



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 2 October 2013
(OR. en)**

**14289/13
ADD 2**

FIN 585

COVER NOTE

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 26 September 2013

To: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European
Union

Subject: Commission Staff Working Document - accompanying the document
Report from the Commission to the European Parliament and to the Council
on the follow-up to 2011 discharge - Replies to requests from the Council

Delegations will find attached document SWD(2013) 348 final.

Encl.: SWD(2013) 348 final.



Brussels, 26.9.2013
SWD(2013) 348 final

COMMISSION STAFF WORKING DOCUMENT

Accompanying the document

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
TO THE COUNCIL**

on the follow-up to 2011 discharge - Replies to requests from the Council

{ COM(2013) 668 final }
{ SWD(2013) 349 final }

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INTRODUCTION

This Commission Staff Working Paper completes the Report from the Commission to the European Parliament and the Council on the Follow-up to the 2011 Discharge. It presents in detail the answers to 87 specific requests made by the Council in the comments accompanying its Recommendation on the 2010 Discharge¹

¹ Document references 5754/13 ADD 1, 5752/13 ADD 1 and 5752/1/13 REV 1 published on: <http://www.europarl.europa.eu/committees/en/cont/publications.html?id=CONT00004#menuzone>

Council Recommendation on the 2011 discharge

Introduction

1. (§10) The Council calls on the Commission to harmonise the presentation and content of Annual Activity Reports between Directorates-General in order to improve their comparability across policy areas.

Commission's response:

In a process of continuous improvement the Commission further enhances each year its AAR Standing Instructions based on the lessons learnt from the analysis of the AARs.

As from the 2011 AARs, the Commission has strengthened its instructions and guidance for calculating and presenting error rates, amounts at risk and materiality. This was welcomed by the European Court of Auditors in its 2011 Annual Report. Further efforts were made in 2012 to develop more reliable and harmonised error rates. More clarifications and a stricter definition for calculating residual error rates have contributed to the uptake of more concrete and coherent practices as regards the definition of error rates by the DGs. These developments set the scene for easy comparison and identification of good practice. Notably in shared management the DGs have adopted the same materiality criteria and method when calculating their residual error rates in the AAR 2012.

In 2013 the standing instructions will be revised again, notably in view of the recommendations of an internal audit on the AAR preparation process and the requirements from the new Financial Regulation introducing new demanding requirement for the design of control strategies and for management reporting as well as the new types of spending such as financial instruments and trust funds.

2. (§11) The Council invites the Commission to develop a method for evaluating and quantifying the cost and benefit of control systems and reporting on an increasingly complex environment resulting inter alia from the more extensive use of financial instruments and trust funds.

Commission's response:

In order to meet the reporting obligations of the new FR, the Commission has set up a working group to establish guidelines for the Commission services for the estimation of the cost and benefits of control systems. The objective is to issue the guidelines in the second half of 2013, in time for the AAR 2013 process.

Each year the Commission further enhances its AAR Standing Instructions based on the lessons learnt from the analysis of the AARs in a process of continuous improvement. In 2013 the standing instructions will be revised again, notably in view of the recommendations of an internal audit on the AAR preparation process and the requirements from the new Financial Regulation introducing new demanding requirement for the design of control strategies and for management reporting as well as the new types of spending such as financial instruments and trust funds.

3. (§12) The Council calls on the Commission to carefully monitor the amounts of outstanding commitments, and to settle or decommit them in a timely manner and in line with the relevant rules.

Commission's response:

“The Commission has taken the recommended action.

Results of the monitoring of outstanding budgetary commitments are presented yearly in a progress report on RAL, a working document of the Draft General Budget of the Commission. For cohesion, an analysis of outstanding commitments is published yearly in the Commission staff working paper (DG Budget) "Analysis of the budgetary implementation of the Structural and Cohesion Funds".

The yearly exercise for Potentially Abnormal RAL (PAR) provides a classification by the services of old and dormant outstanding commitments, the focus being in old cases. The services can classify open cases to following broad categories: normal/still ongoing/dispute cases/to be de-committed. This last category is considered as unjustified RAL (contracts can be closed and open amounts should be de-committed and possible recoveries made). All those cases were monitored in a follow-up exercise six months later.

This report is sent regularly to European Parliament (Committee on Budgets) and Council (Budget Committee).

All these reports show the level of de-commitments in 2012.”

4. (§13) The Council supports the Court's suggestion to the Commission to enhance its efforts in implementing the actions recommended by the Court in a timely, efficient and effective manner.

Commission's response:

While it belongs to all DGs to properly follow-up these recommendations, DG BUDG regularly informs the Commission on the state of play, using the available data in the RAD application.

This information takes place in the framework of the APC working group and the discharge correspondents' network.

In addition, the services receive automatic and specific reminders from the RAD application.

Chapter 1 - The Statement of Assurance and Supporting Information

5. (No1, §2) The Council encourages the Commission to continue to ensure that the high quality of the accounts is maintained in the forthcoming years.

Commission's response:

The Commission is committed to maintaining the high quality of its accounts through actions such as the accounting quality process and by following-up on the remarks and recommendations of both the Court of Auditors and the Discharge Authority.

6. (No2, §1) The Council reiterates its wish to see year-on-year improvements in financial management systems and lower error rates.

Commission's response:

There has been a significant reduction in the error rate for the EU budget as a whole and the gap between the error rate and the materiality threshold applied by the Court of Auditors has been reduced significantly over the years. The Commission continues to make improvements to the financial management system of EU funds; these are mostly based on recommendations from the Court of Auditors in its Annual and Special Reports as well as on the follow up to European Parliament discharge resolutions and the Council discharge recommendations. Examples include the reinforced use of interruptions/suspensions of payments and of recoveries/financial corrections in order to protect the EU budget. In its legislative proposals for the Multiannual Financial Framework 2014-2020, the Commission has proposed further structural improvements through simplification, reinforcing the accountability of financial actors under shared management as well as the supervisory and control mechanisms. All of these proposals aim at further reducing the risk of errors.

It is important to note that the error rate presented by the Court of Auditors has to be put into perspective as it does not take into account all actions taken by the Commission to protect the EU budget: for example, in 2011, the Commission imposed financial corrections and recoveries amounting to 1,84 billion euros which represents 1,4% of the payments made in 2011. If the financial impact of the corrective capacity of systems is put into perspective, it becomes apparent that the actual situation is very close to the materiality threshold of 2%. The Commission will therefore further use the preventive and corrective capacity of supervisory and control systems efficiently and effectively to its full extend. To strengthen the Commission's preventive actions, the application of interruptions and suspensions has been further harmonized in 2012, in particular in the area of Cohesion policy. For the new programming period 2014-2020, the Commission's proposal for common provisions on the Funds foresees a further harmonisation of the interruption of payments, including Rural Development.

7. (No2, §4) The Council encourages the Commission to further reinforce supervision and control structures, to further strengthen its cooperation with Member States and

to continue to provide guidance to national managing authorities, in order to bring down the level of error in Union spending in the forthcoming years.

Commission's response:

The new Financial Regulation, which is applicable to commitments as from 2014, introduces new requirements which are aimed at strengthening the supervisory and control structures in shared management (article 59). This includes notably the role of the Member States in designating and supervising the bodies responsible for the management of the EU funds at Member State level, a reinforced annual reporting by the Member States to the Commission, the Commission's right to interrupt and suspend payments and the annual examination and acceptance of the accounts. The current inter-institutional negotiations on the proposed legislative acts for the next programming period (2014-2020) will further set the legislative and regulatory framework and largely determine the supervisory and control structures for the decade ahead.

As regards Agriculture, in addition to the current annual clearance of accounts, the proposal for a horizontal regulation COM(2012)551 foresees the extension of the role of the certification bodies by requesting them to provide an opinion, not only on the management declaration of the paying agency, but also on the regularity and legality of the underlying transactions and the respect of the principles of sound financial management. Specific guidelines for MSs are under preparation. Moreover, in order to reduce the error rate related to Rural Development expenditure, Commission Regulation 883/2006 has been recently amended with the objective to facilitate interruptions and suspensions of payments to the MSs in case of deficiencies in the functioning of the management and control system.

Structural funds DGs have issued guidance on issues such as primary level management checks, certification function of the certifying authority, sampling methodologies, audit strategy, reporting audit results in annual control reports, reporting of recoveries and financial corrections, closure of programmes, etc. Also, several seminars have been organised or are planned in MS to promote the use of simplified cost options (notably in the context of the preparation of the next 2014-2020 programming period) and the new Joint Action Plans for 2014-2020 programmes to reduce the cost of control and the administrative burden on beneficiaries. Following the results of DAS 2010 and 2011, the Structural Fund DGs have reminded audit authorities on their role to ensure, through their audits, effective management verifications. They also disseminated in 2011 to audit authorities checklists for the audit of operations that can be used as a benchmark by managing authorities.

Chapter 2 - Revenue

8. (No1) The Council calls on the Commission to continue its work in order to ensure a correct accounting of the established customs duties.

Commission's response:

The Commission will, in the course of its inspections, continue to examine the Member States' accounting systems for traditional own resources and where weaknesses are found it will request the taking of appropriate remedial measures.

9. (No1) The Council calls on the Commission to continue its work in order [...] to assist Member States in enhancing appropriate control frameworks in order to collect the total amount of traditional own resources due to the Union

Commission's response:

The Commission will continue its work of examining the control frameworks in the Member States and where deficiencies are found it will request the taking of appropriate measures to address these deficiencies in order to collect the total amount of traditional own resources due to the Union.

10. (No2) The Council encourages the Commission, in close collaboration with Member States, to endeavour to resolve outstanding issues [related to long outstanding reservations regarding VAT-based own resources] as soon as possible.

Commission's response:

The number of VAT reservations changes from week to week. So too does the apparent number of long-outstanding reservations. It is unlikely that long-outstanding reservations will ever be completely eliminated. However the number (in both absolute terms and as a proportion of total reservations) has reduced in recent years thanks to work by the Commission and Member States. At the end of 2012 there were 16 reservations subject to monitoring as long-outstanding. Three of these have been lifted so far during 2013 with a further two expected to be resolved shortly. Action will be continuing on those remaining but for seven Court judgments are necessary.

11. (No3) The Council invites the Commission to pursue actively its efforts in implementing the Court's recommendations [in the field of GNI-based own resources].

Commission's response:

The Commission partially accepts the recommendation and is taking appropriate action. The Commission considers that the approach it applies (desk checks of the GNI Questionnaires, the verification of GNI Inventories using the GIAQ supplemented by a direct verification) is appropriate for a final assessment of the Member States' GNI. In this context, the supervisory and control systems (SCS) are of an organisational nature and give no specific indication of the reliability of

the accounts, which depends primarily on the statistical sources and methods used, even though SCS may help mitigate the risks of errors in national accounts. The Commission will pursue its efforts to develop SCS guidelines for compilation of their national accounts by Member States, taking into account the observations made by the Court.

Chapter 4 - Rural Development, Environment, Fisheries and Health

12. (No2, §1) The Council encourages the Commission to continue following up the weaknesses identified and in ensuring their correction, including through the conformity clearance procedure.

Commission's response:

The Court of Auditors findings are always an integral part of the basis on which the Commission services draw up the annual programme for compliance audits to be carried out in the Member States. The Court of Auditors' findings feed, along with other elements, into the risk analysis determining the audit programme. When performing the audits, Member States' actions to address shortcomings found by the Court are systematically followed-up. Financial corrections may also be imposed if the shortcomings have led to a risk to the Fund.

13. (No2, §3) The Council urges the Commission to supplement its regular reminders with clearer and more specific indications in the relevant guidelines.

Commission's response:

Further to Commission replies to the ECA's observations (OJ C344/108 12.11.2012, points 4.36 and 4.37), the Commission accepts the recommendation and will change the guidelines. Certification Bodies are not presently required to give an opinion on the legality and regularity of operations, in contrast to the Commission's proposals to the next programming period.

14. (No2, §4) The Council [...] calls on the Commission and Member States to implement as timely and effectively as possible all preventive and corrective actions aiming at tackling the causes for the material error rate thus identified.

Commission's response:

The DG AGRI services have launched action plans both in 2012 and 2013 with the ultimate objective of reducing the error rate within rural development. These action plans are being implemented and followed-up by DG AGRI in a timely and diligent manner. It should nevertheless be noted that results of this work can only be expected over time. The action plans cover a broad range of measures like training of staff and beneficiaries, awareness raising seminars etc, modifications of rural development programmes and issuing of guidance documents addressed to the member States' authorities for the future programming period.

15. (No2, §6) The Council urges the Commission to strengthen its preventive action in order to avoid fishing activities exceeding the existing agreement, detrimental to environmental sustainability and not in line with sound financial management.

Commission's response:

The Commission can confirm its commitment to ensure better monitoring of catches in the context of bilateral agreements with third countries (FPAs). As

pointed out by the Council, remedial actions and improved coordination and working methods have been put in place since 2010, resulting in proper and timely monitoring and control of catches in FPAs. Consequently, no excessive fishing has occurred since then and is not likely to happen in the future and the provisions of FPAs are fully respected. The Commission therefore considers that the recommendation can be considered as completed.

16. (No1, §2) The Council reiterates[...] that more effective verification systems must be put in place by the national managing authorities to reduce the error rate. It calls on Member States and the Commission to pursue this and to provide targeted training and guidelines, to ensure a better dissemination of information and of best practices while, at the same time, ensuring a greater stability of rules and procedures over time.

Commission's response:

The Commission has taken the requested action to improve management verifications and the certification of expenditure to the Commission under its 2008 Action Plan since it considers this to be a critical and permanent action of its supervisory role. For instance, in Cohesion policy, the Commission has provided - and still is providing - comprehensive guidance in the area of simplified costs, implementation of public procurement issues and on retrospective projects. In the case of ERDF and Cohesion Fund, remedial action plans were implemented in the past (Greece and Spain) or are on-going (Czech Republic, Slovakia, Hungary and Romania) in specific MS in order to address the systemic non-compliance with public procurement rules, and good results were already noted in some cases. The Commission continues to remind Member States authorities that they should carry out proper and sufficient management verifications, before accepting and declaring expenditure submitted by beneficiaries. However, administrative capacity in some Member States and/or programmes needs to be improved further, to make sure that Managing Authorities are adequately staffed or that they address the problems connected to the high turnover of staff in some administrations. But Member States also need to provide training at their turn at all administrative layers, in order to ensure that rules are properly known and implemented, particularly in case of staff turnover. To help them, DG REGIO has set-up in August 2012 a special competence centre for administrative capacity building. With a view to the next programming period, the Commission has proposed to build up on experience to reinforce systems to ensure legality/regularity across programmes and improve further management accountability. The formal certification of accounts once all national controls have been done, combined with the 10% retention mechanism on interim payments, net corrections following Community audits once accounts have been accepted and the requirement of annual management declarations by managing authorities are meant to offset the risk that expenditure claimed are not legal and regular and to improve accountability at national level.

17. (No1, §3) The Council [...] encourages the Commission to continue applying a strict policy of interruption and suspension of payments whenever significant deficiencies in the functioning of management and control systems are identified, until corrective action is fully implemented.

Commission's response:

The Commission has taken the requested action. It fully uses interruptions and suspensions instruments as soon as irregularities are detected, leading to actions

plans to correct past expenditure and to adapt management and control systems. The Commission only resumes payments when it has a reasonable assurance that irregular expenditure have been corrected and that management and control systems are adapted. Detailed information on the extensive use of interruptions and suspensions is provided in the Annual Activity Reports of the DGs concerned. The Commission has the firm intention to continue to use all these tools.

18. (No1, § 4) The Council invites the Commission and Member States to continue their efforts in securing strict compliance with EU and national eligibility requirements, and with public procurement rules.

Commission's response:

The Commission has taken the requested action. It has made and continues to make considerable efforts to ensure strict compliance with eligibility requirements and the correct application of public procurement rules, through training and guidance on eligibility rules to programme managing authorities to ensure they transmit this knowledge to all bodies in charge of managing the funds. Moreover, when it identifies complex rules at programme level, the Commission makes recommendations to simplify them. It has also shared with Member States an analysis of the types of procurement errors detected by EU audits in cohesion policy during previous years and has launched an exercise to collect best practices and possible answers by Member States to remedy such errors and reduce their occurrence.

The Commission verifies compliance with EU and national eligibility requirements and with public procurement rules through its extensive audit work. It has an audit strategy in place covering all structural fund instruments, which is updated annually. For the 2007-2013 programming period, the control strategy contributing to the assurance building is implemented through the following various strands of controls foreseen in the regulatory framework.

At the beginning of programme implementation: approval by the Commission of the Member States' compliance assessments to ensure that systems are designed in compliance with the rules. The Commission also approves the audit strategies proposed by the national audit authorities with a view to ensuring that the most important risks and bodies will be covered adequately and in a timely manner. The Commission makes no interim payment until it accepts the Member States' compliance assessments.

During programme implementation: The audit work contributes to the Commission's assurance, through a combination of desk review and on-the-spot audit missions:

a) Commission desk review of the work of the national audit authorities through: the continuous analysis of their systems audit reports (including consistency with Community audits results), the analysis of annual control reports and opinions issued for all programmes, annual control coordination meetings and ad hoc technical meetings and contacts with the audit authorities to monitor the progress and results of all audit work in line with the approved national audit strategies.

Based on this analysis the Commission continuously updates its guidance for the work of the audit authorities;

b) Commission on-the-spot audits to conclude, including through re-performance of some audits on the reliability of the work carried out and reported by the audit authorities;

c) Commission on-the-spot audits on national bodies, parts of management and control systems or horizontal issues identified at risk (such as public procurement, State aid, financial engineering or the national systems for recording and reporting irregularities and recoveries), in order to complement the assurance obtained from the national audit authorities. On-the-spot audits are usually at the level of programmes authorities and/or intermediate bodies, and can include verifications down to the primary source of audit evidence at the level of beneficiaries.

At the end of the programming periods (2000-2006 and 2007-2013): the audit authority gives its opinion on the legality and regularity of expenditure declared for the each programme, based on the examination of the audit results, the expenditure and irregularities declared and withdrawals and recoveries made by the certifying authority. The Commission scrutinises all closure declaration documents (desk review) and may perform ex-post closure audits to obtain additional assurance that the submitted closure documents, including the winding up (2000-2006)/closure declarations (2007-2013) and final control reports, are reliable.

Detailed information on the Commission's audit work is provided in the Annual Activity Reports of the DGs concerned. For further details see also the control brochure of Cohesion policy:

http://ec.europa.eu/regional_policy/sources/docgener/presenta/audit2009/audit2009_en.pdf

19. (No2, §2) The Council encourages [...] the Commission to continue providing guidance with particular attention to sampling, scope of verifications and quality control.

Commission's response:

The Commission has taken the requested action. Since the beginning of the programming period, it has provided detailed and technical guidance, offered training and conducted technical meetings with auditors of national audit authorities. Furthermore, guidance on the scope and extent of audits on operations that was delivered under the 2000-2006 programming period is still valid since such audits do not differ significantly between both programming periods. As far as sampling is concerned, specific workshops were organised by the Commission with all audit authorities in June, September and November 2012. This led to further clarifications on the treatment of errors (following the December 2011 guidance) and the detailed revision and update of the Commission guidance on sampling to be adopted by COCOF in February 2013.

20. (No3, §2) The Council calls on the Commission to pursue the audit work for those programmes [2000-2006 programmes in regional policy and FP7 for research] in order to provide a more realistic evaluation of the expenditure at risk.

Commission's response:

The Commission has taken the requested action. With a view to the closure of the 2000-2006 ERDF programmes and Cohesion Fund projects it has analysed thoroughly each winding-up declaration and drew conclusions, including application of financial corrections where necessary on the remaining material errors, individual and systemic, after all corrections already implemented by the Member States authorities either on own initiative or at the Commission's request have been deducted. Additional corrections are applied when they did not contribute to lasting improvements of the management and control systems up to closure. The Commission is confident that its closure process allows reducing significantly the expenditure at risk by applying appropriate financial corrections, when needed, based on its thorough assessments of closure documents received and additional information requested and taking into account the evidence gathered during the closure audits (see reporting of figures on financial corrections in DG REGIO's 2012 Annual Activity report, p. 45-50 and the "Report on financial corrections carried out for ERDF and ESF on 2000-2006 programmes" that was sent to the EP's CONT committee on 12/04/2013 (Ares(2013)689652)). Regarding FP7, the Commission DGs managing research projects have, from 2012 onwards, a Common Representative Audit Sample.

21. (No4) The Council [...] calls on the Commission to apply robust procedures to ensure that 2000-2006 and 2007-2013 programmes are closed in an efficient manner and respecting sound financial management.

Commission's response:

The Commission has taken the requested action. With a view to the measures taken for the closure of the 2000-2006 ERDF programmes and Cohesion Fund projects it refers to its reply to No3, §2. For the 2007-2013 period, the regulatory framework requires (except for very small populations of projects) the audit of representative, statistical samples on a yearly basis, that support formal audit opinions of the audit authorities. This will form a more solid basis for 2007-2013 closure declaration and a basis to calculate the residual risk after corrections implementation. Guidelines for closure 2007-2013 have been discussed with Member States since June 2012 and have been adopted in March 2013.

Chapter 6 - Employment and Social Affairs

22. *(No1, §2)* The Council invites the Commission to continue with preventive and corrective measures, such as guidance and training, in order to secure strict compliance with the eligibility requirements, to further simplify the procedures and to ensure, where necessary, that financial corrections are made.

Commission's response:

Concerning the ESF, on 12 November 2012, DG EMPL's Director General sent a letter to all Managing Authorities drawing their attention to the need to improve the reliability of the management verifications and calling upon them to strengthen existing procedures and practices in the light of the Court's findings concerning first level checks. The Member States should recover the correspondent amounts from beneficiaries whenever ineligible expenditures are detected. DG EMPL will also carry out in 2013 a number of thematic audits on the effectiveness of first-level checks in a set of operational programmes selected on a risk basis. Furthermore, the Commission will continue encouraging and supporting national authorities in their simplification efforts, in particular the effective implementation of the simplified costs options provided for in the current regulations. In this regard, besides the Sectoral Event on Simplified Costs held on 13 December 2011, to which all Managing Authorities were invited, specific simplification seminars with Managing Authorities have already taken place in Spain, Portugal Italy, Bulgaria, Hungary and Croatia in 2012 and early 2013. Another one will take place in Romania in April 2013. Besides contributing to a further reduction in error rates (and error frequency), the effective implementation of simplified costs would also significantly reduce the administrative burden on beneficiaries and the cost of control. The Commission continues to apply a strict policy of interruptions and suspensions when significant deficiencies in the functioning of management and control systems are detected in the course of audits.

23. *(No2, §2)* The Council encourages [...] the Commission to continue providing guidance, with particular attention to sampling, the scope of verifications and quality control.

Commission's response:

The Commission continues to provide guidance through training activities and guidance notes to the Audit Authorities.

In 2012, the Commission organised the following meetings with the national audit authorities:

- Training session given to the Italian audit authorities in December 2012; this training session on sampling will be given in Germany and in Spain in April 2013;

- Training and information sessions given to Spanish Managing, Certifying and Audit Authorities (throughout the year but generally on a quarterly basis), as a follow-up of the specific action plan put in place for Spain in 2011;

- Annual Homologues Group meetings (with participants from the Member States, the Commission and ECA), which took place in Vilnius in September 2012, have also helped boost cooperation with the Audit Authorities and exchanging ideas on best practices;

- Technical working group on sampling (Brussels) 30/11/2012;

- The annual technical meeting with the audit authorities (Brussels) 4/6/2012;

- 27 Annual bilateral control coordination meetings (where the Commission meets the Audit Authorities of each Member State individually) provide the opportunity to share information on specific audit issues, such as the content and timing of the audit work and risks identified for the current year.

On 4 April 2013, the Commission also issued a Guidance on sampling methods for Audit Authorities.

Moreover, in 2012 the, the following guidance notes were provided to the national authorities:

- The complementary guidance for national authorities was updated (on the coverage and quality of the audit activities and on the sampling methodologies and error treatment);

- Revised guidance note on Financial Engineering Instruments;

- Guidance note on Revenue-generating projects;

- Guidance note on state aids and infrastructure projects;

- Guidelines on closure 2007-2013 have been discussed with Member States several times during 2012, in order to be ready in due time, as recommended by IAS and ECA;

- Guidance note on retrospective EU assistance;

- Several presentations on simplified costs (both for MA and AA) in Bulgaria, Spain, Portugal.

24. (No3, §2) The Council calls on the Commission to pursue further audit work for those [2000-2006] programmes in order to provide a more realistic evaluation of the expenditure at risk

Commission's response:

DG EMPL has pursued its undertaking closure audits for the 2000-2006 programmes.

Based on the results of the closure analysis, a selection of closure audits has been planned on a risk basis. Six have been realised in 2011 and two in 2012 (plus a fact-finding mission).

The results of these eight audit missions are the following: 1 unqualified opinion; 3 Qualified opinions with minor observations and 4 Qualified opinions with significant observations.

Taking also into account the results of the ECA special report on closure 2000-2006, 5 additional closure audits have been planned in 2013 (AT; DE-Brandenburg; DE-Bremen; FR; IT-Calabria).

Where needed, the necessary corrective procedures have been initiated. In the cases where potential revised financial corrections are envisaged, the final closure is still pending, waiting for the final agreement between the Commission and the Member States concerned.

Chapter 7 - External Relations, Aid and Enlargement

25. (§3) The Council calls on the Commission to continue taking the Court's recommendations into account.

Commission's response:

The implementation and follow-up of the European Court of Auditors' recommendations by the European Commission is a continuous process managed as timely as possible through the RAD IT application.

26. (§4) The Council asks the Commission to take the necessary measures to correct the shortcomings identified by the Court in relation to tendering procedures and on the spot checks.

Commission's response:

The recommendation is addressed through the action plan for correcting the weaknesses identified in the implementation of DG DEVCO's internal control system and mitigating the related risks as approved by DEVCO management in May 2013.

Chapter 8 - Research and Other Internal Policies

27. (No2, §1) The Council encourages the Commission to continue to reinforce its internal control systems [for research and other internal policies].

Commission's response:

The Commission will continue to reinforce its internal control systems, which are always subject to review.

In the research field developments are on-going in improvement in IT systems, business processes and ex ante control procedures. A major effort is being made to ensure that controls are automated as far as possible. However, any reinforcements of internal control systems cannot be allowed to increase the administrative burden on participants, and must take account of the need to respect the requirements for the time taken to contract with, and to pay, beneficiaries and the reduction of the staff numbers within the services. This limits the possibilities for fundamental changes in the current Framework Programme.

Real improvement can only come from simplification in the underlying legislation. This is no longer possible for FP7, but the Commission has proposed a series of simplification measures for Horizon 2020, which are currently being examined by the legislative authority.

28. (No2.1, §1) The Council encourages the Commission to further improve its [ex-ante] control procedures which the Court still considered to be only partially effective.

Commission's response:

The Commission will continue to reinforce its internal control systems, which are always subject to review.

In particular some check-lists for ex ante control before payments and approval of reports have already been further streamlined to focus on the most important checks to be done, and with a view to ensure both efficient and coherent ex-ante controls. These check-lists include guidance for officers as well as a link to the relevant contractual obligations or the appropriated financial regulations.

In the research field developments are on-going in improvement in IT systems, business processes and ex ante control procedures. A major effort is being made to ensure that controls are automated as far as possible. However, any reinforcements of internal control systems cannot be allowed to increase the administrative burden on participants, and must take account of the need to respect the requirements for the time taken to contract with, and to pay, beneficiaries and the reduction of the staff numbers within the services.

Audit certificates are also part of ex ante control procedures.

The Commission now generally writes to auditors directly if it is found that they have not adequately carried out their work. A communication campaign based on

the 10 most common sources of error has targeted auditors as well as beneficiaries (see also answer to No2.1, §5). Note, however, that further analyses suggest that cost statements with an Audit Certificate (CFS) have, on average, an error rate half that of cost statements without CFS.

29. (No2.1, §2) The Council encourages the Commission to increase awareness on this issue [the errors in cost statements which had received an unqualified opinion from the certifying auditor] with the aim of improving the reliability of the issued audit certificates.

Commission's response:

At the end of 2011 the Commission launched an initiative to provide more guidance to participants and independent auditors.

In this context, a document setting out the most common errors identified in cost claims and how to avoid them is available to all Framework Programme participants in Cordis – the Community Research and Development Information Service web site - and in the Participant Portal.

Furthermore, in 2012 and 2013 the Commission has carried out a communication campaign based on a document setting out the 10 most common sources of error. There have been 22 events covering 22 Member States and associated countries. These seminars, aimed at participants and their auditors, have been attended by 3500 participants so far.

Additionally, the Commission services are now writing directly to independent certifying auditors if their own audit reveals different results.

Furthermore, the "Research Enquiry Service" replies to any questions from the certifying auditors.

30. (No2.1, §4) The Council encourages the Commission to intensify its efforts to ensure that the external audit firms align their procedures to the Commission's guidelines and standard practice reviews, in line with the Court's recommendations

Commission's response:

The Commission has enhanced the supervision of the external audit firms conducting audits on its behalf. In this respect, special attention was placed on ensuring that the quality of their audit documentation backed up their conclusions and was in line with the Commission's standards.

Based on the work performed by the Commission the general conclusion is that, overall, these firms have an adequate set of systems and procedures in place to ensure the necessary quality of their audits and guarantee a satisfactory level of assurance.

The Commission will continue to monitor closely the activities of the external audit firms.

31. (No2.1, §5) [Concerning FP7], the Council encourages the Commission to continue towards further procedural simplification and increased awareness among beneficiaries.

Commission's response:

Simplifications have been introduced throughout FP7, most recently by Commission Decision (2011)174. There is no longer any scope for major simplification for FP7, but the Commission has proposed a series of simplification measures for Horizon 2020, which is currently being examined by the legislative authority.

In 2012 and 2013 the Commission has carried out a communication campaign based on a document setting out the 10 most common sources of error. There have been 22 events covering 22 Member States and associated countries. These seminars, aimed at participants and their auditors, have been attended by 3500 participants so far.

See also response to recommendation 27.

32. (No2.2, §1) The Council invites the Commission to continue to strengthen its accounting systems [regarding the ex-ante desk checks for the Competitiveness and Innovation Framework Programme - ICT Policy Support Programme (ICT-PSP)].

Commission's response:

The Commission is taking note of the Council recommendation. It is indeed to be recognized that there were limited cases of financial actors' non-synchronization between ABAC and iFlow, as observed by the European Court of Auditors. However, it has been proven that the latter did not imply financial or control weaknesses. The Research DGs, including DG CONNECT, are currently developing a new common IT system (called JAGATE) which will address the issue of visas in the accounting systems. The JAGATE technical solution will be in place for the next Research framework programme, Horizon 2020.

33. (No2.2, §2) The Council encourages the Commission to ensure the full implementation [of the audit strategy set up for the ICT-PSP programme].

Commission's response:

The requested action has been taken. The Commission (DG CONNECT) has adopted an audit strategy covering the non-research strand of the DG's spending aiming at providing assurance to the DG's Director-General as to the management of the non-research funding.

The launch of 35 audits per year is foreseen in the timeframe 2012-2017 (a total of 215 audits). The strategy is in practice effectively in place starting from the second half of 2012 in order to provide the necessary input for AAR2013. The first results have been already delivered since the procedures concerning 9 of these audits have been finalised.

Chapter 9 - Administrative and Other Expenditure

34. (No2, §2) The Council encourages the institutions concerned to address the remaining weaknesses pointed out by the Court [relating to the payment of social allowances to staff members and to the employment contracts].

Commission's response:

An automatic update of the amounts of the allowances of like nature from the Belgian State is being implemented by the Commission in SYSPER2/Rights (the Information System for the management of Individual Entitlements) since April 2012. This automatism will significantly decrease the risk of errors as the update will not be done manually any more. The other Member States will follow.

Additionally, a new module will be put in place in the front office of SYSPER2/Rights. Staff will be asked to declare the professional activity of their spouse. The other modules of SYSPER2/Rights being implemented also include sections of allowances of like nature.

35. (No2, §2) The Council encourages the institutions concerned to address the remaining weaknesses pointed out by the Court [relating to procurement procedures].

Commission's response:

The audit of the Court of Auditors has been performed over the period November 2011-February 2012. Since spring 2011, i.e. well before the audit, OIL conducted various actions of simplification and awareness-raising with the main ideas being:

- *Transparency,*
- *Simplicity,*
- *Common sense,*
- *Compliance with the financial regulation.*

Indeed, our internal analysis enabled us to note that our tender specifications were often unnecessarily complex. This situation raised the risk of the participation of fewer potential tenderers in our tender procedures, in particular small and medium size enterprises that often do not have a developed administrative structure.

The main simplification measures taken are the following:

- *Reduction of the number of selection criteria to eliminate the superfluous and/or redundant ones;*
- *Clear distinction between selection criteria and award criteria.*

In parallel, awareness-raising actions via training courses and workshops organised in collaboration with DG BUDG were carried out with all the actors concerned:

- *Authorising officers;*
- *Colleagues involved in the drafting of the technical specifications and the preparation of the files of invitations to tender;*
- *Colleagues participating in evaluation committees.*

Following the implementation of the measures enumerated above, most weaknesses identified by the audit had already been corrected in the tender procedures launched since mid-2011.

With regard to the procurement procedures launched after the end of the audit (Spring 2012), the following additional measures were taken:

- *Redefinition of the economic and financial selection criteria in order to enhance clarity;*
- *Reinforcement of the qualitative review of the tender file prior to the publication of the contract notice.*

Measures to address all weaknesses identified by the Court of Auditors are in place since mid-2012.

36. (No3, §3) The Council invites the Commission to strictly scrutinise the level of carry-overs of agencies and joint undertakings at year end.

Commission's response:

The Commission has taken the recommended action.

When preparing the Draft Budget, the Commission makes a rigorous assessment of each agency's needs, in terms of EU contribution and staffing levels. As a result, in the 2014 DB the Commission proposes a stabilisation of the overall level of EU contributions to the agencies, whereas a large number of individual agencies see their budgets frozen at the level of 2012, or even reduced.

The Commission performs its role of guidance and supervision in particular through the Commission representative(s) in the agency Steering committees.

37. (No4) The Council encourages those institutions to continue this improvement [in their administrative systems for the timely monitoring and control of documents related to the payment of social allowances to staff members], as the Court noted that the risk of incorrect or undue payments remains.

Commission's response:

An automatic update of the amounts of the allowances of like nature from the Belgian State is being implemented by the Commission in SYSPER2/Rights (the Information System for the management of Individual Entitlements) since April 2012. This automatism will significantly decrease the risk of errors as the update will not be done manually any more. The other Member States will follow.

Additionally, a new module will be put in place in the front office of SYSPER2/Rights. Staff will be asked to declare the professional activity of their spouse. The other modules of SYSPER2/Rights being implemented also include sections of allowances of like nature.

Chapter 10 - Getting Results from the EU Budget

38. (§1) The Council urges all actors in the Commission, Member States and the Court to consider how best to develop robust mechanisms for measuring and reporting on the performance of programmes during the next multiannual programming period.

Commission's response:

The Commission is working on developing its internal management systems in the context of the upcoming 2014 – 2020 MFF. The Commission will design a new culture of performance using the objectives, indicators, monitoring and evaluation frameworks set by the Legislative authority for the coming programming period.

39. (§1) The Council calls on the Commission, in cooperation with Member States, to ensure that timely, reliable and comparable data are made available at EU and national level.

Commission's response:

For the programmes in the area of direct management, the Commission will be able to ensure timely and reliable information for reporting on their performance.

For the programmes under indirect management the Commission has to rely on the willingness and capacity of Member States and third parties for providing adequate, timely, reliable and comparable data.

For the programmes under shared management, the Commission proposed to the Legislative Authority some key requirements for the design of the systems to produce information on results in the frame of the future regulations post 2013. The responsibility for operating those systems in order to provide complete and accurate information on results lies with the Member States in line with the division of competences under shared management.

For instance, concerning rural development, the Commission intends to work more closely with the Member States to further improve the CMEF - Common Monitoring and Evaluation Framework - for the next programming period.

Another example, now regarding the Structural Funds, concerns the proposal to agree on common output indicators for the future regulation post 2013 and to agree on a methodology for the identification of appropriate result indicators.

Nevertheless, the verification of planned targets and the reporting of achieved results will still be under the responsibility of Member States.

40. (§4) The Council encourages the Commission to further develop the content and coverage of the report (Article 318 TFEU), with a particular focus on performance management and reporting on outcomes.

Commission's response:

The Commission indicated in its second report under Article 318 TFEU that the report will be redesigned in the future to show whether EU Programmes are on track and to identify results and impacts as they become available. The Commission equally pointed out that this could only be achieved under the new performance framework which will be based on the legislative proposals which have yet to be adopted by the Legislative authority.

41. (§4) The Council asks the Commission to ensure the consistency of the evaluation report (Article 318 TFEU), and the Annual Activity Reports established by the Commission's Directors-General via a common reporting framework.

Commission's response:

The Commission has synchronised the publication of the Evaluation report, covering the year 2012, and the Synthesis Report. The evaluation report and the Synthesis Report have both been adopted in June 2013. In the Evaluation report, consideration is being given how to combine the information presented in the different reporting instruments to present a more comprehensive assessment of progress made and results achieved.

SR 11/2011 Do the design and management of the geographical indications scheme allow it to be effective?

42. *(Annex, §4)* The Council encourages the Commission to take forward the design, development and implementation of appropriate measures to develop a unified strategy addressing the lack of awareness of the GI scheme among both producers and consumers and, as a means to achieve this objective, to improve the coordination with the Member States in this regard.

Commission's response:

As part of the ongoing reflexion on the reform of the regime on information and promotion of agricultural products, the Commission has and will continue to consider appropriate ways to further enhance the promotion of quality schemes.

The promotion of agricultural products was addressed in 2011 by a Green Paper on promotion measures and information provision for agricultural products (COM (2011) 436 final). The Communication on the future of the promotion regime (COM(2012)148) will pave the way of the Commission legislative proposal for the reform of the promotion regime of agricultural products and is now expected in the 3rd quarter of 2013.

Also from 1 May 2009, the use of the logo or of the identifications 'protected designation of origin' and 'protected geographical indication' are compulsory – which is understood to contribute to making a large number of consumers aware of the schemes. This is reflected in the latest statistics (Eurobarometer May 2012) on recognition of the PDO/PGI logos which show an increase from 8% in 2008 to 14% in 2012 (average EU-27). The new Regulation (EU) 1151/2012 of the EP and Council on quality schemes for agricultural products and foodstuffs, makes the use of the logo on the labelling obligatory from 04.01.2016 onwards and it is expected this will help to further increase the recognition.

The management committee for the common organisation of agricultural markets provides a forum for discussion on information and promotion campaigns. Under this framework member States can also exchange experiences on campaigns for Geographical Indications.

43. *(Annex, §8)* The Council highlights the fact that the Commission should include audits on Member States' checks of the GI scheme in its plan of regular audits in the Member States

Commission's response:

The Commission (The Food and Veterinary office in Grange, Ireland) has started to undertake specific GI audits in Member States. So far 5 Member states have been audited:

-2011: Hungary (pilot audit)

-2012: United Kingdom and Belgium

-2013: Czech Republic and Austria

More audits are already planned in 2013, 2014 and 2015, the idea being that in the long term each Member State's GIs control systems will be audited.

44. (Annex, §10) The Council invites the Commission to pursue the promotion of European quality schemes and continue to improve the effectiveness of the geographical indications scheme.

Commission's response:

This recommendation partially overlaps with 2011/COU/0172 (see response to it).

The effectiveness of the GI indications scheme was improved with the new Regulation (EU) No 1151/2012 of the EP and Council on quality schemes for agricultural products and foodstuffs. More specifically, it introduced faster registration procedures by reducing the scrutiny period to 6 months (from 12) as well as a two-step approach for oppositions. Opponents will have 3 months to inform the Commission of their intention to oppose (notice of opposition). In such case, 2 more months will be given to forward a reasoned statement of opposition justifying the reasons for the opposition. Appropriate consultations for 3 months with a possibility to extend with maximum 3 more months. This will limit the average length of the opposition period (currently 6 months) and therefore enable a faster registration.

SR 14/2011 Has EU assistance improved Croatia's capacity to manage post-accession funding?

45. *(Annex, §6)* The Council invites the Commission to provide adequate follow up to the recommendations of the Court of Auditors' Special Report No 14/2011 and to take them into account in its regular monitoring of commitments undertaken by Croatia in the accession negotiations, including in its six monthly monitoring reports.

Commission's response:

In the context of the IPA Monitoring Committees, the Commission has engaged closely with the Croatian authorities to ensure the follow-up of the Court of Auditors' Special Report No 14/2011. These efforts have reflected in particular on the preparations of Croatia for the management of the structural and cohesion funds, on which the Commission has reported regularly as part of its Communications to the Council and the European Parliament on Croatia's accession preparations.

46. *(Annex, §6)* The Council invites the Commission to inform the IPA Management Committee regularly on the issues raised by the Court of Auditors' Special Report and to ensure that they are addressed systematically, including through EU-Croatia Stabilisation and Association Committee meetings, as appropriate.

Commission's response:

Following regular discussions on the follow-up of the Court of Auditor's Special Report No 14/2011, with the Croatian authorities during the IPA Monitoring Committees, as well as in the context of the EU-Croatia Stabilisation and Association Committee, the Commission informed the IPA Management Committee of the follow-up actions undertaken by the Croatian authorities with the occasion of the presentation for the opinion of the IPA Management Committee of the 2012-2013 Transition Assistance and Institution Building for Croatia.

SR 15/2011 Do the Commission's procedures ensure effective management of State aid control?

47. *(Annex, last §)* The Council invites the Commission to take into account the Court's recommendations and assessments in improving its control mechanism to ensure the legality of State aid.

Commission's response:

On 8 May 2012, the Commission set out an ambitious State aid reform programme in the Communication on State aid modernisation (COM/2012/0209 final). One of the aims pursued is to follow-up on the recommendations of the European Court of Auditors. The Communication emphasizes the need to "strengthen the quality of the Commission's scrutiny", to have a "robust State aid control", to have a "stronger scrutiny of the aid with a significant impact on the single market" and to have "an enhanced ex post monitoring by the Commission to ensure adequate compliance". These principles are currently being implemented in various Commission proposals.

DG Competition has also beefed up its monitoring activities, in line with the recommendations made.

SR 1/2012 Effectiveness of European Union development aid for food security in sub-Saharan Africa

48. *(Annex, §10)* The Council invites the Commission and the EEAS to undertake assessments of the food security situation in each sub-Saharan partner country in co-ordination with Member States and other development partners; to be used in the context of the programming period 2014-2020. On the basis of these assessments, and with due consideration to complementary actions by Member States, the Council invites the Commission and the EEAS to systematically assess the potential for EU support.

Commission's response:

A systematic assessment of the food security situation in each country has been carried out in view of the current programming exercise, resulting in the identification of countries where food insecurity is critical. This assessment takes account of information and analyses from a variety of sources, including early warning systems supported by the Commission, so as to ensure that an accurate picture of the food security situation is built up and to ensure that timely action can be taken as was done during the 2011 drought in the Horn of Africa.

49. *(Annex, §11)* The Council recommends that, in cases of urgency, adequate measures could be financed from relevant existing instruments with the aim of improving the country's response capacity to crises.

Commission's response:

This has been accomplished through the AGIR (Global Alliance for Resilience Initiative) and SHARE (Supporting the Horn of Africa's Resilience) initiatives, which were put in place in 2012 and through the response, in terms of budget support (€ 220 million) to Mali in 2013. For the latter, the Trust Fund that will be needed to implement this programme is being put in place.

50. *(§12)* The Council believes that the Commission could do more, and faster, to support Scaling Up Nutrition (SUN) in a critical phase and, in so doing, could also deliver on its acknowledged need to do more for a "systematic and comprehensive approach to food security".

Commission's response:

A contribution Agreement for € 5 million was signed to support the SUN Secretariat. The Commission continues to work closely with the SUN Movement, both at political level through participation at Commissioner level in the SUN Lead Group and at technical level on issues such as accountability.

51. *(Annex, §13)* The Council encourages the Commission to do more to mainstream improved nutrition outcomes in its programmes in nutrition-sensitive sectors, which aim to improve people's health through better water, sanitation and hygiene, or through its agricultural and rural development funding and social protection

programmes. In this context, the Council invites the Commission to consider presenting a Communication on nutrition.

Commission's response:

A communication on nutrition was adopted in March 2013. An action plan, which is due by end 2013/early 2014, will outline how nutrition will be included in programmes in the future. The Communication stresses the importance of a multi-sectoral approach.

52. *(Annex, §14)* The Council encourages the Commission and the EEAS to focus their programming and assistance on supporting sustainable national agriculture development and food and nutrition security programmes for the countries of sub-Saharan Africa in order to gradually enhance their resilience and reduce the region's dependence on long-term food aid.

Commission's response:

This has been accomplished through the AGIR and SHARE initiatives, which were put in place in 2012 and by the Communication on Resilience adopted in October of that year.

SR 2/2012 Financial instruments for SMEs co-financed by the European Regional Development Fund

53. *(Annex, §6)* The Council encourages the Commission [...] to continue and improve monitoring and evaluation of the implementation of financial instruments in the current programming period with a view to optimising the implementation in the next programming period, starting in 2014.

Commission's response:

The Commission has taken the requested action. In 2012, it carried out an evaluation through the expert evaluation network on the use of the ERDF to support financial instruments. In addition, in February 2012 the Commission published a Staff Working Document on financial instruments in cohesion policy, which analysed the experience of implementation of financial instruments in the current period, lessons learnt and proposed strengthening of the regulatory framework for post 2013.

Regarding monitoring and reporting in the current programming period, the amendment of Council Regulation (EC) No. 1083/2006 in December 2011 introduced for the first time an obligation for Member States to formally report on financial instruments within the Annual Implementation Report. In 2012, the Commission produced on this basis a summary report. The risk assessment was made on the basis of the summary of data and the "underperforming" cases are being followed by the Commission services. The monitoring takes place also in regular monitoring committee meetings where the Managing Authorities responsible for operational programme discuss the progress of implementation of all relevant operations including financial engineering instruments.

In the process of preparation for 2013 reporting on financial engineering instruments the Commission services have developed a detailed guidance on reporting for managing authorities. This guidance was presented to the MSs and discussed within the COCOF meeting.

The reporting requirements will be consolidated in the next programming period. The Commission intends to align reporting requirements with EU level instruments, provided that the necessary legal basis is in place which obliges national authorities to provide the necessary reporting data to the Commission.

54. *(Annex, §7)* The Council calls on the Commission to ensure adequate systems and sufficient administrative capacity in order to be able to provide Member States with adequate and timely guidance and advice on the setting up and implementation of financial instruments.

Commission's response:

In the current programming period, the Commission has put in place a well-functioning system to provide Member States with guidance regarding the implementation of financial engineering instruments, comprising of JEREMIE

(financial instruments for enterprises), JESSICA (financial instruments for urban development) and JASMINE (micro-credit) initiatives.

In 2014-2020, following the extended scope for the use of financial instruments, the Technical Assistance Platform (TAP) - a new approach - is under preparation.

The EIB Group would be entrusted with the horizontal strand of the TAP, focusing on advisory services and guidance applicable to all Member States and types of financial instruments to ensure high standards and consistency (e.g. exchange of best practice, networking, training, methodological guidance on common themes such as ex-ante assessments, public procurement, state aid, etc). There would be also a strand for Multi-region assistance responding to proposals of cohesion policy stakeholders for the benefit of managing authorities in a minimum number of Member States. Such activities would typically include support for the development of financial instruments targeting development objectives or market failure that are shared by a number of regions (e.g. the financing of energy efficiency interventions in large housing estates in Central and Eastern Europe or support to cross-border initiatives aimed at reaching economies of scale and integration).

In addition, Member States will be able to use the technical assistance budget foreseen in their operational programmes for any further specific assistance, for instance for the ex-ante assessment which will be compulsory for the set-up and implementation of any financial instrument.

SR 3/2012 Structural funds: did the Commission successfully deal with deficiencies identified in the Member States' management and control systems?

55. (*Annex, §7*) The Council encourages the Commission and Member States to continue and improve management and control systems in the current programming period with a view to optimising the implementation in the next programming period, starting in 2014.

Commission's response:

The Commission has taken the requested action. Under shared management it is the Member States' responsibility to ensure the functioning of effective management and control systems to prevent, detect and correct irregularities (Articles 59-62, 91, 92 and 99 of Regulation (EC) No. 1083/2006).

The Commission has taken action to improve management verifications and the certification of expenditure to the Commission under its 2008 Action Plan, including improved guidance, advice, training and audits focused on high risk areas. However, administrative capacity in some Member States and/or programmes needs to be improved further, to make sure that Managing Authorities are adequately staffed or that they address the problems connected to the high turnover of staff in some administrations. But Member States also need to provide training at their turn at all administrative layers, in order to ensure that rules are properly known and implemented, particularly in case of staff turnover. To help them, DG REGIO has set-up in August 2012 a special competence centre for administrative capacity building.

Structural funds DGs have issued guidance on issues such as primary level management checks, certification function of the certifying authority, sampling methodologies, audit strategy, reporting audit results in annual control reports, reporting of recoveries and financial corrections, closure of programmes, etc. Also, several seminars have been organised or are planned in MS to promote the use of simplified cost options (notably in the context of the preparation of the next 2014-2020 programming period) and the new Joint Action Plans for 2014-2020 programmes to reduce the cost of control and the administrative burden on beneficiaries. Following the results of DAS 2010 and 2011, the Structural Fund DGs have reminded audit authorities on their role to ensure, through their audits, effective management verifications. They also disseminated in 2011 to audit authorities checklists for the audit of operations that can be used as a benchmark by managing authorities.

The Commission will continue to verify the functioning of the management and control systems in the Member States through all audit results available at EU and national levels, including reported error rates, and to take action when necessary.

With a view to the next programming period, the Commission has proposed to build up on experience to reinforce systems to ensure legality/regularity across programmes and improve further management accountability. The formal certification of accounts once all national controls have been done, combined with the 10% retention mechanism on interim payments, net corrections following EU

audits once accounts have been accepted and the requirement of annual management declarations by managing authorities are meant to offset the risk that expenditure claimed are not legal and regular and to improve accountability at national level.

SR 4/2012 Using Structural and Cohesion Funds to co-finance transport infrastructures in seaports: an effective investment?

56. (*Annex, §8*) The Council encourages the Commission [...] to continue to improve monitoring and evaluation of the implementation of transport infrastructure projects in seaports in the current programming period with a view to optimising the implementation in the next programming period, starting in 2014.

Commission's response:

The Commission is taking the recommended action. During the current programming period, it has focused and will continue to focus on the overall set-up of programmes and projects, including ex-ante assessment of the operational programmes, appraisal of the major projects, setting objectives and indicators, regular monitoring via Monitoring Committees, annual reports, annual implementation meetings, final reporting obligations and ex-post assessment. In its proposal for the new regulations for the 2014-2020 cohesion policy framework, the Commission aims at further strengthening the provisions and to focus on an increased use of performance indicators in the overall design and set-up of programmes and projects (COM(2011) 615 final). In addition, the Commission has recognised the need to better coordinate the Cohesion and Structural Funds with transport policy objectives in its Transport White Paper from March 2011 (COM(2011) 144 final of 28/03/2011, point 56). The Commission is of the view that seaport infrastructure planning should be carried out in the context of overall planning of transport networks. This is made clear in Article 4 of the proposal for a Regulation of the EP and Council on Union Guidelines for the Development of the Trans-European Transport Network (COM (2011) 650 final of 19.10.2011). Objectives of the trans-European network include "the interconnection and interoperability of national transport networks", the "optimal integration and interconnection of all transport modes" and "the efficient use of infrastructure". In this context the Commission considers that optimum performance also requires long-term strategic planning at national level and that cross-border effects should be taken into account.

SR 5/2012 The Common External Relations Information System (CRIS)

57. (*Annex, §6*) The Council invites the Commission, particularly EuropeAid, to review and define its special wider information needs in order to improve the assessment of results and in relation to DAC reporting, the results-based frameworks as well as the mutual accountability and transparency agenda, also with a view to sharing information with Member States.

Commission's response:

EuropeAid is in the process of improving its monitoring, reporting and information management system to strengthen its internal and external accountability capacity, in particular in relation to the results of the projects and programmes it manages. It is also working on a corporate results framework, associating interested EU Member States through an experts group. The outcomes of this work in progress should contribute to further strengthen EuropeAid's ongoing transparency efforts.

58. (*Annex, §7.1.*) The Commission should strive for enhanced coherence and complementarity with other data information systems including the ABAC, with which it should aim to reduce the duplication.

Commission's response:

CRIS is defined as a management information system designed to fulfil the specific operational and financial needs of the implementation of external aid in the Commission. It is to be used by the Commission DGs belonging to the RELEX family. It is an integrated system that contains operational data and a direct interface with the Commission's accounting system (ABAC), thereby streamlining the number of tools which external cooperation staffs use for their everyday work. It is worth noting that CRIS deals with financial issues not supported by ABAC (multi-currency management, retentions...). The role of CRIS will be stated in a strategic document with a global view of all its components.

Therefore, several actions are or will be conducted in order to rationalise the common functions existing in CRIS and ABAC.

59. (*Annex, §7.2.*) The role, objectives and scope of CRIS in relation to the different types of existing information and information systems should be defined precisely.

Commission's response:

CRIS is defined as a management information system designed to fulfil the specific operational and financial needs of the implementation of external aid in the Commission. It is to be used by the Commission DGs belonging to the RELEX family. It is an integrated system that contains operational data and a direct interface with the Commission's accounting system (ABAC), thereby streamlining the number of tools which external cooperation staffs use for their everyday work. It is worth noting that CRIS deals with financial issues not supported by ABAC

(multi-currency management, retentions...). The role of CRIS will be stated in a strategic document with a global view of all its components.

60. *(Annex, §7.3.)* As a result of reduced duplication the Commission could allocate reduced but adequate resources to run CRIS. Specific attention to Delegations' needs should be paid.

Commission's response:

The resources that will be spared with the rationalisation of the financial modules of CRIS will be allocated to improve the specific support to DEVCO's core business. Specific attention to EU Delegations' needs is being put in place.

61. *(Annex, §7.4.)* Data quality controls, including checks on data processing procedures, should therefore be conducted frequently and thoroughly. To this end the Commission should make use of a tailor-made evaluation module.

Commission's response:

A rationalisation and centralisation of data codes will be achieved. Data quality controls and correction procedures will also be put in place. The set of specific related actions, as identified in the Report of the Court of Auditors, will be implemented until end of 2014. The new PCM Evaluation Module will ensure assessment of results and will make them available for DAC reporting. This project is expected to be in production in 2014.

62. *(Annex, §7.5.)* Due care should be taken to protect personal and financial data.

Commission's response:

A re-evaluation of CRIS in terms of protection of personal and financial data will be done in the framework of the overall IT risk assessment.

63. *(Annex, §7.6.)* The most significant risks of the CRIS should be evaluated.

Commission's response:

An overall IT risk assessment has started in the course of 2012 and the Commission has appointed a Local Information Security Officer for CRIS.

SR 7/2012 The reform of the common organisation of the market in wine: Progress to date

64. *(Annex, §3)* The Council invites the Commission to examine the need for alternative measures to increase the competitiveness of EU vine growers.

Commission's response:

No need for alternative measures. The EU wine competitiveness has improved since 2008, due to the implementation of wine reform. The national support programs contains the key measures to further improve the competitiveness of the sector.

65. *(Annex, §5)* The Council stresses the need to evaluate the impact of the reform on the levels of supply and demand in the wine sector and determine if structural market imbalances persist.

Commission's response:

No structural market imbalances remain.

SR 9/2012 Audit of the control system governing the production, processing, distribution and imports of organic products

66. (*Annex, §3*) The Council invites the Commission as well as the Member States to continue to work together in order to ensure a direct flow of all relevant information on infringements and irregularities.

Commission's response:

The IT system operated by the European Commission - Organic Farming Information System (OFIS) - has been developed and improved over time to provide for a continuous exchange of information on infringements and irregularities: namely, new modules have been added to communicate irregularities concerning imported products.

The Commission has also put forward a proposal to amend Regulation (EC) No 889/2008 to reinforce and harmonize the control systems for organic products in the European Union. The proposal – expected to be approved in April 2013 and applying as from 1 January 2014 -, includes provisions to ensure timely exchange of information on irregularities and provisions to better structure and improve the quality of information in the multi-annual national control plans and annual reports, inter alia on detected irregularities and infringements and remedial measures.

67. (*Annex, §4*) The Council encourages both the Commission and the Member States to work together in order to strengthen their monitoring and supervisory roles respectively.

Commission's response:

Audits by the Food and Veterinary Office in DG SANCO, in close collaboration with DG AGRI, resumed in 2012 and continue to take place in the course of 2013.

In addition, the Commission has recently put forward a proposal to amend Regulation (EC) No 889/2008 to reinforce and harmonize the control systems for organic products in the EU. The proposal – expected to be approved in April 2013 and applying as from 1 January 2014 – includes provisions that strengthen the supervision of control bodies to be carried out by Member States and set out more detailed reporting requirements for Member States on their supervisory activities.

68. (*Annex, §5*) The Council encourages the Commission to work towards increased harmonisation of the control and supervision measures enforced in the Member States.

Commission's response:

The Commission is making constant efforts to reinforce and harmonize the control system for organic products in the EU, lastly through the proposal to amend Regulation (EC) No 889/2008 that is expected to be approved in April 2013 and applying as from 1 January 2014.

The proposal clarifies a number of terms that had led to diverging practices, establishes a minimum number of samples to be taken and analysed every year by the control authorities or bodies, sets out more detailed requirements for control bodies and their supervision with a view to ensuring the uniform application of the control system across the EU,

The Commission will consider the need for further harmonisation of the control and supervisory measures enforced in the Member States in the ongoing review of the EU legal framework governing organic production.

69. (Annex, §6) The Council invites the Commission to evaluate whether improvements are necessary for the application of organic traceability requirements and to underpin the integrity of the organic production system.

Commission's response:

The implementation of organic traceability requirements is part of the audits by the Food and Veterinary Office in DG SANCO, in close collaboration with DG AGRI, which resumed in 2012 and continue to take place in the course of 2013 both in Member States and in Third Countries.

The Commission will consider the need for improvements in the application of organic traceability requirements, in the light of the results of these audits, as part of the ongoing review of the EU legal framework governing organic production.

70. (Annex, §8) The Council considers that the Commission could strengthen the supervision of third countries' control systems.

Commission's response:

The Commission is making constant efforts to strengthen the supervision of third countries' control system, including through regular amendments to regulation No 1235/2008 with the implementing rules on the arrangements for imports of organic products from third countries (last amendment adopted on 13 February 2013) and to regulation No 889/2008 with the implementing rules on control (proposal expected to be adopted in April 2013 and applying as from 1 January 2014).

The Commission will consider the need for further improvements in the trade regime for organic products in the review of the EU legal framework governing organic production.

71. (Annex, §8) The Council invites the Commission, in co-operation with Member States to assess the feasibility of establishing European electronic import certificates in order to facilitate and reinforce the control procedures at EU border.

Commission's response:

The Commission is actively engaged in the assessment of the feasibility of establishing European electronic import certificates.

The technical requirements and the control procedures in place at the EU border that would be affected have been reviewed and the possible synergies with the electronic certification systems that exist at Commission level are being explored so as to reduce the development costs. This will feed into the impact assessment that will accompany the review of the EU legal framework governing organic production, by underpinning the retained options.

SR 10/2012 The effectiveness of staff development in the European Commission

72. (*Annex, §5*) The Council expresses its particular interest in the overall cost of training each year and invites the Commission to provide such figures in due time.

Commission's response:

The Commission's overall training budget is detailed in the Working Document Part VI of the Commission Draft Budget COM(2012)300-May 2012.

For 2013, the total of all the training budget lines is presented on page 11 of this document. Details are provided for each of the budget lines concerned, including, among others :

XX 01 02 11 06 : Further training and management training - page 102

XX 01 03 01 04 : Information and communication technology services - page 74

26 01 50 09 : Language courses - page 257

A4 03 01 01 : Management training, Induction courses and training for certification organised by the EUSA - page 436+...

73. (*Annex, last §*) The Council invites the Commission to submit by end 2013 a report on the implementation of the Court's recommendations and the development of a consistent, result-oriented and cost-effective strategy on staff training and career development, including a comprehensive evaluation of the application of the new appraisal system introduced in 2012.

Commission's response:

By the end of 2013, DG HR will submit a report on the implementation of the Court's recommendations, including those focused on Learning & Development strategy and career development. The report will also take stock of the application of the new appraisal system introduced in 2012.

SR 12/2012 Did the Commission and Eurostat improve the process for producing reliable and credible European statistics?

74. (*§4 and §5*) The Council encourages the Commission and Eurostat to continue the actions and efforts aimed at addressing the points raised by the Court of Auditors and invites Eurostat to inform the EFC on progress in meeting the points raised by the Court of Auditors.

Commission's response:

The Commission has set up an Action Plan in response to the ECA Special Report 12/2012. The actions listed in the Action Plan are carried out in view of the deadlines set for each action. The Commission and Eurostat continue these actions and efforts aimed at addressing the points raised by the ECA. Before the end of 2013, Eurostat will inform the EFC on progress in meeting these points.

SR 13/2012 European Union Development Assistance for Drinking-Water Supply and Basic Sanitation in Sub-Saharan Countries

75. *(Annex, §10)* The Council calls on the Commission to make full use of the results of the Court's audit and recommendations in order to ensure the financial, social and environmental viability of its projects in the water supply and basic sanitation projects in Sub-Saharan Africa.

Commission's response:

The Commission has decided to survey, for a period of one year, that existing quality control procedures are duly applied and that the European Court of Auditors' recommendations are actually taken into consideration before project approval in order to improve the projects' design and sustainability. This includes, among others :

- Ensuring better dialogue with the final beneficiaries,*
- Supporting the development of suitable governance systems,*
- Developing programmes in full alignment with the partner countries' policies and sector plans,*
- Ensuring that vulnerable groups are in the focus of EU development cooperation,*
- Ensuring the regular integration of adapted sanitation approaches.*

76. *(Annex, §12)* The Council calls upon the Commission to regularly investigate the state and success of its development assistance programmes in the field of drinking-water supply and sanitation and report thereon.

Commission's response:

In addition to specific result-oriented monitoring and evaluations, the Commission has decided to launch by the end of 2013 the evaluation of the 9th and 10th EDF ACP-EU Water Facility.

77. *(Annex, §14)* The Council calls on the Commission to improve the design of future Water, Sanitation & Hygiene (WASH) projects. Specifically, the Commission should ensure better dialogue with final beneficiaries during the design stage and ensure that the projects implemented match their demands.

Commission's response:

See reply to Recommendation Annex §10.

The Commission has decided to survey, for a period of one year, that existing quality control procedures are duly applied and that the European Court of auditors' recommendations are actually taken into consideration before project approval in order to improve the projects' design and sustainability. This includes, among others :

- *Ensuring better dialogue with the final beneficiaries,*
- *Supporting the development of suitable governance systems,*
- *Developing programmes in full alignment with the partner countries' policies and sector plans,*
- *Ensuring that vulnerable groups are in the focus of EU development cooperation,*
- *Ensuring the regular integration of adapted sanitation approaches.*

78. *(Annex, §16)* The Council invites the Commission and the EEAS to take appropriate complementary measures at the stage of programming of future EU assistance to Sub-Saharan countries, to ensure sustainability of such projects, including stronger involvement of national authorities and local communities and stronger integration of capacity development. To further ensure sustainability, the Council proposes including a 10- year “sustainability clause” in all funding agreements for sustainable service delivery, as well as undertaking yearly sample-based sustainability checks by an external independent third party for all programs (“sustainability audit”).

Commission's response:

The Commission is neither in the position to introduce a "sustainability clause" in the Financing Agreements nor does it has the resources to finance "sustainability audits". The external Results-Oriented Monitoring system for projects and programmes already focuses on sustainability issues. Beside, an overall study based on ROM outcomes in the ACP Region (2000-2012) is currently on-going and it is expected to provide additional elements and lessons learned in order to better address sustainability in the context of EU assistance to Sub-Saharan countries.

More generally, as part of the second phase of national programming and in line with the Cotonou Agreement, EU Delegations will consult key partner country stakeholders on the proposed EU response, which will also strengthen pre-requisites for sustainable results of EU-financed projects.

79. *(Annex, §17)* Finally, the Council calls on the Commission to give emphasis to the following actions:

- 1) Strengthening the results framework and the associated monitoring and reporting to provide confidence that EU funding in the WASH sector delivers expected results and represents good value for money.

Commission's response:

See reply to Recommendation Annex §12.

In addition to specific result-oriented monitoring and evaluations, the Commission has decided to launch by the end of 2013 the evaluation of the 9th and 10th EDF ACP-EU Water Facility.

80. *(Annex, §17)* Finally, the Council calls on the Commission to give emphasis to the following actions:

2) Reinforcing the Water Facility in the framework of the future Multiannual Financial Framework (2014-2020).

Commission's response:

The Agenda for Change proposes a focus on a limited number of sectors and in particular those that could be motors for sustainable growth such as energy and agriculture. It is in this framework, rather than through a stand-alone facility, that further support to the Water agenda will take place.

81. *(Annex, §17)* Finally, the Council calls on the Commission to give emphasis to the following actions:

3) Underlining the multidimensional role of water in the EU development agenda by putting more emphasis on cross-sectoral concepts like e.g. the water, energy and food security nexus.

Commission's response:

In the framework of the new MFF, the Commission encourages partner countries to integrate the nexus between water and the focal sectors of agriculture and energy in order to address their national development priorities. The nexus shall also be specifically addressed under the Global Public Goods and Challenges thematic instrument.

82. *(Annex, §17)* Finally, the Council calls on the Commission to give emphasis to the following actions:

4) Supporting the development of suitable national water governance systems and policies by better anchoring capacity development in programming.

Commission's response:

See reply to Recommendation Annex §10

The Commission has decided to survey, for a period of one year, that existing quality control procedures are duly applied and that the European Court of Auditors' recommendations are actually taken into consideration before project approval in order to improve the projects' design and sustainability. This includes, among others:

- Ensuring better dialogue with the final beneficiaries,*
- Supporting the development of suitable governance systems,*
- Developing programmes in full alignment with the partner countries' policies and sector plans,*
- Ensuring that vulnerable groups are in the focus of EU development cooperation,*

- Ensuring the regular integration of adapted sanitation approaches.

83. *(Annex, §17)* Finally, the Council calls on the Commission to give emphasis to the following actions:

5) Developing and implementing programmes in full alignment with the partner countries' policies and sector plans.

Commission's response:

See reply to Recommendation Annex §10.

The Commission has decided to survey, for a period of one year, that existing quality control procedures are duly applied and that the European Court of Auditors' recommendations are actually taken into consideration before project approval in order to improve the projects' design and sustainability. This includes, among others:

- Ensuring better dialogue with the final beneficiaries,

- Supporting the development of suitable governance systems,

- Developing programmes in full alignment with the partner countries' policies and sector plans,

- Ensuring that vulnerable groups are in the focus of EU development cooperation,

- Ensuring the regular integration of adapted sanitation approaches.

84. *(Annex, §17)* Finally, the Council calls on the Commission to give emphasis to the following actions:

6) Promoting better coordination between Commission projects and programmes of EU Member States on the water sector in Sub-Saharan Africa.

Commission's response:

In line with the Agenda for Change, the Commission encourages a strong coordination and harmonisation between the Commission and the EU Member States to increase aid delivery effectiveness. To be highlighted is the increasing number of delegation agreements signed between the Commission and the EU Member States for implementing water projects.

85. *(Annex, §17)* Finally, the Council calls on the Commission to give emphasis to the following actions:

7) Ensuring that vulnerable groups, particularly women and children, and the poor are in the focus of EU development cooperation in the field of drinking water supply and sanitation and benefit fully from improved services.

Commission's response:

See reply to Recommendation Annex §10.

The Commission has decided to survey, for a period of one year, that existing quality control procedures are duly applied and that the European Court of Auditors' recommendations are actually taken into consideration before project approval in order to improve the projects' design and sustainability. This includes, among others:

- Ensuring better dialogue with the final beneficiaries,*
- Supporting the development of suitable governance systems,*
- Developing programmes in full alignment with the partner countries' policies and sector plans,*
- Ensuring that vulnerable groups are in the focus of EU development cooperation,*
- Ensuring the regular integration of adapted sanitation approaches.*

86. (Annex, §17) Finally, the Council calls on the Commission to give emphasis to the following actions:

8) Ensuring the regular integration of adapted sanitation approaches into programming of development cooperation.

Commission's response:

See reply to Recommendation Annex §10.

The Commission has decided to survey, for a period of one year, that existing quality control procedures are duly applied and that the European Court of Auditors' recommendations are actually taken into consideration before project approval in order to improve the projects' design and sustainability. This includes, among others:

- Ensuring better dialogue with the final beneficiaries,*
- Supporting the development of suitable governance systems,*
- Developing programmes in full alignment with the partner countries' policies and sector plans,*
- Ensuring that vulnerable groups are in the focus of EU development cooperation,*
- Ensuring the regular integration of adapted sanitation approaches.*

SR 16/2012 The effectiveness of the Single Area Payment Scheme as a transitional system for supporting farmers in the New Member States

87. (*Annex, §2*) The Council invites the Commission to support the [new] Member States [...] in their preparation for the CAP reform

Commission's response:

The Commission services are available for consultations and assistance if there is a need and upon request from the Member State interested. Several consultations were already held with new MS to discuss the rules under the new CAP proposals and such assistance is foreseen to continue.