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REPLY OF THE COMMISSION TO CHAPTER 6 OF THE ANNUAL REPORT 2009

EXTERNAL AID, DEVELOPMENT AND ENLARGEMENT

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INTRODUCTION

6.8. Most of the actions under the IfS involve responding to situations of crisis or emerging crisis, as well as pre- and post-crisis capacity building.

6.10. In cases where the unstable political environment creates an increased level of risk, mitigating measures are put in place such as ex-post control missions to be carried out by Headquarters or Delegations in addition to the mandatory external audits organised by the beneficiaries in the framework of their contractual requirements.

6.17.

(a) The Commission notes that significantly more final payments were included in the 2009 sample than was the case in previous years.

6.18. The Commission welcomes the increase in the ‘frequency’ of transactions which the Court judges to be entirely ‘regular’ (at 87%) in comparison with the figures for 2008 and 2007.

6.20. EU Delegations are responsible for the vast majority of payments on the Commission’s external aid portfolio. For EuropeAid, 79% of the EU budget’s ongoing portfolio (outstanding commitments) was managed by Delegations in 2009.

6.21. The Commission believes that detective and corrective measures prior to final payments (e.g. submission of reports, external audits, expenditure verifications and transactional checks by Commission staff) are effective. In addition, potential irregularities can still be corrected ex-post through the launching of ex-post audits and appropriate recoveries. Nevertheless, controls cannot realistically reduce the risk of financial error to zero.

6.22. The Commission believes that the multi-annual supervisory and control systems for the External aid, Development and Enlargement policy group are effective and have significantly improved year on year as reflected in the increase in the proportion of entirely regular payments found by the Court in its sample.

6.23. The Commission welcomes the Court’s observation that ‘EuropeAid has set up a comprehensive control strategy’ and that ‘in 2009 EuropeAid continued to bring significant improvements to the design and implementation of its supervisory and control systems’ (see paragraph 54 of the Annual Report 2009 on the EDFs).

6.24. The Commission welcomes the Court’s acknowledgement of the improvements recently introduced.

6.26. The new proposal for the revision of the Financial Regulation includes the acknowledgement that Article 56 assessments can only be undertaken progressively due to the specific nature of these missions which are created *ad hoc* and *ex nihilo*.

Regarding the CFSP procurement checklists, these have been finalised and are already in use.

6.27. The Commission has indeed taken measures regarding the closure of old files (both for the RRM and the CFSP) already in 2009. These efforts will be continued throughout 2010.

6.28. The Director-General of DG RELEX established an Action Plan to follow-up on the reservation issued in the AAR 2009 and to improve the quality of assurance for 2010.

6.29. The Commission welcomes the Court's acknowledgement of the improvements introduced which have continued in 2010. The measures taken this year include an improved methodology for on the spot controls, the provision of training as well as improved guidelines for the documentation of results of ex-post controls.

6.31. The Commission considers the ex-ante controls both at headquarters and in the EU Delegations to be effective. As acknowledged by the Court, the Commission further improved its internal systems and completed the set of instructions. In the Annual Report 2008, the ex-ante controls were assessed as effective.

6.32. In 2009, DG ELARG continued to ensure compliance by the national authorities in Croatia and Turkey with the conditions of the (partial) conferral of management powers. It maintained the ex-ante controls by the Delegation in order to mitigate the risks.

Moreover the substantive transaction testing of the Court did not reveal any significant shortcomings beyond some lack of audit trail to explain fully the decisions taken by delegations.

(a) As more countries are getting ready to apply for conferral of management, DG ELARG has updated its internal guidance note of 2008 to take account of lessons learned from conferrals of management in 2008 and provided further guidance in 2009 to all actors involved in the process. A full 'Conferral of Management guidance' document is currently in preparation in time for the applications which will be received in the next couple of years.

(b) The role of the Head of Delegation endorsing a request for funds is clearly specified in internal instruction notes issued by DG ELARG. The checks to be performed according to his instructions provide the necessary basis for endorsing a specific request for funds.

6.33. The points raised by the Court relate in essence to possible improvements of the audit trail but not to material errors in applying the rules. Most of them were dealt with at the beginning of 2010 through internal instructions and clarification notes.

6.34. Since the Financial Regulation and the Implementing Rules were modified in 2003, DG ELARG has always applied a procedure for clearance of accounts as required by this amended Financial Regulation. This procedure has been regularly updated and is now replaced by a more substantial consolidated "Policy for clearance of accounts in decentralised management – Phare and Transition Facility" adopted in June 2010, which elaborated in much more detail how flat rate corrections for system weaknesses could be applied where needed (such as for the clearance-of-account of programmes under extended decentralised management).

In 2009 alone, DG ELARG closed 375 Final Declarations, i.e. a much higher number than new programmes launched. There remain some cases for which the contradictory procedure takes time and the closure may take several years to complete.

6.38. The Commission considers that the ex-post controls for decentralised management are fully effective. It accepts that the ex-post control function for centralised management has not yet been fully launched.

These further ex-post audits carried out by a separate horizontal unit and addressed in this section are only intended to provide the Authorising Officer by Delegation with an additional assurance over and above the requirements of the Financial Regulation.

6.39. This new strategy adds an additional layer to give further assurance without being required by the Financial Regulation.

6.42. The audit results are available for and used in partner assessments. The partners' accreditation also receives input gathered from the monitoring of projects undertaken and gives consideration inter alia to financial, legal and operational aspects of the partner. The assessment and audits often result in recommendations for the partners to improve their systems of internal control. Therefore, many audit reports have directly led to changes in the status accorded to partners' control systems. The current system of audits and partners' assessment put in place by DG ECHO has resulted in a control system that gives a balanced and effective view of the partners' internal control systems that aids the prevention of errors and irregularities.

6.43. Although fully sufficient for the establishment of a financing decision, the objectives as set out in funding decisions for Humanitarian Aid must be seen together with the detailed information on identified needs, the proposed strategy for and the necessary components of a convincing response which are contained in the supporting document of the decision.

With regard to the complexity of crises situations, the multitude of needs and the availability of other donors, the detailed needs to be addressed together with the specified response is set out in the proposals submitted by DG ECHO's partners pursuant the Commission's financing decision. The Commission considers that the project selection procedures put in place by DG ECHO reflects the specificities of humanitarian aid and provide high guarantees with regard to the quality of the aid delivered by ECHO partners. Nevertheless, the Commission accepts that the documentation of the proposal evaluation can be further improved, streamlined and standardised.

6.44. The Commission welcomes the Court's overall conclusion.

Concerning Humanitarian Procurement Centres (HPC) the Commission welcomes the recognition of their overall usefulness.

6.45. The Commission welcomes the Court's assessment and confirms its commitment to continuing improvement of its follow-up procedure.

6.48. The Commission carried out a survey to identify the success factors which influence the quality of annual activity reports. As a response to the factors identified, a number of measures were implemented in order to improve the quality of the evidence presented in support of the assurance and the readability of the reports. The Commission therefore welcomes the Court's positive assessment of the annual activity reports and will continue working towards improving them as a source of evidence for the DAS.

6.50. The Commission welcomes the Court's finding that the EuropeAid Annual Activity Report is 'clear and informative, in particular through its use of quantitative indicators' (see EDF report, paragraph 50). The Commission believes that the qualitative and quantitative indicators set out in the four 'assurance' building blocks of the EuropeAid Annual Activity Report do indeed provide the necessary evidence to underpin the Director-General's statement of reasonable assurance and give an accurate assessment of financial management in EuropeAid in relation to regularity.

CONCLUSIONS AND RECOMMENDATIONS

6.52. The Commission has designed its controls to cover the full lifecycle of its multiannual projects. It believes that these supervisory and control systems for the External aid, Development and Enlargement policy group are effective and have significantly improved year on year as reflected in the increase in the proportion of entirely regular payments found by the Court in its sample. The recommendations made by the Court in past years have been implemented and many of these improvements have been recognised by the Court, resulting in significant elements of the key control systems being judged 'effective'.

6.53.

(a) The Commission accepts the recommendation of the Court and would like to specify that it is already taking measures to address all recommendations received regarding ex-post controls in DG RELEX.

(b) The Commission agrees with the Court and would highlight that considerable efforts were already undertaken in 2009 in order to clear the backlog of old projects to be closed. In fact, 75% of all RRM contracts open at the beginning of 2009 were closed by year-end. These efforts will continue throughout 2010.

(c) As more countries are getting ready to apply for 'conferral of management', DG ELARG has updated its internal guidance note of 2008 to take account of lessons learned in 2008 conferrals of management and provided further advice in 2009 to all actors involved in the process.

(d) The Commission has already taken the necessary steps to ensure that the checks carried out by staff in the operational and the finance and contract sections are documented in more detail.

(e) There are regular checks on the quality of data in CRIS, in particular ahead of extracting relevant information for the Annual Activity Report. The IT management tool where data is entered also contains embedded controls of data quality. Moreover, the Commission is putting great emphasis on training of CRIS users.

(g) Closures have been a priority for DG ELARG since 2007. In 2009 alone, DG ELARG closed 375 Final Declarations.

(h) The Commission is already working to further improve and harmonise the centralised documentation of its assessment of proposals. The introduction of a standardised evaluation report is one of the options considered.

(i) Although the Court's suggestion is useful the current priorities and resource constraints do not allow this recommendation to be pursued in the near future.

6.54. In response to the Court's recommendations EuropeAid will:

- consider possible methodologies for an indicator of the estimated financial impact of residual error;
- assess the cost-effectiveness of its controls in the context of the review of the Tolerable Risk of Error;
- finalise and disseminate a Financial Management Toolkit for implementing organisations;
- continue efforts to ensure correct and timely recording of audit information;
- strive to improve the information technology systems supporting its audit work;
- improve the design and screening of budget support payment criteria through revised guidelines and peer review processes (Quality Support Group);
- implement a revised public finance management monitoring and reporting framework for budget support payments.

Follow-up of Special Report N° 3/2006 on the Humanitarian Aid Response to the Tsunami

6.65. Design of the Cost of Observed Results (COR) model will start in 2011 once it has been built into an IT tool (Hope/e-tool). Following testing and data input it is expected that use of the model can be planned to start in 2012.

6.66. The Commission has fully supported the Court's requests for obtaining necessary supporting evidence from UN organisations, and this principle is clearly stipulated in the Financial and Administrative Framework Agreement (FAFA). Where the Commission is informed by the Court of difficulties encountered in this respect, it can approach its counterparts at the UN in order to find a solution and to ensure that the Court receives the information required.

6.67.

(a) The Commission's mid-term review of the Consensus action plan is ongoing and final results should be available by year-end 2010.

(b) Integration of the MIC is already giving rise to synergies such as the availability of real-time information at the onset of natural and other disasters and closer cooperation between DG ECHO's technical experts on the ground and Member State experts despatched for Civil Protection activities.

(c) The Commission welcomes the Court's recognition of the contribution of the new instruments to the transition process. To reinforce these efforts the Commission has established an interservice group on transition in order to foster a common view, coordinated approaches and common positions on policies for 'transition situations' where humanitarian, development and stabilisation instruments are present. The aim is to improve both policy and implementation of programmes on the ground and to contribute to the international policy debate on transition situations.

(d) The Commission agrees with this statement by the Court and intends to be in a position to provide first results by the end of 2011.

Follow-up of Special report N° 6/2006 on the Environmental Aspects of the Commission's Development Cooperation

6.71. The delay in preparing the strategy was due to a change in priorities whereby the environment strategy was no longer to be issued as a stand-alone communication, but as an annex to a wider communication on mainstreaming all cross-cutting issues (not only environmental), scheduled to be adopted by the end of 2008. This approach was proposed with a view to reducing the number of Commission communications. However, this new approach was eventually dropped because of difficulties in putting different mainstreaming subjects together in one document and out of recognition of the need to have a more focused approach on the environment. A meeting with the Member States (and civil society) took place in September 2009 to jointly start the preparation of the new strategy.

6.72. Key quantitative indicators in relation to the existing environmental integration strategy were put in place — as requested by the Court — and have been subject to monitoring since 2006. These indicators relate to the application of tools such as environmental profiles in the preparation of country and regional strategies, and environmental assessments in relation to programmes and projects, the amount of training offered and number of staff trained. As far as qualitative indicators to evaluate environmental integration in project formulation are concerned, these were defined and applied in a first pilot, ex-post assessment carried out in 2009.

6.73. In the context of the Commission's 'zero growth' staffing policy, and as acknowledged by the Court, EuropeAid has put the emphasis on strengthening non-specialist staff skills rather than carrying out a specific review of its in house capacity. It has been implementing this approach consistently during the reference period.

6.74. The ex-post review — which was a pilot exercise — was part of a drive towards continuous improvement at the project formulation stage.

6.75. Environmental mainstreaming training is now compulsory for all EuropeAid Headquarters operational staff and for all EuropeAid operational staff departing for delegations. This was one of the best-attended training courses during 2009 with more than 400 participants. A large programme of training seminars has been carried out since 2005, including some 50 regional seminars held in cooperation countries and a larger number delivered at Headquarters.

6.76. An evaluation of environmental mainstreaming in development cooperation is planned for 2011. A central database of individual project evaluations is currently under development and will be operational in 2011. Result-oriented monitoring (ROM) assessment reports focusing on environmental projects were carried out for Latin America in 2005 and 2009. Country-wide evaluations of EC cooperation have addressed environmental aspects as part of cross-cutting issues.

6.77. EuropeAid has improved its capacity to identify and track expenditure on environmental projects, but it remains a very complex task to calculate exact amounts allocated to environmental objectives within actions that primarily target other policy goals. Discussions with OECD/DAC are ongoing to see how qualitative data based on Rio markers can best be turned into financial data.

6.78. The quality of Country Environmental Profiles (CEPs) and their influence on Country Strategy Papers (CSPs) is indeed still variable but some CEPs are being updated on the basis of the environment integration guidelines and in order to better address climate change issues, while the guidelines for the mid-term review have also led to greater consideration of environment and climate change issues in the CSPs, especially in the countries covered by the Development Cooperation Instrument.

6.79. New Budget Support guidelines will be issued in 2011 and will include new guidance on cross-cutting issues. However, notwithstanding the inclusion of specific environmental indicators, policy dialogue on environmental issues takes place in many countries within the Joint Donor Frameworks that follow General Budget Support operations. Strategic Environmental Assessments require consideration of local context and the engagement of partner countries in order to be effective and therefore cannot be imposed.

6.81. EuropeAid has developed information notes and guidance documents which make references to supporting community-based natural resources management among other aspects. A number of EC programmes have promoted natural resources management initiatives at local level. The Thematic Programme for the Environment and Sustainable Management of Natural Resources, including Energy, makes specific reference to working with local communities and this was taken up in calls for proposals inviting concept notes that took into account ‘securing tenure and rights of local communities, including indigenous populations’ in the context of forest governance.

6.84. EuropeAid has developed a number of information notes to promote sustainable development with emphasis on community-based approaches. In addition, the Environment Thematic Programme makes specific reference to working with local communities, and this was among other things taken up in calls for proposals inviting concept notes that took into account ‘securing tenure and rights of local communities, including indigenous populations’ in the context of forest governance.

6.85. The EC study on sector-wide approaches in environment and natural resources has now been completed in close cooperation with a number of EU development agencies and a few

EC sector policy support programmes in this area are now under way. This is clearly a new development with respect to the past. The establishment of EU Trust Funds may now become possible under the proposal for a revision of the Financial Regulation and Transfer Agreements have been put in place to allow EU Member State contributions to the EC-managed Global Climate Change Alliance (GCCA). Innovative financing mechanisms for the environment also include the establishment of private-public partnerships and the blending of loans and grants.

6.86. The Commission has continued to make use of Member States' and private companies' expertise in implementing its environmental strategy.

6.87. The Commission welcomes the recognition of the significant progress made in mainstreaming environmental issues in the Commission's external aid portfolio. The ex-post review — which was a pilot exercise — was part of a drive towards continuous improvement. This process included the revision of the peer review (Quality Support Group) procedures introducing clearer indications on addressing environmental aspects in the preparation of project proposals.

6.88. The Commission and EU Member States are working jointly to produce a first draft environment strategy at the beginning of 2011, for adoption in the second half of 2011.

The Commission intends to carry out further work on indicators to monitor the effectiveness of a new environment strategy and to assess environmental integration in its operations. An overall evaluation of environmental mainstreaming in development cooperation is planned for 2011. If the results of the evaluation are available on time, they will be fed into the design of the new EU strategy. New Budget Support guidelines are also planned for 2011 and will include new guidance on cross-cutting issues. In carrying out this work the Commission will continue to seek close coordination and harmonisation with EU Member States, in support of the aid effectiveness agenda.