



EUROPEAN COMMISSION

Brussels, 9.9.2010
SEC(2010) 1011 final

**REPLY OF THE COMMISSION TO CHAPTER "EDF" OF THE ANNUAL REPORT
2009**

EUROPEAN DEVELOPMENT FUNDS

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INTRODUCTION

5. The EDF is designed to help countries which are, by definition, in difficulty, and development aid policies must ensure that national authorities are in charge of development strategies. The National Authorising Officer plays a key part in this process. In order to ensure compliance with the applicable procedures and rules, a training programme specifically designed for staff in the offices of National Authorising Officers has been run for a number of years.

Chapter I - Implementation of the eighth, ninth and tenth EDFs

Financial implementation

6. Although each EDF covers a period of around five years, the implementation of projects and programmes and the related payments may cover a longer period which is nevertheless limited by the regulations.

9. The exceptional performance in relation to global and individual commitments testifies to the success of the policy adopted by the Commission to speed up programme implementation.

The increase in outstanding payments in 2009 is explained by the particularly high level of commitments in 2007 and by the EDF project cycle, which lasts on average three years, with the biggest payments generally being made in the first year and at the end of the final year.

Reliability of the accounts

15. In some cases migration to the new IT system for project management may have caused confusion in the encoding of dates. EuropeAid has organised a large number of training courses in Delegations and at headquarters to improve use of this system.

At the end of 2009 EuropeAid's central services also set up a department to monitor the quality of information encoded in CRIS, which should further improve the reliability of the data used to prepare the annual accounts.

As the Court points out, this had no material impact on the annual accounts.

17. The Commission accepts this observation and the Authorising Officer has recorded the necessary corrections in 2010.

The Commission notes that the Court found a single error of 3.5 million euro identified in a sample of 39 contracts which was extrapolated.

18. The Commission accepts the observation, but notes that the Court found a single error identified in a sample of 39 contracts which was extrapolated.

21. The Commission would stress that no payment was made without the coverage of financial guarantees. The Commission welcomes the finding that budget support eligibility was demonstrated in a formalised and structured manner.

24. The Commission would point out that all the errors in calculating the reimbursement of advances were rectified before the end of the contract.

25. The Commission welcomes the observation that a substantial improvement in the demonstration of eligibility can be discerned under 10th EDF owing to clearer assessment frameworks that are now routinely used.

In order to underpin this improvement and eliminate such errors, the Commission acknowledges the need to further reinforce the structured approach to demonstrating progress in public financial management. The Commission has therefore developed a revised framework for monitoring and reporting progress in public financial management which focuses on results achieved against initial baseline expectations. This revised format was finalised in June 2010 and country reports using this revised approach will be the basis on which eligibility will be assessed for disbursements for the remainder of 2010 and beyond. Against this background, the Commission expects to be able to demonstrate continued improvement in the level of non-quantifiable errors related to this issue in future DAS exercises.

For the emergency instruments referred to (Vulnerability (V) FLEX facility and Envelope B) the Commission maintained a rigorous approach to assessing eligibility as evidenced by a number of such programmes where disbursements were not made.

28. EuropeAid has designed its controls to cover the full lifecycle of its multiannual projects. It believes that these supervisory and control systems 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'.

30 The Commission provides continuous training for staff at headquarters and in the Delegations under an extensive training programme tailored to the needs of external aid management.

32. The Commission welcomes the Court's recognition of a sustained improvement in the clarity of the assessment frameworks for the general eligibility conditions.

The Commission recognises the importance of similar clarity for specific conditions and performance-based disbursements. Where appropriate, the Commission is seeking to formally address the specific observations made by the Court in this regard by means of revisions to the respective Financing Agreements. At the same time, this issue is receiving closer attention during EuropeAid's peer review process (Quality Support Group) for the consideration of new programmes.

33. The Commission welcomes the acknowledgement by the Court of these two important contributions to ensuring budget support is delivered in a more structured and formalised way.

35. In addition to the support and technical assistance provided by Delegations to National Authorising Officers, EuropeAid runs a large number of training courses each year for staff in the offices of National Authorising Officers and specialised ministries. Extensive information on procedures is also available on EuropeAid's website.

36. The Commission notes that the control tools and procedures established in recent years are bearing fruit. Nevertheless, it promises to continue its efforts to train staff and disseminate information on management and control tools.

a) The Commission expects that the Financial Management toolkit for the beneficiaries to be made available towards the end of 2010. The main purpose of the Financial Management toolkit is to provide basic practical guidance in an easy-to-use format to help beneficiaries to comply with the financial management rules in EC financed external aid actions.

37. Delegations conduct a large number of additional checks to offset the weaknesses of National Authorising Departments.

39. The Commission is pleased that the Court appreciates the measures taken by EuropeAid in following up audits and carrying out monitoring missions.

40. In the zero growth environment for Commission posts until 2013, EuropeAid is addressing staffing matters in Delegation with an active human resources policy within the limits of its competences. The issue of vacancies mainly concerns contract agents; it is not the high turnover as such but rather a matter of finding staff with the appropriate expertise. Their selection, previously managed by HQ, has now been delegated to Heads of Delegation to shorten this lengthy process. Simultaneously, EuropeAid continues to request regular new reserve lists with an adequate number of candidates to allow recruitments for all profiles and for every category of country.

44. More than 95% of the 2009 audit reports by the framework contractors were presented in the 'post 1 October 2007' format as opposed to about 40% in 2008. (see AAR footnote 38 in section 3.1.2.1.2.)

45. While it is true that staffing constraints can have a negative impact on the length of the audit clearance process, the vast majority of audit reports must be received before the Commission makes final payment and therefore the risk that funds become irrecoverable is extremely limited.

In 2009 EuropeAid continued its efforts in the audit field and ran six EDF training courses covering 15 Delegations which were attended by 180 Delegation staff members and 220 outside staff (staff from the offices of Authorising Officers, ministries, project managers, NGOs and audit firms).

46. Delegations are regularly reminded of the need for timely updating of CRIS Audit records, including during audit seminars and training. Since February 2010, whenever a contract is signed for an audit (CRIS Contract), the date of signature is automatically transferred to CRIS Audit. Also, the new results screen is more complete and easier to fill in, and an audit cannot be closed if this field is not completed. This includes the audit opinion and the amount of ineligible expenditure. Information on recovery orders issued as the result of audits, is included in CRIS Recovery Order module. Some improvements could be considered with a view to consolidation, but would require further IT developments. Information is available on the amount of final ineligible expenditure detected and corrected at the time of final payment. In 2009 this represented 0.7% by value of invoiced amounts.

47. The Commission considers that AIDCO's internal audit, despite the disruption of its operational capacity in 2009, was effective during that year. Despite the post of Head of the IAC Unit being vacant between 1 July and 15 November the unit finalised 9 follow-up audits (in relation to the 8 planned). As for new audits, out of the four planned for 2009, one final audit report and two draft audit reports (equivalent to 85 % of a final audit report according to IAS' methodology) were submitted in 2009.

50. The Commission believes that the qualitative and quantitative indicators set out in the four 'assurance' building blocks of the Annual Activity Report do indeed provide the evidence to underpin the Director General's statement of reasonable assurance. Nevertheless, EuropeAid recognises that further work could be done to develop specific indicators in relation to the multiannual control framework, and work started in 2010 on consideration of possible methodologies for the estimated financial impact of residual error.

54. EuropeAid has designed its controls to cover the full lifecycle of its multiannual projects. It believes that these supervisory and control systems 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'.

(a) The Commission started work on the consideration of possible methodologies for the development of a key indicator for the estimated financial impact of residual errors in 2010, as set out in the Commission replies to the 2008 Annual Report.

(b) The Commission started work on the review of its control strategy in early 2010, as set out in the Commission replies to the 2008 Annual Report. The Commission will produce a Communication on the Tolerable Risk of Error in the field of external aid in 2010.

(c) The Financial Management toolkit will be finalised in 2010 and due consideration will be given to the issues raised by the Court.

(d) EuropeAid will continue its efforts to ensure that information is encoded in CRIS Audit accurately and in good time.

(e) The amount of ineligible expenditure must be introduced in CRIS Audit before closing an audit record (mandatory field since February 2010). Information on recovery orders issued as a result of audits, is included in CRIS Recovery Order module. Some improvements could be considered with a view to consolidation but this would require further IT developments. Information is available on the amount of final ineligible expenditure detected and corrected at the time of final payment. In 2009 this represented 0.7% by value of invoiced amounts.

55.

(a) The Commission recognises the importance of greater rigour in defining performance targets, calculation methods and verification sources. This issue is receiving greater attention during EuropeAid's peer review process (Quality Support Group) for the consideration of new programmes.

(b) The Commission has developed a revised framework for monitoring and reporting on progress in public financial management which focuses on results achieved against initial baseline expectations. This revised format was finalised in June 2010 and country reports using this revised approach will be the basis on which eligibility will be assessed for disbursements for the remainder of 2010 and beyond.