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THE EUROPEAN COURT OF AUDITORS'
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2012 REPORT ON THE FOLLOW-UP OF THE EUROPEAN COURT OF AUDITORS' SPECIAL REPORTS

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REPLY OF THE COMMISSION

ABBREVIATIONS

ECA: European Court of Auditors

EDF: European Development Fund

ESF: European Social Fund

EUSF: European Union Solidarity Fund

FP: Framework Programme

HQ: Headquarters

IT: Information Technology

LAG: Local Action Group

MDP: Most Deprived Person

MEDA: Mesures D'Accompagnement: Financial instrument of the Euro-Mediterranean partnership

OP: Operational Programme

PO: Producer Organisation

QSG: Quality Support Group

RAD: Recommendations, Actions, Discharge

SMART: Specific Measurable Achievable Relevant Timely

SR: Special Report

EXECUTIVE SUMMARY

I.

This report presents the results of the Court's second review of the Commission's follow-up of recommendations made by the Court in previous special reports.

II.

The overall question of this review was: does the Commission adequately follow up audit recommendations made by the Court in its special reports? This was broken down into two sub-questions: has the Commission established proper guidelines and procedures for follow-up activities, and has the Commission adequate and reliable management information on audit recommendations and their state of implementation?

III.

The Court's review included an examination of the Commission's follow-up of a sample of 62 recommendations from 10 special reports (SRs) of the Court from the period 2006–10. For this sample the Court assessed the current implementation status of the recommendations and the Commission's own management information concerning the status of these recommendations. The Court also reviewed relevant procedures of the directorates-general (DGs) and carried out a review of manuals, guidelines, plans and published reports, with particular focus on those relating to the RAD application (recommendation, action, discharge). RAD is an IT tool used by the Commission to monitor its follow-up of audit recommendations by the Court and requests made by the discharge authority in the framework of the discharge procedure.

IV.

On the basis of its review the Court concludes that the Commission adequately follows up the Court's recommendations. The review of a sample of recommendations thus showed that the Commission has implemented 83 % of the Court's recommendations, either fully or in most respects, which has contributed towards improving financial management in a number of areas of the EU budget.

V.

The Court also concludes that the Commission has proper guidelines and procedures in place concerning its follow-up activities.

VI.

Finally, the Court's review shows that the IT application RAD contains management information on audit recommendations issued by the Court in special reports published from 2008. However, the Court concludes that RAD does not ensure that the Commission has adequate and reliable management information concerning the implementation status of recommendations which have only been partially implemented. This is due to the absolute nature of the categories used by the Commission to record the implementation status of recommendations.

VII.

The Court therefore recommends that the Commission refine the RAD application to better reflect recommendations that have only been partially implemented.

INTRODUCTION

- 1.** According to international auditing standards, the follow-up of audit reports is the final stage in the performance audit cycle of planning, execution and follow-up¹. Following up the Court's performance audit reports is a necessary element in the cycle of accountability and helps encourage the effective implementation of report recommendations by the Commission.
- 2.** The Court issued its first follow-up report in 2012 (SR No 19/2012). In this report the Court observed that the follow-up of the Court's audit recommendations by the Commission needed to be strengthened.
- 3.** The current report presents the results of the Court's second review of the Commission's follow-up of recommendations made by the Court in previous special reports.

¹ International Auditing Standards of Supreme Audit Institutions, ISSAI 3000 and 3100.

SCOPE AND APPROACH

4. The Court's current review of the Commission's follow-up of audit recommendations builds upon a system review carried out in 2011 by the Commission's Internal Audit Capabilities (IACs). The IACs' review concluded that the internal control system in place in the respective DGs provided reasonable assurance regarding the achievement of the implementation of recommendations issued by the Court. However, IACs also identified issues which needed to be addressed and recommended enhancements in the functionalities and reporting facilities of RAD.
5. The overall question of this review is:
does the Commission adequately follow up audit recommendations made by the Court in its special reports?

This question was broken down into two sub-questions:
 - o has the Commission established proper guidelines and procedures for follow-up activities; and
 - o has the Commission adequate and reliable management information on audit recommendations and their state of implementation?
6. In order to reply to these questions the Court assessed during the period 1 January to 31 March 2013 a sample of 62 audit recommendations from 10 special reports published by the Court in the period 2006–10, to determine whether these recommendations had been followed up by the Commission. The sample was selected from reports which were published at least 2 years ago and for which the recommendations were still relevant. The sample was further used to test the adequacy and reliability of the Commission's management information concerning these recommendations. The special reports included are presented in **Table 1**.
7. When assessing the implementation status of recommendations, the Court uses the following categories: fully implemented, met in most respects, met in some respects, not implemented, no longer relevant or could not be verified. The Court considered a recommendation to be fully implemented if the Commission had taken all reasonable and proportionate corrective actions within its competence and no material issues remained to be addressed. The implementation status was confirmed by way of interviews and supporting documentation from the relevant DGs but did not include information at the level of the Member States or beneficiary countries. While the purpose of the review is to determine what actions the Commission has taken in response to the Court's recommendations, no assessment is made of the effects of these actions as this would require separate in-depth follow-up audits in the relevant areas.
8. Furthermore the Court examined relevant procedures of the DGs² and carried out a review of manuals, guidelines, plans and published reports. The review focused especially on the Commission's IT application RAD, which is used to record and monitor information relating to follow-up actions taken by the Commission.

² The procedures reviewed related to DG Budget and the five largest DGs (DG Agriculture and Rural Development, DG Regional Policy, DG Employment, Social Affairs and Inclusion, DG Development and Cooperation — EuropeAid and DG Research and Innovation) to which most of the Court's recommendations are addressed.

TABLE 1

SPECIAL REPORTS FOLLOWED UP IN THIS REPORT

Special report ¹	Budgetary area	Number of audit recommendations analysed ²
SR No 8/2006 Growing success? The effectiveness of the European Union support for fruit and vegetable producers' operational programmes	Agriculture	9
SR No 6/2009 European Union food aid for deprived persons: an assessment of the objectives, the means and the methods employed	Agriculture	8
SR No 5/2010 Implementation of the Leader approach for rural development	Agriculture	6
SR No 3/2008 The European Union Solidarity Fund: how rapid, efficient and flexible is it?	EUSF	2
SR No 17/2009 Vocational training actions for women co-financed by the ESF	Cohesion	3
SR No 6/2008 European Commission rehabilitation after the tsunami and hurricane Mitch	External actions	6
SR No 18/2009 Effectiveness of EDF support for regional economic integration in east Africa and west Africa	External actions	11
SR No 1/2009 Banking measures in the Mediterranean area in the context of the MEDA programme and the previous protocols	External actions	5
SR No 5/2009 The Commission's treasury management	Revenues	7
SR No 9/2007 Evaluating the EU research and technological development (RTD) framework programmes — could the Commission's approach be improved?	Research	5
Total number of recommendations		62

¹ All special reports of the Court are available at: <http://eca.europa.eu>

² Where necessary, the sub-parts of the published recommendations are numbered as separate recommendations in this report, in order to properly analyse and report on the actions taken by the Commission (see *Annex I*).

THE COMMISSION'S IMPLEMENTATION OF 62 RECOMMENDATIONS

INTRODUCTION

9. The Commission follows up the audit recommendations of the Court and requests made by the European Parliament and the Council (i.e. the discharge authority for the European budget). In accordance with Article 166(2) of the financial regulation, the Commission prepares an annual report on the above requests within the framework of the discharge procedure for the EU budget.
10. This section presents the results of the Court's review of the Commission's implementation of a sample of 62 recommendations from 10 special reports issued by the Court in the period 2006–10. The processing of requests of the Council and Parliament was not assessed as part of this exercise. **Annex I** shows an overview of each of the 62 recommendations assessed by the Court, while the **Annexes II to XI** provide a brief summary of the relevant audits, the recommendations, the subsequent follow-up actions taken by the Commission and any issues which remain to be addressed.

THE COMMISSION ADEQUATELY FOLLOWS UP AND IMPLEMENTS A LARGE MAJORITY OF THE COURT'S RECOMMENDATIONS

11. Of the 62 recommendations examined by the Court, the follow-up actions pertaining to three of the selected recommendations could not be verified, as the necessary evidence was only available at the level of beneficiary countries, which was outside the scope of the review (see paragraph 7). The Commission did not implement three recommendations (all of which related to the audit of food aid — **Annex III**). Two further recommendations were initially rejected but were subsequently fully implemented (a recommendation related to food aid — **Annex III**) or implemented in most respects (a recommendation related to treasury management — **Annex X**).
12. Of the 59 recommendations which could be assessed, the Court found that 49 recommendations (83 %) had been either fully implemented or implemented in most respects, and a further seven recommendations (12 %) had been implemented in some respects while three (5 %) had not been implemented.

EXAMPLES OF IMPROVEMENTS AND AREAS FOR IMPROVEMENT IN FINANCIAL MANAGEMENT

- 13. Simplification of aid programmes and clarification of grant-aid procedures** such as eligibility criteria were noted in the EU fruit and vegetable aid programme (agriculture) and also concerning the European Union Solidarity Fund. In the case of the latter, improvements in the quality of applications led to a reduction in the number of applications for which the Commission needed to request additional information. Improved guidance from the Commission to the Member States on project selection procedures and the inclusion of mandatory performance indicators were also in evidence in European Social Fund co-financed vocational training programmes (cohesion). Similarly, better procedures for considering project sustainability at application stage were introduced following the Indian Ocean tsunami audit (external actions). Such improvements can lead to better-targeted and thus more effective and efficiently delivered aid.
- 14.** The **monitoring of implementation and the evaluation** of the results of EU programmes and actions require reliable performance information. Improvements in this regard were noted in a number of areas reviewed. Firstly, while the draft Cohesion Fund regulations for the programming period 2014–20 remain fundamentally input based, they contain provisions for a stronger result-oriented approach including indicators for output and expected results (cohesion). Secondly, regarding the EU fruit and vegetable aid programme, data collection from Member States has improved with the help of new guidelines, templates and IT software from the Commission (agriculture). Finally, improvements were also noted in reporting, monitoring and communication by those delivering the rehabilitation programme after the Indian Ocean tsunami (external actions).
- 15.** However, there is a need to ensure better targeting of the aid schemes by including **SMART³ objectives and better performance indicators** within programmes (agriculture). There is also a need to improve the provision of comparative cost information to those responsible for implementation and monitoring (external actions). These improvements would facilitate increased accountability by Member States and beneficiaries for the EU funding.
- 16. Improved coordination and capacity building among stakeholders** are important elements in ensuring the efficiency and effectiveness of EU expenditure. As regards European Development Fund (EDF) support, increased efforts towards African regional integration with the support of the Commission were noted. These included improved coordination between the regional bodies and exchange of guidance between Commission headquarters and the EU delegations in the partner countries. Arrangements for greater coordination between the Commission and other funding stakeholders such as the European Investment Bank and the European Bank for Reconstruction and Development were also introduced (external actions).
- 17.** Finally, the increased institutional capacity noted in the area of banking measures in the Mediterranean area, through the establishment of specialist units in the Commission (EuropeAid), should assist the promotion and management of innovative financial instruments (external actions).

³ Specific, measurable, achievable, relevant and timely.

REVIEW OF THE COMMISSION'S FOLLOW-UP PROCEDURES

18. DG Budget of the Commission monitors and coordinates the follow-up process. For this purpose an IT application called RAD is used collectively by the DGs to record management information pertaining to audit recommendations and discharge requests. RAD contains the Commission's official response to these and the status of the follow-up actions taken by the individual DGs, which have the primary responsibility for their implementation.
19. The RAD application, developed in 2003, was designed as an IT tool to follow up annual report recommendations by the Court and requests made by the discharge authority in the framework of the discharge procedure. As from 2008, the use of RAD was extended to include recommendations issued by the Court in special reports. RAD is an important element in the Commission's follow-up system, both as a management information tool, allowing DG Budget and the individual DGs to monitor the actions taken to follow up recommendations and requests, and as a key source of information in the preparation of the annual report to the discharge authority⁴.
20. DG Informatics is the system provider of RAD, while DG Budget is the system owner and the final validator of the information recorded in the application.

⁴ 'RAD: file-discharge follow-up scope' lists the objectives of RAD as being: to create an application for the input of recommendations and the creation and following up of action plans, and to meet the follow-up requirement for reporting to the European Parliament, the Council and the Court of Auditors, not only yearly but until the recommendations are closed completed or cancelled.

THE COMMISSION HAS ESTABLISHED PROPER GUIDELINES AND PROCEDURES RELATING TO ITS FOLLOW-UP ACTIVITIES

21. The Court reviewed the Commission's guidelines and procedures relating to follow-up activities. The Court noted that following the observations of the IACs and those of the Court's first follow-up report⁵, the Commission has taken significant steps to strengthen its guidelines and procedures relating to follow-up activities. This includes improved documentation of procedures in place and the adoption of new guidelines for planning, executing, monitoring and reporting on follow-up activities; prioritising the follow-up of 'very important' and 'critical' recommendations/requests; and the requirement that DGs report at least annually on the progress achieved in implementing recommendations and requests.
22. As part of an action plan established by DG Budget, 'RAD actions 2013', the user manual for RAD has been updated. Furthermore, actions such as training courses, reports on timeliness, better search functions and the correction of 'bugs' in the RAD application have been initiated.
23. The Court's review showed that procedures within the RAD application and links to the responsible units in the DGs are in place and are adequately documented. This ensures an audit trail of all recommendations entered in the application, including the update of their implementation status. The review also showed that DG Budget has established procedures which ensure a clear segregation of duties in order to safeguard the integrity of the data recorded in RAD.

⁵ Special Report No 19/2012 (<http://eca.europa.eu>).

RAD DOES NOT ENSURE THAT THE COMMISSION HAS ADEQUATE AND RELIABLE MANAGEMENT INFORMATION CONCERNING THE IMPLEMENTATION STATUS OF RECOMMENDATIONS WHICH HAVE ONLY BEEN PARTIALLY IMPLEMENTED

- 24.** The Court reviewed the adequacy and reliability of the information available in RAD pertaining to the 62 recommendations reviewed.
- 25.** For each audit recommendation and request, RAD stores key data including the priority of the recommendation/request (critical, very important, important or desirable), its status of implementation (rejected, accepted, cancelled or done), its completion date (expected and actual date) and the full official response of the Commission. According to Commission rules, its response to the Court's recommendations must fulfil certain specific criteria, and in particular, the response must clearly state which practical measures the Commission has in mind to correct the weaknesses identified⁶.
- 26.** Of the 62 recommendations included in the Court's sample, 46 recommendations were entered in RAD. The 16 recommendations which were not recorded in RAD all related to special reports issued before 2008 (see paragraph 20). The official response of the Commission had been duly recorded for all 46 recommendations included in RAD. 38 of the 46 recommendations were recorded as 'done' by the Commission. However, the Court's analysis of supporting documentation in the DGs showed that only 20 of these recommendations could be considered as fully implemented.
- 27.** This discrepancy between the Commission's recording and the Court's assessment, noted in relation to 18 recommendations, concern instances where the Commission carried out only a partial implementation. As the categories used in RAD do not facilitate the recording of a partial implementation, such recommendations are recorded as 'done'.
- 28.** The Court notes that the absolute nature of the categories applied by the Commission to record the implementation status of recommendations has a negative impact on the adequacy and reliability of the information provided concerning audit recommendations which have only been partially implemented.

⁶ http://intracomm.ec.testa.eu/budg/rep/external/proced_en.html

CONCLUSIONS AND RECOMMENDATIONS

29. Based on its review of the Commission's follow-up of recommendations made in special reports, the Court concludes that the Commission adequately follows up the Court's recommendations.
30. The Court's review of the Commission's follow-up of 62 recommendations from the Court's special reports thus shows that the Commission has implemented 49 (83 %) of the Court's recommendations, either fully or in most respects, and that this has contributed towards improving financial management in a number of areas of the EU budget (see paragraphs 9 to 17). (See **Annexes II to XI**.)
31. The Court's review of guidelines and procedures relating to the Commission's follow-up activities showed that proper guidelines and procedures had generally been established (see paragraphs 21 to 23).
32. The Court's review shows that the IT application, RAD, contains management information on audit recommendations issued by the Court in special reports published from 2008. However, the Court concludes that RAD does not ensure that the Commission has adequate and reliable management information concerning the implementation status of recommendations which have only been partially implemented. This is due to the absolute nature of the categories used by the Commission to record the implementation status of recommendations (see paragraphs 24 to 28).

RECOMMENDATION

The Commission should refine the RAD application to better reflect recommendations that have only been partially implemented.

This Report was adopted by Chamber CEAD, headed by Mr Igors LUDBORŽS, Member of the Court of Auditors, in Luxembourg at its meeting of 17 December 2013.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

ANNEX I



OVERVIEW OF RECOMMENDATIONS REVIEWED BY THE COURT

Special report	Recommendation	Paragraph	Fully implemented	Implemented		Not implemented	No longer relevant	Could not be verified
				in most respects	in some respects			
SR 8/2006 Growing success? The effectiveness of the European Union support for fruit and vegetable producers' operational programmes (Annex II)	1	94	x					
	2	95 (i)		x				
	3	95 (ii)	x					
	4	95 (iii)	x					
	5	96	x					
	6	97	x					
	7	98	x					
	8	99	x					
	9	100	x					
SR 6/2009 European Union food aid for deprived persons: an assessment of the objectives, the means and the methods employed (Annex III)	1	1	x					
	2	2		x				
	3	3				x		
	4	4	x					
	5	5				x		
	6	6			x			
	7A	7			x			
	7B	7				x		
SR 5/2010 Implementation of the Leader approach for rural development (Annex IV)	1	1			x			
	2	2		x				
	3	3		x				
	4	4			x			
	5	5						x
	6	6			x			
SR 3/2008 The European Union Solidarity Fund: how rapid, efficient and flexible is it? (Annex V)	1	46	x					
	2	47	x					
SR 17/2009 Vocational training actions for women co-financed by the ESF (Annex VI)	1	50 (a)			x			
	2	50 (b)		x				
	3	53			x			
SR 6/2008 European Commission rehabilitation after the tsunami and hurricane Mitch (Annex VII)	1	1	x					
	2	2	x					
	3	3		x				
	4	4		x				
	5	5	x					
	6	6	x					



OVERVIEW OF RECOMMENDATIONS REVIEWED BY THE COURT

Special report	Recommendation	Paragraph	Fully implemented	Implemented		Not implemented	No longer relevant	Could not be verified
				in most respects	in some respects			
SR 18/2009 Effectiveness of EDF support for regional economic integration in east Africa and west Africa (Annex VIII)	1	1		x				
	2	2		x				
	3	3	x					
	4	4.1	x					
	5	4.2	x					
	6	4.3						x
	7	4.4	x					
	8	5.1	x					
	9	5.2			x			
	10	6.1			x			
	11	6.2						x
SR 1/2009 Banking measures in the Mediterranean area in the context of the MEDA programme and the previous protocols (Annex IX)	1	45 (a)	x					
	2	45 (b)	x					
	3	45 (c)	x					
	4	46	x					
	5	49	x					
SR 5/2009 The Commission's treasury management (Annex X)	1	43, 1.1		x				
	2	43, 1.2	x					
	3	47, 2.1	x					
	4	47, 2.2	x					
	5	47, 2.3			x			
	6	47, 2.4	x					
	7	19	x					
SR 9/2007 Evaluating the EU research and technological development (RTD) framework programmes — could the Commission's approach be improved? (Annex XI)	1	V (i)	x					
	2	V (ii)		x				
	3	V (iii)	x					
	4	V (iv)	x					
	5	V (v)	x					
TOTAL	62		35	14	7	3	0	3

ANNEX II



AGRICULTURE: SUPPORT FOR FRUIT AND VEGETABLE PRODUCERS' OPERATIONAL PROGRAMMES

1. Special Report No 8/2006 concerned the effectiveness of the EU support for fruit and vegetable producers' operational programmes.

2. 'Since 1996, the EU has offered aid for 50 % of the costs of measures taken by fruit and vegetable growers which aim, inter alia, to improve product quality, reduce production costs and improve environmental practices. The aid is only available to groups of growers that collectively market their produce in producer organisations (POs). Member States are responsible for approving the operational programmes (OPs) of measures proposed by the producer organisations, and for paying the aid. In 2004, the aid amounted to 500 million euros.'

(Source: Information note ECA/06/21)

3. The Court audited the effectiveness of this aid scheme based primarily on a random sample of 104 measures from 30 completed operational programmes in eight Member States, on an assessment of Member State and Commission procedures and on a review of Commission data.

The Court's recommendations

4. The Court recommended that the Commission should make the aid scheme for operational programmes simpler and more effective by:

- (1) bringing forward new proposals based on evaluation results;
- (2) clarifying the criteria for eligible expenditure and removing the programming requirements;
- (3) reviewing the objectives set for operational programmes and the eligibility lists;

- (4) aligning the scheme's procedures and rules for the eligibility of expenditure with those of the rural development investment measures;
- (5) improving its data collection on operational programmes and producer organisations, focusing on a few key indicators;
- (6) obtaining a better understanding of the reasons for the lack of progress in the concentration of supply in producer organisations;
- (7) better targeting the policy to achieve the overall objectives of concentration and adaptation;
- (8) questioning whether the benefits of concentration of supply achieved by the policy are sufficient to compensate for the inequality caused by limiting the aid to producer organisations; and
- (9) reconsidering the mechanism for supporting the EU's fruit and vegetable growers.

The implementation of the Court's recommendations

5. Of the nine Court recommendations, eight were fully implemented (Nos 1, 3, 4, 5, 6, 7, 8 and 9) and one (No 2) was met in most respects.

The main points from the Court's follow-up

MAKING THE AID SCHEME SIMPLER AND MORE EFFECTIVE

6.

The main improvements included the simplification of the aid scheme through the following actions:

- (1) multiple implementing regulations have been replaced by a single one;
- (2) processing aid has been abolished;
- (3) all the support is targeted at producer organisations of fresh product or fresh product intended for processing;
- (4) inclusion of the areas of the fruit and vegetable sector in the Single Payment Scheme; and
- (5) more effective aid scheme for operational programmes, through a higher concentration of supply from the POs.

7.

In approving an OP reference is now made to the national strategy and measures to address overcompensations. The Commission has also clarified the eligibility criteria for expenditure under operational programmes.

8.

Nevertheless, although the average rate of participation in producer organisations shows constant growth, with a rate of 43 % in 2010 (EU-27), it is still below the objective of 60 % established by the common market organisation in the 2007 reform.

ENHANCED PROGRAMMING, MONITORING AND EVALUATION

9.

The Commission has introduced new instruments to make the aid more attractive:

- (1) producer groups have been successful in the EU new Member States, particularly in Poland;
- (2) the new crisis prevention and management measures (green harvesting and no harvesting) proved efficient during the E. coli crisis in 2011;
- (3) harvesting insurance is growing as a valuable tool to prevent income losses;
- (4) the rate of organisation (i.e. percentage of supply dealt with by POs) in the EU has increased by 10 % since 2007.

10.

The Commission has maintained consistency in the rural development operational programmes by ensuring that Member States allocate resources in an effective way among sectors and priorities.

11.

The Commission also developed guidelines, templates and IT software to collect data to monitor the effectiveness of the aid scheme and used the 2008 evaluation results and subsequent studies to establish that the support for POs generates real gains in terms of strengthening the bargaining power of farmers. However, there is still room for improvement in making membership of producer organisations more attractive.

ANNEX III



AGRICULTURE: FOOD AID FOR DEPRIVED PERSONS

1. Special Report No 6/2009 concerned food aid for deprived persons.

2. 'In the wake of an exceptionally cold winter of 1986/87 the Community adopted a programme to release agricultural products, which were available in the Community intervention stocks, for free to charitable organisations for distribution to the persons in need. The measure was widely welcomed and still applies today. The programme has two main objectives: a social one (to make a significant contribution towards the well-being of most deprived citizens) and a market one (to stabilise the markets of agricultural products through the reduction of intervention stocks). The participation of the Member States in the programme is voluntary. The budget has been increased from 307 million euros in 2008 to 500 million euros in 2009 for the 18 participating Member States.'

(Source: Information note ECA/09/51)

3. In a context of an evolving market and social situation, the Court audited the sound financial management of the programme between 2005 and 2008 and its implementation in four Member States (Spain, France, Italy and Poland) which used the most significant part of the EU financial resources.

The Court's recommendations

4. The Court recommended that the Commission should:

- (1) consider whether it is appropriate to continue financing such a measure from the common agricultural policy;
- (2) encourage Member States to embed the programme in the social policy framework and improve coordination and cooperation with other key actors for social actions;

- (3) define priorities to select the recipients and intermediaries of the aid;
- (4) reconsider regulatory restriction of foods for distribution;
- (5) consider introducing a level of standardisation;
- (6) encourage Member States to develop specific, measurable, achievable, relevant and timely (SMART) objectives for the implementation of the programme; and
- (7) increase openness of competition and ensure that the best prices on the market are achieved by:
 - (a) better defining the legal basis and implementing rules for the procurement of food products for deprived persons. In addition,
 - (b) the bartering arrangements should be discontinued.

The implementation of the Court's recommendations

5. The Commission fully implemented two recommendations (Nos 1 and 4), one in most respects (No 2), two in some respects (Nos 6 and 7(a)) and three were not implemented (Nos 3, 5 and 7(b)).

The main points from the Court's follow-up

FUTURE FINANCING FROM COHESION REPLACES CAP (COMMON AGRICULTURAL POLICY)

6.

The Regulation (EU) No 121/2012⁷ amended the present food distribution scheme by providing for a phasing-out period. The phasing-out period ends at the completion of the 2013 annual plan, after which the present scheme will lapse.

7.

The proposed regulation (COM(2012) 617 final of 24 October 2012) establishes the Fund for European Aid to the Most Deprived (FEAD) for the period 2014–20, which will complement the existing cohesion instruments and notably the European Social Fund.

INCREASING SYNERGY

8.

Within the present scheme DG Agriculture and Rural Development presented a 'Roadmap for adopting the amendment of the 2012 food distribution plan for the most deprived persons (MDPs)' and the Commission issued in March 2012 further guidelines to Member States for the implementation.

9.

Within the new COM(2012) 617 proposal: there would be an obligation for the charitable organisations delivering food or other goods to MDPs to also undertake activities aiming at the social reintegration of the people assisted. This proposal is awaiting adoption by the EU legislative bodies.

MEASURING THE IMPACT OF THE MEASURE

10.

However, the Commission did not undertake further measures to ensure better targeting of the scheme (recommendation No 3) and improved accountability for food aid received on the basis that Member States would be better placed to do this. It also rejected the recommendation (No 5) to introduce a degree of standardisation of programmes as this would reduce the flexibility in programming. SMART objectives with performance indicators and binding implementation guidelines for the Member States have yet to be developed. In addition, a review of the reporting system for the scheme still needs to be carried out, to improve the management information available to the Commission as a result of changes in the implementation rules.

11.

Following limited corrective action taken by the Commission, the following weaknesses remain:

- (1) since the procurement directive is not always well transposed in the Member States, the procedures do not guarantee equal access to all EU operators, nor do they ensure that the best conditions and prices are obtained; and
- (2) since the Commission did not address the recommendation (No 7(b)) to discontinue bartering arrangements using intervention stocks, the risk that these arrangements may not always be cost-effective persists.

⁷ Regulation (EU) No 121/2012 of the European Parliament and of the Council of 15 February 2012 amending Council Regulations (EC) No 1290/2005 and (EC) No 1234/2007 as regards distribution of food products to the most deprived persons in the Union (OJ L 44, 16.2.2012, p. 1).

ANNEX IV



AGRICULTURE: IMPLEMENTATION OF THE LEADER APPROACH

1. Special Report No 5/2010 concerned the implementation of the Leader approach for rural development.

2. 'Leader is an approach for implementing the EU's rural development policy through local partnerships (local action groups, commonly known as LAGs). The assumption behind the Leader approach is that there is an added value compared with traditional top-down implementation. Bottom-up approaches and interaction between different sectors at local level should mobilise local potential.'

3. The LAGs bear the main responsibility for achieving the Leader added value and sound financial management. The European Commission and Member States share responsibility for supervising the LAGs' performance and ensuring that they follow the Leader approach and consistently achieve the highest standards of sound financial management.'

(Source: Information note ECA/10/27)

4. The Court assessed whether the Leader approach has been implemented in ways that add value while minimising the risks to sound financial management.

The Court's recommendations

5. The Court recommended that the Commission should:

- (1) ensure that the legislation provides sufficient clarity on the standards required in the specific framework of Leader for the eligibility of costs, the fairness of spending decisions and the composition of LAGs' decision-making committees;
- (2) ensure together with Member States that effective safeguards are in place to avoid conflicts of interest and check that they operate correctly;

- (3) review with Member States the existing constraints on local actions with the aim of allowing more innovative and multisectoral local strategies;
- (4) ensure that Member States require the LAGs to set specific, measurable, achievable objectives for the 2007–13 local development strategies;
- (5) check future programmes in sufficient detail for the specific elements that are fundamental to the added value, effectiveness and efficiency of Leader; and
- (6) ensure that it can account for the added value and sound financial management of Leader and coordinate with the Member States to ensure that the supervisory and control systems provide assurance on the fairness and transparency of procedures.

The implementation of the Court's recommendations

6. Two of the six recommendations were implemented in most respects (Nos 2 and 3), three in some respects (Nos 1, 4 and 6), and in one case the available evidence was insufficient to form an opinion (No 5) as the 2014–20 programmes are not yet available.

The main points from the Court's follow-up

CLEAR STANDARDS

7. The main improvement was the provision of clearer rules for LAGs' decision-making committees.

8. The main weakness is that expenditure incurred prior to the approval of grant applications can continue to be eligible.

CONFLICT OF INTEREST

9.

The requirement to avoid conflicts of interest has been included in the implementing Regulation (EC) No 1974/2006⁸. However, this does not specifically require declarations of interests to be documented and made public, which would be an effective safeguard.

MONITORING

10.

While the ongoing evaluation work and the *ex post* evaluation are likely to improve following the guidance provided by the Commission, the information currently available is not yet sufficient to show the added value achieved by Leader.

⁸ Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 368, 23.12.2006, p. 15).

ANNEX V



COHESION: SOLIDARITY FUND

1. Special Report No 3/2008 concerned the Solidarity Fund and questioned how rapid, efficient and flexible it is.

2. 'The European Union Solidarity Fund (EUSF) was set up in 2002 in response to the serious floods in Germany, Austria, the Czech Republic and France. The Fund was intended to demonstrate solidarity with Member States suffering as a result of natural disasters. Up to the end of 2006 it had provided aid of over 1 billion euros in respect of 23 disasters.'

(Source: Information note ECA/08/10)

3. The Council wanted the EUSF to be rapid, efficient and flexible in providing assistance. The audit of the EUSF examined whether the fund had achieved these aims and whether recipient states were satisfied with the fund.

The Court's recommendations

4. The Court recommended that the Commission should:

- (1) have procedures in place to ensure that an applicant state receives timely and detailed guidance on the requirements of the application; and
- (2) establish direct contact with the body in the Member or Accession State responsible for preparing the application.

The implementation of the Court's recommendations

5. Both recommendations were fully implemented.

The main points from the Court's follow-up

GUIDELINES FOR APPLICANT STATES

6. Improvements were achieved in the quality of applications, as evidenced by the reduction in the number of rejected applications and those for which additional information was requested.

7. Further improvements, concerning the assessment phase and subsequent phases facilitating the execution of payments, may be achieved through a revision of the EUSF regulation.

ANNEX VI



COHESION: VOCATIONAL TRAINING FOR WOMEN

1. Special Report No 17/2009 concerned vocational training actions for women co-financed by the ESF.

2. 'Vocational training actions for women — the main specific ESF-funded means of promoting equal opportunities for men and women in the labour market — accounted for an estimated 3 billion euros during the 2000–06 period. These measures complement programmes or actions that the Member States may implement without EU co-financing. For the 2007–13 programme period, the budget for specific actions has decreased significantly, as more emphasis has been placed on what is known as gender mainstreaming.'

(Source: Information note ECA/10/06)

3. The Court analysed whether vocational training actions for women co-financed by the European Social Fund during the 2000–06 programme period were appropriately selected and adequately monitored.

The Court's recommendations

4. The Court recommended that, regarding the selection of vocational training actions:

- (1) future operational programmes prepared in the Member States and approved by the Commission be established in light of an analysis of labour market conditions;
- (2) a properly designed project selection procedure be put in place in the Member States and correctly implemented; and
- (3) the Commission should continue to monitor the establishment by the Member States of appropriate and feasible indicators and that reliable data be collected in the Member States.

The implementation of the Court's recommendations

5. The Commission implemented one recommendation in most respects (No 2) and the two others in some respects (Nos 1 and 3).

The main points from the Court's follow-up

ANALYSIS OF LABOUR MARKET CONDITIONS

6. An analysis of the labour market conditions is not a systematic part of the analyses or reporting of current OPs. However, for the programming period 2014–20, the alignment with Europe 2020 strategy and the specific requirements for the preparation of the OPs should result in the provision of labour market analyses. The draft regulations for the programming period 2014–20, which are awaiting approval, contain provisions for a stronger result-oriented approach with output indicators, expected results, procedure for selection of operations and target groups.

PROJECT SELECTION PROCEDURE

7. The Commission issued a guidance note on transparent project selection procedures and assessed its implementation through its audits. However, the guidance did not make the link with the recommended labour market analysis.

APPROPRIATE AND FEASIBLE INDICATORS

8. The Commission issued guidelines for the current programming period and proposed guidance and mandatory indicators for the next programming period which are included in the draft regulation.

ANNEX VII



EXTERNAL ACTIONS: REHABILITATION

1. Special Report No 6/2008 concerned rehabilitation after the Indian Ocean tsunami and hurricane Mitch.

2. 'The Indian Ocean tsunami of 26 December 2004 killed over 200 000 people and caused damage of around 10 billion euros. The Commission's initial humanitarian aid response, designed to save lives and address immediate needs, was followed by longer-term rehabilitation aid of some 300 million euros, which aimed to reconstruct basic infrastructure and to provide a basis for sustainable development.'

(Source: Information note ECA/08/13)

3. The Court reported on the Commission's initial humanitarian aid response to the tsunami in Special Report No 3/2006 and this second audit (Special Report No 6/2008) examined the subsequent rehabilitation phase and also included the Commission's 250 million euro rehabilitation response to hurricane Mitch, which struck Central America in October 1998.

The Court's recommendations

4. The Court recommended that the Commission should:

- (1) rapidly design rehabilitation projects and involve beneficiaries;
- (2) continue its efforts in full cooperation with other donors, to improve the transparency of funds and establish independent quality review;
- (3) ensure that comparative cost information is available and that clear project targets are developed;

- (4) better anticipate significant price increases following natural disasters;
- (5) ensure adequate visibility for the projects funded by the EU; and
- (6) ensure the sustainability of projects after EU funding has ended.

The implementation of the Court's recommendations

5. The Commission fully implemented four recommendations (Nos 1, 2, 5, and 6) and implemented in most respects the remaining two (Nos 3 and 4).

The main points from the Court's follow-up

IMPROVING MANAGEMENT AND COOPERATION

6. The Commission created and promoted EuropeAid's Fragility and Crisis Management Unit. In addition, it issued several communications, including the agenda for change, the disaster risk reduction (DRR) strategy and implementation plan and the resilience communication, which represents an important step in taking the linking relief, rehabilitation and development (LRRD) approach forward.

7. Reporting and monitoring via the Multi-Donor Trust Fund (MDTF) Secretariat and via an independent technical specialist was also improved.

COMPARATIVE COSTS AND CLEAR PROJECT TARGETS

8.

While the Commission continues to ensure that its project implementation is evaluated, EuropeAid does not ensure that comparative cost information is readily available as a reference against which the project costs can be monitored.

VISIBILITY OF EU FUNDING

9.

EuropeAid's standard methodology for verification missions of HQ staff to European Union delegations was revised to include several checks on the visibility of EU funding. The quality support group (QSG) also assesses EU visibility for all projects and grant applications. The guidelines for international organisations also require such EU visibility when they help the Commission implement programmes.

SUSTAINABILITY

10.

The QSG checklists for project identification and formulation each check aspects of sustainability at the project design stage. Other checks also ensure that sustainability is at the core of all interventions.

ANNEX VIII



EXTERNAL ACTIONS: EDF SUPPORT

1. Special Report No 18/2009 concerned effectiveness of EDF support for regional economic integration in east Africa and west Africa.

2.
'Regional integration is the process of neighbouring countries cooperating in order to improve political stability and to stimulate economic development in a region. In larger and more harmonised markets, the free movement of goods, services, capital and people enables economies of scale and stimulates trade and investment. Regional economic integration between developing countries is thus a vehicle for economic growth and can contribute to poverty reduction.'

(Source: SR No 18/2009, executive summary)

3.
The Court analysed whether European Development Fund support for regional economic integration has been effective in east Africa and west Africa, which together account for well over 50 % of the total amount allocated to regional EDF programmes. The Court examined the European Commission's approach, its management of the support provided and a sample of individual projects and concluded that, overall, EDF support for regional economic integration has so far been only partially effective, due to a number of factors.

The Court's recommendations

4.
The Court recommended that the Commission should:

- (1) make the support for regional integration conditional on an early agreement on how to achieve the necessary convergence between regional organisations;
- (2) improve the coherence between its regional strategy and national strategies;
- (3) examine whether the financial allocation to regional programmes is too high;

- (4) clearly define the responsibilities of the different delegations in the regions concerned;
- (5) establish an appropriate coordination mechanism between delegations in a region;
- (6) review the resources allocated to delegations for the programming and implementation of its regional programmes;
- (7) use contribution agreements with regional organisations only where the financial management is found to comply with international standards;
- (8) Help the regional organisations to improve coordination among themselves and between them and their Member States;
- (9) Help the regional organisations to establish monitoring systems;
- (10) formulate SMART project objectives; and
- (11) pay more attention to regular, good-quality progress reporting, systematic monitoring and evaluation of project results.

The implementation of the Court's recommendations

5.
The Commission fully implemented five recommendations (Nos 3, 4, 5, 7, and 8), four recommendations were implemented in most respects (Nos 1, 2, 9, and 10) and in two cases (Nos 6 and 11) the Court was unable to conclude on the extent of implementation.

The main points from the Court's follow-up

REGIONAL INTEGRATION

6. Activities are continuing by regional organisations in both regions as well as by members of those organisations to work towards further regional integration, in particular by implementing at national level integration commitments agreed upon at regional level. The Commission has continued to provide support to the regional integration process towards enhancing coordination and convergence among the regional organisations and towards improving monitoring and evaluation. However, there is still a lack of interest in some members of those organisations in pursuing regional integration as well as a weak institutional capacity within the regional organisations.

COHERENCE REGIONAL/NATIONAL STRATEGIES AND ALLOCATION OF FUNDING

7. The Commission has undertaken a number of activities to ensure greater coherence between regional integration strategies and actions at regional level and at national level, which should become more apparent under the 11th EDF. A more realistic re-allocation of funds has also taken place between the different regions, with part of the 10th EDF funds being re-allocated to the sustainable energy for all initiative.

DELEGATIONS

8. In 2010 the Commission prepared and circulated a guidance note for managing regional programmes, which should lead to improved coordination between HQ and delegations and among delegations themselves. These guidelines also defined clearly when a contribution agreement may be signed with a regional organisation. Evidence of reinforcement of the four regional delegations concerned is dependent on the actual arrival of the additional staff (planned for 2013 and 2014).

PROJECT ASSESSMENT, MONITORING AND EVALUATION

9. The Commission's quality support groups carry out a systematic assessment of proposed projects/programmes. However, the thematic guidelines to be used for the preparation of regional projects/programmes have not yet been finalised. The Commission is also in the process of revising its monitoring and evaluation system.

ANNEX IX



EXTERNAL ACTIONS: BANKING MEASURES

1. **Special Report No 1/2009 concerned banking measures in the Mediterranean area.**

2. 'Cooperation between the EU and non-member Mediterranean countries started some 30 years ago and has gradually developed over the years. The framework for financial and technical measures (MEDA) aiming to accompany the reform of economic and social structures in the partner countries in the context of the Euro-Mediterranean partnership covered the period 1996–2006.

3. Three types of banking measures are financed under the MEDA regulations or the previous protocols from the EU budget and implemented by the European Investment Bank (EIB): technical assistance through the FEMIP (Facility for Euro-Mediterranean Investment and Partnership) Support Fund, interest rate subsidies for certain EIB loans and risk capital operations.'

(Source: Information note ECA/09/18)

4. The Court audited the banking measures under the MEDA programme and the previous protocols to determine whether the ongoing projects were being adequately monitored by the Commission and the EIB and whether the projects had achieved their objectives.

The Court's recommendations

5. The Court recommended that the Commission should:

- (1) set up a tailor-made evaluation and monitoring programme for banking measures;
- (2) ensure the effective coordination of assistance;
- (3) negotiate adequate management conventions;

(4) ensure that monitoring by the EIB provides that all projects are adequately executed and that the financial and reporting obligations of the intermediaries/promoters are met; and

(5) define an overall strategy for risk capital operations and choose the best implementation process.

The implementation of the Court's recommendations

6. The Commission fully implemented all five recommendations.

The main points from the Court's follow-up

EVALUATION AND MONITORING PROGRAMME

7. The Commission introduced key organisational and procedural changes, such as:

- (1) in 2008 EuropeAid set up a new section within the unit responsible for banking measures in the Mediterranean area with the aim of addressing the Court's observations as soon as possible;
- (2) in 2011 in the course of the reorganisation of EuropeAid, a new unit was created to promote, coordinate, manage and monitor innovative financial instruments of the external relations portfolios in the regions covered by EuropeAid; and
- (3) EuropeAid developed at the end of 2009 detailed guidelines for the EIB in order to clearly define their selection of new operations financed by the EU budget.

COORDINATION OF THE ASSISTANCE**8.**

Since 2010, coordination between EuropeAid, the EIB and the European External Action Service (EEAS) has been significantly enhanced. In addition, EuropeAid organised information sessions and provided training to staff in the EU delegations dealing with these facilities in order to streamline implementation, monitoring and reporting at local level.

MANAGEMENT CONVENTIONS**9.**

A new management agreement between the EU and the EIB on the implementation of operations financed from the general budget of the EU was signed at the end of 2012 bringing improvements in environmental compliance and monitoring, visibility of EU fundings and reporting.

ANNEX X



REVENUES: TREASURY MANAGEMENT

1. Special Report No 5/2009 concerned treasury management of the Commission.

2. 'The main tasks of the Commission's treasury management are: (a) treasury planning and forecasting, and more specifically cash flow forecasting and drawing financial resources from own resources accounts; (b) management of treasury operations (receipt and payments); and (c) management of bank accounts.'

3. Treasury management is performed by two directorates-general (DGs): DG Budget and DG Economic and Financial Affairs. DG Budget is responsible for treasury management of the entire budget managed by the Commission and the European Development Fund. DG Economic and Financial Affairs is responsible for the treasury management of other non-budgetary items and the investment of Community funds'.

(Source: Information note ECA/09/30)

4. The main objective of the Court's audit was to assess the quality of the Commission's treasury management and in particular whether: (a) the Commission complied with the rules and regulations applicable to treasury management; and (b) the Commission had established internal control systems which ensure sound treasury management.

The Court's recommendations

5. The Court recommended that the Commission should:

- (1) analyse the functioning of the present system of own resources accounts, with the aim of reducing balances on these accounts; and
- (2) improve the documentation of its cash flow forecasting procedures.

6. It also recommended in relation to the internal control systems, that the Commission should:

- (1) improve the oversight of its treasury management activities;
- (2) improve the documentation of its risk management;
- (3) have a uniform policy and adequate guidelines for the opening of fiduciary accounts; and
- (4) search for an optimum solution for the treatment of provisionally collected fines.

7. The Court also recommended in relation to imprest accounts that:

- (1) the requirements established for tender procedures for the selection of the banks should be followed and the selection procedure appropriately documented.

The implementation of the Court's recommendations

8. The Commission fully implemented five recommendations (Nos 2, 3, 4, 6, and 7) and two recommendations were implemented in most respects (Nos 1 and 5).

The main points from the Court's follow-up

ANALYSING OWN RESOURCES ACCOUNTS

9. DG Budget succeeded in reducing the year end balances in 2008, 2009 and 2011 despite the absence of changes to the system for collecting own resources from the Member States. As the system is legislated by the Council, the Commission does not have the competence to change the system.

CASH FLOW FORECASTING PROCEDURES

10. The reporting tools for the cash flow and treasury forecasts were revised in 2009 and the updated cash flow management now includes monthly written communications. Cash flow reporting and forecasting procedures, which date from 2010, are also being updated.

IMPROVED OVERSIGHT

11. DG Budget's risk management policy is regularly revised, with limits and requirements being modified. Discussions have also taken place between DG Budget and DG Economic and Financial Affairs on improving risk management and the management of fines.

12. The financial risk management policy of the Commission was published in 2012. In addition, DG Budget set up a risk management policy for treasury and payment operations and specific procedures for operational risks are in place for business continuity.

13. Indicators for the treasury operations have been established by the Commission. These indicators are tracked regularly and exceptions or deviations from targets are analysed and followed up.

TREATMENT OF PROVISIONALLY COLLECTED FINES

14. DG Budget and DG Economic and Financial Affairs signed a service level agreement at the end of 2009. In addition, a fund for the new provisionally cashed fines, managed since January 2010 by DG Economic and Financial Affairs, was created. Furthermore, in 2011, the IAC of DG Economic and Financial Affairs examined the revised arrangements for the treatment of provisionally collected fines and concluded that the activity was effectively managed.

MANAGEMENT OF IMPREST ACCOUNTS

15. In close cooperation with the EU delegations DG Budget proposes the most economic solutions for the management of imprest accounts. These selection procedures are documented and compliance with the procedures is examined during inspection visits by DG Budget. These inspections may result in recommendations contained in the inspection reports which are communicated to the EEAS.

FIDUCIARY ACCOUNTS

16. While most of the provisions of the financial regulation were applied from 1 January 2013, the new rules on financial instruments and indirect management will be applicable only from 1 January 2014. The financial and administrative framework agreement (FAFA — policies and guidelines for the operation of certain fiduciary accounts) between the EIB and the Commission, as well as specific instructions on fiduciary accounts, still needs to be signed.

ANNEX XI



RESEARCH: RTD FRAMEWORK PROGRAMMES

1. Special Report No 9/2007 concerned the evaluation of research and technological development framework programmes, to establish whether the Commission's approach could be improved.

2. 'Within the wide range of policies implemented in the European Union to strengthen innovation and competitiveness, the RTD framework programmes (FPs) are the most important financial instrument contributing to the Lisbon strategy and the Barcelona objective at the Community level. Through the FPs, the Community provides funding to researchers within the European Union, associated countries and beyond. Their budgets have increased significantly over the years, reaching 7 217 million euros per year under FP7 (2007 to 2013).

3. The audit addressed the basic question of whether the Commission's approach to assessing the results of the FPs was adequate. In this context, the Court checked whether the Commission met the legal requirements and ascertained whether its system for evaluation and monitoring met stakeholder expectations.'

(Source: Information note ECA/07/40)

4. The Court's audit covered the evaluation and monitoring arrangements in place at the Commission since 1995 for the last three programming periods (FP4, FP5, FP6) and also gave an outlook for the current FP7 (2007–13).

The Court's recommendations

5. The Court recommended that:

- (1) intervention logic should be rendered explicit in future legislation;
- (2) a comprehensive evaluation strategy should be developed;
- (3) consideration should be given to setting up a joint evaluation office for coordinating the research DGs' evaluation activities for the FP as a whole;
- (4) the data collection, evaluation and reporting should be optimised; and
- (5) the Commission should establish the type and scope of evaluation and clarify how they can be used.

The implementation of the Court's recommendations

6. The Commission fully implemented four recommendations (Nos 1, 3, 4 and 5), and one recommendation in most respects (No 2).

The main points from the Court's follow-up

INTERVENTION LOGIC

7.

The new legislative proposals include a clear and comprehensive description of the specific objectives for research funding, as well as a limited number of key indicators for assessing results and impact. However, these proposals have not been approved by the legislator yet.

EVALUATION AND MONITORING

8.

The Commission established a system for collecting a set of FP7-wide key performance indicators, which form the backbone of the yearly FP7 monitoring reports. A manual for the evaluation of research programmes has also been established and forms part of the internal control standards in DG Research and Innovation. However, a document containing the concrete evaluation strategy has not yet been produced.

9.

Although it is not a joint evaluation office, the Interservice RTD Evaluation Network now coordinates the research DGs' evaluation activities for the FP.

10.

The Commission established a common research data warehouse which provides users with information about the outcome of concluded FP7 calls for proposals, including FP7 participation and performance statistics.

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

VI.

The RAD functions and the categories 'accepted', 'rejected', 'done' and 'cancelled' were created in 2003. When a recommendation is partially accepted and hence partially implemented, the services have no other choice than selecting 'Accepted' and later on 'Done'.

However, since the issuing of the Court's first special report on the follow-up of its recommendations and with the steep increase in the number of recommendations and requests addressed to the Commission, the Commission has polished up the instructions addressed to its services in replying to the said recommendations/requests by asking them to clearly state if the services in question accept them and, where possible, to indicate to what degree they have been done.

VII.

The categories 'fully implemented', 'being implemented in most respects', 'being implemented in some respects', 'not implemented', 'N/A under the current framework' or 'no longer relevant', and 'insufficient evidence' were used by the Court in its Special Report No 19/2012, published in late 2012.

The Commission, through its Audit Progress Committee, is undergoing a thorough reflection on its follow-up of recommendations/requests in order to strengthen the process and will consult the Court on this matter.

THE COMMISSION'S IMPLEMENTATION OF 62 RECOMMENDATIONS

15.

The monitoring and evaluation system for the CAP towards 2020 includes clear objectives and a set of indicators that should help to assess the output, result and impact of the CAP measures/instruments. However, it should be noted that all measurement comes at a cost, and often a balance has to be struck between administrative burden and costs for beneficiaries and administrations and the benefits of having detailed and recent information. Moreover, indicators cannot be looked at in isolation, but require careful analysis and interpretation within their context.

REVIEW OF THE COMMISSION'S FOLLOW-UP PROCEDURES

26.

RAD contains only four categories: 'Accepted', 'Rejected', 'Done' and 'Cancelled'. As a consequence, whenever a recommendation is partially accepted and hence partially implemented, the services have no other choice than selecting 'Accepted' and later on 'Done'. This lack of alignment between the Commission's and the Court's categorisation can justify the discrepancy between the number of recommendations which the Court considers as being 'Fully implemented' and those which are classified as 'Done' in RAD. (See also reply to paragraph VI.)

Harmonising the categories used by the Commission and the Court might be one of the subjects of discussion in the future discussions between the two institutions (as mentioned in the reply to the recommendation after paragraph 32).

REPLY OF THE COMMISSION

27.

As the Court's recommendations often consist of sub-recommendations, the Commission has recently introduced the practice of splitting these recommendations in RAD to facilitate the follow-up process. The Commission expects that this practice will lead to a reduction of the number of partially implemented recommendations.

(See also the Commission's replies to paragraphs VI and 26.)

28.

See the Commission's reply to paragraphs VI, VII and 27.

CONCLUSIONS AND RECOMMENDATIONS

32.

Since the issuing of the Court's first special report on the follow-up of its recommendations and with the steep increase in the number of recommendations and requests addressed to it, the Commission has polished up the instructions addressed to its services in replying to the said recommendations/requests by asking them to clearly state if the services in question accept them and, where possible, to indicate to what degree they have been done.

Recommendation

The Commission, through its Audit Progress Committee, is undergoing a thorough reflection on its follow-up of recommendations/requests in order to strengthen it and will call upon the Court to provide a constructive input to it. The Commission agrees to assess the possibility to further develop the RAD application in order to improve the information provided to management.

COMMISSION REPLIES TO ANNEX II — AGRICULTURE: SUPPORT FOR FRUIT AND VEGETABLE PRODUCERS' OPERATIONAL PROGRAMMES

8.

The producer organisations' concentration of supply during the last years can be shown by an increase of 12,2 percentage points in the organisation rate of the OPs in the EU-27 in 2004–10. The boost in the OPs' concentration of supply is particularly seen in the EU-15, whereas the overall organisation rate reached 47,7 % in 2010, against its 33,7 % in 2004. The available tools (support for producer groups) and the amendments introduced by the reform (higher co-financing rate and national financial aid for operational programmes in Member States with a low degree of organisation or which joined the Union in 2004 or thereafter) have proven effective in some cases (e.g. Portugal, Poland). However the period considered is too short to allow for a greater increase in the EU-12 similar to that registered in the EU-15.

11.

The Commission is aware of the fact that in many Member States most producers are not members of producer organisations and strives to make producer organisations more attractive. In the meantime, the ongoing review of the scheme is in search of new measures to encourage not only the setting up of producer organisations but also new forms of cooperation among farmers.

REPLY OF THE COMMISSION

COMMISSION REPLIES TO ANNEX III — AGRICULTURE: FOOD AID FOR DEPRIVED PERSONS

5.

In respect of recommendations 2 and 6

The Commission, with reference to its remarks given under paragraphs 8 and 10 of Annex III, can agree with the assessment of the Court.

In respect of recommendation 7(a) and 7(b)

The Commission, due to the reasons explained under paragraphs 11, 11(a) and 11(b) of Annex III, can only partially agree with the assessment of the Court.

In respect of recommendations 3 and 5

The Commission rejected these recommendations due to the reasons specified under paragraph 10 of Annex III.

8.

In respect of recommendation 2

The Commission agrees with the observation of the Court and reiterates its view that the scheme has had a powerful leverage effect on the development of food initiatives or related measures by private bodies and public authorities. However, admittedly, the synergies could be further promoted. This question was also addressed in the context of its 2008 impact assessment and the subsequent proposal for a new Council regulation. Due to the phase-out of the scheme decided by the European Parliament and the Council in 2012, no such measures could be implemented under the current scheme. Nonetheless, the Commission has tried to encourage the establishment of synergies and complementarities with other national or local actions by calling, in its non-binding guidelines for the 2012 and 2013 annual plans, for the description of such links.

10.

In respect of recommendation 3

The Commission reiterates its view that Member States and not the Commission are better placed to target the action towards the specific needs at national and local level. The respect of the subsidiarity principle goes along with a higher efficiency of the scheme when the targeting of the beneficiaries remains Member States' competence. This does not mean that no targeting has to be done, but that this has to be left to the Member States, which have to include, in their plans, comprehensive information on recipients and charities taking part in the programme. This aspect has been particularly stressed by the Commission in its non-binding guidelines for the implementation of the 2012 and 2013 annual plans.

In respect of recommendation 5

The Commission considers that the way the MDP programme is currently run (till its end with the completion of the 2013 annual plan), with a large element of subsidiarity built into it and targeting done at national level, allows for the best possible impact of the programme, which has to focus on the most needy persons, which may considerably vary across Member States. Introducing further standards at EU level could hinder the necessary flexibility the MDP programme must preserve in order to adapt to the varied circumstances of the most deprived at local level.

REPLY OF THE COMMISSION

10.

In respect of recommendation 6

Within the framework of the revision process of the MDP started in 2008, the Commission has analysed several options to encourage Member States to set SMART objectives and enhance monitoring and reporting of the implementation of the programme. Nonetheless, due to the phasing out of the scheme finally decided by the European Parliament and the Council, only limited improvements could be implemented in the current scheme in this regard. In particular, in the guidelines for the implementation of the 2012 and 2013 annual plans, Member States were invited to better structure their programmes on clearly defined needs and objectives.

11.

In respect of recommendation 7(a) and 7(b)

Considering that the revised legal framework (R. 121/2012) of the MDP has provided for the continuation of the scheme only until the completion of the 2013 annual distribution plan, the Commission did not amend existing implementing rules to clearly state the applicability of the standard EU rules on public procurement. Nonetheless, the Commission reminds that standard procurement rules are applicable to the current scheme, even in absence of specific provisions in this regard.

(1) In respect of recommendation 7(a)

In addition to the reply given under paragraph 11, the Commission considers that the shortcomings identified by the Court in its special report, such as the lack of openness of the tenders, limited competition or risks of not obtaining the best conditions or prices, are linked to the incorrect interpretation of the general tendering rules by some national authorities rather than to the use of intervention stocks.

The Commission will better clarify the applicability of those rules in the detailed implementing rules that will be laid down as regards the use of intervention stocks within the future Fund for European Aid for the Most Deprived.

(2) In respect of recommendation 7(b)

Further to the reply given under paragraph 11, in the framework of the Fund for European Aid for the Most Deprived consideration will be given to the Court's proposals allowing for the Member States to choose the disposal of intervention stocks on the markets of agricultural commodities and to use this revenue to purchase the required final products every time when the conditions of bartering arrangements could be seen as inefficient.

REPLY OF THE COMMISSION

COMMISSION REPLIES TO ANNEX IV — AGRICULTURE: IMPLEMENTATION OF THE LEADER APPROACH

8.

The proposal of the Commission for the EAFRD regulation 2014–20 (Article 67(2)) is based on a harmonised approach between all ESI funds, at the same time being in line with the current rules on state aid.

As regards the lack of improvement in the current period, in the trilogue on the alignment to the Lisbon Treaty the institutions could not agree on the proposal COM(2010) 537 (see the statement of the Court in paragraph 3).

Both proposals stipulate that EAFRD support shall be granted for expenditure incurred only after an application has been submitted to the competent authority.

9.

As regards the next period, guidance as regards procedures to avoid conflicts of interest is given in the draft guidance document on CLLD issued by the four DGs (mentioned in the reply to paragraph 9) in Chapter 4.3 on page 26 ('Working procedures, rules and structures for decision-making in place should guarantee that the selection of projects is consistent with the objectives of the strategy, undertaken in a non-discriminatory and transparent manner and avoids in particular any risk of conflict of interest. Concerning the latter, LAGs should establish written procedures explaining how they intend to deal with this risk (for example on minutes of meetings, abstention on the vote, written declarations)').

As regards declarations of interests, the Commission considers guidance as being sufficient.

10.

The *ex post* evaluation will constitute the key element to assess the value added achieved by Leader.

COMMISSION REPLIES TO ANNEX VI — COHESION: VOCATIONAL TRAINING FOR WOMEN

5.

The Commission takes note of the analysis of the Court. Indeed, recommendations 1 and 3 are implemented in some respects because the provisions for the future programming period 2014–20 are still under adoption at the time of this report. Nevertheless, through its proposals for 2014–20, the Commission has taken concrete action to fully deliver on these recommendations. The recommendations will be implemented under the new legislative framework.

Furthermore, whilst the Commission has no legal basis to impose on Member States specific project selection procedures, it is nevertheless pleased that its actions have borne fruit and brought improvements in this domain. The new guidelines for the ongoing programming period provide a clear response to these recommendations, as did changes to the operational programmes, including their allocation and priority setting.

REPLY OF THE COMMISSION

6.

The Commission welcomes the Court's conclusions. Member States will indeed be requested to provide labour market analysis in the next programming period. In addition Article 87 of the draft common provision regulation will define a stronger result-oriented approach.

7.

Regarding the need identified by the Court to strengthen the link between project selection procedures and a labour market analysis, it should be noted that there is no legal basis for the Commission to oblige monitoring committees to revise the criteria for selection following newly identified problems coming from an (updated) labour market analysis.

Moreover, the Commission considers that changing the priorities and related funding of the programmes at a superior level is a more relevant tool to take into account the evolution of the labour market. In fact changes in programmes are necessarily translated at the level of the selection of projects.

Following the Court's recommendations, and on the basis of considerable efforts by the Commission, significant changes have been brought to many programmes. These changes reflect the impact of the socio-economic crisis, including on the labour market. They introduce reprioritisation and reallocation of funding, leading to modifications in the type and number of projects selected on the ground.

8.

The Commission agrees with the Court's analysis. Progress was made during the programming period 2007–13 with mandatory data reporting requirements (Annex XXIII of Regulation (EC) No 1828/2006), Member States' strategic reports on Cohesion Funds of 2009 and 2012 and the annual implementation reports. Moreover, mandatory indicators will be included in the draft regulatory framework for the 2014–20 programming period.

COMMISSION REPLIES TO ANNEX VII — EXTERNAL ACTIONS: REHABILITATION

8.

The Commission considers that it is difficult to have such readily available information for various reconstruction contexts and in different countries with diverse socio-economic patterns. Cost information can be gathered on an ad hoc basis, but there is no such generic cost information to reliably determine efficiency. Therefore, the Commission considers that this recommendation has been followed to the extent possible.

REPLY OF THE COMMISSION

COMMISSION REPLIES TO ANNEX X — REVENUES: TREASURY MANAGEMENT

16.

The accounting officer's instructions laying down rules for the opening, management and closure of fiduciary accounts are being finalised and are expected to come into force at the beginning of 2014.

The final discussions with the EIB on the financial and administrative framework agreement (FAFA) are ongoing and it is expected that the agreement will be signed soon. It will include guidelines for financial instrument account and asset management.

COMMISSION REPLIES TO ANNEX XI — RESEARCH: RTD FRAMEWORK PROGRAMMES

7.

The Horizon 2020 legal acts are in line with the overall approach proposed by the Commission to provide an explicit intervention logic and a limited number of key performance indicators.

8.

The Commission has committed itself before the legislator to prepare the overall approach for the evaluation and monitoring for Horizon 2020, as indicated notably in its impact assessment.

The Commission considers that the provisions on this matter in the legal acts and the key principles set out in the impact assessment for Horizon 2020's evaluation strategy are substantially aligned to the Court of Auditors' report's observations.

The Commission will develop a comprehensive evaluation strategy for the whole of the Horizon 2020 actions according to these provisions and principles.

9.

The Commission considered whether to establish a joint office, but has finally chosen a different approach for the current FP7.

Nevertheless, although there is not a joint evaluation office, the current system in place — for FP7 — guarantees a coherent approach on evaluation which responds to the Court's recommendation.

The Commission is currently working on the organisational arrangements for the management of Horizon 2020.

The establishment of a single unit dealing with data and reporting for the whole research policy will strengthen the common evaluation approach through the provision of coherent and comprehensive data on the implementation and outcomes of Horizon 2020.

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