

Special Report

**2014 report on the
follow-up of the European
Court of Auditors'
Special Reports**



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(pursuant to Article 287(4), second subparagraph, TFEU)

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was produced by the CEAD Chamber (Coordination, Evaluation, Assurance, and Development) - headed by ECA Member Igors Ludboržs.

The audit was led by John Sweeney, principal manager and Csaba Hatvani, head of task, with support and contributions from Neil Usher, director; Philippe Froidure, director; Paul Stafford, principal manager; Emmanuel Rauch, principal manager; Jukka Nurmio, Elisabeth Türk-Saggel, Eddy Struyvelt, Katja Mattfolk, Hubert Deville, Stéphane Clot, Ivo Koppelmaa, Ramona Bortnowschi, Carlos Sanchez Rivero, Jesús Nieto Muñoz, Maciej Szymura, Niels Sorensen, Alison Ballantine-Smith, Danielle Pottier, Gediminas Macys, and Shane Enright.

The responsible reporting Member for this task was ECA Member Kevin Cardiff.



From left to right: K. Cardiff, J. Sweeney, H. Deville, Cs. Hatvani, J. Nurmio.

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Reply of the Commission

Acronyms and abbreviations

ABAC: The Commission's Accrual Based Accounting system

CH: Chamber

CRIS: Common External Relations Information System

EDF: European Development Fund

IAS: Internal Audit Service of the Commission

LISO: Local Information Security Officer

MMO: Milk Market Observatory

MS: Member State

PETRA: Project Expense Time Reporting Application

POSEI: Programme d'Options Spécifiques à l'Éloignement et l'Insularité - The EU's outermost regions benefit from the POSEI arrangements in the agricultural sector

RAD: Recommendations, Actions, Discharge - an IT tool for monitoring

SAM: State Aid Modernisation project

SARI: State Aid Reporting Interface

SR: Special Report

TFEU: Treaty on the Functioning of the European Union

I
This report presents the results of our fourth review of the Commission's follow-up of our recommendations made in previous Special Reports (SRs). After the 2011 (SR 19/2012) and the 2012 (SR 19/2013) consolidated reports on the same subject, in 2013 the results were summarised in paragraphs 10.53 to 10.55 of the Annual report.

II
We assessed whether the Commission had taken the necessary actions to adequately manage and follow-up the Court's recommendations by addressing two sub-questions: Had the Commission adequately addressed the audit recommendations in the selected SRs, and was the Commission's follow-up system robust?

III
We included an examination of the Commission's follow-up of a sample of 44 recommendations from eight of our SRs from the period 2009-2012. For these recommendations we assessed the current state of play and the related Commission's management information.

IV
Our review showed that the Commission has fully implemented 60 % of the Court's recommendations, while 29 % were implemented in most respects, 8 % in some respects, and 3 % were not implemented.

V
The Commission has made some improvements to its system and procedures for follow-up, in particular as regards design, information, compliance, and user-friendliness of the follow-up IT application. However, the system currently does not fully ensure a sufficient audit trail of actions taken, nor provide for an internal assessment of the adequacy of these actions, and the monitoring of partially implemented recommendations.

VI
In light of the shortcomings identified in the Commission's current follow-up system, and the Commission's previous acknowledgment of the need for improvements, the Commission should carry out the necessary improvements (SR 19/2013) in order to bring its practices into line with the relevant internal control standards.

01

According to international auditing standards, the follow-up of audit reports is the final stage in the performance audit cycle of planning, execution and follow-up. Following up performance audit reports is a necessary element in the cycle of accountability and encourages the Commission's effective implementation of our recommendations.

02

This is the third consolidated report on follow-up by the Court. Observations from the 2013 follow-up exercise were published in summary form within the 2013 annual report.

03

Our first follow-up report in 2012 (SR 19/2012) observed that the follow-up of our audit recommendations by the Commission needed strengthening. Our second follow-up report in 2013 (SR 19/2013) recommended that the Commission should refine its IT tool for monitoring, the 'RAD' (Recommendations, Actions, Discharge) application to better reflect recommendations that had only been partially implemented.

04

This current report presents the results of our 2014 review of the Commission's follow-up of recommendations made in our previous SRs, as well as changes made to the RAD application.

05

Our objectives were two-fold: (a) to carry out a limited review of follow-up actions taken by the Commission on a sample of the Court's SRs recommendations, and (b) to perform an audit to assess if the Commission's follow-up system (technical and procedural) is robust, by verifying the adequacy and reliability of the current system and identifying areas for improvement.

06

The audit of the Commission's system examined the modifications made to the system (RAD) since our last review in 2012. We also compared the operations and features of the RAD system and those of other follow-up systems within the Commission services, with the aim of identifying good practices.

07

The purpose of our review of the follow-up actions on our previous recommendations was to determine the state of play, the timeliness of their implementation, and outstanding and/or new relevant issues (if any), which need to be addressed. Eight SRs were selected firstly on the basis of whether at least two years had elapsed since their publication, so that the Commission would have sufficient time to address the recommendations, and secondly by reference to the continued relevance of the recommendations. The reports included in this review are presented in **Table 1**.

08

When assessing the implementation status of recommendations, we use the following categories: fully implemented, met in most respects, met in some respects, not implemented, could not be verified, or no longer relevant.

Table 1

List of selected Special Reports

No	Report No	Title
1	SR 14/2009	Have the management instruments applied to the market in milk and milk products achieved their main objectives?
2	SR 6/2010	Has the reform of the sugar market achieved its main objectives?
3	SR 10/2010	Specific measures for agriculture in favour of the outermost regions of the Union and the smaller Aegean islands
4	SR 25/2012	Are tools in place to monitor the effectiveness of European Social Fund spending on older workers?
5	SR 3/2011	The efficiency and effectiveness of EU contributions channelled through United Nations Organisations in conflict-affected countries
6	SR 1/2012	Effectiveness of European Union development aid for food security in sub-Saharan Africa
7	SR 5/2012	The Common External Relations Information System (CRIS)
8	SR 15/2011	Do the Commission's procedures ensure effective management of State aid control?

The Commission's implementation of 44 recommendations

Introduction

09

This section presents the results of the Court's review of the Commission's implementation of a sample of 44 recommendations from the eight selected SRs issued by the Court in the period 2009-2012. **Annex I** shows the result of the assessment of each of the 44 recommendations examined, while **Annexes II to IX** provide a brief summary of the relevant audits, the recommendations, the subsequent follow-up actions taken by the Commission, and any remaining issues which need to be addressed.

10

Of the 44 recommendations examined three recommendations were no longer relevant¹ and follow-up actions for three recommendations could not be verified, as the necessary evidence was only or mostly available at Member State level².

11

Of the remaining 38 recommendations which could be assessed, we found that the Commission had fully implemented 60 % of our recommendations³, 29 % were implemented in most respects, 8 % in some respects, and 3 % were not implemented.

Improvements in financial management have resulted from the implementation of recommendations, however some challenges for further developments remain

12

The following are examples of improvements achieved and remaining challenges arising from actions taken on our audit recommendations.

- 1 In the case of Recommendation 1 of SR 6/2010 the sugar quota regime will end in 2016/2017, in the case of Recommendation 3 of SR 5/2012, a new, different IT strategy was adopted by the Commission, and in the case of Recommendation 1 of SR 5/2012 CRIS will be replaced by ABAC Accounting.
- 2 Recommendation 3 of SR 10/2010 and Recommendations 5 and 6 of SR 6/2010.
- 3 This includes a recommendation (SR 15/2011 No 11) which was originally rejected by the Commission.

Box 1

Improved regulation and monitoring (see Annex II and III)

Better regulation and closer monitoring were noted in the milk and sugar sectors. In the milk market, progressive deregulation, coupled with the Commission's supervision and a toolbox of measures made available to the Member States, has enabled the EU milk production to better respond to demand on the market and contributed to the avoidance of a return to subsidised, structural overproduction. In the short term, however, milk producers may still face volatility in demand and prices. Whilst the Commission continues to monitor milk and sugar prices closely, its influence on these prices is limited.

The Commission's implementation of 44 recommendations

Box 2

Better data quality

- (a) Providing sufficient information and training to officials of the UN and the Commission who are responsible for EU programmes is essential. For example, following our recommendations relevant actors of food security measures are now informed and trained on a regular basis on issues concerning the fight against hunger (see **Annex VII**). In addition, information on the costs incurred by channelling funding through UN Organisations in conflict-affected countries is now also provided, in order to allow the cost-effectiveness of funding channels to be considered for future actions (see **Annex VI**).
- (b) Data management is becoming increasingly important in the management of EU policies and programmes. For example,
 - (i) concerning the Common External Relations Information System (CRIS), which is an information system put in place by the Commission to support the management of external actions, data quality controls were reinforced and responsibilities for the management of data security were clarified (see **Annex VIII**);
 - (ii) State Aid control is currently better equipped with IT systems, taking into account the enhanced Project Expense Time Reporting Application (PETRA) for time and management reporting and the State Aid Reporting Interface (SARI) as a tool of communication between Member States and the Commission, which has been operational since 2012 (see **Annex IX**).

Box 3

Improved performance information

- (a) Some performance management systems concerning the POSEI/Aegean programmes, programmes for unemployed older workers and in the field of food security have been significantly improved by the use of mandatory performance indicators in the Member States's annual reporting.

However, providing sufficient and consistently reliable data presents challenges for Member States (see **Annexes IV, V, and VII**).

- (b) In the area of food security (see **Annex VII**), 50 detailed country profiles now give a global overview of each country, with indicators covering the context of the food security. Furthermore, for programmes addressing the needs of older workers (see **Annex V**), the Commission has improved the documentation of its checks by introducing newly created 2014-20 checklists, thus improving the documentation and coverage of actions;
- (c) We recommended improvements in reporting obligations on EU contributions channelled through UN Organisations, including SMART indicators, comparative reports, detailed work plans, and understandable detailed budgets. These are now provided for in 'Joint Guidelines' issued in 2011 (see **Annex VI**).

Audit of the Commission's follow-up systems and procedures

Introduction

13

Under the Commission's Internal Control Standards⁴ (ICS) management is required to set up supervisory measures to ensure that the implementation of activities is running efficiently and effectively while complying with applicable provisions (ICS 9 Management Supervision). This includes the following requirements:

- (a) Management is required to keep track of main issues and ensure the follow-up of accepted audit and other recommendations. Management supervision covers both legality and regularity aspects and operational performance and includes supervision of external bodies entrusted with the budget implementation tasks;
- (b) The Director-Generals are required to inform the responsible Commissioner of any potentially significant issues related to internal control and audit [...] as well as material budgetary and financial issues that might have an impact [...] or on the sound management of appropriations or which could hamper the attainment of the objectives set.

14

The standard also identifies the following criteria among others that management may want to consider when assessing control effectiveness:

- (a) whether there is a systematic follow-up of significant issues identified through the supervisory activities;
- (b) if implementing bodies are responsible for carrying out actions (e.g. in Member States or agencies), whether appropriate supervision or follow-up has been established by the responsible Commission service.

15

The International Standards for the Professional Practice of Internal Auditing⁵ also provide in their practice advisory guidance that internal auditors 'evaluate the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others'.

- 4 Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. <http://www.coso.org/resources.htm> (Committee of Sponsoring Organizations of the Treadway Commission). The Commission's internal control standards and underlying framework can be found in the following document: 'Communication on the revision of the Internal Control Standards and Underlying Framework - Strengthening Control Effectiveness (SEC(2007)1341)'.
- 5 International Standards for the Professional Practice of Internal Auditing (Standards). Primary Related Standard 2500.A1 and Practice Advisory 2500.A1.1: Follow-up process. The Internal Audit Service of the Commission carries out its work according to these standards.

Audit of the Commission's follow-up systems and procedures

Commission's internal control arrangements

16

The monitoring of the Court's recommendations, as required under ICS 9, falls in the first instance to the management itself. Information on the follow up of our recommendations and the requests of the discharge authority is entered by the Commission services into the RAD application, which serves as a basis for drafting the section of the annual activity report (AAR)⁶ dedicated to the follow up of recommendations and requests.

17

The Commission also prepares an annual report on the requests made by the European Parliament and the Council⁷ in their role as the discharge authority for the European Union's budget. Several Commission services⁸ also maintain local applications used to monitor audit recommendations and audit findings in their areas of responsibility (see paragraphs 24 to 25). The several modules of local applications help to facilitate the management (including planning, monitoring, reporting) and implementation of actions in response to recommendations and requests formulated by relevant actors (IAS, ECA, EP, COUNC) because they make the respective information and action plans for the DGs and services available in a single repository. They also support activities of internal control (related to the ICS) and ex-post control.

18

Up to March 2015 each DG was equipped with an Internal Audit capability (IAC) and an internal control coordinator, whose functions included informing the DG's management about the adequacy and progress of the actions undertaken to implement the Court's recommendations. In November 2014, the Commission decided to centralise its internal audit function and as a consequence the IACs were dismantled and the IAS became the sole internal audit function for the Commission and its Executive Agencies⁹.

6 http://ec.europa.eu/atwork/key-documents/index_en.htm

7 Article 166(2) of Regulation (EU, Euratom) N 966/2012 of the European Parliament and the Council of 25 October 2012 on the Financial rules applicable to the General Budget of the Union and repealing Council Regulation (EC, Euratom) N 1605/2002 (Financial Regulation) (OJ L 298, 26.10.2012, p. 1).

8 Including the IAS, DG Agriculture and Rural Development, DG Neighbourhood and Enlargement Negotiations and DG Research and Innovation.

9 http://ec.europa.eu/dgs/internal_audit/about/history/index_en.htm

Audit of the Commission's follow-up systems and procedures

The Commission has made some improvements to its system and procedures for follow-up but shortcomings remain

19

A well-managed management information system which records audit recommendations and follow-up actions should facilitate accountability to both external and internal stakeholders and monitor improvements to financial management. The information recorded should be reliable, priorities for action should be specified, and an audit trail should exist to provide evidence of the action taken, as well as instances where no, or limited action has been taken, and reasons for this, in order to allow management make an informed decision on assuming the risk of not implementing recommendations. It should also allow management to have a timely overview of issues raised by its auditors (both internal and external) in terms of risks and shortcomings identified and their recommended actions, and it should facilitate the follow up action taken by the responsible line managers, as well as the subsequent monitoring and verification of that action.

Adequacy and reliability of management information

20

The management information provided by RAD was generally reliable. However, in 11 out of 24 criteria (**Annex X**) we used to assess the effectiveness of the follow-up system, shortcomings were identified. These included:

- (a) In regard to the completeness of audit trails, we observed only a few cases where supporting documents (e.g. action plans on tasks to be achieved in response to the recommendation) were included in the database. This information is important as the Commission's replies published along with SRs may or may not indicate concrete actions to be taken in response to the recommendations;
- (b) While recommendations addressed to Member States are generally included in RAD, and are classified as either 'accepted' or 'rejected', they are not followed up by the Commission. In line with ICS 9 Management Supervision, where Member States and Agencies are responsible for taking action on our recommendations, appropriate supervision or follow-up should be established by the responsible Commission services;
- (c) Information contained in RAD may overestimate the extent of the implementation of the recommendations concerned¹⁰. For example, of the 39 recommendations referred to as 'done' in RAD, we considered 14 (36 %) as only partially implemented ('met in most respects' or 'met in some respects').

10 This discrepancy between the assessments of the Commission and the Court may be partially explained by the fact that RAD only contained four assessment categories prior to 2015. As a consequence partially implemented recommendations could not be recognised in the system.

Audit of the Commission's follow-up systems and procedures

(d) Except for high level information contained in the annual activity report (AAR)¹¹ of DGs, no reports and indicators are produced which provide concrete information as to the adequacy, effectiveness, or timeliness of actions taken on our audit recommendations, as recommended by internal auditing standards.

Monitoring of partially implemented recommendations

21

The Commission has taken several steps to improve the monitoring capability of the system, including the development of annual plans to monitor progress. In 2014 it introduced a new recommendation status 'Partially implemented'. However, the use of this category by Commission services currently remains limited.

22

Recommendations which have been assessed as 'partially implemented' by the Court but which are recorded as 'done' in RAD are not subsequently reopened and re-classified by the Commission. Furthermore, there is no procedure for assessing the continued relevance of old outstanding recommendations in the database. Accordingly, none of the 86 recommendations from the 21 SRs previously assessed by the Court as 'partially implemented' have had their status revised in RAD.

23

The Commission already acknowledged in its replies to our follow-up report in 2013 (SR 19/2013), the need to examine the possibility of harmonising the implementation assessment categories used by the Commission and the ECA and to further develop the RAD application in order to improve the information provided to management. Unfortunately, due to other priorities, the Commission has been unable to make progress in addressing these needs.

¹¹ and RAD Business Objects reports since June 2015.

Best practices regarding other systems and procedures

24

We carried out a systematic comparison of how recommendations from the Court and the IAS are processed by a number of Directorates General of the Commission in order to identify good practices. The exercise included an examination of follow-up systems and procedures for a sample of recommendations from audit reports in respect of six DGs: Agriculture and Rural Development, International Cooperation and Development, Employment, Social Affairs and Inclusion, Neighbourhood and Enlargement Negotiations, Regional and Urban Policy, and Research and Innovation, in order to compare systems' functionality¹². An overview of the functionalities of these systems is contained in **Box 4**.

25

These various follow-up systems of the Commission have been developed to take account of the individual and specific needs of the DGs concerned. In comparison with the RAD application, the review of the different systems highlighted the many good features they possess in supporting good accountability and governance requirements.

12 Only the Internal Control Management (ICM) of DG Agriculture and Rural Development contains the Court recommendations, there is a monthly data transfer from RAD.

Box 4

Examples of other follow-up systems of Commission services

- (a) The follow-up application used by the Commission's Internal Audit Service (IAS) 'GRC Issue Track' is a robust system which records all issues and continuously follows them up. Reporting is quarterly and the focus is on high-risk overdue issues. Action plans and all supporting documents are readily available in the system. Several reports exist, including the Annual Report of the Internal Auditor (ARIA), the IAS Annual Activity Report, and Audit Progress Committee reports. In the framework of the follow-up task, residual risk is re-assessed and the significance of the recommendation may be downgraded. The auditees are constantly reminded of the open issues, guaranteeing high visibility and regular follow-up.
- (b) The Commission (DG Agriculture and Rural Development) uses the Internal Control Management tool (ICM), which is a collaborative workspace. This allows monthly transfer of selected data from RAD. It has several advantages over RAD, including user-friendliness (both for auditors and managers), management of action plans and related actions, documentation of status by auditee and auditor, and several ready-made reports of expiring and overdue recommendations. ICM helps auditees to write clear, achievable, timed action plans. It also includes reports illustrating the state of play regarding recommendations of IAC, IAS and ECA audit as well as EP and Council requests. These reports are automatically refreshed daily, so they always contain the latest information.
- (c) DG Research and Innovation's 'ASUR' and DG Neighbourhood and Enlargement Negotiations's 'ARGO' systems have additional features to RAD. For example, a standard action plan is required and deadlines and supporting documents are well-managed. The systems each contain a module for planning and risk analysis, and are flexible, and highly customisable.

26

Our review of the Commission's follow-up of 44 recommendations from our SRs shows that the Commission has fully implemented 60 % of the Court's recommendations, while 29 % were implemented in most respects, and 8 % in some respects, and that this has contributed towards improving financial management in a number of areas of the EU budget (see paragraph 12) and (**Annexes II to IX**).

27

Our audit of the adequacy and reliability of the Commission's RAD application showed that the information contained in the RAD application was generally reliable. However, the application still displays shortcomings such as a lack of concrete information on actions taken (paragraph 20(a)); the absence of appropriate supervision or follow-up of recommendations where Member States are responsible for carrying out actions (paragraph 20(b)), and the lack of subsequent monitoring and revision of partially implemented recommendations (paragraph 20(c)).

28

The Commission needs a global view of actions taken in response to weaknesses identified by the Court and by the discharge authority who are engaged in control and oversight, in line with its internal control standard and best practice guidance of internal auditing. As previously acknowledged by the Commission, the categories for assessing the sufficiency of actions taken need to be harmonised and the RAD application developed in order to improve the information provided to management. Complementary to this, better follow-up leading to improved reporting on the adequacy and timeliness of corrective actions taken is needed and the Commission should designate a service to perform the work. If achieved, an improved follow up system would provide sufficient, reliable and pertinent information on improvements resulting from the Court's audit recommendations and thus contribute to the sound financial management of the EU budget.

29

In light of the shortcomings identified in the Commission's current follow-up system, and the Commission's previous acknowledgment of the need for improvements (SR 19/2013¹³), we recommend that the Commission should carry out the necessary improvements to its systems in order to bring its practices into line with the relevant internal control standards, including:

- (a) explaining and/or documenting the status of actions taken on the recommendations;
- (b) reviewing the actions of Member States and agencies in addressing our audit recommendations;
- (c) report more fully in the Annual Activity Reports or elsewhere on the actions taken in addressing recommendations;
- (d) reviewing recommendations assessed as partially implemented by the Court to reflect their actual status.

13 See paragraph VI from Executive Summary.

This Report was adopted by Chamber CEAD, headed by Mr Igors LUDBORŽS, Member of the Court of Auditors, in Luxembourg at its meeting of 19 January 2016.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

Overview of recommendations reviewed by the Court

SR	Per audit	Paragraph	RAD	Fully implemented	Implemented		Not implemented	Could not be verified	No longer relevant
					In most respects	In some respects			
SR 14/2009 Milk	1	66	Done	X					
	2	67	Done		X				
	3	69	Done		X				
	4	72	Done	X					
SR 6/2010 Sugar	1	99/1	Done						X
	2	99/2	Done	X					
	3	101	Done		X				
	4	102	Done		X				
	5	108	Rejected					X	
	6	108	Rejected					X	
SR 10/2010 Outermost	1	80	Done		X				
	2	81	Done	X					
	3	82	Done					X	
	4	83	Done		X				
	5	84	Done		X				
SR 25/2012 Older workers	1	62	Done		X				
	2	62	Done		X				
	3	63	Done	X					
	4	64	Done	X					
	5	64	Done	X					
SR 3/2011 UN	1	48	Done	X					
	2	50	Done	X					
	3	52	Done			X			
SR 1/2012 Food security	1	68	Done	X					
	2	68	Done	X					
	3	68	Done	X					
	4	68	Done	X					
	5	68	Done	X					
	6	68	Done	X					

SR	Per audit	Paragraph	RAD	Fully implemented	Implemented		Not implemented	Could not be verified	No longer relevant
					In most respects	In some respects			
SR 5/2012 CRIS	1	76	Done						X
	2	79	Done		X				
	3	80	Cancelled						X
	4	81	Done			X			
SR 15/2011 State aid	1	96a	Done	X					
	2	96b	Done	X					
	3	96c	Done	X					
	4	98a	Rejected				X		
	5	98b	Done	X					
	6	98c	Done		X				
	7	98d	Done	X					
	8	98e	Done	X					
	9	98f	Done	X					
	10	100a	Done			X			
	11	100b	Rejected	X					
TOTAL	44		44	23	11	3	1	3	3
ASSESSED	38			60 %	29 %	8 %	3 %		

Agriculture: management instruments applied to the market in milk and milk products

1. Special Report 14/2009 asked the question if the management instruments applied to the market in milk and milk products achieved their main objectives.

'Milk production is of major importance in the European Union's agricultural economy. More than one million producers supply 148 million tonnes of milk annually with an approximate value of 41 000 million euro at the farm gate. The milk processing sector (producing mainly cheese, butter and drinking milk) employs around 400 000 people and generates a turnover of 120 000 million euro.'

(Source: Press release ECA/09/63)

2. In this Special Report the European Court of Auditors reviews how effectively the European Commission managed the market for milk and milk products since the introduction of milk quotas in 1984, with reference to the main objectives of EU dairy policy. We also highlight the most critical issues to be considered in the progressive deregulation of the milk sector, which was started in 2003.
3. The EU's milk policy was designed to meet a complex range of objectives, in particular: (a) to reach a situation of market equilibrium, (b) to stabilise the prices of milk and milk products, (c) to ensure a fair standard of living for producers and (d) to improve competitiveness.

The Court's recommendations

Recommendation	Implementation status	The Court's assessment
<p>(1) The Commission must continue to supervise the development of the market in milk and milk products by implementing the measures required to make sure deregulation of the sector does not lead to the recurrence of overproduction. Failing this the Commission's objective of keeping to a minimum level of regulation, of the safety net type, might rapidly prove impossible to fulfil.</p>	Fully implemented	The deregulation of the market and the market oriented approach pursued by the Commission has enabled the EU milk production to better respond to demand on the market, and thereby contributed to Commission's objective to stabilise the milk and milk products market, and to avoid recurrence of overproduction, especially of a permanent structural, subsidised overproduction.
<p>(2) While acknowledging that price formation in the food sector is particularly complex, the Court considers that it must be subject to regular monitoring by the Commission. The Commission and the Member States must ensure that the concentration of processing and distribution companies does not reduce milk producers to mere price-takers and does not restrict the final consumer's possibility of enjoying an equitable share of price reductions.</p>	Implemented in most respects	As regards monitoring, the recently created Milk Market Observatory (MMO) is a comprehensive, easily accessible and useful source of the data concerning milk sector for all the stakeholders to use for monitoring, analysis and potential market interventions. Milk producers were provided with a toolbox of measures (for example, creating producer organisations) to strengthen their position in milk supply's chain to have a stronger impact on the producer prices. The first positive examples of making use of these opportunities have already been noted (e.g. in the 'Milk Package' implementation's report). However, we believe that the Commission could be more active in promoting the measures included in the 'Milk Package' oriented at reinforcing the milk producers' position in the milk supply chain, as current use of these measures remains limited. Another problem concerns the very limited influence that the Commission has on the consumer prices, due to a number of reasons such as the policy of market orientation, the complexity of the pricing in the sector, in particular dairy products and limited price transmission between milk producer price and dairy products consumer prices.
<p>(3) As far as the dairy sector is concerned, in practice both the former policy of price support and the current policy of direct income support lack regional and social focus. In view of the importance of milk production in the agricultural economy and its impact on the management of the countryside, the Court recommends that the Commission should intensify its reflection on the strategies to be applied to tackle:</p> <ul style="list-style-type: none"> ○ the specific problems of the regions in which milk production is, more vulnerable, in particular in mountainous areas; ○ the environmental consequences of the geographical concentration of milk production. 	Implemented in most respects	The Commission has focused on disadvantaged areas in agriculture and environmental aspects of the agricultural policy since the Court's SR14/2009. The EU legislative framework containing 'a toolbox' of legislative instruments for the Member States (MS) was maintained and developed (notably 'greening component') by the Commission. However, taking into account (a) a great number of dairy farms located in disadvantaged areas and possible serious unwanted consequences of the current and future structural adjustments in the sector, and (b) that the Commission left it to the discretion of MS to use the toolbox measures, we found that the risks identified in paragraph 69 of SR 14/2009 remain and the current policy framework might not suffice to maintain production in disadvantaged areas.
<p>(4) For the European milk sector, the world market will remain a secondary market to which it will only have access during periods when world prices are high. Only producers of cheeses and other products with high added value will be able to claim sustainable market shares. It is therefore indispensable for the Commission and the Member States to pursue their efforts to bring about a reorientation of milk production, primarily towards satisfying the needs of the European domestic market and also towards the production of cheeses and other products of high added value which can be exported without budgetary assistance.</p>	Fully implemented	Since SR 14/2009, as a result of growing world market demand and the EU's pursuit of market orientation policies, the EU has in the meantime become one of the world's leading exporters of milk products without export refunds.

Agriculture: reform of the sugar market

1. Special Report 6/2010 concerned the reform of the sugar market.

'The EU launched a major reform of its sugar sector in 2006 in order to increase market orientation and to stabilise the market while complying with international commitments. The European Court of Auditors has conducted an audit of the reform and concludes that, whereas the aim was to create an incentive for the least competitive sugar producers to give up their quotas, quotas were also abandoned by competitive factories. There is an increased dependence on imports while there are doubts as to whether the fall in prices will be passed on to final consumers and delays persist in implementing diversification and environmental measures. The Court also notes the increasing risk of displacement of production facilities. The sugar reform involved a price decrease as well as a 30 % reduction in production quotas, resulting in the closure of 80 factories. A restructuring fund and aid for diversification were intended to mitigate the social and economic impact of these measures. The Court's audit assessed the extent to which the objectives of the reform have been achieved to date.'

(Source: Press release ECA/10/30).

The Court's recommendations

2. The Court issued two recommendations to ensure competitiveness, another two to stabilise markets and guarantee the availability of supplies, and the last two to address and alleviate adaptation problems.

Recommendation	Implementation status	The Court's assessment
(1) The prevailing external pressures may require the Commission to propose further adjustments of internal production. In such a case, the Court recommends that instruments and measures should be designed so as to ensure overall consistency and be based on thorough technical assessments of needs and objective and non-discriminatory criteria.	No longer relevant	Recommendation 1 required further adjustments of internal production proposed by the Commission, due to external pressures. After the reform however, the Commission proposed no significant further adjustments of internal production and quota. However, the recommendation will be no longer relevant with the ending of sugar-quota regime in 2017.
(2) In view of the importance of sugar production in the agricultural economy, the Court recommends that the Commission proposes measures to remove the rigidities and constraints in the current quota system which affect adversely the competitiveness of growers and producers.	Fully implemented	The Commission's proposal in 2011 to end the quota system and all its rigidities and constraints was approved.
(3) The Court recommends that possible future decisions which impact EU sugar production take into account the level of internal sugar production which is considered necessary given the Treaty objective of assuring availability of supply.	Implemented in most respects	Regulation (EU) No 1308/2013 gives the Commission the legislative authority and tools to intervene in the market in case of over- or under-supply of sugar. Recent reports provide evidence that the Commission regularly monitors sugar production and consumption, imports and exports, and opening and closing sugar stocks in order to ensure availability of sugar supply on the EU market in accordance with the Treaty objectives. However, significant EU reliance on sugar imports was identified as the main factor that may affect the availability of sugar supply and EU market stability. Today, the EU continues to be a net importer and produces around 83 %-88 % of the EU consumption.
(4) While acknowledging that price formation in the food sector is particularly complex, the Court considers that it must be subject to regular monitoring by the Commission. The Commission and the Member States must ensure that competition law is correctly enforced in the sector thus ensuring the Treaty objective that supplies reach consumers at reasonable prices.	Implemented in most respects	The Commission monitors sugar prices on a monthly basis. There are no apparent issues regarding the reasonableness of sugar prices or availability of supply. The Commission also launched a study on price transmission in the sugar market. However, the Commission could have done more within its mandate to ensure that competition law is enforced, by following-up unusual low or high sugar prices, assessing the concentration of sugar producers and its impact on competition rules, reflecting on a strategy to improve vertical price transmission so that consumers can enjoy a reasonable share of any producers' price reductions.
(5) The Court recommends that the Commission and the Member States take urgent measures to ensure the diversification measures become rapidly operational and produce the intended impact to promote alternatives to sugar beet and sugar production.	Could not be verified	The Commission rejected Recommendations 5 and 6 on the grounds that the responsibility for (a) the implementation of the diversification measures and (b) ensuring compliance with environmental obligations following the closure of factories lies with the Member States, in line with the subsidiarity principle. The implementation status of these recommendations could not be verified due to the limited scope of the follow-up review related to MS.
(6) The Court recommends that the Commission and the Member States become more actively involved in ensuring that the environmental obligations entered into by the closed factories are fully complied with.	Could not be verified	

Agriculture: specific measures in favour of the outermost regions and Aegean islands

1. **Special Report 10/2010 concerned the implementation of the specific measures for agriculture in favour of the outermost regions of the Union and the Aegean islands.**
2. 'The specific measures for agriculture in favour of the outermost regions of the European Union and the smaller Aegean islands were created to take account of the regions' structural, social and economic situation.'
3. The European Court of Auditors has assessed the effectiveness of the specific measures after their reform in 2006.
4. The reform involved a shift towards greater regional participation, and to decentralisation and flexibility in decision-making, on the basis of programmes presented by Member States for approval by the European Commission.'

(Source: Press release ECA/10/39)

The Court's recommendations

5. We made two recommendations on response to specific needs, two on implementation of the 2006 Reform, and one on monitoring.

Recommendation	Implementation status	The Court's assessment
(1) For future programming of specific measures, the Commission should help the Member States draw up their programmes by promoting best practices and by defining a harmonised framework of indicators for monitoring programme performance. The indicators should at least include information about economic changes (e.g. production value and added value) and social changes (e.g. jobs created or preserved).	Implemented in most respects	In the context of helping the Member States, the Commission defined a framework of common indicators for monitoring the programme performance and included the list of performance indicators in community legislation in 2014. The current implementing regulations include harmonized common performance indicators relating to the objectives of the POSEI/Aegean programmes. Their use is mandatory in the MS annual reporting to the Commission of implementation of programmes (AIRs). However, MS have experienced difficulties in providing sufficient data related to all indicators, and the contents of all AIRs do not always follow the Commission's request in this respect. In general, no formal documentation of its further actions in spreading best practices was available.
(2) The Commission should reconsider the 1 August n-1 deadline for formally approving programme amendments so that the Member States possess reliable information on the previous year's expenditure when they are preparing amendments.	Fully implemented	MS can now propose amendments with a flexible procedure either postponing or completely removing the earlier 1st August N-1 deadline.
(3) The Member States should modify the measures concerned so as to rectify the weaknesses listed in paragraphs 44 to 67 by implementing the bottom-up approach in consultation with stakeholders on site. The Commission's evaluation report should also serve to identify ineffective measures whose design could be improved.	Could not be verified	Recommendation no 3 which was mostly addressed to the Member States, cannot be verified within the framework of a limited follow-up review at Commission level. However, the Commission's evaluation report identified measures that do not attain their objectives (§4.3.1) and proposed improvements to the MSs (chapter 8), as recommended by the Court.
(4) The Member States should devise control procedures that are suited to each type of measure. In particular, they must ensure that their system for identifying farmland is regularly updated. For its part, the Commission should ensure that these control procedures work effectively.	Implemented in most respects	The Commission's new multiannual programme for 2014-2017 includes at least two audits of POSEI/Aegean Islands' schemes every year, the new guidelines for the Member States to present control statistics in a more transparent way, and the Commission's ongoing exercise of collecting information and carrying out a desk review of the control procedures for POSEI and Aegean Islands' schemes. However, audits carried out by the Commission were not sufficiently frequent in the last years and sometimes did not cover the most relevant areas and/or measures.
(5) The Commission should use the information provided by the Member States to monitor programme performance on an annual basis, including information that already exists and information yet to be provided in full.	Implemented in most respects	Since the introduction of the common indicators for the POSEI/PIME programmes, the Commission analyses on an annual basis the information provided by the Member States in the Annual implementation reports. However, the MS use of the indicators in their annual reports is variable, and their contents require improvement.

Cohesion: Social Fund spending on older workers

1. **Special Report 25/2012 concerned the Social Fund and questioned if there are tools in place to monitor the effectiveness of spending.**
2. The European Social Fund (ESF) is a key instrument designed to help the Member States achieve EU employment policy objectives. Its aims are to promote the integration of the unemployed and disadvantaged in the labour market, primarily through training activities.
3. The aim of the audit was to verify whether and to what extent the Member States and the Commission developed and used the tools required to assess whether the objectives planned have been achieved. To this end, the Court selected one of the main disadvantaged groups, namely older workers.

The Court's recommendations

Recommendation	Implementation status	The Court's assessment
(1) The Commission should require Member States to design their Operational programmes (OPs) in such a way that the performance of the ESF funds can be measured. The target populations should be unambiguously defined and relevant, quantified operational goals and indicators should be drawn up to measure outputs, results and specific impacts at target population group level. Intermediate milestones should be set and a hierarchy of target values established. The OPs' result and specific impact goals should be incorporated at project level, as this would assist achievement of the OP target values and enable payments to be linked to performance.	Implemented in most respects	These two recommendations were implemented in most respect. The measurement of performance is at the heart of the 2014-20 regulation and common output and result indicators have been made compulsory for the more usual policies. However, apart from young unemployed, the focus is still not on the target groups assisted and on measuring the effectiveness of the actions at target group level. The Commission still has to prove that it monitors the results at project level and the performing of counterfactual evaluations.
(2) The Commission should require Member States to design their monitoring and evaluation system in such a way that the progress towards all target values set can be measured in a timely and understandable way, at appropriate intervals, thereby allowing corrective actions to be taken and lessons learned for future decision-making. Such a design requires the timely collection of relevant and verifiable data, the proper functioning of electronic data processing systems, ongoing evaluations, also at target group level, and, for the ESF actions aimed at increasing employment, the measurement of the net employment effect.	Implemented in most respects	
(3) For the Commission to provide appropriate data on the means mobilised and the results achieved by the ESF it must obtain consistent and reliable information from the Member States. More specifically, the Commission should issue mandatory common indicators to be included by the Member States in their OPs; the EU priority themes should be in line with EU strategies and their content clearly defined by the legislator.	Fully implemented	The 2014-20 ESF was aligned with the Europe 2020 strategy and mandatory common output and result indicators were introduced.
(4) The Commission should analyse in depth performance issues when organising the assessment of the management and control systems.	Fully implemented	The planned audits on performance data and the issued guidelines for the auditors indicate a shift towards accountability for having a reliable system for collecting, recording and storing performance data.
(5) The Commission should improve the documentation of its checks by ensuring that there is an audit trail that allows the extent and consistency of these checks to be assessed.	Fully implemented	The newly created 2014-20 checklists improve the documentation and coverage of actions.

External actions: contributions channelled through UN Organisations

1. **Special Report 3/2011 concerned the efficiency and effectiveness of EU contributions channelled through UN Organisations in conflict-affected countries.**
2. The European Commission has intensified its cooperation with the United Nations as part of its commitment to the better coordination of aid. The amount of EuropeAid funds channelled through United Nations Organisations increased from 144 million euro in 2001 to 935 million euro in 2009, reaching a peak of over 1 billion in 2006.
3. This is the second phase of a two -part audit. The second phase evaluates the achievement of objectives.
4. The overall audit question was whether the Commission achieves value for money when channelling funds through the United Nations.

The Court's recommendations

5. The Court recommended that the Commission should make the following changes in project design, effectiveness and sustainability, and efficiency:

Recommendation	Implementation status	The Court's assessment
<p>(1) The Commission should make the following changes in project design:</p> <ul style="list-style-type: none"> ○ ensure that clear practical objectives are set for the projects to which their funds are committed. Objectives should be quantified where possible to facilitate the execution and monitoring of the projects and to provide useful feedback for the Commission. The link between the projects' activities, the projects' objectives and the wider objectives should be clearly specified; ○ better adapt the time-frame set out in the contribution agreement to the project environment to avoid timely and costly extensions of the implementation period at a later stage; ○ as the level of detail in the budget forms the basis for subsequent reports, it should include all information necessary to assess in particular the efficiency of the activities funded. 	Fully implemented	<p>The 2011 new Joint Guidelines on reporting obligations under the FAFA:</p> <ul style="list-style-type: none"> ○ recalled the requirement that indicators have to be SMART, that the reports should allow comparisons with every aspects of the initial description of the Action, and should give a useful feedback (knowledge management) to the Commission on Actions of the same kind; ○ stressed the importance of the detailed work plans and set out the principles to ensure their updates; ○ set out principles and procedures to ensure that every detail in the budget is understood by the UN Organisation and the Commission in the same way and that the level of information is sufficient to allow comparison with the description of the Action. <p>The guidelines are recalled in each joint EU/UN training. The requirements are also explained during regular training sessions.</p>
<p>(2) The Commission should make the following changes in effectiveness and sustainability:</p> <ul style="list-style-type: none"> ○ insist on receiving the necessary reports on time and continue its efforts to ensure that these reports give the information that it needs for assessing the progress and success of the projects; ○ the follow up by the Commission should be prompt, systematic, clearly evidenced and comprehensive throughout the project duration; ○ identify, following each project, the lessons learnt for future interventions having special regard to the aspect of sustainability. 	Fully implemented	<p>The guidelines:</p> <ul style="list-style-type: none"> ○ stressed the importance to deliver timely reports based on detailed work plans and set out principles to ensure that these reports are not delayed, the Commission is kept informed, and that they give every detail needed for assessing the implementation of the Actions; ○ set out principles and procedures to ensure that the necessary information is transmitted to the Commission in due time, with the relevant analyses and remedies of any difficulty when it occurs; ○ contained (in the latest version of the template for Action documents) a mandatory sub-section dedicated to the lessons learnt and to the sustainability of the Action.

Recommendation	Implementation status	The Court's assessment
<p>(3) The Commission should make the following changes in efficiency:</p> <ul style="list-style-type: none"> ○ A systematic assessment of the costs should be performed and the results should be adequately documented. More focus should be put on efficiency and the assessment of costs should not be limited to questions of eligibility; ○ where feasible, benchmarks should be developed for common cost items in order to facilitate the assessment of costs in project proposals and financial reports. 	<p>First point fully implemented Second point implemented in some respects</p>	<p>The guidelines set out principles and procedures to ensure that the level of information is sufficient to enable the assessment of the eligibility and also the necessity of the proposed costs and to allow comparison with the description of the action.</p> <p><i>Recommendation 3, Point 2 on developing benchmarks for common cost items (implemented in some respects).</i></p> <p>The Commission has instructed Authorising Officers to assess the reasonableness of the costs when funding projects. Some EU Delegations establish costs comparisons from local economic studies. In addition, the Commission requests the Authorising Officers to justify, when registering grants and contracts in CRIS, the reasons for choosing to contract with an International Organisation.</p> <p>However, the Commission does not directly assess the reasonableness of the projects costs but relies on the market knowledge of the International Organisations it contracts with.</p> <p>'Where feasible' in the text of the recommendation has to be understood as 'Where similar cases and where information could be reasonably accessible'. A final cost is the result of quantities and unit costs. If the latter are unknown, at least quantities can be compared to that of similar actions funded in the past for assessing the reasonableness of a new action to fund. Without this, the Commission relies on a third party declaration without any verification, while it has relevant documentation in its possession.</p>

External actions: food security

1. **Special Report 1/2012 concerned effectiveness of EU development aid for food security in sub-Saharan countries.**
2. Food security is a major problem in sub-Saharan Africa, where 30 % of the population suffer from hunger.
3. The Court examined whether European Union (EU) development aid for food security in sub-Saharan Africa is effective: whether EU development aid for food security is relevant to the countries' needs and priorities and whether the EU interventions are effective.
4. The audit focused on EU direct development support for the three dimensions of food security, i.e. food availability, access to food and utilisation of food (nutrition). It did not examine whether food security was mainstreamed in all relevant areas of EU cooperation, such as health, education, or water and sanitation.

The Court's recommendations

Recommendation	Implementation status	The Court's assessment
(1) The Commission and the European External Action Service should carry out a structured assessment of the food security situation in each country and systematically consider the potential scope for EU support in this area (for the programming period after 2013).	Fully implemented	The assessment has resulted in the production of 50 detailed food security country fact sheets based on international indicators mainly from UN agencies (FAO, UNICEF. . .) and NGOs. These fact sheets give a global overview of each country with calculated indicators and cover the context of the food security, such as the development index of the country, nutritional, environmental and agricultural situations.
(2) The Commission and the European External Action Service should examine, possibly with other development partners, the feasibility of a permanent instrument for financing urgent and supplementary measures that may be required to address the consequences of potential future food-crises in developing countries.	Fully implemented	Commission services have developed a food security mechanism and a methodology with an indicative budget of 525million euros (2014–2020) based on a technical analysis of food and nutrition insecurity, to be applied on an annual basis to identify countries and propose spending. This mechanism should provide quite similar results than those of a permanent instrument.
(3) The Commission and the European External Action Service should give adequate priority to nutrition when defining the cooperation strategy, identifying and designing interventions, and using policy dialogue with partner governments, notably in the framework of budget support programmes.	Fully implemented	The Commission has given a clear political impetus when announcing a 3.5 billion euro financial support together with specific objectives to achieve in the fight against under-nutrition. The Action Plan on Nutrition details how this financial support will be implemented.
(4) In addition, the Commission should: set out intervention objectives that are sufficiently precise and measurable through performance indicators. It should ensure that the objectives are achievable by better assessing the risks and assumptions concerning the successful implementation of interventions.	Fully implemented	The reference documents provide for measurable objectives and specific indicators together with the related methodology for implementing them. These documents also present the strategic priorities based on a risks and challenges analysis. Several activities aiming to inform and train the relevant actors in the fight against hunger are regularly organised.
(5) The Commission should better support the financial sustainability of agriculture and social transfer programmes. In doing so, the Commission should place more emphasis on the development of effective agricultural extension services, post-harvest infrastructure and rural credit.	Fully implemented	The Commission is contributing to forums and organisations dedicated to specific services to the benefit of farmers. (This is recommendation 5(a) in SR 1/2012)
(6) The Commission should better support the financial sustainability of agriculture and social transfer programmes. In doing so, the Commission should ensure that social transfer programmes provide for adequate support to the development of income-earning capacities of the beneficiaries.	Fully implemented	The reference document 'Social Transfers in the fight against hunger' sets out methodologies, priorities, objectives, targets and well defined key indicators. This document makes reference to practical documents which may support every aspect of the process. Information and training of the relevant actors are regularly organised. (This is recommendation 5(b) in SR 1/2012)

External actions: CRIS

1. **Special Report 5/2012 concerned the Common External Relations Information System (CRIS).**
2. CRIS is the information system put in place by the Commission to support the management of external actions.
3. It provides data concerning the different phases of management, from programming to preparation and monitoring, covering both operational and financial aspects of the actions concerned. It also feeds financial data into the Commission's accounting system ABAC.
4. In Special Report 5/2012, the European Court of Auditors (ECA) assessed whether CRIS was effective in responding to the Commission's information needs. In particular, the Court assessed whether CRIS had been designed to respond effectively to the Commission's needs and whether the information that it provided was reliable.

The Court's recommendations

5. The Court made the following four recommendations:

Recommendation	Implementation status	The Court's assessment
(1) The intended role of CRIS as an information system should be set out, notably with regard to the Commission's ABAC accounting system. In particular, the Commission should aim to reduce the duplication of ABAC functions in CRIS.	No longer relevant	The intended role of CRIS as an information system, notably with regard to the Commission's ABAC accounting system, still remained to be set out.
(2) CRIS data code lists should be rationalised so that they are unique and their data values are mutually exclusive. Moreover, present data quality controls (checks, processes) should be revised and reinforced for effective safeguards ensuring reliable data. These measures should aim, in particular, to ensure that CRIS is effective and efficient in providing aggregated information by beneficiary country, policy area and financial instrument.	Implemented in most respects	Several initiatives were ongoing by DG International Cooperation and Development to rationalise CRIS data code lists (development of a reference data system, rationalisation of data codes, and establishment of a data dictionary). However, initiatives for the rationalisation of CRIS data codes remained to be finalised. CRIS data quality controls were reinforced: e.g., a data quality strategy and a data quality master plan were defined, and a data quality team was assigned.
(3) Taking into account the large and diverse population of CRIS users, proper attention should be paid to improving the system's user friendliness in future CRIS developments.	No longer relevant	Most projects to improve CRIS's user friendliness were stopped at the beginning of 2013, pending the adoption and implementation of a DG International Cooperation and Development's new IT strategy.
(4) Responsibilities for the management of CRIS data security should be established. An overall IT risk assessment should be carried out. Due care should be given, particularly to the protection of personal and financial data.	Implemented in some respects	Responsibilities for the management of CRIS data security were clarified. Between 2012 and 2014, some limited IT risk assessments activities were carried out but an overall assessment of IT risks at DG International Cooperation and Development are still missing. Without such an assessment, there was no clear overview of the risks related to the protection of personal data and financial data in DG International Cooperation and Development's information systems.

Internal policies: State aid

1. **Special Report 15/2011 asked if the Commission's procedures ensure effective management of State aid control.**
2. State aid is defined in Article 107 of the Treaty on the Functioning of the European Union (EU), and its control is an important guarantee for the functioning of the internal market. The Commission has overall responsibility for the control of State aid. In order to ensure that State aid granted by Member States is compatible with the internal market of the European Union, EU Member States are required to first notify the Commission of aid measures and to obtain the Commission's permission before giving State aid.
3. Our special report examined whether the Commission has implemented procedures that enable effective management of State aid control. The audit focused on the organization, decision-making and monitoring processes of the Commission during the period 2008-2010.

The Court's recommendations

4. We recommended that the Commission should review the allocation and use of the resources devoted to its management of State aid, with a view to:

Recommendation	Implementation status	The Court's assessment
(1) Adopting a more proactive stance in its relationship with Member States and making more efforts to raise awareness about State Aid rules by spreading best practices and providing more practical guidance.	Fully implemented	DG Competition launched a series of initiatives, including creating of Network of Country contact points, organising training sessions and high-level meetings with Member States, publishing guidance on the notion of State aid, and creating a platform where Member States can pose questions about the interpretation and implementation.
(2) Stepping up its monitoring activities, both in terms of sample size and scope.	Fully implemented	The Commission has gradually stepped up its monitoring activities, both in terms of sample size and of involvement of the case-handling units.
(3) Organising its ex officio enquiries in a more systematic and targeted way to detect illegal aid.	Fully implemented	Adoption and use of new legal instruments in tax inquiries leading to the opening of several in-depth investigations.
(4) We also recommended that the Commission should: With a view to increasing transparency and speeding up the decision process, make a binding commitment to close the preliminary investigation by either taking a decision or opening a formal investigation procedure within one year after having received the initial notification.	Not implemented	Although the Court welcomes the increased management attention for preliminary investigations that are pending for over nine months, the current legal framework still allows the Commission to continue the preliminary investigation for as long as it considers the notification to be incomplete and to postpone the opening of a more transparent formal investigation procedure.
(5) Minimise the number of Requests for Information sent to Member States and limit them to those strictly needed for its decision making.	Fully implemented	Due to the continuous reporting on backlogs to the Deputy Director-General responsible for State aid and the need for his approval when asking for additional information for the third time, the required limitation of the number of requests sent to Member States has been put in place.
(6) In order to provide more legal certainty to all stakeholders, deal swiftly with unfounded complaints.	Implemented in most respects	The filters introduced by Article 20 of the new Procedural Regulation should significantly reduce the number of unfounded complaints. Nevertheless, the impact of this amendment is not yet fully visible.
(7) Periodically inform the complainant, the Member State and the beneficiary about the progress (or lack of progress) of each case and about the outcome of the investigation.	Fully implemented	In order to periodically inform the complainant, the Member State and the beneficiary about the progress of each case, information letters are now being sent, as recommended.

Recommendation	Implementation status	The Court's assessment
(8) Consider whether there are any lessons it could learn from its handling of the financial crisis to improve its normal working methods.	Fully implemented	DG Competition has given due consideration to the lessons learned from its handling of financial crisis measures. The main lesson learned was the need to speed up the analysis and decision process. Within the framework of its State Aid Modernisation (SAM) project, DG Competition has taken several measures to speed up the decision and analysis process of non-crisis cases.
(9) Implement an enhanced system of time recording and management reporting to effectively monitor the time spent on each of the cases and the workload of each case handler so as to optimise the use of resources.	Fully implemented	DG Competition has implemented an enhanced system (the PETRA: Project Expense Time Reporting Application) for time and management reporting.
(10) We also recommended that the Commission should: Improve the efficiency and reliability of its data gathering process.	Implemented in some respect	SARI (State Aid Reporting Interface) as tool of communication between MS and DG Competition became operational at the end of 2012, although there are still improvements on the reliability of the system to be introduced, including (a) validation rules to avoid the input of incomplete information by the MS, (b) recording users' different validation actions, and (c) improvement of the search functionalities.
(11) Regularly assess the ex post impact of State aid and of State aid control on companies, markets and the overall economy.	Fully implemented	Measures taken in the field of assessing the ex post impact of State aid comprised the publication of a common methodology for State aid evaluation and the introduction in the new State Aid guidelines of the possibility to require evaluations. Note: this recommendation was originally rejected by the Commission.

General criteria for an effective follow-up system

Questions	Requirements	RAD		
		Fully met	Partially met	Not met
1. Is the system designed to provide the information needed?	(a) The role of the system in the Commission's information systems architecture is defined, documented and approved.	X		
	(b) Information needs are identified, analysed and documented in a systematic way.	X		
	(c) The architecture and design of the system is documented and reflect the needs identified.		X	
2. Is this system designed to comply with financial information systems documentation requirements?	(a) The technical documentation of the system includes a description of the content of each data field.	X		
	(b) The technical documentation of the system includes a description of how the system treats each individual operation.	X		
	(c) The system guarantees the existence of a complete audit trail for each operation.			X
3. Is the system designed to comply with information confidentiality, availability and integrity requirements?	(a) Technical and organisational measures to ensure confidentiality are identified and documented, taking into account the cost of their implementation and the risks represented by the processing and the nature of the data in the system.	X		
	(b) Procedures for the allocation, maintenance and removal of access rights is approved and documented.	X		
	(c) Objectives are set, approved and documented for the availability level of the system.	X		
	(d) Availability is monitored and reported on and appropriate actions are taken to meet the objectives.	X		
	(e) A data backup plan is approved and documented; it is implemented and tested regularly.	X		
	(f) A disaster recovery plan is approved and documented.		X	
	(g) Where appropriate, business rules (automatic input controls) are enforced by the system to improve transactions data quality. They are complemented by adequate 'manual' controls.	X		
	(h) Relevant data categories are created and guidelines are provided to facilitate and ensure consistent input, retrieval, statistical analysis and reporting of data by the users.		X	
	(i) Data quality is monitored regularly at system level and appropriate actions are taken to correct the weaknesses identified in a controlled manner.	N/A ¹		
	(j) Management reports and indicators relying on the data in this system are subject to adequate quality control.		X	

1 Based on available information we could not check these criteria.

Questions	Requirements	RAD		
		Fully met	Partially met	Not met
4. Is the system designed to be user-friendly?	(a) Complete and up-to-date user documentation or help files are available	X		
	(b) User satisfaction is monitored on a regular basis and user feedback is taken into account.	X		
	(c) Effective data search and reporting tools are readily available for the users to retrieve information.		X	
5. Is the information provided by the system complete?	(a) All transactions are captured once and only once.		X	
	(b) All relevant data fields are filled-in.		X	
6. Is the information provided by the system consistent?	The same data do not receive different values in other parts of the IT information system (IT-internal consistency).		X	
7. Is the information provided by the system correct?	The information recorded in the system reflects the real situation (paper file or direct observation on the spot).		X	
8. Is the information provided by the system up-to-date?	The information is captured by the system in due time.		X	

Executive summary

IV

The Commission is committed to ensuring that recommendations made by the Court in its Special Reports and accepted by the Commission are systematically implemented and followed-up.

The Commission highlights that the 3% of the recommendations which were assessed as *'not implemented'* concern only one recommendation of the Special Report 15/2011, which was rejected by the Commission.

V

The procedures within the RAD (Recommendation, Action, Discharge) application are in place, documented and available. Data is encoded under the responsibility of the relevant Directorates-General (DGs) and services following clear rules for relevant inter-service consultations, validation and approval workflows at appropriate hierarchical level. The DGs and services have the possibility to upload supporting documents to their replies. The RAD application provides also the possibility to indicate the state-of-play of the actions taken by the Commission. The additional recommendation status *'partially implemented'* was delivered and is functioning. However, the Commission and the Court may conclude differently on the effective implementation of the recommendations.

The Commission reports on the follow-up of the Court's recommendations addressed to the Commission in the Annual Activity Reports of the DGs and services and in the annual report from the Commission to the European Parliament and the Council on the follow-up to the discharge of the relevant financial year.

VI

The Commission considers that its control arrangements are in line with international control and best practices.

However, the Commission is committed to address further challenges concerning the discharge follow-up system and procedures.

Introduction

03

The Commission is committed to ensuring that recommendations made by the Court in its Special Reports and accepted by the Commission are systematically implemented and followed up. The additional recommendation status '*partially implemented*' was developed and delivered by the system provider within the Commission and is available.

The Commission's implementation of 44 recommendations

09

The Commission's discharge follow-up system and procedures cover all Special Reports issued by the Court which are relevant for the Commission.

11

The Commission is committed to ensuring that recommendations made by the Court in its Special Reports and accepted by the Commission are systematically implemented and followed up.

The Commission highlights that the 3% of the recommendations which were assessed as '*not implemented*' concern only one recommendation of the Special Report 15/2011, which was rejected by the Commission.

Box 1 - Improved regulation and monitoring (see Annex II and III)

The limited influence of the Commission on prices is the logical consequence of the market oriented approach and the shift in the Common Agricultural Policy (CAP) from price support to income support as decided by the European Parliament and the Council.

Monitoring sugar prices is only a part of the overall assessment of the sugar market aiming to achieve the objectives of both the CAP and the 2006 sugar reform. These objectives do not refer to influencing prices.

Reply of the Commission

Audit of the Commission's follow-up systems and procedures

Common Commission's reply to paragraphs 13 and 14

The Commission's framework for internal control and related control arrangements were developed specifically for its environment. They are based on international good practice and inspired by the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Commission's framework for internal control clearly allocates the responsibility to management for systemic follow-up of significant issues identified through the supervisory activities.

15

The Commission highlights that the practice advisories are a recommended guidance as per the International Professional Practices Framework (IPPF) issued by The Institute for Internal Auditors (The IIA).

See also Commission's reply to paragraph 28.

18

See Commission replies to paragraph 28.

20

The RAD application was designed for the needs and purposes of the discharge procedure. It provides reliable, relevant and pertinent information that demonstrates the status of the actions undertaken by the Commission in relation to the follow-up of the discharge. It has been continuously improved based on inter alia recommendations made by the Court and requests by Commission services. When deciding on future developments of RAD, the Commission will continue taking into account recommendations made by the Court.

20 (a)

The procedures within the RAD application, including the links to Special Reports issued by the Court and Commission's services in charge for the implementation of the recommendations are in place, documented and available. All data is encoded on the responsibility of the relevant DGs and services following clear rules for relevant inter-service consultations, validation and approval workflows at appropriate hierarchical level. The DGs and services have the possibility to upload supporting documents to their replies.

20 (b)

In compliance with its internal control framework and related control arrangements, and for the specific cases in shared management where it has a supervisory role to play, the Commission will adequately review significant issues with the Member States. The joint Commission Court Working Group has as an objective to explore ways to better monitor, implement and report on the follow-up of the Court's recommendations.

20 (c)

The Commission and the Court may conclude differently on the effective implementation of the accepted SRs' recommendations. The RAD application provides the possibility to indicate the state-of-play of the action taken by the Commission services, including *vis-à-vis* the expected completion date.

20 (d)

The Commission reports on the follow-up of the Court's recommendations addressed to the Commission in the Annual Activity Reports of the DGs and services and in the annual report from the Commission to the European Parliament and the Council on the follow-up to the discharge of the relevant financial year.

The Commission, however, acknowledges that further improvements in the reporting may be achieved.

21

By note dated 16 October 2014 concerning the release of version 6.4 of the RAD application, the DGs and services were provided with clear instructions on the new functionality of '*partially implemented recommendations*'. Raising awareness and training concerning the new recommendation status '*partially implemented*' was ensured at the level of all DGs and services.

The Commission is of the opinion that this new functionality is used by the DGs and services, if and where applicable.

22

The Commission is committed to ensuring that accepted Court's SRs recommendations are systematically implemented and followed-up.

The Commission and the Court may conclude differently on the effective implementation of the recommendations. The Commission acknowledges that further improvement in the follow-up process may be achieved for recommendations for which the two institutions share the conclusions on the implementation status.

23

As stated in the Commission's reply to paragraph 26 of the follow-up report in 2013 (SR 19/2013), harmonising the categories for assessing the actions that address the Court's recommendations and that are used by the Commission and the Court may be one of subjects for future discussions between the two institutions.

Reply of the Commission

Best practices regarding other systems and procedures

25

The RAD application was developed to manage the inter-service coordination in the discharge procedure, the relevant Commission's replies over the years and the related organisation of the inter-service cooperation within the Commission. Even though further improvements and IT developments may be achieved, the Commission is of the opinion that the RAD application is an adequate tool for supporting the accountability and governance requirements in relation to the discharge procedure.

Conclusion and recommendation

26

The Commission is committed to ensuring that recommendations made by the Court in its Special Reports and accepted by the Commission are systematically implemented and followed up.

The Commission's discharge follow-up system and procedures cover all SRs issued by the Court which are relevant for the Commission.

27

See Commission replies to paragraphs 20(a), 20(b) and 20(c).

28

The Commission considers that the RAD application provides a global view of all recommendations and requests addressed to the Commission in relation to the discharge procedure.

As stated in the Commission's reply to paragraph 26 of the Follow-up Special Report 19/2013, harmonising the categories for assessing the actions that address the Court's recommendations and that are used by the Commission and the Court may be one of subjects for future discussions between the two institutions.

As regards the follow-up of the Court's recommendations, the Commission has taken the decision that this is a management responsibility and if allocated to the IAS it would risk compromising IAS' independence.

29

The Commission considers that its control arrangements are in line with international control and best practices. However, the Commission is committed to address further challenges concerning the discharge follow-up system and procedures.

See also Commission reply to paragraph 28.

29 (a)

The Commission accepts this recommendation.

The Commission will assess the possibility to improve the information on the implementation status of the actions taken.

29 (b)

The Commission accepts this recommendation for the specific cases in shared management where it has a supervisory role to play. The Commission will adequately review significant issues with the Member States. The joint Commission Court Working Group has as an objective to explore ways to better monitor, implement and report on the follow-up of the Court's recommendations.

29 (c)

The Commission accepts this recommendation.

The Commission is committed to further improve the reporting of the actions in the Annual Activity Reports.

29 (d)

The Commission accepts this recommendation.

The Commission will undergo a follow-up with all DGs and services concerned.

Annexes

Annex II

Agriculture: management instruments applied to the market in milk and milk products

Replies of the Commission to the Court's recommendations (2)

The Commission considers this recommendation to be fully implemented.

The creation of (new) producer organisations requires time and a strong dynamic coming from farmers themselves e.g. to create producers organisations and in a next step to start collective negotiations. Favourable market developments and prospects in 2012 and 2013 might not have stimulated farmers to join in producer organisations.

In addition to numerous discussions with Member States at Commission and Council level regarding the implementation of the 'Milk Package' at Member State level (by authorities and stakeholders), the Commission actively promoted the measures among stakeholders, notably farmers and farmers organisations, on numerous formal and informal occasions (e.g. presentations made by Commission representatives at meetings and events).

The 'Milk Package' was discussed with stakeholders on a regular basis in the Advisory Groups for Milk, where farmers' organisations (Copa-Cogeca, European Coordination Via Campesina, European Milk Board) hold an important number of chairs. Also in the joint meetings of the Management Committee and the Advisory Group on Milk held in 2011 and 2012 the Milk Package was discussed. The Commission also participated in two seminars (in 2012 and 2014 organised by Copa-Cogeca on the implementation of the Milk Package encouraging farmers (organisations) to take advantage of the milk package (producer organisations etc.). In addition, at the conference 'THE EU DAIRY SECTOR: DEVELOPING BEYOND 2015' held in 2013 and representing all stakeholders, the Milk Package was among the discussed subjects.

Replies of the Commission to the Court's recommendations (3)

The Commission considers this recommendation to be fully implemented.

In line with the subsidiarity principle the legislators considered that identifying types of farming or agricultural sectors to be supported by direct payments due to certain difficulties they encounter is of the exclusive responsibility of the Member States. They were thought to be in the best place to identify regions or sectors with difficulties on their territory and to fix priorities among various needs for targeted support, taking also into account the sector specialization of the regions.

The legislators provided that Member States shall include in each rural development programme a SWOT analysis of the situation and an identification of the needs that have to be addressed in the geographical area covered by the programme. A description of the strategy demonstrating that specific needs linked with specific conditions at regional or sub-regional level are taken into account and concretely addressed through adequately designed combinations of measures or thematic sub-programme has to be included. It is for Member States to indicate weaknesses and threats if need be for the milk sector and to supply measures to farmers to help them meeting needs.

As regards cross compliance and the new greening of direct payments, there is a need to leave to Member States a certain margin of manoeuvre to allow them taking into account local needs and constraints as well as specific environmental issues. This principle therefore was and continues being followed in the EU legislation.

Annex III

Agriculture: reform of the sugar market

Replies of the Commission to the Court's recommendations (3)

The Commission considers this recommendation to be fully implemented.

One of the objectives of the 2006 sugar reform was to comply with Union's obligations flowing from international agreements and to reflect international arrangements, such as the Duty Free Quota Free access for the Least Developed Countries adopted in the pursuit of the Union's international trade and development policy. Therefore, the Court's assessment that the EU is now a net importer and relies on sugar import cannot be considered as contrary to the Treaty objective of assuring availability of supply.

Replies of the Commission to the Court's recommendations (4)

The Commission considers this recommendation to be fully implemented.

The Commission has launched an antitrust enquiry and the Member States have made the necessary enquiries on competition in the sugar sector. Moreover, based on the simple fact that the 2015 EU sugar prices are at the lowest level since the reform, it can be reasonably assumed that the Treaty objective of sugar supply at reasonable prices for the consumers is met.

Common reply to recommendations (5) and (6)

In line with the subsidiarity principle, the responsibility for the implementation of these recommendations is with the Member States.

Annex IV

Agriculture: specific measures in favour of the outermost regions and Aegean Islands

Replies of the Commission to the Court's recommendations (1)

The Commission considers this recommendation to be fully implemented.

The common indicators (as defined in Annex VIII of Regulation (EU) No180/2014) had to be gathered since the presentation of the 2013 annual reports to be presented in 2014. 2013 was a transition year. If some indicators were missing in these 2013 reports (70% of indicators), all the indicators are given in the 2014 reports (received in 2015), although some improvements should still be brought in future reports.

Bilateral meetings are held on a regular basis, in particular in the context of programme modifications. It is then when the Commission services recall some best practices to be followed by Member States, such as the information to be given to beneficiaries as well as the importance given to verifiability and controllability of new measures.

Furthermore, standard reporting forms for POSEI/SAI control statistics to be used as of 2014 reporting have been presented to Management Committee of Direct Payments CDP on 9 July 2014 and subsequent exchange of information with Member States have been held to adopt guidelines on the collection of these data. These data are now included in the annual report.

Reply of the Commission

Replies of the Commission to the Court's recommendations (4)

The Commission considers this recommendation to be fully implemented.

The Commission stresses that the audit priorities are established according to the central risk analyses in line with the available audit resources. The Commission underlines that the audit intensity for POSEI measures has been stepped up in the last two years where all the relevant Member States and measures (materiality) have been audited.

Replies of the Commission to the Court's recommendations (5)

The Commission considers this recommendation to be fully implemented.

The common indicators (as defined in Annex VIII of Regulation (EU) No180/2014) had to be gathered since the presentation of the 2013 annual reports to be presented in 2014. 2013 was a transition year. If some indicators were missing in these 2013 reports (70% of indicators), all the indicators are given in the 2014 reports (received in 2015), although some improvements should still be brought in the following reports.

The Commission analyses these data on an annual basis and if necessary requests further information from Member States to improve some of their data.

Within 2 years, the presentation of the common indicators by the Member States has improved considerably and is now done in a comprehensive way.

Annex V

Cohesion: social fund spending on older workers

Replies of the Commission to the Court's recommendations (1)

The Commission considers this recommendation to be fully implemented.

Investment priorities in the 2014-2020 ESF Regulation define, where relevant, the concerned target groups. A relevant investment priority refers to 'active and healthy ageing'. When Managing Authorities select this investment priority, to define the specific objective, following for example a country specific recommendation, they must define targets for outputs and results at this level. Furthermore, the annual reporting (Annual Implementation Report) will include common indicators, which are related among others to age group and labour market status (i.e. ESF common longer-term indicator: 'participants above 54 years of age in employment, including self-employment, six months after leaving' [the operation]). The Commission considers that it will have sufficient information to measure the effectiveness of the actions on older workers, the same as for young unemployed.

The principle of shared management – pursuant to which Member States implement the OPs – does not allow for a proper monitoring of result targets at project level. However, the Common Provisions regulation (CPR) - Regulation 1303/2013) allowing the use of simplified costs options (SCOs) - will help Managing Authorities and beneficiaries to focus on results at project level.

Since 2011, the Commission has organized awareness raising and capacity building events with Member States on conducting counterfactual impact evaluations. In order to provide methodological support to Member States, a Centre for Research on Impact Evaluation was set up in 2013 at the Joint Research Centre in Ispra.

There have been recurrent discussions on this topic with the Managing Authorities in the framework of the ESF Evaluation Partnership.

The Commission funded eight pilot counterfactual impact evaluations on ESF interventions in Spain, Italy (two projects), Estonia, Portugal (two projects), Lithuania and Slovakia. The results have been disseminated in various fora and at a Conference in Brussels.

Replies of the Commission to the Court's recommendations (2)

The Commission considers this recommendation to be fully implemented.

Data on all indicators – common and programme specific alike - are submitted as a structured data set to the Commission by electronic means as part of the Annual Implementation Reports (AIR), the Youth Employment Initiative report for 2015 and the final report. These data will allow the Commission to monitor annually the progress towards target values by target group and achievement ratio can be calculated at the level of investment priorities (costs/output/results).

The employment effect will be measured through the related common longer term result indicators. The measurement of net employment effects can be measured by counterfactual impact evaluations.

Managing Authorities have to carry out impact evaluation, albeit not necessarily counterfactual evaluations. The Commission has however been promoting the use of counterfactual impact evaluations through organising awareness raising and capacity building events and setting up the Centre for Research on Impact Evaluation. A series of trainings and regional work-shops have been carried out in the Member States. Commission support will continue through facilitating and running a community of practice on counterfactual impact evaluation.

Annex VI

External actions: contributions channelled through UN organisations

Replies of the Commission to the Court's recommendations (3)

Reply to the second indent:

The Commission considers that the implementation of such information system on benchmarks in conflict affected countries is not feasible. The reasons are to be seen both at the level of the difficulty to ensure the consistency of data (which needs to be complete, reliable and constantly updated) and as its relatively high cost and negative cost-effectiveness relation. Therefore, the Commission believes that this second point of the recommendation is implemented.

Annex VIII

External actions: CRIS

Replies of the Commission to the Court's recommendations (1)

The intended role of CRIS as an information system, notably with regard to the Commission's ABAC accounting system, has been clarified in the context of the new strategy for the Commission's information systems.

On 12/06/2014, a new strategy stating the following was endorsed by the Commission:

- CRIS financial functionalities are to be replaced by ABAC to the possible extent following the Commission's rationalisation strategy. Evolutive maintenance activities should be frozen for modules to be transferred to ABAC, except evolutive maintenance contributing to improving data quality, reporting, implementing simplification related actions and reducing maintenance costs.

Reply of the Commission

- CRIS functionalities that cannot be managed in ABAC will be included in a future operational system, based on a modern technology answering operational needs, including transparency related requirements (called OPSYS).

This strategy is implemented according to the following roadmap:

- The management of guarantees is exclusively performed in ABAC since 01/01/2014.
- Financial Forecasting: a new tool (BPC) has been implemented since December 2014 and replaces the former CRIS forecasting module.
- The financial modules of CRIS (Invoices, Payments, Recovery Orders, Forecast of Revenues) will be phased-out in April 2016. The financial modules of ABAC will be used as from that date. For the operational modules Contracts and Decisions, a gap analysis is currently ongoing with the aim of its integration into cooperate systems (SYGMA, e-procurement).

Replies of the Commission to the Court's recommendations (2)

CRIS data codes rationalisation is an on-going activity.

The Commission is currently reviewing the management of regional geographical data. A three step process is currently under review to only allow the encoding of geographical zones at the level of a country (not at the level of the regions anymore), to automatically deduct the DAC recipient zone from the beneficiary zone and to ensure consistency in the encoding of the action location data.

The Commission is also reviewing the list of domains and will link this reduced list to budget lines currently used by different Commission services in CRIS.

Moreover, the rationalisation of CRIS in April 2016 leads to a de facto rationalisation of codes (using ABAC codes).

Replies of the Commission to the Court's recommendations (4)

The Commission considers the implementation status to have moved towards 'fully implemented'.

The Commission has signed a specific contract (reference nr 84) on the 21st October 2014. This assessment highlighted security threads, the Commission's vulnerabilities and defined mitigating actions. A special report focused on the security of personal and financial data has been delivered on the 18th December 2014. The full security assessment report has been delivered on the 30th September 2015.

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Following up the Court's Special Reports is a necessary element in the cycle of accountability and helps to encourage the effective implementation of recommendations by the Commission and the member states. The current report presents the results of the Court's fourth review of the Commission's follow-up of a sample of 44 recommendations from eight Special Reports over the period 2009-2012. Our review showed that the Commission implemented 89 % of our recommendations in full or in most respects, 8 % in some respects, while 3 % were not implemented. We also recommend that the Commission should carry out some improvements to its follow-up practices.



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