



COMMISSION OF THE EUROPEAN COMMUNITIES

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ACTION PLAN

**Commission Action Plan to follow up the recommendations of the Court of Auditors in
its Annual Report relating to the 2002 budgetary year**

INTRODUCTION

The White Paper on Reform¹ highlighted the need to make financial actors accountable and responsible in order to increase the effectiveness of Commission activities.

The Commission announced that it would present an Action Plan as part of the 2001 discharge. The purpose of this document is to indicate the corrective measures required to follow up 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 2002 financial year, with updates and additional information provided by the Commission's departments. It examines the measures to be implemented sector by sector to improve the Commission's financial management 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 commitments made or announced, grouped by sector of expenditure in this Action Plan, all aim to improve financial management.

As regards improvement of the **reliability of the accounts**, the Commission has established an Accounting Standards Committee which is examining, among other things, the issues of defining the generating event giving rise to accounting entries in a way which allows it to maintain control over the process and of defining without ambiguity a recording base which remains comparable over the years. The Commission is also improving its mechanism for the identification and recovery of debts and has undertaken a review of all commitment balances which have remained open for an extended period in order to identify overdue payments. It will assure accounting controls over prefinancing which will help authorising departments identify items for which justification is overdue. It has set up a system of regular reporting to authorising departments of forecasts of revenue and of recovery orders which are overdue. This reporting mechanism will be further improved. As for debt claims in the field of external actions, an accounting standard for prefinancing payments is being prepared. The Commission is following very closely the implementation of the reforms which it is undertaking, notably as regards the implementation of internal control standards.

As regards **budget implementation**, the Commission is endeavouring to ensure realistic budgeting of payment appropriations. By continuing to put the emphasis on the budget implementation plan relating to the current financial year, including follow-up, review and revision in the course of the budgetary decision-making procedure, it expects a gradual improvement of the budget forecasts for the PDB. This also includes an assessment of whether low spending in the past should lead to lower budgeting (or the reverse).

The Commission shares fully the Court's concern regarding the importance of improving the quality of Member States' forecasts. Each year it draws up a widely distributed report on the subject. The Commission will continue its cooperation with the Member States to improve the quality of forecast.

In the field of own resources, the Commission undertakes to deal with every irregularity identified by the Court. The changeover to electronic transmission of statements and accompanying documents since 2001, and the regular discussions on the method held within ACOR, have contributed to increasing standardisation and transparency. The Commission will continue to consider the extent to which standardisation and transparency can be increased further.

As regards GNP, the checks carried out by the Commission are based on a full analysis of the procedures implemented by the Member States to establish their GNP, using inventories of sources and methods which

¹ COM(2000)200, 1 March 2000.

themselves are the subject of in-depth analyses by the Commission and which are examined during missions to the countries concerned. The Commission is willing to examine the possibility of more direct checks in future.

As regards **the common agricultural policy**, the 2003 CAP reform proposal addresses many of the Court's recommendations. On export refunds, the Commission has already taken several measures. Five regulations were adopted to address the main weaknesses concerning the prefinancing regime. Concerning the way it sets export refunds, the Commission has introduced a comprehensive action plan covering horizontal issues. The improvements concern the Commission's decision-making procedures. The Commission will also assess the market organisation for **beef** in 2004/2005 and will analyse the impact of the various instruments available in this sector.

For **structural operations**, the systems of fundamental importance in ensuring the supervision and control over the implementation of the Community budget for structural actions are those governing the areas of shared management with the Member States. For the closure of 1994-99 interventions the Commission is obtaining assurance on the regularity of expenditure from its already completed audit work and from the desk checks being undertaken on closure statements. It will verify the reliability of the closure process in Member States by audits of a sample of programmes and will draw the necessary financial consequences where appropriate by making recoveries from Member States. Concerning the current 2000-2006 period, from the work the Commission has carried out it has been able to conclude that Member States have in general made significant steps in improving their systems. However, further improvements are necessary, and the effective functioning of the systems should be regularly verified. The Commission will pursue its audit strategy to achieve this aim. For both programming periods the Commission is continuing to follow up the Court's findings made in previous DAS exercises in the light of the Member States' replies and further audits in some cases, and will take corrective action where appropriate. Similar follow-up will be given to the Court's findings in the 2002 DAS. The Commission is pursuing improvements in the management of the Cohesion Fund and has stepped up its own audit activity in this area. It will take account of the Court's views in the regulatory framework for the post-2006 period.

In the area of **internal policy** in general and more particularly in the area of research, the Commission welcomes the Court's recommendations. These are the subject of action plans drawn up on the basis of its own observations. The implementation of internal control systems as part of the reform is being followed up particularly closely, and the strengthening of checks on beneficiaries is continuing within the framework of a coordinated action for research consecutive on Action 1 of the 2001 summary report of the annual activity reports.

As regards **external actions**, the establishment of a methodological framework and of an audit strategy will be continued in 2004 within the 2004 annual audit plan. Priority will be given to fine-tuning a risk assessment model, setting up a clear organisational framework for audit-related tasks at headquarters and in delegations, completing the audit-related information system, and training. Moreover, instructions are being drafted in order to improve the quality and content of reports by Delegations and Directorates on the management of external assistance. Regarding **enlargement**, the Court's audit of external actions in 2002 focused essentially on the evaluation of the supervisory systems and controls put in place in the Commission. The Commission has already taken steps in 2003 with a view to meeting the Court's concerns. Other improvements recommended by the Court are in progress.

For **administrative expenditure**, after carrying out its Internal Control and Risk Self-Assessment, the Commission has analysed the risks and weaknesses of the internal control system and adopted an action plan for its further improvement. In the course of 2003, the existing software application (VAP) will be gradually replaced by a new system (NAP) which will interface directly with Sysper. The recommendations of the Court regarding surveillance systems have been taken on board. An evaluation report on the management of leave and absence already produced will be discussed by management so as to identify the

necessary measures to be taken. As regards **financial instruments**, in the area of banking activities, the Commission has established an internal control and management system designed to confront the particular questions that are specific to that area. The data on EIB lending covered by the Community guarantee are supplied to the Commission by the EIB's accounting service which is itself subject to audit. Nevertheless, the Commission will examine with the EIB whether, and in what way, further assurance may be given on the reliability of the data. Concerning other third parties such as the EBRD and Council of Europe Development Bank, the Commission considers that the risk concerning the quality and exhaustiveness of the information supplied by them is relatively low.

The forthcoming internal audit of the banking operations under the direct responsibility of the Commission will address the need for any changes in the control environment, including ex post controls. In cooperation with the EIB, the Commission will seek to address the Court's observations with regard to the EEA Financial Mechanism.

For the **EDF**, the Commission continues its efforts to meet the recommendations regarding the reinforcement of internal controls, the various aspects of financial management of the EDF highlighted in the Court's Annual Report, such as the speed of closure of dormant commitments, the better identification of budgetary support measures in EDF accounts, and the inclusion of the EDF in the modernisation of the Accounting System of the Commission. A Communication on the inclusion of the EDF in the EU budget was presented in October 2003.

Regarding the **ECSC**, the Commission will study the possibility of setting up in the field of revenue from research, an inventory of patents filed by firms and research institutes which have received ECSC funding.

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ACTIONS RESULTING FROM THE STATEMENT OF ASSURANCE FOR 2002

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>The Commission has established an Accounting Standards Committee which is examining, among other things, the issues of defining the generating event giving rise to accounting entries in a way which allows it to maintain control over the process and of defining without ambiguity a recording base which remains comparable over the years.</p> <p>As for the Protocols with the Mediterranean third countries, outstanding projects in these protocols is gradually being wound up year by year in satisfactory fashion.</p> <p>The Commission is improving its mechanism for the identification and recovery of debts. It has undertaken a review of all commitment balances which have remained open for an extended period in order to identify overdue payments. Within the framework of the modernisation project, it will assure accounting controls over prefinancing which will help authorising departments identify items for which justification is overdue. As from 30 June 2003, it has set up a system of regular reporting to authorising departments of forecasts of revenue and of recovery orders which are overdue. This reporting mechanism will be improved along with developments in its IT systems.</p> <p>As for debts pertaining to external actions, an accounting standard for prefinancing payments is being prepared. The improvements to the IT systems will allow for the correct bookkeeping and clearing of the prefinancing payments.</p> <p>The Commission is closely monitoring implementation of the reforms it has undertaken (White Paper, Synthesis Report and Commission Action Plan) and has provided sufficient information on the relevant subject.</p> <p>The Commission is making serious efforts to ensure that implementation of current reforms continues, including as regards the establishment of internal monitoring standards scheduled to come into force on 31 December 2003.</p> <p>Significant improvements were made in 2002 in terms of the annual activity reports and declarations of the Directors-General. The guidelines for 2003 will continue along similar lines, including as regards reservations and the scope of the Declarations.</p>	

<i>Recommendation 1</i>	<i>Reply 1</i>
<p><i>Accounting entries</i></p> <p>The Commission should exercise prudence and define the economic events that gave rise to accounting entries in a way which allows it to maintain control over the process.² Whatever methods are adopted in the end, it is important that the recording base remains comparable from one year to the next and is defined without any ambiguity.³ (<i>paragraph 1.8a</i>)</p>	<p><i>Accounting entries</i></p> <p>The Commission has established an Accounting Standards Committee, in accordance with its action plan, the members of which include two internationally renowned experts in public accounting standards, and in which representatives of the Court of Auditors participate as observers. This committee is examining the issues mentioned by the Court, and the standards to be adopted by the Accounting Officer will fully reflect the committee's opinions. (<i>paragraph 1.8a</i>)</p>
<i>Recommendation 2</i>	<i>Reply 2</i>
<p><i>Protocols with Mediterranean third countries</i></p> <p>In order make readers aware of the scale of possible</p>	<p><i>Protocols with Mediterranean third countries</i></p> <p>The Commission will analyse the best method of including</p>

² See Article 133(2) of the Financial Regulation of 25 June 2002, OJ L 248, 16.9.2002.

³ A system cannot be assumed to be an accruals-based system as long as the economic event that gives rise to an entry is not always the same one that underlies the entries in the accounts.

<p>corrections, the amount involved in corrections made in previous financial years to entries for the most important areas could be mentioned in a note to the annual accounts. <i>(paragraph 1.11)</i></p>	<p>explanations of these matters in the consolidated annual accounts.</p> <p>Any corrections arising from Certifying Body reservations and the exclusion of certain accounts from the financial clearance decision (“disjunction”) are dealt with in identical fashion to the conformity corrections. The accounts can only recognise the amounts recovered when the Commission's decision is final. <i>(paragraph 1.11)</i></p>
<p><i>Recommendation 3</i></p>	<p><i>Reply 3</i></p>
<p><i>Protocols with Mediterranean third countries</i></p> <p>The Commission should launch the negotiation procedures for winding up these protocols together with the accounting commitments still in abeyance (€164 million). <i>(paragraph 1.16)</i></p>	<p><i>Protocols with Mediterranean third countries</i></p> <p>The Protocols with the Mediterranean third countries are international treaties that cannot be wound up without the agreement of both parties. Satisfactory progress is being made in gradually winding up the remaining projects under these protocols year after year. <i>(paragraph 1.16)</i></p>
<p><i>Recommendation 4</i></p>	<p><i>Reply 4</i></p>
<p><i>Loans granted under Media I</i></p> <p>In 2002, because of a lack of adequate information about certain transactions, the Commission recorded a write-down of 6.8 million euro out of a total of 26.7 million. However, the Commission has carried out no follow-up of these transactions. The Court considers that there is insufficient justification for the 26.7 million euro and that, in addition, any debt write-offs resulting from these write-downs should be formally decided by the authorising officer by delegation. <i>(paragraph 1.20)</i></p>	<p><i>Loans granted under Media I</i></p> <p>The Commission has undertaken to bring its analysis up to date regarding the situation of all the loans granted under Media I. It should, therefore, be in a position to present an up- to- date situation of these loans in the assessment at 31 December 2003 after having taken any action, that may be called for as a result of this analysis. <i>(paragraph 1.20)</i></p>
<p><i>Recommendation 5</i></p>	<p><i>Reply 5</i></p>
<p><i>Community investment in Eurotech Capital, Venture Consort and Joint Venture Programme.</i></p> <p>The Commission was not able to provide a detailed valuation of its investments in these programmes. In addition, the Commission wrote off in full the amounts invested in these venture capital funds, even though repayments are still being made for all the instruments. The write-downs recorded should have been formally decided by the authorising officer by delegation before they were entered in the accounts. <i>(paragraph 1.22)</i></p>	<p><i>Community investment in Eurotech Capital, Venture Consort and Joint Venture Programme.</i></p> <p>As far as the presentation of the invested amounts in the balance sheet of the Community is concerned, the Commission considers that a write-down of 100% is fully justified on the basis of the principle of prudence. In fact the very nature of investments in risk capital and other high- risk business areas such as joint ventures in the CEEC and NIS countries carries an inherent potential risk of loss. <i>(paragraph 1.22)</i></p>
<p><i>Recommendation 6</i></p>	<p><i>Reply 6</i></p>
<p><i>Recording of sundry debtors</i></p> <p>The Court considers that the Commission must set up a system which ensures that all departments actually fully assess and record miscellaneous revenue, without delay, as soon as the relevant economic event occurs. <i>(paragraph 1.23)</i></p>	<p><i>Recording of sundry debtors</i></p> <p>The Commission is improving its mechanism for the identification and recovery of debts.</p> <p>It has undertaken a review of all commitment balances which have remained open for an extended period in order to identify overdue payments. Within the framework of the modernisation project, it will assure accounting controls over prefinancing which will help authorising departments identify items for which justification is overdue.</p>

	As from 30 June 2003, it has set up a system of regular reporting to authorising departments of forecasts of revenue and of recovery orders which are overdue. This reporting mechanism will be improved along with developments in its IT systems. <i>(paragraph 1.23)</i>
<i>Recommendation 7</i>	<i>Reply 7</i>
<p><i>Debts in the area of external actions</i></p> <p>The Commission should set up a monitoring system for the accounts so as to ensure that significant sums do not feature on the balance sheet every year under sundry debtors because of the lack of an accounting system which allows valuation of the actual use, by financial intermediaries, of the sums paid by the Commission. <i>(paragraph 1.27)</i></p>	<p><i>Debts in the area of external actions</i></p> <p>In the framework of the modernisation project for the accounting systems, an accounting standard for prefinancing payments is being prepared. The improvements to the IT systems will allow for the correct bookkeeping and clearing of the prefinancing payments. <i>(paragraph 1.27)</i></p>
<i>Recommendation 8</i>	<i>Reply 8</i>
<p><i>Current liabilities</i></p> <p>In view of the unusual global character of the estimate, presenting these payment appropriations to be carried over under current liabilities is inappropriate. <i>(paragraph 1.34)</i></p>	<p><i>Current liabilities</i></p> <p>The presentation of the "Appropriations to be carried over" in the annual accounts of the Commission will be analysed as part of the project to establish the accounting standards. The Commission feels that it would be more appropriate to make changes when the standard has been adopted and new information about the expenses cycle is available. <i>(paragraph 1.34)</i></p>
<i>Recommendation 9</i>	<i>Reply 9</i>
<p><i>Transitional accounts</i></p> <p>Sums of €91.1 million and €714.9 million appear under the transitional account headings on the assets and liabilities side of the consolidated balance sheet. These accounts contain transactions of various kinds and the amalgamation that this entails adversely affects the transparency of the information. For example, the assets side includes revenue to be collected (€12.5 million), charges entered in advance (€63.1 million) and expenditure to be charged (€15.5 million). On the liabilities side the item includes carryovers of appropriations (€147.5 million), revenue not booked (€515.3 million) and amounts owing to the EIB (€51 million). These various items should be reclassified according to their nature under other balance sheet headings. Revenue and expenditure to be recorded should not appear on the end-of-year balance sheet but should be included in the accounts of revenue and expenditure. <i>(paragraph 1.35)</i></p>	<p><i>Transitional accounts</i></p> <p>The Commission agrees with the Court's finding. It points out that under the new accounting standards currently being developed, such amounts will be shown under other balance sheet headings, and revenue and expenditure not booked will be treated as they should using the accrual principle. The Commission feels that it would be more appropriate to make such a reclassification when the standard has been adopted to avoid making numerous changes in the meantime. <i>(paragraph 1.35)</i></p>
<i>Recommendation 10</i>	<i>Reply 10</i>
<p><i>Update of the White Paper and consolidation of action plans</i></p> <p>In view of the numerous developments since April 2000, the Court considers that an update of the White Paper would be useful in order to have a full picture of the targets that still</p>	<p><i>Update of the White Paper and consolidation of action plans</i></p> <p>An up-date of the White paper action plan implementation has been provided on a regular basis since 2000 and widely disseminated. The last Reform progress review was</p>

<p>have to be achieved and to establish a revised timetable taking the new constraints into account. This would simplify follow-up of all the initiatives that are currently being implemented within the overall framework of the reform of the Commission's internal control system. <i>(paragraph 1.67)</i></p> <p>It would be much easier to study the progress of the reform if all the action plans and updates of the White Paper actions could be consolidated within a single document and kept up to date. <i>(paragraph 1.108)</i></p>	<p>produced in January 2003 (COM/2003/0040 final/2) and the Synthesis of the 2002 Annual Activity Reports and declarations of the Directors-generals adopted on 9 July 2003 present an overview of the main Reform achievements in 2002 (COM(2003)391 final).</p> <p>The Commission believes that the reference framework referred to above is appropriate for ensuring coherent monitoring of these actions. It is, however, prepared to examine the feasibility and added value of the Court's suggestion of grouping all the action plans in a single document. <i>(paragraph 1.108)</i></p>
<p><i>Recommendation 11</i></p>	<p><i>Reply 11</i></p>
<p><i>Resources allocated to internal control systems</i></p> <p>In order to choose between allocating resources to policy implementation or investing them in strengthening the internal control system, each Directorate-General should:</p> <ul style="list-style-type: none"> - take stock of the activities that help to provide reasonable assurance that the underlying transactions are legal and regular; - link these internal control system activities to one or more specific objectives, together with impact indicators for measuring the progress achieved; - estimate the financial and human resources needed for the pursuit of these objectives. <i>(paragraph 1.71)</i> 	<p><i>Resources allocated to internal control systems</i></p> <p>The monitoring of the internal control standards implementation is conducted through the annual activity reports and the related declaration by each Directorate General, and the overview reports to be compiled by the Central Financial Service, (see Reply 5.4.5. of the 2002 Synthesis).</p> <p>It is not easy to evaluate the breakdown of resources from the internal control perspective because implementation of internal controls has implications for all parties. However the APS (as regards major changes within the Commission) and the annual management plan (at DG level) are instruments which enable this evaluation to be improved. <i>(paragraph 1.71)</i></p> <p>Moreover, further developments are envisaged in the Commission's Job Information System, which would allow to identify the number of staff involved in management and control issues, and an investigation has been launched to check whether in a later stage it would be possible to obtain even the full time equivalent, taking into account the proportion of time spent on these activities .(1.72)</p>
<p><i>Recommendation 12</i></p>	<p><i>Reply 12</i></p>
<p><i>Clarification and comparability of management plans</i></p> <p>In general, the substance of the DGs' annual management plans is improving, but interpretation of the concepts of activity, subactivity, action, objective and indicator sometimes varies. It is thus difficult to compare the annual management plans and to evaluate the relative effort devoted to strengthening supervisory systems and internal controls. Further gains could be made by improving the definition of the indicators to be used both to measure the extent to which the objectives of legality and regularity of transactions have been achieved and to gauge the use of resources. <i>(paragraph 1.72)</i></p>	<p><i>Clarification and comparability of management plans</i></p> <p>Important efforts were deployed in 2002 and are being further developed to ensure a common comprehension of the ABM concepts (training, ABM-Guide, ABM working groups). Where the "activity" concept is quite clear as it corresponds to the budgetary nomenclature, further effort is still needed to clarify the notions of corresponding actions, objectives and indicators. This should improve the comparability sought by the Court.</p> <p>However, it has to be stressed that the Commission does not intend to impose a totally uniform structure for the services' management plans, as they have to reflect their specific activities and related organisation. <i>(paragraph 1.72)</i></p>

<i>Recommendation 13</i>	<i>Reply 13</i>
<p><i>Management plan and internal control systems</i></p> <p>The main objective of the management plans is to enhance the efficiency of the Commission's services and so ensure that policies are implemented, but the plans are not sufficiently operational as far as the internal control system and issues relating to the legality and regularity of the underlying transactions are concerned. If management plans are to enhance the quality of expenditure, they must include specific objectives and performance indicators for these aspects of each Directorate-General's activity. (paragraph 1.74)</p>	<p><i>Management plan and internal control systems</i></p> <p>As all management plans are structured following the Budgetary activities nomenclature, it is today not possible to identify the resources that are specifically devoted to control and issues relating to the legality and regularity of the underlying transactions.</p> <p>The Annual management plans have been developed and implemented in all services to translate the Commission's priorities into concrete objectives and actions with the related resources allocations. The Directorates General annual management plans' main role is therefore to monitor the implementation of the activities through all Directorates General.</p> <p>Even though the management plans are not primarily intended either for monitoring the internal control standards implementation or for measuring the extent to which the legality and regularity of transaction have been respected, the Commission is prepared to explore the possibility of strengthening the use of the management plans as operational tools with respect to the internal control systems. (paragraph 1.74)</p>
<i>Recommendation 14</i>	<i>Reply 14</i>
<p><i>Annual activity reports and declarations of the Directors-General for the year 2002: content of reserves</i></p> <p>The measures adopted helped to improve certain situations. However, it might still be useful if past experience could be turned to good effect as clarification for the content of certain reservations or as an illustration of shortcomings mentioned in the body of the activity report. (paragraph 1.78)</p>	<p><i>Annual activity reports and declarations of the Directors-General for the year 2002: content of reserves</i></p> <p>With reference to the 2002 Annual activity reports exercise, a number of methodology points for improvement have been identified and mentioned in the 2002 Synthesis (section 4.4.). They will be addressed through an up-date of the guidelines for the preparation of the 2003 Annual activity reports, based amongst other things on the best practises identified in the 2002 Annual reports exercise. (paragraph 1.78).</p>
<i>Recommendation 15</i>	<i>Reply 15</i>
<p><i>Annual activity reports and declarations of the Directors-General for the year 2002: evaluation and scope of reservations</i></p> <p>Declarations of the Directors-General: However, the reservations should be precise in terms of monetary value and the scope of the reservations and the corrective action envisaged could be further improved. (paragraphs 1.90, 1.94)</p>	<p><i>Annual activity reports and declarations of the Directors-General for the year 2002: evaluation and scope of reservations</i></p> <p>The guidelines on 2003 Annual activity reports will seek to obtain a standard format for the reservations made by the Directorates General, including information such as concrete evidence, impact on the assurance (even though reservations will not always have a monetary impact), the materiality criterion used and the corrective action envisaged. (paragraph 1.90)</p> <p>The Commission considers that the size of the amounts covered by a reservation is not in itself grounds for questioning the assurance given in the declarations by the Directors-General. Nevertheless, experience over the years and further guidance, starting from the guidelines for the 2003 Annual activity reports, will help the authorising</p>

	officers by delegation to assess in an ever more consistent way the conclusions to be drawn from the weaknesses disclosed in their declarations. (<i>paragraph 1.94</i>)
<i>Recommendation 16</i>	<i>Reply 16</i>
<p><i>Implementation of internal control standards</i></p> <p>The Court considers that implementation of the internal control standards still requires close attention. (<i>paragraph 1.100</i>)</p>	<p><i>Implementation of internal control standards</i></p> <p>The Commission recognises the particular importance of internal control standards and has made them the subject of an action under Synthesis 2002 (see section 5.4.5.). All Commission Directorates-General, assisted by the central services, are making serious efforts to implement the baseline requirements of the standards by 31 December 2003.</p> <p>Services reported by the end of September 2003 on their readiness to meet the 31 December 2003 deadline. For any action not implemented by March 2004, services will need to report in detail in their 2003 Annual Activity Reports on how the follow-up of these actions has been conducted. (<i>paragraph 1.100</i>)</p>
<i>Recommendation 17</i>	<i>Reply 17</i>
<p><i>Scope of the declarations of the Directors-General</i></p> <p>It is important for the scope of the declarations of the Directors-General to be free of ambiguity as regards the treatment of material deficiencies at the level of Member States, non-member countries and final beneficiaries. In addition, the procedures leading up to the declarations must be sufficiently transparent to allow an examination of their validity. (<i>paragraph 1.106</i>)</p>	<p><i>Scope of the declarations of the Directors-General</i></p> <p>The 2002 Annual report exercise has been improved compared to the previous and first exercise on year 2001. For the next exercise, the guidelines on 2003 Annual activity reports will require services to support their reservations each time by concrete evidence and to properly explain their impact on the specific assurances required in the declaration (<i>paragraph 1.106</i>).</p>
<i>Recommendation 18</i>	<i>Reply 18</i>
<p><i>Implementation of the reform</i></p> <p>Implementing the reform of the internal control system will take time. Problems still persist where actions require services to change their habits or necessitate the introduction of new activities (e.g. the application of internal control standards, the functioning of the accounting system or management of recoveries of unduly paid funds). These aspects continue to require a special effort. (<i>paragraph 1.109</i>)</p>	<p><i>Implementation of the reform</i></p> <p>As recognised in the 2002 Synthesis, the Commission is conscious that the impact of the reform on its functioning is in progress and will further consolidate in the next exercises. Great efforts are being made to make available the resources needed to thoroughly implement the reform, <i>including</i> through the Annual Policy Strategy exercises. Regarding the implementation of internal control standards, the functioning of the accounting systems and the management of recoveries of unduly paid funds, the Commission acknowledges that further effort is still needed and specific new or ongoing actions are included in the 2002 Synthesis of the Annual Activity Reports (Reply 5.4.5, Reply 5.3.7 and Reply 5.3.2, respectively) (<i>paragraph 1.109</i>)</p>

<i>Recommendation 19</i>	<i>Reply 19</i>
<p><i>ABM and allocation of resources to supervisory systems</i></p> <p>Activity-based management should be used as a means of monitoring and adjusting priorities in order to achieve a balance between, on the one hand, investing resources in supervisory systems and controls in order to provide reasonable assurance that the underlying transactions are legal and regular and, on the other, strengthening the policy-making and policy-implementation capabilities, policy-making and implementation being the main function of the Commission. <i>(Paragraph 1.110).</i></p>	<p><i>ABM and allocation of resources to supervisory systems</i></p> <p>As to the balance in using the limited resources allocated to the Commission to perform all the different tasks entrusted to it, the ABM instruments are, and will increasingly become, major tools in assessing and monitoring the achievement of the objectives set according to the Commission's priorities and the resources needed to this purpose. <i>(Paragraph 1.110).</i></p>

BUDGET IMPLEMENTATION

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>The Commission aims at realistic budgeting of payment appropriations. The best method is a careful assessment of the need for payment appropriations by budget lines, taking into account all foreseeable circumstances affecting budget implementation. Continued emphasis on the Budget Implementation Plan exercise regarding the current budget year, comprising monitoring, reporting and revisions integrated into the budget decision procedure, can also be expected gradually to improve budget forecasting for the PDB. This also comprises an assessment of whether low spending in the past implies lower budgeting (or the reverse).</p> <p>The Commission shares fully the Court's concern regarding the importance of improving the quality of Member States' forecasts and has already taken a number of steps to this end. Each year it produces a widely distributed report on the quality of the forecasts. The Commission will continue cooperating with Member States to improve the quality of the forecasts.</p>	

<i>Recommendation 20</i>	<i>Reply 20</i>
<p><i>Sapard pre-accession assistance</i></p> <p>Financial implementation of SAPARD has been slower than initially anticipated, mainly because it took longer than expected to set up the management and control systems in the accession countries. It was only in the second half of the year that all the conditions were fulfilled for the Commission to approve the conferral of management of SAPARD to three countries, representing 70 % of expenditure. However financial implementation was also slow in those countries which had received conferral of management in 2001. This is because some local conditions necessary for implementation were not fulfilled.</p> <p>Most beneficiary countries have indicated that one of the bottlenecks is that beneficiaries are sometimes unable to prefinance project expenditure due to difficulties with access to credit, with land reform, or with the property market. As indicated in the Court's annual report for 2001⁴ the Commission should analyse the reasons for the slow implementation and ensure that appropriate action is taken, either by the Commission or the candidate countries. (<i>paragraphs 2.40-2.41</i>)</p>	<p><i>Sapard pre-accession assistance</i></p> <p>To implement SAPARD on a fully decentralised basis, under which the beneficiary country assumed entire responsibility for management subject to ex-post control by the Commission, required completion of numerous tasks before any Community money could be paid. By summer 2002 all countries had completed the required tasks at least for certain of the measures in their programmes. In addition to practical experience gained through application of the instrument, the beneficiary countries were also helped through a series of meetings and seminars. Moreover Commissioner Fischler, in a letter of April 2003 to these countries, addressed the remaining issues and explained options which might help to enhance implementation.</p> <p>Since January 2003 the Commission regularly informs the Beneficiary Countries on the level of commitments made by the SAPARD Agencies to final beneficiaries and the STAR Committee on the general situation of SAPARD implementation. This helps all concerned to assess their progress in relation to that of others. At end of September 2003 implementation of SAPARD had considerably advanced. The majority of Countries has committed to final beneficiaries the amounts available for 2000 and 2001, two countries had committed nearly all the available funds for 2000 – 2003 and one country committed already more than the total available for these years. The total amount of payments to be made by the Commission to the National Funds reached € 332.0 million by 31 October 2003. However some countries, especially Romania, for which about 29% of SAPARD funds are reserved, are still lagging behind.</p> <p>To seek to mitigate problems linked with access to credits</p>

⁴ Paragraph 6.30.

	the Commission, with the aid of PHARE funds, has recently decided to introduce a project to support access to credits for farmers and SMEs in rural areas in Candidate Countries.
<i>Recommendation 21</i>	<i>Reply 21</i>
<p><i>Report on Budgetary and Financial Management for 2002</i></p> <p>The Commission's Report on Budgetary and Financial Management for 2002 is a well-prepared and useful document, and constitutes a considerable improvement on previous years. The Court recommends that in future it be completed by the inclusion of a section on own resources. The findings of the document should be used in future budget-setting procedures in order to reduce the risk of similar weaknesses recurring. (<i>Paragraph 2.44</i>)</p>	<p><i>Report on Budgetary and Financial Management for 2002</i></p> <p>In future, starting from the Report 2003 the Commission will include a section on own resources in the Report. The administrative expenditure allocated to the various policy areas will be analysed after the introduction from 2004 of Activity Based Budgeting.</p> <p>The Commission shares the view that the analyses of the budget implementation should be used in future budget-setting procedures (<i>paragraph 2.44</i>).</p>
<i>Recommendation 22</i>	<i>Reply 22</i>
<p><i>Increases in appropriations</i></p> <p>In some cases underspending was caused by increases in appropriations compared with 2001 which the Commission was then unable to implement (i.e. internal policies and external actions). The Court recommends that increases in budgetary appropriations should only be proposed when there are realistic plans for their full use. Specific attention is needed when spending in the previous year has been low (<i>paragraph 2.45</i>).</p>	<p><i>Increases in appropriations</i></p> <p>The Commission aims at realistic budgeting of payment appropriations. The best method is a careful assessment of the need for payment appropriations by budget lines, taking into account all foreseeable circumstances affecting budget implementation. Continued emphasis on the Budget Implementation Plan exercise regarding the current budget year, comprising monitoring, reporting and revisions integrated into the budget decision procedure, can also be expected gradually to improve budget forecasting for the PDB. This also comprises an assessment of whether low spending in the past implies lower budgeting (or the reverse) (<i>paragraph 2.45</i>).</p>
<i>Recommendation 23</i>	<i>Reply 23</i>
<p><i>The budget surplus</i></p> <p>The large surplus is mostly caused by underspending in the expenditure areas, particularly Structural Funds. The Member States' forecasts were grossly inaccurate in their expected use of the funds. The Court recommends that further measures should be taken, both to improve the quality of the forecast information provided by the Member States and to undertake the necessary steps to reduce revenue when significant levels of underspending are forecast (<i>paragraph 2.46</i>).</p>	<p><i>The budget surplus</i></p> <p>The Commission has conducted a survey amongst Member States on the procedure and improved it in the light of the replies received. It will continue cooperating with Member States to improve the quality of the forecasts.</p> <p>As to the Court's recommendation to undertake necessary steps to reduce revenue, the Commission is prepared to use a SAB when the underimplementation is sizeable and sufficiently certain to occur. In other circumstances however, the Commission prefers to use the surplus SAB procedure in year $n + 1$ (<i>paragraph 2.46</i>).</p>
<i>Recommendation 24</i>	<i>Reply 24</i>
<p><i>The underspending of appropriations</i></p> <p>Efforts to increase utilisation rates simply to use up the funds (and prevent further cuts) increase the risk of inappropriate or irregular expenditure. However, the delaying of expenditure to the end of the current programming period for Structural Funds is likely to cause significant absorption</p>	<p><i>The underspending of appropriations</i></p> <p>In the Structural Funds the "n+2" rule imposes constant financial discipline and is intended to avoid a situation where the problems resulting from possible under-execution of the programmes are concentrated at the end of the period. (<i>paragraph 2.47</i>)</p>

<p>difficulties and commensurate problems in managing the aid. Furthermore, the low implementation of preaccession funds means that priority problems are not being dealt with in a timely manner in the countries concerned. The Court recommends that sufficient appropriate action be taken to deal with these problems in a manner that safeguards the financial interests of the current and future citizens of Europe but does not compromise the delivery of EU grant-aided projects (<i>paragraph 2.47</i>).</p>	<p>As far as pre-accession aid is concerned, the increase in ISPA payments between 2001 and 2002 is a result of combined efforts undertaken by the Commission and Candidate Countries to set up proper implementation structures and to strengthen the administrative capacity of national authorities, in particular in the field of public procurement. However, the Commission cannot accelerate implementation to the detriment of principles of EU law. SAPARD, too, has contributed to the building of systems that are capable of managing aid to foster structural adaptation of agriculture in the countries concerned, but adequate control systems have to be in place prior to any funds being released. (see also paragraph 5.70 f).</p> <p>See also Commission's reply to recommendation 20.</p>
<p><i>Recommendation 25</i></p>	<p><i>Reply 25</i></p>
<p><i>The carryover of appropriations</i></p> <p>The Court continues to maintain that the use of carryovers of appropriations unnecessarily complicates the process of budgetary management and the accounting system. They distort the view of overall implementation, with the €3 254 million carryover of payment appropriations in respect of the Structural Funds having the effect of reducing the reported surplus by the same amount. In line with its opinion on the new Financial Regulation, the Court continues to recommend that this procedure be abolished and any shortfall in funds met through a more open and transparent method, such as supplementary and amending budgets (<i>paragraph 2.48</i>).</p>	<p><i>The carryover of appropriations</i></p> <p>The carryover instrument is part of the established regime for budgetary management. The Commission does not share the Court's view that the use of carryovers unnecessarily complicates the process of budgetary management and the accounting system. The use of the instrument has clear advantages and is fully transparent. The difference between the carry-over and the SAB instrument is, in the Commission's view, less about transparency and complication than about different decision-making procedures (<i>paragraph 2.48</i>)</p>

OWN RESOURCES

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>Community legislation does not provide for a standard format for annual VAT statements, nor does it confer implementing powers on the Commission or ACOR to adopt measures to this end. Where the presentation poses a problem, the Commission requests suitable changes in future statements. The move to electronic transmission of statements and their accompanying data and documentation since 2001, as well as the regular methodological discussions held in the ACOR, have all encouraged greater standardisation and transparency. The Commission will continue to examine to what extent further standardisation and transparency are achievable.</p> <p>As regards GNP, the checks by the Commission are grounded in a thorough analysis of the procedures used by Member States to compile their GNP, based on inventories of sources and methods that are thoroughly analysed by the Commission and discussed in missions to the countries. The Commission is prepared to examine the possibility of doing more direct checks in the future.</p>	

<i>Recommendation 26</i>	<i>Reply 26</i>
<p>VAT</p> <p>The audit of VAT collection in the Member States has identified certain problems related to collection which, as well as the reservations mentioned in paragraph 3.37, cast some doubts on the accuracy and reliability of the VAT statements produced by the Member States and provided to the Commission. (<i>paragraph 3.55</i>)</p> <p>To address this situation the Court recommends that the Commission take the following actions:</p> <p>a) implement a standard layout for the presentation in the VAT statement of at least the figure of net VAT collected (<i>paragraph 3.56</i>).</p>	<p>VAT.</p> <p>a) Community legislation does not provide for a standard format for annual VAT statements, nor does it confer implementing powers on the Commission or ACOR to adopt measures to this end, but the Commission will continue to encourage greater standardisation and transparency (<i>paragraph 3.56</i>).</p>
<i>Recommendation 27</i>	<i>Reply 27</i>
<p>VAT</p> <p>b) explore the possibility of including in the VAT statements the amount of VAT assessed as to be paid for the year in question (<i>paragraph 3.56</i>)</p>	<p>VAT</p> <p>b) At the next ACOR meeting on 20 November 2003 the Commission will invite Member States to ensure greater standardisation and transparency in their VAT statements (<i>paragraph 3.56</i>).</p>
<i>Recommendation 28</i>	<i>Reply 28</i>
<p>VAT</p> <p>c) request Member States to provide an audit trail for the collection of VAT (<i>paragraph 3.56</i>).</p>	<p>VAT</p> <p>c) The Commission will raise with Member States, at the next ACOR meeting, the need to ensure the best possible quality of audit trails for the collection of VAT. (<i>paragraph 3.56</i>).</p>

<i>Recommendation 29</i>	<i>Reply 29</i>
<p>VAT</p> <p>d) encourage Member States to use best practice in respect of enforcement procedures (<i>paragraph 3.56</i>).</p>	<p>VAT</p> <p>d) The Commission will continue to use the available instruments to increase awareness of solutions and encourage the adoption of best practice in the field of enforcement (<i>paragraph 3.56</i>)</p>
<i>Recommendation 30</i>	<i>Reply 30</i>
<p>GNP</p> <p>In respect of the GNP-related own resource, the Court recommends that the Commission increase its control activities on the correctness and reliability of the data given in the GNP questionnaire in addition to the major examinations currently conducted regarding methodology, with a view to increasing the reliability of the calculation of the most important own resource (<i>paragraph 3.57</i>).</p>	<p>GNP</p> <p>The checks conducted by the Commission consist primarily of a highly detailed and systematic structural analysis of the sources and methods used by the Member States to establish their GNP figures, along with checks on the data obtained from the annual questionnaire. This Commission is also prepared to examine the possibility of conducting more direct checks as indicated by the Court. (<i>paragraph 3.52</i>)</p>
<i>Recommendation 31</i>	<i>Reply 31</i>
<p>Traditional own resources</p> <p>The audit work carried out on the systems and related transactions which underlie the accounts also produced satisfactory results showing that the underlying transactions, taken as a whole, are legal and regular. However, there is scope for Member States to improve the national instructions in respect of the control regime for airports so that the special risks at airports (e.g. value and status of goods and differences between cargo declared and unloaded) are covered. Customs authorities should also have knowledge of all flight arrivals in advance so they can better plan the control to be undertaken (<i>paragraph 3.34</i>).</p>	<p>Traditional own resources</p> <p>The Commission will draw the Member States' attention to the special risks at airports at the ACOR meeting in December 2003. In 2004, it will conduct an audit on this subject, focusing on the simplified procedures employed at several major airports not visited by the Court that fit the identified risk profile. (<i>paragraph 3.34</i>)</p>

COMMON AGRICULTURAL POLICY

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>The 2003 CAP reform proposal addresses many of the Court's recommendations and is intended to solve the problems and weaknesses detected by the Court and the Commission. Indeed, the Commission's proposal includes provisions relating to environmental requirements, butter fat disposal measures, aid scheme for cotton and the dried fodder CMO.</p> <p>As for export refunds (prefinancing and rate setting), the Commission has already taken several measures. Five regulations were adopted to address the main weaknesses concerning the prefinancing regime, in particular relating to physical checks. Concerning the way it sets export refunds, the Commission has introduced a comprehensive action plan covering horizontal issues. The improvements concern the Commission's decision making procedures (calculation methodology, decision documentation). Furthermore, sectoral measures are foreseen, in particular the possibility to extend the use of tendering procedure for granting refunds.</p>	

<i>Recommendation 32</i>	<i>Reply 32</i>
<p><i>IACS: guidance for Member States:</i></p> <p>e) there is scope to continue to improve guidance to Member States on the application of IACS and the use of information from the system. <i>(Paragraph 4.12 e)</i></p>	<p><i>IACS: guidance for Member States:</i></p> <p>e) Over the years the Commission considers that given the limited number of staff it has established the correct balance of resources to adequately cover both aspects raised by the Court. <i>(Paragraph 4.12 e)</i></p>
<i>Recommendation 33</i>	<i>Reply 33</i>
<p><i>IACS statistics</i></p> <p>The Court recommends that the Commission seek further improvements in the way the results of supervisory checks are compiled and presented, in particular:</p> <p>a) IACS statistics should provide more detailed information about the categories of transactions tested, for example by beneficiaries or by crop. <i>(Paragraph 4.50.)</i></p>	<p><i>IACS statistics</i></p> <p>a) The tables used by the Member States are reviewed and improved regularly. However, the Commission must also take account of Member States' calls for the simplification and streamlining of procedures. The Commission considers that the information currently received is sufficient to fulfil its obligations. <i>(Paragraph 4.50.)</i></p>
<i>Recommendation 34</i>	<i>Reply 34</i>
<p><i>Olive oil agencies</i></p> <p>b) for the olive oil agencies, the Commission should ensure that inspections and results are classified on a consistent basis. <i>(Paragraph 4.50.)</i></p>	<p><i>Olive oil agencies</i></p> <p>b) Results on inspections of the olive oil agencies are always presented in the Annual Financial Report of EAGGF; in addition, statistics on inspections and the results of supervisory checks are classified in statistical comparative tables following yearly communications by the agencies or the Member States concerned. The tables have been communicated to the Court on 26/09/2003. <i>(Paragraph 4.50)</i></p>
<i>Recommendation 35</i>	<i>Reply 35</i>
<p><i>Annual statistics on physical controls</i></p> <p>c) for export refunds and subsidies paid to intermediaries the Commission should ensure that statistics on physical,</p>	<p><i>Annual statistics on physical controls</i></p> <p>c) Annual statistics on physical controls (comprising the information mentioned in paragraph 4.47) are made available</p>

documentary, and <i>a posteriori</i> checks are available on a timely and consistent basis, and show the value of transactions subject to checks and the value and incidence of irregularities detected. (Paragraph 4.50.)	to the Commission by Member States by 1 May each year. The payment data on export refunds provided to the Commission by Member States pursuant to Regulation 1884/2002 include, apart from core financial information, an indication whether the goods concerned were the subject of either a physical control or a substitution check. As part of its work programme for 2003, the Commission services have been carrying out an evaluation of the completeness and reliability of these data. This exercise, due to be completed by the end of 2003, will help determine how best the data requested by the Court could be provided.
<i>Recommendation 36</i>	<i>Reply 36</i>
<i>Tests performed</i> The Court also recommends that the Commission investigate the reasons why, for IACS checks on areas, tests performed on a random basis show a higher rate of error than those selected on the basis of an analysis of risk. (Paragraph 4.51.)	<i>Tests performed</i> The Commission is aware of several reasons for the situation outlined by the Court, not least of which is the generally weak design and evaluation of Member States' risk analysis which, although legally valid and often providing maximum coverage, do not always identify the greatest risks. Remote sensing is used extensively and is normally randomly based, albeit with some element of risk assessment. This makes it difficult to distinguish clearly between the results of risk- and randomly- based checks. (Paragraph 4.51) In September 2003 the Court's remarks were drawn to the Member States' attention at a meeting of the IACS experts group, and consequently there are proposals to reinforce IACS legislation with effect from 2003 onwards.
<i>Recommendation 37</i>	<i>Reply 37</i>
<i>Annual Activity Report</i> The Court considers that a summary of the results of these checks should be included in the Annual Activity Report of Director-General for Agriculture. (Paragraph 4.52.)	<i>Annual Activity Report</i> The Commission considers that the inclusion of statistics concerning the performance of controls by Member States would not be consistent with its objective that the AARs provide only summarized information for the relevant year. (Paragraph 4.52.)
<i>Recommendation 38</i>	<i>Reply 38</i>
<i>Environmental requirements</i> The Commission's mid-term review proposal would require the enforcement of good farming practices. Member States would have to define and enforce standards, following a common framework. The Commission launched the work to establish such a framework at the end of 2002 ⁵ . Much will depend on how effectively such a code can be implemented in practice. (Paragraph 4.83)	<i>Environmental requirements</i> The 2003 CAP reform establishes a system of compulsory cross-compliance, with a reduction or exclusion from direct payments (the main supported sectors are covered, including cereals, oilseeds, rice, dried fodder, milk and dairy products, beef and veal, sheep and goats, olive oil, tobacco) in case of non-respect of: Statutory management requirements arising from 18 Community legislative acts in the fields of environment, public, animal and plant health and animal welfare. Minimum requirements for good agricultural and

⁵ Towards sustainable farming a mid term review of the common agricultural policy. COM 2002 394 final p. 19.

	<p>environmental condition, to be defined by MS at national or regional level, based on a Community framework providing for standards related to protection of soil erosion, maintenance of soil organic matter and soil structure, and maintenance of habitats and landscape, including the protection of permanent pasture.</p> <p>Reduction or exclusion from payments also apply to parcels on set-aside. Detailed rules for the reductions or exclusions have to take account of the severity, extent, permanence and repetition of the non-compliance found, as well as of its intentional or negligence nature.</p>
<i>Recommendation 39</i>	<i>Reply 39</i>
<p><i>Environmental impact evaluation</i></p> <p>In view of the poor experience so far in market evaluations, there is a plan to include specific horizontal studies to evaluate environmental impacts of market measures in the Directorate-General for Agriculture evaluation programme. (Paragraph 4.86.)</p>	<p><i>Environmental impact evaluation</i></p> <p>The recommendation to include specific horizontal studies to evaluate environmental impacts of market measures in the Directorate-General for Agriculture evaluation programme has been taken up in the meantime. The first horizontal study, assessing the environmental impacts of the Common Market Organisations for permanent crops, started in 2003; three horizontal evaluation studies concerning environmental impacts are programmed in the evaluation plan 2004-2006: beef and dairy, arable crops, and pigs and poultry.</p>
<i>Recommendation 40</i>	<i>Reply 40</i>
<p><i>Implementation of mandatory environmental legislation</i></p> <p>Although the Commission has taken steps to address the issues, it should continue to ensure the full implementation of mandatory environmental legislation, such as the Nitrate Directive, in the Member States. (Paragraph 4.88)</p> <p>The Commission's proposal in the mid-term review to introduce mandatory compliance with environmental requirements is in line with most of the Court's recommendations in Special Report No 14/2000 to use eco-conditionality rules. (Paragraph 4.89)</p>	<p><i>Implementation of mandatory environmental legislation</i></p> <p>With the 2003 CAP reform, direct payments shall be subject to a system of compulsory cross-compliance. For this purpose, Council Regulation (EC) No 1782/2003 provides for a list of 18 Community legislative acts in the field of public, animal and plant health, environment and animal welfare in view of sanctioning the non-respect of statutory management requirement arising from these legislative acts, by cutting direct payments. The above-mentioned legislative acts include, inter alia, the Nitrate Directive and the Habitat Directive. Cross-compliance in respect to statutory management requirements established by the Community environmental legislation will be applicable from 1.01.2005. (Paragraphs 4.88 and 4.89).</p>
<i>Recommendation 41</i>	<i>Reply 41</i>
<p><i>Butter disposal measures</i></p> <p>The evaluation report confirmed the Court's main conclusions and the discharge authority's recommendations. The Commission should therefore carry out an in-depth analysis of the market and propose the necessary amendments to the regulations to improve the effectiveness of the butterfat disposal measures. (Paragraph 4.94.)</p>	<p><i>Butter disposal measures</i></p> <p>The Commission is, in the framework of the Milk Management Committee with the participation of competent national and EU experts, working on consolidating and simplifying the different butter disposal measures. (Point 4.94.) The Management Committee involving national experts responsible for applying and managing the disposal measures has for a long period discussed the possibilities for improvements. The work is nearly completed and a new consolidated regulation is likely to be published in the beginning of 2004.</p> <p>The Council agreement on the reform of the CAP includes a</p>

	reduction of the butter intervention price by 25 % over the next 4 years starting in 2004. This reduction should enhance the non-subsidised disposal of butter and will be reflected in the level of subsidies applied in the milk sector. (4.91 b)
<i>Recommendation 42</i>	<i>Reply 42</i>
<p>Prefinancing</p> <p>The Court recommended that the system be reviewed and consideration given to its removal. The Commission agreed to carry out a review of prefinancing. (<i>Paragraph 4.100</i>)</p>	<p>Prefinancing</p> <p>Having carried out the promised review, the Commission has decided not to remove the prefinancing, since it is felt that abolition of the regime would oblige the Commission to create other mechanisms that would further complicate matters.</p> <p>Nevertheless an action plan has been put in place to remedy specific observations of the Court. Horizontal matters have been addressed by Commission Regulation 444/2003. Its provisions entered into force on 1 October 2003, with the exception of the minimum rate of physical checks (1 January 2004). The Regulation covers, inter alia :</p> <ul style="list-style-type: none"> – A shortening of the period in which the products can stay under the pre-financing arrangements; – the introduction of a minimum compulsory rate of physical checks when products are placed under prefinancing; – the deletion of standard rates of yield; – monthly statistics of the quantities placed under pre-financing. <p>Sector-specific matters are addressed by Regulation 456/2003 for certain beef and veal products, by Regulation 500/2003 for certain cereals and by Regulation 740/2003 for non Annex I goods.</p> <p>Furthermore, Commission Regulation 2010/2003 has removed the possibility of granting equivalency in the prefinancing with processing. This measure takes into account the critic of the Court in the sense that the system of equivalency is highly complex and difficult to control. The Commission believes that the new system will provide a suitable balance between controls on, and support for, the operators concerned. (<i>Paragraph 4.100</i>)</p>
<i>Recommendation 43</i>	<i>Reply 43</i>
<p>Refund rates</p> <p>The overall conclusion was that the way the Commission set refund rates was insufficiently clear, particularly for beef, milk products and to a lesser extent cereals. The Court made a number of recommendations designed to make procedures clearer, to improve documentation and to facilitate management control. The Commission has reacted positively and is in the process of implementing most of these (<i>Paragraph 4.102</i>).</p>	<p>Rate setting of export refunds</p> <p>The Commission is grateful that the Court acknowledges the positive reaction of the Commission to the recommendations which were made. In particular, the Commission has introduced a comprehensive action plan for the way it sets export refunds. The main horizontal elements include:</p> <ul style="list-style-type: none"> • for each sector a manual has been established describing the method of rate setting (calculation methodology, the use of the best price information available) including the policy to be followed in this matter. • for each sector, for which it is relevant, a forecast balance sheet in order to determine the quantity available

	<p>for export.</p> <ul style="list-style-type: none"> • each rate setting process includes, next to the theoretical calculation of the refunds, based on information coming from the most reliable sources, a note explaining all elements intervening in this decision. • every setting of refund rates is documented through a description containing the essential elements having led to the fixing and the level at which the decision was taken, including the presence of the representatives of the financial and legal departments. Decisions are initialled by the responsible Director (who is also Chairman of the Management Committee) and signed by the Director General. • The extension of the tender procedure will be examined <p>Concerning sector specific issues:</p> <ul style="list-style-type: none"> • The Commission would like to point out that an evaluation of a possible increase in the use of tendering resulted in a draft Regulation for certain dairy products • For sugar, the Commission is giving due consideration to the Court's recommendation to analyse the setting of refund rates directly or by tendering. To date, following discussion in the Management Committee, this has resulted in a reduction in the number of tenders in comparison to the past. The same process has been pursued for Rice, with similar results. <p>For cereals the Commission proposed the abolition of monthly increments. However, the Council decided to maintain them, albeit at 50% of their previous level.</p>
<i>Recommendation 44</i>	<i>Reply 44</i>
<p><i>Organisation of the market in dried fodder</i></p> <p>The Court recommended that the Commission take the opportunity of reforming the market organisation to review the rules to be applied by Member States to ensure appropriate control. (<i>Paragraph 4.110.</i>)</p>	<p><i>Organisation of the market in dried fodder</i></p> <p>The CAP reform endorsed by the Council on 26.06.2003 introduces decoupling for the dried fodder sector and a flat processing aid at the same rate for both dehydrated and sun-dried fodder, while merging the Maximum Guaranteed Quantities (MGQ's). (see Council Regulation (EC) No 1786/2003 of 29 September 2003 on the CMO dried fodder)</p> <p>The Commission will reassess all these checks in the light of the new reform. (<i>Paragraph 4.110</i>) The action will be done in the process of amending the implementing rules of the dried fodder regime foreseen by 2004.</p>

<p><i>Recommendation 45</i></p>	<p><i>Reply 45</i></p>
<p><i>Aid scheme for cotton</i></p> <p>The Commission wished to introduce a reform of the present scheme to be effective from the marketing year commencing on 1 September 2003. This deadline will not be reached and the Commission intends to present a proposal for the reform of the aid scheme for cotton to the Council and the European Parliament in the Autumn of 2003. (Paragraph 4.117.)</p> <p>The Court recommended that the Commission should take the opportunity of the proposed reform to address weaknesses in the present regime (absence of budget neutrality, the attractiveness of the aid rate on quantities produced and the impact of cotton production on the environment). In addition, and with regard to the present scheme, the Court recommended that the Commission reviews the financial arrangements of the ginners and examines the effectiveness of the incentive given to improve quality. (Paragraph 4.122.)</p>	<p><i>Aid scheme for cotton</i></p> <p>The Commission will take the weaknesses mentioned by the Court into consideration when formulating the reform proposals. In addition, it will also take account of the fact that the present regime is highly complicated and not in line with the recent evolution of the CAP. (Paragraph 4.122.) The Commission presented on 23 September 2003 a reform proposal in its Communication Com (2003) 554 final on the aid scheme for cotton. During the preparation of the proposal the Commission took the weaknesses mentioned by the Court into consideration.</p> <p>The Commission proposes to transfer the part destined to producer support of the EAGGF expenditure for cotton during the reference period, into the funding of two producer-income support measures for farmers, namely, the single farm payment scheme and a new production aid, granted as an area payment. The new area payment would be given for a maximum area and would be proportionately reduced when payment claims exceed the maximum area of a Member State which ensures budget neutrality. In order to allow producers and ginners to enhance the quality of the cotton produced, it is proposed to encourage the establishment of inter-branch organisations made up by cotton producers and ginners.</p> <p>The Communication is available at: http://europa.eu.int/comm/agriculture/capreform/com554/ind_ex_en.htm.</p> <p>The Commission presented on 18 November 2003 the legal proposals on the basis of this Communication. Depending on the discussion in the European Parliament and the Council the new arrangements should be applicable as from 1 September 2005 onwards and would thus already concern the crop sown in spring 2005.</p>
<p><i>Recommendation 46</i></p>	<p><i>Reply 46</i></p>
<p><i>Support for less favoured areas</i></p> <p>After 30 years of implementation, there has still not been an overall assessment of this aid scheme making it possible to judge its effectiveness. (Paragraph 4.129.)</p> <p>On the basis of these observations, the Court recommended that:</p> <p>a) a comprehensive, thorough overhaul should be made of the current classification of all the less favoured areas;</p> <p>b) the Commission, working closely together with the Member States, should define a more suitable set of indicators for identifying the less favoured areas;</p> <p>c) relevant information on the impact of the aid scheme in question should be available; any cases of systematic</p>	<p><i>Support for less favoured areas</i></p> <p>A Community synthesis of the ex-post evaluations of the previous period (1994-1999) is available since November 2003. Furthermore, the evaluation methodology for rural development, including LFA, has been enhanced for the current programming period in cooperation with the Member States. (Paragraph 4.129.)</p> <p>a) The evaluation of the results of the previous programmes will provide information on the need for a review of the classification for the next programming period (post 2006).</p> <p>b) The new evaluation system introduced by Regulation (EC) No 1257/1999 will provide the information required for any review of the classification criteria.</p> <p>c) A Community synthesis of the ex-post evaluations of the</p>

<p>overcompensation should be identified and the necessary corrective measures taken;</p> <p>d) 'good farming practices' should be exactly and verifiably defined or, failing this, support for less favoured areas should be based on a clearer concept;</p> <p>e) an overall assessment of the aid scheme should be made and relevant indicators should be defined for monitoring the latter. (<i>Paragraph 4.130.</i>)</p>	<p>previous period (1994-1999) is available since November 2003.</p> <p>d) When approving the rural development plans containing the definition of GFP, the Commission also insisted on clear indications on how compliance is monitored and verified by the national and regional authorities via the verifiable standards to be included in the programme.</p> <p>e) A Community synthesis of the ex-post evaluations of the previous period (1994-1999) is available since November 2003.</p>
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STRUCTURAL MEASURES

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>The systems of fundamental importance in ensuring the supervision and control over the implementation of the Community budget for structural actions are those governing the areas of shared management with the Member States. For the closure of 1994-99 interventions the Commission is obtaining assurance on the regularity of expenditure from its audit work already completed and from the desk checks being undertaken on closure statements. It will verify the reliability of the closure process in Member States by audits of a sample of programmes and will draw the necessary financial consequences where appropriate by making recoveries from Member States. Concerning the current 2000-2006 period, from the work the Commission has carried out it has been able to conclude that Member States have in general made significant steps in improving their systems. However, further improvements are necessary, and the effective functioning of the systems should be regularly verified. The Commission will pursue its audit strategy to achieve this aim in order to provide a basis for assurance as to payments made from the funds. For both programming periods the Commission is continuing to follow up the Court's findings made in previous DAS exercises in the light of the Member States' replies and further audits in some cases, and will take corrective action where appropriate. Similar follow-up will be given to the Court's findings in the 2002 DAS. The Commission is pursuing improvements in the management of the Cohesion Fund and has stepped up its own audit activity in this area. It will take account of the Court's views in the regulatory framework for the post-2006 period.</p>	

<i>Recommendation 47</i>	<i>Reply 47</i>
<p><i>Action plan relating to shared management</i></p> <p>Further progress is needed to complete implementation of actions 4 and 12 of the action plan introduced to remedy weaknesses identified in 2001 relating to shared management. <i>(Paragraph 5.9.)</i></p>	<p><i>Action plan relating to shared management</i></p> <p>Within the framework of action 4 of the 2001 action plan, the Commission has been checking that the management and control systems in Member States for the Structural Funds meet the required standards, is intensifying the co-ordination of audit work, and is pursuing an initiative whereby Member States will enter into a "contract of confidence" which will enable the Commission to rely more directly on national audit work. It has also introduced a package of measures to simplify implementation of Regulation 1260/1999, – (O.J. n° C (2003) 1255).</p> <p>In application of action 12 of the action plan, a communication was drafted with the departments concerned in order to clarify the role of directors-general in shared management (OJ°C (2003) 1830).</p> <p>This work is being continued under the action plan based on the synthesis report on the annual declarations for 2002. In this context the Commission will further analyse the scope of responsibilities within shared management with a view to issuing a communication and appropriate recommendations, by March 2004. <i>(Paragraph 5.9, see also paragraph 1.106.)</i></p>
<i>Recommendation 48</i>	<i>Reply 48</i>
<p><i>Closures from periods prior to 1994/99</i></p> <p>The Commission should press ahead with closures of the interventions from periods prior to 1994 that are still open. <i>(Paragraph 5.15.)</i></p>	<p><i>Closures from periods prior to 1994/99</i></p> <p>The Commission is continuing to give close attention to these cases in the framework of its action plan on the RAL adopted in 2002.</p>

	<p>However, a considerable proportion of the pre-1994 files concerned are the subject of legal procedures or are suspected to contain irregularities, which justifies the fact that they have not yet been closed. (Paragraph 5.15.)</p>
<i>Recommendation 49</i>	<i>Reply 49</i>
<p>Closures from period 1994/99</p> <p>As regards closures relating to the 1994 to 1999 programming period, during 2002 the Commission continued to carry out checks on systems under Regulation (EC) No 2064/97. Although improvements were noted, cases of serious systems weaknesses were found at the stage where the final declarations of expenditure were already due. Given this fact, the Commission should satisfy itself as to the legality and regularity of the underlying expenditure. (Paragraph 5.18.) However, the Court's audit revealed that the Commission plans to carry out checks only after the final payments have been made. Recoveries will be made after closure if ineligible expenditure is found. Only in exceptional cases will the Commission make checks of the expenditure declared in the Member States before final payment. (Paragraph 5.21)</p>	<p>Closures from period 1994/99</p> <p>The Commission in any event carried out many audits of expenditure in Member States during the programme period before the closure process began and brought the results to the Member States' attention. In conclusion, the Commission is following a three phase audit approach to gain assurance with regard to the legality and regularity of the underlying expenditure:</p> <p>-first phase: the systems audits which have been carried out before closure on the application of Regulation 2064/97,</p> <p>-second phase: the desk checking of the closure statements under Article 8 of Regulation 2064/97 in the framework of the closure process, which includes any open audit findings and reported irregularities,</p> <p>-third phase: the on-the-spot closure audits of a sample of programmes, on the basis of the Article 8 statements and other closure documentation, to verify the reliability of the closure procedures in the Member States and to assess the legality and regularity of final payments made. (Paragraph 5.18)</p> <p>It will draw the necessary financial consequences, where appropriate with recoveries from Member States. The Commission considers that this is a sound strategy that avoids the serious delays that would result from undertaking wide-ranging audits of expenditure declared before final payment. During closure the Commission also examines the final implementation reports. (Paragraphs 5.21 and 5.54)</p> <p>Forward schedule for finalising expenditure audits for 1994-1999 (phase 3 of the audit approach outlined): after 2004.</p>
<i>Recommendation 50</i>	<i>Reply 50</i>
<p>Implementation of 2000/06 period</p> <p>Given the systems' weaknesses detected by the Court (see paragraph 5.26 to 5.33), the Commission should accord the highest priority to completing these systems checks as soon as possible, applying, as the case may be, the regulatory provisions requesting the interruption of payments in cases of serious irregularities or when serious failings in the management or control systems are found which could lead to systemic irregularities. (Paragraph 5.24.) The Commission has already made many interim payments (about 15% of total expenditure for the 2000 to 2006 period) without having sufficient assurance that the national supervisory and control systems are functioning as required.</p>	<p>Implementation of 2000/06 period</p> <p>The Commission intends to continue its system audits in future years, with substantive testing of the effectiveness of the systems in practice. (Paragraph 5.24, see also paragraphs 5.32 and 5.55). The Commission interrupts or suspends payments in appropriate cases;</p> <p>With regard to the 2000 to 2006 programming period, the Commission's audit strategy is moving towards a form of integrated audit and is based on increased and effective cooperation with the national inspection authorities. (Paragraph 5.54.)</p>

<i>(Paragraph 5.33)</i>	
<i>Recommendation 51</i>	<i>Reply 51</i>
<p><i>Closures from the 2000/06 period: ESF</i></p> <p>As regards the same period, for one ESF programme, the Commission did not stop payments on one form of assistance where the systems were considered too weak although the Directorate-General's audit and control unit recommended the interruption of payment in application of the relevant regulatory provisions. <i>(Paragraph 5.25.)</i></p>	<p><i>Closures from the 2000/06 period: ESF</i></p> <p>The Employment and Social Affairs Directorate-General went ahead with the second interim payment to this programme because of the general obligation of paying within two months and the still preliminary nature of the findings. It plans a follow-up audit to verify the improvements the Welsh authorities indicated they would introduce to their management and control systems. <i>(Paragraph 5.25, adapted)</i></p>
<i>Recommendation 52</i>	<i>Reply 52</i>
<p><i>Implementation of Regulation 438/2001</i></p> <p>As regards the implementation of Regulation 438/2001, certain weaknesses identified by the Court must still be redressed. <i>(Paragraph 5.29.)</i></p>	<p><i>Implementation of Regulation 438/2001</i></p> <p>As regards these cases, the Commission is in the process of examining the Court's observations and the replies from the national authorities. It will take the necessary measures, including, where appropriate, on-the-spot audits. <i>(Paragraph 5.29.)</i></p>
<i>Recommendation 53</i>	<i>Reply 53</i>
<p><i>Implementation of Regulation 438/2001: checks by Member States</i></p> <p>The Regulation requires Member States to organise checks on operations, which should cover at least 5% of the total eligible expenditure and be based on a representative sample of the operations approved. By the end of 2002 for the programmes concerned by the Court's audit, the Member States had either not yet started carrying out these checks, or were carrying them out at a level well below 5%. The Regulation stipulates that Member States should ensure that these checks are separate from implementation or payment procedures concerning operations, but in two cases this appeared not to be the case. <i>(Paragraph 5.30.)</i></p>	<p><i>Implementation of Regulation 438/200: checks by Member States</i></p> <p>The Commission, too, has identified the late start of independent sample checks as one of the main faults in the management and control systems for 2000-06 and has impressed on Member States the urgent need to catch up on this work. The Commission refers to the guidance note on sample checks which will be included in the updated Audit Manuals for the Structural Funds and the Cohesion Fund (doc. CDRR/03/0034/00).</p> <p>In the cases in which the Court considers separation of the checks is inadequate, the Commission will take steps to verify the information provided by the Member States that adequate separation now exists. <i>(Paragraph 5.30.)</i></p>
<i>Recommendation 54</i>	<i>Reply 54</i>
<p><i>Implementation of Regulation 438/2001: errors at the level of the final beneficiaries</i></p> <p>The Court carried out substantive tests in order to corroborate the results of the systems audits in the Member States relating to the implementation of Regulation 438/2001. The most frequent errors affecting the eligibility of expenditure were the inclusion of actions or persons unrelated to the programmes concerned, failure to take account of revenue generated or other income when calculating the net cost of projects, the same expenditure being declared more than once, expenditure without supporting documents, the use of arbitrary cost allocation</p>	<p><i>Implementation of Regulation 438/200: errors at the level of the final beneficiaries</i></p> <p>Given that the Commission has not been able to complete its examination of all Member States' replies, it will carry out the necessary analysis and make corrections where appropriate. <i>(Paragraph 5.40.)</i> The replies of the Member States to formal errors will be analysed and necessary follow up undertaken. <i>(Paragraph 5.41.)</i></p> <p>Forward schedule for follow-up: during 2004.</p>

<p>rates, calculation errors and several other failures to respect Community rules. (Paragraph 5.40.) The errors of a formal nature are also similar to those of previous years, namely failure to conserve underlying evidence, cofinancing of expenditure not yet defrayed or minor failures to respect Community rules. (Paragraph 5.41.)</p>	
<p><i>Recommendation 55</i></p>	<p><i>Reply 55</i></p>
<p><i>Intensification of follow-up of 1998/99 DAS</i></p> <p>Concerning the follow-up of previous observations on ineligible expenditure relating to the 1998 and 1999 Statements of Assurance, in some cases no evidence was available to demonstrate that the expenditure concerned had been reimbursed or excluded from the final declaration of expenditure. In other cases the Commission initiated follow-up action, but once it had received information from the Member States concerned, it did not continue to take action. In other cases the Commission could not continue its follow-up action because the Member States concerned did not send the necessary information. In the case of one closed programme, the Commission communicated its final position on the case to the Member State in 2002, but no recovery order has yet been established. (Paragraph 5.45.)</p>	<p><i>Intensification of follow-up of 1998/99 DAS</i></p> <p>The cases for which the Commission has not yet been able to complete the follow-up due to lack of information from the Member States relate to programmes from the 1994-99 period which are now being closed. The Commission will take appropriate follow-up action at the closure of these two programmes.</p> <p>As regards the closed programme referred to by the Court, following further exchanges with the Member State a correction decision is currently being established. (Paragraph 5.45.)</p>
<p><i>Recommendation 56</i></p>	<p><i>Reply 56</i></p>
<p><i>Follow-up of cases of apparent error identified in the DAS between 1998 and 2000</i></p> <p>The Court noted improvements in the follow-up procedure. Nevertheless, there remain a number of cases from the 1998, 1999 and 2000 Statements of Assurance for which follow-up has not been timely, appropriate or complete. As in the past, it was found that the Commission rarely extends its investigations beyond the samples examined by the Court. (Paragraphs 5.44-5.52.)</p>	<p><i>Follow-up of cases of apparent error identified in the DAS between 1998 and 2000</i></p> <p>In the cases from the 1998-2000 DAS, the Commission has either already completed the follow-up, will do so shortly (in some cases as part of the closure of 1994-99 programmes) or the follow-up is still underway. Details are given in the Commission's replies at paragraphs 5.43-5.51. The fact that the cases take longer than desired to be resolved does not necessarily mean they are not being properly followed up by the Commission services. Account has to be taken of the fact that the follow up of the cases often involves further exchanges of information with the national authorities and the recipients of the funds concerned in the Member States. In clear cases of systemic problems, the Commission does extend the follow-up action, for example in relation to public procurement in Spain. Furthermore, the Commission takes account of findings of the Court as far as possible in its own audit planning. (Paragraphs 5.47 and 5.52, and summary of commitments regarding cases)</p>
<p><i>Recommendation 57</i></p>	<p><i>Reply 57</i></p>
<p><i>Follow-up of Special report N° 15/2000 Cohesion Fund)</i></p> <p>The Commission is required to assess whether the projects comply with the criteria laid down in the Regulation. There was not always sufficient evidence to show that the necessary detailed assessments had been carried out. (Paragraph 5.57, 1st indent)</p>	<p><i>Follow-up of Special report N° 15/2000 Cohesion Fund)</i></p> <p>The staff of the Directorate-General for Regional Policy uses a detailed manual of procedures, which is regularly updated. The manual draws attention to all the requirements of the regulations and to the need to document work done. The Commission is constantly striving for improvements in these areas. (Paragraph 5.57)</p>

<i>Recommendation 58</i>	<i>Recommendation 58</i>
<p><i>Follow-up of Special report N° 15/2000</i></p> <p>The method of analysis is one of the criteria on which the decision to grant Community assistance is based. The treatment and calculation of the socio-economic variables used in the analysis differs from project to project. The Commission has still not drawn up sufficiently precise guidelines to encourage a harmonisation of the methods applied and make the analyses more comparable. <i>(Paragraph 5.57, 3rd indent)</i></p>	<p><i>Follow-up of Special report N° 15/2000</i></p> <p>The Commission is endeavouring to standardise cost-benefit analyses and in December 2002 updated the Guide to cost-benefit analysis in ERDF, Cohesion Fund and ISPA projects. It has held several meetings with national authorities to improve the methodology of cost-benefit analyses. <i>(Paragraph 5.57)</i></p>
<i>Recommendation 59</i>	<i>Recommendation 59</i>
<p><i>Follow-up of Special report N° 15/2000</i></p> <p>In the case of revenue-generating projects, the Commission has not been able to agree on a common methodology for calculating future net revenues and their effect on co-financing rates. The projects examined showed that there continues to be a general lack of justification of the grounds on which the co-financing rates are awarded. The lack of a clear and transparent set of rules on the basis of which co-financing rates may be determined results in different treatment of Member States and as such the Commission cannot assure that the best use is made of the available financial resources. <i>(Paragraph 5.57, 4th indent)</i></p>	<p><i>Follow-up of Special report N° 15/2000</i></p> <p>The Commission has now issued further guidance in order to standardise the methods for taking account of revenue in the part-financing rates of Cohesion Fund projects. The new Guide to cost-benefit analysis referred to in the answer to the previous indent sets out the principles to be applied in the financial analyses that serve as a basis for determining the part-financing rate, including revenue, residual value and discount rates. In April 2003 the Commission wrote to the Member States to remind them of these principles and setting certain parameters for the calculation of the part-financing rates. The aim of the Cohesion Fund is to provide a strong stimulus to economic development. Net revenue is one of a number of factors that are taken into account in determining the part-financing rate of projects, but the Regulation only requires this when the net revenue is substantial. In practice, the differences in the part-financing rates of similar projects in different Member States are rarely significant and the Commission generally attempts to set part-financing rates as low as possible in the circumstances in order to make maximum use of the resources available. <i>(Paragraph 57)</i></p>
<i>Recommendation 60</i>	<i>Reply 60</i>
<p><i>Follow-up of Special report N° 15/2000</i></p> <p>Many of the amending decisions continue to breach the deadline set out in the Regulation. Furthermore, the reasons for an amending decision are often the inclusion of new elements which were not directly linked to the project. In these cases a new application should have been submitted. In July 2002 the Commission issued guidelines for the modification of Cohesion Fund project decisions so as to limit the number of amending decisions that may be issued for a project. The overall objective is to ensure that the Member States improve their preparation of the project applications, as amending decisions are frequently the result of applications based on weak preliminary studies. <i>(Paragraphs 5.59-5.60)</i></p>	<p><i>Follow-up of Special report N° 15/2000</i></p> <p>The reasons why the three-month deadline is not always observed for amending decisions are the same as for initial decisions. The main reasons are technical complexity and poor presentation. The Commission agrees that a new application should be made for the inclusion of new elements not directly linked to the initial project. <i>(Paragraph 5.59)</i></p>
<i>Recommendation 61</i>	<i>Reply 61</i>
<i>Follow-up of Special report N° 15/2000</i>	<i>Follow-up of Special report N° 15/2000</i>

<p>In the new Regulation of the CF, a number of elements should be included in a project final report. These include a clear description of the works carried out and an initial assessment as to whether the expected results are likely to be achieved. In the majority of the final reports examined, these elements were either omitted or were not adequately addressed. In some cases the works carried out as described in the final report differed from the works set out in the approving decision. In one case a project was closed, though the works had not been completed. (Paragraph 5.61)</p>	<p>The standard of information provided at closure has steadily improved. The Commission considers that the description of the works in the final reports for the projects referred to by the Court was adequate. Modification of the works originally approved is accepted only where justified. (Paragraph 5.61)</p>
<p><i>Recommendation 62</i></p>	<p><i>Reply 62</i></p>
<p><i>Follow-up of Special report N° 15/2000</i></p> <p>As regards the follow-up by the Commission of the anomalies detected in the Special report in four cases, either no action was taken or the action taken was not prompt. (Paragraph 5.63.)</p>	<p><i>Follow-up of Special report N° 15/2000</i></p> <p>The cases raise complex issues whose follow-up necessarily takes a certain time to bring to a conclusion. The Commission's follow-up has progressed in all four cases referred to by the Court. The Commission is following it closely and will draw appropriate conclusions from the results. (Paragraph 5.63.)</p>
<p><i>Recommendation 63</i></p>	<p><i>Reply 63</i></p>
<p><i>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</i></p> <p>The Court recommends that the Commission take account of all reliable and up-to-date information available in order to concentrate the Structural Funds in the most seriously affected areas and at the most suitable geographical level. (Paragraph 5.70(a))</p>	<p><i>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</i></p> <p>The Commission will take account of the Court's comments in the programming of the Structural Funds after 2006. (Paragraph 5.70(a), see also Paragraph 5.68(a))</p>
<p><i>Recommendation 64</i></p>	<p><i>Reply 64</i></p>
<p><i>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</i></p> <p>The Court recommends that there is a clearer definition of responsibilities, particularly as regards the programme complement and the duties of the bodies involved in the management of interventions at Member State level. (Paragraph 5.70(b))</p>	<p><i>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</i></p> <p>This question is being studied in the current review of the rules for the period after 2006. (Paragraph 5.70(b))</p>
<p><i>Recommendation 65</i></p>	<p><i>Reply 65</i></p>
<p><i>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</i></p> <p>The Court recommends that the Commission and the Member States introduce the procedures and provisions needed for the correct implementation of the later phases of the programming for 2000 to 2006 and for a consistent and well-founded allocation of performance reserves. (Paragraph 5.70(c))</p>	<p><i>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</i></p> <p>The Commission has already taken steps to organise the mid-term review and the allocation of the performance reserve in a correct and efficient manner, and will do likewise when the time comes for the ex-post evaluations. (Paragraph 5.70(c))</p>

<i>Recommendation 66</i>	<i>Reply 66</i>
<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</p> <p>The Court recommends that, regarding management, the Commission gathers sufficient necessary information for it to be able to carry out the relevant analysis in order to guarantee the consistency of the structural programmes adopted. (Paragraph 5.70(d))</p>	<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</p> <p>The central database for the Structural Funds is already the main source of financial information and it should gradually take over more and more of the monitoring information that is currently collected on other databases. (Paragraph 5.70(d))</p>
<i>Recommendation 67</i>	<i>Reply 67</i>
<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</p> <p>The Court recommends that the Commission defines the eligibility rules more precisely and ensures that adequate selection criteria are developed. (Paragraph 5.70(e))</p>	<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</p> <p>The Regulation 1685/2000 has clarified eligibility rules as from July 2000 and lay down certain rules that need to be applied in the same way throughout the EU. The purpose of this regulation was to cover only the necessary points on eligibility, leaving the remainder to national legislation in the framework of subsidiarity and shared management. This regulation has been completed and clarified in June 2003 through the adoption of Regulation 1145/2003. The experience of Commission is that to attempt to cover eligibility questions would lead to increased complexity or rules that were not appropriate for many specific situations. (Paragraph 5.70(e)), see also Paragraph 5.68(h))</p>
<i>Recommendation 68</i>	<i>Reply 68</i>
<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds</p> <p>The project selection criteria submitted in the programme complements are often too broad and do not do enough to enhance the benefit of structural measures in terms of optimising objectives and priorities. (Paragraph 68(i))</p>	<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds</p> <p>The Commission has encouraged the establishment of relevant selection criteria and insists on their systematic application. It is well aware of the crucial importance of project selection for the impact of assistance and acknowledges that in certain cases improvements are still possible. (Paragraph 68(i))</p>
<i>Recommendation 69</i>	<i>Reply 69</i>
<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</p> <p>The Court recommends that the Commission pursues its efforts to make the current simplification more effective, whilst guaranteeing the high quality of the structural measures in terms of legality, regularity and sound financial management. The primary aim of programming, programme revision and management should be the effectiveness of the programmes and not simply the optimum take-up of funds. (Paragraph 5.70(f))</p>	<p>Implementation of assistance programming for the period 2000 to 2006 within the framework of the Structural Funds:</p> <p>The Commission has already made efforts to simplify the application of provisions wherever possible and will continue its efforts in this direction. It is not sacrificing the impact of programmes to the concern for rapid absorption of funds. (Paragraph 5.70(f))</p>

INTERNAL POLICIES

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>Research is one of the main topics in the Court's recommendations. In this area too, the Commission welcomes the Court's recommendations as outlined in this document. They were also covered in action plans drawn up in response to its own observations. The introduction of internal control systems as part of the reform is monitored particularly closely and the intensification of checks on beneficiaries continues as part of a coordinated action plan for research following on from action 1 of the Report summarising the annual activity reports for 2001.</p>	

<i>Recommendation 70</i>	<i>Reply 70</i>
<p><i>Reform of the Commission's internal control systems</i></p> <p>The Commission is recommended to continue its efforts in implementing the reform concerning the Commission's internal control systems. <i>(Paragraph 6.60)</i></p>	<p><i>Reform of the Commission's internal control systems</i></p> <p>A readiness assessment was carried out by DG RTD in September 2003 to examine the extent to which it had implemented the baseline requirements of the internal control standards. The readiness assessment made it possible to identify the measures to be taken and the additional support to be given by the horizontal directorates-general (Budget, Secretariat-General, Personnel and Administration). <i>(Paragraph 6.60)</i></p>
<i>Recommendation 71</i>	<i>Reply 71</i>
<p><i>Harmonisation of the reporting in the AARs and declarations of the Directors-General</i></p> <p>The Commission is recommended to harmonise the reporting in the Annual Activity Reports and the declarations of the Directors-General for same or similar underlying deficiencies. <i>(Paragraph 6.60)</i></p>	<p><i>Harmonisation of the reporting in the AARs and declarations of the Directors-General</i></p> <p>The Commission is also making a considerable effort to find ways of improving the consistency of the annual activity reports (see sections 4.2 and 4.3 of the 2002 synthesis report), including the 'peer review' of the 2002 reports — bearing in mind that the annual declaration remains the responsibility of the directors-general, which inevitably implies a margin for discretion and a reflection of the special situation of each department. <i>(Paragraph 6.60)</i></p>
<i>Recommendation 72</i>	<i>Reply 72</i>
<p><i>Improvements to be introduced in the TEN-T programme</i></p> <p>The Commission is recommended to give follow-up to the Court's recommendations concerning the TEN-T programme. <i>(Paragraph 6.60)</i>.</p>	<p><i>Improvements to be introduced in the TEN-T programme</i></p> <p>The Commission has taken into account remarks from the Court and will make further improvements in the Commission decisions and through a TEN-T handbook that will be ready by the end of 2003.</p>
<i>Recommendation 73</i>	<i>Reply 73</i>
<p><i>Strengthening of external auditing to the RTD Framework Programmes</i></p> <p>The Commission is recommended to strengthen and increase the external audit functions of the Directorates-General operating the RTD Framework Programmes and achieve at</p>	<p><i>Strengthening of external auditing to the RTD Framework Programmes</i></p> <p>Controls are being stepped up. The Research DGs have moreover made specific mention of the fact in their action plan on action 1 of the synthesis annual activity report 2001.</p>

least their own targets in this respect. <i>(Paragraph 6.60)</i>	The Commission has recently published in the Official Journal S205 of 24/10/2003 a prior information notice on the external audit services. The idea is to strengthen external auditing by selecting an audit company that will do the audits for the research DGs in FP5 during three years with a foreseen budget of 15 Million EUR.
<i>Recommendation 74</i>	<i>Reply 74</i>
<i>Ensuring the quality of the audits performed by external firms</i> The Commission is recommended to reinforce its procedures for ensuring that the external audit firms perform the audits on the Commission's behalf to the highest professional standards. <i>(Paragraph 6.60)</i>	<i>Ensuring the quality of the audits performed by external firms</i> The Commission is continuing to monitor the quality of these audits. The same external audit firm is used by all Directorates-General and instructions to the audit firm and handbooks are provided by the Commission's services in a co-ordinated manner. At monthly progress meetings the quality of the external audit firm is monitored and directly discussed between Commission representatives of all Directorates-General concerned and the central management team of the external audit firm. If necessary, the handbooks are supplemented by the experience acquired.
<i>Recommendation 75</i>	<i>Reply 75</i>
<i>Follow-up of the Commission's own audit findings</i> The Commission is recommended to ensure adequate follow-up of the Commission's own audit findings. <i>(Paragraph 6.60)</i>	<i>Follow-up of the Commission's own audit findings</i> The Commission confirms that it is making every effort to ensure that action is taken on these audits as quickly as possible, in particular by improving the dissemination and implementation of audit results in the operational units in all DGs.
<i>Recommendation 76</i>	<i>Reply 76</i>
<i>LIFE Programme: clarifying its role</i> The Court recommends that: (a) the role of LIFE should be better clarified in the context of the multiannual environmental action programmes and its aims better defined and, if possible, quantified. <i>(Paragraph 6.72)</i> .	<i>LIFE Programme: clarifying its role</i> (a) The Commission intends to clarify the role of LIFE-Environment in relation to the sixth Environmental Action Programme (6th EAP). <i>(Paragraph 6.72)</i>
<i>Recommendation 77</i>	<i>Reply 77</i>
<i>LIFE Programme: centralised or separate management of the Nature and Environment strands</i> The Court recommends that: (b) the Commission should examine whether it would be expedient to separate the management of the 'Nature' and 'Environment' strands. <i>(Paragraph 6.72)</i>	<i>LIFE Programme: centralised or separate management of the Nature and Environment strands</i> (b) The Commission takes the view that since centralised management has been introduced the programme is better managed and sectoral results are starting to be achieved. <i>(Paragraph 6.72)</i>
<i>Recommendation 78</i>	<i>Reply 78</i>
<i>LIFE Programme: evaluation of proposals</i> The Court recommends that	<i>LIFE Programme: evaluation of proposals</i> c) The Commission applied a tender procedure whenever it

<p>(c) the evaluation of project proposals should be carried out by outside experts, selected by a public call-for-proposals procedure, for all the strands of the programme. <i>(Paragraph 6.72)</i></p>	<p>considered it necessary to use external experts. <i>(Paragraph 6.72)</i></p>
<p><i>Recommendation 79</i></p>	<p><i>Reply 79</i></p>
<p><i>LIFE Programme: definition of projects' eligible costs</i></p> <p>The Court recommends that:</p> <p>(d) the administrative provisions concerning the implementation of the actions should be reviewed in order to better define eligible costs, in particular as regards the accounting structure of projects, staff expenditure, depreciation and land purchases for LIFE Nature projects. <i>(Paragraphs 6.60 and 6.72)</i></p>	<p><i>LIFE Programme: definition of projects' eligible costs</i></p> <p>d) The Commission applied a tender procedure whenever it considered it necessary to use external experts. <i>(Paragraph 6.72)</i></p>
<p><i>Recommendation 80</i></p>	<p><i>Reply 80</i></p>
<p><i>LIFE Programme: stepping up on-the-spot checks</i></p> <p>The Court recommends that:</p> <p>(e) the Commission's on-the-spot checks should be stepped up, if need be by employing outside auditors. <i>(Paragraph 6.72)</i></p>	<p><i>LIFE Programme: stepping up on-the-spot checks</i></p> <p>(e) Apart from regular technical and financial monitoring visits (by technical / financial desks and external teams) as well as financial audits by DG Environment's Financial Unit, an external audit of the final statement of expenditure is obligatory for all projects funded under LIFE-III. <i>(Paragraph 6.72)</i></p>
<p><i>Recommendation 81</i></p>	<p><i>Reply 81</i></p>
<p><i>LIFE Programme: dissemination of project results</i></p> <p>The Court recommends that:</p> <p>(f) the results of the projects should be disseminated. <i>(Paragraph 6.72)</i></p>	<p><i>LIFE Programme: dissemination of project results</i></p> <p>(f) The communication strategy is being implemented and has already led to tangible results. <i>(Paragraph 6.72)</i></p>
<p><i>Recommendation 82</i></p>	<p><i>Reply 82</i></p>
<p><i>LIFE Programme: complementarity and double funding</i></p> <p>The risk of double financing persists. <i>(Paragraph 6.64)</i></p>	<p><i>LIFE Programme: complementarity and double funding</i></p> <p>The Commission makes every effort to reduce the risk of double funding mentioned by the Court, but, since it is aware of this problem and in the light of the Court's remark, it will examine whether other steps might be considered in order to obviate this risk even more. <i>(Paragraph 6.69)</i></p>

EXTERNAL ACTIONS

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>The establishment of a methodological framework and of an audit strategy will be continued in 2004 within the annual audit plan 2004. Priority will be given to fine-tuning a risk assessment model, setting up a clear organisational framework for audit-related tasks at headquarters and in delegations, completing the audit-related information system and to training. Moreover, instructions are being drafted, in order to improve the quality and content of reports by Delegations and Directorates on the management of external assistance.</p>	

<i>Recommendation 83</i>	<i>Reply 83</i>
<p><i>Common approach for the use of independent external auditors</i></p> <p>The Commission should develop a common approach for the use of independent external auditors. The Commission or its Delegations, and not the implementing organisations, should have the final say in selecting the external auditors and should provide them with detailed terms of reference and reporting requirements for the assignments. The auditors should be required to assess the internal controls of the implementing organisations and if appropriate make recommendations for improvements. Audit reports should be available in time for such improvements to be made without delay, and for Delegations to take appropriate actions regarding any findings (<i>paragraph 7.44</i>).</p>	<p><i>Common approach for the use of independent external auditors</i></p> <p>The Commission is using independent auditors at two distinct levels.</p> <p>“Certification audits” provide assurance that expenditure, at the level of implementing organisations, is legal and regular. Some improvements have been made to increase their value (see 7.18.). Further improvements to the system are being made in particular to improve the quality control in relation to such audits.</p> <p>The use of external auditors for audits under the supervision of EuropeAid Co-operation Office or of the delegations already fulfils the requirements defined by the Court. These audits, where applicable, should also provide evidence as to the reliability of audit certificates and the effectiveness of the audits relating thereto.</p> <p>Both instruments should be considered as complementary.</p> <p>Without prejudice to the need and the value of systems audits in view of issuing an audit certificate, the timing for an audit on the functioning of internal control systems is different to the timing of a certification audit. Usually such an audit should be launched in an early phase of the project's lifecycle in order to formulate recommendations to be implemented in time.</p> <p>EuropeAid Co-operation Office will, however, consider the Court's recommendation on the occasion of the development of its methodological framework.</p> <p>It should be noted that EuropeAid Co-operation Office's new framework contracts for the mobilisation of external auditors by headquarters or delegations actually provide a distinct lot for systems.</p> <p>The Commission welcomes the Court's suggestion and will examine ways to develop this common approach based on shared principles that still allow each service the flexibility to meet its operational needs. It will also review the</p>

	possibilities and practicalities or having the external auditors assess the internal controls of implementing organisations that do not fall into the scope of framework partnerships as determined by article 163 of the implementing rules. (paragraph 7.44)
<i>Recommendation 84</i>	<i>Reply 84</i>
<i>Key elements to be include in the Directorates' and Delegations' reports</i> The reports of Directorates and Delegations should include a specific section highlighting key elements which could contribute to the judgement of the Director General as to whether the control procedures have ensured the legality and regularity of underlying transactions, particularly at the level of implementing organisations (including for instance information about the coverage achieved by external audits carried out on behalf of the Community, the findings in audit reports and the follow-up of such findings). (paragraph 7.45)	<i>Key elements to be include in the Directorates' and Delegations' reports</i> The Commission will take the necessary steps to implement this recommendation. Guidelines for the Delegations' External Assistance Management Reports will be published soon. Instructions for directorates' reports will be issued on January 2004. (Paragraph 7.45).
<i>Recommendation 85</i>	<i>Reply 85</i>
<i>EuropeAid Cooperation Office in 2002 Audit</i> A balanced combination of checks, reviews, inspections, audits by external firms and internal audits had not yet been established by EuropeAid Cooperation Office in 2002 as part of a coherent overall strategy to ensure control over the legality and regularity of operations financed by the Community at the level of implementing organisations. (paragraph 7.40)	<i>EuropeAid Cooperation Office in 2002 Audit</i> The Commission accepts the need for a clearer strategy on audits and has taken steps in this direction. In particular the strategy on audits carried out under the direct supervision of headquarters or delegations requires further development taking into account audits to be carried out at the initiative of the project or the programme and usually with a view to a payment to be made. The new approach on audit complements various existing and planned checks on budgetary transactions, (paragraph 7.40) (see also reply on paragraph 7.25.).
<i>Recommendation 86</i>	<i>Reply 86</i>
<i>Tacis CBC budget</i> Up until 2003 the Tacis CBC budget remained below its original 1996 budget of €30 million. However, in 2003 the budget was increased to €35 million. This and any further increases in the budget need to be accompanied by corresponding efforts to improve the limited absorption capacity which exists in most eligible border regions. (paragraph 7.52)	<i>Tacis CBC budget</i> A Capacity Building project with a budget of €1.8 million is planned from the Action Programme 2003. This project is expected to enhance the regional absorption capacity in Russia for the Tacis CBC SPF. It will be co-ordinated with the various other on-going activities in this field, notably actions funded by the Nordic Council of Ministers. (paragraph 7.52)
<i>Recommendation 87</i>	<i>Reply 87</i>
<i>Tacis CBC programme (Special Report 11 /2001 :Tacis CBC budget</i> Up until 2003 the Tacis CBC budget remained below its original 1996 budget of €30 million. However, in 2003 the budget was increased to €35 million. This and any further increases in the budget need to be accompanied by corresponding efforts to improve the limited absorption capacity which exists in most eligible border regions.	<i>Tacis CBC programme (Special Report 11 /2001: Tacis CBC budget</i> A Capacity Building project with a budget of €1.8 million is planned from the Action Programme 2003. This project is expected to enhance the regional absorption capacity in Russia for the Tacis CBC SPF. It will be co-ordinated with the various other on-going

<i>(paragraph 7.52)</i>	activities in this field, notably actions funded by the Nordic Council of Ministers. <i>(paragraph 7.52)</i>
<i>Recommendation 88</i>	<i>Reply 88</i>
<i>Tacis CBC programme (Special Report 11 /2001: Tacis CBC budget allocation</i> The Tacis CBC budget should be divided up and allocated to each of the Tacis border regions which is associated with an Interreg programme in Finland and the new Member States ⁶ . <i>(paragraph 7.58)</i>	<i>Tacis CBC programme (Special Report 11 /2001: Tacis CBC budget allocation</i> Following the NNI communication the Tacis Neighbourhood Project Facility will be divided up and allocated to the Neighbourhood Programmes. <i>(paragraph 7.58)</i>
<i>Recommendation 89</i>	<i>Reply 89</i>
<i>Tacis CBC programme (Special Report 11 /2001 :Joint management structures</i> For each of these Tacis border regions, joint cooperation committees should be established made up of national and regional representatives from both the Tacis country and the neighbouring Member State. <i>(paragraph 7.58)</i>	<i>Tacis CBC programme (Special Report 11 /2001 :Joint management structures</i> The bordering NIS regions will be participating fully in the joint management structures of the Neighbourhood Programmes. <i>(paragraph 7.58)</i>
<i>Recommendation 90</i>	<i>Reply 90</i>
<i>Tacis CBC programme (Special Report 11 /2001 :Joint cross-border programming documents</i> As well as selecting and monitoring projects these committees should establish joint cross-border programming documents, including common development strategies and priorities for the regions on either side of the border. <i>(paragraph 7.58)</i>	<i>Tacis CBC programme (Special Report 11 /2001 :Joint cross-border programming documents</i> This will be done, as stated in the NNI communication. <i>(paragraph 7.58)</i>
<i>Recommendation 91</i>	<i>Reply 91</i>
<i>Tacis CBC programme (Special Report 11 /2001 :Capacity building in the regions eligible for Tacis CBC</i> In addition, a higher priority should be given to regional capacity building in the regions eligible for Tacis CBC. <i>(paragraph 7.59)</i>	<i>Tacis CBC programme (Special Report 11 /2001 :Capacity building in the regions eligible for Tacis CBC</i> In order to increase capacity building in the regions eligible for Tacis CBC the Commission is in the process of preparing the Terms of Reference for a tender to be launched in the beginning of 2004. <i>(paragraph 7.59)</i>
<i>Recommendation 92</i>	<i>Reply 92</i>
<i>Special Report on Food Security: concept to be integrated in the Commission's overall development policy</i> a) The concept of food security should be fully integrated in the Commission's overall development policy, and single overall strategies and programmes should be developed for and by the recipient countries. <i>(paragraph 7.71)</i>	<i>Special Report on Food Security: concept to be integrated in the Commission's overall development policy</i> a) In the latest programming exercise, food security issues have been taken into account much more systematically by recipient countries as part of their overall poverty reduction and development strategies. <i>(paragraph 7.71)</i>
<i>Recommendation 93</i>	<i>Reply 93</i>

⁶ In the case of Moldova and southern Ukraine, allocations should be for cross-border cooperation with Romania, which will continue to be eligible for the PHARE CBC programme.

<p><i>Special Report on Food Security: discontinuing of Regulation No 1292/96</i></p> <p>b) Consideration should be given, in the context of the new evaluation of food security support, to discontinuing Regulation No 1292/96 in its present form and to integrating all development actions, including those on food security, in a limited number of comprehensive Regulations. Consequently, the structure of the budget headings for food aid and humanitarian aid under B-7 (external actions) should be modified (<i>paragraph 7.71</i>)</p>	<p><i>Special Report on Food Security: discontinuing of Regulation No 1292/96</i></p> <p>b) The Commission does not share the Court's conclusion that "Regulation 1292/96 in its present form" should be discontinued at this point in time.</p> <p>Communication COM (2001) 473 and Council Conclusions 15390/01:</p> <ul style="list-style-type: none"> - acknowledge that Regulation 1292/96 has a distinct role (see comments under section 33) and should be maintained at this point in time; - propose to carry out a second more in-depth evaluation in 2004 to look at the broader conceptual and strategic development framework in which Commission's support to food aid and food security is provided. <p>The Commission takes note of the Court's recommendation. Consideration is being given to that issue in the context of the in-depth evaluation, which will be finalised by the beginning of 2004. (<i>paragraph 7.71</i>)</p>
<p><i>Recommendation 94</i></p>	<p><i>Reply 94</i></p>
<p><i>Special Report on Food Security: Commission's support to developing countries produce information on socio-economic household situations</i></p> <p>c) The Commission should consider supporting developing countries to ensure that reliable base-line information is produced on socio-economic household situations. Indicators on food security should be developed with other donors. (<i>paragraph 7.71</i>)</p>	<p><i>Special Report on Food Security: Commission's support to developing countries produce information on socio-economic household situations</i></p> <p>c) Financing of information systems for the Commission's food aid strategy continues to be a priority. Ownership by government is still a tricky problem. In some countries financing is provided by national budgets.</p> <p>There is a pressing need to enhance, in a sustainable manner, developing countries' capacity for poverty and food security analysis as the first step to formulating comprehensive national development strategies. (<i>paragraph 7.71</i>)</p>
<p><i>Recommendation 95</i></p>	<p><i>Reply 95</i></p>
<p><i>Special Report on Food Security: capacity building and institutional support to beneficiary countries</i></p> <p>d) The Commission should continue to focus its efforts on capacity building and institutional support to beneficiary country's central and local services. (<i>paragraph 7.71</i>)</p>	<p><i>Special Report on Food Security: capacity building and institutional support to beneficiary countries</i></p> <p>d) The Commission shares the Court's analysis and the main thrust of its recommendations, which in fact form part of the Community's guiding principles for development co-operation. We must, however, recognise that the political, social and economic environment in developing countries determines the limits of what can be achieved. (<i>paragraph 7.71</i>)</p>
<p><i>Recommendation 96</i></p>	<p><i>Reply 96</i></p>
<p><i>Special Report on Effectiveness of the Commission's management of development assistance to India in targeting the poor and ensuring sustainable benefits</i></p> <p>"Targeting the poor" as well as "sustainability" should be given more systematic attention throughout the life of a</p>	<p><i>Special Report on Effectiveness of the Commission's management of development assistance to India in targeting the poor and ensuring sustainable benefits</i></p> <p>Since 1992 the Commission has used the 'Methodological Guide' and other project cycle tools such as the logical</p>

project/programme. (paragraph 7.78)	framework approach. It is therefore now standard practice to build sustainability aspects (including exit strategies) into EC development projects and programmes. (paragraph 7.78)
<i>Recommendation 97</i>	<i>Reply 97</i>
<p><i>Special Report on Effectiveness of the Commission's management of development assistance to India in targeting the poor and ensuring sustainable benefits</i></p> <p>When considering contributing to a sector programme through budget support, the Commission should ensure that the direction on public finance taken by the country concerned is satisfactory. If improvements are not realised, the Commission should consider other forms of support. (paragraph 7.78)</p>	<p><i>Special Report on Effectiveness of the Commission's management of development assistance to India in targeting the poor and ensuring sustainable benefits</i></p> <p>The Commission agrees with the Court's recommendation, which is being implemented under the guidelines for EC support to sector programmes adopted in March 2002. (paragraph 7.78)</p>
<i>Recommendation 98</i>	<i>Reply 98</i>
<p><i>Special Report on Effectiveness of the Commission's management of development assistance to India in targeting the poor and ensuring sustainable benefits</i></p> <p>The Commission could make its new EC country strategy more comprehensive by also addressing, important issues like agriculture and natural resources management. (paragraph 7.78)</p>	<p><i>Special Report on Effectiveness of the Commission's management of development assistance to India in targeting the poor and ensuring sustainable benefits</i></p> <p>The Commission considers that there are strong reasons for concentrating its resources on the Health and Education Sectors. In addition, the future State Partnerships that the Commission intends to develop should provide a broad reform package which could add a rural and natural resources dimension to the education and health activities. (paragraph 7.78)</p>

ENLARGEMENT

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>The Court's audit of external actions in 2002 focused essentially on an assessment of the supervisory systems and controls put in place in the Commission. The Court advocates strengthening certain procedures (PHARE), improving audit methodology (ISPA), undertaking a programme of systematic audits (SAPARD) and, with regard to PHARE/ISPA tendering, improving instructions, selection criteria, documentation of checks and transparency of the evaluation process. The Commission has already taken steps in 2003 with a view to meeting the Court's concerns. Other improvements recommended by the Court are in progress.</p>	

<i>Recommendation 99</i>	<i>Reply 99</i>
<p>PHARE: Strengthening of procedures for payment requests</p> <p>The Delegations should strengthen the procedure for endorsing payments requests from National Funds for transfers of funds (<i>paragraphs 8.5., 8.46. and 8.50.</i>).</p>	<p>PHARE: Strengthening of procedures for payment requests</p> <p>A document detailing those aspects that are to be checked is being drafted to ensure that in future the Delegations deal with payment applications in a more systematic and unified manner by end 2003 (<i>paragraph 8.5., 8.46. and 8.50.</i>).</p>
<i>Recommendation 100</i>	<i>Reply 100</i>
<p>PHARE: closure of audits</p> <p>The Commission should reduce the backlog in closure audits. (<i>paragraphs 8.6. to 8.9., 8.46. and 8.50.</i>)</p>	<p>PHARE: closure of audits</p> <p>The Commission is reviewing the closure audit strategy on the basis of the results to date and, in the light of experience, taking into account cost effectiveness, will update this strategy as necessary by end 2004. (<i>Paragraphs 8.46. and 8.50.</i>).</p>
<i>Recommendation 101</i>	<i>Reply 101</i>
<p>PHARE: control of national co-financing</p> <p>The Commission should improve the control of national co-financing (<i>paragraphs 8.10., 8.11., 8.34., 8.35, 8.46. and 8.50.</i>)</p>	<p>PHARE: control of national co-financing</p> <p>Co-financing is now controlled with each payment request and if needed, remedial action will be taken before projects expire. (<i>Paragraphs 8.35., 8.46. and 8.50.</i>)</p>
<i>Recommendation 102</i>	<i>Reply 102</i>
<p>PHARE: improvement of audits' reporting and analysis</p> <p>The Commission should improve the reporting and analysis of audits carried out by Candidate Countries (<i>8.12., 8.46 and 8.50.</i>).</p>	<p>PHARE: improvement of audits' reporting and analysis</p> <p>The Commission has already taken steps to ensure the fulfilment of obligations in this regard, i. e. the programmes' final declarations must contain details on audits and their findings (<i>8.12., 8.46. and 8.50.</i>)</p>
<i>Recommendation 103</i>	<i>Reply 103</i>
<p>ISPA: audit work</p> <p>The audit questionnaires did not cover all the systems and bodies involved, did not provide adequate guidance as to the</p>	<p>ISPA: audit work</p> <p>For subsequent audit work for which testing will be systematically carried out, the questionnaires will be further</p>

<p>necessity or to the extent of testing, and a complete and sufficiently descriptive audit programme was not prepared. (Paragraphs 8.19., 8.47. and 8.50.) In some cases the audit work should be more adequately documented: for example, applicable audit questionnaires should be filled in. (paragraph 8.21.)</p>	<p>developed in line with the suggestion of the Court and the work to be carried out defined in more detail. In subsequent audit work the questionnaires will be completed for the audit file and the Commission will take account of the other relevant points raised by the Court. (Paragraphs 8.19, 8.21, 8.47 and 8.51.)</p>
<p><i>Recommendation 104</i></p>	<p><i>Reply 104</i></p>
<p>Commission's audits relating to SAPARD: staff and financial aspects</p> <p>The Commission's audits should include checking staffing, testing the procedures laid down in the SAPARD legal basis for depositing funds in the SAPARD euro account, checking that normal commercial conditions are obtained and checking the procedures relating to the booking of interest in the accounts. (paragraphs 8.26, 8.27. and 8.50.)</p>	<p>Commission's audits relating to SAPARD: staff and financial aspects</p> <p>The work consisting of auditing the balances on the accounts (which represented advance payments) the interest earned and its booking in the accounts will be repeated in 2003.</p> <p>The position is that 5 conformity audits have been carried out in 2003 covering inter alia staffing questions. We could therefore say that conformity audits have begun in 2003.</p> <p>In the framework of the financial clearance of the 2002 SAPARD accounts the attention of the certifying bodies have been drawn on the following aspects:</p> <p>(a) Certifying Body should verify existence and efficiency of procedures of the Paying Agency laid down in order to avoid overlapping/double funding with other community and national support funding.</p> <p>(b) Certifying Body should verify existence of a procedure at the National Fund for checking on regular basis if the interest rate for the SAPARD EUR account is earned under normal commercial conditions. This should include:</p> <ol style="list-style-type: none"> 1. Comparison with rates and conditions offered by other banks, 2. Negotiations on rates for large amounts, 3. Periodical review of the agreement with the bank holding SAPARD EUR account, 4. Review of conditions for unused amounts. <p>The clearance of SAPARD accounts is foreseen, of course, also for 2003 as this is a requirement of the relevant regulations. (paragraphs 8.26., 8.27. and 8.50.)</p>
<p><i>Recommendation 105</i></p>	<p><i>Reply 105</i></p>
<p>Commission's audits relating to SAPARD: scope and quantity of checks</p> <p>The Commission should perform more checks –including ex-post ones - to determine whether the systems set up prevent double funding of projects using aid from PHARE or from national sources, and whether these systems cover the economy and cost-effectiveness of projects. The Commission should also ensure that these issues are also covered by audits of the Certifying Bodies. (Paragraphs</p>	<p>Commission's audits relating to SAPARD: scope and quantity of checks</p> <p>Future Commission audits will examine that Candidate Countries' checks are reliable and working satisfactorily. The Commission will particularly insist on the relevant ex-post checks to be made by those countries. Future conformity audits will include detailed checks on the different matters raised by the Court. At the seminar on 7 and 8 November 2002 on the certification of the accounts of the SAPARD</p>

8.28., 8.29. and 8.49.)	Agencies, the Commission presented "Guidelines for the SAPARD certification audit – Model of report for the certifying bodies", which cover most of the points raised by the Court. The certification reports for the 2002 accounts took account of those guidelines. A programme of systematic compliance audits is planned. It will cover the issues raised. However the Commission does not believe that Certifying Bodies should cover staff changes in the financial accounting clearance exercise. Conformity audits have begun and are covering inter alia staffing questions. (Paragraphs 8.28., 8.29. and 8.49).
<i>Recommendation 106</i>	<i>Reply 106</i>
<p><i>PHARE and ISPA tendering and contracting procedures</i></p> <p>The evaluation reports provide a detailed view of the whole process with the exception that in the case of the more complicated evaluation criteria, there were in some cases insufficient justification of the individual evaluators' opinion. Proper justification would enhance the transparency of the evaluation process and clarify the basis for the proposal to award the contract. (Paragraph 8.40)</p>	<p><i>PHARE and ISPA tendering and contracting procedures</i></p> <p>In the case of ISPA, evaluators are requested to provide full justification of the final result of the evaluation. Incomplete evaluation reports are rejected by the Delegations. The PRAG and FIDIC rules are generic and apply to many situations. This means that judgement must be exercised by Delegations in regard to their application (which could differ significantly depending on particular circumstances). Support, such as training, is provided by the Commission, as appropriate. The Commission is committed to a transparent evaluation process and to the proper recording of decisions of the Evaluation Committee. (Paragraph 8.40)</p> <p>These elements are being covered by conformity audits, which began in September 2003. Ex-post checks of double funding are being demanded in cases where a risk is identified</p>
<i>Recommendation 107</i>	<i>Reply 107</i>
<p><i>PHARE and ISPA tendering and contracting procedures</i></p> <p>The Commission should improve the instructions for seeking clarifications in tender evaluations and simplify the selection criteria in tendering. The checks carried out by the Delegations at each stage of the procurement process should be better documented. The transparency of the evaluation process should be improved by providing better justification of the evaluators' opinion on the more complicated evaluation criteria. (Paragraph 8.50).</p>	<p><i>PHARE and ISPA tendering and contracting procedures</i></p> <p>As regards clarifications during tender evaluations, the Practical Guide (PRAG) clearly states the reasons and the procedures for requesting clarifications. The Commission has, on the basis of on the spot audits carried out in 2002, clarified what is expected from Delegations and in particular circulated checklists for the assessment of documents submitted by national authorities. (Paragraph 8.50.)</p>
<i>Recommendation 108</i>	<i>Reply 108</i>
<p><i>Improvement of supervisory systems and controls in the field of pre-accession</i></p> <p>The Court's audits of payments in the field of pre-accession measures did not reveal material errors. However, there is a need to improve the supervisory systems and controls in order to limit the risk of affecting the legality and regularity of underlying transactions. (Paragraph 8.45.)</p>	<p><i>Improvement of supervisory systems and controls in the field of pre-accession</i></p> <p>The Commission is tightening up its controls, carrying out further training measures and issuing instructions to Delegations (ongoing). (Paragraph 8.45.)</p>
<i>Recommendation 109</i>	<i>Reply 109</i>
<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i>	<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i>

Concerning the follow-up of the special report N° 5/1999 on PHARE Cross-Border Cooperation (CBC), the Commission should provide institution building support to border regions in Candidate Countries which have not been eligible for PHARE CBC but will be eligible for INTERREG. (8.57.)	Both the Phare 2003 National Programmes and the "Phare 2003 External Borders Initiative" provide for institution-building support to help acceding countries to prepare for Interreg programmes in future "internal" and "external" borders. (8.57.)
<i>Recommendation 110</i>	<i>Reply 110</i>
<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i> Consideration should be given to modify the PHARE CBC Regulation, which after the next enlargement will continue to apply to Bulgaria and Romania, to allow CBC funding in all border regions. (8.57.)	<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i> The modification of the Phare CBC Regulation to extend, its geographical scope, as of 2004, to Bulgaria's and Romania's borders with adjacent NIS and Balkans countries and to the Bulgarian-Turkish border, is already underway. (8.57.)
<i>Recommendation 111</i>	<i>Reply 111</i>
<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i> In order to increase the impact of recommendation n° 9, a specific TACIS CBC Regulation based on the PHARE CBC Regulation should be considered. (8.57.)	<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i> With the Commission's adoption of the Communication "Paving the Way for a New Neighbourhood Instrument" on 1 July 2003, in 2004-06 the Commission will introduce Neighbourhood Programmes covering the external border of the enlarged EU. These programmes will improve coordination between various instruments (Interreg, Phare CBC, Tacis CBC, CARDS, MEDA) and increase the effectiveness of co-operation without the need for new legislation. (8.57.)
<i>Recommendation 112</i>	<i>Reply 112</i>
<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i> The Commission should consider drawing up a similar CBC Regulation for countries which are beneficiaries of the CARDS programme, since no strategy or programme has yet been developed in this area, although the CARDS Regulation does refer to the possibility of funding cross-border projects. (8.57.)	<i>Follow-up of Special Report N° 5/1999 on PHARE CBC</i> The CARDS regional programme foresees an Integrated Border Management component which aims, inter alia, to foster a) Border control, b) Trade facilitation and c) Border Region Cooperation. The latter addresses cooperation between neighbouring CARDS countries' regions and between CARDS countries' regions bordering current and prospective Member States. Moreover, with adoption of the Communication "Paving the Way for a New Neighbourhood Instrument" on 1 July 2003, the Commission will introduce in 2004-06 Neighbourhood Programmes based on current INTERREG and Phare CBC programmes. These programmes will improve coordination between various instruments (Interreg, Phare CBC, Tacis CBC, CARDS, MEDA) and increase the effectiveness of co-operation without the need for new legislation. (8.57.)
<i>Recommendation 113</i>	<i>Reply 113</i>
<i>Special report PHARE and ISPA funding of environmental projects in Candidate Countries</i> The report's recommendations identified a number of further steps to be taken by the Commission to address the continued significant need for institution-building, to target scarce grant financing more effectively and to increase absorption capacity. (8.64.)	<i>Special report PHARE and ISPA funding of environmental projects in Candidate Countries</i> With a few exceptions, the Commission's own findings and assessment agree with the Court's recommendations, and as early as 2000 the Commission launched a number of initiatives to address these shortcomings. These efforts have produced results, as is shown by the acceleration of payments, which doubled between 2001 and 2002. The

	speeding up of payments was noted positively by the European Parliament. (8.64.)
<i>Recommendation 114</i>	<i>Reply 114</i>
<i>Special report Twinning: rate of delivery</i> The rate of delivery should be increased by a real results-orientated approach. The basic components needed for effective implementing capacity should be better identified and the objectives for individual projects should be defined more realistically and precisely. (8.71.)	<i>Special report Twinning: rate of delivery</i> While the recommendation is supported, Twinning projects are different from supply or investment agreements. This is due primarily to the fact that meeting Twinning objectives is significantly more dependent upon the timely outcome of exogenous and complex political or institutional decision making, including legislative processes and final configuration of structures and designation of institutional responsibilities. (8.72.)
<i>Recommendation 115</i>	<i>Reply 115</i>
<i>Special report Twinning: rapidity of the procedure</i> The different stages, from needs assessment up to project realisation, should be completed more quickly and be less bureaucratic. (8.71.)	<i>Special report Twinning: rapidity of the procedure</i> The Twinning manual now provides for a general deadline of six months between selection and start of the project. All other procedural deadlines, including those set for Twinning Steering committee proceedings do not exceed ten working days. (8.71.)
<i>Recommendation 116</i>	<i>Reply 116</i>
<i>Special report Twinning: simplification of payment procedure</i> Twinning payment procedures should be simplified and speeded up. (8.71.)	<i>Special report Twinning: simplification of payment procedure</i> The Commission is taking steps to ensure simplification of payment procedures by mid 2004. (8.72.)
<i>Recommendation 117</i>	<i>Reply 117</i>
<i>Special report Twinning: use of fixed-price/lump-sum contracts</i> The use of fixed-price or lump-sum contracts requiring specified deliverables should be considered. (8.71.)	<i>Special report Twinning: use of fixed-price/lump-sum contracts</i> This recommendation would not be practical in all situations since the financing of Twinning projects is based on recovery of expenses incurred by administrations or mandated bodies. (8.71.)
<i>Recommendation 118</i>	<i>Reply 118</i>
<i>Special report Twinning: discriminated use</i> The use of Twinning should be the result of a conscious choice between different instruments: the Commission should increase its efforts to ensure the most appropriate mix of the different instruments available for institution-building. (8.71.)	<i>Special report Twinning: discriminated use</i> The identification and design of Institution-building Twinning projects is the result of a well-balanced process and dialogue between the Commission and the Candidate Country under the final scrutiny and approval of the Phare Management Committee. Proper programming is of the utmost importance and this has been duly stressed in the Phare Programming guidelines at least since 2000. (8.71.)

<i>Recommendation 119</i>	<i>Reply 119</i>
<p><i>Special report Twinning: network of Pre-Accession Advisers</i></p> <p>The Commission should create a network of Pre-Accession Advisers (PAAs) to safeguard the store of specific knowledge, to spread good practice and to reduce the risk of errors recurring. (8.71.)</p>	<p><i>Special report Twinning: network of Pre-Accession Advisers</i></p> <p>The Commission welcomes this suggestion and is prepared to refine its database where all the professional data and contacts of PAAs are already held so that a network could be set up during 2004. (8.71.)</p>

ADMINISTRATIVE EXPENDITURE

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary (not complete)	
<p>After carrying out its Internal Control and Risk Self-Assessment, the Commission has analysed the risks and weaknesses at the level of the internal control system and on 16 April 2003 adopted an action plan for its further improvement.</p> <p>In the course of 2003, the existing software application (VAP) will be gradually replaced by a new system (NAP) which will interface directly with Sysper. A working group has been established to make sure that a procedure is defined whereby data will always be checked by a second person, in full compliance with the Financial Regulation.</p> <p>The recommendations of the Court regarding surveillance systems have been taken on board and the Commission will:</p> <ul style="list-style-type: none"> – continue documenting procedures and developing guidance; – monitor the segregation of duties; – review the system of ex post controls of financial transactions; – give special attention to the management of recoveries and decommitments; – review the format and contents of the reports by sub-delegates; – remind and inform sub-delegates of their duties. <p>An evaluation report on the management of leave and absence already produced will be discussed by management so as to identify the necessary measures to be taken.</p>	

<p><i>Recommendation 120</i></p> <p>Internal control system</p> <p>The Commission's reform provided for the operation of Financial Control during 2002 to be complemented by the setting up of supervisory systems and controls at the level of the authorising officers. As a part of this a risk-analysis based on self-assessments by authorising officers by sub-delegation and other management staff was carried out. However, for several of the management systems in Directorate-General for Personnel and Administration there were no confirmation of these assessments by means of an audit. Further, although the Director-General mandated an adviser to monitor the implementation of the Internal Control Standards (ICS), there was no comprehensive analysis of whether the standards were implemented adequately and across all systems. (Paragraph 9.6)</p>	<p><i>Reply 120</i></p> <p>Internal control system</p> <p>If there is no evidence that the risks are properly managed by line management, DG ADMIN Internal Audit Capability concentrates in the first instance on the highest risks as identified by the assessment and the Directorate-General for Personnel and Administration will subsequently adapt its risk analysis.</p> <p>Since the Internal Control and Risk Self Assessment, the Directorate-General for Personnel and Administration has analysed the risks and weaknesses, and on 16 April 2003 adopted an action plan for the further improvement of the internal control system. (Paragraph 9.6)</p>
<p><i>Recommendation 121</i></p> <p>Staff remuneration paid</p> <p>The system of internal controls relating to staff remuneration paid in Brussels showed that:</p> <p>-there should be documental evidence of a systematic analysis of the reasons of monthly variations in the total amount paid;</p> <p>-inadequate supervision of the records entered in Sysper, the</p>	<p><i>Reply 121</i></p> <p>Staff remuneration paid</p> <p>A monthly report on variations in individual salary payments 20% above the previous payment produced by the software application (VAP, gradually replaced by NAP) is analysed by the responsible sector. These variations are controlled for possible anomalies.</p> <p>- All data entered (including modifications) by the unit or sector responsible for establishing the rights, are checked by another unit or sector when the Sysper decisions are entered</p>

<p>computer system dealing with the staff personal data. (Paragraph 9.8)</p>	<p>into VAP. Data entered into VAP (including corrections) are always checked by another person. It is only this data entry into VAP which leads to the payment of the individual entitlements.</p> <p>In the course of 2003, VAP will be replaced by a new system which will interface directly with Sysper. The procedure for checking data entered into Sysper will therefore have to be reviewed. A working group has been established to make sure that a procedure is defined whereby data will always be checked by a second person, in full compliance with the Financial Regulation. (Paragraph 9.8)</p>
<p><i>Recommendation 122</i></p>	<p><i>Reply 122</i></p>
<p>Description of the procedures</p> <p>As a complete description was not drawn up of the procedures in operation ensuring, within each Directorate, the legality and regularity of transactions, the Court considers that the authorising officers by subdelegation were not in a position to provide the Director-General with precise information about the operation of their internal control systems. (paragraph 9.27)</p>	<p>Description of the procedures</p> <p>Although the description of the procedures is one of the Internal Control Standards, and one of the objectives is to complete it as soon and cost-effectively as possible, the following points need to be made:</p> <ul style="list-style-type: none"> - a manual of financial procedures exists and is available on the intranet; - training of nearly all authorising officials by subdelegation (i.e. those with important budgets) took place in late 2002 about the new financial regulations; - thrice yearly reports are addressed to the Director-General by all subdelegates and are analysed by the Resource Directorate; - preparatory meetings between Directors and the Annual Activity Report preparation team take place, and subsequently, bilateral meetings between the Director-General and the Directors. (paragraph 9.27)
<p><i>Recommendation 123</i></p>	<p><i>Reply 123</i></p>
<p>Supervisory systems</p> <p>The Court's audit found no important failures of the systems or other material errors affecting the legality and regularity of administrative expenditure. The Court recommends that, in the framework of the enforcement of the new Financial Regulation, attention be specifically paid to the reinforcement of the authorising officers' supervisory systems and controls (paragraph 9.28).</p>	<p>Supervisory systems</p> <p>The recommendations of the Court have been taken on board. In particular,</p> <ul style="list-style-type: none"> - documenting procedures and developing guidance will continue, in particular as regards the new Financial Regulation; - the segregation of duties, though fully in place at this moment, will be constantly monitored ; - the system of ex post controls of financial transactions, put in place as of 1.1.2003, will be reviewed in the light of the experience over the first half of 2003; - special attention will be given to the management of recoveries and decommitments;

	<ul style="list-style-type: none"> – the format and contents of the reports by sub-delegates will be reviewed in the light of 18 months of experience; – sub-delegates will be reminded and informed of their duties in respect of recording and correcting internal control weaknesses and of exception reporting (in this respect two notes were issued on 23 June 2003), ex ante controls (including an assessment of the workflows), legality and regularity (paragraph 9.28).
<i>Recommendation 124</i>	<i>Reply 124</i>
<p><i>Invalidity pensions scheme</i></p> <p>The audit found scope for financial savings through the adoption of adequate administrative measures for prevention and early treatment of invalidity cases (<i>Paragraph 9.44</i>).</p>	<p><i>Invalidity pensions scheme</i></p> <p>The Commission is of the opinion that the measures concerning harassment which are being investigated, the pilot experiments in family support, and also some aspects of reform (clearer definition of objectives and better career planning) will contribute to a better working climate and motivation, and thereby avoid, as stated by the Court, a number of invalidity retirements. All this notwithstanding, quick results are not to be expected in this area (<i>Paragraph 9.44</i>).</p> <p>An evaluation report on the management of leave and absence was produced in June 2003 and will be discussed by management in the autumn so as to identify the necessary measures to be taken (<i>Paragraph 9.42</i>).</p>
<i>Recommendation 125</i>	<i>Reply 125</i>
<p><i>Audit of the satellite bodies</i></p> <p>The Commission and the SBs should take the opportunity offered by the introduction of the new framework Financial Regulation to reconsider, adapt and improve their accounting data systems. Harmonisation of their accounting systems and practices should be a priority, particularly with a view to consolidating the SBs' accounts with those of the Commission (<i>Paragraph 9.49</i>).</p>	<p><i>Audit of the satellite bodies</i></p> <p>As part of the ongoing project to modernise the Commission's accounting systems, this consolidation is planned to be first implemented for the accounts of 2005 (<i>Paragraph 9.49</i>).</p>

FINANCIAL INSTRUMENTS

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>In the area of banking activities, the Commission has established an internal control and management system designed to confront the particular questions that are specific to that area. Nevertheless, according to the Court, the reliability and exhaustiveness of financial and management information supplied by third parties should be taken into account in DG ECFIN's risk inventory, in accordance with the Commission's internal control standards. The banking operations that fall within ECFIN-L's responsibility (principally, the borrowing and lending operations in the name of the EC, the EAEC and the ECSC in liquidation) as well as the relevant treasury operation are not subject to <i>ex post</i> checks by a unit external to ECFIN-L directorate. The Commission replies that the data on EIB lending covered by the Community guarantee are supplied to the Commission by the EIB's accounting service which is itself subject to audit. Nevertheless, the Commission will examine with the EIB whether, and in what way, further assurance may be given on the reliability of the data. Concerning other third parties such as EBRD and Council of Europe Development Bank, the Commission considers that the risk concerning the quality and exhaustiveness of the information supplied by them is relatively low.</p> <p>As stated in the reply to paragraph 10.10, the forthcoming internal audit of the banking operations under the direct responsibility of the Commission will address the need for any changes in the control environment, including <i>ex post</i> controls.</p> <p>With regard to the EEA Financial Mechanism the Court considers that a number of improvements in control procedures are still necessary. Final payments should only be carried out on the basis of appropriate certificates issued by the competent authorities of the Member States. The Commission should play a more active role in order to ensure that the European rules on competition and tendering are respected and that assistance is given to projects which would otherwise not be implemented. In cooperation with the EIB, the Commission - if needed with the assistance of the EIB - will seek to address the Court's observations.</p>	

<i>Recommendation 126</i>	<i>Reply 126</i>
<p><i>Implementation of Internal Control Standards</i></p> <p>All minimum internal control standards (ICS) should be fully implemented (<i>paragraph 10.5.</i>)</p>	<p><i>Implementation of Internal Control Standards</i></p> <p>The current updating exercise will take into account the requirements of the internal control standards (ICS). (<i>Paragraph 10.5.</i>)</p>
<i>Recommendation 127</i>	<i>Reply 128</i>
<p><i>Updating of Commission's manual of procedures</i></p> <p>Internal control procedures laid down in manual of procedures have to be updated to take into account DG ECFIN's restructuring. (<i>Paragraph 10.6.</i>)</p>	<p><i>Updating of Commission's manual of procedures</i></p> <p>The current updating exercise will take into account the impact of restructuring, where appropriate. (<i>Paragraph 10.6.</i>)</p>
<i>Recommendation 129</i>	<i>Reply 129</i>
<p><i>Audits by DG ECFIN Internal Audit Capability</i></p> <p>DG ECFIN Internal Audit Capability should audit related treasury transactions as often as possible. (<i>Paragraph 10.7.</i>)</p>	<p><i>Audits by DG ECFIN Internal Audit Capability</i></p> <p>The "Internal Audit Capability" (IAC) audit, which is being carried out and which should be published in the first quarter of 2004, provides for an audit of banking operations and related treasury activities in 2003 based on a risk assessment exercise which takes into account annual audits carried out by the ECA and an external firm of accountants. (<i>Paragraph</i></p>

	10.7.)
<i>Recommendation 130</i>	<i>Reply 130</i>
<p><i>Extension of the scope of risk inventory</i></p> <p>The risk inventory should be extended to cover the quality and exhaustiveness of the information supplied by third parties concerning the activities managed by them on the Commission's account in accordance with the requirements laid down in the Internal Control Standards (ICS) adopted by the Commission. <i>(Paragraph 10.9.)</i></p>	<p><i>Extension of the scope of risk inventory</i></p> <p>The Commission considers that the risk concerning the quality and exhaustiveness of the information supplied by them is relatively low. <i>(Paragraph 10.9.)</i></p>
<i>Recommendation 131</i>	<i>Reply 131</i>
<p><i>Checks by a unit outside ECFIN-L Directorate</i></p> <p>The banking operations, the related treasury transactions and associated risks are neither subject to checks at directorate general level by a unit outside ECFIN-L Directorate. <i>(Paragraph 10.10.)</i></p>	<p><i>Checks by a unit outside ECFIN-L Directorate</i></p> <p>The forthcoming internal audit of banking operations under the direct responsibility of the Commission will address the need for any changes in the control environment, including ex post controls. <i>(Paragraph 10.10.)</i></p>
<i>Recommendation 132</i>	<i>Reply 132</i>
<p><i>Security of IT system/ Loans & borrowings for ECSC</i></p> <p>The Commission should address existing weaknesses affecting the security and reliability of the IT system such as the failure to change passwords, no regular control of access rights and the absence of regular reporting. <i>(Paragraph 10.21.)</i></p>	<p><i>Security of IT system/ Loans & borrowings for ECSC</i></p> <p>The recommendation on the password change policy has already been implemented for the Globus system. A regular review of access rights for the IT system is performed by the Local Informatics Security Officer.</p> <p>A plan in line with the migration process to a new office computing platform (ETP) within the Commission has been established to deal with the remaining observations and recommendations in the report of the private external auditors before end 2003 and, in particular, addressing the reporting issue. <i>(Paragraph 10.21.)</i></p>
<i>Recommendation 133</i>	<i>Reply 133</i>
<p><i>Financial forecasts relating to the EEA Financial Mechanism</i></p> <p>As regards the liquidity of EEA Financial Mechanism, financial forecasts should be reliable. <i>(Paragraph 10.29.)</i></p>	<p><i>Financial forecasts relating to the EEA Financial Mechanism</i></p> <p>The Commission is continually seeking with the EIB to improve the quality of the forecasts for disbursements. There are frequent contacts between the services involved for this purpose. <i>(Paragraph 10.29.)</i></p>
<i>Recommendation 134</i>	<i>Reply 134</i>
<p><i>Checks before final disbursement</i></p> <p>Either the Commission (or the EIB or national authorities) should check at the date of final disbursement that the ceilings are complied with in relation to the expenditure actually declared. <i>(Paragraph 10.30.)</i></p>	<p><i>Checks before final disbursement</i></p> <p>The Commission will examine with the EIB whether the checking of compliance with grant ceilings at the time of the final disbursement needs to be tightened up. <i>(Paragraph 10.30.)</i></p>

<i>Recommendation 135</i>	<i>Reply 135</i>
<p><i>EEA Financial mechanism: certification</i></p> <p>In the context of the EEA Financial mechanism certification by the competent authorities of Member States or by competent auditors should be always required which is not foreseen by the current rules. <i>(Points 10.33., 10.35. and 10.40.)</i></p>	<p><i>EEA Financial mechanism: certification</i></p> <p>The Commission will examine with the EIB whether the rules in this area need to be tightened up. <i>(Points 10.33., 10.35. and 10.40.)</i></p>
<i>Recommendation 136</i>	<i>Reply 136</i>
<p><i>EEA Financial mechanism: enforcement of non-discrimination principles rules</i></p> <p>For a case in Galicia, the Commission is invited to avoid that preferences for national products be set which are not in line with the Treaty and Article 20 of the Protocol on the Statute of the European Investment Bank. <i>(Points 10.34. and 10.40.)</i></p>	<p><i>EEA Financial mechanism: enforcement of non-discrimination principles rules</i></p> <p>The Commission will further examine with the EIB whether the alleged breach can be substantiated and, if so, will take the appropriate action. <i>(Paragraph 10.34.)</i></p>
<i>Recommendation 137</i>	<i>Reply 137</i>
<p><i>EEA Financial mechanism: Protection of environment</i></p> <p>In some cases unused building material and rubbish are left in the landscape or dumped into the sea, as was the case in front of the Dochiariou monastery (Mount Athos), where building work supported by the Financial Mechanism was carried out. In the context of the extension of the Port of Piraeus, for substantive building works, rocks from a hill on the Island of Salamis were used, causing environmental damage. So far, this environmental damage has not been made good. <i>(Paragraph 10.39. and 10.40.)</i></p>	<p><i>EEA Financial mechanism: Protection of environment</i></p> <p>The Commission will examine with the EIB whether any further action is necessary to ensure proper protection of the environment in connection with the work on funded projects. <i>(Paragraph 10.39.)</i></p>

EUROPEAN DEVELOPMENT FUND (EDF)

Recommendations of the European Court of Auditors	Commission's replies and schedule
Summary	
<p>The Commission continues its efforts to meet the recommendations regarding the reinforcement of internal controls, the various aspects of financial management of the EDF highlighted in the Court's Annual report, such as the speed of closure of dormant commitments, the better identification of budgetary support measures in EDF accounts, and the inclusion of the EDF in the modernisation of the Accounting System of the Commission. A Communication on the inclusion of the EDF in the EU budget was presented in October 2003.</p>	

<i>Recommendation 138</i>	<i>Reply 138</i>
<p><i>Early implementation of the Cotonou Agreement</i></p> <p>Generally speaking, the complicated situation arising from the implementation of the Cotonou Agreement in advance, (because the agreement has not yet entered into force), using allocations belonging to the eighth EDF, is an argument in favour of perhaps seeking a different legal framework. This alternative legal framework should try to avoid the transitional problems associated with the setting-up of new EDFs and allow uninterrupted implementation of the agreements reached with ACP States. <i>(Paragraph 10)</i></p>	<p><i>Early implementation of the Cotonou Agreement</i></p> <p>Commitments made under the transitional measures complied with Cotonou programming but came under Lomé rules.</p> <p>Future revenue and expenditure accounts will continue to present eighth EDF resources implemented on the basis of Cotonou programming. <i>(Paragraph 10)</i></p>
<i>Recommendation 139</i>	<i>Reply 139</i>
<p><i>Entry of the EDF in the budget</i></p> <p>One solution might be to include the EDFs in the budget. <i>(Paragraph 10)</i>.</p>	<p><i>Entry of the EDF in the budget</i></p> <p>The Commission has undertaken to submit a communication on the advantages and drawbacks of EDF budgeting in the course of the year.</p> <p>The Commission adopted a Communication on integration of the EDF in the budget on 8 October (COM (2003) 590 final). Discussions on the idea with the various parties concerned (EP, Council and ACP countries) are continuing. The Communication contains a road map outlining the measures to be taken and the agenda should the parties concerned agree on the entry of the EDF in the budget some time after 2006. <i>(Paragraph 10)</i></p>
<i>Recommendation 140</i>	<i>Reply 140</i>
<p><i>Identification and closure of dormant commitments</i></p> <p>The Commission must take steps to speed up the identification and closure of dormant commitments, and to analyse the justification for commitments which date from before 1997 and have still not resulted in payments. <i>(Paragraph 13)</i></p>	<p><i>Identification and closure of dormant commitments</i></p> <p>At the beginning of the year the Commission held seminars with all the delegations to make a detailed analysis of the whole commitments portfolio and identified all problematic commitments (dormant, old etc.). Following this analysis, it was decided what action to take to close projects that needed closing. <i>(Paragraph 13)</i></p>

<i>Recommendation 141</i>	<i>Reply 141</i>
<p><i>Identification of budgetary aid in the accounts</i></p> <p>Budgetary aid is difficult to identify in the accounts as it is drawn from several financial instruments. The financial statements or the analysis of financial management should give a precise indication of the volume of this aid (about €550 million in primary commitments in 2002 to compare with the €404.3 million shown in the accounts under structural adjustment and macroeconomic support), including sums still to be called up at the end of the financial year. (Paragraph 16)</p>	<p><i>Identification of budgetary aid in the accounts</i></p> <p>The ninth EDF chart of accounts has a code to identify all budgetary support operations.</p> <p>The revenue and expenditure accounts give this information for the eighth EDF resources used in Cotonou programming. (Paragraph 16)</p>
<i>Recommendation 142</i>	<i>Reply 142</i>
<p><i>Closer check of the reality of implementation of the operations financed</i></p> <p>To create a sound basis for an evaluation of the legality and regularity of the underlying transactions, AIDCO must specifically focus on the reality of the implementation of these transactions. (Paragraph 25)</p>	<p><i>Closer check of the reality of implementation of the operations financed</i></p> <p>The Community's development activities on the ground are constantly monitored and supervised by the delegations and headquarters. This is done through project visits, implementation reports, mid-term reviews, audits, and financial and contractual information.</p> <p>All this provides the authorising officer by delegation with the necessary information on which to base his judgment.</p> <p>Risk management, given the variety of risks, cannot rely on this or that element in the information/control system, it depends on the right balance between all of them. (Paragraph 25)</p>
<i>Recommendation 143</i>	<i>Reply 143</i>
<p><i>Inclusion of the EDF in the accounting modernisation</i></p> <p>In addition, the Court recommends that the Commission consider any solution that allows the EDF to be included in the accounting tools modernisation programme undertaken by the Commission. In the same context, it is also recommended that the respective responsibilities of the Directorate-General for the Budget and the EuropeAid Cooperation Office be clarified as regards such a modernisation programme for the EDF. (Paragraph 26)</p>	<p><i>Inclusion of the EDF in the accounting modernisation</i></p> <p>The priority the Commission attaches to this question is reflected both in the Commission's Synthesis Report on the 2002 AAR and in the Progress Report concerning the modernisation of the Accounting System of the European Commission presented to the Commission on 8 July 2003.</p> <p>A feasibility study has been launched in September 2003 on the replacement of OLAS by an accounting system similar to the one to be introduced for the general budget. (Paragraph 26)</p>
<i>Recommendation 144</i>	<i>Reply 144</i>
<p><i>Tightening up control procedures</i></p> <p>The errors relating to the substance of payments concerned: works, supplies or services which, to a minor extent, were not fully provided (for example books missing from a delivery);</p> <p>items reimbursed not foreseen in the contract (for example</p>	<p><i>Tightening up control procedures</i></p> <p>The Commission believes that it has given the Court all the information necessary to explain these apparent anomalies. The example referred to by the Court (books missing from delivery) was an isolated incident, duly explained by the Commission delegation. So the Court's remarks concern a special case.</p> <p>The Court acknowledges that these anomalies are marginal in</p>

<p>concerning price revision);</p> <p>advances made without the required justification;</p> <p>repayment of the sums deducted as a guarantee before the contractor had fulfilled all required conditions (for example production of a final report); and</p> <p>failure to deduct amounts agreed as a guarantee (for example a 10 % retention sum).</p> <p>These errors are marginal. They are accompanied by a series of more common errors relating to the implementation of procedures whose possible impact on the substance of payments is difficult to assess. Taken together they indicate the areas where internal control of the EDF needs to be strengthened as a matter of priority. <i>(Points 36-37)</i></p>	<p>the context of the whole. The Commission will take due note of the Court's remarks concerning the strengthening of internal controls. <i>(Points 36-37)</i></p>
<p><i>Recommendation 145</i></p>	<p><i>Reply 145</i></p>
<p><i>Technical support for works contracts financed by the EDF</i></p> <p>The European Community and the ACP States should exercise better control over the implementation of works contracts financed by the EDF and, in particular, should reduce the extent of the noted divergence between contracts and the degree to which they are actually performed. It would thus be advisable for the Commission to increase the support it provides to ACP States at the stages where contracts are drawn up and their implementation monitored. <i>(Paragraph 56)</i></p>	<p><i>Technical support for works contracts financed by the EDF</i></p> <p>a) The Commission's procedures for engaging consultants were completely revised in 2000, in a way which should improve quality and performance. It is the responsibility of the Contracting Agency (usually the government) to pursue any action necessary in relation to professional negligence.</p> <p>b) The Commission already examines carefully the issues listed by the Court when a variation on the original contract is asked for by the Contractor. It will try to ensure that existing guidance on documenting the reasons for the relevant analysis is fully respected.</p> <p>c) The reorganisation, decided in February 2003, is currently being implemented. <i>(Paragraph 56)</i></p>

EUROPEAN COAL AND STEEL COMMUNITY (ECSC)

Recommendations of the European Court of Auditors

Commission's replies and schedule

Summary

In its last annual report on the ECSC, the Court pays tribute to all those who devised and implemented this first European Community. The Court will continue to keep a close watch, in its general annual report, on the operations of the ECSC in liquidation and on the constitution and management of the new Coal and Steel Research Fund. In order to monitor revenue from financing research, the Commission will study the possibility of setting up an inventory of patents filed by firms and research institutes which have received ECSC funding.

<i>Recommendation 146</i>	<i>Reply 146</i>
<p><i>Administrative reorganisation</i></p> <p>One of the requirements of the Commission reform launched in 2000, which concerns the application of the principle that management and control functions should be separate⁷, has not yet been implemented by the departments responsible for redeployment aid and research aid. (Paragraph 21)</p> <p>Management of the operations of the ECSC in liquidation is the Commission's responsibility. At the time of the audit, no department had yet been designated to provide the administrative organisation for technical and financial management of the research projects concerning the ECSC in liquidation. (Paragraph 22)</p>	<p><i>Administrative reorganisation</i></p> <p>At the end of December 2002 the Commission changed the way it organises research programme management. Since then the management and control functions have been separate. (Paragraph 21-22)</p>
<i>Recommendation 147</i>	<i>Reply 147</i>
<p><i>Revenue from financing research</i></p> <p>The ECSC has not established a system for keeping an inventory of any patents that may have been filed by firms and research institutes which have received ECSC aid. Recognition of the ECSC's rights as regards these patents is explicitly provided for in Annexes III and IV to the contracts signed between the Commission and the aid beneficiaries. (Paragraph 24)</p>	<p><i>Revenue from financing research</i></p> <p>The Commission takes note of the Court's observation and will study the possibility of setting up an inventory of patents filed by these organisations. (Paragraph 24)</p>

⁷ COM (2000) 200 final 2, 5 April 2000.