers that the note should indicate the estimated amount of the repayment, namely 2 038,6 million euro (paragraph 1.15).</u></p>	<u>No reply by the Commission</u>
<i>Recommendation</i>	<i>Reply</i>
Budgetary management - Surplus for the year 2001	Budgetary management - Surplus for the year 2001
<p>As regards budget implementation, the Court commented on the extremely high surplus in 2001. Compared with 2000, the budgetary management in the year 2001 produced a further increase in the surplus to 15 013.5 millions euro (16% of final budget).</p>	<p><u>The Commission acted in accordance with the financial rules, which provide that the balance at the end of each financial year is entered in the budget for the following year.</u> A supplementary and amending budget can be presented towards the end of the budgetary year but only in exceptional circumstances, for example, to address one-off needs and for a limited amount. At this period of the year, when the budgetary procedure for the following year is on the point of completion, it is difficult to discuss and decide on adjustments of appropriations for the budgetary year under way in the light of expected under-utilisation.</p> <p>On 5 November 2001 the Commission adopted Amending Letter No 2 to the PDB 2002 containing a provisional estimate of the budget surplus for 2001. This was integrated by the Council into its second reading of the draft budget for an amount of €1.2 billion. This procedure followed the Council's request, stated in a declaration on revenue attached to the Council's first reading of the draft budget 2002 (paragraph 1.11).</p>
<p>This situation leads to the following observations:</p> <p>a) in order to keep the surplus within reasonable limits, <u>the</u></p>	

³² Council Decision 2000/597/EC, Euratom.

³³ Annex 3, Explanatory notes to the balance sheet, Comments on the balance sheet at 31 December 2001, paragraph 3.

³⁴ Annual Report concerning the financial year 2000, paragraph 1.4.

Commission should have used the SAB procedure to adapt the final appropriations to expectations of financial needs. In this way the demands on Member States for GNP resources (35 177,9 million euro in total) could have been reduced by a rate of 30 to 40%.

b) as regards the calculation of the balance for the year, the Court repeats its criticism³⁴ of the fact that there is no breakdown in terms of "revenue collected in excess or revenue shortfalls" and "appropriations not used"; this analysis should be made in absolute figures and as a percentage (paragraph 1.11).

THE COMMON AGRICULTURAL POLICY	
Recommendations of the European Court of Auditors	Action taken by the Commission
<i>Recommendation</i>	<i>Reply</i>
Olive oil: in the Court's view, as key controls are still missing, the risk for EAGGF is high and a <u>higher flat-rate correction should have been applied (paragraph 2.70.).</u>	<u>The factors then taken into account when evaluating the risk to the Fund also remain valid for the subsequent years to which the Court refers (paragraph 2.70.).</u>
<i>Recommendation</i>	<i>Reply</i>
Special report: oilseeds	Special report: oilseeds
The Court considers that the support granted is too high because of the choice of historical references (overstated yields). In these circumstances, <u>the Court recommends that these historical yields should be adjusted in the regionalisation plans and that the Commission should examine to what extent unduly paid aid can be recovered. Finally, the Court recommends that the Commission should define clear and quantified objectives for the CMO (paragraph 2.123.).</u>	The Commission does not intend to ask the Member States concerned to change their regionalisation plans, because after discussions at Council level these plans were included in Agenda 2000. The Commission has acted in conformity with the rules laid down by the Council. <u>The Commission does not agree with the Court's conclusions on cases relating to the method of calculating aid. The objective of market equilibrium is a familiar concept, the exact nature of which changes according to the state of the market (equilibrium between demand and supply) (paragraph 2.123.).</u>
<i>Recommendation</i>	<i>Reply</i>
Special report on the extensification premium for beef production:	Special report on the extensification premium for beef production:
<u>The Court recommends assessing the effectiveness and efficiency of the EPS and its consistency with other schemes such as agri-environmental schemes (paragraph 2.127.).</u>	<u>Consistency between agri-environment measures, compensatory allowances and the EPS is ensured by clear provisions in Council Regulation (EC) No 1257/99, implementing rules of which address explicitly the extensification payment.</u> Consistency is also ensured by the fact that the implementing bodies in the Member States are using the same control tools (paragraph 2.127.).

STRUCTURAL MEASURES	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p><i>Recommendation</i></p> <p>Budgetary management: information on the results of activities under the Structural Funds</p>	<p><i>Reply</i></p> <p>Budgetary management: information on the results of activities under the Structural Funds</p>
<p>The Commission provides no information [in its revenue and expenditure account] on the actual results of expenditure on the structural measures in relation to the latter's objectives either for the current period or for previous periods. In particular the Financial Regulation states that the revenue and expenditure account should supply detailed information on compliance with the principles of sound financial management.³⁵ Nor, with regard to outstanding commitments in respect of periods prior to 1994, does the Commission provide figures for each type of problem, which would have prevented these files from being closed (in particular concerning cases of suspension for legal reasons and the corresponding amounts) (paragraph 3.16)</p>	<p><u>The information referred to by the Court is not yet available for the periods 1994-99 and 2000-06.</u> Nevertheless, some information is given in the annual reports on individual programmes, the annual Structural Funds report and the mid-term and ex post evaluations, and the report on the analysis of Structural Fund expenditure.</p> <p>The budgetary authority is regularly informed by means of these documents of the implementation, progress, results and impact of the measures taken (paragraph 3.16)</p>
<p><i>Recommendation</i></p> <p>Budgetary management: use of amending budgets</p>	<p><i>Reply</i></p> <p>Budgetary management: use of amending budgets</p>
<p><i>The Commission does not provide a satisfactory explanation as to why, when it would appear already to have observed widespread non-utilisation of payment appropriations, it did not submit a preliminary draft for a supplementary and amending budget, which would have made it unnecessary to call up own resources totalling 15 000 million euro (the out-turn for the financial year) (paragraph 3.19).</i></p>	<p>The presentation of a supplementary and amending budget towards the end of the financial year can only be the exception, for example to cover specific needs of limited amount. At this time of the year, when the budgetary procedure for the following year is being completed, it is difficult to discuss and decide on adjustments of appropriations for the current financial year on the basis of a foreseeable under-utilisation (paragraph 3.19).</p>
<p><i>Recommendation</i></p> <p>Budgetary management: even spread of operations over the year</p>	<p><i>Reply</i></p> <p>Budgetary management: even spread of operations over the year</p>
<p><u>The Court recommends that budgetary transactions should be more evenly spread out over the financial year.</u> Such a step would provide an additional guarantee that the legislation is rigorously applied, thus ensuring that decisions are not adopted to meet very tight deadlines, at a time when the possibility of appropriations being cancelled may constitute a source of pressure (paragraph 3.23).</p> <p><u>The Court also recommends that the Commission and the Member States should take appropriate action to ensure that actual requirements are more accurately reflected in budgetary forecasts</u> (paragraph 3.24).</p>	<p><u>The increase in commitments in December is linked to the late adoption of decisions at the end of the year.</u> To avoid a build-up of payments at the end of the year, Regulation (EC) No 1260/1999 makes it compulsory to group payment requests together and submit them on three dates in the course of the year, the last being 31 October, but the Member States were not yet complying with this new rule in 2001 (paragraph 3.22/3.23).</p> <p><u>Under the partnership and the principle of subsidiarity, the Member States are responsible for monitoring and managing their programmes. Expenditure cannot always be scheduled by the Commission since the Member States are given a great deal of latitude in their management.</u> Nevertheless, the Commission is endeavouring to improve its forecasting</p>

³⁵

Articles 2 and 80 of the Financial Regulation.

	(paragraph 3.24).
<i>Recommendation</i>	<i>Reply</i>
New monitoring and inspection procedures (fisheries)	New monitoring and inspection procedures (fisheries)
<p><u>The Court's main observations concerned the shortcomings of the monitoring and inspection procedures and the existence of anomalies in several projects which could give rise to recoveries</u> (paragraph 3.84).</p> <p>Improvements have been made to the legislation and the monitoring mechanism for the "joint enterprises" measure. Appropriate action has also been taken in respect of the individual anomalies observed. However, <u>the restructuring of the system for managing the Community fishing-fleet register has so far not made it possible to resolve shortcomings in terms of the exhaustiveness, consistency and reliability of the capacity indicators. The Commission should therefore make qualitative improvements to this register in view of its key role in defining and managing Community fisheries policies</u> (paragraph 3.93).</p>	<p><u>The Commission considers that the new software application for the Fleet Register enables Member States to submit exhaustive data and correct them at any time</u>, therefore any inconsistencies should and could be readily corrected by the Member States.</p> <p>The Commission is of the opinion that the GT tonnage, as defined in Regulation (EEC) No 2930/86, is the most reliable indicator of vessel tonnage that can be used. <u>By the end of 2003, when its implementation is completed, the EU will have, for the first time, tonnage figures of Member States' fleets expressed in a homogeneous unit</u> (paragraph 3.87).</p> <p><u>For the 1994-99 and 2000-06 periods, under the terms of Regulations (EC) Nos 1796/95 and 366/2001 Member States are obliged to provide a detailed annual report on the aid granted.</u> This report contains financial and technical indicators for the projects funded. Since the <u>Infosys computer system is not yet fully operational</u>, the data provided by the Member States are currently processed manually, allowing <u>reasonable monitoring of aid</u> and its compliance with the rules, in particular by means of cross-checks with the data in the fleet register (paragraph 3.88).</p>
<i>Recommendation</i>	<i>Reply</i>
Evaluation of the impact of errors on the entire intervention concerned	Evaluation of the impact of errors on the entire intervention concerned
<p>The Court notes that, in general, the Commission's follow-up to the observations made in the 1999 and following Statements of Assurance has been more diligent than for previous DASs. Nevertheless, although the Court's observations often reveal management and inspection shortcomings which are common to many programmes, the Commission rarely extends its investigations beyond the necessarily limited samples examined by the Court. Particularly with regard to closed interventions, <u>the Commission should evaluate the impact of errors on the entire intervention concerned rather than confine itself to recovering undue financing in respect only of individual cases which have not been contested</u> (paragraph 3.104).</p>	<p>Until recently it was difficult for the Commission, with the audit staff and resources available, to extend inquiries in cases of error found by the Court as well as to carry out its own audit programme. <u>With additional human resources, the situation has now significantly improved</u> (paragraph 3.104).</p> <p>The Commission will therefore be able to apply the method mentioned by the Court when controlling the programmes from the 1994-99 period which will be closed in 2002 and 2003 (see action 5).</p>

INTERNAL POLICIES	
Recommendations of the European Court of Auditors	Action taken by the Commission
<i>Recommendation</i>	<i>Reply</i>
Budgetary management	Budgetary management
<u>With regard to budgetary management, the Commission should continue to improve its presentation of the revenue and expenditure account by giving explanations for those budget lines where either there is a considerable variation between the final budget appropriations and the initial budget adopted by the Parliament, or where the utilisation of appropriations falls below a certain level (paragraph 4.73).</u>	The purpose of the Financial Management Report is to give an overview of the budget implementation in a readable form and with a manageable workload for the Commission Services. Not all budget lines are commented upon in detail in the Report. However, such information is available in specific reports by the Services concerned or on the basis of ad hoc requests.
<i>Recommendation</i>	<i>Reply</i>
Clearer rules with regard to the eligibility of costs	Clearer rules with regard to the eligibility of costs
<u>The Commission is encouraged to develop and implement clearer rules with regard to the eligibility of costs. For that purpose, existing rules applied for similar types of infrastructure projects co-financed as Structural Measures could be used as a basis. In particular, the definition of eligible costs should also include a clear delimitation of which costs are eligible for studies (in particular for costs associated with exploring the construction site and preparatory construction works). The Commission should also provide for standardised cost statement forms. Ambiguous expressions should be avoided when drafting the legal basis and/or contractual provisions (paragraph 4.32).</u>	<u>As from 2002, the standard text of the TEN-T Commission Decision for studies and projects has been substantially revised and provides more details on eligible costs.</u> Art. 4.1 (a) of Regulation 2236/95, states that Community aid for projects may take the form of co-financing of studies related to projects, including preparatory, feasibility and evaluation studies, and other technical support measures for the studies. DG TREN will examine the possibility of elaborating a more detailed standardised cost statement form (paragraph 4.32).
<i>Recommendation</i>	<i>Reply</i>
Value-based contributions	Value-based contributions
<u>The Commission could negotiate value-based contributions for specific activities within an indirect RTD action. Following this approach a pre-set Community financial contribution per activity could be paid upon approval of completion or receipt of the deliverables defined in the contract (paragraph 4.49).</u>	<p>The Commission intended to resort to the possibility of applying the concept of value per activity only in very specific and infrequent cases, and at the discretion of the authorising officer where he considered it relevant and appropriate.</p> <p>The text adopted by the Council and Parliament on the rules for participation and for the dissemination of the results of the 6th framework programme states explicitly that value per activity may be used only with the agreement of the participants and by way of exception to the general principle of real costs. As for overheads, certain "value-based contributions" are planned for certain instruments or certain categories of participant (paragraph 4.49).</p>
<i>Recommendation</i>	<i>Reply</i>
More accurate and effective financial management of indirect RTD	More accurate and effective financial management of indirect RTD
In order to reduce the risk of non-eligible expenditure being unintentionally and intentionally declared by final beneficiaries and to allow for a more accurate and effective	The Court of Auditors' proposal for the system of costs to be applied to research projects under the 6th framework programme has not been approved by the Council and

<p>financial management of indirect RTD actions by the Commission services, it <u>is recommended to fundamentally simplify the cost reimbursement system in the forthcoming 6th Framework Programme (2002 to 2006). The three main types of cost systems (AC, FC, and FF) should be replaced by a single system and the ten cost categories should be reduced to three (i.e. personnel, co-ordination costs and specific costs) with a much wider use of flat rates</u> (paragraph 4.47)</p>	<p>Parliament, Commission departments have therefore adopted other simplification options (elimination of cost categories, utilisation of the participants' accounting systems, certification of costs by external auditors, etc.) (paragraph 4.47).</p>
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EXTERNAL ACTION	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p><i>Recommendation</i></p> <p>Follow-up given to complaints and irregularities</p> <p>The follow-up given to complaints and irregularities should be clarified in order to ensure proper and timely co-operation between the EU institutions and the UN bodies concerned (paragraph 5.50, c).</p>	<p><i>No reply</i></p>
<p><i>Recommendation</i></p> <p>Follow-up given to complaints and irregularities</p>	<p><i>Reply</i></p> <p>Follow-up given to complaints and irregularities</p>
<p><u>The follow-up given to complaints and irregularities, together with descriptions of any problems occurring during the tendering process, should be recorded and reviewed regularly by all procurement officers</u> (paragraph 5.68).</p>	<p><u>Recurrent problems encountered during tender procedures are discussed at monthly meetings of a network of procurement officers throughout the External Relations DGs.</u> Minutes of these meetings are made available internally in electronic form. Follow-up action has included internal instructions and revision of the standard documents of the Practical Guide (paragraph 5.68).</p>

ENLARGEMENT	
Recommendations of the European Court of Auditors	Action taken by the Commission
<i>Recommendation</i>	<i>Reply</i>
Delayed implementation in the candidate countries	Delayed implementation in the candidate countries
The Court considers that the Commission should analyse the reasons <u>for the slow rate of implementation funds from the 2000 Sapard budget. It should provide guidance in order to diminish the risk of further delays and similar situations arising in other candidate countries</u> (paragraph 6.30).	<u>The Commission regularly monitors the level of SAPARD implementation in each country.</u> With few exceptions commitments to beneficiaries are rising over time consistent with the expectations of the implementing authorities. In the case of some countries they now forecast that the instrument will be running at a rate consistent with normal annual execution before the end of 2002. Information concerning execution for all countries with conferral decisions is made available at each monitoring committee. <u>At seminars in June 2002 and July 2001, the Commission indicated options each country could consider to expedite implementation</u> (paragraph 6.30).
a) <u>The Commission should systematically monitor the implementation of Sapard</u> , which is necessary to verify that systems work in practice. The Commission should carry out audits shortly after provisional conferral of management and should cover all levels of control between the Commission and the final beneficiaries.	a) <u>The Commission considers that this recommendation is being adequately addressed.</u>
b) <u>The Commission should develop a timetable and a methodology as to when and how full conferral will be granted and inform the candidate countries about them.</u>	b) <u>Candidate Countries were asked at a seminar in June 2002 to provide a timetable for national accreditation of the remaining measures.</u> Full conferral of management is not a current priority either for the Commission or for the candidate countries.
c) <u>The Commission should make the necessary changes to the MAFA to ensure that it receives more timely annual reports, audit reports, and information concerning the amount and use of interest</u> (paragraph 6.32).	c) <u>The Commission sees no advantage in modifying MAFA on the timing on annual report but will seek to introduce in MAFA the obligation of quarterly reporting on interest earned by the SAPARD accounts</u> (paragraph 6.32).

ADMINISTRATIVE EXPENDITURE	
Recommendations of the European Court of Auditors	Action taken by the Commission
<i>Recommendation</i>	<i>Reply</i>
Analysis of budgetary management	Analysis of budgetary management
The Commission has improved the presentation and user-friendliness of its analysis of budgetary management and has in particular provided some global analysis and has introduced a more logical and consistent presentation between chapters. However, institutions other than the Commission continue to focus on describing changes in levels of appropriations during the year and on commitments made and not on the differences between sums committed and sums paid. <u>It is still the Court's opinion that it would be desirable for all the institutions to provide a more global analysis of their budgetary management which highlights and explains trends over time in expenditure and the funding of major capital items, and which offers key measures of economy and efficiency</u> (paragraph 7.3).	The Court's recommendation is addressed to the other institutions and not to the Commission.
<i>Recommendation</i>	
Satellite bodies' cash-flow management	Satellite bodies' cash-flow management
Special attention was paid to the satellite bodies' cash-flow management. <u>Some satellite bodies, in view of the size of the funds they manage, should ensure that they are obtaining the best possible return on these funds by ensuring that better terms are negotiated with the banks</u> (paragraph 7.27).	<i>No reply</i>
<i>Recommendation</i>	
Procedures for the satellite bodies	Procedures for the satellite bodies
<u>The tendering procedures should be made more user-friendly for the tenderers.</u> It should be noted, in this respect, that some satellite bodies have taken the initiative of publishing the invitations to tender on their website and of supplying links to useful information for potential tenderers on the procedures to be followed. <u>The evaluation procedures must also be improved</u> in order to better ensure the comparability of the bids, and the administrative procedures should be clarified in order to guarantee their objectivity (paragraph 7.31/732).	<i>No reply</i>

FINANCIAL INSTRUMENTS	
Recommendations of the European Court of Auditors	Action taken by the Commission
<p><i>Recommendation</i></p> <p>EIF - Availability of risk capital under the "Start-up" facility</p>	<p><i>Reply</i></p> <p>EIF - Availability of risk capital under the "Start-up" facility</p>
<p>The Commission considers that there is bound to be a time lag between the transfers made to the trust account by the Commission and the draw-downs made by the EIF to the venture-capital funds and that this has no adverse budgetary impact since the treasury generates returns. <u>The Court notes that the rate at which the scheme is being implemented is slower than that expected by the Council. The Commission should adapt the transfers made to the trust account to the real needs of the EIF, also taking into account that a net gain of 13.6 million euro from realised investments became available for re-use (paragraph 8.12).</u></p>	<p>With regard to the transfers, in line with the standard venture capital market practice, money is 'called' (drawn-down) by the venture capital funds (VCFs) in accordance with their projected investments into SME portfolio companies. The drivers in the disbursement process are thus the VCFs supported through the facility, who determine the actual rhythm and timing of these draw-downs, and not the Commission of the EIF.</p> <p><u>The Commission is convinced that sufficient liquidity on the trust account is necessary to cover the Commission's and the EIF's legal commitments to VCFs and to be able to honour their draw-down requests (paragraph 8.12).</u></p>
<p><i>Recommendation</i></p> <p>Lack of indicators to measure the effectiveness of the programme</p>	<p><i>Reply</i></p> <p>Lack of indicators to measure the effectiveness of the programme</p>
<p>The Commission admits that the investment of Community funds in this scheme was not tied to particular requirements concerning its impact. <u>The Court recalls the principle of sound financial management according to which Community spending for the financing of public interest schemes must be accompanied by indicators to measure the effectiveness of the spending (paragraph 8.13).</u></p>	<p>The financing proposal prepared prior to the launch of the G&E programme, in 1998, did indeed not provide for detailed performance indicators. Now existing procedures require operational services to define verifiable objectives before a programme is initiated and to describe evaluation procedures in financial statements accompanying legislative proposals.</p> <p>In line with these procedures, indicators have been defined for ETF Start-up under the multiannual programme for enterprise and entrepreneurship (MAP).</p> <p><u>The Commission wishes to stress that the actual reporting to the budgetary authorities for ETF Start-up under the Growth and Employment initiative covers de facto all the relevant indicators that have been identified and formalised in the context of MAP, thus providing the necessary information to measure the effectiveness of the spending in line with the principles of sound financial management (paragraph 8.13).</u></p>
<p><i>Recommendation</i></p> <p>EIF's remuneration lacked objective basis</p>	<p><i>Reply</i></p> <p>EIF's remuneration lacked objective basis</p>
<p>The fees for 2001 amounted to 1.97 million euro, i.e. 1.2% of the actual guarantee amount. These fees merely cover administration. Reiterating the observations in paragraph 8.20, the Court affirms that the amount of the management fee was not based on any analysis. <u>The Court maintains that the management fees paid to the EIF should also be clear and appropriate for the services provided (paragraphs 8.30/8.33).</u></p>	<p><u>The fee rate negotiated with the EIF is justified by:</u></p> <p><u>the challenge of implementing a number of new instruments across an extended number of eligible countries (EEA/EFTA) and accession countries);</u></p> <p><u>the large number of guarantees to be issued, including with new intermediaries in participating countries, resulting</u></p>

	<p>in substantial work at all stages of the implementation process (market research, origination, selection of suitable intermediaries, negotiation and closing).</p> <p>This is not comparable to the tasks of any national guarantee scheme.</p> <p>The guarantee portfolio has already reached more than 100 000 loans, with consequences on the servicing costs of the portfolio (database maintenance, reporting), as well as on the risk management (payment demands, monitoring, etc.). As regards 2001, the fees paid were below 10 bp (EUR 1.971 million in relation to EIF guarantee amount) (paragraph 8/29).</p> <p><i><u>With regard to the ETF Start-up Facility, the Commission has negotiated in December 2001 with the EIF a revised fee structure. Fees are now clearly linked on the one side to the take-up of the scheme (based on amounts committed and number of agreements signed by the EIF), and on the other to the monitoring of and reporting on the investments made (based on outstanding commitments) (paragraph 8/32).</u></i></p>
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ACTIONS RESULTING FROM THE STATEMENT OF ASSURANCE FOR 2001

Recommendations of the European Court of Auditors	Action taken by the Commission
<i>Recommendation</i>	<i>Reply</i>
Annual activity reports and declarations of the Directors-General	Annual activity reports and declarations of the Directors-General
The declarations of the Directors-General constitute a step forward that is likely to have an impact on the Court's audit approach. <u>It is thus important for the scope of these declarations to be free from any ambiguities, especially as regards the handling of material failings in the Member States, third countries and at beneficiary level, and for the procedures leading up to them to be sufficiently transparent to allow the external auditor to examine their validity.</u> This is not yet the case. The submission of activity reports and declarations by the Directors-General in respect of the financial year 2001 represents an experiment which has several aspects that could be improved. It is only as of 2002 that these reports and declarations could, if need be, form one of the cornerstones of the Court's Statement of Assurance (paragraph 9.71).	In its Summary report the Commission put forward a series of actions to improve the quality of the annual activity reports, particularly on aspects relating to the shared management of Community funds and on ways of providing support for drafting the reports. The reports and declarations do not, however, constitute a statement of assurance in the sense of the Court's statement and do not follow the same methodology. They were designed to ensure the accountability of Directors-General and of the Commission as regards the administrative management of its departments (paragraph 9.71).
<i>Recommendation</i>	<i>Reply</i>
The Commission's synthesis report	The Commission's synthesis report
Of the questions which the report does not tackle clearly enough, the following should be singled out:	
a) with regard to Actions Nos 6 and 18 concerning the back-up given to the operational services by the central services, <u>the need for centralised monitoring of the action plans that have been undertaken both at Directorate-General level and by the institution as a whole in respect of the application of minimum standards of control;</u> ³⁶	a) <u>The last action in the Summary report (No 18) calls on Commission departments, by September 2002, to include action plans in the Annual Management Plans for 2002.</u> It also provides for progress to be monitored by the Commissioner responsible and reviewed in the next Annual Report exercises. The Summary report for 2002 will also take stock of implementation of actions in the 2001 Report.
b) the role of the central accounting system, SINCOM II, which ought to have been highlighted in Action No 7 on the 'interoperability' of the information systems and in Action No 17 on the future core financial information systems. The fact is that the Commission cannot account for its operations properly unless it has the assurance that the relevant data from the many management systems used by its authorising officers by delegation are correctly reflected in the central accounting system;	b) The Commission has launched a reform of the accounting system which is studying the actions necessary to implement the requirements of the new Financial Regulation. As part of this work, the Commission is also considering the computer systems options to support this development. The Commission has been examining the coherence of the sub-systems forming the central accounting system. It will study how to use the lessons learned in order to examine the coherence between the central and local systems.
c) <u>the link between risk analysis and the scope of the declarations, which would benefit from being better established by making distinctions by domain according to the type of management used for the activities (direct management or shared management).</u> Since the Commission states that the Directors-General's report 'suggest that there is some uncertainty about how to assess and manage risks and	c) The Commission believes that actions 4 and 10 are likely to meet the Court's observations since they will deal with the risk assessment aspects and the scope of declarations.

³⁶

In this connection, see paragraph 4.2 of the synthesis report.

indeed how to consider them in relation to the overall declaration. ³⁷ a specific action would have been useful as a supplement to Actions Nos 4 and 10; ³⁸	
d) <u>the way reservations are confused with observations, because the services have failed to take a consistent approach.</u> ³⁹ Far from dispelling inconsistencies, this hotchpotch tends to undermine the value of the conclusions because it leads to matters that differ widely in nature and scope being considered as having equal importance. In so doing, the statistics supplied are not only likely to be poorly interpreted but also to distort the picture of the situation (paragraph 9.97).	d) In its Summary report, the Commission identified some methodological problems. The various approaches or interpretations taken by departments when qualifying their declarations show that further effort is needed in terms of methodology. <u>The Commission believes that action 10 should produce substantial results in this area by clarifying the definition and scope of reservations (principle of materiality)</u> (paragraph 9.97).
<i>Recommendation</i> Agricultural expenditure	<i>Reply</i> Agricultural expenditure
At the close of each financial year, the Commission applies an additional depreciation of agricultural stocks on the basis of the estimated prices of their disposal on the market, assessed on the date of the stock inventory (30 September ⁴⁰). <u>As the Court has already pointed out in its report concerning the financial year 1999,⁴¹ this second depreciation is groundless. At 31 December 2001, the Commission estimates, in the off-balance-sheet commitments, that the provision for depreciation paid to the Member States was overstated by 148,72 million euro (paragraph 9.12).</u>	As the Court of Auditors points out, the additional depreciation of agricultural stocks is based on the estimated prices of their disposal on the market.. This estimate, which is carried out by the Commission in September, takes account of all the relevant data on the agricultural markets available at the time. <u>On the other hand, the closing figures at 31 December 2001 include the market forecasts available in February 2002, so there is actually a six-month gap between the two selling price estimates.</u> <u>During this period, there may be considerable fluctuations in the expected selling price for some products (for example, cereals and milk products) depending on events in the world markets, which are rarely stable.</u>

³⁷ COM(2002) 426 final of 24.7.2002, paragraph 4.1.2, p. 21.

³⁸ Action 4 seeks to clarify the respective responsibilities of the Commission and the Member States as regards the shared management of the Structural Funds, whereas under Article 10 particular attention should be given to the scope of reservations to be included in the declarations of the Directors-General.

³⁹ Paragraph 5.1 of the synthesis report. The Commission considers that 'a more consistent approach to the process and to ensuring that the declarations reflect as accurately as possible the real situation will be necessary'.

⁴⁰ Article 8 of Council Regulation (EEC) No 1883/78, which serves as the basis for the Community depreciation of stocks in public intervention, stipulates in paragraph 2 that the depreciation must correspond at the most to the difference between the purchase price and the estimated disposal price. The depreciation can be divided up into depreciation upon purchase (first depreciation) and additional depreciation.

⁴¹ Annual Report concerning the financial year 1999, paragraph 8.9.

	<p><i><u>These are the same reference prices that the Commission uses for the sake of transparency when drawing up the letter of amendment to the preliminary draft budget.</u></i> (paragraph 9.32).</p>
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EUROPEAN DEVELOPMENT FUND (EDF)	
Recommendations of the European Court of Auditors	Action taken by the Commission

EUROPEAN COAL AND STEEL COMMUNITY (ECSC)	
Recommendations of the European Court of Auditors	Action taken by the Commission