

REPLIES OF THE EUROPEAN COMMISSION

TO THE EUROPEAN COURT OF AUDITORS' SPECIAL REPORT

on **EU development funding through the United Nations and member state organisations**

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This document presents the replies of the European Commission to observations of a Special Report of the European Court of Auditors, in line with Article 265 of the Financial Regulation and to be published together with the Special Report.

I. THE COMMISSION REPLIES IN BRIEF

Under indirect management, the Commission may entrust EU funds to a pillar-assessed organisation that is better placed to implement an action than the Commission acting directly, especially where the partner has stronger technical expertise, field presence, access in fragile contexts, or a clear comparative advantage. This approach is also used to improve efficiency, reduce fragmentation through common monitoring and accounting systems, and support partner-country ownership and leadership of development programmes.

In practice, this arrangement is preferred when direct implementation or public procurement is impractical or unfeasible, including in situations of conflict or extreme duress or when working with an international organisation or other entrusted entity is justified. However, its use is not automatic: the entity must meet the eligibility criteria set out in the Financial Regulation, successfully undergo a pillar assessment, and any weaknesses identified must be addressed through appropriate follow-up or supervisory measures set out in the contribution agreement.

The Commission welcomes the European Court of Auditors' (ECA) report and concurs with its observations. While noting the maturity of the control environment, the Commission recognises that the specific features of this management mode require continuous reflection and adaptation.

The Commission accepts all the recommendations.

II. REPLIES TO THE RECOMMENDATIONS

Recommendation 1 – Ensure the continuous validity of entrusted entities' pillar assessment

The Commission should:

(a) improve the quality and timeliness of information in the Pillar Assessment Automated Workflow by addressing data-quality issues and delays in updating information;

(b) establish a risk-based mechanism to collect and assess systemic issues identified through e.g. ex post verifications or audits performed, in order to determine whether their cumulative effect has an impact on the continued validity of entrusted entities' pillar assessments.

(Target implementation date: end of 2027)

The Commission **accepts** recommendation 1(a).

The Commission recognises the importance of ensuring that the Pillar Assessment Automated Workflow (PAAW) provides accurate and timely information. To this end, the Commission will explore options to streamline the tool's workflow by reducing the number of steps involved, and ensure that it reflects the most up-to-date information as quickly as possible.

The Commission **accepts** recommendation 1(b).

To this end, the Commission will build on the existing control and monitoring framework to establish a dedicated, risk-based mechanism. This mechanism will be implemented in a proportionate manner and will rely, to the extent possible, on existing information and reporting arrangements to avoid creating unnecessary administrative burden for Commission departments and entrusted entities. It will complement the safeguards already provided for in the Financial Regulation, such as the obligation for entrusted entities to notify the Commission of any substantive changes to their rules, systems or procedures, and the guidance to the DGs to seek regular written confirmation that no such substantive changes have occurred.

Recommendation 2 – Engage in discussions for, and where required initiate, the renegotiation of arrangements with pillar-assessed organisations

The Commission should engage in discussions for, and where required initiate, the renegotiation of arrangements concluded with pillar-assessed organisations in case they contain provisions restricting effective controls, such as the Financial and Administrative Framework Agreement and the Common Understanding signed with the United Nations.

(Target implementation date: end of 2027)

The Commission **accepts** recommendation 2.

The Commission will continue to engage in discussions on, and where required initiate, the renegotiation of arrangements concluded with pillar-assessed organisations if an agreement contains provisions restricting effective controls, such as the EU-UN Financial and Administrative Framework Agreement and the related Common Understanding. This implies that the Commission pursues a balanced and operationally sound approach, ensuring that concerns are first addressed through dialogue and that renegotiation is pursued where it is justified. It preserves the Commission's ability to act in a targeted and risk-based manner, while safeguarding both effective controls and constructive cooperation with implementing partners.

Recommendation 3 – Strengthen the focus on value for money in international partnership contracts concluded with entrusted entities

The Commission should:

(a) define clear requirements (e.g. in the contract manual) that the description of the action, the budget and the logical framework are coherently linked to each other through a sufficient level of detail;

(b) take appropriate measures, for example by providing guidance to staff, to ensure that such details are used effectively when assessing the value for money of proposed projects, including by defining the key cost elements to be assessed, such as the cumulative effect of indirect costs.

(Target implementation date: end of 2027)

The Commission recognises the importance of further strengthening value-for-money considerations in international partnership contracts concluded with entrusted entities.

The Commission **accepts** recommendation 3(a).

The Commission will clarify in the contract manual the requirement that the description of the action, the budget and the logical framework are coherently linked to each other through a sufficient level of detail. This will meet the underlying objective in a more appropriate and operationally feasible way.

The Commission **accepts** recommendation 3(b).

To this end, the Commission will improve assessment guidance by developing and disseminating operational tools for staff, including clear criteria for assessing value for money in project proposals. These tools will identify key cost elements requiring particular scrutiny, such as overheads, indirect costs and cumulative administrative expenditure. This will help ensure that resources are allocated efficiently and in line with the principles of economy, efficiency and effectiveness.

Recommendation 4 – Apply a risk-based monitoring approach that balances Commission oversight with its reliance on entrusted entities

The Commission should strengthen and clarify existing guidance for international partnership performance monitoring, specifying how checks should be proportionate to the size and risk profile of the action. The guidance should require staff to verify project advancement reported by entrusted entities, for example by requesting additional information on individual results on a sample basis, and by conducting on-the-spot visits.

(Target implementation date: end of 2027)

The Commission **accepts** recommendation 4.

The Commission agrees that a risk-based monitoring approach is important to ensure that oversight remains effective and proportionate, while also respecting the implementation model based on reliance on entrusted entities. In this context, the Commission will further strengthen and clarify its existing guidance on performance monitoring for international partnerships, including how the nature and intensity of checks are aligned with the size, complexity and risk profile of the action concerned.

The Commission also acknowledges the importance of verifying, where appropriate, the progress reported by entrusted entities. To support this, the revised guidance will further specify how staff may carry out proportionate verification measures, including requesting additional information on a sample basis for specific reported results and conducting on-the-spot visits when justified by the level of risk or other relevant circumstances.

Recommendation 5 – Enable the aggregation and analysis of results achieved through international partnership funding

The Commission should:

(a) reinforce the application of existing guidance that requires common indicators defined at programming level, including those of the Global Europe Results Framework, to be incorporated into project-level logical frameworks, so that results from individual projects can be aggregated;

(b) integrate spending and performance information for reporting purposes, allowing a value-for-money assessment at global level.

(Target implementation date: end of 2027)

The Commission **accepts** recommendation 5(a) and 5(b).

The Commission recognises the importance of systematically aggregating and analysing results achieved through international partnership funding in order to strengthen accountability, transparency and evidence-based decision-making. Improving the consistency, comparability and usability of results information is essential to demonstrate the collective efforts of EU external action and to support strategic steering across programmes and priorities.

To address this recommendation, the Commission will further strengthen the use of common indicators across international partnerships funding. In particular, it will reinforce the application of existing guidance so that actions systematically incorporate relevant common indicators, in particular those established under the Global Europe Results Framework, within their intervention logics and monitoring arrangements. This will support more consistent reporting across actions and the aggregation of results at portfolio, regional and global levels.

In parallel, the Commission will continue its efforts to better connect financial and performance information within its reporting systems. Strengthening the link between spending and results data aims to improve the basis for analysing performance, assessing value for money and informing resource allocation and policy refinement. These improvements will also contribute to clearer and more coherent reporting to stakeholders on the effectiveness and efficiency of international partnership funding.

The Commission will keep improving its capacity to monitor, aggregate and analyse results in a more structured and meaningful manner. This will support organisational learning, improve strategic oversight and help ensure that international partnership funding remains aligned with policy objectives. The Commission remains committed to refining these approaches in cooperation with its partners and stakeholders.

III. REPLIES TO OBSERVATIONS

1. On the dates of assessment

The Commission clarifies that, as stated in the Pillar Assessment User Guide (available to all users), the 'Created on' field doesn't indicate the date on which the assessment itself was conducted. Instead:

- For assessments initiated before the introduction of the Compass workflow, which enables online updates in PAAW, the 'Created on' date defaults to 1 January 1991 for the first assessment, 1 January 1992 for the second, etc. These placeholder dates are required to ensure the online repository functions correctly.
- For assessments entered after the release of the Compass workflow, the 'Created on' dates correspond to the dates on which the assessments were recorded in the system[1].

2. On the access rights

The Commission clarifies that this set-up is intentional as it is required to support specific operational activities. In certain cases, sanity checks need to be performed in the production environment. For this purpose, designated business analyst and tester profiles are granted extended access.

To enable these users to carry out the required validation activities effectively, they are assigned access to all relevant user groups and roles. This access is provided solely to carry out these operational checks and is not a general administrative set-up. The Commission remains committed to applying the principle of segregation of duties wherever applicable[2].

[1] See ECA observation 21 and Box 1.

[2] See ECA observation 23 and Box 2.

3. On the assessment of key pillars

The Commission clarifies that following the entry into force of the Financial Regulation, pillars 7, 8 and 9 were introduced and made mandatory. As a result, the current set of key pillars comprises pillars 1-3 and 7-9. Therefore, since 2018, any entity seeking to work with the European Commission under indirect management has been required to undergo an assessment of these additional key pillars.

Furthermore, the Commission underlines that the validity of pillar assessments is not determined solely by the date on which they were performed. Their continued reliability is ensured through a comprehensive monitoring framework, including: (a) an assessment of changes notified by implementing partners and made to their systems, rules and procedures to confirm that they are not substantive, i.e. that they do not affect the reliability of the Commission's pillar assessment; and (b) *ex post* controls and audits, such as expenditure checks, which may identify findings that could call into question the effectiveness of the pillar-assessed systems, rules or procedures. This continuous oversight enables the Commission to ensure the validity of pillar assessments, regardless of when the initial assessment was completed[3].

4. On the definition of substantive changes

The Commission clarifies that the broad definition of 'substantive changes' was intentionally adopted to ensure flexibility in addressing a wide range of potential scenarios. Introducing a more granular definition risks excluding unforeseen or context-specific cases that may still warrant attention.

This approach is necessary given the diverse and comprehensive nature of pillar assessments, which cover areas such as internal control and accounting systems, external audit, grants and procurement, financial instruments and budgetary guarantees, tax avoidance, anti-money laundering and counter-terrorist financing, as well as exclusion from access to funding, transparency requirements, and data protection[4].

5. On Financial Framework Partnership Agreements (FFPAs) not being formally assessed yet

The Commission underlines that the obligation to review FFPAs at least once during the term of every multiannual financial framework (MFF) was introduced by the 2018 Financial Regulation applicable to the budget of the Union (Article 130(1), now Article 131(1)). This obligation therefore did not apply to the 2014-2020 MFF. It started applying to the current MFF only. Moreover, although FFPAs have not been formally assessed yet, their implementation is tested continuously through the execution of covered Contribution Agreements and regular meetings as well as, where relevant, within dedicated fora with the relevant entrusted entities[5].

[3] See ECA observation 27.

[4] See ECA conclusion 11 and observations 28 and 30.

[5] See ECA conclusion 12 and observation 37.

6. On the assessment of the 'value for money' in international partnership contracts

The Commission underlines that the assessment of the value for money is to be carried out at pre-contractual stage when projects are being designed – i.e., before each relevant authorising officer signs the agreement with the entrusted entity[6].

7. On the lack of one standardised budget template for all entrusted entities

The Commission clarifies that the very fact that the Commission does not impose a standardised budget template does not in itself constrain its ability to obtain sufficient assurance on costs, activities and results. The existing framework does allow for means to obtain such assurance and thereby to oversee implementation so as to ensure the protection of the EU financial interests[7].

8. On the use of the terminology 'indirect costs'[8]

The Commission clarifies for accuracy purposes that in the context of implementation by entrusted entities (indirect management), the Financial Regulation applicable to the budget of the Union does not refer to 'indirect costs' but to 'remuneration' (Article 158(7)).

9. On the small number of potential partners

The Commission underlines that, in cases where longer and more complex negotiations are anticipated, it is possible to sign a simplified financing agreement. This can provide more time to negotiate and finalise the legal commitments. Under the so-called 'D+3 rule' (D meaning date of entry into force of the financing agreement), all legal commitments implementing a financing agreement must be signed within three years of the date on which the financing agreement enters into force.[9].

[6] See ECA conclusion 13.

[7] See ECA observations 43 and 47.

[8] See ECA observations 51 and 52, and Box 6.

[9] See ECA observation 58.