



24.2.2016

WORKING DOCUMENT

on European Court of Auditors' Special Report No 2/2016 (2014 Discharge):
"2014 report on the follow-up of the European Court of Auditors' Special
Reports"

Committee on Budgetary Control

Rapporteur: Ingeborg Gräßle

Introduction and background

The European Court of Auditors (ECA) assessed whether the Commission had taken the necessary actions to adequately manage and follow-up the Court's recommendations by evaluating two sub-questions: Had the Commission adequately addressed the audit recommendations in the selected SRs, and was the Commission's follow-up system robust? To this end the Court sampled 44 recommendations from eight special reports (SR)¹ from the period 2009-2012. For these recommendations the Court appraised the current state of play.

The Court's first follow-up report in 2012 (SR 19/2012) observed that the follow-up of our audit recommendations by the Commission needed strengthening. The ECA's 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.

The ECA's conclusions

The Court found that of the 44 recommendations in question 23 were fully implemented, 11 were implemented in most respects, 3 in some respects and one recommendation was not implemented. 3 recommendations could not be verified and 3 recommendations were no longer relevant.

In general the ECA considered the RAD IT tool to be reliable. However, in 11 out of 24 assessed criteria the Court identified shortcomings with regard to the effectiveness of the follow-up system. These included:

- incomplete audit trail,
- no Commission follow-up of recommendations addressed to Member States,
- overestimated extent of the implementation of recommendations, and
- no reports and indicators were produced which provide concrete information as to the adequacy, effectiveness, or timeliness of actions taken on our audit recommendations.

Furthermore, none of the 86 recommendations from the 21 SRs previously assessed by the Court as "partially implemented" have had their status revised in RAD.

Commission replies

The Commission was of the opinion that the framework for internal control and related control arrangements were developed specifically for its environment. They are based on

¹ 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 2/2011: 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?

international good practice and inspired by the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

With regard to the 11 criteria for which the Court identified shortcomings in their implementation the Commission seems to hold a different view. It argued that:

- the procedures within the RAD application are in place, documented and available;
- in shared management, where the Commission has a supervisory role to play, it will – adequately review significant issues with the Member States;
- the Commission and the Court may conclude differently on the effective implementation of the accepted SRs' 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.

ECA recommendations

The ECA recommended to the Commission to improve further:

1. Explaining and/or documenting the status of actions taken on the recommendations;
2. Reviewing the actions of Member States and agencies in addressing our audit recommendations;
3. Report more fully in the Annual Activity Reports or elsewhere on the actions taken in addressing recommendations; and
4. Reviewing recommendations assessed as partially implemented by the Court to reflect their actual status.

The Commission accepted the recommendations fully or partially.

Recommendations by the rapporteur for possible inclusion in the 2014 Commission discharge report

The European Parliament:

1. Salutes the fact that 23 of 44 recommendations were fully implemented;
2. Welcomes also that the Commission, by and large, accepted the Courts additional recommendations in the current special report;
3. Notes however that the Court considered that 18 of 44 recommendations, listed in the annex of the working document, partially or not implemented or could not be verified;

- (a) in the agricultural policy area (10 recommendations) follow-up of recommendations often concerned the Commission and Member States and the former was of the opinion that it had fulfilled its responsibility;
 - (b) in the social policy area (2 recommendations), coming under shared management, the Court considered that performance and effectiveness were not measured sufficiently;
 - (c) in the area of external relations (3 recommendations) the Commission should directly assess the reasonableness of projects costs and rely less on the market knowledge of international organisations; the Commission should have upgraded the quality and security of the Common External Relation Information System (CRIS); and
 - (d) in the area of competition (3 recommendations) the Court is of the opinion that preliminary investigations should be better managed, the number of unfounded complaints reduced and to improve the State Aid Reporting Interface (SARI).
4. Stresses that from the point of view of the discharge authority it is unsatisfactory when adversarial procedures end in: the Commission and the Court conclude differently; calls therefore on both institution to avoid such an outcome;
 5. Calls on the Court to clearly indicate in its recommendations which kind of action is expected from the Commission and which kind of action is expected from the Member States;
 6. Calls on the Court to develop a system, together with national audit authorities, which will allow the ECA to evaluate the follow-up Member States have given to its recommendations;
 7. Emphasises that it never received a satisfactory explanation why the Commission considered it over years very important that directorates general dispose of their own internal audit capabilities, only to regroup the internal audit capabilities under the Internal Audit Service again as of April 2015.

Annex 1: Recommendations not fully implemented

Special report	Recommendation	Implementation status	ECA assessment
<p>SR14/2009 Milk</p>	<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>	<p>Implemented in most respects "Done" in RAD"</p>	<p>(...) the Court believes 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>
	<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>	<p>Implemented in most respects "Done" in RAD"</p>	<p>(...) 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, the Court found that the risks identified in paragraph 69 of SR 14/2009 remain and the current policy framework might not suffice to maintain</p>

Special report	Recommendation	Implementation status	ECA assessment
	<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 		production in disadvantaged areas.
SR 6/2010 Sugar	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 "Done" in RAD"	(...) 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 "Done" in RAD"	(...) 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	Could not be verified Rejected in RAD	The Commission rejected Recommendations 5 and 6 on the grounds that the responsibility for (a) the implementation of the

Special report	Recommendation	Implementation status	ECA assessment
	and produce the intended impact to promote alternatives to sugar beet and sugar production.		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 Rejected in RAD	
SR 10/2010 agriculture outermost region	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 "Done" in RAD"	(...) 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
	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 not be verified Rejected in RAD	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

Special report	Recommendation	Implementation status	ECA assessment
	could be improved.		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 "Done" in RAD"	(...) 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 "Done" in RAD"	(...) However, the MS use of the indicators in their annual reports is variable, and their contents require improvement.
SR 25/2012 ESF effectiveness	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	Implemented in most respects "Done" in RAD"	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

Special report	Recommendation	Implementation status	ECA assessment
	<p>incorporated at project level, as this would assist achievement of the OP target values and enable payments to be linked to performance.</p>		<p>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.</p>
	<p>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.</p>	<p>Implemented in most respects "Done" in RAD"</p>	
<p>SR 3/2011 Contributions channelled through the UN</p>	<p>3) The Commission should make the following changes in efficiency: (...) - 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>	<p>Implemented in some respects "Done" in RAD</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</p>

Special report	Recommendation	Implementation status	ECA assessment
			choosing to contract with an International Organisation. However, the Commission does not directly assess the reasonableness of the projects costs but relies on the market knowledge of the International Organisations
SR 5/2012 Common External Relations Information System (CRIS)	<p>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.</p>	<p>Implemented in most respects</p> <p>"Done" in RAD"</p>	<p>(...)</p> <p>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</p>
	<p>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.</p>	<p>Implemented in some respects</p> <p>"Done" in RAD</p>	<p>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</p>

Special report	Recommendation	Implementation status	ECA assessment
			Cooperation and Development's information systems.
SR 15/2011 management of State aid control	4) 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 "Rejected" in RAD	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
	6) In order to provide more legal certainty to all stakeholders, deal swiftly with unfounded complaints.	Implemented in most respects "Done" in RAD	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.
	10) Improve the efficiency and reliability of its data gathering process.	Implemented in some respects "Done" in RAD	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.