



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30.5.2007
COM(2007) 274 final

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

Synthesis of the Commission's management achievements in 2006

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

Synthesis of the Commission's management achievements in 2006

1. INTRODUCTION

Each Director-General and Head of Service reports annually to the College of Commissioners on the performance of his or her duties in the form of an Annual Activity Report.

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 by them in these Reports, while acknowledging that further efforts are needed to resolve a number of weaknesses. It complements the Synthesis of policy achievements in 2006 adopted by the Commission on 28 February 2007¹.

This Communication reports on how the Commission has performed its management responsibilities and on the assurance its internal controls systems provide and summarises the conclusions of the Annual Activity Reports. It examines where Directors-General or Heads of Service have made reservations, and presents an initial analysis of how the underlying weaknesses can be addressed. Finally, it examines views from beyond the Annual Activity Reports and addresses a number of important cross-cutting issues raised by the Director-General for Budget, the Internal Auditor, the European Court of Auditors, the Discharge Authority or identified by the Audit Progress Committee.

2. ASSURANCE GATHERED THROUGH THE ANNUAL ACTIVITY REPORTS

Having examined the Annual Activity Reports, in particular the declarations signed by each Director-General and Head of Service, the Commission notes that all delegated authorising officers indicated reasonable assurance as to the adequate use of resources (albeit qualified in some cases) and on the fact that the implemented control procedures give the necessary guarantees concerning the legality and regularity of the underlying transactions. These are the two key requirements that justify their statements of assurance.

At the same time, delegated authorising officers also disclosed residual weaknesses and made reservations in the appropriate cases. This section examines the main control issues raised, including reservations, by method of budget implementation.

In some cases a difference exists between the European Court of Auditors' assessment of the assurance to be drawn from control systems and the assurance given by the responsible Directors-General. This reflects partly differences of opinion on the typology and impact of error and on the evaluation of systems deficiencies, and partly the different perceptions regarding the operation of financial correction mechanisms, in particular the fact that the

¹ COM(2007) 67.

responsible Commission services apply a multi-annual system under which errors in one year may be detected and corrected in subsequent years, whereas the Treaty requires the Court to give an annual opinion.

In all instances where there is a difference between the European Court of Auditors' opinion and that of the Director-General, the latter will have to explain it in his/her next year's Annual Activity Report.

2.1. Direct centralised management: a complex framework that challenges the Commission's responsibility

The majority of internal policy actions are directly managed by the Commission in accordance with the basic act or programme concerned. Though some progress has been made in the legislation governing programmes for 2007-2013, most programmes are implemented under a complex legal framework, requiring the reimbursement of actual eligible costs claimed by beneficiaries and with a high number of beneficiaries per programme. These characteristics represent a challenge for the Commission, which has to balance the need for a sufficient level of control with the cost of those controls.

Several Annual Activity Reports have pointed to errors or inconsistencies from beneficiaries of Community grants on the calculation and charging of staff costs reimbursable as direct costs. In addition, some Directorates-General report that some grant beneficiaries have significant problems in providing adequate justification for these staff costs. This is a recurring issue that the Commission is tackling through greater recourse to lump-sums and flat rates, insofar as possible under the revised financial rules.

In 2006, the Directors-General for Research, Information Society and Media, Enterprise and Energy and Transport issued reservations regarding the accuracy of cost claims under the *5th Framework Programme for Research and Technological Development (FP5)*. However, the Commission notes that the overall financial impact of errors is limited with regard to the materiality criteria set and that FP5 related payments are in the phasing out stage.

As for the *6th Framework Programme for Research and Technological Development (FP6)*, the Directors-General for Research and for Information Society both reported insufficient evidence from ex-post controls in 2006, mainly due to the lack of a framework contract for such controls during the first part of the programming period. The Commission has reacted promptly and vigorously to these two reservations by adopting an action plan to:

- Increase staff dedicated to ex-post controls and related functions. The Annual Policy Strategy for 2008 has stipulated that 38 research posts shall be redeployed in 2007 to strengthen the ex-post control function in the "research" Directorates-General, with the possible addition of another 12 new posts in 2008;
- Implement a common ex-post control strategy and methodology across research departments, including a new harmonised sampling approach ensuring, on a multiannual basis, a comprehensive coverage of the population through a statistically reliable selection methodology. This strategy will prioritise the detection and correction of systematic errors among major beneficiaries while covering an appropriate representative sample of the audited population;

- Reinforced coordination and integration of ex-post controls within the "research" family, including joint audits;
- Introduce more ex-post controls and a better balance between in-house and outsourced work. The Commission will perform 300 ex-post controls for FP6 in 2007, compared with the 45 carried out in 2006;
- Introduce a more systematic supervision and follow-up of ex-post control results by management.

The Audit Progress Committee has also invited the "research" Directorates-General to pursue simplification and to fully exploit possibilities of the use of flat rates and lump-sums in *7th Framework Programme for Research and Technological Development* (FP7).

The Commission recalls that errors in cost claims are mainly due to the complexity of the legal framework, in particular the requirement for beneficiaries to claim actual staff costs. This requirement will continue to create problems for FP6 payments, even though reinforced ex-post controls will progressively allow more remedies to take place, in particular for systemic errors through application of audit findings to non-audited projects and the imposition of liquidated damages where an auditee fails to adequately correct such systemic errors.

Payments under FP7 should benefit from the new procedures agreed: preliminary checks of cost methodology for beneficiaries with multiple participations and the use of average personnel costs will be introduced, where appropriate, and always in line with the principle of sound financial management. Moreover, "agreed upon procedures" with auditors contracted by beneficiaries of FP7 grants will be used, to ensure consistency of audit work and to provide the Commission with a basis to judge eligibility of expenditure and compliance with the rules; the certifiers will non longer be asked to express an opinion on the eligibility of costs but only to provide factual information on the basis of which the Commission will decide on the eligibility of expenditure.

2.2. Shared and indirect centralised management: reinforcing the role of Member States

In cases of *shared management* and *indirect centralised management*, different levels of management and control are involved. The Commission obtains its assurance from a number of sources, including certification by national authorities, annual implementation and control reports, results of audits by the Member States or by the European Court of Auditors, and of course audits by the Commission itself.

The Directors-General for Regional Policy, Employment, Social Affairs and Equal Opportunities and Agriculture and Rural Development have expressed reservations because of the absence of reasonable assurance linked to management and control system weaknesses, mainly in programmes or measures in the United Kingdom, Spain, Sweden, Slovakia, Slovenia, Latvia, Italy and Greece and programmes under the INTERREG Community initiative. For all three Directorates-Generals, the total amount at risk with these reservations is limited: the issue is the lack of assurance on the legality and regularity of certain underlying transactions. The Directors-General decided to express reservations because of systemic deficiencies in some key elements of the Member States' management and control systems. They note that the problems concerned have existed for some years, and that the responsible

authorities have not taken the remedial actions required by the Commission, with a consequent reputational risk for the Commission.

To cover the financial risk for the EU budget, precise action plans for solving the problems have been established, with corrective actions required by the responsible national authorities. Where appropriate, and in particular if the Member States do not themselves make the corrections necessary to address the risk to Community payments, financial corrections will be applied. These corrections may, in certain cases, be made on the basis of extrapolating quantifiable irregularities from individual files where these are likely to occur in a great number of similar cases or in the form of flat rate corrections in cases of systemic weaknesses. In certain cases the suspension of payments was already contemplated, launched or applied within the 2006 budget execution.

The Commission gives high priority to resolving the problem of the insufficient implementation of the Integrated Administration and Control System (IACS) in Greece, already the subject of previous reservations since 2002. For the period 1999-2006, financial corrections totalling €479 million² were imposed on this Member State, covering the financial risk resulting from the shortcomings found. Such corrections will be imposed as long as is deemed necessary. The Commission proposed in March 2007 to amend the regulation³ on the financing of the Common Agricultural Policy, to introduce a more effective way for the Commission to reduce or suspend payments to a Member State in the event of serious and persistent deficiencies. The national authorities involved in this case have set up a detailed action plan that the Commission will monitor closely.

The Commission has pursued its efforts to implement a single audit approach under *shared management*, as indicated in its Progress report on the Commission Action Plan towards an Integrated Control Framework⁴ and in the Annual Activity Reports. For example, the Commission has improved the definition of control responsibilities and strengthened oversight of paying and certifying agencies. For the Structural Funds, the Commission has taken measures to encourage the coordination of audit standards and the dissemination of best practice. Following the example of the first Dutch national statement on EU spending in the Netherlands, the Commission will also continue to support the various national initiatives on national declarations on the use of European Union funds. The revised Financial Regulation provides in this respect that Member States shall produce an annual summary at the appropriate national level of the available audits and declarations. In agriculture, this requirement was already introduced in the sector specific legislation in 2006⁵.

Given the multi-annual character of the Structural Funds, Commission supervision extends throughout the programming period, from planning to the closure of the programmes. The control arrangements therefore operate on a multi-annual basis, with shortcomings identified and addressed over the entire programming period and reasonable assurance as to the legality and regularity of expenditure assessed on this

² The sum of €451 mio specified in AAR 2006 has been updated, notably to include the latest corrections imposed on Greece by Commission Decision 2007/243/EC of 18 April 2007 (OJ L 106, 24.4.2007, p. 55).

³ Council Regulation (EC) No 1290/2005.

⁴ COM(2007) 86 and SEC(2007) 311.

⁵ Council Regulation (EC) No 1290/2005 and Article 7(5) of Commission Regulation (EC) No 885/2006.

basis. Under the Action Plan towards an Integrated Internal Control Framework, the effectiveness of multi-annual corrective systems will be examined in 2007.

The Director-General for Justice, Freedom and Security has detected deficiencies in some management and control systems in Italy while the Director-General for Education and Culture has identified weaknesses in some national agencies involved in *indirect centralised management*. The Commission is reinforcing its supervision. In the first case, payments were suspended overall in 2006. In the second case, the Commission used the provisions of the *Lifelong Learning* and *Youth in Action* programmes to establish new rules⁶ for the designation and revocation of national agencies, the ex-ante and annual declaration of assurance by the National Authorities and the control and audits based on a "single audit approach". Furthermore the national agencies will be given better instructions and specific training. Simplification measures such as the wider use of flat rates are expected to reduce the risk of error.

The Commission will improve the supervision of the national agencies, based on an increased responsibility of the national authorities managing EU funds under *indirect centralised management* and on a "single audit approach" for control and audits, so as to deal with these shortcomings.

2.3. Joint management with international organisations

For management tasks delegated to international organisations, structured agreements with these international organisations, and in particular the Financial and Administrative Framework Agreement (FAFA) signed between the Commission and United Nations (UN) Secretariat in April 2003, to which a number of specialised agencies have also adhered in following years, provide a stable reference framework for joint management. Work is ongoing to further clarify specific clauses.

As the level of EC financing channelled through this mechanism increases, the level of controls carried out by the Commission on funds managed with the United Nations agencies is being reinforced. This is in line with the views expressed by the Commission's Internal Auditor as regards the implementation of the agreement.

The revised financial rules have introduced a clearer framework allowing better supervision and guarantees in the implementation of tasks entrusted to international organisations in the context of joint management.

A former reservation concerning the EU contribution to UNMIK Pillar IV in Kosovo was remedied through recoveries made during 2006 and through a new contractual agreement with the UN, which clarifies the sharing of responsibilities.

The FAFA has provided a much needed reference framework for cooperation between very diverse partners on both sides of the EC/UN partnership. Being a relatively new instrument, the parties to the agreement have set up joint working groups to deal with implementation issues while training initiatives and joint guidelines on reporting, verification and visibility are currently being discussed by the Commission and the UN.

⁶ Decision C(2007) 1807 of 26 April 2007.

2.4. Conclusion

The Commission notes that 15 Directors-General have made a total of 20 reservations in 2006 (31 in 2005). It considers that this implies that important control weaknesses identified in the past have been adequately addressed and that the Commission has continued to make progress in optimising its management in 2006.

For all reservations, the delegated authorising officers have committed themselves to appropriate action plans to resolve the underlying weaknesses. The College will monitor the implementation of the remedial actions.

It is essential to obtain appropriate assurance from intermediary bodies managing EU appropriations on behalf of or together with the Commission. It is also important to apply systematically legal provisions imposing remedial measures, such as recoveries, suspension of payments and financial corrections, when significant shortcomings in the legality and regularity of operations are detected.

3. CROSS-CUTTING ISSUES

3.1. Governance

- Governance statement

The Internal Auditor considered that the governance architecture of the Commission had solid foundations. However, he also proposed that it should be more transparent. The Commission supports this suggestion and will make available a governance statement aimed at clarifying for stakeholders and citizens the different actors, responsibilities and accountability mechanisms within the Commission, in a short, accessible text to be placed on the Europa website.

- Outsourcing and agencies

Executive agencies are dealt with in Annex 3 to the present Synthesis.

Thirty regulatory agencies have been created since the 1970s. In February 2005⁷, the Commission submitted a draft Interinstitutional Agreement to establish a comprehensive governance framework for the creation, structure, operation, evaluation and control of European regulatory agencies. Progress in the negotiations subsequently stalled, but discussions on the substance were re-launched in the Council at the end of 2006.

- Simplification

Following its Reform progress report of December 2005⁸, the Commission identified a number of areas for simplification and streamlining, notably human resource allocation, internal coordination, internal control standards, financial management, and IT tools and priorities. In May the Commission adopted a Communication entitled Human Resources Management: simplifying procedures for staff and created a Task Force to consult staff and

⁷ COM(2005) 59.

⁸ COM(2005) 668.

propose measures to simplify administrative procedures and improve the services provided to staff. As a pilot project, some central services have started performing internal impact analyses. This might be extended to all new or revised corporate processes to ensure that they are simple, efficient and effective and do not entail unnecessary administrative burdens.

In the area of financial management, the revised financial rules (revision of the Financial Regulation and of its Implementing Rules) introduced simplifications such as: lighter documentation requirements for small grants and contracts; facilitation of co-financing by contributions in kind (for example through the work done free of charge by external partners of the beneficiary); possibility to waive the requirement to provide financial guarantees, based on a case-by-case risk assessment; a higher threshold above which beneficiary organisations must provide a certificate by an external auditor; an extension of the principle of transparency by the publication of all beneficiaries of community funds, irrespective of the entity or authority involved in the implementation of the budget.

However, the level of legislative simplification has not been as great as might have been hoped. While the next programming period is some way off, services should already prepare the ground for further simplification in the future.

- Transparency initiative

Following to the European Transparency initiative, data on beneficiaries of shared management funds will be published. The Commission believes transparency on financial matters is an important element of accountability in the use of EU funds.

- Business continuity management

A working document on business continuity management in the Commission was presented in 2006⁹, to help maintain essential services in time of disruption.

- Ethics

As a part of a broader action to raise awareness on ethics and integrity issues, the Commission held an ethics day for its staff.

- Internal audit

In March 2006, the Internal Auditor presented the first Overview Report on the follow-up of audit recommendations, which indicates that, despite some progress, half of the critical and very important recommendations have not been implemented before the set target dates. The Audit Progress Committee, whose primary task is to report annually to the College on the follow-up by Commission services of recommendations from the Internal Auditor, alerted the Cabinets to the fact that some departments were lagging behind and asked them to monitor the follow-up by their departments. The Audit Progress Committee will reinforce this surveillance in 2007.

Whilst noting that action plans have been made by the auditees for all accepted IAS recommendations and that a high level of implementation of these action plans has been reached, the Commission will build on the progress made in 2006 to ensure the timely follow-

⁹ SEC(2006) 899.

up of all audit recommendations. It will encourage greater dialogue between the audit community and auditees. This should promote common understanding, ensure that the auditor formulates focused recommendations and encourage services to give priority to implementing them within the required timescale.

In his annual report for 2006, the Internal Auditor underlined the need for more coordinated audit planning and encouraged ongoing efforts to increase the professionalism of the Internal Audit Capabilities of Commission departments. The Commission's internal audit architecture continues to be strengthened and to contribute to stronger assurance for the institution.

Conclusion

The Commission considers that its governance architecture has reached a satisfactory level of stability and maturity, and will set out this architecture in a governance statement. At the same time, it is committed to continuing its efforts towards greater transparency, effectiveness and simplification. The executive agencies, over which the Commission exercises tight supervision, are fully integrated in this governance scheme. Nevertheless, the Commission considers it of major political importance to set up a single governance framework for regulatory agencies. The Commission supports the Internal Auditor in his efforts to deliver at the end of the 2007-2009 planning cycle his first overall opinion of the Commission's internal control systems and encourages a high level of cooperation between the Internal Audit Capabilities and the Internal Auditor.

3.2. Internal Control Systems and performance management

- The internal control framework in the Commission

In 2006, the Commission continued to improve its internal control framework. The ongoing revision of the Internal Control Standards aims to ensure greater clarity, simplicity and adaptability to conditions in individual departments so as to enhance effectiveness.

The Overview of the state of internal control in the Commission Directorates General and Services noted that significant progress was made in 2006 in implementing internal control structures and practices, but also that further progress was necessary in areas such as management information, legislative simplification, control strategies or the quality of Annual Activity Reports. The Internal Auditor recommended further improvements in ex-post controls, IT, and the implementation of new accounting rules and contract management.

- Risk management

The Commission made important progress in 2006 in further integrating risk management into strategic planning: the Annual Management Plans present the results of risk analysis and the Annual Activity Reports indicate if those risks materialised during the year, how they were managed and what residual risks remain and why. Efforts will be pursued towards coherent presentation of risks and to ensure that risk management actions plans are defined and executed without delays. Building on the risk management methodology developed in the Communication Towards an effective and coherent risk management in the Commission services¹⁰ and on a pilot exercise carried out in 2006, the Commission has established a peer-

¹⁰ SEC(2005) 1327.

review process for identifying, assessing and managing cross-cutting risks, which can be addressed more effectively by a group of services than by individual services.

- Performance management

The guidelines given to the services for preparing their Annual Management Plans and Annual Activity Reports reinforced the focus on results for beneficiaries and stakeholders and on the impact of Commission action on EU society at large.

A concise template to ensure a consistent presentation of control structures and sources of assurance has been developed for the 2006 Annual Activity Reports although it has not yet been taken up by all Directorates-General and Services. Over time the format is however expected to improve awareness of control structures and sources of assurance and will help pinpoint weaknesses and define improvements.

While an increased number of services presented indicators on legality, regularity and performance in their 2006 Annual Activity Reports, continued efforts to develop such indicators will need to be pursued while ensuring a coherent approach by family of services.

The quality of Annual Activity Reports should be further improved: in particular, control strategies and results need to be explained clearly and simply, and action plans and their expected impact should be detailed.

- Action Plan towards an Integrated Internal Control Framework

The results to date of the implementation of the Action Plan are broadly positive. While there have been delays in some actions, the Commission considers that it will still be able to meet the objective: to have the foundations in place by the end of 2007 to properly manage the risk of error and to provide increased assurance, as envisaged in the Action Plan. The results of actions will be progressively more visible and demonstrable, initially in terms of a more transparent and clearer control approach. This should lead to a reduction in the error rate through improved correction and prevention.

In the light of experience, a number of actions have been refined to give further impetus towards increased assurance, concentrating on direct centralised management and including a detailed examination of the cost-benefit-risk balance for controls. The foundations will be in place by the end of 2007 for the Integrated Internal Control Framework to begin to have the planned impact on assurance. However, the Progress Report on the Commission Action plan towards an Integrated Internal Control Framework sets out where important challenges remain.

Measures are being taken to increase the intensity of ex-post controls in many areas, with action plans setting out remedial measures and progress in this area now closely monitored. However, the Director-General for Communication raised a reservation signalling the absence of a structured systematic ex-post control system, the set-up of which in 2007 will be assessed by the Commission.

Intensified verification should be accompanied by a more coordinated approach in each family of services as already under way for research and the Structural Funds.

Greater coordination is gradually being introduced in the area of the Structural Funds, including harmonisation of the sampling methodologies to be used by Member States in the 2007-2013 programming period.

The Ex-Post Control Network confirmed in 2006 its usefulness for sharing good practices between the individual control units. Key issues discussed included the design of sampling strategies to obtain reasonable assurance, the follow-up of controls and possible approaches to the application of sanctions.

Conclusion

The Commission considers that a comprehensive view of internal control activities should be developed for each activity, integrating the different elements and levels of control. A cost-effective balance between different control measures needs to be ensured and the results of control should be properly monitored and concerted action taken to address identified weaknesses.

It will closely monitor the implementation of comprehensive control strategies and methodologies and will ensure coherent ex-post approaches by service families, so that: (1) control strategies are formalised and contain precise objectives; (2) there is clear monitoring and reporting bringing together the results of controls at all levels; (3) the responsibilities of actors, including synergies across services, are clarified and applied.

The Commission will ensure that all delegated authorising officers fully meet the requirement to use the template, thereby establishing a clearer link between control systems and assurance in their 2007 Annual Activity Reports, and to introduce, as envisaged, indicators for the legality and regularity of transactions to support assurance.

The Commission will further monitor the system of structured ex-post control set up by the Director-General for Communication as well as the action plan defined for ex-post controls for the research family.

3.3. Financial management

- Accounting

The Commission is pleased to note the positive declaration of assurance with reservations from the Court of Auditors for the 2005 accounts, the first under the new accrual accounting system.

Progress continues to be made in applying the new accounting rules for establishing the 2006 annual accounts. As regards assuring the quality of accounting data, progress has been made in improving the control environment. Concerning the validation of local systems in 2006, the Accounting Officer noted that, in general, services had taken appropriate measures to address the matters raised in his previous year's report, and underlined the significant progress made by the two Directorates-General whose validation had been suspended in 2005.

The introduction of accrual accounting in the delegations in January 2007 and improvement of internal control made it possible to remove the reservations raised in the previous years regarding administrative expenditure in EU delegations.

For the first time, the Accounting Officer will sign off the final accounts for the year 2006 certifying that he has reasonable assurance that the accounts present a true and fair view of the Institution's financial situation.

- Contract management

In audits carried out in 2006, the Internal Auditor identified some areas in need of improvement regarding contract management. In the field of building procurement contracts in Brussels, an inter-service working group set up in December 2006 has proposed a new methodology. The revised Financial Regulation will also simplify the procedural and documentation requirements for low-value contracts.

Conclusion

The Commission notes the increased transparency and accountability achieved through the introduction of the accrual accounting system. It indicates a number of concrete measures that will be taken to simplify the rules applicable to beneficiaries of grants and contractors.

3.4. Human resources

- Integrated human resources strategy

The Internal Auditor emphasises that a long-term strategy for human resources management is important for the effective allocation of human resources.

The Commission will improve its human resources allocation through a more proactive identification of both current and future staffing competences and departmental needs. The Commission has launched a programme for continuous professional development for all members of the human resources community in the Commission, aimed at attracting, developing and retaining competent staff.

The gathering and evaluation of human resources data is another important element of strategic human resources management where the Commission is developing the systems needed to respond to external requests concerning the use of its human resources.

As requested by the Parliament in 2006, the Commission has produced a report (SEC(2007) 530) containing an analysis of foreseeable needs for human resources until 2013, concluding that all identified priority needs outside of enlargements will be covered by redeployments inside and between services.

- Recruitment of new officials from EU-10 Member States

The ambitious 2004-2006 recruitment targets for the EU-10 were met for administrative staff and largely met for middle managers (77% of the target) in 2006. The recruitment of senior managers has progressed satisfactorily. A recruitment shortfall was noted in certain profiles or nationalities, mainly due to the low number of candidates to the competitions. The European Personnel Selection Office is currently working on an improved information and communication strategy. The Commission put in place a monitoring mechanism to ensure that recruitment targets for the EU-12 are met in 2007.

Conclusion

The Commission is committed to meeting its target for recruitments of officials from the EU-12. It has defined its future needs and will continue its efforts to anticipate coming challenges for an efficient and modern administration.

3.5. IT issues

A reservation regarding the risk due to the inadequacy of the **data centres building infrastructure** was signalled for the second time, affecting the continuity of operations rather than the legality and regularity of transactions. In addition, the Internal Auditor also pointed to the need for improvements in buildings, data security, disaster recovery and continuity of services. Another issue raised was the planning for IT projects, where the decision was taken to optimise value for money by defining priorities for corporate projects.

The Commission is fully committed to implementing the multi-annual strategy to ensure secure housing conditions for the data and telecommunication centres of the Commission both in Brussels and in Luxembourg. Mitigating measures were identified for implementation in 2007.

4. CONCLUSIONS

The Commission considers that the internal control systems in place, with the limitations described in the 2006 Annual Activity Reports, provide reasonable assurance as to the legality and regularity of the operations 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.

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

Annex 1

2006 Synthesis' multiannual objectives

STATE OF PLAY

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

New actions established by the 2006 Synthesis appear *in bold italic*.

| Internal control systems and performance management | | | | |
|---|--|--|---|---|
| Subject | Objective | Initiative(s) to meet the objective | Responsible service(s) and timetable | Progress made in 2006 |
| 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. | Continuous action. On top of the regular review of the effectiveness of internal control, most DGs have in 2006 organised internal discussions and training sessions for their staff, as well as regular reporting on the state of internal controls (minimum twice a year). The Commissioner is duly informed. |
| | | ➤ <i>Revision of internal control standards to enhance effectiveness</i> | DG BUDG by the end of 2007 | Ongoing. |

| | | | | |
|--|--|---|--|--|
| | | <ul style="list-style-type: none"> ➤ 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>Ongoing.</p> <p>A first comprehensive table of indicators of legality and regularity has been drawn up by the Cohesion family within the action objectives and indicators (see hereafter). This was envisaged as optional in the standing instructions on 2006 AAR and some DGs already used them in their AAR 2006. Those indicators will become compulsory as from the AAR 2007.</p> |
| Annual activity reports and Synthesis | 2. Promoting Commission's accountability through annual activity reports and their synthesis solidly based on assurances from managers. | <ul style="list-style-type: none"> ➤ 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. | All services in the 2007 annual reporting exercise. | <p>Ongoing.</p> <p>Guidelines on 2006 AAR provide for a more structured way for reporting on internal control systems and risks but more effort is needed to ensure the universal use of this approach. On the impact of reservations on the reasonable assurance, DGs and services are generally more precise in their 2006 AARs.</p> |
| | | <ul style="list-style-type: none"> ➤ With the assistance of central services, work by 'families' will be continued, so that each area benefits from a specific, coherent methodology. | | <p><i>Initiative integrated into the Action Plan towards an Integrated Internal Control Framework.</i></p> |
| 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. | <ul style="list-style-type: none"> ➤ 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. | <p>Continuous action.</p> <p>Guidelines on 2007 AMPs reinforce the risk management dimension, in particular reporting on critical risks. In most DGs, risk management is embedded into the 2007 AMP.</p> |
| | | <ul style="list-style-type: none"> ➤ The Commission will address how to deal with risk management within 'families' of similar activities in services. | By 2007 the Commission should have gained sufficient experience to submit proposals in this context. | <p>Completed.</p> <p>Based on a pilot exercise on cross-cutting risks carried out in 2006, the Commission established a peer-review process for managing those risks.</p> |

| | | | | |
|----------------------------------|--|---|--|---|
| Objectives and indicators | 4. Making objectives and indicators a policy and management tool allowing, on the one hand, the Commission to monitor its performance and, on the other, stakeholders to assess the outcome of the Commission's work and its benefit for citizens. | ➤ The Commission will continue its review of objectives and indicators, with a particular attention on spending programmes in 2006 and on other Commission tasks in 2007. | Services concerned with the support of SG and BUDG should feed progressively into the 2007 and 2008 annual management plans. | <p>Completed.</p> <p>A pilot action, involving the Cohesion for Growth and Employment family (DG REGIO and DG EMPL) was carried out in June and July 2006. The agreed methodology served as a basis for the guidelines on 2007 AMPs. Such guidelines now clarify that AMPs should contain impact- and result-oriented objectives, each measured by indicators.</p> <p>In most DGs, the AMP drafting process was the occasion of broad discussions on DG's missions, strategic objectives and indicators.</p> |
|----------------------------------|--|---|--|---|

| Governance | | | | |
|---------------------------------------|---|--|---|---|
| Subject | Objective | Initiative(s) to meet the objective | Responsible service(s) and timetable | Progress made in 2006 |
| 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, <i>especially the annual management plans.</i> | All services | <p>Continuous action.</p> <p>Follow-up is being actively monitored through different tools (DGs' internal databases, "Issue track" system set up by the Audit Progress Committee secretariat...). However further action is needed to ensure that high priority recommendations are addressed on a timely basis.</p> <p>The Audit Progress Committee alerted the Cabinets of departments lagging behind, requesting them to monitor the appropriate follow up by their services.</p> |

| | | | | |
|-----------------------------------|--|--|---|--|
| Regulatory agencies | 6. Clarifying the respective roles and responsibilities of Commission services and <i>regulatory agencies</i> . | ➤ The input of all institutions is necessary to negotiate a comprehensive framework, to clarify the respective responsibilities of the institutions and of the regulatory agencies. This framework would be applicable to the creation of future agencies and, at a later stage, to those already in existence. The Commission calls on the Council to adopt the proposed framework on regulatory agencies, suggest amendments, or reflect on new possibilities. | All services concerned with the assistance of SG and DG BUDG. | Ongoing. The Commission supports the discussions on the substance that were relaunched in the Council at the end of 2006. |
| 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 each delegated authorising officer. | ➤ 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. Arrangements have been established between BEPA and SG (for management of human and financial resources, logistics and strategic planning) and between IAS and DG ADMIN (on the pooling or the respective financial circuits and HR services). Regarding IT Infrastructure Consolidation, DIGIT is already ensuring end-user support for the ADMIN family (DG ADMIN and offices). Furthermore, the IAS signed an agreement with DIGIT in October 2006 to take over its IT-support. |
| Reservations | 8. Ensuring strong follow-up of action plans related to the expressed reservations, notably for the progress to be made in 2006. | ➤ Directors-General will report on progress to the respective Commissioner in the context of the regular follow-up meetings on audit and control. <i>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.</i> | Concerned DGs. | Continuous action. For all reservations, delegated authorising officers have laid down appropriate action plans to solve the underlying weaknesses. Follow up of actions to remedy to reservation in previous AARs has been specifically included in the guidelines for the 2007 AMPs. |

Financial management

| Subject | Objective | Initiative(s) to meet the objective | Responsible service(s) and timetable | Progress made in 2006 |
|--|---|--|--|---|
| 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>2006 saw key progress in the implementation of the Action plan towards an integrated internal control framework, adopted by the Commission in January 2006 [COM(2006) 9 and SEC(2006) 49]. The Commission presented a report on the progress of this action plan (COM (2007) 86).</p> <p>Improvements concerned in particular the introduction of a concise format to present control strategies and sources of assurance in AAR guidelines (although more effort will be required in 2007 to ensure consistent use of this), strengthened oversight of paying and verifying agencies in shared management and a new sampling approach for the FP6.</p> |
| 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 | <p>➤ 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.</p> <p>➤ Common guidelines on sampling methods and related level of confidence should be finalised.</p> | <p>All services with the assistance of DG BUDG, continuous action.</p> <p>Concerned services with the support of DG BUDG, progressively up to the end of 2007.</p> | <p><i>Initiative integrated into the Action Plan towards an Integrated Internal Control Framework.</i></p> <p>Ongoing.</p> <p>Common methodology agreed under FP6 and sharing of audit results in the area of structural funds constitute a good basis for establishing common guidelines in the future.</p> |

| | | | | |
|---------------------------------|---|---|---|---|
| | | <ul style="list-style-type: none"> ➤ DG COMM will put in place a system of structured ex-post control in all Representations and Units in the Headquarter. | DG COMM by the end of 2007 | - |
| 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. | <ul style="list-style-type: none"> ➤ Under the amended Financial Regulation, the Accounting Officer will sign off the accounts. | Accounting Officer by the entry into force of the amendments to the Financial Regulation. | Completed – to be applied. Article 61(2)a of the FR : Commission modified proposal to revise the FR now incorporates the signing off of the accounts by the Accounting Officer. For the first time, he will sign off the accounts for the year 2006. |
| | | <ul style="list-style-type: none"> ➤ 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 | Continuous action. The 2005 accounts (the first edition under the modernisation of accounting project) were delivered on time with regard to the Financial Regulation and were deemed reliable by the Court of Auditors. A working group was created by the service of the Accounting officer for providing guidance to DGs in order to improve accounts' quality. |
| Financial simplification | 12. Making financial management more efficient by applying simplification measures. | <ul style="list-style-type: none"> ➤ 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. | <i>Initiative integrated into the Action Plan towards an Integrated Internal Control Framework.</i> |
| | | <ul style="list-style-type: none"> ➤ To ensure that the new programming period can start under the new legislative framework, the Commission calls on the legislative authority to adopt the basic acts and Financial Regulation so that | Legislative authority for the basic acts and Fin. Regulation. DG BUDG and concerned services | Completed. Basic acts for the programming period 2007-2013 and amendments to financial regulations adopted. |

| | | | | |
|--|--|--|--------------------|--|
| | | it can adopt in due time its Implementing Rules. | by the end of 2006 | |
|--|--|--|--------------------|--|

| Human resources | | | | |
|-----------------|---|---|---|---|
| Subject | Objective | Initiative(s) to meet the objective | Responsible service(s) and timetable | Progress made in 2006 |
| Simplification | 13. Simplifying procedures to increase both efficiency and employee satisfaction. | <ul style="list-style-type: none"> ➤ 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>Ongoing.</p> <p>In May 2006 the Commission adopted a Communication entitled "<i>Human Resources Management: simplifying procedures for staff</i>" and created a Task Force mandated to consult staff and propose measures to simplify administrative procedures and improve services provided to staff.</p> <p>A report on the progress of the work of the Task Force was adopted by the Commission in December 2006. The final report and Action Plan proposed by the Task Force will be presented as an annex to a Commission Communication the adoption of which is scheduled for June 2007.</p> |
| | | <ul style="list-style-type: none"> ➤ 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>Ongoing.</p> <p>During 2006, two working groups have developed various options for a revised system which will be simulated and tested throughout 2007 with the objective to implement the changes at the beginning of 2008.</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. Achievements in 2006 included the identification, dissemination and publication of existing best practices within HR units. The development of HR metrics was initiated and will be continued and expanded in the future. DG ADMIN made a proposal to introduce the generation of corporate statistics and to provide regular reporting on organisation charts and administrative support and coordination functions. |
| | | ➤ 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. DG ADMIN monitors the rate of recruitment for enlargement and turnover posts. It takes action to meet targets laid down by the Commission for the recruitment of management and non-management staff from the new Member States. Specialised training is provided if specific needs are expressed (e.g. ABAC training, HR professionalisation programme). |
| | | ➤ 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. DG ADMIN is continuing to further improve the structure and data provided in the JIS and is taking necessary measures to adapt the JIS where appropriate, in particular as regards reporting capabilities. |

| | | | | |
|--|--|---|--|---|
| | | <ul style="list-style-type: none"> ➤ 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. | <p>DG ADMIN in collaboration with SG and DG BUDG, by the end of 2007 (originally by the end of 2006).</p> | <p>Ongoing.</p> <p>The Mobility Report for 2005 was presented to the Vice-President in July 2006 and included the first ever statistical analysis of mobility of Heads of Units. Further work has been undertaken on mobility data with the view to developing a new approach to reporting. Dissemination of Best Practices continued. The working group on mobility finalised its work in December 2006, the conclusions of which are currently discussed by the Group of Resource Directors.</p> |
|--|--|---|--|---|

| Continuity of operations | | | | |
|----------------------------|--|--|--|---|
| Subject | Objective | Initiative(s) to meet the objective | Responsible service(s) and timetable | Progress made in 2006 |
| Business continuity | 15. Ensuring that the Commission is able to maintain business continuity in case of major disruption to its activities | <ul style="list-style-type: none"> ➤ 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>Ongoing.</p> <p>In July 2006 the Commission adopted the Communication on Business Continuity Management [SEC(2006)898 and 899]. This includes inter alia a definition of critical and essential functions and corresponding information systems. DGs and services are currently developing the necessary business continuity arrangements, including crisis financial circuits.</p> <p>All DGs and services now have a Business Continuity Plan, which they will be exercising and reviewing during 2007. testing of critical and essential IT systems should be finished by the end of 2008.</p> |
| | | <ul style="list-style-type: none"> ➤ The Commission will address the issue of the | DIGIT, OIB and OIL in | Ongoing. |

| | | | | |
|--|--|--|---------------------------------|---|
| | | <p>suitability of the data centre hosting IT systems and ensure that current reflections on the best IT governance arrangements lead to operational conclusions in 2006.</p> | <p>2006 and in 2007.</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 move of most critical IT equipments 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>The Commission, wanting to ensure the best value for money, took the initiative of defining priorities for corporate projects through the ABM Steering Group. A study on the consolidation of the IT infrastructure and related support services concluded that major savings through economies of scale (consolidating the infrastructure and support services) and staff redeployment could be reached while improving the quality of service.</p> |
|--|--|--|---------------------------------|---|

Annex 2

Reservations 2006, 2005, 2004, 2003

| DG | | Réserves 2006 | Réserves 2005 | Réserves 2004 | Réserves 2003 | Réserves 2002 |
|-------|---|--|--|--|---|--|
| AGRI | 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 | 5 1. EAGGF Guidance programmes; 2. International Olive Oil Council; 3. Import of Basmati rice; 4. IACS in Greece; 5. Export refunds |
| REGIO | 2 | 1, Reservation concerning the management and control systems for ERDF 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. Reservation concerning the management and control systems for ERDF 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 | 4 1. ERDF post-2000; 2. Cohesion Fund post-2000; 3. Community Initiatives 2000-2006; 4. Cohesion Fund pre-2000 |

| | | | | | | | | | | |
|------|---|---|---|--|---|--|---|---|---|---|
| EMPL | 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 | 1 | 1. European Social Fund - Member states' management and control systems |
| FISH | 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 | 1 | 1. FIFG expenditure. Analysis of the Management and Control systems not yet completed for all Member States |
| JRC | 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 | 1 | 1. Sound financial management: income and cash management |
| RTD | 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 | 2 | 1. COST secretariat; 2. Frequency of errors in shared cost contracts |

| | | | | | | | | | | |
|-------|---|---|---|---|---|--|---|---|---|---|
| INFSO | 3 | <p>1. Allocation of research personnel</p> <p>2. Errors relating to the accuracy of cost claims and their compliance with the provisions of the research contracts, FP5</p> <p>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</p> | 2 | <p>1. Errors relating to the accuracy and eligibility of cost claims and their compliance with the provisions of research contracts under FP5;</p> <p>2. Allocation of research personnel</p> | 2 | <p>1. Frequency of errors in shared cost contracts;</p> <p>2. Research staff working on operational tasks</p> | 2 | <p>1. Frequency of errors in shared cost contracts;</p> <p>2. Research staff working on operational tasks</p> | 2 | <p>1. Frequency of errors in shared cost contracts;</p> <p>2. Research staff working on operational tasks</p> |
| ENTR | 2 | <p>1. Errors relating to accuracy and eligibility of costs claims and their compliance with the provisions of the research contracts under FP 52. Unsatisfactory functioning of the financing of European Standardisation</p> | 2 | <p>1. Errors relating to accuracy and eligibility of costs claims and their compliance with the provisions of research and eligibility of costs claims and their compliance with the provisions of the research contracts under the 5th Research Framework Programme;2. Uncertainty regarding cost claims of the European Standardisation Organisations</p> | 2 | <p>1. Frequency of errors in shared-cost contracts in the research area;2. Uncertainty regarding cost claims of the European Standardisation Organisations</p> | 2 | <p>1. Frequency of errors in shared-cost contracts in the research area;2. Financial management of conferences organised under the Innovation Programme</p> | 1 | <p>1. Frequency of errors in shared-cost contracts in the research area</p> |

| | | | | | | | | | | |
|------|---|---|---|---|---|---|---|--|---|--|
| TREN | 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 | 5 | 1. Frequency of errors in shared cost contracts; 2. Burden of the past; 3. EURATOM security control Office; 4. Expertise for control of nuclear security; 5. Nuclear safety |
| EAC | 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 | 0 | 0 |
| ENV | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 1. Potentially abnormal RAL; 2. Grants- Eligible costs | 5 | 1. Shortcomings in the development of financial circuits; 2. Excessive potential abnormal RAL; 3. Excessive payment delays; 4. Declaration of eligible costs in relation to grants; 5. Verifications under Art. 35 of the Euratom Treaty |

| | | | | | | | | | | |
|-------|---|---|---|---|---|---|---|--|---|--|
| SANCO | 1 | 1. Insufficient assurance of business continuity of a critical activity | 1 | 1. Health crisis management | 0 | 0 | 0 | 0 | 0 | 0 |
| JLS | 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 œuvre encore incomplète des contrôles ex-post sur place | 0 | 0 | 3 | 1. Internal control standard 16: Separation of tasks 2. Internal control standard 17: Supervision 3. European Refugee Fund |
| ESTAT | 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 | 2 | 1. Project management; 2. Ex-post control |
| ECFIN | 1 | 1. Possibility that additionality requirements are not sufficiently met | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 1. Macro-financial assistance to 3rd countries; 2. Internal financial management |
| TRADE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| AIDCO | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1. Partnership with an NGOs association | 0 | 0 |

| | | | | | | | | | | |
|-------|---|---|---|---|---|---|---|---|---|---|
| ELARG | 0 | 0 | 1 | 1. Legal status and liability of contractual partner in the framework of implementation of EU EU contribution to UNMIK Pillar IV in Kosovo | 1 | 1. Gaps in Roumania's and Bulgaria's capacity to manage and implement increasing amounts of aids | 3 | 1. Inherent risk in decentralised systems;2. Gaps in systems and transaction audits;3. Uncertainties regarding claims of financial intermediaries | 3 | 1. System audits in candidate countries;2. Closure audits;3. Uncertainties regarding claims of financial intermediaries |
| ECHO | 0 | 0 | 0 | 0 | 1 | 1. Non respect of the contractual procurement procedures by a humanitarian organisation for projects funded by ECHO | 0 | 0 | 0 | 0 |
| DEV | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1. Financial operations and procedures |
| RELEX | 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 | 2 | 1. Internal control standards in Directorate K; 2. Internal control standards in Delegations |
| TAXUD | 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 | 0 | 0 |

| | | | | | | | | | | | |
|-------|---|---|---|--|---|--|---|--|---|---|---|
| MARKT | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1. Late payment of expenses for experts |
| COMP | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 1. Macro-financial assistance to 3rd countries; 2. Internal financial management |
| COMM | 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 | 2 | 2 | 1. Relays and networks; 2. Representations |
| ADMIN | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 1 | 1. Charlemagne |
| DIGIT | 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 | 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 | | 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 | 2 | 1. Secondary legislation project; 2. Consolidation project |
| BUDG | 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 | 2 | 1. Accrual accounting; 2. Syncom subsystems | |
| SG | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| BEPA | 0 | 0 | 1 | 1. Weak general internal control environment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SJ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SCIC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1. Freelance interpreters |
| DGT | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| IAS | 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 | 0 | 0 | 0 |
| OLAF | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 20 | | 31 | | 32 | | 49 | | 51 | | |

Annex 3

Summary of the Annual Activity Reports of executive agencies

With the support of the legislative authority, the Commission has undertaken as part of its financial and administrative reform a major **readjustment of its externalisation policy**. This has involved the introduction of clear rules for the devolution of responsibilities to private bodies and for their transparency as well as the gradual dismantling of all former technical assistance offices. Following the recast of the Financial Regulation in 2002, externalisation has been rationalised in particular with the use of executive agencies to implement specific programmes under indirect centralised management.

Four **executive agencies** have so far been created: the Intelligent Energy Executive Agency (IEEA) (which later became the Executive Agency for Competitiveness and Innovation), the Public Health Executive Agency (PHEA), the Education, Audiovisual and Culture Executive Agency (EACEA) and the Trans-European Transport Network Executive Agency. Three of these executive agencies were or became operational in 2006.

The Commission carried out a **cost-benefit analysis** prior to their creation and will draw up an evaluation report on the first three years of operation.

The Annual Activity Reports show that the breakdown of staff employed by the executive agencies in 2006 was as follows:

| | Seconded officials and temporary agents | Contractual agents | Other external agents | <i>Total</i> |
|--------------|---|--------------------|-----------------------|--------------|
| IEEA | 16 | 25 | | <i>41</i> |
| PHEA | 8 | 17 | | <i>25</i> |
| EACEA | 64 | 214 | 10 | <i>288</i> |
| <i>Total</i> | <i>88</i> | <i>256</i> | <i>10</i> | <i>354</i> |

By the end of 2006, between 75% and 100% of the target level of recruitment for the different staff categories had been reached. Despite those initial difficulties in recruiting staff, the agencies indicated in their **Annual Activity Reports** that they were able to achieve the objectives of their work programmes to a satisfactory extent. They all provided the required reasonable assurance without reservations.

The Commission has different means for ensuring supervision of the tasks delegated to the executive agencies:

- The governance architecture of executive agencies is defined in the 2002 Council Regulation laying down the statute of such agencies¹¹; it is further set out in the act of delegation itself.
- Each agency is managed by a Director and by a Steering Committee, composed of five members appointed by the Commission, which adopts the agency's annual work programme comprising detailed objectives and performance indicators, as well as the agency's administrative budget.
- The Directors of executive agencies, who are Commission officials appointed by the Commission, exercise the function of authorising officer by delegation as regards the implementation of the operational appropriations, under the supervision of the parent Directorate(s)-General.
- The Commission's arrangements for planning, reporting, internal controls systems, internal audit and accounts are fully applicable to the executive agencies.
- Regular contacts take place at different levels between the agency and the parent Directorate(s)-General.
- Executive agencies have to comply with the **Internal Control Standards**. In 2006, compliance was satisfactory but lower than in Commission services. Therefore, they and their parent services will need to pay particular attention to ensuring that their systems advance quickly towards a compliance level comparable to that in the Commission.

The screening for planning and optimising Commission human resources adopted by the Commission on 24 April 2007 **has not indicated any need for new executive agencies** beyond the externalisation already proposed in the Research area.

¹¹ 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, 13.1.2003).

Annex 4

Rapport sur les procédures négociées – exercice 2006

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.

L'article 54 ME ayant été amendé par la révision "autonome" des Modalités d'exécution entrée en vigueur le 22 août 2006, l'analyse des procédures négociées pour l'ensemble de l'année 2006 a été conduite conformément aux nouvelles dispositions. Ces dernières prévoient notamment que les procédures négociées attribuées sur certaines bases légales (où la procédure négociée est à considérer comme procédure "normale") soient exclues du recensement. Par ailleurs, les données des années précédentes ayant été calculées sur des bases différentes, la comparaison interannuelle, prévue audit article 54 ME, a été rendue non significative pour l'année 2006. Par conséquent, seule la variation par rapport à la moyenne générale de l'Institution a pu être établie pour chaque DG/service.

2. METHODOLOGIE

Une distinction a été faite entre les 40 DG, Services, Offices et Agences exécutives qui n'octroient pas d'aide extérieure, et les 3 DG (AIDCO, ELARG et RELEX) passant des marchés dans le cadre d'actions extérieures (base légale différente: Chapitre 3 du Titre IV de la Deuxième Partie du RF) ou pour compte de la Commission mais en dehors du territoire de l'UE.

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

3. RESULTATS GLOBAUX DU RECENSEMENT FINAL

3.1. Les 40 DG, Services ou Offices sans les 3 DG "action extérieures"

Sur base des données reçues, les statistiques suivantes ont été établies: 153 marchés négociés pour une valeur totale de 179 209 493 euros ont été attribués sur un ensemble de 1 243 marchés toutes procédures confondues, pour une valeur totale de 2 452 696 081 euros.

La proportion moyenne pour l'Institution du nombre de procédures négociées par rapport au nombre de marchés passés s'élève dès lors à 12,31%. La moyenne de l'Institution calculée par rapport au montant des marchés attribués (au lieu du nombre de marchés) s'élève à 7,31%.

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 **18,46%**.

Ainsi, 9 DG ou Services sur 40 ont dépassé le seuil de référence en 2006. Toutefois, il faut signaler que 4 d'entre eux n'ont passé qu'une procédure négociée mais leur faible nombre des marchés au total fait que leur moyenne soit élevée. Par ailleurs, pour une DG le seuil de référence est dépassé de justesse. Enfin, pour 2 des DG, les procédures négociées représentent un pourcentage substantiellement inférieur à la moyenne de l'Institution en valeur totale des marchés passés.

Finalement, comme déjà indiqué au point 1, la comparaison interannuelle, prévue à l'article 54 ME, a été rendue impraticable pour l'année 2006.

3.2. Les 3 DG "actions extérieures"

Sur base des données reçues, les statistiques suivantes ont été établies: 153 marchés négociés pour une valeur totale de 124 906 052 euros ont été attribués sur un ensemble de 1 322 marchés toutes procédures confondues, pour une valeur totale de 989 958 991 euros.

La proportion moyenne pour les 3 DG "actions extérieures" du nombre de procédures négociées par rapport au nombre de marchés passés s'élève dès lors à 11,57% et la moyenne calculée par rapport au montant des marchés attribués s'élève à 12,62%. Le seuil de référence (moyenne plus 50%) étant donc de **17,36%**, seule une des ces DG dépasse ce seuil.

4. ANALYSE DES JUSTIFICATIONS ET MESURES CORRECTIVES

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

Une deuxième série d'arguments met en évidence des **situations objectives du secteur d'activité économique** où le nombre d'opérateurs (candidats ou soumissionnaires) peut être fort limité, voire en situation de monopole. Il arrive de ne pas avoir d'offres suite à un appel d'offres avec publication ou de devoir recourir à un opérateur pour des raisons de propriété intellectuelle et expertise spécifique. Des situations de captivité technique peuvent également apparaître.

En troisième lieu, les **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 à condition que le marché initial a été passé par procédure ouverte/restreinte, sont évoqués.

Plusieurs mesures sont proposées par les DG pour infléchir la situation. Le **renforcement de leur structure interne, l'amélioration de la formation du personnel et l'établissement de documents types** sont évoqués en premier lieu. Il est également considéré qu'une **meilleure communication interservices** peut avoir un impact sur le nombre des procédures négociées. Finalement, **l'amélioration du système d'évaluation des besoins** des DG/services, une **meilleure programmation** et la création ou le renforcement d'une "**politique de gestion de produit**" dans certains domaines sont mentionnés pour arriver à une réduction du recours aux procédures négociées.

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 5

Summary of waivers of recoveries of established amounts receivable in 2006 (Art. 87.5 IR)

In accordance with Article 87(5) of the Implementing Rules the Commission shall 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 2006.

EC budget:

| Directorate-General/Service | Amount of waivers in € | Number of waivers |
|-----------------------------|------------------------|-------------------|
| AGRI | 2 121 285,63 | 2 |
| AIDCO | 6 800 808,94 | 32 |
| COMP | 2 450 000,00 | 2 |
| EACEA | 100 000,00 | 1 |
| ELARG | 1 372 283,00 | 1 |
| EMPL | 124 066,40 | 1 |
| ENV | 127 146,80 | 1 |
| FISH | 713 429,00 | 1 |
| INFSO | 6 860 395,32 | 16 |
| RTD | 851 067,11 | 4 |
| TREN | 1 518 302,24 | 3 |
| | 23 038 784,44 | 64 |

European Development Fund:

| Directorate-General/Service | Amount of waivers in € | Number of waivers |
|-----------------------------|------------------------|-------------------|
| AIDCO | 6 549 996,00 | 2 |