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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS**

Synthesis of the Commission's management achievements in 2007

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1. INTRODUCTION

The EU budget is a key tool for delivering the Union's policies, and the effectiveness of EU spending can therefore have an important influence on whether the EU matches the expectations of its citizens. The Commission needs to be in a position to demonstrate that public funds are well targeted and well managed, and be transparent about any cases where high standards cannot be assured. In line with Article 274 of the EC Treaty, the Commission takes overall responsibility for implementing the EU budget.

- The operational implementation of the budget is delegated to the Directors-General, who are responsible for the sound financial management of resources and for running effective and efficient control systems. As "authorising officers by delegation" (AOD), they report on the performance of their duties in the form of an **annual activity report**¹ (AARs), which is the main vehicle through which they express their **accountability to the College**. The declaration of assurance signed by the Directors-General, included in their AAR, focuses on the legality and regularity of financial transactions. The AARs also go beyond financial matters and include a review of policy results, as well as a comprehensive assessment of internal control systems.
- It is the responsibility of Directors-General to inform their Commissioner(s) of any difficulties encountered in executing their tasks during the year – an obligation which goes beyond the purely financial aspects. The content of the AARs is discussed with the Commissioner(s) before signature by the Director-General.
- **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 made in their AARs. It puts in place measures to remedy any weaknesses identified. The Commission is committed to making further progress towards a positive "declaration of assurance" by the European Court of Auditors and instructs its services to implement in full the measures outlined in this document.

¹ Article 60 of the Financial Regulation.

2. SETTING UP GOOD QUALITY ANNUAL ACTIVITY REPORTS

2.1. Towards a clearer presentation

Progress in the quality and coverage of the AARs has been made since their introduction in 2002. On the strength of experience from previous years and encouraged both by the European Court of Auditors and the Internal Audit Service's audit on the assurance process, further efforts were made in 2007 to:

- **Follow up on past reservations.** The Secretariat General and DG Budget monitored all the action plans designed to address past reservations.
- **Adapt control strategies to specific control environments.** Control strategies need to be adapted to the specific control environment of each activity, as they are the basis for the declaration of assurance and any reservations. With the aim of presenting the control strategies in a harmonised way in the AARs, internal control templates were developed and used by almost all services.
- **Improve the coherence and clarity of the reports.** More precise guidance was given to the services, and largely followed, to ensure a more consistent approach within the Commission and within families of Directorates-General, thereby following up largely on commitments made in the 2006 Synthesis Report. It notably became compulsory for AODs to disclose the indicators used to ensure legality and regularity of transactions. AODs proposing no reservations for shortcomings pinpointed by the Court of Auditors in its annual report were asked to **explain the reasons in their reports**. To make the individual reports more complete and more internally consistent, AODs were invited to describe the "**building blocks**" on which they base their assurance.

2.2. Towards a stronger review process

Although ultimately the Director-General remains solely responsible for the AAR and for any reservation(s) made, the process by which the draft reports and reservations are reviewed by the Secretariat General and DG Budget has also been strengthened:

- As in previous years, "**peer review**" meetings took place, organised by families of Directorates-General.
- The "peer review" exercise was extended to cover **past reservations** that the Directors-General intended to lift, to ensure that all such decisions were well founded and duly explained.
- For the first time, the "peer review" also examined **all budget areas which were considered by the Court of Auditors as being unsatisfactory** in its annual reports for 2005 and 2006, to ensure a consistent response.
- The general consistency of the reports with **Court of Auditors' findings and internal audits** was checked, especially in cases when a delay in the implementation of recommendations occurred.

2.3. Conclusions

- The Commission notes that progress has been made in the presentation of the AARs, which generally attained a satisfactory level, but notes that, in specific fields, further improvements can be made.
- Directors-General express a management opinion based on information which includes Commission's own audit work, reports and observations of the Court of Auditors and where appropriate the results of Member States' controls. While the Court expresses an annual audit opinion on the accounts and the legality and regularity of the underlying transactions, the Directors-General's opinion focuses on whether funds have been used for their intended purpose, taking account of the multi-annual nature of controls,
- While the "peer review" exercise was useful, more needs to be done to improve the AAR process in certain areas, notably to ensure consistency between services. The Court of Auditors' practice of rating the reports by the extent to which they can be relied on as audit evidence has provided an impetus for improvement.
- To promote further improvement, in particular as to the consistency and clarity of the reports, the Secretariat General and DG Budget will make early contact with services each year, to discuss the state of play on reservations expressed in past AARs. In addition, the "peer review" process as currently organised will be enriched with bilateral meetings with selected services based on positions outlined in draft AARs.
- The Secretariat General and DG Budget will also provide further guidance to promote consistency in the treatment of reputational risks and to address more clearly the link between error rates, materiality and reservations.

3. ASSURANCE ON LEGALITY AND REGULARITY OF TRANSACTIONS AND RESERVATIONS MADE BY THE DIRECTORS-GENERAL

Having examined the AARs, in particular the declarations signed by each Director-General, the Commission notes that **all Directors-General reported having reasonable assurance** that the resources assigned to its activities have been used for their intended purpose and in accordance with the principles of sound financial management, and that the implemented control procedures give the necessary guarantees concerning the legality and regularity of the underlying transactions. Nevertheless, **a number of declarations were qualified with reservations**. The Directorates-General concerned have indicated that they are committed to dealing with these weaknesses through clearly defined action plans. Despite those weaknesses, none of the services concluded that they prevent them from providing overall "reasonable assurance".

The number of reservations for 2007 was slightly lower than for 2006 (17 compared to 20), continuing the downward trend of earlier years. In total, 13 Directors-General expressed reservations for 2007 (15 for 2006), with four having two reservations. The scope of individual reservations was in some cases expanded, covering a greater number of Member States or programmes. Nine reservations made for 2006 were

lifted, but eleven were recurrent reservations. The majority of the reservations entered for 2007 concerned either the quality of Member States' control systems or errors detected at beneficiary level. An overview of the reservations made for 2007 is available in Annex 2.

3.1. Structural Funds

Structural measures represent one of the core policies of the Union, implemented with the Member States under "shared management". A detailed assessment of the Member States' control systems was presented in the AARs, specifying the reliance that could be placed on them. In 2007, the Directors-General in charge of the Structural Funds agreed that, whenever significant deficiencies have been identified in programmes or Member States, they systematically take it into account when calculating whether the sum of the "amounts at risk" reaches the materiality criteria – unless there is reliable audit evidence that an action plan to remedy the weaknesses is being implemented by the national authorities and first results have been produced. This approach, which follows the Court of Auditors' 2006 report, strengthens the basis of assurance of these Directors-General. It also led to an increase in the number of programmes or Member States subject to a reservation in 2007 compared to 2006:

- Concerning the European Regional Development Fund, the Director-General for Regional Policy entered a reservation for ten Member States (the Czech Republic, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Poland, Slovakia, Spain) and for 51 INTERREG programmes. He also expressed a reservation on management of the Cohesion Fund in five Member States (Bulgaria, the Czech Republic, Slovakia, Hungary and Poland).
- As regards the European Social Fund, the Director-General for Employment, social affairs and equal opportunities issued a reservation for eight Member States (Spain, the United Kingdom, France, Italy, Slovakia, Portugal, Belgium and Luxembourg).

Several measures were taken in 2007 and early 2008 to clarify and strengthen the respective roles of the Member States and the Commission under shared management.

- The Commission issued **guidance** to Member States on the right level of corrections to apply in the case of irregularities relating to public procurement in co-financed projects, as well as, for the 2007-2013 period, extensive guidelines on the compliance assessment procedure, on the provision of a national audit strategy and on audit sampling, in order to promote coherence of testing done by Member State's audit authorities.
- The Commission adopted a policy of launching immediately a formal procedure for **suspension of payments and financial corrections** where serious systems deficiencies are identified by audits. For example, payments were suspended for 12 programmes in England in April 2007. There are currently formal procedures underway for 54 programmes and 60 Cohesion Fund projects for suspension of payment and financial correction. In October 2007 the Commission for the first

time provided aggregate figures for financial corrections undertaken at national level through withdrawals and recoveries by the Member States².

- For the first time, **annual summaries** of available audits and declarations in the field of shared management had to be provided by Member States, as required by the revised Financial Regulation. For the structural actions policy area, by the end of April 2008, all Member States but one (Germany) had presented annual summaries which complied, or mainly complied, with the minimum requirements of the regulation. However, the absence of overall analysis or conclusions in many cases meant that the added value was limited, due at least partly to the novelty of the requirement. The Commission closely supervises the annual summaries process to ensure that all Member States submit a summary and that all meet the minimum requirements. Letters have been sent in the event of non-transmission or non-compliance and the Commission has begun legal proceedings against Germany.

The Commission agrees that the Court' of Auditors' findings on Structural Funds demonstrate an unacceptably high error rate. Its commitment to ongoing and new actions was formalised by the adoption of the "**Communication on an action plan to strengthen the Commission's supervisory role under shared management of structural actions**"³. The Commission will provide the European Parliament with quarterly reports on the implementation of the action plan, including information on corrections and recoveries imposed by the Commission. In addition, the Commission will provide a progress report on the action plan in October 2008 and a final report in January 2009.

The Commission has shown its strong political commitment to reducing the error level and applying suspension of payments and financial corrections to show that the structural action budget is being managed rigorously.

The Commission is convinced that the requirement for annual summaries will make Member States more accountable for the use of Structural Funds, provided that they follow the recommendations to improve the quality. This process will help the Commission's own assurance.

3.2. Agriculture

Support for agriculture and rural development is implemented in shared management with the Member States through a comprehensive, four-level management and controls system. It forms the basis of the reasonable assurance of the Director-General for Agriculture and Rural Development on the legality and regularity of underlying transactions in this area. The substantive rules governing the granting of agricultural support under both the EAGF and the EAFRD have been consolidated and simplified. Direct payments presently account for some 84.5% of total EAGF expenditure and are managed and controlled by the Integrated Administration and Control System (IACS). As the Court of Auditors has acknowledged, this is an effective system for limiting the risk of error or irregular expenditure, provided it is

² Annex to the Annual Report on the Structural Funds - SEC(2007) 1456, http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/annex/2006_sf_annex_en.pdf

³ COM(2008) 97.

properly applied. Statistical information received from Member States in 2007, covering nearly 90 % of EAGF and EAFRD expenditure, indicate an overall error rate for agricultural expenditure below the level of materiality.

Moreover, in 2007, a number of new instruments were fully applicable for the first time. This includes, in particular, the statement of assurance to be given by Member States' paying agencies, the annual summary (synthesis report) to be provided by the national coordinating bodies and the obligation of the certification bodies to verify and validate inspection statistics and post-payment checks. Member States have in general complied with their new legal obligations.

The reservation on IACS in Greece has been in force since 2002. The Greek action plan has delivered results but the implementation of a fully operational Land Parcel Identification System, foreseen for the end of 2008, is still outstanding. The amount at risk is not material but the overall issue remains material because of the reputational risk for the Commission.

The second reservation made by the Director-General for Agriculture and Rural Development concerns rural development. Preliminary data from Member States indicate that the error rate in rural development (particularly in agri-environmental measures) is higher than in other parts of agricultural expenditure. This higher rate seems to be due to the complexity of these measures rather than weaknesses in control systems. For these reasons, the Commission considers that the tolerable risk of error could be set above 2 %. Due to the preliminary nature of these data, it is however not possible to establish an exact error rate. It is therefore not possible to conclude whether the error rate for rural development is below materiality or not which is why the Director-General made a reservation on this issue.

The Commission will continue to closely monitor that the Greek authorities take all measures necessary to implement the action plan concerning IACS. The Commission has already taken mitigating action to reduce the error rate in rural development for the programming period 2007-2013. The Commission will also examine costs and benefits of controls in this area, in particular for agri-environmental measures, in order to address the issue of residual risk. .

3.3. External actions

The Court of Auditors' 2006 report stated that the project implementing organisations were not operating satisfactorily and felt that further efforts were required in terms of effective implementation of systems and supervision.

The Director-General of the EuropAid Cooperation Office, in charge of external assistance, took a number of measures to strengthen his control strategy. The number of audits was significantly increased, in particular verification of aid spent by International Organisations, which rose from 7 in 2006 to 50 in 2007. A total of 650 audits had been launched by year end. New terms of reference for expenditure verifications of grant contracts, as well as for financial and system audits launched by the Commission, were issued. These further reinforce and systematise the controls on the main risk areas identified by the Court. The Director-General was confident that the control system adequately mitigated the risks and did not issue a reservation.

To enhance the traceability and visibility of EU funds channelled through UN and other multilateral donor trust funds, the Commission has taken a number of measures over recent years, including improved visibility guidelines, more verification missions, more detailed reporting requirements and improved compliance analysis of the UN's financial control standards.

The Commission will continue to strengthen its control strategy in the field of external assistance and to deepen both its reflection on the cost of controls, and its dialogue with the Court of Auditors.

It will also continue its efforts towards greater transparency on end beneficiaries, provided that the rules on personal data and security requirements are followed.

Efforts will continue to make better use of and share audit results within the RELEX family.

The Commission will continue monitoring and improving implementation of the framework agreements on financial and contractual procedures signed, inter alia, with a number of UN agencies⁴ and the World Bank⁵.

3.4. Pre-accession

PHARE

Under the Extended Decentralised management System (EDIS), the Commission confers management powers on the implementing agencies of the beneficiary country. Monitoring has indicated that irregular contracts and payments may have been made by two agencies implementing PHARE in Bulgaria. Payments were suspended and a reservation was made on this issue which presents a risk for sound financial management and affects the reputation of the Commission.

The Commission has indicated 25 corrective actions that the Bulgarian authorities need to take to address weaknesses in the control systems. Targeted on-the-spot controls will be carried out in 2008. Vigorous action will be taken to prevent similar shortcomings in other countries in the future.

SAPARD

The Court of Auditors concluded that for 2006 the situation regarding SAPARD was not satisfactory. The Directorate-General for Agriculture, in charge of SAPARD, is following up closely on the Court's findings. It however took the view that the materiality criteria for making a reservation for 2007 were not met.

⁴ Financial and Administrative Framework Agreement/ FAFA.
⁵ Trust Fund and Co-Financing Framework Agreement.

3.5. Internal policies

Research

- The Research Directorates-General made a reservation for 2006 on **Framework programme 5** due to errors in beneficiaries' cost statements. However, there is no reservation for 2007 as this programme is now gradually winding down and the relative weight of the payments made is less significant. Furthermore, in line with the action plan on FP5, follow up of audit results through recovery orders was vigorously pursued.
- For **Framework programme 6**, the Directorates-General have defined a common audit strategy for 2007-2010. It aims at assessing the legality and regularity of transactions with representative audit results (random sampling) and at reducing the level of error by identifying and correcting errors in the cost declarations of the largest beneficiaries, complemented by a risk-based sample. The strategy was fully launched in 2007, with 377 ex-post audits carried out. 2007 was the first year of implementation of the multi-annual strategy and the process of extrapolation of audit results to non audited contracts with the same beneficiary was being set up. Against this background and in the light of error rates above 2%, the services decided to qualify this year's declaration of assurance with a reservation on the accuracy of cost claims for FP6.
- For **Framework programme 7**, calls for proposals have been launched and so far only pre-financing payments have been made. Important actions have been introduced to reduce the risk of error: 'agreed-upon procedures' have been developed, which require certifying auditors to perform a compulsory set of procedures and report in a mandatory format. The ex-ante controls are being reinforced by introducing the possibility of ex-ante audit certification of the beneficiary's accounting methodology. No reservation was made.

The Commission has made considerable efforts to improve its management of research funds within the applicable legal and financial framework. Although reservations were expressed by the Directors-General on Framework programme 6, one of the main objectives of the common multi-annual audit strategy is to reduce the overall level of risk to below materiality.

Furthermore, services will continue the implementation of Framework programme 7, so that it can take full advantage of simplification in the new legal framework.

Justice, Freedom and Security

Two reservations were made for 2007 concerning the implementation, under shared management, of the European Refugee Fund. One is an extension of a reservation made in 2006 which concerns weaknesses in the control systems for the management of this Fund in Italy. The responsibility for solving this issue lies mainly with the Italian authorities, and the Directorate-General is following it closely. It should be noted that while the amount at risk concerns a significant part of the budget for Italy, its impact is limited in terms of the overall JLS budget for 2007.

Furthermore, the Directorate-General reported that its sectoral legislation for European Refugee Fund II provided only a limited basis for monitoring and supervisory work and that the monitoring relied to a large extent on the Commission's own control strategy (monitoring missions and assessment of control systems). Because it had not carried out on-the-spot controls in 14 Member States in 2007, the Director-General decided to make a reservation because of the limited assurance he had on FER II in these Member States.

The Commission will take action to strengthen its assurance on the management of the European Refugee Fund II by the Member States in 2008. A risk analysis will serve as a basis for making further visits and guidance to the Member States will be strengthened. For 2008-2013 a new basic act will cover the European Refugee Fund III, addressing issues arising from the previous Fund.

Other policy areas

Difficulties linked to cost claims were encountered by the **Directorate-General for Environment**, which made a reservation because of the increased percentage of errors detected by ex-post controls.

Two further reservations, already made in 2006, were maintained for 2007:

- The **Director-General for Enterprise and Industry** expressed a reservation because two beneficiaries of grants, involved in European Standardisation, do not have appropriate cost reporting systems.
- The **Director-General for Economic and Financial affairs** made a reservation because of a possible failure in the internal control system of an external body entrusted with indirect centralised management.

Measures were taken in 2007 in each of these areas. Actions in 2008 will be pursued vigorously, including better information to beneficiaries, simplification of rules in the new legal frameworks or contracts, and stronger Commission control.

The Commission has instructed its services to take all necessary measures to lift these reservations once the underlying problems have been resolved.

Communication

The Directorate-General for Communication made a reservation in its 2006 annual activity report because of deficiencies in the internal control system. The problem has been addressed by setting up a centralised ex-post control. However, because the unit only became operational in the last two months of 2007, the Director-General decided to maintain the reservation for 2007.

Education and Culture

The Director-General for Education and Culture lifted the past reservation on National Agencies, anticipating the results of a revised control system implemented in 2007 as a consequence of new legislation. This system is based on ex-ante declarations of assurance by the national authorities. This year the Directorate-General reported an error rate above 3% for audited projects, but indicated this could

not be extrapolated because the audit sample was largely risk-based: the issue was therefore not considered material. The Directorate-General also pursued its efforts to obtain validation from the Accounting Officer of its local accounting system.

The Commission has instructed DG Education and Culture to ensure effective implementation of the control strategy and to address all outstanding obstacles to obtaining validation of its local accounting system.

Statistics

The reservation made by Eurostat in 2006 due to lack of assurance on the regularity of payments made to some National Statistics Institutes was lifted as corrective action, such as the enhanced ex-ante verifications, was taken in 2007, giving reasonable assurance to the Director-General on the regularity of the payments made during that year. His services are working on issues relating to previous years.

3.6. Administration

Appropriate and reliable Information Technology systems are crucial to the proper delivery of practically all Commission activities. However, despite the renting of some new data centre premises, the Director-General of DIGIT considered it necessary to maintain the previous reservation on building infrastructure because of the inadequacy of part of the infrastructures currently hosting both the main site and the back-up site in Luxembourg. Whilst some improvements to the building were made during 2007, and whilst this risk was managed effectively in 2007, the Commission considers it necessary to reduce further the risk to business continuity and data integrity.

The Commission will continue to implement its multi-annual IT strategy in 2008/2009, ensuring secure and functionally appropriate building infrastructures for the data and telecommunication centres of the Commission.

3.7. Conclusions

- The Commission instructs its services to take vigorous action to address the causes of reservations in the 2007 AARs and will closely monitor progress, with a special attention to recurring reservations.
- A regular dialogue between Commissioners and Directors-General on management issues is an important element in the accountability chain. It is particularly important in cases where reservations are recurrent and in areas in which the Court of Auditors identified weaknesses. The Commission instructs the Directors-General in these situations to inform their Commissioner(s) regularly on latest developments or progress made.
- The implementation of the action plan to strengthen the Commission's supervisory role under shared management of structural action, presented in February 2008, is a high priority for the Commission and must be implemented on time.

- The Commission encourages Member States to provide voluntary annual national declarations, which may constitute an additional "building block" in the provision of Directors-General assurance.
- Addressing the causes of errors is vital and the Commission services will issue guidance and take other necessary action to reduce the risk of error.
- The Commission will also make all necessary efforts to demonstrate the effectiveness of its controls. Its accounting system is being revamped to allow, from 2008, full reporting on the correction of errors by the Commission, including those relating to payments of earlier years.
- Finally, the Commission will continue its work on the cost-benefit of control and on residual risk. A Communication on this subject will be issued in autumn 2008, and should provide a firm basis for taking forward the concept of tolerable risk as a tool for judging how effectively risk is being managed in Community programmes.

4. OTHER ISSUES HIGHLIGHTED IN THE ANNUAL REPORTS

4.1. Implementation of EU law

Laws do not serve their full purpose unless they are properly applied and enforced. In 2007, the Commission presented an ambitious communication aimed at minimising these risks and containing measures to improve the application of Community law⁶. This will involve more co-operation between the Member States and the Commission in preventing problems from arising, dealing more effectively with problems and resolving infringements more quickly. It will also involve better integration of implementation and enforcement considerations from the design of laws through the adoption process to the evaluation of results. Clarification of implementation challenges is essential to improving laws and to achieving "Better Regulation" goals such as simplification and reduction of administrative burden, in the interest of citizens and businesses.

4.2. Conservation of fisheries resources

The Court of Auditors argued in a special report⁷ that the present control, inspection and sanction systems relating to the rules on conservation of Community fisheries resources needed to be strengthened considerably to achieve the goal of sustainable exploitation of fisheries resources. The Commission shares the Court's analysis. First, it encourages Member States to apply the interim measures that were proposed on a voluntary basis. It will, in parallel, work on ambitious proposals aiming at reforming the European control policy: the state of fish stocks today shows how it is essential that the effectiveness of the control, inspection and sanction systems is strengthened and harmonised.

⁶ Communication on "A Europe of Results - Applying Community Law" - COM(2007) 502, 5.9.2007.

⁷ European Court of Auditors' Special Report No 7/2007 on the control, inspection and sanction systems relating to the rules on conservation of Community fisheries resources (OJ C 317, 28.12.2007).

The Commission is committed to ensuring sustainability of fisheries resources, which can only be guaranteed through action at European level. It will propose, in October 2008, a Council Regulation recasting and modernising the Common Fisheries Policy control system. To reach its objectives it needs the full commitment of Member States.

4.3. Security

Audits on EC delegations revealed weaknesses in the security of information and in their transmission systems as well as in physical security. Implementation of the action plans is progressing.

In addition to the routine security measures focussed on persons, buildings and information technologies at its principal sites, the Commission will give increased attention to the security of its delegations.

5. OVERALL CONCLUSION

The Commission considers that the internal control systems in place, with the limitations described in the 2007 AARs, provide reasonable assurance that the resources assigned to its activities have been used for their intended purpose and in accordance with the principles of sound financial management. It also considers that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions for which the Commission takes overall responsibility pursuant to Article 274 of the EC Treaty.

However, it acknowledges that further efforts are needed to resolve a number of weaknesses, in particular those highlighted in the reservations of the delegated authorising officers - and those belonging to budget areas that were not considered satisfactory by the Court of Auditors.

Annexes:

- Annex 1: Human Resources management and other management issues
- Annex 2: Reservations 2003-2007
- Annex 3: 2007 Synthesis multi-annual objectives
- Annex 4: Executive and regulatory agencies
- Annex 5: Report on negotiated procedures
- Annex 6: Summary of waivers of recoveries of established amounts receivable in 2007
- Annex 7: Compliance with payment time-limits and suspension of time-limits

Annex 1:
Human Resources Management and other management issues

1. HUMAN RESOURCES MANAGEMENT

- Ethics

In a global context where ethical behaviour and ethics in general are becoming increasingly important, the need for a clearer and simpler framework of standards and guidelines arose. These issues have now been addressed in a communication on 'Enhancing the Environment for Professional Ethics in the Commission' dated 5 March 2008⁸. The main goal of this initiative is to refresh awareness and provide better guidance on professional ethics in the Commission.

Furthermore, as part of the European Transparency Initiative, a study on ethics for public office-holders⁹ was commissioned to compare ethical rules for Commissioners and for leaders of other EU institutions and their counterparts in all the Member States, the USA and Canada. The results of this study show that the Commission standards compare favourably.

The Commission is conscious that continued effort is nonetheless needed in the years to come to foster the ethics culture that it has developed and ensure that the rules are applied on the ground. In order to benefit from external views, the Commission intends to broaden the mandate of its ad hoc Ethical Committee and request it to give an opinion on the advisability of revising the Code of Conduct of Commissioners.

- Screening of Human Resources of April 2007

In April 2007, the Commission presented its "screening" of its human resources and committed itself to maintain stable staffing for the period 2009-2013 (after all enlargement-related personnel are integrated) and to meet new staffing needs in key policy areas exclusively through redeployment. The report also contained an analysis of the Commission's overheads. It was welcomed by the Parliament, and an update was provided by end April 2008.

The Commission's willingness to explore all rationalisation scenarios that could improve performance and trigger efficiency gains was expressed in the report, especially in the field of communication, crisis management and external relations. These areas have been subject to a more in-depth analysis.

- In the area of external relations, it has been decided to reallocate internally 100 posts of officials to the new priority countries and policy fields.
- As regards crisis management, the Commission presented at the beginning of 2008 a communication entitled "Reinforcing the Union's Disaster Response

⁸ COM(2008) 301.

⁹ http://ec.europa.eu/dgs/policy_advisers/publications/docs/hpo_professional_ethics_en.pdf

Capacity"¹⁰. It puts forward specific measures to be implemented by the end of 2008 to meet the growing challenges posed by natural and man-made disasters.

- In the area of communication, the Commission is considering freeing up a fraction of the posts currently devoted to communication activities and to redeploy them to the Representation Offices, to incorporate communication activities and to the general Commission redeployment pool. To deliver on this objective, the Commission intends to take several measures which could be based on the following: link communication strategy more closely to political priorities; reduce the number of general communication priorities to make them more focused; develop partnerships with the Member States; organise secondment of staff to Representations; develop communication skills of staff and align human resources in communication activities to real needs.

- Integrated human resources strategy

The Commission continued its efforts to put in place a strategically aligned human resource management aimed at a shift from focusing on rights, obligations, rules and compliance to a more strategic approach with a focus on results, added-value and benefits for the Commission. This will enable the human resources function to gradually become a key player in the Commission, actively contributing to formulating organisational strategy and ensuring its implementation.

- IT tools

The administration has worked on the development of new integrated IT tools for more efficient management of human resources and of the related individual financial entitlements.

- Recruiting and retaining permanent staff

The administration has instituted various measures to improve staff management and recruitment, in particular by devising a professionalisation programme and by increased cooperation with EPSO.

- Recruitment of citizens from enlargement countries

Several services pointed to difficulties in recruiting certain EUR10 profiles as permanent staff, notably IT and financial staff and translators for certain languages. Certain competitions completed by EPSO in 2007 indeed failed to yield the expected number of successful candidates. Priority also had to be given to more generalist competitions, in order to achieve optimum use of EPSO recruitment capacity. Although the list of successful candidates covered 70 % of the Commission's recruitment needs, there were major variations between competitions, nationalities and profiles (ranging from 7 to 100%). As in 2006, the Commission attained the overall recruitment targets for nationals from EU-10 and EU-2 Member States in 2007. From 2004 to 2007 well above 3 000 posts have been filled by nationals from the enlargement countries. The monitoring mechanism which the Commission had put in place during 2006 for EU-10 recruitment was maintained and improved in

¹⁰ COM(2008) 130.

2007 and contributed largely to this achievement. The Commission is on a very good path to meet the various recruitment targets set in the context of EU-10 and EU-2 enlargements.

2. OTHER MANAGEMENT ISSUES

- The internal control framework in the Commission

An effective and efficient internal control system requires management to address the question of risk and to focus control resources on areas where risk is greatest, while ensuring adequate control of all activities. The Commission adopted in October 2007 a communication on the revision of the Internal Control Standards and Underlying Framework¹¹, which set out 16 **revised internal control standards for effective management** to replace the set of 24 standards put in place in 2000. The aim of the revised standards is to strengthen the basis of the annual declaration of assurance of the Directors-General by analysing how effective the control system is in practice.

The Commission also reported on its **Action Plan towards an Integrated Internal Control Framework**¹² and concluded that most of the "gaps" have been filled. Work will be completed in 2008 and the first impact report will be issued in early 2009.

- Financial management

In 2007, DG Budget complemented and consolidated its accounting modernisation. The Accounting Officer's report on the verification of local systems at the end of 2007 noted improvements compared to 2006, mainly in the development of the knowledge of accrual accounting and ABAC systems. **However, two services' systems were not validated**, although the risk to the accuracy of the Commission's accounts as a whole is not considered material.

The modernisation of the European Development Fund (EDF) accounts, which are separate from the accounts of the General Budget, aims to transfer the management functionality for EDF projects to DG AIDCO's local system while keeping the EDF accounts on an accrual basis in ABAC. While the developments of the central ABAC component were largely completed and tested according to plans in 2007 the project has experienced a succession of postponements, due in particular to the need for DG AIDCO to complete the developments necessary for CRIS to comply with the accrual accounting rules for the General Budget. The accounting officer validated the local system in early 2008. The implementation of the new system is now planned for January 2009.

Although measurable improvements were made in 2007 as regards **payments times**, the overall situation remained unsatisfactory. In the light of the implementing rules (Article 106.5), by which creditors are automatically entitled to interest if payments are made late, services need to take action, and closely monitor payment time compliance in the future. Suspensions in the procedure (for example, because

¹¹ Communication to the Commission: Revision of the Internal Control Standards and the Underlying Framework: Strengthening Control Effectiveness - SEC(2007) 1341.

¹² COM(2008) 110.

additional information is required from the beneficiary) must be recorded in ABAC so that payment times are calculated correctly.

A new, dynamic approach to **fraud proofing** was introduced¹³. Based on the lessons learned from OLAF's operational experience, the new arrangements are intended to allow services to react swiftly to new fraud patterns and to share information for prevention purposes.

- Internal audit

The number of critical recommendations issued by the Internal Audit Service has decreased significantly (12 in 2006, 6 in 2007), and there has been a reduction in the number of audits generating adverse opinions. The acceptance rate of recommendations has increased from 89% for audits on Commission services finalised in 2006, to 99% for audits finalised in 2007.

While the number of critical and very important recommendations overdue by more than six months at the end of 2007 remained almost the same as at the end of 2006 (7 critical and 37 very important recommendations), the total number of outstanding critical and very important recommendations grew from 78 to 175 due to the increased number of audit reports issued. Significant differences were noted between the Internal Auditor's view on the state of progress on recommendations and that of the auditee. The Commission needs the reasons for the increase in outstanding recommendations to be examined and addressed including the extent to which differences of view between the auditor and auditees have led to this situation.

A number of developments were observed with regard to the internal audit architecture:

- Coordination between the Internal Audit Service and the Internal Audit Capabilities was deepened in 2007, leading to coordinated strategic and annual audit plans aimed at providing better audit coverage of the key risks. These efforts towards a greater **consolidation of the audit universe** are essential having regard to the objective of the IAS, supported by the Commission in last year's Synthesis report, of providing an annual **overall opinion** on internal controls in the Commission starting with 2009, the final year of the current audit planning.
- The Commission updated the mission charter of the Internal Audit Service¹⁴ and introduced a model charter for the Internal Audit Capabilities of the Directorates-General, in order to reflect these evolutions and to make more efficient and effective use of the internal audit resources.
- Commission participation in the **Audit Progress Committee** was extended by the appointment in July 2007 of two additional Members among the Commissioners, so that it is now composed of seven Commissioners and two external members.

¹³ Communication on the prevention of fraud by building on operational results: a dynamic approach to fraud-proofing - COM(2007) 806, 17.12.2007.

¹⁴ http://ec.europa.eu/dgs/internal_audit/index_en.htm

- Transparency initiative

Subsequent to a public consultation, the Commission adopted a Communication, "Follow-up to the Green Paper 'European Transparency Initiative'"¹⁵, which announced measures to enhance transparency in different respects. Regarding the relations between interest representatives (lobbyists) and the Commission, it was decided to create and launch, in spring 2008, a voluntary register of interest representatives, linked to a code of conduct. Discussions with stakeholders and an open, public consultation¹⁶ were organised on the text of the code of conduct.

In order to enhance financial transparency¹⁷, the Financial Regulation requires the publication of beneficiaries of EU funds across all management modes. Work on the practical arrangements started in 2007. The first full publication exercise is scheduled for 2008, with the exception of the first pillar of the Common Agricultural Policy (the European Agricultural Guarantee Fund - EAGF), for which publication must take place in 2009.

The Commission adopted a Green Paper¹⁸ on the revision of Regulation (EC) No 1049/2001 on access to documents, thereby launching an open consultation.

- Business continuity management

All Directorates-General developed Business Impact Analyses and Business Continuity Plans in spring 2007. A communication test took place in July 2007, which examined both internal and external¹⁷ communication channels. A Commission-wide business continuity exercise followed in December 2007, which tested corporate business continuity communication flow and operational arrangements for crisis management teams. The outcome of both tests was positive and a further exercise is planned in 2008.

- Building policy

In a Communication on the accommodation of Commission services in Brussels and Luxemburg¹⁹, adopted in 2007, the Commission further clarified its policy in this field and launched a revision of the buildings procurement methodology – aimed at ensuring both maximum value for money and transparency towards the market.

¹⁵ COM(2007) 127
http://www.cc.cec/sg_vista/cgi-bin/repository/getdoc/COMM_PDF_COM_2007_0127_F_EN_ACTE.pdf

¹⁶ http://ec.europa.eu/transparency/consultation_code/index_en.htm

¹⁷ http://ec.europa.eu/commission_barroso/kallas/transparency_en.htm

¹⁸ COM(2007) 185
http://ec.europa.eu/transparency/revision/docs/gp_en.pdf

¹⁹ COM(2007) 501.

Annex 2:
Reservations 2003-2007

DG		Reservations 2007		Reservations 2006		Reservations 2005		Reservations 2004		Reservations 2003
AGRI	2	1. Insufficient implementation of IACS in Greece 2. Expenditure under rural development	1	1. Insufficient implementation of IACS in Greece	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	2	1. Management and control systems for identified ERDF programmes (period 2000-2006) in: 1. the CZECH REPUBLIC – 4 programmes 2. FINLAND – 4 programmes (Operational Programmes East, North, South and West) 3. GERMANY – 4 programmes (for OP Saarland (objective 2), OP Mecklenburg-Vorpommern (objective 1), OP Hamburg (objective 2) and URBAN II Neubrandenburg in Mecklenburg-Vorpommern) 4. GREECE – 15 programmes (13 regional OPs, OP Competitivity and	2	1. Management and control systems for identified ERDF programmes in United Kingdom - England (West Midlands; London; North West; North East; Yorkshire and the Humber and East (URBAN II programme only)) and Scotland (West and East Scotland) 2. Management and control systems for ERDF programmes in the INTERREG programmes (except IIIB North West Europe and Azores, Canaries, Madeira)	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

	<p>OP Information Society)</p> <p>5. IRELAND – 4 programmes</p> <p>6. ITALY – 17 programmes (Puglia, Lazio, Sardinia, Bolzano, Liguria, Piemonte, Friuli Venezia Giulia, Calabria, Campania, Molise, Sicilia, Transport, Research, Technical Assistance, and Urban II- Taranto, Mola di Bari, and Pescara)</p> <p>7. LUXEMBOURG – 1 programme</p> <p>8. POLAND – 3 programmes (Regional Operational Programme (IROP), SOP Improvement of Competitiveness of Enterprises and SOP Transport)</p> <p>9. SLOVAKIA – 2 programmes (OP Basic Infrastructure and OP Industry and Services)</p> <p>10. SPAIN (14 Intermediate Bodies (with an impact on 20 OPs), OP "<i>Sociedad de la Informacion</i>" and the 10 URBAN programmes)</p> <p>11. INTERREG - 51 programmes</p>							
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		2. Management and control systems for identified COHESION FUND systems (period 2000-2006) in: - Bulgaria (National Roads Infrastructure Fund), - the Czech Republic, - Slovakia, - Hungary (environmental sector) and - Poland.								
EMPL	1	Management and control systems for identified ESF Operational Programmes in Spain, United Kingdom, France, Italy, Slovakia, Portugal, Belgium and Luxembourg.	1	1. Systèmes de gestion et de contrôles de programmes opérationnels du FSE en Espagne, en Ecosse (objectifs 2 et 3, UK), en Suède (objectif 3 en partie), en Slovaquie, en Slovénie, en Lettonie et dans les régions Calabre et Lazio (IT)	1	1. Systèmes de gestion et de contrôle des programmes opérationnels en England (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	0	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	0		0	0	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	Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Sixth Research Framework Programme (FP6).	2	1. Accuracy of the cost claims and their conformity with the provisions of FP5 research contracts. 2. Absence of sufficient evidence to determine the residual level of persisting errors with regard to the accuracy of cost claims in FP6 contracts.	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	1	Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Framework Programme 6 contracts.	3	1. Allocation of research personnel 2. Errors relating to the accuracy of cost claims and their compliance with the provisions of the research contracts, FP5 3. Absence of sufficient evidence to determine the residual level of persisting errors with regard to the accuracy of cost claims in Framework Programme 6 contracts	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. Unsatisfactory functioning of the financing of European Standardisation 2. Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Sixth Research Framework	2	1. Errors relating to accuracy and eligibility of costs claims and their compliance with the provisions of the research contracts under FP 5 2. Unsatisfactory functioning of the financing	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	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

		Programme (FP6).		of European Standardisation		the 5th Research Framework Programme;				
						2. Uncertainty regarding cost claims of the European Standardisation Organisations				
TREN	1	Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Sixth Framework Programme (FP6) contracts.	1	1. Erreurs concernant l'exactitude et l'éligibilité des déclarations de coûts et respect des termes des contrats du 5e PCRD	2	1. Risque de surpaiement concernant le 5ème Programme Cadre; 2. Sûreté 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	0		1	1. Faiblesse des systèmes de contrôle constatées dans certaines Agences Nationales	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	1	Eligibility of expenditures declared by beneficiaries of action grants	0	0	0	0	0	0	2	1. Potentially abnormal RAL; 2. Grants- Eligible costs

SANCO	0		1	1. Insufficient assurance of business continuity of a critical activity	1	1. Health crisis management	0	0	0	0
JLS	2	1. Faiblesse des systèmes de contrôle et de gestion du Fonds européen pour les Réfugiés en Italie, pour les périodes de programmation 2000-2004, et 2005-2007 2. Garantie limitée sur les opérations mises en oeuvre par 14 EM dans le cadre du FER II (2005-2007)	1	1. Faiblesse des systèmes de contrôle et de gestion du Fonds européen pour les Réfugiés en Italie, pour la période de programmation 2000-2004	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 oeuvre encore incomplète des contrôles ex-post sur place	0	0
ESTAT	0		1	1. Absence de garantie sur la régularité des paiements effectués en 2006 dans le cadre des conventions de subvention signées avec trois Instituts nationaux de statistiques pour lesquels des manquements ont été constatés en 2006	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	1	Possibility that additionality requirements were insufficiently achieved.	1	1. Possibility that additionality requirements are not sufficiently met	0	0	0	0	0	0
TRADE	0		0	0	0	0	0	0	0	0
AIDCO	0		0	0	0	0	0	0	1	1. Partnership with an NGOs association
ELARG	1	Potential irregularities in the management of PHARE	0	0	1	1. Legal status and liability of contractual	1	1. Gaps in Romania's and Bulgaria's capacity	3	1. Inherent risk in decentralised systems;2.

		funds under extended decentralised management by the following Bulgarian Implementing Agencies: - Central Finance and Contract Unit (CFCU) - Ministry for Regional Development and Public Works (MRDPW).				partner in the framework of implementation of EU EU contribution to UNMIK Pillar IV in Kosovo		to manage and implement increasing amounts of aids		Gaps in systems and transaction audits;3. Uncertainties regarding claims of financial intermediaries
ECHO	0		0	0	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	0	0	0
RELEX	0		0	0	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	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	0		0	0	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	0	0	0	0
COMP	0		0	0	0	0	0	0	0	0	0
COMM	1	Supervision	1	1. Ex-post control system	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	0	0	0	
DIGIT	1	Inadequacy of the Data Centre building infrastructure in Luxembourg.	1	1. Business continuity risks due to inadequacy of the data centres building infrastructure.	1	1. Business continuity risks due to inadequacy of the data centres building infrastructure	0	0		-	
PMO	0		0	0	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	0		0		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	0	0	0	
EPSO	0		0	0	0	0	0	0	0	0	
OPOCE	0		0	0	0	0	0	0	0	0	

BUDG	0		0	0	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	0	0	0
BEPA	0		0	0	1	1. Weak general internal control environment	0	0	0	0.
SJ	0		0	0	0	0	0	0	0	0
SCIC	0		0	0	0	0	0	0	0	0
DGT	0		0	0	0	0	0	0	0	0
IAS	0		1	1. Audit of community bodies (regulatory agencies)	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	0	0	0
TOTAL	17		20		31		32		49	

Annex 3:
Synthesis 2007 multi-annual objectives

This Annex reports on the progress realised in 2007 against the reference framework laid down by the 2004 Synthesis and updated by the 2005 and 2006 Synthesis reports containing the Commission's multiannual objectives and related actions to address the major crosscutting management issues.

New actions introduced as a follow up to the 2007 Synthesis report are indicated in *bold italics*.

Internal control systems and performance management				
Subject	Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2007
Internal control	1. Achieving an effective internal control system and ownership of internal control concepts and processes at all levels in each DG and service.	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.	All services, continuous action with the support and guidance of DG BUDG and the ICC network.	<p>Completed</p> <p>It is now a well established practice that services review at least once a year the effectiveness of internal control. This requirement is now enshrined in the Internal Control Standards for Effective Management adopted in October 2007- SEC(2007) 1341.</p> <p>Furthermore, services inform their Commissioner at least twice yearly on management and control issues.</p> <p>Members of staff are involved in self-assessment exercises on the effectiveness of the internal control system.</p>

		Revision of internal control standards to enhance effectiveness	DG BUDG by the end of 2007	<p>Completed</p> <p>An internal communication revising the internal control standards for effective management was adopted in October 2007- SEC (2007) 1341.</p>
		Develop indicators for legality and regularity of transactions to support assurance in annual activity reports.	All services by 'families' with the support of BUDG and SG, before the establishment of 2007 (originally: 2006) annual activity reports in March 2008.	<p>Completed</p> <p>Working groups have been set up to develop indicators for legality and regularity of transactions by families of DGs. The guidelines for the Annual Activity Report for the year 2007 refer to different sets of indicators for:</p> <ul style="list-style-type: none"> - the Research family - direct centralised management (grants and procurement) - joint management - shared management. <p>For the Structural Funds family, legality and regularity indicators were developed and provided as from the AAR 2006. For the AAR 2007, particular attention has been paid to improving the content and clarity of the report by implementing the recommendations of the Court of Auditors and the IAS.</p>

Annual activity reports and Synthesis	<p>2. Promoting Commission's accountability through annual activity reports and their synthesis solidly based on assurances from managers.</p>	<p>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.</p>	<p>All services in the 2007 annual reporting exercise.</p>	<p>Completed</p> <p>The guidelines for Annual Activity Reports for the year 2007 emphasize the need to include more streamlined, precise and coherent explanations of DGs' internal control systems.</p> <ul style="list-style-type: none"> - the use of an internal control template ensures that control systems of the different DGs are presented in a more coherent way within the Commission and, more specifically, within families of DGs. - Precise guidance was also given to DGs to explain how the various components of the assurance process link together ("building blocks"). - More precise guidance was given on when and how to make a reservation. - Assurance had to be supported by legality and regularity indicators. <p>The DGs have generally followed the guidelines and an improvement can be observed in their AARs.</p>
		<p>With the assistance of central services, work by 'families' will be continued, so that each area benefits from a specific, coherent methodology.</p>		<p>Completed</p> <p>Under the Action Plan towards an Integrated Internal Control Framework, "internal control templates" were developed to promote consistency between services in the presentation of control strategies.</p>

				In 2007 such templates were developed for each management mode, describing the internal control system on a consistent and concise basis and presenting a logical build-up to the Director General's assurance statement. The format was used by almost all services in 2007 AAR and has improved awareness of control structures and sources of assurance. It furthermore helps pinpoint weaknesses and define improvements.
		<i>The central services will provide further guidance to promote consistency in the treatment of reputational risks and the link between error rates, materiality and reservations.</i>	<i>BUDG and SG By end 2008</i>	<i>New action</i>
Risk management	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.	All services, with the assistance of DG BUDG, as specified in SEC(2005) 1327.	Completed The revised Internal Control Standards, decided by the Commission in October 2007, specifically provide a Standard for risk management processes (standard 6). Risk management was formally integrated into the 2006 programming and planning exercise and services' critical risks are since then disclosed in the Annual Management Plans.

<i>Residual risk</i>	<i>4. Taking further the concept of residual risk</i>	<i>Commission will continue its work on the cost-benefit of control and on residual risk per policy area. A Communication on this subject will be issued in autumn 2008.</i>	<i>DG BUDG together with concerned services</i> <i>By October 2008</i>	<i>New action</i>
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Governance				
Subject	Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2007
Internal audit recommendations	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, especially the annual management plans.	All services	<p>Completed</p> <p>Follow-up is being actively monitored through different tools (DGs' internal databases, "Issue track" system) and regularly reviewed by senior management.</p> <p>Further efforts were made to ensure a timely implementation of the audit recommendations:</p> <ul style="list-style-type: none"> - The Audit Progress Committee alerted the Cabinets responsible for departments lagging behind, requesting them to monitor the appropriate follow up by their services. - New provisions were introduced to the standing instructions to the Annual Activity Reports and to the "peer review" process to ensure that Directors-General concerned explain

				in their reports the reasons why recommendations had not been implemented in time.
Regulatory agencies	6. Clarifying the respective roles and responsibilities of Commission services and regulatory agencies.	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.	All services concerned with the assistance of SG and DG BUDG.	Ongoing In a Communication of March 2008 ²⁰ , the Commission drew attention to the lack of a common vision on the role and functions of regulatory agencies. It announced a horizontal evaluation of the regulatory agencies, a moratorium on creating new agencies and a review of its internal systems governing agencies.
Inter-service arrangements	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	The Commission will develop practical solutions respecting the balance of responsibilities and accountability.	Interested DGs with the support of BUDG, SG, and DIGIT.	Continuous action Regarding IT Infrastructure Consolidation, DIGIT is already ensuring end-user support for the ADMIN family (DG ADMIN and offices), DG REGIO and the IAS. Furthermore, DG EAC signed a "protocole d'accord" to take over its IT-support. The Service Level Agreement (SLA) which was established in 2006 between BEPA and SG for

²⁰ Communication from the Commission to the European Parliament and the Council: "European Agencies – the way forward" - COM(2008) 135.

	each delegated authorising officer.			<p>management of human and financial resources, logistics and strategic planning was renewed in 2007.</p> <p>The SLA signed in 2006 between DG ADMIN and the IAS for management of the latter's human and financial resources was renewed in 2007.</p> <p>OIB cooperates with other Services on the basis of clearly defined arrangements & Service Level Agreements. In 2007, the following SLAs regarding buildings were signed:</p> <ul style="list-style-type: none"> - with EAC executive agency (on the supplementary office space) - with ERC and RTD Commission Agency (signature for Covent Garden building is ongoing) - with CoR/EESC (VM-2 building) - with CFCA Executive Agency
Reservations	8. Ensuring strong follow-up of action plans related to the expressed reservations, notably for the progress to be made in 2008.	Directors-General will report on progress to the respective Commissioner in the context of the regular follow-up meetings on audit and control. The ABM Steering Group will closely monitor and regularly report to the College on the implementation of the remedial actions that delegated authorising officers have committed to carry out in their annual activity reports.	DGs concerned	<p>Continuous action</p> <p>DGs report on the implementation of action plans in a given year in their annual activity report. This has been specifically mentioned in the standing instructions for 2007 AARs.</p> <p>DGs were also invited to mention the actions to be taken in the coming year as a follow up to previous reservations. This requirement was included in the guidelines for the 2008 AMPs.</p>

				<p>For all reservations, delegated authorising officers have laid down appropriate action plans to solve the underlying weaknesses. They monitored the implementation of action plans and reported to the Commissioner responsible .</p> <p>The implementation of all action plans has also been monitored by the ABM Steering Group which invited Directors-General to report regularly to the Group on the state of play of their action plans.</p>
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Financial management				
Subject	Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2007
Integrated internal control framework	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 towards an Integrated Internal Framework.	All services	<p>Ongoing</p> <p>Commission adopted on 27/2/2008 a report on the action plan towards an integrated internal control framework (COM(2008) 110 final). Most actions have been implemented and the remaining ones will be completed during 2008. The Commission can show that it has made concrete progress. The impact of the actions will form the basis of the evaluation of the progressive success of the action plan through decreasing error rates and improved ratings of systems by the Court. Early in 2009 the Commission will prepare a further impact</p>

				assessment as at 31 December 2008.
Ex-ante and ex-post controls	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.	All services with the assistance of DG BUDG, continuous action.	Completed In 2007, "internal control templates" were developed for each management mode, describing the internal control system on a consistent and concise basis and presenting a logical build-up to the Director General's assurance statement. These templates are built on a common format which leaves some flexibility for adaptation to the needs of the DGs. The format was used by almost all services in 2007 AAR and has improved awareness of control structures and sources of assurance. It helps pinpoint weaknesses and define improvements.

		<p>Common guidelines on sampling methods and related level of confidence should be finalised.</p>	<p>Services concerned with the support of DG BUDG, progressively up to the end of 2007.</p>	<p>Ongoing</p> <p>Extensive guidelines on audit sampling in line with international auditing standards have been prepared in the Structural Funds to promote coherence in testing done by Member State audit authorities²¹. The Commission has provided guidance on best practice in the management of external audit framework contracts to ensure a consistency and high quality of audit results²².</p> <p>In the research area, the joint audit strategy set up in 2007 includes guidance on sampling.</p> <p>Based on the experience gathered from the research audit strategy and taking into account that not all elements of the approach are transposable to all areas, the Commission will issue guidance to its services on sampling strategies by July 2008.</p>
		<p>DG COMM will put in place a system of structured ex-post control in all Representations and Units in the Headquarter.</p>	<p>DG COMM by the end of 2007</p>	<p>Completed</p> <p>A centralised ex-post control unit was set up in this Directorate-General on 1 November 2007.</p>

²¹ Para 40 & 49 Opinion 02/2004.

²² Para 37 Opinion 02/2004.

Accounts	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.	The Commission will further strengthen its accounting processes and systems to improve the quality of the financial information and the respect of deadlines.	All services, continuous action with the assistance of the services of the Accounting Officer	<p>Continuous action</p> <p>In 2007, DG Budget complemented and consolidated the accounting modernisation.</p> <p>The single datawarehouse was also made available to all services and is expected to lead to an improvement in financial management information.</p> <p>The Accounting Officer's report on the verification of local systems at the end of 2007 noted improvements compared to 2006, mainly in the development of the knowledge of accrual accounting and ABAC systems. However, two systems were not validated.</p>
Financial simplification	12. Making financial management more efficient by applying simplification measures.	Services are called upon to apply the simplification measures that have been introduced by the basic acts under the next generation of programmes (2007-2013) and by the amended financial rules	All services concerned as from the entry into force of these legal provisions.	<p>Completed</p> <p>During 2007 the Commission clarified the rules through guidelines, notably the guidelines on FP7, on the implementing rules for Structural Funds 2007-13, for Education Policy 2007-13, and will continue to provide support and further guidance where necessary. The Commission will also ensure that future legislative proposals include clear and straightforward rules.</p>

Human resources				
Subject	Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2007
Simplification	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.	DG ADMIN by June 2007 (originally by the end of 2006)	<p>Completed</p> <p>DG ADMIN, based on a collaborative effort and consultation of all Commission staff, prepared a Communication to the College enshrining the key principles of the simplification drive and proposing a detailed plan with 85 actions, to be carried out within well defined deadlines. This Communication was adopted by the Commission on 4 July 2007 and its implementation is ongoing.</p>
		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 2007	<p>Completed</p> <p>New rules have been presented in March 2008 after an intense consultation process with Commission services and staff representatives throughout 2007 and the first quarter of 2008.</p> <p>The new rules should be implemented in 2009 and should allow for a better differentiation of career speeds according to merit. The assessment and promotion exercises will also be significantly shortened.</p>

Staff skills	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.	DG ADMIN by the end of 2007	Ongoing Among the measures already started: - the development of the HR Community; - the dissemination of best practices; - the HR Professionalisation Programme; - the development of HR Metrics; - the HR scorecard prototype; - the specification of the HR reporting facility in Sysper2.
		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.	DG ADMIN and EPSO, ongoing tasks.	Ongoing On 13.11.2007, Vice-President Kallas submitted to the College a Communication (SEC(2007) 1412) describing how EPSO had served the Commission's needs in the last few years and spelling out ways of improving the situation.
		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.	DG ADMIN in collaboration with DIGIT, SG and DG BUDG by end 2007	Ongoing The e-CV project was delayed because of rearranged priorities. There are now approximately 3 000 CVs in the system, but full deployment and use will only take place in 2008, once the matching tool is tested and validated.

		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 in collaboration with SG and DG BUDG, by the end of 2007 (originally by the end of 2006).	<p>Completed</p> <p>The revision of the Commission's Internal Control Standards, was concluded in October 2007 and guidelines on sensitive functions (January 2008) were subsequently adopted.</p> <p>It should result in a more harmonised approach of the Commission's services in regards to the definition of sensitivity and an improved monitoring of the most critical sensitive posts, thus significantly reducing the issues related to compulsory mobility.</p>
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Continuity of operations				
Subject	Objective	Initiative(s) to meet the objective	Responsible service(s) and timetable	Progress made in 2007
Business continuity	15. Ensuring that the Commission is able to maintain business continuity in case of major disruption to its activities	The Commission will adopt Commission-wide policy guidelines and develop business continuity plans.	All services with the support of SG, ADMIN and DIGIT by the end of March 2007.	<p>Completed</p> <p>All Directorates-General developed Business Impact Analyses and Business Continuity Plans in spring 2007. A communication test took place in July 2007, which examined both internal and external communication channels. A Commission-wide business continuity exercise followed in December 2007 with satisfactory results.</p>
		The Commission will address the issue of the suitability of the data centre	DIGIT, OIB and OIL in 2006 and in 2007.	Ongoing

		<p>hosting IT systems and ensure that current reflections on the best IT governance arrangements lead to operational conclusions in 2006.</p>	<p>A multi-annual (2006-2011) strategy to improve the housing conditions for the Data and telecom Centres of the Commission has been developed and approved. This should lead to the most critical IT equipments being moved into professional data centre type rooms in a phased approach and to the refurbishing of air conditioning and electrical infrastructure in the JMO Data Centre room.</p> <p>Contracts for the rent of two new data centre type rooms in Brussels and in Luxembourg were signed. For the one in Brussels, the move was completed in February 2007 and, for the one in Luxembourg, by March 2007.</p> <p>OIL planned a second room in Luxembourg which should have been available by July 2007 and initiated the required procedures. These premises are however currently still not available.</p>
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Annex 4:
Executive and regulatory agencies

In line with practice in most Member States, using agencies to implement key tasks has become an established part of the way the European Union works.

Executive agencies operate in a clear institutional framework, governed by a single legal base²³. Their tasks must relate to the management of Community programmes or actions, they are set up for a limited period and they are always located close to Commission headquarters. The responsibility of the Commission for executive agencies is clear: the Commission creates them, maintains "real control" over their activity, and appoints the director. Their annual activity reports are annexed to the report from their parent Directorate(s)-General. A standard financial regulation adopted by the Commission, governing the establishment and implementation of the budget, applies to all executive agencies. A revision of the working arrangements was also agreed in October 2007 with the European Parliament, with the aim to further facilitate inter-institutional cooperation in this field.

Six executive agencies have been created:

- the Executive Agency for Competitiveness and Innovation Programme (**EACI** – former Intelligent Energy Executive Agency)
- the Public Health Executive Agency (**PHEA**)
- the Education, Audiovisual and Culture Executive Agency (**EACEA**)
- the Trans-European Transport Network Executive Agency (**TEN-TEA**)
- the European Research Council Executive Agency (**ERC**)
- the Research Executive Agency (**REA**).

Three of these were operational in 2007. Their annual activity reports did not indicate any particular control issues. The breakdown of staff employed in 2007 by these agencies was as follows:

	Seconded officials and temporary agents	Contractual agents	Other external agents	<i>Total</i>
EACI	22	47		69
PHEA	8	20		28

²³ Council Regulation (EC) No 58/2003 of 19 December 2002 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes (OJ L 11, 16.1.2003).

EACEA	69	232	10	<i>311</i>
<i>Total</i>	<i>99</i>	<i>299</i>	<i>10</i>	408

The screening of resources by the Commission of April 2007 suggested that there are no strong candidates for a new executive agency²⁴. If new needs appear, the Commission's starting point will be to explore the option of extending the scope of an existing agency to cover a new programme. Under the current circumstances, it is unlikely that new executive agencies will be needed during the period of the current financial framework to 2013.

The 29 **regulatory agencies** are independent legal entities and the 20 of these which receive funds from the European Union budget receive discharge directly from the European Parliament. In a Communication of March 2008 "EU agencies: the way forward"²⁵ the Commission drew attention to the lack of a common vision on the role and functions of regulatory agencies. It announced a horizontal evaluation of the regulatory agencies, a moratorium on creating new agencies²⁶ and a review of its internal systems governing agencies. A common website of the Commission and the regulatory agencies was created on the Commission's intranet to provide a platform for documents of shared interest.

²⁴ SEC(2007) 530 "Planning & optimising Commission human resources to serve EU priorities".

²⁵ Communication from the Commission to the European Parliament and the Council: European Agencies – the way forward - COM(2008) 135.

²⁶ It however indicated that agencies which are already under inter-institutional discussion would go ahead as planned, including existing proposals in the fields of energy and telecoms, as well as planned agencies in the field of justice and home affairs and that changes in the scope of existing agencies would also continue.

Annex 5: Rapport sur les procédures négociées

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 (PN). 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. MÉTHODOLOGIE

Une distinction a été faite entre les 40 directions générales, services, offices et agences exécutives qui, en principe, n'octroient pas d'aide extérieure, et les 3 directions générales (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'Union européenne.

En effet, ces 3 directions générales présentent des aspects particuliers en ce qui concerne la collecte des données (déconcentration des services...), le nombre total de marchés passés, l'application d'autres seuils pour le recensement des procédures négociées (10 000 €), 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 Directions générales nécessitent une approche statistique distincte.

3. RESULTATS GLOBAUX DU RECENSEMENT FINAL

3.1. Les 40 directions générales, services ou offices sans les 3 directions générales "actions extérieures"

Sur base des données reçues, les statistiques suivantes ont été établies: 148 marchés négociés pour une valeur totale de 156 513 441 € ont été attribués sur un ensemble de 1 085 marchés, toutes procédures confondues, pour une valeur totale de 1 383 010 782 €

La proportion moyenne pour l'Institution du nombre de procédures négociées par rapport au nombre de marchés passés s'élève dès lors à 13,64 %. La moyenne de l'Institution calculée par rapport au montant des marchés attribués (au lieu du nombre de marchés) s'élève à 11,32 %.

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 au seuil de référence s'établissant à **20,46 %**.

Ainsi, 9 directions générales ou services sur 40 ont dépassé le seuil de référence en 2007. Toutefois, il faut signaler qu'une des directions générales n'a passé qu'une

procédure négociée mais son faible nombre de marchés au total fait que sa moyenne est élevée. Par ailleurs, pour deux des directions générales, les procédures négociées représentent un pourcentage substantiellement inférieur à la moyenne de l'Institution en valeur totale des marchés passés.

Par ailleurs, l'évolution par rapport à 2006 pour l'ensemble des directions générales a été limitée: augmentation de 1,33 % en nombre de procédures et de 4,01 % en valeur. Ainsi 5 directions générales présentent une augmentation interannuelle qui peut être considérée comme sensible par rapport aux années précédentes (supérieure à 10 %).

3.2. Les trois directions générales "actions extérieures"

Sur base des données reçues, les statistiques suivantes ont été établies: 196 marchés négociés pour une valeur totale de 116 182 314 € ont été attribués sur un ensemble de 1 696 marchés toutes procédures confondues, pour une valeur totale de 1 324 647 489 €

La proportion moyenne pour les 3 directions générales "actions extérieures" du nombre de procédures négociées par rapport au nombre de marchés passés s'élève dès lors à 11,56 % et la moyenne calculée par rapport au montant des marchés attribués s'élève à 8,77 %. Le seuil de référence (moyenne plus 50 %) étant donc de **17,33 %**, aucune des ces 3 directions générales ne dépasse ce seuil.

La comparaison interannuelle pour ces directions générales, par rapport à l'année 2006, montre une certaine stabilité: pas de changement dans le pourcentage du nombre des procédures négociées et diminution significative de 3,85 % de leur valeur.

4. ANALYSE DES JUSTIFICATIONS ET MESURES CORRECTIVES

Trois catégories de justifications sont évoquées par les directions générales ayant dépassé les seuils:

- Des **déviations statistiques** résultant d'un faible nombre de marchés passés (toutes catégories confondues) ou de l'utilisation de contrats cadres. Ceci, en intégrant dans un seul contrat «cadre» un nombre élevé de contrats «spécifiques», réduit le nombre total de marchés passés par les Directions générales concernées et donc la base applicable (ensemble de marchés, toutes catégories confondues).
- 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 (pour des raisons de propriété intellectuelle, expertise spécifique...). Des situations de captivité technique peuvent également apparaître.
- Des **marchés complémentaires**, lorsqu'ils ne peuvent pas être techniquement ou économiquement séparés du marché principal (initial), ou les **marchés similaires**, conformes au projet de base.

Plusieurs mesures correctives ont déjà été proposées ou mises en place par les directions générales:

- L'établissement de **documents types et documents d'orientation**. La publication en avril 2008 du nouveau Vade-mecum des marchés de la Commission, substantiellement amélioré, s'intègre dans cette ligne d'action.
- **L'amélioration de la formation et une meilleure communication interservices**. À ce titre, le Service financier central a mis en place pour 2008 une série d'ateliers qui ont pour objectif, d'une part, d'améliorer le niveau des procédures des marchés et, d'autre part, d'offrir un forum d'échange d'expériences entre différents DG/services, afin de promouvoir les meilleurs pratiques.
- **L'amélioration du système d'évaluation des besoins** des DG/services et une bonne **programmation**.
- **Le renforcement de la structure interne et l'application des standards de contrôle**. Les procédures de marchés devront continuer à 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 de l'audit.

Annex 6:
Summary of waivers of recoveries of established amounts receivable in 2007

(Article 87.5 IR)

In accordance with Article 87(5) of the Implementing Rules the Commission is required to report each year to the budgetary authority, in an annex to the summary of the Annual Activity Reports, on the waivers of recovery involving 100 000 € or more.

The following table shows the total amount and the number of waivers above 100 000 € per Directorate-General/Service for the EC budget and the European Development Fund for the financial year 2007.

EC budget:

Directorate-General/Service	Amount of waivers in €	Number of waivers
AIDCO	1.565.692,31	9
EAC	651.065,59	5
EACEA	466.000,00	2
ECHO	507.960,89	1
ENTR	627.441,60	4
INFSO	1.089.676,12	7
RTD	1.312.047,13	5
TREN	1.283.040,18	5
	7.502.923,82	38

European Development Fund:

Directorate-General/Service	Amount of waivers in €	Number of waivers
AIDCO	465.540,96	2

Annex 7
Compliance with payment time-limits
and suspension of time-limits

(Article 106.6 IR)

Time-limits for payments are laid down in the Implementing Rules of the Financial Regulation²⁷ (hereinafter IR), and exceptionally in sector specific regulations. Under Article 106 IR payments must be made within forty-five calendar days from the date on which an admissible payment request is registered or thirty calendar days for payments relating to service or supply contracts, save where the contract provides otherwise. Commission standard contracts are in line with the time-limits provided for in the IR. However, for payments which, pursuant to the contract, grant agreement or decision, depend on the approval of a report or a certificate (interim and/or final payments), the time-limit does not start until the report or certificate in question has been approved²⁸. Under Article 87 of the Regulation of the European Parliament and the Council laying down general provisions on the European Development Fund, the European Social Fund and the Cohesion Fund, a specific rule applies: payments have to be made within two months²⁹.

Following the revised Implementing Rules, which entered into application on 1 May 2007, the compliance with payment time-limits was reported for the first time by the Services in the 2007 Annual Activity Reports³⁰. Overall, the Commission has improved its performance for payments over 2005-2007, in number and in value, even if the average delay has not significantly decreased. The following table summarises the current situation concerning **payments made after the expiry of the time-limits** (hereafter late payments), as resulting from data encoded in ABAC:

	2005	2007
Late payments in number	42,74%	22,57%
Late payments in value	17,48%	11,52%
Delays on average ³¹	49,13 days	47,98 days

The **cause of delays** include inter alia the complexity of evaluation of supporting documents, in particular of technical reports requiring external expertise in some cases, the difficulty of

²⁷ Commission Regulation (EC) No 2342/2002 of 23 December 2002 (OJ L 357, 31.12.2002, p. 1) as last amended by Regulation (EC) No 478/2007 of 23 April 2007 (OJ L 111, 28.4.2007, p. 13).

²⁸ Pursuant to Article 106(3) IR, the time allowed for approval may not exceed:
(a) 20 calendar days for straightforward contracts relating to the supply of goods and services;
(b) 45 calendar days for other contracts and grants agreements;
(c) 60 calendar days for contracts and grant agreements involving technical services or actions which are particularly complex to evaluate.

²⁹ Regulation (EC) No 1083/2006 of the European Parliament and of the Council laying down general provisions on the European regional Development Fund, the European Social Fund and the Cohesion fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, p. 25).

³⁰ Based on available data in ABAC as of end of the financial year 2007.

³¹ Net delays.

efficient coordination of financial and operational checks of requests for payments, and managing suspensions.

The Commission has taken **many steps to avoid late payments**. Internal monitoring systems, with regular reporting on late payments and/or requested payments have been put in place. Simplification initiatives have been taken to speed up the process of examining requests for payments, such as wider use of audit certificates, better definition of deliverables or types of costs to facilitate the checks to be carried out. Awareness actions and exchanges of best practices also take place on a regular basis. These measures have already impacted positively, as the above statistics indicate. Moreover, in order to meet the new requirements of the revised IR, further developments had also to be made to ABAC in 2008.

As far as the **payment of interest for late-payments** is concerned, the Commission has had to deal with limited requests over 2005-2007.

	2005	2007
Requests for interest for late payments in number	149, i.e. 0,11%	136, i.e. 0,16%
Amounts of interest paid for late payments	230.736,58 €	378.211,57 €

The rules for the payment of interest for late payments are clearly stipulated in the standard contracts and grant agreements used by the Commission authorising officers. The very limited number of requests for payment of interest might be due to the fact that beneficiaries have not paid sufficient attention to the clauses entitling them to claim interest or that they deliberately do not claim it, in particular if the amount is not significant or if they have submitted the supporting documents late³². As from 1 January 2008 payment of interest for late payments is automatic and, in principle³³, no longer conditional upon the presentation of a request for payment.

The Commission is committed to further improving the management of payments and instructs its Services to comply constantly with high performance standards, to assess the efficiency of its tools and to take appropriate corrective measures to ensure timely payments.

³² In 2007, more than 1/3 of the total amount of interest paid has been paid to two energy suppliers.

³³ With the exception of small amounts (200 euro in total or less).