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COURT OF AUDITORS**

Synthesis of the Commission's management achievements in 2005

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1. INTRODUCTION

In this annual **synthesis**, the Commission reports on policy results and on how it has managed the human and financial resources provided to implement Community policies. For the first time, the **Synthesis of policy achievements** [COM(2006) 124] sets out in a separate document the progress made in 2005 in meeting the Commission's strategic objectives and provides an account of policy achievements during the past year. This 2005 **Synthesis of Commission management** accompanies the policy synthesis and reports on how the Commission has performed its management responsibilities and on the assurance its internal control systems provide in this respect. According to Article 60(7) of the Financial Regulation, the Commission shall send the annual synthesis to the budgetary authority no later than 15 June each year.

By adopting this synthesis, the **Commission assumes its political responsibility** for management by its Directors-General and Heads of service, on the basis of the assurances and reservations issued by them in their annual activity reports, acknowledging that further efforts are needed to solve a number of weaknesses. In this synthesis, the Commission also takes a position on the cross-cutting issues stemming from the examination of these reports and raised by the Internal Auditor, the European Court of Auditors, the Discharge Authority, or identified by the Audit Progress Committee and by the Director-General for Budget in his report "Overview on the state of internal control in Commission Directorates-General and Services" [SEC(2006) 567].

The Commission takes overall responsibility, pursuant to Article 274 of the EC Treaty, for implementing the EU budget. This Synthesis sets out the Commission's conclusions on each main management area and on systemic cross-cutting issues. It is the apex of the Commission's accountability architecture, of which the annual activity reports of the delegated authorising officers constitute the pillars. More generally, this Synthesis also provides a summary of the progress made in 2005 towards **fully developing the performance potential of the Commission's management and control systems** in areas such as:

- *Promoting the Commission's accountability*: the annual activity reports for 2005 were based on a stronger methodology and a more coherent approach to common concerns (Part 2.2 below); full accrual accounting was applied to the EU budget for the first time, although a number of transitional problems had to be resolved (Part 3.3.4).
- *Enhancing effective performance management*: the culture of effectiveness of internal control continued to gather pace and will be further embedded by focusing more on proportionality and cost-effectiveness of controls (Part 3.1.1); 2005 was the first year of introduction of the new Commission-wide methodology on risk management (Part 3.1.2); action to improve the quality of objectives and indicators was launched (Part 3.1.3).
- *Reinforcing the Commission's responsibility and monitoring capacity*: improvements aimed at simplification were proposed or implemented (Part 3.2.4); an action plan on moving to an integrated internal control framework was presented (Part 3.3.2); the follow-up of action plans (Part 3.2.1) and the reliability and robustness of internal control strategies (Part 3.3.3) were improved.

The 2005 Synthesis covers the first year in which a budget entirely managed by the Barroso Commission will be subject to the discharge procedure.

2. ASSURANCE GATHERED THROUGH THE ANNUAL ACTIVITY REPORTS

2.1. Global picture: a more solid and wide-ranging assurance ...

The Commission notes with satisfaction that the principles of the Reform are now firmly embedded in the daily management of its Directorates-general and Services. The Commission welcomes the **overall improvement** in the way the 2005 annual activity reports **underpin the assurance** contained in the attached declarations signed by the delegated authorising officers. Reservations (cf. list in Annex 3) are more precise and reasoned than in previous years and explanations are also often given on the overall impact on reasonable assurance.

The reports themselves were generally more focused and explicit and thus of growing importance as fundamental accountability and communication instruments. Having examined the annual activity reports and, in particular, the declaration of assurance signed by each Director-General and Head of service, the Commission notes that assurances were given by all delegated authorising officers. A number of general issues arising out of this analysis warrant highlighting:

- *Shared management with Member States.* The Commission notes that the reservations in this area are more focused compared to earlier exercises. For example, the 2005 reports indicate the programme or the geographical area covered by the weaknesses. In its view, only full cooperation and efforts from national authorities, in the terms indicated in the action plan for an integrated control framework (see below), will make it possible to achieve a breakthrough in reaching reasonable assurance for the areas concerned by the reservations. Increased efforts to align audit strategies, planning and risk management with Member States, reliance on the work of other controllers and systematic use of management reporting from Member State bodies are also foreseen in the action plan for an integrated control framework (see below) and recommended by the Internal Auditor.

The Commission will continue to work towards reinforcing assurance from the national authorities managing EU funds. This should further strengthen the overall assurance as to the legality and regularity of operations.

- *External actions, through centralised, decentralised and joint management.* As regards third countries, the high level of risk inherent in operations is considered to be under control and the only reservation made in this area relates to the sharing of responsibilities between the Commission and the United Nations in the framework of implementation of the EU contribution to UNMIK Pillar IV in Kosovo.

The Commission will work with the representatives of the United Nations to resolve the matter in 2006.

- *Internal actions, centralised management.* In the *Research area* in particular, but also more generally in the area of internal policies, the Commission is aware of systemic control problems linked to the reimbursement of costs, which lead to recurring errors, notably with personnel costs. It expects the simplification measures and reinforced control mechanisms undertaken under the 6th Framework Programme to lead to visible progress as the

programmes mature and the new system of mandatory certificates of cost declarations by independent auditors becomes embedded. However, only a thorough simplification of the funding mechanism will address the underlying problem. Assurance from National Agencies under indirect centralised management should also be improved.

The Commission will continue its efforts to bring about simplification in the implementation of Community programmes and examine the systemic control problems linked to the reimbursement of costs. In particular, the Rules for Participation proposed by the Commission for the 7th Research Framework Programme foresee the use of simplified funding mechanisms such as greater use of lump-sums, scales of unit costs and average rates, based on proportionality and cost-effectiveness of controls, while at the same time preserving the EU's financial interests. As part of the action plan for an integrated control framework (see Part 3.3.2 below), the Commission will continue its efforts to simplify the regulatory framework and fine-tune the use of audit certificates, with a reinforced coordination on these issues between the relevant departments. By these means, backed up by the application of sanctions where necessary, the cost statement controls will be able to become more efficient and effective.

- *Administrative expenditure.* Measures adopted by the Paymaster's Office have stabilised the information system for calculating salaries and pensions, and the reservation expressed in the 2004 statement by the resource unit manager has been lifted in the 2005 report. The OIB has disclosed difficulties in contract and procurement management on the programming side, which should be solved during 2006.

The Commission considers that reasonable assurance can be obtained from the annual activity reports in the area of administrative expenditure. Although the reservations on procurement programming and on administrative appropriations in delegations did not jeopardise the reasonable assurance provided by the Director General, the Commission will ensure that this service implements effective corrective measures in order to minimise the likelihood of similar situations arising in the future.

Conclusion

Overall, the Commission considers that the internal control systems in place, with the limitations described in the 2005 annual activity reports, provide reasonable assurance on the legality and regularity of operations, for which the Commission is responsible under Article 274 EC. However, it acknowledges that further efforts are needed to solve a number of weaknesses, in particular those highlighted in the reservations of the delegated authorising officers.

The Commission will ensure that its delegated authorising officers will continue their efforts to guarantee that reasonable assurance in the declarations accompanying the annual reports is effectively underpinned by appropriate internal control systems.

2.2. ... Based on an enhanced methodology

Striving for continuous improvement and simplification, the guidelines for the 2005 annual activity reports were further enhanced in the following ways:

- Reporting requirements for 2005 were lighter and more focused on the impact of key actions. In this way the annual activity reports achieved a **better balance between policy results and internal control** and financial management issues, making for clearer and more robust input for decision making and easier communication of results.
- **Increased accountability** was pursued through explicit declarations and an appraisal of the inherent nature and characteristics of the management, risk and control environment in which Directorates-General operate, and of the elements and results of the management and control system which support the assurances required in the declaration.
- Work was undertaken in 2005, and pursued in 2006 prior to the adoption of the annual reports, to provide guidance on assessing the materiality of weaknesses (including systemic ones) and encouraging a **common methodology and materiality thresholds by ‘families’ of Directorates-General** adapted to their specific situation. A common methodology has been agreed for the shared management family and proposed for the research family. Progress was also made by the internal policies family.
- All Directorates-General were also asked to **disclose the materiality criteria used** and to include their overall conclusion on the combined impact of the reservations on the declaration as a whole.

The **peer review of potential reservations** contributed greatly, through a large number of family and bilateral meetings, to refine the definition of reservations in terms of content and consistency in dealing with similar problems. It also represented a qualitative breakthrough in the use of materiality criteria and in the quantification of the impact of reservations. As concerns methodology, and aiming at strengthening reservation and not at reducing their number, delegated authorising officers considered that:

- the existence of a *risk* did not necessarily justify a reservation unless a problem had actually occurred during the year covered by the report or the control system was not able to prevent such events with material impact;
- a *critical audit recommendation* would justify entering a reservation only if (1) the underlying weakness falls into the area covered by the declaration of assurance, (2) the delegated authorising officer accepts that the current internal control system does not address the identified weaknesses appropriately and (3) he/she considers that the materiality threshold is exceeded.

Conclusion

Much progress has been achieved in 2005 in improving accountability and ensuring a more coherent approach by ‘families’ of Directorates-General dealing with similar activities. Work in the various ‘families’ will be continued, so that each area, including those for which a common methodology could not yet be established, benefits from a specific, coherent methodology. Further work by families will be carried out on indicators relating to control and the level of assurance (see Part 3.1.1 below).

2.3. Recurring reservations

Reservations serve to identify problematic areas, where action should be concentrated to ensure that operations are legal and regular and that the use of resources is sound. A recurring

reservation may constitute a problem in itself. In this respect, the Commission notes that recurring reservations are different in nature:

- Reservations whose **scope reduces** from year to year or for which the action plan is bearing fruit (reservations issued by the Directorate-General for Regional Policy on ERDF or Cohesion Fund in certain Member States or candidate countries; reservation on IACS in Greece by the Directorate-General for Agriculture and Rural Development; reservations on the coverage of ex-post controls and on the European Refugee Fund by the Directorate-General for Freedom, Security and Justice; reservation on accrual accounting for the European Development Fund by the Directorate-General for Budget).

The Commission notes that in some cases resolution of the underlying problem will imply further efforts from third parties (Member States in the case of shared management).

- Reservations relating to **structural problems hindering full and permanent resolution under the current regulatory framework** of the issue specified in the reservations (issues raised by several Directorates-General on the fifth research framework programme; reservation on the European Standardisations Organisations by the Directorate-General for Enterprise and Industry; reservation on the preferential import of high quality beef by the Directorate-General for Agriculture and Rural Development).

The Commission will continue to take corrective action through innovative measures aimed at the design of funding mechanism (for instance in the area of the research framework programmes, the greater use of subsidies based on lump-sum payments and scales of unit costs will be envisaged).

- Reservations relating to **weaknesses affecting operations carried out outside headquarters or operations carried out at headquarters and related to activities managed outside headquarters**, whose resolution has proved difficult due to the particular situation caused by physical distance and very small entities (reservation on the absence of a structured and systematic ex-post control system for grants, disclosed by the Directorate-General for Communication; two reservations concerning administrative appropriations by the Directorate-General for External Relations).

The Commission considers that, given the amounts at stake, these reservations have only limited consequences at Commission level. It will ensure that the relevant Directors-General take the necessary action in 2006 to resolve these issues.

- Weaknesses/inabilities to attain a Directorate-General or Service's objectives that do **not fall under the scope of the declaration** of assurance (reservation on the inability to perform an annual audit of Community bodies by the Internal Audit Service; reservation on nuclear safety by the Directorate-General for Energy and Transport; reservation on the Council's office for sickness insurance by the Paymaster Office. It should be noted that the declaration of assurance covers the use of resources for their intended purpose, in accordance with the principles of sound financial management, on the one hand, and the fact that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions, on the other hand.

The Commission considers that these issues, given their nature and the fact that they do not fall completely under the scope of the assurance declaration, could in the

future be raised rather in the body of the annual activity reports.

A few new reservations are also issued on cross-cutting issues relating to accounting and financial reporting and the data centre's building weaknesses influencing continuity of operations of IT systems. This is addressed below in Parts 3.3.4 and 3.4.1.

3. MAJOR CROSS-CUTTING ISSUES ARISING FROM THE ANNUAL ACTIVITY REPORTS AND RECOMMENDATIONS RECEIVED

3.1. Performance management and internal control

3.1.1. Effectiveness of internal control in the Commission

As the Internal Auditor and the overview report note, Commission Directorates-General and Services have made **considerable progress in internal control**: the annual activity reports show, for example, that most Directorates-General and Services have diversified and adapted financial circuits to the different needs and risks identified; some Directorates-General are increasingly monitoring that commitments and payments are evenly spread over the year, in an attempt to reduce the concentration of budget transactions at year end; risk management is further embedded in the management process and results of controls and lessons to be drawn are being monitored more and more closely. Nevertheless, both the Internal Auditor and the Court of Auditors have asked the Commission's Directorates-General and Services to continue their efforts to make effective use of new tools and controls, having noted some remaining weaknesses. Exchange of experiences and tools between Directorates-General in this context is being consolidated as part of the network of Internal Control Coordinators.

Effective and efficient internal control systems can be established through focusing on clearly defined and achievable **control objectives**, with **target indicators** measuring their desired development over time and ensuring **proportionality** and **cost-effectiveness of controls**. **In particular:**

- Effectiveness and efficiency of internal control systems, including the way they manage the risks relating to legality and regularity in budget implementation, will be monitored through **qualitative and quantitative indicators**. More dynamic use will be made of scoreboards, with a regular review of the usability and pertinence of the indicators for each target population.
- **Proportionality and cost-effectiveness of controls** will be pursued through simplification and adequacy of management methods, the final goal being a good balance between the need for control and the resources available for control. Using more lump-sum and flat-rate payments in grants, assurance declarations from third parties responsible for budget implementation tasks and audit certificates are expected to lessen the complexity of controls carried out by the Commission directly, but new approaches will also be needed to define the regulatory and technical framework, for example, for lump-sum payments.

Finally, internal control and risk management will have to be integrated in a common framework, in line with the current international practice and on the basis of experience with the 24 existing internal control standards and the common risk methodology put in place last year.

Conclusion

The Commission will develop indicators for control objectives, covering in particular the way internal control systems tackle the risk associated with the legality and regularity of operations. Reporting on internal control effectiveness will be further strengthened in annual activity reports where necessary. The Commission also invites the European Parliament and the Council to support efforts to adapt the legal framework to ensure effective application of the principles of proportionality and cost-effectiveness of controls.

3.1.2. Risk management as a way of embedding internal control in the administrative culture

The Commission adopted a Commission-wide **risk management framework** in 2005, as foreseen in the 2004 Synthesis Report, establishing a common approach to risk management. Subsequently, Commission Directorates-General and Services started integrating this common methodology into their planning exercises, identifying critical risks and related responses in their annual management plans for 2006. This first pilot exercise increased ownership within Directorates-General, helped to raise risk awareness across the Commission and also had an impact on the control strategy of Directorates-General and on the control focus.

The **main risks identified** relate to strategy, planning and systems (ineffective control strategies, insufficient IT availability, maintenance and security), to people and organisation (lack of certain types of expertise, lengthy recruitment procedures, over-dependence on contract staff, unclear roles and responsibilities, and building and staff security issues), and to external factors (lack of political support outside the Commission, pandemics, incorrect understanding and application of rules and regulations by external partners).

The overview on internal control suggests that efforts to increase the use and value of risk management should be pursued so as to embed it into regular and continuous management activities, beyond activity planning. In this respect, steps will be taken to ensure further involvement of senior and middle management, sharing of experiences among departments and further consideration on how to handle risks within families of Directorates-General.

Conclusion

The Commission will further embed risk management in its regular management process and integrate risk assessment in its internal control systems. It will continue work on how to consolidate risk management around groups of Directorates-General ('families') faced with similar concerns.

3.1.3. Performance management

The *first phase* of the performance review, launched by the 2004 Synthesis Report, has been carried out and has led to the establishment of a first repository of **standard objectives and indicators** that can be used for **two horizontal activities** common to all Directorates-General ("Policy strategy and coordination" and "Administrative support"). The *second phase*, started in 2006, focuses on **objectives and indicators for spending programmes**. As suggested by the **Court of Auditors** and the **European Parliament** (see also Part 3.1.1 above), this phase will also for the first time look at indicators which have a direct link to legality and regularity.

In the field of performance management, the Commission encourages Directorates-General with similar activities to work more closely together and to share their experience in order to promote a **more coherent and efficient approach**. Further fine-tuning of available instruments, such as management plans and activity reports to ensure their use as **effective management tools** adding value at all levels and allowing solid monitoring and quick corrective action, will be pursued.

Conclusion

The Commission will continue its review of objectives and indicators, with a particular focus on spending programmes in 2006 and on other Commission tasks in 2007.

3.2. Governance

3.2.1. *Follow-up of audit reports*

The Commission's **Audit Progress Committee** plays a major role in **monitoring the follow-up of audit or audit-related recommendations** and in providing the Commission with a comprehensive picture of the major findings and remedial action. In March 2005, the Commission decided to expand the mandate of this body to the follow-up recommendations from the Court of Auditors and the Discharge Authority. Setting up a database to keep track of recommendations from these sources underpinned the effectiveness of the Audit Progress Committee's reporting to the Commission.

As stated in the overview on internal control, almost all Directorates-General report that appropriate action plans have been put in place in order to remedy the weaknesses identified by the Internal Auditor or the Internal Audit Capabilities and that implementation of these action plans is regularly monitored. As the Internal Auditor notes, whereas **acceptance of internal audit recommendations** by Commission Directorates-General is very good, there is often considerable **delay in implementation of action plans**. The Internal Auditor suggests that the follow-up of such recommendations be regularly monitored at senior management level, and fully integrated into normal management planning. The Audit Progress Committee will play a role in this: drawing on the Internal Audit Service's follow up work, it will alert those Commissioners and Services where there is a significant delay in the completion of action plans. The Commission also notes the Internal Auditor's commitment to issuing fewer and more focused recommendations, thereby also addressing requests made by Directorates-General in this regard.

Conclusion

The Commission will ensure that its Directorates-General draw up precise action plans, taking into account priorities assigned and resource constraints, and on this basis follow up audit recommendations in good time.

3.2.2. *Outsourcing and agencies*

The first three *executive agencies* were heading towards their full launch in 2005, one of which became fully operational in the second half of 2005. Recruitment has been the **main challenge** in the setting-up phase. Because of difficulties in this area, one of the agencies is still not fully operational. The existing executive agencies will produce their first fully-

fledged annual activity reports for the 2006 exercise, which will be taken into account in subsequent synthesis reports.

During the transition period, Executive Agencies worked in close cooperation with parent Directorates-General in the preparation of the hand over of files. To ease the creation process of new agencies for the new programming period and to benefit from lessons learned, the Commission has launched a revision of its internal guidelines, and future agencies will also use standard Service Level Agreements with the Commission's horizontal departments. The transition to the new programming period, the setting-up of new agencies and the evaluation of existing ones will need to be closely monitored to ensure that lessons learned and best practices are taken on board.

In 2005, as already indicated in the previous Synthesis Report, the Commission proposed an operating framework for *regulatory agencies*, in the form of a draft interinstitutional agreement. This draft agreement aims to establish **minimum standards and rules of good governance** for the creation, functioning and oversight of regulatory agencies. The interinstitutional agreement proposed by the Commission was welcomed by the European Parliament, but the Council was unable to adopt it.

Under the current rules, the Internal Auditor of the Commission has to audit each regulatory agency every year. In his **annual activity report**, the Internal Auditor notes that this obligation could not be completely met. The amendment to the Financial Regulation being proposed by the Commission provides for each regulatory agency to set up its own internal audit function, which should solve the problem from 2007 onwards.

Conclusions

The Commission recently revised its guidelines on the setting-up and functioning of executive agencies, so that existing executive agencies as well as new ones can evolve within a stable and complete framework, providing in particular for smooth delegation and reporting arrangements between such agencies and the parent Commission Directorates-General.

The input of all institutions is necessary to negotiate a comprehensive framework, and to clarify the respective responsibilities of the institutions and of the regulatory agencies. This framework would be applicable to the creation of future agencies and, at a later stage, to those already in existence. The Commission calls on the Council to adopt the proposed framework on regulatory agencies, to suggest amendments or other options.

3.2.3. *Shared services*

The Internal Auditor recommends exploring the potential for using “**shared services**” to **increase management efficiency and effectiveness**, citing as examples the areas of IT services, communication and management of financial resources and staff.

An overview on the state of internal control indicates that small departments and offices especially encounter difficulties as regards business continuity, staff competence and mobility, and points to possible alternatives such as the sharing of services amongst Directorates-General and ad hoc helpdesks run by central departments to assist operational departments in specialised tasks.

Conclusion

The Commission recognises the potential added value of inter-service arrangements for small departments, provided such arrangements are based on a cost-benefit analysis and made in accordance with the applicable rules, while preserving the responsibility of each delegated authorising officer. Its central departments will develop a range of practical solutions and in so doing ensure the balance of responsibilities and accountability between Directorates-General and Services.

3.2.4. Simplification

The Reform progress report of 21 December 2005 identified simplification as an important cross-cutting priority for the Commission in all spheres of internal management. Four main strands can be identified: *legislative simplification*, simplification of *expected controls*, simplification of *future spending programmes*, and simplification of *internal procedures* and working methods.

In the area of *legislative simplification*, the Commission presented the results of a **screening exercise of pending legislative proposals** and, in September 2005, announced its intention to withdraw 68 of these. In October, a new phase of its legislative simplification programme was presented, based on the result of stakeholder consultations. The Commission also presented its position on a common methodology for measuring administrative burden to be applied by EU institutions and Member States when assessing the impacts of EU legislative initiatives.

In the negotiations of the Financial Perspectives for 2007- 2013, the proposals put forward by the Commission pursued the overall goal of **simplification as regards the legislative instruments and the spending programmes**. An example of this is the Commission proposal for a simplified set of regulations to promote more coherence and effectiveness in the Union's external policies. Overall, complementarities between programmes have been systematically sought to enhance their impact and derive the best value from funds at European level.

The risk analyses conducted by Directorates-General in relation to their 2006 Annual Management Plans regularly pinpoint incorrect understanding and application of Community rules and regulations by intermediaries and beneficiaries among the critical risks; some simplification of these rules would certainly help to manage this risk. It is important that the legislative authority should consider the **feasibility of proposed controls** and the related cost-benefit. The Commission's proposal for the Rules for Participation in the Seventh Framework Programme, for example, provides for greater use to be made of flat-rate (including scale of unit costs) and lump-sum payments within the terms of the Financial Regulation. The alternative of relying only on verifying the eligibility of real costs has proven to be very difficult in terms of control and administrative burden for the Commission.

A number of *internal procedures* were simplified in 2005. In the area of **financial management**, the Implementing Rules of the Financial Regulation were amended to simplify the rules for awarding contracts and grants, particularly where small amounts are concerned. The Commission also launched an initiative to simplify **human resource management and administrative procedures**. A Task Force was created and mandated to consult with staff and to propose measures to simplify procedures that are unnecessarily complex and cumbersome.

Conclusion

The Commission will keep the simplification of the regulatory framework under consideration during the negotiations on all the legislations and programmes for the Financial Perspectives 2007-2013.

The Commission will continue to simplify its internal procedures, and calls on the legislative authority to pay the necessary attention to these aspects.

3.3. Financial management and reporting

3.3.1. Financial rules

In 2005, the Commission adopted amendments to the Implementing Rules of the Financial Regulation, which **simplified the rules on procurement and grants** for the benefit of tenderers, applicants and beneficiaries as well as the Institutions' departments. The Commission also proposed several further amendments to the financial rules: *first*, an amendment to the Implementing Rules of the Financial Regulation, designed, among other things, to introduce simplification measures, due to enter into force in mid-2006; *second*, the scheduled triennial revision of the Financial Regulations and its linked Implementing Rules, due to be applicable as from 1 January 2007.

Through the latter, the Commission has launched a proposal to introduce a **new budgetary principle of effective and efficient internal control in the financial regulation**, in order to improve the effectiveness and efficiency of operations, the reliability of financial reporting, the protection of the financial interests of the Communities and the management of risks relating to the legality and regularity of the underlying transactions. The risk of irregularity or illegality in the underlying transactions, inherent to the implementation of a basic act, will be addressed by an adequate level of control, in order to reach a **tolerable level of risk**, taking into account the multi-annual character of programmes as well as the nature of the payments concerned.

Conclusion

The Commission calls on the legislative authority to adopt the basic acts by the end of 2006 and the Financial Regulation by mid 2006 in order to enable the Commission to adopt its Implementing Rules as soon as possible in autumn 2006, so that implementation can start in due time for the new programming period. The Commission will start preparation and define its management and control strategy, organisation and tools beforehand.

3.3.2. Roadmap to an integrated control framework

In 2005, the Commission adopted a *Roadmap to an Integrated Internal Control Framework* and assessed the *gap* between the internal control framework in the Commission and the Court of Auditors' "single audit" opinion. In the same context, it issued in January 2006 an *Action plan towards an Integrated Internal Control Framework*, including sixteen actions (in the areas of simplification and common control procedures; management declarations and audit assurance; sharing audit results and cost-benefit analysis; and addressing sector specific gaps). The final aim of all these measures is to **ensure more effective and efficient internal**

control of EU funds and to provide a sound basis on which the Court of Auditors can draw up a more positive statement of assurance.

The Commission considers the cooperation of Member States and other third parties on which the Commission confers budget implementation tasks to be crucial for the success of the integrated internal control framework, as this should provide assurance on the correctness of their management of EU funds. In this respect, the newly adopted Interinstitutional Agreement on budgetary discipline and sound financial management provides, in line with the action plan, that the relevant audit authorities in the Member States will produce an assessment concerning the compliance of management and control systems with the regulations of the Community and that Member States will undertake to produce an annual summary at the appropriate national level of available audits and declarations.

Conclusion

The Commission is committed to establishing an integrated internal control framework. It notes that its success will also greatly depend on the cooperation of other parties, such as the Council and the European Parliament, national departments responsible for the management and control of the use of EU funds and Supreme Audit Institutions in the Member States.

3.3.3. *Ex-ante and ex-post controls*

The 2005 **annual activity reports** show improvements both in ex-ante and in ex-post controls, indicating, for example, the wider use of checklists to harmonise and document controls carried out; greater precision in the results of the ex-ante and ex-post controls performed and the conclusions to be drawn for the declaration of assurance; how such controls fit within the internal control strategy and framework; and how they are used as monitoring instruments and management tools.

The compulsory **audit certificates** (e.g. under the 6th Framework Programme for research) were conceived to enhance the accuracy of cost claims submitted for ex-ante controls in relation to direct management. Progress in this area is also expected from the guidelines issued in 2005 by the **ex-post control network** on a common terminology for ex-post controls, a template for ex-post control reports and on the classification of errors and their impact on reasonable assurance.

It is also worth considering the proactive and preventive nature of **ex-ante controls**, which also reduces the cost of unnecessary recoveries afterwards. At the beginning of a new programming period, as will be the case in 2007, ex-ante controls can focus more clearly on cost categories or types of beneficiaries and thus identify the areas at greatest risk in terms of errors and weaknesses. Further consideration should then be given to modulating the depth of ex ante controls according to those risk areas identified.

Further improvements are also needed in demonstrating the **reliability and robustness of internal control strategy and structures**, through, for example, better balancing of ex-ante and ex-post controls; making ex-ante and ex-post desk reviews more effective (in particular by timing reviews so that corrective action is still feasible, focusing on substance, cost categories or types of beneficiaries subject to frequent errors or higher risks, and ensuring sufficient coverage); integrating feedback of control results for enhancing existing controls; reinforcing supervision and the effectiveness of controls, making audit certificates and

management declarations more effectively usable; and promoting further coherence and synergies within Directorates-General with similar activities.

Based on the report in Annex 4, special attention needs to be drawn on the conditions for using negotiated procedures, following the increase in number and value of contracts established following this procedure.

Conclusion

The Commission will continue to develop its internal procedures, in particular in the form of exchanges of good practices within the ex-post control network, among other things by formalising common guidelines on sampling methods and the related level of confidence, and in the form of an adequate control strategy to ensure proportionality between ex-ante and ex-post controls.

3.3.4. *Accounting and financial reporting*

On 1 January 2005, the Commission moved the general accounting of the EU from cash-based to **accrual-based accounting**, thus complying with international public accounting standards and the legal obligation fixed under the Financial Regulation. The Commission Directorates-General have been placed under considerable pressure, in particular to establish opening balances and cut-off estimates for the first time.

On 31 March 2006, the Commission's Accounting Officer communicated to the European Court of Auditors the first accounts of the European Communities to be prepared in accordance with internationally accepted accounting standards. These accounts were the fruit of three years' intensive work by all Commission departments, and by the other institutions and agencies:

- Accounting rules were developed which were relevant to the Communities' activities and which complied with international standards, together with accounting manuals for the application of these rules;
- The IT systems were developed in order to support the new accounting requirements;
- The administrative procedures of all the Commission's services were adapted so as to record accounting events when they occur, and not only when cash is received or paid, or at the year end only, and thus allow accrual-based accounts;
- The balances necessary to open the first accrual-based accounts were determined.

This work was completed by January 2005, in time so that the 2005 financial year could start on the right basis. Since January 2005:

- The opening balances have been checked and validated by the authorising departments;
- The expenses to be accrued at the beginning and end of each year have been estimated by all departments;

- The systems of each department have been examined by the Commission's Accounting Officer to ensure that they are capable of recording and communicating the required accounting information;
- The Commission's accounts were prepared, and consolidated with those of the other institutions and agencies.

The Commission has thus respected the time-limits set in the Financial Regulation for the preparation of financial statements which comply in all material respects with international standards, and has respected its commitment to the European Parliament and to Council to report on its progress towards this goal¹, which they considered to be particularly ambitious.

The work is however not yet complete, the imprest accounts and the European Development Funds need to be moved to modernise IT systems. These delays arise from the difficulties in introducing new systems and the required training in geographically dispersed services, and do not have a material impact on the accounts.

Although the **transition has been successfully managed** and comprehensive tests have been conducted, checks of local systems at the end of 2005 highlighted concerns on three local systems which could not be validated. Material errors have been found in the figures supplied by at least one DG which has been asked to present corrected figures.

Two Directorates-General formulated reservations indicating uncertainties on the posting of a number of transactions following the **new accrual accounting rules**, but confirmed the quality of the transaction data entered in the system on 31 March 2006. For these reasons, and also because the provisional accounts are currently being audited by the Court of Auditors and corrections may be necessary before the approval of the final consolidated accounts by 31 July 2006, the Directorate-General for Budget issued a systemic, provisional and time-bound reservation in its 2005 **annual activity report**. Joint accounting analysis is currently being performed by this Directorate-General and other Directorates-General in an attempt to check and improve accounting quality and make any necessary accounting corrections.

Despite the efforts made by Commission services to check and to recheck the opening balances and the accrued expenses, the Court of Auditors may find further errors, which must be corrected in the final accounts which are due by 31 July 2006. The risk of error is exacerbated by the relative lack of qualified accounting staff in the Commission, the delays by some services which led to hurried work, and by delays in developing certain accounting and reporting tools in the IT system. Future developments include the incorporation of the imprest accounts held in the Commission's external delegations in the central accounting system and the incorporation of the **European Development Funds** into the accrual accounting system. Moreover, when the revised financial framework comes into force, the Accounting Officer will **sign off the final accounts**, declaring that they were prepared in accordance with both the provisions on the presentation of the accounts and accounting principles, rules and methods.

Following a request made by the Internal Auditor, the Commission has completed its inventory of bank accounts co-managed by Commission staff but not opened by the Commission Accounting Officer. The operational conclusions are that there should be a

¹ The Commission has presented half-yearly progress reports until that on progress to 31 May 2005.

formal register of those handled by staff in the Commission delegations when they act as second signatory to accounts in the name of an authority in the beneficiary country, and that the register should be regularly reviewed to ensure that dormant accounts are closed.

Conclusion

The Commission recognises the extraordinary effort done by its departments to allow the moving to accrual-based accounting. However, notwithstanding the considerable efforts deployed by each service, the magnitude of the task and the services' unfamiliarity with the new accounting procedures mean that there is a risk that errors and omissions remain in the provisional accounts. The Commission will make every effort to ensure that any material error found by its auditors is corrected in the final accounts, due to be approved by 31 July 2006. Based on the lessons learnt from the problems and delays encountered during this first year of accrual-based accounting, the Commission will further strengthen its accounting processes and systems to improve the quality of the financial information and meet the deadlines for subsequent years' accounts.

3.4. IT systems and continuity of operations

3.4.1. *IT systems*

Information technology (IT) has become an essential factor that directly supports the Commission's administration activities and most, if not all, of its operational and policy activities. In November 2005, the Commission adopted a revised e-Commission strategy to deliver **better quality and more transparent IT services** to both its own staff and to external stakeholders. New baseline requirements on IT were also introduced in the Commission's internal control framework.

As regards the continuity of operations relating to the IT infrastructure, the Directorate-General for Informatics has issued a horizontal reservation in its **annual activity report** on the inadequacy of the data centre building infrastructure (insufficient physical security and housing conditions of technical data rooms), covering all critical IT systems hosted in this centre. The Internal Auditor emphasises the need to further clarify the roles and responsibilities of horizontal and operational departments in the IT area, including security, planning, continuity of operations, development and management of IT information systems.

Conclusion

The issue of the suitability of the data centre building infrastructure hosting IT systems will be addressed as a matter of priority. Current reflections on the best IT governance arrangements should lead to operational conclusions in 2006 designed to improve management efficiency, effectiveness and economical use of resources.

3.4.2. *Crisis management and business continuity*

2005 has seen the introduction of the concept of business continuity in the new Internal Rules of procedures of the Commission. Several **annual activity reports** have raised the issue of business continuity, and two operational Directorates-General posted a reservation in this area, linked to the risk of unavailability of IT services provided to Member States for Community-wide programmes and information exchange.

Building on work already done to prepare for pandemics, the Secretariat-General is developing a policy framework, with the help of the relevant Directorates-General, to ensure business continuity in the event of a business disruption affecting the Commission. Moreover, responding to the European Council's call for the development of emergency response capabilities both at Member State and at EU level, the Commission implemented, in December 2005, a new specific coordination process to improve the coherence and consistency of the Commission's response to major crises requiring action at European level.

Conclusion

The Commission will adopt Commission-wide policy guidelines and continue to develop corresponding business continuity plans.

3.5. Human resources

Enlargement and implementation of the revised Staff Regulations (new career structure, modern working conditions and equal opportunities, safeguarding professional and ethical standards...) remained priority issues in 2005. Emphasis was placed on providing Commission departments with guidance on the application of the new rules to ensure correct and uniform implementation. In addition, new initiatives, including the simplification of administrative procedures and an increased "professionalisation" in the area of human resources management, were also launched.

3.5.1. *Adequacy of competencies*

Some Directorates-General's annual activity reports and the overview on internal control identify a lack of specialised staff for financial management and other specific functions (e.g. translation, interpretation, informatics, customs, taxation, research and nuclear inspection). This takes place against a background where the Commission has to recruit highly specialised staff in various sectors and to adapt its recruitment policy accordingly.

Conclusion

The Commission will identify any shortfalls and communicate its specific needs so that they are promptly taken into consideration and included in the work programme of the interinstitutional European Personnel Selection Office. The action plan to recruit experts and further develop training will be continued.

3.5.2. *Recruitment*

The overall results of the recruitment of nationals from the new Member States are satisfactory. There are however still some gaps in middle management positions, in the AST/B* category and in certain profiles, such as AD linguists. It is expected that targets fixed for the period 2004-2006 will be difficult to reach by the end of 2006 and efforts will have to be continued in 2007 and beyond.

Since 1995, the Commission has set annual targets for the recruitment and appointment of women to management and other A*/AD level posts. Noteworthy progress has since been achieved. Nevertheless, efforts in this domain must be maintained. The senior management target of 20% was substantially exceeded, reaching 32.8%. The overall target for A*/AD level

posts of 50% was slightly surpassed, reaching 51.4%. However, middle management appointments fell short of the 30% target, reaching only 24.4%.

The overall vacancy rate for the Commission decreased significantly in 2005, but recruitment problems were experienced in the set-up of executive agencies.

3.5.3. Mobility

In 2005, mobility within and between Directorates-general and Services affected a similar percentage of staff as in 2004 (around 15% of permanent staff). This includes both mobility in response to advertised posts and mobility for sensitive posts and for heads of unit. In 2005, 12.5% of all Commission jobs were flagged as 'sensitive', but in spending Directorates-General this figure rose to more than 40%.

The overview on internal control points to a number of difficulties linked to compulsory mobility having disruptive effects for departments and staff (i.e. continuity, staff competence and strategic alignment and management of HR resources). This applies in particular to compulsory mobility for sensitive posts and to the high staff turnover experienced in some departments and the short-term contracts for non-permanent skilled staff.

The Commission has responded to the growing emphasis on mobility in 2005 by increasing career guidance, providing a range of courses for staff to help them prepare for mobility, gathering and disseminating best practices, preparing a strategy for career management of staff. The Commission has set up a working group to reflect on how to better manage mobility so as to achieve the ultimate objective of 'the right person in the right job'. This group is looking at issues as compulsory versus voluntary mobility and mobility for middle managers. The issue of compulsory mobility is particularly challenging for small services with a high percentage of staff on sensitive posts.

Conclusion

The Commission will adjust its management of mobility, where necessary, so as to achieve the ultimate objective of 'the right person in the right job', in particular as regards sensitive posts. Proposals will be made during 2006 to mitigate the impact of mobility, with particular attention for specialised functions and on small Directorates-General and sites.

3.5.4. Reporting on human resources in the Commission

In 2005, the Commission carried out two exercises designed to identifying the staff involved in external communication, on one hand, and in internal control and financial management, on the other hand. As currently designed, the Job Information System (JIS) does not provide reliable reporting on human resources by corporate process (for instance, communication, financial management, monitoring of application of EU law...). This system needs to be developed further in order to permit a detailed analysis of the use of the Commission's human resources.

Conclusion

The Commission will take measures to improve its human resource IT systems, in particular its Job Information System, so that it enables the organisation to have a global and reliable view of its current human resources and to produce a detailed analysis by corporate processes.

4. CONCLUSIONS

By adopting this synthesis, the **Commission assumes its political responsibility** for management by its Directors-General and Heads of service, on the basis of the assurances and reservations issued by them in their annual activity reports, acknowledging that further efforts are needed to solve a number of weaknesses. In this synthesis, the Commission also takes a position on the cross-cutting issues stemming from the examination of these reports and raised by the Internal Auditor, the European Court of Auditors, the Discharge Authority, or identified by the Audit Progress Committee and by the Director-General for Budget in his report “Overview on the state of internal control in Commission Directorates-General and Services” [SEC(2006) 567].

Overall, the Commission considers that the internal control systems in place, with the limitations described in the 2005 annual activity reports, provide reasonable assurance on the legality and regularity of operations, for which the Commission is responsible under Article 274 EC. However, it acknowledges that further efforts are needed to solve a number of weaknesses, in particular those highlighted in the reservations of the delegated authorising officers.

The Commission will ensure that its delegated authorising officers will continue their efforts to guarantee that reasonable assurance in the declarations accompanying the annual reports is effectively underpinned by appropriate internal control systems.

Annex 1

2005 Synthesis' multiannual objectives

This Annex summarises and updates the Commission's objectives addressing the major cross-cutting issues. To meet these objectives, a series of initiatives have and will be launched, some of which were already identified in 2004 synthesis.

Performance management and internal control		
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable
1. Achieving an effective internal control system and ownership of internal control concepts and processes at all levels in each DG and service.	➤ To ensure the effectiveness of internal control, with the assistance of central services, the internal control coordinator in each service should carry out a regular review of the effectiveness of internal control issues at least, in the context of the twice-yearly information to Commissioners and of the annual activity report. ➤ The Commission will for the first time look to develop the indicators for legality and regularity of transactions. ➤ The Commission will continue its efforts to adapt the legal framework to ensure the effective application of the principles of proportionality and cost-effectiveness of controls.	All services, continuous action with the support and guidance of DG BUDG and the ICC network. All services, continuous action by 'families' with the support of BUDG and SG. All services, continuous action in their legislative proposals.
2. Promoting Commission's accountability through annual activity reports and their synthesis solidly based on assurances from managers.	➤ Some Commission departments should give, where needed, a fuller explanation of their environment and the risks faced, including risks that remain even after mitigating measures have been taken. The impact of their environment and risks should be made more explicit and in most cases fuller explanations should be given on the overall impact of reservations on the reasonable assurance. ➤ With the assistance of central services, work by 'families' will be continued, so that each area benefits from a specific, coherent methodology.	All services in the 2006 annual reporting exercise. Services concerned, SG and DG BUDG before completion of the 2006 annual activity reports.
3. Establishing effective and comprehensive risk management making it possible to identify and deal with all major risks at service and Commission level and to lay down appropriate action to keep them under control, including disclosing resources needed to bring major risks to an acceptable level.	➤ The Commission will further embed risk management in its regular management process and integrate risk assessment in its internal control systems. ➤ The Commission will address how to deal with risk management within 'families' of similar activities in services.	All services, with the assistance of DG BUDG, continuous action as specified in SEC(2005) 1327. By 2007 the Commission should have gained sufficient experience to submit concrete proposals in this context.

4. Making objectives and indicators a policy and management tool allowing, on the one hand, the Commission to monitor its performance and, on the other, stakeholders to assess the outcome of the Commission's work and its benefit for citizens.	➤ The Commission will continue its review of objectives and indicators, with a particular attention on spending programmes in 2006 and on other Commission tasks in 2007.	Services concerned with the support of SG and BUDG should feed progressively into the 2007 and 2008 annual management plans.
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Governance		
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable
5. Ensuring a smooth implementation of accepted internal audit recommendations.	➤ Follow-up of action plans stemming from internal audit recommendations should be regularly monitored at senior management level, and fully integrated into regular management planning.	All services, continuous action.
6. Clarifying the respective roles and responsibilities of Commission services and <i>regulatory agencies</i> .	➤ The input of all institutions is necessary to negotiate a comprehensive framework, to clarify the respective responsibilities of the institutions and of the regulatory agencies. This framework would be applicable to the creation of future agencies and, at a later stage, to those already in existence. The Commission calls on the Council to adopt the proposed framework on regulatory agencies, suggest amendments, or reflect on new possibilities.	Ongoing action. All services concerned with the assistance of SG and DG BUDG.
7. Ensuring that inter-service arrangements for small services are based on a cost-benefit analysis and made in accordance with applicable rules, while preserving the responsibility of each delegated authorising officer.	➤ The Commission will develop practical solutions respecting the balance of responsibilities and accountability.	Interested DGs with the support of BUDG and SG, by the end of 2006.
8. Ensuring strong follow-up of action plans related to the expressed reservations, notably for the progress to be made in 2006.	➤ The Commission will integrate the follow-up of action plans related to the expressed reservations in the regular follow-up procedures by senior management and for the deadlines foreseen in 2006 will report on, progress to the respective Commissioner in the context of the regular follow-up meetings on audit and control.	Concerned DGs.

Financial management and reporting		
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable
9. Enhancing accountability by establishing a comprehensive integrated internal control framework in line with the requirements set out in the ECA's opinions on 'single audit'.	Implementation of the action plan adopted towards an Integrated Internal Framework.	DG BUDG together with the services and external partners concerned. Progressively up to the end of 2008.
10. Improving efficiency and strengthening accountability by ensuring proportionality and a sound balance between ex-ante and ex-post controls and by further harmonisation and better focusing of ex post controls.	➤ Further attempts have to be made to achieve closer harmonisation of methodology and definition of common ex-post control strategies and ensure proportionality between ex ante and ex post controls, at least at the level of 'families' of services operating in the same budget area. ➤ Common guidelines on sampling methods and related level of confidence should be finalised.	All services with the assistance of DG BUDG, continuous action. Concerned services with the support of DG BUDG, progressively up to the end of 2007.
11. Increasing responsibility and accountability at the level of the Commission as a whole by the signing-off of the accounts by the Accounting Officer and by improved quality of financial information.	➤ Under the proposed amendments to the Financial Regulation submitted to the legislator, the Accounting Officer will sign off the accounts. ➤ The Commission will further strengthen its accounting processes and systems to improve the quality of the financial information and the respect of deadlines.	Accounting Officer by the entry into force of the amendments to the Financial Regulation. All services, continuous action with the assistance of the services of the Accounting Officer.
12. Making financial management more efficient by applying simplification measures.	➤ Services are called upon to apply the simplification measures that are being introduced by the basic acts proposed under the next generation of programmes (2007-2013) and the amendments to the financial rules. ➤ In order to ensure that the new programming period can start under the new legislative framework, the Commission calls on the legislative authority to adopt the basic acts and Financial Regulation so that it can adopt in due time its Implementing Rules.	All services concerned as from the entry into force of these legal provisions. Legislative authority for the basic acts and Financial Regulation. DG BUDG and concerned services by the end of 2006.

Human resources		
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable
13. Simplifying procedures to increase both efficiency and employee satisfaction.	➤ The Task Force for the simplification of administrative procedures will propose specific measures to simplify and improve human resource management and administrative procedures. ➤ In parallel, the Commission will present specific measures to simplify and improve the Commission's staff appraisal system (Career Development Review). These measures will complement those presented early 2006 which were already implemented in the current exercise.	DG ADMIN by the end of 2006.
14. Aligning resources and needs better to make sure that staff have the skills and qualifications necessary to perform their duties, in particular in areas such as financial management, audit, science, linguistics and IT.	➤ Following the conclusions of the evaluation on the Strategic Alignment of Human Resources, various measures are being prepared. ➤ The Commission will identify any shortfalls and communicate its specific needs so that they are promptly taken into consideration and included in the work-programme of the inter-institutional European Personnel Selection office. Provision of specialised training and measures to improve the recruitment procedures and, in particular in areas where a shortage of skilled staff is identified. ➤ The Commission will take measures to improve its Job Information System so that it enables the organisation to have a global view of its current human resources and to produce easily detailed analysis by corporate processes. ➤ The Commission will adjust its management of mobility, where necessary, so as to achieve the ultimate objective of 'the right person in the right job', in particular as regards sensitive posts. Proposals will be made during 2006 to mitigate the impact of mobility, with particular attention for specialised functions and small DGs and sites.	DG ADMIN by the end of 2006 DG ADMIN and EPSO, ongoing tasks. DG ADMIN in collaboration with DIGIT, SG and DG BUDG. DG ADMIN in collaboration with SG and DG BUDG, by the end of 2006.

IT systems and continuity of operations		
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable
15. Ensuring the suitability of the data centre hosting IT systems and business continuity.	➤ The Commission will address the issue of the suitability of the data centre hosting IT systems and ensure that current reflections on the best IT governance arrangements lead to operational conclusions in 2006. ➤ The Commission will adopt Commission-wide policy guidelines and continue to develop corresponding business continuity plans.	DIGIT, OIB and OIL in 2006 All services with the support of SG and ADMIN, by the end of 2006.

Annex 2

State of play of the 2004 Synthesis' multiannual objectives

This Annex reports on the progress realised in 2005 against the reference framework laid down by the 2004 Synthesis containing the Commission's multiannual objectives to address the major crosscutting management issues.

Governance issues			
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2005
1. Achieving effective functioning of internal control system and ownership of internal control concepts and processes at all level in each DG and service.	➤ To ensure the effectiveness of internal control, with the assistance of central services, the internal control coordinator in each service should carry out a regular review of the effectiveness of internal control issues, based on available information on results of controls, exceptions made and relevant scoreboards, in order to enhance related procedures or modify control systems. This review should be conducted, at least, in the context of the twice-yearly information to Commissioners and of the annual activity report.	All services, continuous action with the support and guidance of DG BUDG and the ICC network.	Continuous action. The culture of effectiveness of internal control continued to gather pace, as results from the annual activity reports (see in particular Part 2 thereof) and as the 2005 Synthesis summarises under Part 3.1.1. Exchanges of experiences and good practices took place regularly within the Internal Control Coordinators' Network and training, tools and support have continued to be provided with the assistance of DG BUDG.
2. Promoting Commission's accountability through a synthesis report solidly based on assurances from managers in the annual activity reports.	➤ The Commission will continue fully to exert its accountability, by using the synthesis to bring transparency to the critical crosscutting issues emerging from services' assurances. The latter will give a full account on whether the assurance is consistent with the reservations identified.	All services, according to the guidelines on annual activity reports.	Continuous action. By adopting the 2005 synthesis, the Commission assumed its political responsibility for management by its Directors-General and Heads of services, on basis of the assurances and reservations issued by them in their annual activity reports, acknowledging that further efforts are needed to solve a number of weaknesses. The Commission has also adopted conclusions on each main management area and on systemic crosscutting issues.
3. Establishing effective and comprehensive risk management making it possible to identify and deal with all major risks at service and Commission level and to lay down appropriate action to keep	➤ The Commission-wide methodology which will be set up by the autumn of 2005 will introduce risk assessment into the decision-making process on priorities and resource allocation. This will be given firmer shape in the management plans and annual activity reports of services. ➤ In a medium term perspective,	DG BUDG, SG and IAS for methodology by the autumn of 2005, all services for application, starting from 2006 annual management plans.	Action finished, objective continuous. The Commission established the Commission-wide methodology for risk management by adopting the Communication "Towards an effective and coherent risk management in the Commission services" [SEC(2005) 1327] in October 2005. As a result, risk management has started to be included in the decision making process on priorities and resources allocation through the annual management plan 2006. It contributed to broader awareness raising of risk management and to defining and monitoring action plans to manage critical risks.

them under control, including disclosing resources needed to bring major risks to an acceptable level.	the methodology should also address how to deal with risk management within 'families' of similar activities in services.	By 2007 the Commission should have gained sufficient experience to submit concrete proposals in this context.	To be launched in 2007, as foreseen
4. Clarifying the respective roles and responsibilities of Commission services and regulatory agencies.	➤ Interinstitutional negotiations should be pursued in 2005 based on the Commission's draft interinstitutional agreement on a framework for regulatory agencies. The respective roles and responsibilities of the Commission services and the regulatory agencies will be clarified in parallel.	SG, BUDG and services concerned, starting in 2005.	Ongoing. Inter-institutional work is progressing. The EP has designated a "rapporteur" and adopted a resolution in 2005, whereas the Council was not able to adopt the draft interinstitutional agreement.

Activity-based management			
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2005
5. Making objectives and indicators a policy and management tool allowing, on the one hand, the Commission to monitor its performance and, on the other, stakeholders to assess the outcome of the Commission's work and its benefit for citizens.	➤ The Commission will analyse the existing objectives and indicators in the context of a peer review by 'families' and with the support from the central services, to review how objectives and indicators can become more operational tools for management within the Commission.	SG, BUDG and services concerned, continuous task, starting from the 2006 annual management plans and the 2005 annual activity reports.	Ongoing. The peer review exercise has been launched in 2005. Three different phases are foreseen. The first phase aiming at establishing a repository of standard objectives and indicators for the two horizontal ABB activities has been completed in 2005. The second phase, started in 2006, will aim at producing more focussed and far-reaching objectives and indicators for spending programmes, including indicators that have a direct link to legality and regularity.
6. Reinforcing annual activity reports to ensure better accountability.	➤ Commission departments should give, where needed, a fuller explanation of their environment and the risks faced, including risks that remain even after mitigating measures have been taken. The impact of their environment and risks on management and controls should be made more explicit and in most cases fuller	All services in the 2005 annual reporting exercise.	Continuous action. Guidelines on the annual activity reports for 2005 indicate that reports should always disclose the materiality criteria used and include overall conclusions on the combined impact of the reservations on the declaration as a whole. The 2005 annual activity reports better underpin the assurance contained in the attached declarations signed by the delegated authorising officers. Reservations are more precise and reasoned than in previous years and explanations are also often given on the overall

	explanations should be given on the overall impact of reservations on the reasonable assurance. ➤ A reflection on the possible simplifications to strike a better balance between policy results and internal control and financial management issues at the level of both annual activity reports and synthesis will be held in the second half of 2005. ➤ Guidance to the services will be reinforced and will integrate all instructions referenced in several Commission decisions in one global set. ➤ With the assistance of central services, a common methodology to determine the materiality threshold of weaknesses, including systemic ones, will be prepared for the 2005 annual activity reports and in order to assess more coherently their impact on the reasonable assurance for 'families' of <i>shared management, research and internal policies</i>.	SG, DG BUDG and all services before end 2005. Services concerned, SG and DG BUDG by November 2005.	impact on the reasonable assurance. Action completed. Guidelines for 2005 AARs introduced several simplifications and consolidation in order to strike for a better balance between policy results and management issues. For the first time, a synthesis of the policy achievements in 2005 has been established and presented to Parliament in March with the annual policy strategy for 2007. Action completed. Guidelines for 2005 AARs have been reinforced and stabilised, and contain all relevant instruction stemming from other sources (e.g. Commissioners' Code of Conduct). Action ongoing. Work was undertaken in 2005, and pursued in 2006 prior to the adoption of the annual activity reports on assessing materiality of weaknesses (including systemic one) and encouraging a common methodology and materiality thresholds by 'families' of services adapted to their specific situation. Preliminary conclusions on materiality and on determination of reservations impact were introduced into the guidelines for 2005 AARs. A common methodology has been agreed for shared management family and proposed for the research family. Progress was also made by the internal policies family.
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Financial management and reporting			
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2005
7. Enhancing accountability by establishing a comprehensive integrated internal control framework in line with the requirements set out in the ECA's opinions on 'single audit'.	➤ A Roadmap setting out the action which has to be taken by the Commission and by the Member States' administrations to bridge the gap identified between the current control framework and the defined features of the integrated internal control framework will be adopted by the Commission and submitted to the other institutions concerned for approval.	DG BUDG and other services concerned by the end of 2005.	Action completed, objective ongoing. Following the adoption by the Commission of the roadmap towards an integrated internal control framework in June 2005, the Commission services have assessed the gap between the existing control framework and the internal control principles set out by the Court of Auditors in its opinion 2/2004. Based on the work carried out by its service and the synthesis established by the Commission, a panel of Member States' experts, the ECOFIN Council, the Court of Auditors and the Commission services have validated the Commission analysis and proposed practical solutions to the weaknesses observed. The action plan towards an integrated internal control framework, adopted by the Commission in January 2006 [COM(2006) 9 and SEC(2006) 49], summarises the conclusions of this work and identifies the main actions to be undertaken.

8. Improving efficiency and strengthening accountability by further harmonisation and better focusing of ex post controls.	➤ Further attempts have to be made to achieve closer harmonisation of methodology and definition of common ex-post control strategies, at least at the level of 'families' of services operating in the same budget area. Specific proposals and possible action in this respect will be progressively explored and the next synthesis report will clearly identify the progress made and remaining weaknesses to be addressed.	All services with the assistance of DG BUDG, continuous action.	Continuous action. Guidelines were issued in 2005 by the ex-post control network on a common terminology for ex-post controls, a template for ex-post control reports and on the classification of errors and their impact on the reasonable assurance. Efforts were also made in the services to reinforce strategy and methodology for ex-post controls.
9. Increasing responsibility and accountability at the level of the Commission as a whole by the signing-off of the accounts by the Accounting Officer.	➤ Under the proposed amendments to the Financial Regulation submitted to the legislator, the Accounting Officer will sign off the accounts.	Accounting Officer by the entry into force of the amendments to the Financial Regulation.	Ongoing. The proposed revision of the Financial Regulation, due to enter into force by 1 January 2007, contains a provision in this respect.
10. Making financial management more efficient by applying simplification measures.	➤ Services are called upon to make use of the simplification measures to be introduced by the amended rules implementing the Financial Regulation, in particular concerning small value contracts and grants and proportionate controls based on the analysis of risks. In the coming years, any further simplification introduced by the revised financial regulation will have to follow this process.	All services concerned as from the entry into force of the amendments to the rules implementing the Financial Regulation.	Ongoing. Simplification measures contained in the amendments already adopted are being implemented, in particular by services managing grants and contracts of a limited amount. The basic acts proposed under the next generation of programmes (2007-2013) and the further amendments to the financial rules foresee principles (e.g. proportionality) and measures (e.g. concerning lump sum payments and scales of unit costs) that should allow further simplification.

Human resources			
Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2005
11. Simplifying procedures to increase both efficiency and customer satisfaction.	➤ Specific measures will be presented to simplify and improve the Commission's staff appraisal system (Career Development Review).	DG ADMIN by the end of 2005.	Ongoing. First simplification measures to the Commission's staff appraisal system were put in place for the 2006 staff appraisal exercise. In the longer term, the system could be upgraded in order to better align two objectives, namely the search for optimum performance and career development for staff while retaining the positive components of the current system.

12. Aligning resources and needs better to make sure that staff have the skills and qualifications necessary to perform their duties, in particular in areas such as financial management, audit, science, linguistics and IT.	➤ Following the conclusions of the evaluation on the Strategic Alignment of Human Resources, an action plan will be devised by the end of 2005. ➤ Provision of specialised training and measures to improve the recruitment procedures and, in particular in areas where a shortage of skilled staff is identified. ➤ An analysis of human resource devoted to internal control will be progressively carried out as requested by the Court of Auditors	DG ADMIN, by the end of 2005. DG ADMIN, EPSO, ongoing tasks. All services, based on guidelines to be drawn up by DG ADMIN, SG and DG BUDG by the end of 2005.	Ongoing. As a result of the evaluation on the strategic alignment of Human Resources (HR) Management, DG ADMIN launched an initiative to improve the HR Management in the Commission. Concrete results are plans for an HR professional training programme or modules as well as ideas for certification in this area. One of the groups also identified HR good initiatives and best practices (Induction, Knowledge management, staff surveys, communication, flexi-time arrangements, etc). Other concrete results were further improvements to the HR database system for staff (Sysper2) and the establishment of the e-CV system, which is a database development containing the professional profiles of Commission staff. Ongoing. On the basis of the specific requests by services DG ADMIN coordinates and regularly updates the input of the Commission to the planning of selection procedures by EPSO. As regards specialised training DG ADMIN is constantly adjusting its training planning to the identified needs. In 2005, the area “e-Commission” was maintained, while training courses in the finance, budget and audit field were added to the priority training domains. Ongoing. The Job Study finalised in June 2005 showed that the data in the Job Information System (JIS) needed restructuring in order to permit data searches that would give the required results. Therefore, work continued in to develop an approach which would allow the institution to conduct better analysis of the allocation of human resources. This approach foresees that the updating of data in JIS starting with the job descriptions of staff involved in management and control issues will be pursued through the Heads of Human Resources network. The first results will be available in 2006.
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Annex 3

Trends in services' reservations

This Annex sums up the reservations expressed by Commission services. In services' 2005 annual activity reports, 31 reservations were expressed (after 32 in 2004 and 49 in 2003).

The table set out below gives an overview of the reservations issued by the services in 2003, 2004 and 2005 by 'families' of services.

DG	Reservations 2005		Reservations 2004		Reservations 2003	
AGRI	2	1. Preferential import of high quality beef ("Hilton" beef) – risk of non-respect of product definition; 2. Insufficient implementation of IACS in Greece	3	1. EAGGF Guidance: MS control systems 2. IACS in Greece; 3. "Hilton" beef	5	1. EAGGF Guidance programmes; 2. International Olive Oil Council; 3. Import of Basmati rice; 4. IACS in Greece; 5. "Hilton" beef
REGIO	3	1. Management and control systems for ERDF in UK-England; 2. Management and control systems for ERDF in Spain; 3. Management and control systems for the Cohesion Fund in Spain	3	1. Management and control systems for ERDF in one Member State; 2. Management and control systems for the Cohesion Fund in one Member State - 2000/06; 3. Management and control systems of ISPA in one candidate country	5	1. Management and control systems for ERDF in Greece - 2000/06; 2. Management and control systems of URBAN & INTERREG - 2000/06; 3. Management and control systems for ERDF in Spain - 2000/06; 4. Management and control systems for the Cohesion Fund in Greece, Spain and Portugal - 2000/06; 5. Management and control systems of ISPA
EMPL	1	1. Systèmes de gestion et de contrôle des programmes opérationnels en Angleterre (UK)	1	1. European Social Fund - Member states' management and control systems of some operational programmes	1	1. European Social Fund - Member states' management and control systems
FISH	0	0	1	1. FIFG: Insufficient implementation of management and control systems for two national programmes in one Member State	1	1. FIFG expenditure. Analysis of the Management and Control systems not yet completed for all Member States
JRC	1	1. Status and correctness of the closing balance	1	1. Cash flow - competitive activities	1	1. Cash flow, assets and liabilities from competitive activities

RTD	1	1. Exactitude des déclarations de coûts et leur conformité avec les clauses des contrats de recherche du 5ème PCRD	1	1. Frequency of errors in shared cost contracts	1	1. Frequency of errors in shared cost contracts
INFSO	2	1. Errors relating to the accuracy and eligibility of cost claims and their compliance with the provisions of research contracts under FP5; 2. Allocation of research personnel	2	1. Frequency of errors in shared cost contracts; 2. Research staff working on operational tasks	2	1. Frequency of errors in shared cost contracts; 2. Research staff working on operational tasks
ENTR	2	1. Errors relating to accuracy and eligibility of costs claims and their compliance with the provisions of research and eligibility of costs claims and their compliance with the provisions of the research contracts under the 5th Research Framework Programme; 2. Uncertainty regarding cost claims of the European Standardisation Organisations	2	1. Frequency of errors in shared-cost contracts in the research area; 2. Uncertainty regarding cost claims of the European Standardisation Organisations	2	1. Frequency of errors in shared-cost contracts in the research area; 2. Financial management of conferences organised under the Innovation Programme
TREN	2	1. Risque de surpaiement concernant le 5ème Programme Cadre; 2. Sécurité nucléaire	4	1. Frequency of errors in shared cost contracts; 2. Contractual environment of DG TREN LUX; 3. Nuclear safety; 4. Inventory in nuclear sites	6	1. Frequency of errors in shared cost contracts; 2. Burden of the past; 3. Contractual environment of DG TREN Luxembourg; 4. Expertise for control of nuclear security; 5. Nuclear safety; 6. Verifications under Art. 35 of the Euratom Treaty
EAC	2	1. Insuffisante assurance quant à la gestion à travers les agences nationales 2. Insuffisante assurance quant à la fiabilité et l'exhaustivité des montants inscrits au bilan de la Commission et au compte de résultat économique	0	0	3	1. Burden of the past (observation in 2002 AAR); 2. On the spot controls (observation in 2002 AAR); 3. Implementation of Art. 35 of FR Implementing Rules
ENV	0	0	0	0	2	1. Potentially abnormal RAL; 2. Grants- Eligible costs
SANCO	1	1. Health crisis management (crisis management tools and systems, in particular IT systems, not adapted to support highly critical activities in case	0	0	0	0

		of a Public Health crisis).				
JLS	2	1. Insufficient number of ex-post controls missions and lack of a fully-fledged methodology in the area of direct management in 2005; 2. Management and control systems for the European Refugee Fund for the UK for 1002-2004	2	1. Faiblesse des systèmes de gestion du Fonds européen pour les Réfugiés au Royaume-Uni et au Luxembourg; 2. Mise en œuvre encore incomplète des contrôles ex-post sur place	0	0
ESTAT	0	0	2	1. Errors in the declaration of eligible costs in relation to grants; 2. Insufficient number of ex-post controls carried out in 2003	3	1. Errors in the declaration of eligible costs in relation to grants; 2. Weakness in project management procedures; 3. Insufficient number of ex-post controls carried out in 2003
ECFIN	0	0	0	0	0	0
TRADE	0	0	0	0	0	0
AIDCO	0	0	0	0	1	1. Partnership with an NGOs association
ELARG	1	1. Legal status and liability of contractual partner in the framework of implementation of EU EU contribution to UNMIK Pillar IV in Kosovo	1	1. Gaps in Roumania's and Bulgaria's capacity to manage and implement increasing amounts of aids	3	1. Inherent risk in decentralised systems; 2. Gaps in systems and transaction audits; 3. Uncertainties regarding claims of financial intermediaries
ECHO	0	0	1	1. Non respect of the contractual procurement procedures by a humanitarian organisation for projects funded by ECHO	0	0
DEV	0	0	0	0	0	0
RELEX	2	1. Insuffisances du contrôle et de l'information de gestion ; 2. Insuffisances de la gestion administrative en délégations, et principalement au niveau de la mise en place et du respect des circuits financiers (1) Les réserves exprimées par la DG RELEX s'inscrivent dans la continuité des réserves émises lors des deux exercices précédents ; leur formulation a été affinée.	2	1. Internal control standards in Directorate K; 2. Internal control standards in Delegations	2	1. Internal control standards in Directorate K; 2. Internal control standards in Delegations

TAXUD	1	1. Trans-European networks for customs and tax: availability and continuity	0	0	1	1. Monitoring of the application of the preferential treatments
MARKT	0	0	0	0	0	0
COMP	0	0	0	0	0	0
COMM	1	1. Supervision (ex-post controls on grants)	2	1. Relays and networks - grands centres; 2. Functioning of Representations EUR-15	3	1. Relays and networks; 2. Representations; 3. Copyrights - press cuts
ADMIN	0		0	0	0	0
DIGIT	1	1. Business continuity risks due to inadequacy of the data centres building infrastructure	0	0		-
PMO	1	1. Council's antenna for sickness insurance	1	1. Council's antenna for sickness insurance	2	1. Council's antenna for sickness insurance; 2. Paul Finet Foundation
OIB	1	1. Deficiency in OIB's contracts & procurement management	0	0	1	1. Lack of long term planning of the buildings policy.
OIL	0	0	0	0	0	0
EPSO	0	0	0	0	0	0
OPOCE	0	0	0	0	0	0
BUDG	2	1. Accrual accounting for the European Development Fund; 2. Accrual accounting of the Community Budget - three local systems	2	1. Accrual accounting for the Community and the EDF budgets; 2. Subsystems of SINCOM 2: accesses control	3	1. Accrual accounting; 2. Syncom subsystems; 3. Accounting management of European Development Fund
SG	0	0	0	0	0	0
BEPA	1	1. Weak general internal control environment	0	0	0	0.
SJ	0	0	0	0	0	0
SCIC	0	0	0	0	0	0
DGT	0	0	0	0	0	0
IAS	1	1. Audit of community bodies (traditional agencies)	1	1. Audit of Community agencies	1	1. Audit of Community agencies
OLAF	0	0	0	0	0	0
TOTAL	31		32		49	

Rapport sur les procédures négociées – exercice 2005**1. BASE LEGALE**

L'article 54 des Modalités d'Exécution (ME) du Règlement Financier (RF) établit l'obligation, pour les ordonnateurs délégués, de recenser les marchés faisant l'objet de procédures négociées. En outre la Commission doit annexer au résumé des Rapports Annuels d'Activités (RAA) visé à l'art. 60.7 du RF un rapport sur les procédures négociées.

2. METHODOLOGIE**2.1. Les données concernant le nombre des marchés suivant une procédure négociée et le nombre des marchés toutes procédures confondues, ainsi que la valeur de ces marchés, sont fournies par les DG, Services ou Offices concernés.**

Pour la première fois dans cet exercice de recensement, l'outil informatique « ABAC-Contracts » a été mis à la disposition des Services. Cette base de données a été mise en exploitation au début de l'exercice budgétaire 2005 et les Services sont tenus d'y intégrer l'ensemble des contrats signés à partir du 1^{er} janvier 2005.

2.2. Une distinction a été faite entre les 37 DG, Services et Offices qui n'octroient pas d'aide extérieure, et les 3 DG (AIDCO, ELARG et RELEX) passant des marchés dans le cadre d'actions extérieures (base légale différente: Chapitre 3 du Titre IV de la Deuxième Partie du RF) ou pour compte de la Commission mais en dehors du territoire de l'UE.

En effet, ces 3 DG présentent des aspects particuliers en ce qui concerne la collecte des données (déconcentration des services, absence d'accès direct de certaines délégations à ABAC), le nombre total (très élevé) de marchés passés, l'application d'autres seuils pour les procédures négociées, ainsi que la possibilité de recours à la procédure négociée dans le cadre du mécanisme de réaction rapide (urgence impérieuse). Pour ces raisons, les marchés de ces DG nécessitent une approche statistique distincte.

3. RESULTATS GLOBAUX DU RECENSEMENT**3.1. Les DG, Services ou Offices en général**

Sur base des réponses reçues des 37 DG, Services ou Offices, les statistiques suivantes ont été établies: 454 marchés négociés pour une valeur totale de 295 087 502 euros ont été attribués sur un ensemble de 2.191 marchés toutes procédures confondues, pour une valeur totale de 945 627 435 euros.

La proportion moyenne pour l'Institution du nombre de procédures négociées par rapport au nombre de marchés passés s'élève dès lors à 20,7%. La moyenne de l'Institution calculée par rapport au montant des marchés attribués (au lieu du nombre de marchés) s'élève à 31,2%.

Il a été considéré que la proportion pour une DG/Service doit être estimée comme "notablement plus élevée que la moyenne enregistrée au niveau de son Institution", quand elle dépasse de moitié la proportion moyenne, c'est-à-dire lorsqu'elle est supérieure à 31,1%. Ainsi, 7 DG, Services ou Offices sur 37 ont dépassé le seuil de 31,1% en 2005.

Par ailleurs, l'évolution par rapport à la moyenne des deux exercices précédents (2003-2004) pour l'ensemble de ces DG est la suivante: augmentation de 4,1% en nombre de procédures et de 20% en montant. Ainsi, 8 DG présentent une augmentation interannuelle qui peut être considérée comme sensible par rapport aux années précédentes (supérieure à 10%).

3.2. Les DG opérant hors Union Européenne

Une DG n'a pas fourni les données ventilées de la manière adéquate, ce qui a empêché d'établir un calcul global pour ce groupe de DG. Sur la base des réponses reçues des 2 autres DG concernées, les statistiques sont les suivantes : 295 marchés négociés pour une valeur totale de 177.436.732 euros ont été attribués sur l'ensemble de 3 102 marchés toutes procédures confondues, pour une valeur totale de 1 316 129 953 euros. La proportion moyenne pour ces 2 DG du nombre de procédures négociées par rapport au nombre de marchés passés s'élève dès lors à 9,5%. La moyenne des 2 DG calculée par rapport au montant des marchés attribués (au lieu du nombre de marchés) s'élève à 13,5%.

4. ANALYSE DES JUSTIFICATIONS ET MESURES CORRECTIVES

Quatre catégories de justifications sont évoquées par les DG ayant dépassé les seuils susmentionnés. En premier lieu, les **déviations statistiques** résultant d'un faible nombre de marchés passés (toutes catégories confondues) ou de l'utilisation intensive de contrats cadres (ce qui, en intégrant dans un seul contrat « cadre » un nombre élevé de contrats « spécifiques », réduit le nombre total de marchés passés) par les DG concernées. Ces situations peuvent avoir pour conséquence d'augmenter le pourcentage de procédures négociées par réduction de la base applicable (ensemble de marchés, toutes catégories confondues). Dans ces cas, un pourcentage élevé n'équivaut pas nécessairement à un recours excessif aux procédures négociées.

Une deuxième série d'arguments met en évidence des **situations objectives du secteur d'activité économique** où le nombre d'opérateurs (candidats ou soumissionnaires) peut être fort limité, voire en situation de monopole. Il arrive de ne pas avoir d'offres suite à un appel d'offres avec publication. Des situations de captivité technique peuvent également apparaître. Ceci est notamment le cas de certaines prestations dans le domaine informatique et de la maintenance des immeubles. En particulier, l'augmentation de la proportion de procédures négociées, mesurée en montant, relève d'un nombre limité de marchés se trouvant dans cette situation.

En troisième lieu, les **marchés complémentaires**, lorsqu'ils ne peuvent pas être techniquement ou économiquement séparés du marché principal (initial), sont évoqués.

Finalement, certaines procédures négociées sont expressément prévues comme des **procédures ordinaires**, non spéciales, par les dispositions applicables (services juridiques et services de l'annexe II-B de la directive 2004/18/CE).

Plusieurs mesures sont proposées par les DG pour infléchir la situation. D'une part, le **renforcement de leur structure interne**, soit par le transfert de ressources internes vers l'activité contractuelle, soit par l'introduction ou l'amélioration des instruments de contrôle ; d'autre part **l'amélioration de la formation du personnel et l'établissement de documents types**. Les procédures de marchés devront être intégrées dans la revue régulière sur l'efficacité du contrôle interne, notamment l'analyse de la dépendance éventuelle envers certains contractants. En tout état de cause, les procédures et contrôles doivent être correctement documentés pour assurer la piste d'audit.