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Annex to the

Report from the Commission to the European Parliament on the follow-up to 2003 Discharge Decisions

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TABLE OF CONTENTS

GENERAL INTRODUCTION 1

Annex to the Report from the Commission to the European Parliament on the follow-up to 2003 Discharge Decisions 2

Part I : General Budget - Introduction 3

Statement of Assurance (DAS) 4

Single Audit 9

Improvement of the Annual Activity Reports and declarations by Directors-General 11

Further horizontal recommendations 14

Own resources 18

Agriculture, animal health and measures to combat fraud 19

Structural Measures 30

Internal Policies 32

External Policies 39

Pre-accession aid 45

Part II : European Development Fund - Development policy 49

Accounts 51

Statement of Assurance 52

Financial Management Report 54

Implementation and the RAL 55

Budgetary support 56

Supreme Audit Institutions 58

Devolution of management of aid and support 59

Stabex Funds 60

Evaluation 61

Financial Regulation 62

Part III : Agencies - General points addressed to the Commission concerning the agencies 63

Requests to the Commission concerning specific agencies 66

GENERAL INTRODUCTION

This Working Document completes the Report from the Commission to the Parliament on the Follow-up to 2003 Discharge Decisions {COM(2005)...final}. It presents in detail the answers to the 113 specific recommendations[1] made by the European Parliament in the comments accompanying its Resolutions on the 2003 Discharges.[2]

[1] 78 Recommendations addressed in the 2003 General Budget Discharge Decision (Wynn), 17 Recommendations addressed in the 2003 Agencies Discharge Decision (Ayala Sender-Schlyter) and 18 Recommendations addressed in the 2003 EDF Discharge Decision (Xenogiannakopoulou).

[2] For each specific recommendation a reference is given to the relevant Parliament document.

Annex to the Report from the Commission to the European Parliament on the follow-up to 2003 Discharge Decisions

Part I : General Budget - Introduction

1. Find - also bearing in mind the new Financial Perspectives - a balance between the preparation of policy and the process of accounting for its proper implementation, and undertake a critical analysis by reconsidering the distribution of power within the Commission (governance set-up), as well as administrative processes. *(General Budget - § 3)*

Commission's response:

The reform defined the governance set-up within the Commission, which decentralised the management responsibilities to Directors-General and Heads of Services, under the political supervision of the relevant Commissioner.

The strategic planning and programming process strives for a balance between the preparation of policy and the process of accounting for its proper implementation.

The Commission now faces the challenges of enhancing the effectiveness of supervisory and control systems, of reinforcing risk management at departmental level and of developing Commission-wide risk management framework, as well as improving supervisory arrangements as concerns agencies.

2. Include implementation costs and administrative burdens for Member States and final beneficiaries in the extended impact assessment for new Regulations, thereby creating checks and balances to keep the costs of implementation and the administrative burden within acceptable bounds. *(General Budget - § 4)*

Commission's response:

The recommended action has been taken. In fact the actual guidelines on impact assessments already ask for the evaluation of implementation costs and administrative burdens for Member States and beneficiaries. Moreover further guidance has been included in the new guidelines that will be adopted in 2005.

3. Commission should submit legislative proposals for amendment to Financial Regulation/Implementing provisions relating to the role of the accounting officer who should:

- assume overall responsibility for the integrity of the accounts of the Institution as a whole;

- certify on the basis of systemic validations or spot checks that the accounts present a true and fair view and that the underlying transactions are legal and regular;

- sign the accounts off (thereby accepting personal responsibility);

- and explain the scope and nature of reservations, if any. *(General Budget - §§ 6 to 12)*

Commission's response:

The Commission has proposed a modification of the Financial Regulation to require the Accounting Officer to sign off the Commission's accounts. To this end, (s)he will certify that (s)he has made the checks that (s)he considers necessary, and is satisfied that they have been prepared in accordance with the accounting rules, methods and accounting systems established under his/her responsibility for the Commission's accounts, that (s)he has made any adjustments which are necessary for a true and fair presentation of the accounts in accordance with Article 136 of the Financial Regulation, and that they are therefore reliable. The Accounting Officer should be adequately informed by the Directorates-General in order to be able to exercise this responsibility, and should be empowered to make the checks on this information which (s)he considers necessary. In line with the existing responsibility of Directors-General for the underlying transactions and the reliability of the information made available to the Accountant, the declaration of assurances made in the annual activity reports should certify that the accounts for which they are responsible are accurate and exhaustive.

4. Find ways to improve accountability at Member State level by dealing efficiently with the "delegation risk" which results from the fact that the Commission, whilst having final budget responsibility for all its expenditure, is also required to bear that responsibility when EU funds are expended in shared management with Member States. *(General Budget - § 18)*

Commission's response:

The recommended action is being taken. So that the Commission, and hence the Court of Auditors, can gain assurance from the Member States on the controls operated throughout each budgetary year on funds managed in partnership as from 2006, the Member States should:

– provide annual ex-ante Disclosure Statements and ex-post Declarations of Assurance at the highest Member State level;

– support the above by requiring each responsible authority at operational level (e.g. Paying Agency, Paying Authority and Managing Authority) to make similar annual statements and declarations, accompanied by opinions from independent auditors;

– request their Supreme Audit Institutions or the body providing audit assurance at Member state level to exercise oversight over the control frameworks for EC funds, and to report on weaknesses in its design and operation in practice;

– request the Supreme Audit Institutions, or other independent audit bodies, to audit the ex-post Declarations of Assurances and report to the national parliaments on the result.

Member States should also be requested to take responsibility for the controls over National Agencies and implement similar measures where funds are under indirect central management.

The Member States will also be requested to give their views on other issues raised by the Court and by the European Parliament:

– the degree to which the cost of controls over EC funds can be determined, and whether it should be borne by the EC budget;

– the scope for the introduction of a 'single audit' approach, implying the adoption of common principles and standards, the coordination of working programmes, and access by each control body to the results of the work of others;

- the scope for increasing the role of national Supreme Audit Institutions through a more systematic sharing of national audit reports on the use of EU funds with the European Court of Auditors.

The Commission suggests that the Council Presidency should establish a High-Level Interinstitutional trialogue tasked with negotiating and reaching an agreement on the crosscutting issues in the present proposals, which should spell out a common understanding of what would constitute an adequate and satisfactory Community integrated control framework as well as the necessary steps to implement it. This agreement is to be formalised in an Interinstitutional agreement signed at political level.

5. Present before 1 October 2005 an initial report exploring the road map to a protocol with Member States in which the managing authority (finance minister) will declare, prior to disbursement and on an annual basis, that proper control systems, capable of providing adequate assurance for Commission accountability purposes, are in place. *(General Budget - §§ 21 and 22)*

Commission's response:

The recommendation is accepted.

The Commission will work with the Member States to improve controls over funds in shared management. Given the significance of shared management, the Commission needs to strengthen its cooperation with Member States and ensure that they provide it with reasonable assurance for the transactions which they implemented. The action required to address the gaps lying between the control framework in place for each area of all budgetary expenditure and the general principles defined by the Court in its opinion No 2/2004 includes in particular the presentation in October 2005 of an initial report exploring the road map to a protocol with Member States in which the managing authority (typically Parliament suggests the Finance Minister) will declare, prior to disbursement and on an annual basis, that proper control systems, capable of providing adequate assurance for Commission accountability purposes, are in place.

6. Base report exploring road map on the following principles:

a) description of control systems by Member State managing authority (disclosure) whereby the managing authority makes an ex-ante statement regarding the effectiveness of the control systems,

b) the ex-ante and annual disclosure statements may if necessary be accompanied by a remedial action plan,

c) confirmation of description by National Audit Institutions or another external auditor

d) control rights for the Commission

e) clear legal authority for penalties affecting the overall funding of the Member State concerned, in case of inadequate disclosure;

f) formal declaration regarding the accuracy of expenditure statements;

and specify Commission's rights to verify the Disclosure Statement and establish clear legal authority for penalties affecting the overall funding of Member States concerned in case of inadequate disclosure. *(General Budget - § 23)*

Commission's response:

The recommended action is being taken. With the Communication of 15 June 2005 on a roadmap to an integrated control framework, the Commission intends to initiate a process which can lead to an agreement by the end of 2005 between the Commission, Parliament (as discharge authority) and the Council on how the internal control framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of transactions. This Communication lists the actions required of the Commission and the Member States. In this regard, if necessary, the legislative proposals for 2007-2013 should be adapted to include the provisions which would be required to complete an integrated control framework, in particular the elements requested by Parliament (annual audits of each paying authority, ex-ante Disclosure Statements and ex-post Declarations of Assurance at Member State level, access to the reports of auditors and control bodies, sanctions on claimants which are proportionate but dissuasive, and reporting of the rate of error affecting EC funds and of systemic weaknesses).

7. Be more rigorous in supervision of paying agencies and less tolerant of incompetence, by considering the feasibility of:

- requiring all payment agencies to be audited annually by an external auditor,
- establishing performance targets,
- suspending payments when clearly defined performance targets are not met and ensuring that agencies were made aware in advance that this would be the inevitable consequence of poor performance,
- removing agencies which fail regularly to meet performance targets,
- making agencies financially responsible for their mistakes. *(General Budget - § 28)*

Commission's response:

The Commission has taken the recommended action for all recommendations except the fourth indent regarding the removal of agencies. These recommendations are already implemented under current legal provisions.

As regards the fourth indent, in the spirit of shared management, the EAGGF-Guarantee Paying Agencies are accredited by the Member States and the Commission has no power to "remove agencies". The weaknesses are dealt with in the framework of the clearance of EAGGF-Guarantee accounts.

8. Reduce the risks of error in the claims on Community funding by ensuring that Community legislation includes clear, workable rules regarding the eligibility of costs, and that it requires the imposition of dissuasive and proportionate administrative penalties when eligible costs are found to have been overstated. *(General Budget - §§ 42 to 44)*

Commission's response:

The recommended action is being taken. The Commission is determining the gaps which, in its view, exist between the control framework in place for each area of budgetary expenditure and the general principles defined by the Court in its opinion No 2/2004, with particular emphasis on the controls which limit the risks concerning the legality and regularity of the underlying transactions. It will propose the action required to address each gap, and the timetable for implementing this action, and discuss this with the Court, Council and Parliament.

The action will include, on the one hand, the identification of weaknesses in the present legislation, and the improvements envisaged, and, on the other hand, the action required to implement an adequate control framework within the present legislation. It will also cover an assessment of the consistency of the regulatory framework for the 2007-2013 period to ensure that they take account of the essential elements in with the Court's recommendations.

The legislative proposals for 2007-2013 will be adapted, if necessary, to include the provisions which, in the light of the gap-assessment, are required to complete an integrated control framework, in particular the elements requested by Parliament (annual audits of each paying authority, ex-ante Disclosure Statements and ex-post Declarations of Assurance at Member State level, access to the reports of auditors and control bodies, sanctions on claimants which are proportionate but dissuasive, and reporting of the rate of error affecting EC funds and of systemic weaknesses).

Single Audit

9. Initiate discussions with the discharge authority, the Council and - with due respect to its independence - the Court of Auditors as an observer, and to draw up an action plan for the implementation of a Community internal control framework as soon as possible. *(General Budget - § 55)*

Commission's response:

The recommended action is being taken. With the Communication of 15 June 2005, the Commission intends to initiate a process which can lead to an agreement by November 2005 between the Commission, Parliament (as discharge authority) and the Council on how the current internal control framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of transactions.

It has instructed its services to:

- identify the gaps and propose plans of action to complete the control frameworks on which the Court can base the assurance its seeks;

- undertake discussions with the appropriate Council Committees, and present in October 2005 an initial report proposing a basis for a common understanding with Member States on an integrated internal control;

- verify the regulatory framework proposed for 2007-2013 and if necessary propose adaptations to include the provisions with, in the light of the gap-assessment, are required to complete an integrated control framework.

10. Disclosure statements by each Member State's highest political and managing authority (Finance Minister) must form an integral part of the Community internal control framework. *(General Budget - § 51)*

Commission's response:

The recommended action is being taken. In its Communication to the Council, the European Parliament and the European Court of Auditors of 15 June 2005 on a roadmap to an integrated internal control framework, the Commission suggests that as from 2006 Member States provide annual ex-ante Disclosure Statements and ex-post Declarations of Assurance at the highest Member State level (Parliament suggests the Minister of Finance).

With this Communication, the Commission intends to initiate a process which can lead to an agreement by November 2005 between the Commission, Parliament (as discharge authority) and the Council on how the current internal control framework can be improved in order to make it possible for the Commission to provide the Court of Auditors with reasonable assurance as to the legality and regularity of transactions.

Then, the Commission will adapt, if necessary, the legislative proposals for 2007-2013 to include the provisions which, in the light of the gap-assessment, are required to complete an integrated control framework, in particular the elements requested by Parliament one of which consists of ex-ante Disclosure Statements and ex-post Declarations of Assurance at Member State level.

11. Make sure that the detailed proposals setting out the legal framework of the policy proposals made as part of the political project for the Union until 2013 take full account of the elements contained in the "Community internal control framework" and the principle of annual disclosure statements by each Member State's highest political and managing authority (Finance Minister). *(General Budget - § 56)*

Commission's response:

The recommended action is being taken. When the agreement between the Commission, the European Parliament and the Council is reached by November 2005, the Commission will adapt, if necessary, the legislative proposals for 2007-2013 to include the provisions which, in the light of the gap-assessment, are required to complete an adequate integrated control framework, in particular the elements requested by Parliament (annual audits of each paying authority, ex-ante Disclosure Statements and ex-post Declarations of Assurance at Member State level).

Improvement of the Annual Activity Reports and declarations by Directors-General

12. Complying with a common, centrally driven risk management methodology, present in each AAR measures taken to limit the risk in underlying transactions together with an assessment of their effectiveness in order to get an improved general understanding of risks and a strengthening of the risk management culture within DGs. *(General Budget - §§ 59 and 60)*

Commission's response:

The guidelines for the Annual Activity Reports for 2004 (SEC(2004) 1562) provide that such reports contain information on (Part 3 of the Annual Activity Report):

a) the inherent nature and characteristics of the management, risk and control environment in which the DG operates;

b) the elements of the management and control systems (including risk assessment) which support the assurances required in the annual declaration;

and on (Part 4):

a) the nature and reason for any specific issues and weaknesses/shortfalls in the management and control systems which give rise to reservations, including a full explanation of the judgements reached on materiality, on their impact on the assurance contained in the annual declaration and on the corrective measures envisaged to deal with them;

b) the overall conclusions on the impact of reservations on the declaration as a whole.

These new guidelines, implemented by the Commission departments in 2004, proved to constitute a more solid and transparent basis for the assurance to be given by authorising officers by delegation, and provide a more coherent framework for the Commission departments' declaration to be taken into account for the Court of Auditor's declaration of assurance.

Among the internal control standards adopted and implemented by the Commission, one is related to analysing systematically risks in relation to the main activities at least once a year. In 2004, a pilot exercise was launched with 9 DGs; its aim was to try out a risk methodology that could be applied throughout the Commission.

Building on these pilot exercises, a common methodological framework should be adopted by the Commission in autumn 2005. It aims in particular at making risk management an embedded part of day-to-day management, integrated into the planning, execution and monitoring of Commission activities, rather than a one-off annual exercise. It will moreover help departments to formalise the work carried out in the domain of risk management more effectively and in the course of time reinforce coherence between departments in that respect

13. Reinforce the annual activity reports and synthesis report process, strengthen expression of assurances upon which the Court of Auditors may base the formulation of its DAS and followed-up to observations and clarify the definition of qualifications/reservations/other observations *(General Budget - §§ 59 and 61)*

Commission's response:

The recommended action has been taken and the processes for the annual activity reports have been amended and stabilised. In the 2004 annual activity reports, departments were asked to describe in more detail their management environment and the main risks faced. The reservations are often more precise and coherent and their impact on the departments ' reasonable assurance on the use of resources and legality and regularity of operations is often supported by an explicit reasoning.

During the peer review of potential reservations of the departments' 2004 annual activity reports and its aftermath, three groups of department 'families' have started working towards a more coherent approach to assess the seriousness (materiality) of detected weaknesses for their budgetary area and to determine the potential financial impact of systemic weaknesses.

The Synthesis is an act through which the Commission exercises its political responsibility, by analysing the annual activity reports and their declarations and by adopting a position on major horizontal issues, including appropriate actions for issues requiring remedy at Commission level.

Actions stemming from reservations in the Annual Activity Reports and from Synthesis actions are closely followed up by services and regularly reported upon. A state of play of all ongoing action is attached every year to the Synthesis Report (See SEC (2004) 732, Annex 3 for the 2003 exercise).

14. Convert the Annual Synthesis Report into a consolidated assurance statement on the Commission's management and financial controls as a whole. *(General Budget - § 62)*

Commission's response:

The Commission will not be taking the recommended action. The annual Synthesis report contains the Commission's position on main management and control issues and, in its annual report for 2003, the Court has indicated that the Synthesis report already made an initial analysis of the assurance provided by the control and supervisory systems.

The Synthesis is an act through which the Commission exercises its political responsibility, by analysing the annual activity reports and their declarations and by adopting a position on major horizontal issues, including appropriate actions for issues requiring remedy at Commission level. This approach is based on the reform, which decentralised the management responsibilities to Directors-General and Heads of Service, under the political supervision of the relevant Commissioner. In the Commission's opinion the system therefore provides the assurances looked for from a management perspective.

15. Ensure by means of thorough training and information programmes that civil servants are aware of the means by which they can report any suspicions of wrong-doing or mismanagement through normal hierarchical processes and, if necessary, through the procedures for whistleblowers. *(General Budget - § 64)*

Commission's response:

The reporting of improprieties is one of the Internal Control Standards (ICS 14) constituting the internal control system of the Commission. The Commission

training department offers an introductory course on the ICS, where ICS 14 is specifically discussed. In addition, the courses "Ethics and Integrity for Newcomers" and "Ethics and Integrity for Managers" both cover explicitly the reporting of wrongdoings and, in particular, the procedure provided for under Article 21(a) +(b) of the Staff Regulations on whistle blowing.

At the same time, one of the baseline requirements of ICS 1 on ethics and integrity, is that DGs have to ensure the availability of sufficient information on the rights and obligations of staff with respect to irregularities, wrong-doings and whistle-blowing.

Independently of the initiatives deployed by individual DGs, a comprehensive guide is available on IntraComm, the Commission intranet.

Further horizontal recommendations

16. Produce estimates of error rates by sector and Member State, using the findings of Commission's audit work and the control work carried out by the Member States, as well as an analysis of the quality of the information presented by Member States, and to publish the results in the AARs and the synthesis of AARs in such a way as to provide a clear view of the quality of Member States' administrative systems as regards EU accountability. *(General Budget - § 65)*

Commission's response:

The recommendation is not accepted. The Commission agrees that it seems appropriate to aim at "unbundling" the DAS, i.e. to "benchmark" sectors and/or Member States. However, the experience of the Court of Auditors has shown that the use of error rates needs to be treated with some caution when seeking to judge the respective performance of sectors or Member States and may therefore be not always appropriate.

In considering the use of error rates in relation to the Commission's own audit and control work the following points need to be kept in mind:

(a) audit and control work does not follow a completely uniform approach across all areas. The use of error rates normally derives from testing populations and extrapolating results to draw overall conclusions. Whilst certain areas may be subject to this type of approach - for example the ex-post control function based on random sampling - other audit work places the emphasis on assessing the adequacy of the control systems in place and not on determining the level or error present in a given financial population.

(b) much audit and control work is planned on a risk and/or cyclical basis which means that the areas actually examined can vary from year to year in response to events and changing circumstances. It does not necessarily follow a standard and uniform approach which would facilitate ready comparison of results from one year to the next.

(c) Although an indicative tool, the use of error rates does not necessarily provide the qualitative information which can be useful for determining the root causes of weaknesses and for meaningful conclusions to be drawn.

Therefore, the use of error rates per Member State could lead to incorrect conclusions, be misleading or be open to mis-interpretation, particularly if used in isolation.

The Commission's guidelines for Annual Activity Reporting process are already explicit and only refer to reservations in cases where weaknesses are considered material enough to qualify the declaration of assurance of the authorising officer.

Through this reporting process the Commission already analyses the results of its audit and control work, together with information received from Member States, in order to identify particular issues which might result in reservations to the annual declaration on the legality and regularity of underlying transactions. In this regard, error rates can already be taken into account, if they are available and are judged to be relevant in arriving at the final declaration.

17. Review the financial regulation, in order to improve application and comprehensibility and to increase the efficiency of controls by critically analysing the quantity and quality of planned controls. *(General Budget - § 67)*

Commission's response:

The Commission recently presented a proposal for the revision of the Financial Regulation (COM(2005)181 of 3 May 2005), the main objectives of which are to improve the efficiency and transparency of provisions and simplify the procedural and administrative requirements for the award of contracts and grants in order to secure a better balance between the cost of controls and the risks involved.

18. Give to an adviser within each cabinet the specific responsibility inter alia of monitoring all audit reports (as proposed in Parliament's resolution P5_TA(2004)0372 on Eurostat of 22 April 2004) where early warnings of problems have in the past been ignored. *(General Budget - § 68)*

Commission's response:

The Commission will not be taking the recommended action. In fact, the Commission has already established a number of principles regulating the activities of Commissioners and Cabinets, in particular their working arrangements with the Commission's departments, which are considered sufficient to mitigate the risk of insufficient exchange of information regarding audit matters.

According to the Code of conduct for Commissioners (SEC(2004)1487), working arrangements and information channels between the Commissioners and their Cabinets and the Commission departments are laid down by Directors-General and the Heads of Cabinet and endorsed by the Commissioners. As a basic rule, the Commissioner shall be regularly and properly informed of any proposal to make changes in the financial circuits and control systems and about all audit work performed (internal audit capability (IAC), the IAS, the European Court of Auditors, the Directorate-General or Service and OLAF).

These rules should include the number of regular meetings between the Directorate-General and the Commissioner (at least twice a year regarding audit and internal control issues) and set up the necessary contact points either for political issues or for routine management matters (including matters relating to internal control). Moreover, arrangements should also set up the way the decisions taken at the regular meetings, in particular decisions relating to audits, are monitored and the Directors-General should give an account of these meetings in their annual activity reports.

In this context it is also to be noted that the Commission set up the Audit Progress Committee in 2000. It follows up implementation of audits, in particular those of the Internal Audit Service but also the ECA audits, and assesses internal audit quality, and thus gains a more general view of the control systems of the Commission. In 2004 the chair of the APC was assigned to the Vice President for Administration, Audit and Anti-fraud, extending the APC remit and membership. The combination of the responsibility for audit and discharge within this portfolio opens the opportunity for important synergies and rationalisation in the manner in which the Commission organises political oversight of the audit process.

19. Stimulate and focus more on the learning element of financial control, by promoting exchanges of information between Member States, benchmarking, participation of national auditors in audit teams and shared investment in better IT systems, and by carrying out preventive audits which focus on giving advice rather than on imposing sanctions. *(General Budget - § 69)*

Commission's response:

The Commission is already pursuing an audit strategy which aims to promote the exchange of information between Member States, establish common criteria, coordinate audits and publish audit findings. This strategy was particularly boosted in the Structural Funds sector in 2004 when the undertakings made under action 5.3.3.B of the synthesis of the 2002 Annual Reports (C(2004)3115/3) were carried out. It goes without saying that use of the Community control framework will help boost this type of initiative. The risks identified in the national audit reports are also taken into account when establishing the audit strategy of the Commission's operational departments. Furthermore, the audit strategy already includes many system audits of a preventive nature.

20. Provide in follow-up reports comprehensive details of the actions adopted and implemented in order to address the observations and implement the recommendations made by the Court of Auditors in the 2003 annual report and in the three previous annual reports and include in that follow-up report a detailed list and a schedule of the measures planned in those cases where no action has yet been adopted and/or implemented. *(General Budget - § 70)*

Commission's response:

The recommendation is accepted. The Commission will again present an Action Plan as part of the 2003 discharge. The purpose of this document is to indicate the corrective measures required to follow up the recommendations of the Court of Auditors as well as the impact expected from these measures.

This Action Plan will be based on the Commission's replies to the Annual Report of the Court of Auditors relating to the 2003 financial year, with updates and additional information provided by the Commission's departments. It will examine the measures to be implemented sector by sector to improve the Commission's financial management and thus obtain a satisfactory statement of assurance (DAS).

21. Forward the following proposal for modification of Article 145(1) of the Financial Regulation:

"The European Parliament, upon a recommendation from the Council acting by a qualified majority, shall, before 30 June of year n + 2 give a discharge to the Commission in respect of the implementation of the budget for year n." *(General Budget - § 79)*

Commission's response:

The Financial Regulation in force now brings forward the timetable for the presentation of accounts (from the 2005 financial year onwards), giving the discharge authority more time to adopt its decision. When its proposal for the revision of the Financial Regulation was adopted on 3 May, the Commission also agreed to return to the question of the discharge timetable once the other

institutions had expressed their opinions. As mentioned in the communication of 15 June 2005 on a route map for an integrated control framework, the Commission is prepared to amend Article 145 of the Financial Regulation in order to put back the time limit for the discharge after consulting the other institutions.

Own resources

22. As regards GNI-related own resources, expressly supports the Court of Auditors' recommendation (paragraph 3.48 of the Court's 2003 Annual Report) that the Commission carry out more direct verifications of the underlying data from national accounts. *(General Budget - § 81)*

Commission's response:

The Commission continues its usual thorough verification of the GNI data and the sources and methods used by Member States to compile it. In addition the Commission is currently examining ways to carry out more direct verification in the sense indicated by the Court. A pilot project is planned for 2005. Moreover, some reorganisation is underway within Eurostat to give more prominence and resources to verification of national accounts data used for own resources.

Agriculture, animal health and measures to combat fraud

23. Inform no later than September 2005 its competent committee on the progress made by all Member States in terms of hiring sufficient trained staff and of using electronic reporting. *(General Budget - § 82)*

Commission's response:

The Commission is taking the recommended action. It agrees to report back to the Committee on Budgetary Control on progress made by Member States by September 2005.

24. EP expects to receive a report, in time for the 2004 discharge procedure, on how and when EUR 1.12 billion, for which the Commission is responsible for having failed to recover during the period from 1971 to September 2004, will be recovered. *(General Budget - § 83)*

Commission's response:

The Commission is taking the recommended action. The Commission agrees, as requested, to produce a report on the recovery situation in time for the 2004 discharge procedure. The Commission would point out that it already adopted in December 2002 a communication on "Improving the recovery of Community entitlements arising from direct and shared management of Community expenditure" [COM (2002) 671 final of 3 December 2002].

As regards the comments on the non-recovery of at least €1.12 billion during the period 1971 to September 2004, it should be noted that a temporary Task Force Recovery (TFR) was established in February 2003. The TFR is a Commission initiative, the responsibility for which was jointly assigned to OLAF and AGRI. It had the task of examining all EAGGF Guarantee irregularity cases communicated by Member States before 1999. It was originally intended to audit about 4 000 cases involving a total amount of €1 212 million not recovered by Member States.

After the TFR had completed the audits in 2003/2004 for all individual cases exceeding €500 000 the total "real" debt was established at €765 million (instead of the original amount estimated at €1 035 million). In November/December 2004, formal letters were sent to each individual Member State concerned for all cases audited; in application of the formal Clearance of Accounts procedure (application of Article 8 of Regulation No 1663/95).

Finally, it is the Member States which are primarily responsible for recovery of irregular payments. The Commission can charge the Member States for the non-recovered amounts if the Member States concerned have been negligent. But, as Member States need time to recover the funds, it cannot reasonably be argued that they have been negligent if recent irregular payments (for example those relating to 2003 and 2004) are still outstanding.

25. EP expects an evaluation of the efficiency of the 'premium' of 20% payable to the payment agency for successful recovery. *(General Budget - § 83)*

Commission's response:

The Commission will not be taking the recommended action because it does not consider that the evaluation requested by the Parliament is appropriate. The 20% is not a premium. It is a flat rate amount, which is intended to cover the expenses

incurred in successfully recovering sums wrongly paid in connection with the financing of the common agricultural policy, which are returned to the Community budget. It should be noted that the same 20% retention concept was also introduced in Article 32(2) of the new Regulation on the financing of the CAP which was adopted by the Agriculture and Fisheries Council during its session on 20-21 June 2005.

26. Propose simplified and more coherent rules on recoveries in preparation for the revision of the financial regulation; consult EP on this aspect before the finalisation of the proposal. *(General Budget - § 84)*

Commission's response:

The Commission has taken the recommended action. Parliament gave its opinion on the new regulation on the financing of the CAP, which sets out revised rules for recoveries, prior to its recent adoption by the Council.

27. Achieve measurable progress by realistically benchmarking future improvements and by regularly reporting progress to its responsible Committee. *(General Budget - § 87)*

Commission's response:

The Commission is taking the recommended action. It is quite confident that the Taskforce Recovery will make significant progress; the responsible Committee will be kept informed.

28. Improve the monitoring of the paying agencies who are responsible for implementing the common agricultural policy. *(General Budget - § 88)*

Commission's response:

The Commission has taken the recommended action. As well as provisions under existing legislation (for example the requirement of an annual audit), the new Council regulation on the financing of the CAP obliges the head of each paying agency to sign a declaration of assurance.

29. Follow up its practice of submitting paying agencies in the new Member States to approval before accession and submit to Parliament a report on the possibility of the approval of paying agencies by the Commission in the present Member States. *(General Budget - § 88)*

Commission's response:

The Commission will not be taking the recommended action. In the spirit of shared management the Member States are fully responsible for the accreditation of the Paying Agencies.

30. Invites the Commission, since the current regulation does not enable it to develop binding rules on interconnection facilities for national databases, to submit a legislative proposal extending its implementing powers so as to ensure compatibility between the national databases. *(General Budget - § 90)*

Commission's response:

The Commission regrets the lack of legal base to lay down detailed rules for the national databases, in particular as regards exchange of information. In view of the further developments of the national databases since the rejection of its

proposal, the Commission intends to re-examine the situation and to consider possible preparation of an appropriate legislative proposal with the view to ensuring the exchange of information between the national databases.

31. Provide, within the existing legal framework, guidance and advice on exchange of data, especially to new Member States which are currently setting up their national databases. *(General Budget - § 91)*

Commission's response:

The recommended action has been taken. The Commission has already, under the existing legal situation, provided advice and assistance to the Member States setting up and managing databases for bovine animals. A working document for benchmarking of the national databases has been developed to assist the Member States in further improving their databases.

Prior to 1 May 2004 the then Candidate Countries were prepared for accession, notably through the Commission's TAIEX office, but also through PHARE and the Framework programmes for Research and Development, and in twinning projects with existing Member States. An important aspect of this preparation in the animal and public health field was to establish a system for the identification and registration of animals including databases in accordance with Community legislation, and to provide the necessary training.

32. Submit a concrete proposal on the use of electronic identification arrangements instead of ear tags. This proposal should confer implementing powers on the Commission in order to facilitate the setting up of common standards for the information kept on the respective electronic devices. *(General Budget - § 92)*

Commission's response:

The Commission is taking the recommended action. The Commission plans to submit a report to the Council and the European Parliament on the possibilities of introducing electronic identification for bovine animals. This report is based on the outcome of the IDEA project, a large-scale project on the electronic identification of animals, which is managed by the Commission. Any concrete proposal on the electronic identification of bovine animals should take into account the discussion of this report.

33. Submit a report to Parliament and the Council on the application of foot-and-mouth disease eradication measures and the corresponding Community expenditure. This evaluation should take into account cost-benefit analyses of the Community's strategy. *(General Budget - § 93)*

Commission's response:

The Commission is taking the recommended action in compliance with Article 43a of Decision 90/424/EEC which requires a triennial report on the conditions of application of this Decision to the European Parliament and the Council. In particular are expenditure in the veterinary field included in the annual report to the budgetary authorities, i.e. Council and European Parliament, within the framework of the European Agricultural Guidance and Guarantee Fund. As required in Article 15, the measures to prevent or control FMD in accordance with Articles 12 to 14 are integrated in the annual budgetary process and thereby monitored by Member States and the European Parliament.

However, Article 43a was introduced by Decision 94/370/EC with clear reference to eradication programmes for endemic diseases. Because the Member States of the EU are free of FMD without practicing prophylactic vaccination, such regular reports could therefore only concern Articles 12, 14 and 15 in Chapter 2 of that Decision. Only in case of an outbreak the report should also include details about the application of Article 11, i.e. in relation to eradication measures for FMD.

In relation to all Articles in Chapter 2 of Decision 90/424/EEC, the Member States are informed in real-time as the relevant Commission Decisions go through the committee procedure in the Standing Committee on the Food Chain and Animal Health.

In the particular case of Article 12, so far the measures taken to support the control and eradication measures for FMD in third countries have been subjected to the committee procedure, as requested in Article 13, and have been carried out in close cooperation and in accordance with the decisions of the Executive Committee or the General Session of the FAO based European Commission for the Control of FMD (EUFMD), of which 22 Member States are member countries. Since 2001 this cooperation is formalised by an implementing agreement based on a Commission Decision adopted by committee procedure. The reports of the General Sessions and of the meetings of the Executive Committees are published on the FAO-EUFMD web-site.

The Community's financial contributions to the Community reserves of antigens of the FMD-virus for the formulation of anti-FMD vaccines, as referred to in Article 14 of Decision 90/424/EEC, are decided annually following the committee procedure and are thereby made known to the Member States and European Parliament. Details about the quantities and subtypes of antigens are, in accordance with Article 80 (3) of Directive 2003/85/EC, classified information available to the Chief Veterinary Officers of Member States.

34. In the framework of the management and supervision of the measures to control foot-and-mouth disease, not only formal transposition, but also effective implementation by Member States should be closely monitored. *(General Budget - § 94)*

<u>Commission's response:</u>

The recommended action has been taken.

The Commission's Food and Veterinary Office is continuing its inspections in Member States both for the evaluation of general capacities of the competent authorities, including the veterinary services, and for the implementation of contingency plans for major epizootic diseases in poultry and livestock. These reports are published in accordance with the established procedures on the Commission's website.

Fundamental research into FMD has been and is being supported by programmes supervised and financed by DG Research, at present inter alia within the fifth Framework Programme, as follows:

Development standardisation and harmonisation of novel multiplex nucleic acid tests for the detection of economically important viruses of farm animals;

Foot-and-mouth disease virus: the molecular basis of tissue tropism and persistence;

Optimising DNA based vaccination against FMDV in sheep and pigs;

Coronavirus vector-based vaccine for prevention of foot-and-mouth disease.

Applied research such as the validation of tests for the detection of infection in a vaccinated population or pen-side tests have been supported by the Commission and will be part of the annual work programmes for a Community Reference Laboratory to be designated.

35. Further stimulate the research into vaccines and testing methods and to update the study concerning the ability of Member States' veterinary services to guarantee effective disease control in due time. *(General Budget - § 94)*

Commission's response:

The recommended action has been taken.

The Commission's Food and Veterinary Office is continuing its inspections in Member States both for the evaluation of general capacities of the competent authorities, including the veterinary services, and for the implementation of contingency plans for major epizootic diseases in poultry and livestock. These reports are published in accordance with the established procedures on the Commission's website.

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Applied research such as the validation of tests for the detection of infection in a vaccinated population or pen-side tests have been supported by the Commission and will be part of the annual work programmes for a Community Reference Laboratory to be designated.

36. Take further into consideration the possibility of reducing transport by making greater use of local abattoirs and take immediate action to reduce transport of ill or injured animals; *(General Budget - § 95)*

Commission's response:

The recommended action has been taken as far as animal transport is concerned.

In 2004 the Commission together with the Dutch Presidency made a major effort to further strengthen the animal welfare conditions for transport of animals.

Council Regulation (EC) No 1/2005 of 22 December 2004 on the protection of animals during transport and related operations and amending Directives 64/432/EEC and 93/119/EC and Regulation (EC) No 1255/97 was published on 5 January 2005 and shall apply as of 5 January 2007.

This regulation will introduce very strict and innovative standards for the transport of animals raising in a consistent way the quality of the transport operations, including the improved efficiency of the control activities and the higher standards for the protection of the animals.

One of the most innovative changes, as suggested by the European Parliament, is the requirement for a mandatory satellite navigation system for road vehicles transporting animals for long journeys. The Commission believes this technology represents a promising tool to better monitor animal transport in the EU. The proper use of this instrument will contribute to promote an approach to animal transport more transparent and of higher quality.

Furthermore the regulation will reinforce the current rules as regards the fitness of animals to be transported, which is already today verified when the veterinarian establishes a health certificate of intra-community trade.

Transport of animals on national territory is regulated by national animal health rules and Community rules on animal welfare.

A new system named TRACES, dedicated to the traceability of the movements of animals and to the recording of all the controls performed on animal health and animal welfare has been implemented from 1 April 2004 and is compulsory from 1 January 2005. TRACES will allow an assessment on the effectiveness of the controls and point out the improvements to be made in that field.

However, any system established to ensure traceability of animals can only be as good as the underlying system for the identification of animals and registration of the holdings they are kept in. Therefore, in addition to the Commission's reply on bovine identification, it should be noted that Council Regulation (EC) No 21/2004 of 17 December 2003 establishing a system for the identification and registration of ovine and caprine animals and amending Regulation (EC) No 1782/2003 and Directives 92/102/EEC and 64/432/EEC requires that as of 9 July 2005 the identification, registration and movement documentation for these species will be reinforced.

With regard to the employment of mobile slaughter facilities, reference is made to the recently adopted legislation on feed and food controls. By adopting a number of relevant Regulations, the European Parliament and the Council have set again very high standards for the hygiene and health conditions applicable to food production. It is unlikely, but not excluded, that in certain cases mobile slaughter facilities may meet all conditions laid down to protect consumers' health and the environment.

37. Submit a legislative proposal to the Council and Parliament making Community reimbursement of compensation paid by Member States to farmers for disease eradication measures conditional on their compliance with the duty to notify any outbreak quickly. *(General Budget - § 96)*

Commission's response:

The recommended action has been taken.

However, the Commission reiterates its opinion that compensation and punishment are two distinct legal aspects, as laid down in Article 55 of Regulation (EC) No 882/2004 of the European Parliament and of the Council of 29 April 2004

on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules, which reads:

"Sanctions:

1. Member States shall lay down the rules on sanctions applicable to infringements of feed and food law and other Community provisions relating to the protection of animal health and welfare and shall take all measures necessary to ensure that they are implemented. The sanctions provided for must be effective, proportionate and dissuasive.

2. Member States shall notify the provisions applicable to infringements of feed and food law and any subsequent amendment to the Commission without delay."

Furthermore, in order to take account of the recommendation of the European Parliament Temporary Committee on FMD and the recommendations of the report of the Court of Auditors on FMD, the Commission supported the Dutch Council Presidency in organising a Conference on "The Material and Immaterial Costs of Animal Disease Control" on 15 and 16 December 2004 in Brussels to discuss with stakeholders the future of the Community animal health policy, including aspects of animal health insurances.

The recommendations of that conference are available under the following link:

http://www9.minlnv.nl/servlet/page?_pageid=100&_dad=portal30&_schema=PORTAL30&p_item_id=97120

The Commission in particular supports the following relevant recommendations:

"All keepers of animals and related stakeholders (transport, trade) should be stimulated to take their responsibility as regards the prevention and control of the spread of major epidemic animal diseases.

Producers should bear more responsibility for the financial aspects of the control of epidemic animal diseases.

Differences between Member States in their approach towards the financing of animal disease costs and losses should not lead to distortion of competition.

The EU should stimulate the establishment of insurance schemes, private or public/private funds to face animal disease financial risks, while continuing to ensure financial support for the implementation of Community measures for disease control."

38. Further clarify the financial framework to ensure equal treatment for farmers and transparency in the calculation of compensation by aligning reimbursement rates for the different animal diseases and by establishing viable criteria for the calculation, such as the current market value of the animal. *(General Budget - § 97)*

Commission's response:

The recommended action has been taken.

On 28 February 2005 the Commission adopted a Regulation laying down rules on the eligibility for Community financing of emergency action and measures to combat foot-and-mouth disease as referred to in Chapters 1 and 2 respectively of Council Decision 90/424/EEC.

The Regulation provides for fair compensation to owners affected by a specified animal disease, calculates the price of the animals on the base of the market value, but also provides a ceiling for the compensation depending on the species, lays down a basis for calculating the support for operational expenditures, the conditions for payment and the requested supporting information, it sets down the conditions for reducing the eligible expenditure due to failures of the administration and the audit procedures to ensure compliance with EC legislation.

39. Seek to ensure that reform proposals are supported by sufficient data and impact analyses. Pay particular attention to the significance of tobacco production for employment and the economy of less-favoured areas. *(General Budget - § 100)*

Commission's response:

The Commission has taken the recommended action. For the 2004 CAP reform with regard to raw tobacco, the Commission conducted an extended impact assessment while an external party carried out a detailed evaluation of the Common Market Organisation for Raw Tobacco. In both studies, the element of employment in both the production and the overall tobacco sector received due attention and the results of these studies were used as a basis for the Commission's proposal for reform.

In addition, as a result of the 2004 reform, from 2010 onwards, 50% of the funds shall be available for measures in tobacco regions under rural development programming, aiming at restructuring the tobacco producing regions and safeguarding employment opportunities in these regions.

40. Align Community's agricultural and development policies. *(General Budget - § 102)*

Commission's response:

The Commission has taken the recommended action.

As a result of the reform in 2004, full decoupling will apply from 2010 onwards. There will no longer be support for the production of tobacco, thereby providing opportunities for sustainable development for farmers in developing countries.

Furthermore, the role of EU tobacco on the world market is rather limited. In the year 2003, the EU share of the world wide volume of tobacco exports was less than 10%.

In addition, a substantial part of EU imports comes from developing countries with a preferential treatment where appropriate.

41. Pursue policy on promoting the cultivation of alternative crops and use the Tobacco Fund as an important instrument both for the improvement of the quality of EU tobacco and for research into alternative crops. *(General Budget - § 103)*

Commission's response:

The Commission has taken the recommended action with regard to promoting the cultivation of alternative crops; it pursues this policy in several ways. However, the function of the Community Tobacco Fund will change in time.

Until 2006, half of the resources of the Community Tobacco Fund are to be used for measures to promote a switch of production. The actions that are financed comprise specific individual measures and general interest measures to encourage

raw tobacco producers to switch production to other crops or economic activities that generate employment, and studies the possibilities for raw tobacco producers to switch to other crops or activities. After 2006, in respect of the 2006 and 2007 harvests, the Community Tobacco Fund will be used only to improve society's knowledge of the hazardous effects of any form of tobacco consumption.

From 2006, farmers will receive at least 40% of their tobacco reference amounts as a decoupled payment. This should allow them to make an appropriate choice: either to continue producing raw tobacco or to grow other crops depending on market conditions.

The Commission will not be taking the recommended action concerning the use of the Tobacco Fund as an instrument for the improvement of EU tobacco quality.

In 2002, the financing of research on improvement of EU tobacco quality by the Community Tobacco Fund was abandoned (Council Regulation (EC) No 546/2002, Article 3(3)) and replaced by the above described measures to promote a switch of production. There is, therefore, no longer a legal basis to improve EU tobacco quality using Tobacco Fund resources.

42. Approach more consistently the Community Tobacco Fund's research into alternative crops and the promotion of a switch of production to other economic activities. *(General Budget - § 104)*

Commission's response:

The Commission has taken the recommended action. However, the function of the Community Tobacco Fund will change in time.

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43. Impose financial sanctions on those Member States which have failed to comply with their notification duties as laid down in the respective Community regulations. *(General Budget - § 105)*

Commission's response:

The Commission has taken the recommended action. The Commission pays particular attention to the examination of management and control data which are to be notified to the Commission. In the case of non-compliance by the Member States, its departments take appropriate action and examine the possibility of imposing financial corrections in cases where lack of information or erroneous data imply financial risks.

44. Make farmers aware in advance of their new obligations as regards cross-compliance with environmental standards after the 2006 reform. Asks the Commission and Member States to fulfil their duty to precisely define these criteria in good time before the reform comes into force, in order to enable farmers to bring their activities into line with the new rules. *(General Budget - § 106)*

Commission's response:

The Commission has taken the recommended action. Cross-compliance rules apply with effect from 1 January 2005 to all direct payments in all "old" Member States and the new Member States not applying the Single Area Payment Scheme; the relevant legislation for the application of the new direct-payment related sanctioning system was published in the OJ on 30 April 2004.

The obligations which have now become relevant for cross-compliance purposes are in no way new obligations, but rather longstanding "old" legislation in the fields of environment, human, animal and plant health and animal welfare. Under Article 3(2) of Regulation (EC) No 1782/2003 the Member States are obliged to furnish the farmers with a list of their cross-compliance obligations.

45. Submit also to Parliament the report on the implementation of the 2006 reform, to be presented to the Council before 31 December 2009. *(General Budget - § 107)*

Commission's response:

The Commission is taking the recommended action. It will be pleased to transmit the said report to the European Parliament.

Structural Measures

46. Inform Parliament of the countries which have failed to rapidly implement agreed improvements in their control systems and continue to supply incomplete Article 8 statements. *(General Budget - § 110)*

Commission's response:

The Commission is taking the recommended action. The Commission departments mention individual countries and systems that have been slow to implement agreed improvements in the annual activity reports of the Directors-General. Parliament is referred to these reports for 2004. With regard to incomplete Article 8 statements, the quality of the closure documentation submitted in relation to 1994-99 programmes was variable. Financial corrections have been applied where the further information the Commission asked Member States to provide or the additional audit work it asked them to carry out as a result of incomplete statements still left a risk of irregular expenditure in the final payment claim. The 1994-99 closure exercise has, however, now been largely completed, so the problem with incomplete Article 8 declarations is a thing of the past. With the benefit of the experience gained and timely guidance to be provided by the Commission, the quality of closure documents due in 2009 for 2000-06 programmes is likely to be better.

47. Suspend interim payments to Member States in cases of serious irregularity or when serious failings in the Member States' management control systems are found. *(General Budget - § 111)*

Commission's response:

The Commission is taking the recommended action. The Commission uses its power to suspend payments where Member States' systems display persistent weaknesses representing a serious risk to Community funds and the Member State has failed to correct the weaknesses.

48. Draw up clearly defined objectives and indicators allowing the impact of Interreg III to be measured, so that the added value of EU spending in this area can be assessed and provide for a clear and competent analysis showing divergences between private and social costs and benefits or between local and Community level costs and benefits. *(General Budget - §§ 112 and 113)*

Commission's response:

The Commission is taking the recommended action. The Commission recognises the importance of setting clear objectives for Structural Fund programmes and defining indicators to measure performance in relation to those objectives. It is constantly striving for improvement in this area. In INTERREG programmes specific objectives are set for areas such as the development of tourism and cultural activities, business cooperation, cross-border infrastructure, and common services and facilities. For such activities performance is measured against precise targets. However, not all activities in the area of cross-border, transnational and interregional cooperation can produce tangible and short-term results. Some have a more intangible and longer-term impact, making the setting of precise objectives with quantified targets difficult or impossible. In partnership with the Member

States the Commission attempts to strike a balance between short-term, measurable results and longer-term development aims.

The Commission has steadily improved the input of regional analysis into programmes via ex ante evaluations and will continue to work in this direction. As, however, some INTERREG activities have more intangible and longer-term aims, it is very complicated to make a detailed assessment of the costs and benefits for the wider public/the community as compared to the direct beneficiaries/local population. The main problem created by borders is the insufficient intensity of economic and social relations between neighbouring actors, which is an obstacle to development.

Internal Policies

49. Better focus calls for tenders and provide more assistance to applicants in order to avoid the submission of numerous project applications which are clearly non-eligible for funding. *(General Budget - § 115)*

Commission's response:

The action has been taken. The scope for awarding calls for tender in 2003 under the Life programme was limited. Since the beginning of the LIFE program the scope is well defined and known by the applicants. The percentage of proposals refused on this ground is limited. In 2003 no specific issues were raised by unsuccessful tenderers in this respect.

Various tools to assist applicants are available on the web site of the LIFE programme and the National Ministries of Environment are providing assistance and awareness raising as well.

50. Compliance with administrative and financial provisions of the Financial Regulation should not lead to unnecessary delays in awarding grants or selecting projects to be financed. *(General Budget - § 116)*

Commission's response:

The action has been taken. The timetable for the publication of the call for proposals and the procedure for the awarding of grants for the Life programme are well documented and in broad terms followed. No specific delays were noted in respect of 2003 despite the full entry into force of the new Financial Regulation.

51. Fully involve Parliament from the early stages of any review of the rules for setting the Community financial participation whilst allowing adequate control over expenditure, given its role as co-legislator for the legal framework and the rules of participation in framework programmes. *(General Budget - § 119)*

Commission's response:

The Commission is sponsoring a meeting in June in Luxembourg with the Presidency and the Court of Auditors to discuss simplification of the Seventh Framework Programme and the issues to be addressed in its rules for participation. The Chairman of the European Commission's ITRE Committee has been invited to identify the MEPs that would be interested in participating.

52. The likely significant increase budgetary appropriations for the Seventh Framework Programme by the "Lisbon agenda" will require increased simplification of the administrative procedures both for participants and for the Commission. *(General Budget - § 120)*

Commission's response:

A working document on simplification was included in the Commission's proposal for the Seventh Framework Programme adopted on 6 April 2005.

This Commission Staff Working Paper adopted by the Commission on 6 April proposes a first set of 10 measures to simplify implementation procedures, including extended use of lump-sum financing (especially for Networks of Excellence), electronic registration desk allowing participants to submit once and for all their basic legal, administrative and financial data, reduction of a-priori

controls while guaranteeing protection of Community's financial interests, full operational autonomy entrusted to consortia avoiding Commission departments' micro-management, simplification of the definition of eligible costs based more on the contractor's usual accounting and management practices and principles and ensuring effective and efficient use of the Community financial contribution, broader flexibility of use of research policy budget allowing the selection of riskier but also more promising research projects.

In addition, as mentioned in recommendation 2003/PAR/3020, the June workshop on simplification should help to consolidate further actions and efforts to be made in this direction. Ongoing efforts are being made to ensure that participants can participate easily and effectively in RTD projects. In particular a Sounding Board of smaller participants has been set up by Commissioner Potocnik to ensure that their interests are taken into consideration when establishing FP7 rules.

53. Learn the appropriate lessons from the lack of transparency of accounting in relation to the FP5 due to the number of cost categories, and ensure that this is not repeated in subsequent programmes. *(General Budget - § 122)*

Commission's response:

The recommended action has been taken. As mentioned in recommendation 2003/PAR/2590, the FP6 model contract has eliminated the somewhat artificial cost categories required by model contracts used under previous Framework Programmes. The use of the contractors' own accounting system provides participants with the flexibility and the Commission with sufficient assurance that the costs incurred meet the requirements to carry out the project. To be eligible, costs must be actual, economic and necessary and not fall into any of the categories of non-eligible costs identified by the contract. An audit certificate is required from each contractor by the end of the project at least to certify that the costs claimed meet the contractual requirements and should serve to prevent errors in making claims.

For FP7, by establishing that eligible costs are not only to be determined according participants' usual accounting principles, but also according to their usual management practices, it will make it possible to remove the need for complex cost reporting models by considering only two situations:

- participants that are able to identify and calculate their direct and indirect costs;

- participants that are able to identify and calculate their direct costs but not their indirect costs. (A flat rate deemed to cover their indirect costs will be proposed for those participants. To ensure continuity with the 6th Framework Programme it is proposed to maintain a flat rate of 20% of the direct eligible costs, minus the eligible costs of subcontracting.)

With such an approach, the definition of the eligible costs will only be based on:

- a list of non-eligible costs;

- a list of eligibility criteria (as in FP6) incorporating the capacity or not of a participant to identify and calculate its indirect costs related to the project.

54. Base its proposal for FP7 on effective simplifications such as:

– concentration on fewer intervention mechanisms;

– reduction of the large number of different models for contracts;

– introduction of a single cost system to address the problem of "overcharging" by participants. *(General Budget - § 123)*

Commission's response:

The Commission is taking the recommended action. The proposal for FP7 adopted by the Commission on 6 April 2005 clearly indicates a simplification in the intervention mechanisms which can be used alone or in combination as determined by the work programmes or the Specific Programmes.

Since there is only one model contract for FP6 (with the exception of Marie Curie actions) it would be difficult to say that fewer model contracts should be established for FP7. It is true that for FP6 projects (non- Marie Curie) there are four different special annexes in addition to the standard version for some special types of instruments (namely integrated projects, networks of excellence, SME specific actions and integrated infrastructure initiatives) however the bulk of the provisions even for these instruments follow the standard model established.

The introduction of a single reporting cost model is proposed in the Commission working document on simplification that is part of the proposals for FP7.

55. Ensure value for money by performing qualitative ex post evaluations of scientific results and impacts; *(General Budget - § 124)*

Commission's response:

The recommended action has been taken. Community research activity has for many years been the subject of ex post evaluation which includes the scientific results and impacts. Value for money criteria are among the issues that are addressed through the evaluations, especially in terms of providing European Added Value.

A Five Year Assessment, which is provided for in the Framework Programme Decisions, was carried out in 2004 by a high-level panel of independent experts chaired by Dr E Ormala and examined the implementation and achievements of Community research over the period 1999-2003. The panel's report, drawing on an extensive evidence base, provides a thorough quantitative and qualitative analysis, positive conclusions and a set of recommendations for the future. These recommendations have already been taken into account in the Commission's proposals for the 7th Framework Programme, including the specific provisions for ex post programme evaluation.

56. Develop its procedures in such a way that the cost of preparing project applications is reduced to a justifiable level. *(General Budget - § 125)*

Commission's response:

The Commission is taking the recommended action. The use of two stage submission and evaluation procedures (where the first stage is a limited, simpler proposal) should help to reduce the costs of preparing project applications for those applicants who are not successful at the first stage. This should also help to reduce oversubscription in certain areas. However, there is the drawback that the overall process takes longer and projects will begin later than when a single stage

is used. An extended use of two-stage submission and evaluation is proposed in the Commission working document on simplification for the FP7 proposal.

The Commission is now using all-electronic proposal submission for calls for proposals, which simplifies and reduces the costs for applicants. It has also indicated (in the Commission staff working paper) that it will put in place an electronic registration procedure, allowing applicants to submit their administrative details only once, at the time of their first proposal submission.

57. Redraw the rules for participation, introducing access to mid-term scientific and technical evaluations of ongoing projects as a standard procedure. *(General Budget - § 126)*

Commission's response:

The Commission accepts the recommendation. Providing access to mid-term scientific and technical evaluations of ongoing projects could endanger the commercial confidentiality of certain projects and damage the protection of intellectual property and/or the rights to IPR. It needs to be identified to whom this access should be given, on what terms or what purpose it would serve.

Under FP6 and previous Framework Programmes access to information from projects that was relevant to public policy is possible for Member States and Associated States under certain conditions.

58. Identify a suitable interim evaluation board. *(General Budget - § 126)*

Commission's response:

The Commission is taking the recommended action. The Commission's proposals for the 7th Framework Programme provide for the Commission to carry out, with the assistance of external experts, an interim evaluation of the Framework Programme and its specific programmes on the quality of the research activities under way and progress towards the objectives set. External experts assisting the Commission in this evaluation will be selected according to the rules for participation to be adopted for the 7th Framework Programme, keeping in mind the need for an appropriate balance on, for example, qualifications, affiliation and geographical coverage

59. Profit from experience with delays in the adoption of FP6 model contracts and financial guidelines, as well as in the implementation of the Internal Control Standards and the deployment of the common IT system in order to avoid similar delays in future. *(General Budget - § 127)*

Commission's response:

The Commission is taking the recommended action. Efforts are being made to ensure that all necessary information on model contracts and financial guidelines will be made available to potential participants as soon as possible, however the legislative process by necessity requires that certain aspects can only be established after certain decisions are taken by Council and Parliament.

The Commission is taking the recommended action and intends to take measures to ensure flexibility in future IT developments to limit, where possible, the effect of delayed business decisions and introduce aspects of the Internal Control Standards into the IT development and operational business processes.

60. Include more efficient management structures in FP7:

- by creating the conditions for a better match between the resources of the Commission (i.e. project officers, IT tools) and the number of projects financed, so as to ensure adequate scientific monitoring, which is currently limited to a few days per project;

- by identifying and bringing in a suitable supervisory board for scientific evaluations;

- by developing an integrated database including a common IT system for proposals, contracts and project management; *(General Budget - § 128)*

Commission's response:

The recommended action has been taken. The introduction – in 2002 – of Strategic planning, Activity based management and the Annual management plan, allows a more adequate use and monitoring of resources. These tools are fully introduced in the Research DGs. Indeed, regular evaluation takes place to assess whether objectives are met and – whenever necessary – adjustments are made immediately. Thus, conditions have been approved to ensure a better match between resources and projects financed.

- The Commission agrees with the need for a better match between resources for project monitoring and the number of projects financed. It has indicated in its proposals for FP7 its intention to "externalise" the management of a significant proportion of the activities to an executive structure. The extra resources that will thus be dedicated to the administration of the projects will allow Commission staff to concentrate better on the scientific follow-up of projects and feeding the lessons learned back into policy.

- The Commission keeps its options open for the future, in particular for FP7. The future organisation will depend amongst others on the structure of FP7 proposed by the Commission in the first half of 2005. The Commission will analyse the requirements for an integrated database for FP7 in the light of these proposals.

- On the question of a supervisory board for scientific evaluations, the Commission has indicated its intention of setting up a European Research Council, composed of eminent scientists to provide scientific oversight of the new frontier research part of FP7. For the remainder of FP7, the current approach has offered stability through the use, sometimes for up to four years, of the core team of an evaluation panel. There are arguments against turning this into a permanent "board", notably the need to maintain flexibility to take account of new research areas, to avoid further layers in the proposal evaluation process which would conflict with the move to simplification of administration and, above all, to ensure through a process of rotation, that there is no suspicion of insider-dealing in a process which is crucial to ensuring the trust of the wider scientific community. The evaluation process in all areas of the Framework Programme is subject to constant oversight by independent observers, who report their findings to senior programme management.

61. Take into account, in the context of the proposed scheme, the special needs of SMEs and consider the possibility of extending such schemes to EUREKA projects. *(General Budget - § 129)*

Commission's response:

The Commission is taking the recommended action. In addition to the two SME specific schemes, Cooperative and Collective Research, various measures are being implemented across the Framework Programme to encourage and facilitate the participation of SMEs. Measures to further simplify and rationalise administrative and financial procedures will be particularly beneficial to SMEs. Furthermore, the research needs and potential of SMEs will be better taken into account in defining research themes which will be implemented through projects with different sizes and scope depending on the field and topic.

The Commission has proposed to EUREKA that a dedicated initiative be set up under Article 169 of the Treaty in favour of high research intensive SMEs. The scheme would capitalise in part on the EUREKA experience with SMEs. The former (July 2004-June 2005) Dutch Chair of EUREKA took up this proposal from the Commission and set up a dedicated Task Force to study the preparation of a detailed proposal. The Task Force and four Working Groups within it are working at present, with participation from EUREKA members' State representatives and officials from the Commission responsible for research and SMEs.

External Policies

62. Parliament draws attention to the Council's invitation to the Commission "to conduct a qualitative assessment of EC External Assistance separate to the Annual Report" and to present this before July 2005. *(General Budget - § 152)*

Commission's response:

The Commission is taking the recommended action. As regards the recommendation to conduct a qualitative assessment of EC External Assistance separate to the Annual Report, the Commission provided the requested report in July 2005.

63. Issue before July 2005 an interim report on progress in implementing a proper information management systems and a system of supervision of the work of the Delegations regarding the evaluation of financial risks. *(General Budget - § 153)*

Commission's response:

The Commission is taking the recommended action. DG RELEX is fully aware of the need to introduce measures to remedy the shortcomings which led to the reservation concerning the management of the delegations' administrative expenditure in the annual activity report for 2003 and will produce an interim report on the progress so far achieved.

64. Expects the Members of the Commission with responsibility for external aid to submit an action plan by 1 September 2005 in order to bring problems with irregular transactions in implementing organisations at project level under control. *(General Budget - § 154)*

Commission's response:

The central criticism by the Court related to tender and procurement procedures and supporting documents. In June 2003 the Commission took remedial action to address deficiencies in procurement procedures by the introduction of a revised standard contract for grants, including the introduction of an audit certificate according to which auditors are required to check the respect by the beneficiaries of applicable procurement rules. The Commission is currently revising the template of the audit certificate and developing improved terms of reference for the auditors. In view of this, the Commission does not see the need for an action plan.

65. Asks whether the Commission has made attempts to compare the efficiency of various international aid donors; if not, proposes that such an exercise be undertaken as soon as possible. *(General Budget - § 158)*

Commission's response:

The Commission will not be taking the recommended action. The Commission is already participating, in the framework of various international forums, in initiatives aimed at comparing the efficiency of international aid donors. In particular, the following initiative should be mentioned:

- ***As regards the multilateral donors, the Department for International Development (DFID) evaluated the effectiveness of 23 international organisations (including the European Commission) over the period 2003-2004. The results of this evaluation covering seven areas ("Corporate governance", "Corporate***

strategy", "Resource management", "Operational management / Delivery", "Quality assurance", "Staff quality", "Monitoring / Evaluation / Lesson learning", "Reporting") were published on 28 February 2005. The DFID intends to repeat this exercise so that a comparison may be made between 2004, 2005 and 2006.

- ***All bilateral donors (including the European Commission) belonging to the OECD's Development Assistance Committee (DAC) are subject to a peer review every four years to check whether the donor's cooperation policy is in line with international undertakings and gauge the effectiveness of its policy and strategy-making systems and the implementation of its operations.***

- ***Finally, the European Commission is regularly involved in initiatives to check the effectiveness of donors in certain sectors. In 2004, for example, the Strategic Partnership with Africa (SPA) carried out a survey of 15 African countries to gauge the performance of budget support donors (IMF, World Bank, African Development Bank, European Commission and 14 bilateral donors) in a number of areas (rapidity of disbursement, reduction in the number of missions, etc.). The findings were published in early 2005.***

Given the various initiatives underway, the Commission does not consider any additional exercise to be justified for the time being.

66. As regards a Solidarity Fund for Latin America, it would have to be accompanied by greater social commitment from the political and economic leadership of the countries in question and Parliament notes that the EU should pursue social objectives in these countries by both delivering aid and convincing the countries in question to do more themselves, and that a satisfactory balance between these two elements should be found. *(General Budget - § 159)*

Commission's response:

The Commission is taking the recommended action in relation to the pursuit of social objectives. The Commission has succeeded in putting social cohesion at the core of the relations between Latin America and the EU. At the initiative of the Commission, social cohesion was one of the central topics of the Guadalajara Summit (May 2004). Almost 50% of the resources earmarked for cooperation with Latin America are allocated to cooperation in the social sector. Social cohesion will be a priority in the next programming period (2007-2013).

67. Expects the Commission to provide a (written) explanation to Parliament each time it does not implement a provision set out in a budgetary remark. *(General Budget - § 160)*

Commission's response:

The Commission will not be taking the recommended action. As provided for by the Implementing Rules (Article 29), budget remarks shall include "all appropriate explanations concerning the nature and purpose of the appropriations". On the basis of the jurisprudence of the European Court of Justice, the Commission is of the view that the budgetary remarks, while expressing the political will of the budgetary authority, do not constitute as such a legal obligation to the Commission. Of course, they are to be fully taken into account by the Commission when implementing the budget, but are not legally binding. The Commission is bound by the relevant legal basis and the Financial Regulation, in accordance with

which it is obliged to execute the budget on the basis of sound financial management. In certain cases, the Financial Regulation or its Implementing Rules provides for the binding nature of budgetary remarks, especially those concerning assigned revenue (Articles 10 and 12 IR). It should be noted that the Commission already takes the budget remarks into account in the execution of the budget. If this is not possible in certain specific circumstances, these cases are usually communicated to Parliament in the context of the budgetary procedure.

68. Calls on the Commission to step up its efforts to focus its development operations on the achievement of the Millennium Development Goals (MDGs), including the identification of ten key indicators, and recommends devoting 35% of the European Union's development cooperation expenditure to achieving the MDGs. *(General Budget - § 162)*

Commission's response:

Since achieving the MDGs requires economic growth, progressive distribution of the benefits of growth, and improved public services, the great majority of the EC's development expenditure supports, either directly or indirectly, these essential aspects of development. Hence the great majority of EC aid is devoted to achieving the MDGs. Improved transport infrastructure, for example, is vital for faster economic growth, for broader participation in the fruits of growth (since people living in more remote areas tend to be poorer) and for access to public services.

In accordance with the agreement the Parliament and the Commission have reached on the 35% benchmark for commitments to the social infrastructure sector, the Commission reports regularly on the outcome of the previous year's commitments in this field, registered in accordance with DAC criteria.

69. Deplores the fact that the Commission has not made efforts to establish an appropriate mechanism to measure the impact of Community assistance on the achievement of the Millennium Development Goals (MDGs) and thus confines itself to measuring the process of the developing countries towards the MDGs, and deplores the fact that the Commission's replies to the Development Committee's questionnaire are particularly vague as regards the implementation of the MDGs in the Commission's development actions. *(General Budget - § 163)*

Commission's response:

The Commission will not be taking the recommended action. The Commission's inability to measure the impact of its assistance derives not from a lack of effort but from the conceptual impossibility of such attribution. For example, when one donor buys the hardware for a computer system and another provides the system designer, it is impossible to say how much of the benefits of the system derive from either donor's inputs – neither would have worked without the other. In situations where donors jointly conduct policy dialogue, the already insuperable problem of attributing a value to the gains from improved policy as a result of that dialogue is further compounded by the impossibility of attributing to any one donor any particular element of the advice provided during the dialogue. Hence – as is common in what economists term joint product and collective action situations – calculation of the impact of the assistance of a particular donor is conceptually impossible.

70. Urges the Commission to increase funding for basic education and health and calls for 20% of the European Union's development cooperation expenditure to be earmarked for these sectors in the developing countries. *(General Budget - § 167)*

Commission's response:

The Commission has for several years resisted the imposition of input targets for EC aid. The centrality of national ownership leads inevitably to the need for Governments to determine the donors with whom they judge they can work best in each sector, as well as defining through the national budget (submitted to their national Parliament) the overall resource distribution that meets national priorities. The search for complementarity would naturally lead a Government to make such a decision in ways that reflect the experience and capacity of each donor in that country. Hence the sectors in which the Commission is engaged in a particular country should not be determined from without, but emerge from the process of definition of the EC's country strategy. While these will of course be guided by the EC's overall priorities, particular levels of financial commitment would distort the process at the expense of development effectiveness.

There are also two important dangers in setting input targets. The first is that they introduce an instrument bias: while budget support cannot be allocated by sector, still less by sub-sector, projects can be so labelled. The second is that this loses sight of the vital interactions between MDGs: for example, a primary school water supply and sanitation project will contribute to basic education and basic health, but would be classified under neither heading.

For the Commission, the 20% figure therefore belongs to the previous generation of indicators. However, if the Parliament chooses to keep the 20% as an indicator, the method of calculating the aid flows relating to it should be that agreed in the OECD, as pointed out by Commissioner Michel in his letter to the Parliament's Committee on Development Cooperation of 8 March 2005. In 2000 the DAC adopted the concept of 'basic social services' in order to harmonise aid statistics in this area. This concept is wider than the one used by the Parliament. In addition to the codes for basic education and basic health, the concept includes the sub-sectors of population and reproductive health, nutrition, water and sanitation, as well as related institutional capacity.

The UN has chosen this indicator (aid to basic social services as a percentage of sector-allocable aid) to measure the efforts undertaken to achieve the MDGs. It is this approach, too, which was used by the Commission in its report on the MDGs 2000-2004.

71. As regards donor coordination, urges the Commission to increase efforts to avoid duplications of development actions and to progress towards complementarity. *(General Budget - § 168)*

Commission's response:

The Commission is taking the recommended action. The Commission is strongly committed to enhance the coordination, coherence and complementarity of development aid among donors. With regard to programming, this is sought in particular through the consultation of Member States, civil society and other donors in the context of the establishment of the Country Strategy Papers.

As part of the annual monitoring of the undertakings made by the EU at the Barcelona European Council, the Commission publishes a report (the Monterrey follow-up) which, inter alia, gauges the performance of the Member States and of the Commission as regards various aspects connected with the effectiveness of the aid, in particular the coordination of policies and the harmonisation of procedures. The 2003, 2004 and 2005 reports are official publications and are available on DG DEV's thematic website.

The high-level forum on the effectiveness of aid held in Paris in February 2005 led to adoption of the Paris declaration establishing the international principles, objectives and agenda for increasing aid effectiveness and reducing transaction costs. The EU undertook to implement them and adopted two further texts on this occasion: (i) a real work plan adopted in the Council of Ministers' conclusions of November 2004 and laying down specific steps as regards coordination and harmonisation; (ii) four additional more pro-active undertakings as regards rationalisation of the aid additional to the international consensus.

The Commission is an active member of the DAC Working Party on Aid Effectiveness at the OECD, which monitors the undertakings made by the Donor Community during the two high-level forums in Rome (2003) and Paris (2005) in connection with harmonisation. All the donors attend these meetings, which monitor progress in the field country by country. A report has been published on the situation in the 14 associated partner countries. All documents are available on the site www.harmonisation.org

72. Urges the Commission to support the new Member States and candidate countries in the establishment of their development policy and in the process of awareness building for development issues. *(General Budget - § 169)*

<u>Commission's response:</u>

The recommended action has been taken. Development was not among the main priorities of the new Member States during the pre-accession period, therefore the Commission started the support to the new Member States in a more structured manner at a late stage. For this reason, the main outcomes have materialised only during 2004, and will continue during the following years.

Most of the new Member States are in the process of revising their approaches in the development area, therefore there are some divergences in the geographical focus of their programmes and the type of development aid that they are providing. However, regardless of the situation in each of the new Member States, they should become effective participants in EU development policy as this is part of the "acquis communautaire".

The European Commission has made a substantial effort to support the new members of the EU, particularly during the year of their accession and has the firm will to continue the support to the new Member States and the candidate countries.

Pre-accession aid

73. Is concerned by the failure to ensure that the accreditation process for many PHARE and ISPA agencies in the new Member States was completed before accession. Urges the Commission to endeavour to ensure that such a failure does not occur in relation to Bulgaria, Rumania and the future acceding countries. *(General Budget - § 171)*

Commission's response:

The Commission is taking the recommended action. It intends to take measures to that effect, as that item has been subject to a reservation in the DG ELARG's Declaration of Assurance for 2004.

Corrective action includes :

i) enhanced action to ensure that Romania and Bulgaria have appropriately staffed Phare fund management systems in place by end 2005. DG ELARG will be conducting systems certification audits in Bulgaria and Romania in the run-up to accession, the deadline being end 2005/2006

ii) in the case of Bulgaria, there is a close follow-up of the implementation of 2003 and 2004 funds based on operational monthly meetings with the beneficiaries, and on assessment of updated procurement plans.

iii) reassessment of the allocation of funds for the period 2004-2006 based on a management system assessment to be carried out during 2005, and its follow-up.

74. Concerning PHARE. Welcomes in principle the proposal for a new single instrument for preparing for management of the structural funds, provided that its design is not overcomplicated; whilst underlining the need for an appropriate control framework. Urges the Commission to ensure that the new instrument is kept as simple as possible in order not to hinder its implementation. *(General Budget - § 173)*

Commission's response:

The recommended action has been taken.

The Commission completely shares this view and has striven to provide both a clear and straightforward framework-instrument (IPA) designed to deliver better and on the basis of lessons learned, as well as ensuring an appropriate control framework that helps rather than hinders implementation. The draft instrument has been presented to Parliament and the Council where it is hoped that this approach will be supported and that these essential features of the draft design will prevail.

The regional development component of IPA will concentrate on development priorities in a limited number of key sectors and implementing bodies, and provide capacity building for the implementation of Structural Funds. As far as the rules for implementing Community budget in third countries allow, it will also follow Structural Funds programming and implementing procedures, thereby amplifying the "learning by doing" impact that has been successfully applied under the present pre-accession instruments.

The finalisation of the internal debate on the financial perspective to achieve a homogeneous approach in candidate countries and pre-candidate countries has been successfully completed. The Commission adopted on 27 May 2004 the new

IPA draft regulation together with the RELEX package and negotiation is since ongoing in the Council and Parliament. The preparation of the implementing regulation has been proceeding in close cooperation with other relevant services since then.

75. Considers that the overall experience gained with SAPARD will definitely be of added value in the implementation of future Community programmes. Urges the Commission to improve its ex-ante analysis of needs so as to further increase added value. *(General Budget - § 174)*

Commission's response:

The Commission has taken the recommended action. It has already reacted as outlined below to increase further the value-added of SAPARD assistance. It will continue to pay attention to this during the preparation of the implementation rules for the Instrument for Pre-accession Assistance from January 2007.

The Bulgaria programme was re-focused as a result of the observations made by the Court in its special SAPARD report and of certain findings and recommendations made in the mid-term evaluation report on the programme, and according to the needs identified during the monitoring of the programme. On the basis of an up-date of the mid-term evaluation to be finalised by the end of 2005, the Romanian and Bulgarian programmes will be further adapted to the real needs in complying with the acquis.

In the case of the Croatian SAPARD programme, assistance is concentrated on the most necessary measures and the weakest sectors identified. Croatia was also advised to implement SAPARD by means of a centralised administrative system to avoid the delays caused by the complicated systems established by many other SAPARD beneficiary countries.

In Romania and Bulgaria it is now proposed to exclude VAT from support under SAPARD. This provision is also intended to be included in the new uniform instrument for pre-accession aid replacing the SAPARD, ISPA and PHARE instruments. (The 2005 Annual Financing Agreement (AFA) as signed between the Commission and Romania/Bulgaria now excludes "taxes, customs and import duties" from Community co-financing.)

To improve the information on the needs of budget appropriations, since 2003 the Commission has asked the SAPARD beneficiary countries each year for their updated financial estimates in respect of SAPARD payments for the third quarter (July – September) of the year in question and for the next budget year. It will regularly inform the SAPARD beneficiary countries on the outcome of this forecast in its periodic reports on SAPARD financial implementation.

76. Acknowledges that the decentralised management system used to implement SAPARD generally functions well, but urges the Commission to improve it further by learning from the problems encountered so far, providing more support to accession states when problems are found and doing more to follow up the programme. *(General Budget - § 175)*

Commission's response:

The Commission has taken the recommended action. It is of the opinion that the system, once established, works very well, and that it has provided the necessary support and follow-up.

Whenever it was made aware of problems, the Commission provided support and advice by correspondence, during bilateral meetings and at the Monitoring Committee meetings and it will continue to do so. However, the exact procedural choice remains with the country concerned. The Commission cannot prevent them from applying their own internal administrative arrangements as long as the SAPARD rules are respected.

For the new programming period (IPA, 2007 – 2013) the Commission has drawn up a uniform instrument for pre-accession aid replacing the SAPARD, ISPA and PHARE instruments. The rural development component under this instrument will be established on the basis of the same principles as SAPARD, taking into account the experience gained and the difficulties encountered.

77. Notes that most of the SAPARD funds were spent on projects which increased production and urges that greater emphasis be placed on quality, environmental and health standards in the new programmes. *(General Budget - § 177)*

Commission's response:

The Commission has taken the recommended action. It believes that it has already put great emphasis on quality, health and environmental standards.

The promotion of "quality", "health" and "environmental standards" is an integral part of the support given to the most important measures – investments in farms and promotion of processing and marketing – which cover 49% of the programmes. All investments must meet Community standards and will inevitably lead to improvements in these areas.

It is normal and inevitable that measures which can be directly linked to the "sustainable adaptation of the agricultural sector", such as the "farm investments" and "processing and marketing" will modernise production methods and also in certain cases lead to an increase in production at project level. Increased or modernised production at project level is not incompatible with improvement of standards. All the entrepreneurs in the SAPARD countries were well aware that continued profitability relies on meeting the minimum standards of the EU. All the new equipment meets these standards.

78. Admits that clearance of accounts concerning SAPARD was better managed than in the case of PHARE, but urges further improvements to reduce loss of EU money. *(General Budget - § 178)*

Commission's response:

The Commission has taken the recommended action. It has planned, and implements, a system to audit the expenditure and management and control systems of the SAPARD programmes. This includes annual financial clearance of accounts and ad-hoc conformity clearance processes. When weaknesses that may imply a risk of loss of EU money are identified in the systems in place in the SAPARD countries, they are followed up by means of specific clearance procedures that may lead to the application of financial corrections.

Part II : European Development Fund - Development policy

79. Recognises the Commission's efforts to focus its development operations on the achievement of the Millennium Development Goals including the identification of ten key indicators. Calls on the Commission to step up its efforts to that end. *(EDF - §2)*

Commission's response:

The Commission is taking the recommended action. Among other initiatives, the mid-term reviews of the Country Strategy Papers which were held in 2004 provided a timely opportunity to strengthen the focus of the strategies on co-ordination and coherence in support of the achievement of the MDGs. Moreover, the quality of the planning and design of individual projects and other operations has been the focus of much attention and efforts are under way to develop and implement a more comprehensive quality support system.

80. Recommends that 35 per cent of European Union development cooperation spending be given over to achieving the Millennium Development Goals. *(EDF - § 2)*

Commission's response:

In accordance with the agreement the Parliament and the Commission have reached on the 35% benchmark for commitments to the social infrastructure sector, the Commission reports regularly on the outcome of the previous year's commitments in this field, registered in accordance with DAC criteria.

It is important to recall that the great majority of EC development aid is devoted to achieving the MDGs, because achieving the MDGs requires economic growth, progressive distribution of the benefits of growth, and improved public services. Improved transport infrastructure, for example, is vital for faster economic growth, for broader participation in the fruits of growth (since people living in more remote areas tend to be poorer) and for access to public services.

81. Welcomes the fact that in 2003 out of a total financing for ACP countries (EDF and EU general budget) of EUR 4 079 million, 33 per cent (EUR 1 346 million) was committed for social infrastructure and services. Deplores the fact that only EUR 62 million (1.5 per cent) was earmarked for basic education and EUR 212 (5.2 per cent) for basic health. Urges the Commission to increase funding for these sectors and calls for 20 per cent of European Union development cooperation spending to be earmarked for basic education and health in the developing countries. *(EDF - § 6)*

Commission's response:

The Commission has for several years resisted the imposition of input targets for EC aid. The centrality of national ownership leads inevitably to the need for Governments to determine the donors with whom they judge they can work best in each sector, as well as defining through the national budget (submitted to their national Parliament) the overall resource distribution that meets national priorities. The search for complementarity would naturally lead a Government to make such a decision in ways that reflect the experience and capacity of each donor in that country. Hence the sectors in which the Commission is engaged in a particular country should not be determined from without, but emerge from the process of definition of the EC's country strategy. While these will of course be

guided by the EC's overall priorities, particular levels of financial commitment would distort the process at the expense of development effectiveness.

There are also two important dangers in setting input targets. The first is that they introduce an instrument bias: while budget support cannot be allocated by sector, still less by sub-sector, projects can be so labelled. The second is that this loses sight of the vital interactions between MDGs: for example, a primary school water supply and sanitation project will contribute to basic education and basic health, but would be classified under neither heading.

For the Commission, the 20% figure therefore belongs to the previous generation of indicators. However, if the Parliament chooses to keep the 20% as an indicator, the method of calculating the aid flows relating to it should be that agreed in the OECD, as pointed out by Commissioner Michel in his letter to the Parliament's Committee on Development Cooperation of 8 March 2005. In 2000 the DAC adopted the concept of 'basic social services' in order to harmonise aid statistics in this area. This concept is wider than the one used by the Parliament. In addition to the codes for basic education and basic health, the concept includes the sub-sectors of population and reproductive health, nutrition, water and sanitation, as well as related institutional capacity.

The UN has chosen this indicator (aid to basic social services as a percentage of sector-allocable aid) to measure the efforts undertaken to achieve the MDGs. It is this approach, too, which was used by the Commission in its report on the MDGs 2000-2004.

Accounts

82. Looks forward to receiving the report of the Commission Accountant on the state of the Commission accounts, including the EDF accounts, as a 1 January 2005. Asks to be kept informed of progress with modernisation of the new integrated IT system (ABAC-FED). *(EDF - § 7)*

Commission's response:

The recommended action has been taken. The Commission has sent progress reports to the Parliament on the modernisation of its accounts, including the EDF accounts. The last report, covering the period up to 31 May 2005, was approved by the Commission and transmitted to Parliament on 4 July 2005.

83. Urges the Commission to address the following weaknesses noted by the Court of Auditors concerning supervisory systems and controls: The effects of the implementation of internal control standards are limited because their implementation in delegations is tied to the devolution process, which was not due to be completed until the end of 2004; *(EDF - § 12a)*

Commission's response:

The Commission will not be taking the recommended action. All Commission departments, including the delegations, have applied the internal control standards since they were introduced. Their implementation is not, as a rule, tied to the devolution process since they apply to both devolved and undevolved delegations. It is clear that some components of the control framework will apply only if the delegation is devolved. It is normal that these components will be implemented as devolution takes place while the other components of the internal control framework which are not linked to aid management are already in place. It is wrong to conclude that the effects of the implementation of internal control standards are limited because their implementation is tied to the devolution process and its completion.

Before the geographical Director's responsibilities were subdelegated to the Head of Delegation, verification missions were made to each delegation which was to be devolved to ensure that all the management conditions were met. The Court accepts that the financial systems worked properly both in the delegations and at headquarters.

84. Urges the Commission to address the following weaknesses noted by the Court of Auditors concerning supervisory systems and controls: Action plans need to be continued and implemented more fully, particularly at delegation level, in order to provide an effective future framework for supervisory systems and controls; *(EDF - §12a)*

Commission's response:

The recommended action has been taken. The specific action plan set up in 2003 to reduce the outstanding recoveries enabled considerable progress to be made. The setting-up in 2004 of an ex-post transaction control system within EuropeAid will allow the problems of recovery orders to be dealt with in a broader, integrated context of controls that supplement the regular recovery activities carried out by authorising officers by subdelegation. The devolution process, which brings management closer to the work in the field, should also make the management of recovery orders more efficient

The Commission will continue with the full implementation of these action plans, which have already produced substantial results, particularly as regards the structure of external audits, the follow-up of audit conclusions and the processing of recovery.

Regarding audits, the Commission agrees that progress is needed in following up the audit results. This is why it introduced a follow-up reporting system in 2004.

85. Urges the Commission to address the following weaknesses noted by the Court of Auditors concerning supervisory systems and controls: The supervisory systems and

controls covering contracts and payments, although generally well designed, require improved implementation; *(EDF - §12a)*

Commission's response:

The recommended action is being taken. EuropeAid continues to work towards strengthening and rationalising the measures already put in place. To that end, harmonisation (financial guide, centralised ex-post checks, checklists, etc.) was carried out in 2004. The Commission will also take into account the Court's recommendation to further strengthen the approach towards risk analysis and management. Moreover, in most ACP countries, the EDF finances the implementation of support programmes for national authorising officers to achieve a significant increase in their monitoring control capacity.

Financial Management Report

86. Asks the Commission to further enhance the Financial Management Report in future, in particular to allow comparison of sums channelled into projects, budget support and non-programmable aid under the ninth EDF with those under earlier EDFs and to permit an overview of the EDF's administrative costs. *(EDF - § 13)*

Commission's response:

The Commission provides an analysis of its measures under all of these headings in the EDF Financial Management Report 2004 to the extent that historic data is available.

As regards administrative costs linked to the implementation of development aid in ACP countries (EDF and budget lines), these are mostly included under policy area 21 "Development and Relations with the ACP countries" of the EU general budget. The total costs under this policy area amounted to €238.9 million in 2004. This figure includes the expenditure related to staff at headquarters, in delegations, as well as external staff, plus expenditure on buildings and related expenditure.

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

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

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

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

Implementation and the RAL

87. Notes that the level of unspent resources (the RAL) during 2003 rose by over EUR 1 billion to 9 410 billion euro at the end of 2003. Finds that this level is unacceptably high and urges the Commission to speed up disbursement of EDF aid. *(EDF - § 15)*

Commission's response:

The Commission is taking the recommended action. The 9th EDF started in 2003 with a high number of commitments, while the number of payments was maintained at its usual level. Furthermore, the Commission does its best to ensure execution of all projects as rapidly as possible. The level of unspent resources (RAL) rose much less (€400 million) by the end of 2004 and the Commission hopes to reverse the tendency by the end of 2005. With the reorganisation within its headquarters, DG Aidco has emphasized the importance of closing projects after the end date of the Financial Agreement. Special attention is being given to old projects that have remained open to date. Furthermore, at the ACP Seminars, Delegations have been particularly sensitised to the closure of projects.

88. Notes the comparison between objectives and achievements included in the Financial Management Report but asks the Commission to make more effort to set quantifiable objectives as defined in the Financial Regulation. *(EDF - § 16)*

Commission's response:

The recommended action has been taken. The management objectives set in the context of EDF management planning and reporting are – almost without exception – measurable, specific, achievable, relevant and timed, as detailed in the EDF Financial Management Report. The Commission will endeavour to maintain this standard.

Budgetary support

89. Underlines the importance of the 'variable tranche approach' in connection with budget support. Urges the Commission to improve its instruments to assess economic reforms and the quality of public financial management as conditions for the eligibility for budget support. *(EDF - § 18)*

Commission's response:

The recommended action has been taken. The Commission initiated this "variable tranche" or " performance" approach. Other budget support donors adopted it later. The Commission continues to work in close coordination with the IMF and the World Bank in assessing economic reforms. It has also expanded its range of instruments to provide itself with a solid analysis of public financial management: six-monthly monitoring reports by the Delegations and, in particular, a new analysis framework drawn up in conjunction with other donors (including the World Bank) under the PEFA (Public Expenditure and Financial Accountability) partnership which should be operational in the second half of 2005.

90. Recalls the request made in the 2002 discharge report for an assessment of the extent to which all three conditions for budget support set out in Article 61(2) of the Cotonou Agreement have been met. *(§ 20)*

Commission's response:

The Commission will continue to supply an annual list of ACP countries receiving budget support. It has introduced tools to assess the situation in the countries receiving budget support as regards each of the criteria in Article 61(2) of the Cotonou Agreement during both programme preparation and implementation. Diagnoses are often produced jointly or shared with other partners. Use of the PEFA analysis framework developed with other donors will improve this monitoring. The Commission also recalls that, when considering whether a country meets the requirement of Article 61(2), it is the dynamic trend (prospects for improvement) and the country's reform commitment that prevail and not the static picture taken at the start of the programme.

91. Notes the Commission's assertion that a tentative framework on the preparation of public finance management performance indicators was agreed within the Public Expenditure and Financial Accountability Programme (PEFA) in early 2004, that testing of the tool developed was planned to start by the end of 2004 and that a decision on finalisation of the analytical framework should be taken by June 2005. Asks to be updated by 1 September 2005 on the work of the PEFA. *(EDF - § 21)*

Commission's response:

The Commission is taking the recommended action. The PEFA secretariat is now (May 2005) putting the finishing touches to the analysis framework developed by the PEFA partners, which, barring a number of details, has attracted a broad consensus. This framework should thus be operational in the second half of 2005.

Supreme Audit Institutions

92. Notes that the Commission is considering different modalities for supporting and promoting the role of the Supreme Audit Institutions (SAIs) in the ACP states. Asks for an assessment of the various options under consideration in time for the next discharge exercise. *(EDF - § 24)*

Commission's response:

The Commission is taking the recommended action. At the end of 2004 drew up the preliminary draft of a strategy document entitled "Towards strengthened Commission support for higher audit institutions in the ACP countries", which was sent to the delegations for comment. This document should have been finalised by the time the debate on the next discharge takes place. The options mentioned are direct (through the conditionality of budget support agreements and/or the standardisation of technical support in the budget lines for institutional support) or indirect (through support to regional audit bodies such as AFROSAI or CAROSAI or international audit bodies such as INTOSAI). The Commission also intends to associate the SAIs in the diagnostic work on public finances whenever possible.

Devolution of management of aid and support

93. Asks for a report in time for the next discharge exercise outlining the state of play of the devolution process, describing the expected benefits with quantifiable indicators and setting out the benefits so far achieved, and detailing the control structures in place in delegations, including the state of implementation of the internal control standards. *(EDF - § 28)*

Commission's response:

The Commission is taking the recommended action. It has always stated that devolution is an important part of the management reform for external aid. However, the results obtained through implementation of the reform must be given an overall assessment with regard to the other components of the reform (strengthening the multiannual programming procedures, setting up a EuropeAid Cooperation Office, harmonising and rationalising financial and contract procedures, etc.). The specific contribution which devolution has made to the substantial improvement in aid management since 2000 cannot be pinpointed.

As requested by the Council, in July 2005 the Commission produced a qualitative evaluation of the reform, accompanied by performance indicators. This report has been sent to the European Parliament.

In addition, the Commission will provide a report on the control structures in place in delegations, including the state of the implementation of the internal control standards, by the requested deadline.

Stabex Funds

94. Urges the Commission to work with the beneficiary countries to enhance monitoring of Stabex funds and ensure that the outstanding funds are committed as rapidly as possible. *(EDF - § 31)*

Commission's response:

The Commission endorses the view expressed by the European Parliament and has issued instructions, with deadlines, to the Commission delegations to ensure closer financial monitoring and the rapid approval of all outstanding Frameworks of Mutual Obligations.

The new instructions referred to above will ensure that outstanding Stabex funds will be committed and spent within reasonable time limits.

Evaluation

95. Is concerned about the Commission's inability to meet internal control standard 23 concerning evaluation because of capacity constraints. Asks the Commission to report on how it intends to ensure that evaluation is properly carried out and followed up and to advise as to when it feels it will be able to meet the standard. *(EDF - § 32)*

Commission's response:

The baseline requirement of the internal control standard 23 is fully met.

DG Development (DEV), DG External Relations (RELEX) and EuropeAid Co-operation Office (AIDCO) have a common evaluation unit, placed in AIDCO. This unit undertakes a certain number of evaluations included in an annual programme decided each year by the Relex Commissioners, on the basis of the multi-annual programme 2002-2006 agreed by the Board of AIDCO in November 2001. The focus of the evaluation programme and the proper level of human resources allocated for its implementation continue to be discussed internally.

In close coordination with the evaluation unit, DG DEV launched an evaluation exercise for a selected number of ACP countries in 2005. These evaluations, in addition to the evaluations already carried out and scheduled by the Evaluation Unit, will allow a comprehensive, external quality control exercise that will feed into the preparation of the new Country Strategies.

In addition, a large number of evaluations of single projects are carried out by the Delegations.

Financial Regulation

96. Invites the Commission to forward - and the Council to adopt - the following proposal for modification of the first sentence of Article 119(1) of the Financial Regulation: "Before 30 June of year N+2 the European Parliament, upon a recommendation from the Council acting by a qualified majority, shall give a discharge to the Commission in respect of the financial implementation for year N of the EDF resources, which it manages in accordance with Article (1)2." *(EDF - § 33)*

Commission's response:

The Commission does not intend to propose amendments to the EDF Financial Regulation since it has proposed that cooperation with the ACP countries should be included in the general budget (communication COM(2003)590 to the Council and Parliament). Moreover, any change in the discharge timetable for the EDF should logically be conducted in parallel with a similar change in the discharge timetable for the general budget.

Part III : Agencies - General points addressed to the Commission concerning the agencies

97. An inter-institutional agreement should spell out common guidelines for the framework conditions for the European regulatory agencies. *(Agencies - § 24 (EAR))*

Commission's response:

The recommended action has been taken. In fact, the Commission has proposed a draft for such an Interinstitutional Agreement which is now on the table of Council and of the European Parliament. Once an agreement has been reached concerning future Agencies, the Commission, together with the two other institutions, will see what implications this can have for existing non-executive Agencies.

98. Provide clarification on the Commission's position as regards Parliament's call for in-depth consideration at inter-institutional level of the structure of existing agencies. *(Agencies- § 25 (EAR))*

Commission's response:

The recommended action has been taken and the Commission has proposed a draft for such an Interinstitutional Agreement, which is now on the table of Council and of the European Parliament. Once an agreement has been reached concerning future Agencies, the Commission, together with the two other institutions, will see what implications this can have for existing non-executive Agencies.

99. Organise and perform in the medium term, e.g. on a standard three-year cycle, a cross-cutting analysis of the evaluations carried out on individual Agencies. Such an overall analysis is expected to be available by the end of 2005. *(Agencies- §§ 26-27 (EAR))*

Commission's response:

The Commission is taking the recommended action, while slightly adapting the timing recommended by Parliament. The Commission is willing to carry out regular cross-cutting analyses of the evaluations carried out on individual agencies, as it did in its 2003 'pilot' exercise 'Meta-evaluation of the Community Agency System'. However, it is important that their timing and frequency be made dependent on the availability of a sufficient number of underlying evaluation reports. The Commission therefore expects such an overall analysis to be available by the end of 2006 at the earliest.

100. Present by the end of 2005 at the latest, proposals for changes to be made in the existing Agencies' Constituent Acts with a view, inter alia, to optimising the Commission's relationship with the Agencies. *(Agencies- § 29 (EAR))*

Commission's response:

Proposals for the change in basic regulations of Agencies, either individually or across the board, are permanently underway in order to adapt the Agencies to changing realities, or to optimise the Commission's relations with them (e.g. the recent adaptation of EUROFOUND, EU-OSHA and Cedefop basic regulations, the adaptation of the EMSA basic regulation, or very recently (across the board)

the adaptation of all basic regulations concerning the nomination of directors). These are ongoing processes following a need, not necessarily a fixed calendar.

101. Undertake a strict evaluation of the need and added value of the function of a new agency, bearing in mind existing structures, the principles of subsidiarity, budgetary austerity and the simplification of procedures, before any decision is taken to propose the creation of this agency. *(Agencies- § 30 (EAR))*

Commission's response:

In line with the recommended action the Commission decided that from 2005 any legislative proposal included in the Commission Work Programme will be subject to an impact assessment whereby needs, added-value, the principles of subsidiarity and budgetary austerity, amongst others, are taken in consideration.

102. Present swiftly guidelines concerning staff policy of the Agencies *(Agencies- § 31 (EAR))*

Commission's response:

The Commission is taking the recommended action. The guidelines are in their final stages of preparation and will be issued before the end of 2005.

103. Commission and ECA to strengthen co-operation with the Agencies as regards procedures for the award and management of contracts. *(Agencies- § 38 (EAR))*

Commission's response:

The Commission is taking the recommended action. The Commission has established close and effective cooperation with the Agencies on the matters of procurement and management of contracts. A set of related training events focused on their specific needs has been delivered to numerous Agencies. The Commission plays an active role in coaching the responsible Agencies' officers, particularly for newly established agencies. The Agencies have been integrated in the network of correspondents of horizontal budgetary units and receive thereby permanent advice and ad-hoc support. On various occasions the Commission delivered contributions and took part in meetings of the Inter-Agency Legal Network (IALN).

104. ECA and Commission to propose a feasible way of updating information on the improvements made and/or the problems found, from the time when the ECA's preparatory report is first discussed until the time of the decision as to whether to grant discharge, in order to offer the most accurate picture of the situation of the Agencies. *(Agencies- § 45 (EAR))*

Commission's response:

The Commission will not be taking the recommended action which primarily concerns the Agencies and the European Court of Auditors. Furthermore, in the view of the Commission, Parliament's primary source for obtaining updated information on the Agencies should also in future be the written questions to and hearings of the directors of the agencies which are an integrated part of the discharge procedure.

Requests to the Commission concerning specific agencies

105. Commission and ECA to reinforce their co-operation with the European Agency for Reconstruction (ECA) as regards the financial presentation of its operations in order to guarantee its budget implementation efficiency. *(Agencies- § 5 (EAR))*

Commission's response:

The recommended action has been taken. The Commission has already considerably reinforced its cooperation with the European Agency for Reconstruction (EAR) on budgetary, financial and accounting issues and will continue to do so. The latest bilateral meeting with the EAR took place on 28 February 2005. Moreover, the Commission arranges regular meetings with the accountants of all the Agencies.

106. Undertake all means necessary to allow all Agencies to share as quickly as possible the Commission's new accounting system as introduced on 1 January 2005. *(Agencies- § 8 (EAR))*

Commission's response:

The recommended action has been taken – the Commission continues to support the Agencies with their preparations for the new accounting requirements. It arranges regular meetings with the accountants of the Agencies to discuss accounting matters, in particular to provide updates on the progress of the modernisation project, as well as informing them what is required of them. The latest meeting took place on 1 July 2005. Furthermore, the Commission has also organised bilateral meetings with certain individual agencies to address their questions. Such bilateral meetings will continue, as requested by the Agencies. For accounting matters, the Commission have a designated contact point and team in place dealing with Agencies and their questions/issues.

107. Give the necessary support to the European Agency for Reconstruction (EAR) to ensure its full adaptation to the procedures and requirements of the new position of the Agency within the Commission (following enlargement). *(Agencies- § 13 (EAR))*

Commission's response:

The Commission has taken action. Notwithstanding the change from DGs EUROPEAID and RELEX to DG ELARG, the EAR has as its interlocutors largely the same EC officials who previously followed the Agency in DGs EUROPEAID and RELEX. Working relations and communication between the Commission and the EAR continue to be good.

108. The Director of the European Agency for Reconstruction (EAR), the Commission as well as the European Court of Auditors are encouraged to go on with the procedure of immediate action if discovering irregularities and to enhance the required risk analysis in particular as regards sectors with a high risk profile. *(Agencies- § 15 (EAR))*

Commission's response:

The Commission is taking the recommended action. The Director of the EAR will not hesitate to take any disciplinary measures and inform OLAF should the Agency become aware of any misconduct either of an internal or external nature.

Moreover, EAR procedures and systems are constantly under review and improvement, including increased training for staff, the creation of the posts of Internal Auditor and Senior Procurement Advisor. In addition the EAR, with the help of the EC's Internal Audit Service, has programmed an overall risk analysis which will be carried out in the second half of 2005.

109. Parliament fails to understand why, according to information supplied by the Commission ("Questions for written answers to Commissioners Michel and Ferrero-Waldner" of 3 December 2004) the OLAF final report on a case regarding irregularities in the conclusion of a major infrastructure contract could not be submitted to members of the Agency's Governing Board; expects this situation to be remedied forthwith so that the Agency's supreme decision-taking body can form a complete picture of events. *(Agencies- § 17 (EAR))*

Commission's response:

The Commission has taken the proposed action. As this information was classified as an 'OLAF Operations' document, the Agency was informed that 'unauthorised disclosure of this information could jeopardise ongoing investigations undertaken by OLAF and cause severe prejudice to private or commercial interests'. Following the OLAF investigation, documents were transmitted to the German judicial authorities, which opened a criminal investigation. As the case is still the subject of an ongoing investigation, the matter remains sub judice and no further comments can be made. Nevertheless, it should be pointed out that a comprehensive briefing on the report's findings was given by the Director of the Agency to the Governing Board in December 2004.

110. Parliament calls on the Director of the European Agency for Reconstruction (EAR), the Commissioner responsible, the European Court of Auditors and the OLAF Director to inform Parliament as soon as possible of actions and findings, such as the suspension of the execution of contracts where serious errors or irregularities or fraud have occurred in the contract awarding procedure. *(Agencies- § 19 (EAR))*

Commission's response:

The Commission has taken the recommended action. The EAR remains committed to both acting and communicating in a manner which is fully transparent and cooperative with the European Commission, the European Court of Auditors, OLAF and the European Parliament.

111. The Translation Centre and the Commission should make further efforts with a view to reaching a satisfactory solution on the question of pension contributions in respect of the Centre's staff and keep Parliament informed of the outcome. *(Agencies- §§ 2-3 (Translation Centre))*

Commission's response:

The Commission agrees that there is a need to reach a satisfactory solution on the question of pension contributions for the staff of the Translation Centre. The Translation Centre has declared in its reply to the Court of Auditors that renewed attempts will be made to find a solution, to which the Commission will contribute, amongst others by an analysis of the legal situation before and after the adoption of the new Staff Regulation and of the solutions implemented by other agencies.

The Commission will inform Parliament on the state of the file in the autumn of 2005.

112. Calls on the Commission to evaluate the performance and added value of the different translation services together with the cost-benefit ratio. *(Agencies- §§ 2-3 (Translation Centre))*

Commission's response:

The Commission will not be taking the recommended action. The reason for this is that the Commission has no mandate to evaluate the different translation services of the EU institutions and bodies. Such an analysis is best to be undertaken by the ICTI (Interinstitutional Committee for Translation and Interpretation – also known under its French acronym "CITI") which is currently being chaired by the Parliament.

Moreover, the Court of Auditors is currently finalising its field work for an audit on the cost of translation and interpretation in the institutions. This audit report is expected to provide the analysis requested by the European Parliament. The CITI will no doubt pay specific attention to the auditor's findings, conclusions and recommendations.

113. Parliament reiterates its call on the Agency and the Commission to take all necessary steps so that temporary cash-flow problems due to payment delays of the Community subsidy by the Commission do not happen again. *(Agencies- § 3 (ETF))*

Commission's response:

The recommended action has been taken. The measures taken by the Commission to provide ETF with a certain reserve to tide it through any unexpected difficulties as well as the arrangements made for a more efficient exchange of information between ETF and Commission on financial matters have reduced the risk of temporary cash-flow problems at the ETF. It should be noted that the cash-flow problem did not recur in 2005.