COMMISSION STAFF WORKING DOCUMENT

Summary of Executive Summaries
Internal audit engagements finalised by the IAS in 2012

Accompanying the document

Report from the Commission to the European Parliament and the Council

Annual Report to the Discharge Authority on Internal Audits carried out in 2012
(Article 99 (5) of the Financial Regulation)

{COM(2013) 606 final}

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Content of this document

This document contains a summary of the original executive of all engagements finalised (<u>cut-off date for the exercise 01/02/2013</u>).

Each executive summary underwent the applicable standard professional validation and contradictory procedures between auditor and auditee at the time of the finalisation.

1. Level of implementation of recommendations (auditee's assessment)

Table 1 sums up the level of implementation of accepted recommendations, based on the auditee's assessment, for IAS recommendations made during the period 2008-2012.
The recommendations not yet implemented are broken down by period overdue on the right-hand side of the table.
Table 1: Level of implementation of recommendations based on auditee's assessment

Year	Priority	Total	Implemented		In progress (by number of months overdue)					
			No.	%	No.	%	No delay	0 - 6	6 - 12	12+
2008	Critical	0	0							
	Very Important	136	134		2		0	0	1	1
	Important	164	159		5		0	0	0	5
	Desirable	15	14		1		0	0	0	1
	2008 Total	**315**	**307**	**97%**	**8**	**3%**	**0**	**0**	**1**	**7**
2009	Critical	2	2		0		0	0	0	0
	Very Important	136	132		4		0	0	0	4
	Important	142	138		4		0	0	0	4
	Desirable	9	9		0		0	0	0	0
	2009 Total	**289**	**281**	**97%**	**8**	**3%**	**0**	**0**	**0**	**8**
2010	Critical	2	2		0		0	0	0	0
	Very Important	124	105		19		1	3	2	13
	Important	150	131		19		1	5	2	11
	Desirable	7	7		0		0	0	0	0
	2010 Total	**283**	**245**	**87%**	**38**	**13%**	**2**	**8**	**4**	**24**
2011	Critical	0	0							
	Very Important	51	29		22		7	9	5	1
	Important	97	67		30		7	16	5	2
	Desirable	10	10		0		0	0	0	0
	2011 Total	**158**	**106**	**67%**	**52**	**33%**	**14**	**25**	**10**	**3**
2012	Critical	0	0							
	Very Important	83	10		73		66	7	0	0
	Important	108	20		88		78	10	0	0
	Desirable	0	0							
	2012 Total	**191**	**30**	**16%**	**161**	**84%**	**144**	**17**	**0**	**0**
	TOTAL 2008-2012	**1236**	**969**	**78%**	**267**	**22%**	**160**	**50**	**15**	**42**

Overall, 969 or 78 % of the total number of recommendations made over the period 2008-2012 are reported by the auditee as implemented to date, leaving a total of 267 recommendations still in progress.

Not all open recommendations are overdue. Of the total number of recommendations in progress, a total 120 very important ones are outstanding, of which 27 are more than 6 months overdue. In addition, two very important recommendation issued in 2006 were still outstanding on 1 February 2013[1].

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[1]   *Recommendation 5 on ensuring system security of the audit on Data Center-Operations and Security in DG DIGIT and Recommendation 10 on governance structure of the audit on OIB Financial management and implementation of financial circuits in DG HR (the latter was closed in March 2013).*

2. Summary of engagements finalised in 2012

2.1. Horizontal audit engagements

2.1.1. Annual Activity Report process (multi-DG)

(10 audit reports: SG/BUDG, OIB, DG CNECT, DG EAC, DG REGIO, DG EMPL, DG HOME, DG MARE, DG AGRI, DG DEVCO)

Background[2]

According to the Financial Regulation[3], Directors-General and Heads of Service are empowered by the College as Authorising Officers by Delegation (AOD) to define the most adequate and effective control systems for implementing the budget and achieving their organisational objectives in accordance with the principle of sound financial management and in compliance with the rules and regulations. The Annual Activity Reports (AARs) are the means by which the AODs report on the performance of their duties, providing financial and management information to the Institution. A key element of the AAR is the declaration of assurance, in which the AOD states that he has *"reasonable assurance that the resources assigned to the activities [...] have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions"*[4]. The declaration of assurance may be qualified by reservations if deemed necessary.

The AARs are the main basis for preparing the Synthesis report, with which the College takes full political responsibility for the implementation of the budget, in particular before the Discharge Authority.

The Secretariat General and DG BUDG play a key role in the AAR process by providing instructions, support and guidance to the Commission DGs/Services. They currently ensure, through a process that includes the peer-review exercise, that the Standing Instructions are being applied consistently by the DGs in their AAR[5].

Audit Objectives and Scope

The overall objective of the audit was to assess the adequacy and effectiveness of the Annual Activity Report process in the Commission and, in particular, the extent to which the process is effective in supporting the Declaration of Assurance.

As for any horizontal process, its effectiveness relies on an adequate design, clear guidance and regular monitoring at corporate level, and on consistent implementation by the individual

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[2] *Art. 60(7) Financial Regulation; Synthesis Report for 2011.*

[3] *The responsibilities of the Authorising officers and the reporting obligations are stated in Art. 59 and 60 (Authorising Officer) and in Art. 64 to 66 (Liability of the financial actors) of the Financial Regulation.*

[4] *Standard text of the Declaration of Assurance (Part 4 of the AAR).*

[5] *According to the SG and DG BUDG, "Central Services' mission is not to provide assurance over the substance of the underlying facts and information reported in the AAR, but to provide guidance and support to the AOD's who remain the owner of the reports and have the final say on their content".*

DGs/Services in compliance with centrally defined rules, regulations and instructions. For this reason, the audit followed an approach that covers:

a) *Central roles and responsibilities*, in particular with reference to issuance of instructions and guidance, provision of support to the DGs/Services and coordination of the AAR process;

b) *Individual DGs/Services roles and responsibilities* to implement the process in compliance with rules and guidelines in order to provide the addressees of the AAR (as well as other interested readers) with complete information on the achievements of objectives, the status of internal control systems, and on the elements that support the declaration of assurance.

The audit was conducted in the SG and DG BUDG for their central role as well as in nine operational DGs/Services (OIB, CONNECT, EAC, REGIO, EMPL, HOME, MARE, AGRI, DEVCO).

Through this audit engagement, the IAS aimed at identifying possible improvements in the AAR assurance building processes, together with best practices amongst individual DGs and/or within families, room for simplification and rationalisation in the AAR process as well as in the actual AARs.

The audit did not cover completeness and accuracy of financial information in the AARs nor the robustness of the DGs/Services control strategies[6]. No scope limitations have been identified to date.

The fieldwork was finalised end of November 2012. All observations and recommendations relate to the situation as of that date. However, information provided during the validation phase was duly taken into account when finalising the audit engagement.

Risks and audit recommendations

The following high risks, that may impact the achievement of the business objectives for the process audited, were identified:

- *Reporting on sound management – Risk rating: High:* The Standing Instructions do not provide sufficient guidance on reporting in the AARs on the economy, efficiency and effectiveness of operations and controls. Without sufficient information on sound management, the AARs may not adequately support the conclusions on sound management as well as the Declaration of Assurance in this regard. The Central Services should develop further instructions on reporting on the economy, efficiency and effectiveness of financial and non-financial activities.

- *AAR quality control process and summary for the Synthesis report – Risk rating: High:* Weaknesses in the AARs may remain undetected due to a quality control process which does not effectively examine the robustness of DGs' assurance-building process. This may

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[6]   *These two areas are audited by the IAS in individual audit engagements.*

consequently weaken the Synthesis report in fulfilling its accountability objective towards the Discharge Authority. The Central Services should enhance the quality control process by further examining the substance and the reliability of the assurance-building processes and by asking for justification if the Services do not adequately address the questions raised by the Central Services in the finalisation of the AARs.

- *Structure of the AAR – Risk rating: High:* Given that the AAR in reality serves several objectives and that some important AARs are examined by a broad audience, including the College but also the ECA and, more importantly, the Discharge Authority, the current AAR structure and the way the individual AARs are presented risk not being entirely useful for all its users. The Central Services should therefore streamline the structure of the AAR, avoiding overly long and complex reports. A revised structure should be introduced with an executive summary, the body of the report with key information and annexes providing the necessary detail.

2.1.2. Management and monitoring of staff allocation (multi-DG)

(5 audit reports: SG/BUDG/HR, DG RTD, DGT, DG COMP, DG AGRI)

Background

The audit on the management and monitoring of the staff allocation is included in the IAS 2012 Audit Work Programme. This engagement has been carried out in the framework of the ever-increasing importance of efficiency and effectiveness in the use of administrative appropriations in the current political context. Human capital is by far the most important resource of the Commission and expenditure linked to staff is subject to close scrutiny by the Budgetary Authority and the general public, although it represents a small percentage of the total EU budget.

The Commission committed itself to serving political priorities in the context of "zero growth" in human resources over the last years, and adopted a proposal[7] aiming to reduce staff in each EU Institution, body and agency by 5% during the period 2013-2017 through the non-replacement of some departing staff (retiring or with expired contracts).

The Commission also established a mechanism to redeploy posts in order to meet its priorities, based upon a linear 1% levy on all basic job quotas. The application of this mechanism on 1 May 2012 has allowed the creation of a redeployment pool of 255 posts to be allocated to Commission priorities.

In July 2011, the EU institutions entered a new cycle of Multiannual Financial Framework (MFF) negotiations, defining the budgetary priorities of the EU for the years 2014-2020. The negotiations of November 2012 ended without agreement between the Heads of Government and State of the 27 MSs, who have postponed the final decision until the first trimester of 2013. Several MSs have been seeking a significant reduction in the EU administrative budget.

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[7]   COM(2011) 890.

In such a political context, the Services must already identify effective ways to implement the planned reductions of staff so that the impact on service delivery is minimised.

Audit Objectives

The objective of the audit was to assess whether the Commission Services have adequate procedures and mechanisms in place to manage and monitor staff allocation effectively and efficiently in a context of staff reduction.

Although the Central Services have significant responsibilities in this area, the focus of the audit was on the relevant procedures in place within the operational DGs. Based on the general information collected during the preliminary survey, four DGs were selected (i.e. DG AGRI, DG COMP, DGT and DG RTD) in order to have a representative view of the different activities in the Commission, with emphasis on the relatively high number of staff as one other main selection criterion. In addition, a general survey was carried out in the form of a questionnaire, in order to obtain a comprehensive overview of the procedures in place across Commission Services, and identify potential good practices.

Audit Scope

This audit focused on the procedures and systems in place within the four selected DGs to manage and monitor staff allocation. The scope of the audit included a review of the systems, methods and tools used this context. Their effectiveness and efficiency were assessed against the following set of elements that the IAS consider necessary in order to achieve an allocation of Human Resources (hereafter HR) aligned to the organisation's highest priorities:

- A clear picture of all its activities, tasks, priorities and the human resources allocated to these (task mapping);
- A comprehensive picture of the skills required for each job and information on the skills available within the Services;
- Information on the share of the workload between staff in the entities;
- Based on the above mentioned elements, a formal HR plan, updated at least annually, which identifies the current and future HR needs for achieving the objectives, as well as any ensuing measures (e.g. redeployments, recruitment, training).

The audit also aimed at identifying good practices in this field, which may potentially be spread across other Commission services.

It was not in the scope of the audit to analyse how activities are currently organised within the audited Services and how possible overlaps in the activities of Directorates and Units could be reduced. Furthermore, the scope of the audit did not include the assessment of the efficiency of operations nor the definition of optimal staffing levels in Directorates and Units.

As concerns the Central Services, the audit team collected information on the main tools, systems and methods existing at corporate level for supporting the Commission Services, and on the main current developments in this area.

There are no observations/reservations in SG, DG BUDG, DG HR, DG RTD, DGT, DG COMP and DG AGRI AARs for the year 2011, which relate to the area/process audited.

The fieldwork was finalised on 07/11/2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations related to the <u>Central Services</u>

The following High risks that may impact the achievement of the business objectives for the process audited were identified:

- **Corporate Framework to support Commission Services' management and monitoring of staff allocation – Risk rating High:** Insufficient corporate guidance and support to help the Commission Services in their responsibility to achieve efficient and effective HR allocation may have a negative effect on the effectiveness and efficiency of the HR allocation within the Commission Services. The Central Services should further develop a framework for the management and monitoring of staff allocation and communicate it to the Commission Services.

  In addition, the insufficient support to the staff allocation process by means of corporate tools and methodologies may cause certain Services to develop similar tools and methods locally, leading to a duplication of efforts and waste of human and financial resources. The Central Services should therefore further facilitate the coordination and exchanges of experiences, good practices, tools and methodologies between the HR professionals, e.g. through joint meetings of HR and SPP practitioners.

- **Reporting and accountability by Commission Services on the effective use of posts – Risk rating High:** The insufficient reporting and accountability on the effective use of posts attributed to the Commission Services in the context of the staff allocation procedure may leave potential cases of non-respect of the applicable Commission decision undetected. This could lead to an ineffective or inefficient redeployment of posts, which in its turn could adversely impact the achievement of the Commission's priorities. IAS recommends that the Central Services should improve the corporate framework for reporting and accountability by Commission Services about the use of posts redeployed to these Services, in line with the Commission decisions on the allocation of posts.

Risks and audit recommendations related to <u>DG RTD</u>

The following High risks that may impact the achievement of the business objectives for the process audited were identified:

- **Mapping of Human Resources with activities and associated priorities – Risk rating High**: Insufficient information concerning the HR allocated to the DG's existing tasks and their associated priorities may lead to inappropriate trade-off

decisions in this area. This may have a negative impact on the efficient and effective use of resources, especially in a context of staff reductions.

DG RTD should further develop its mechanisms and tools to ensure the availability of complete, reliable and up-to-date information concerning the existing HR and their allocation to the DG's tasks and associated priorities (task mapping).

- **Workload assessment – Risk rating High**: An insufficient basis for comparing in a transparent way the workload of different units/ Directorates may prevent the DG from taking the most appropriate HR allocation/reallocation decisions. There is a risk that the allocation of HR to units/Directorates is not in line with the workload, which may prevent it from achieving its objectives in an efficient way.

  DG RTD should put in place tools/methods to gather sufficient and reliable information concerning the workload related to its activities/tasks.

- **Identification of current and future staff needs – Risk rating High**: Insufficient analysis on the current / future optimal level of staff necessary to carry out different activities/tasks may hamper the reallocation of staff according to changing priorities and the implementation of staff reduction strategies, and prevent proper justification of HR requirements.

  DG RTD should develop an HR plan, including the identification of the level of resources and competences needed (for different scenarios) to carry out its current and future activities/tasks and meet its priorities. It should compare the results of this analysis to the HR available in terms of numbers, function groups and competences.

Risks and audit recommendations related to <u>DG AGRI</u>

The following High risks that may impact the achievement of the business objectives for the process audited were identified:

- **Mapping of Human Resources with activities and associated priorities – Risk rating High**: Insufficient information concerning the HR allocated to the DG's existing tasks and their associated priorities may lead to inappropriate trade-off decisions in this area. This may have a negative impact on the efficient and effective use of resources, especially in a context of staff reductions.

  DG AGRI should pursue its effort to develop mechanisms and tools to ensure the availability of complete, reliable and up-to-date information concerning the existing HR and their allocation to the DG's tasks and associated priorities (task mapping).

- **Workload assessment – Risk rating High**: An insufficient basis for comparing in a transparent way the workload of different units/ Directorates may prevent the DG from taking the most appropriate HR allocation/reallocation decisions. There is a risk that the allocation of HR to units/Directorates is neither in line with the workload nor

with the strategic priorities of the DG, which may prevent it from achieving its objectives in an efficient way.

DG AGRI should develop tools/methods to gather sufficient and reliable information concerning the workload related to its activities/tasks.

- **Identification of current and future staff needs – Risk rating High**: Insufficient analysis on the current / future optimal level of staff necessary to carry out different activities/tasks may hamper the reallocation of staff according to changing priorities and the implementation of staff reduction strategies, and prevent proper justification of HR requirements.

DG AGRI should develop an HR plan, including the identification of the level of resources and competences needed (for different scenarios) to carry out its current and future activities/tasks and meet its priorities. It should compare the results of this analysis to the HR available in terms of numbers, function groups and competences.

2.1.3. Chargeback and internal billing systems (multi-DG)

(3 audit reports: DG BUDG, DG DIGIT and SCIC)

Background

Several Commission DGs and Services provide various types of services to other DGs/Services or to other Institutions. When the client "pays" for the services, this process is commonly referred as *Charge-back process,* given the fact that the cost of the services has to be transferred from the budget line of the client to the one of the provider (by using different mechanisms like recovery orders, co-delegations and cross sub-delegations).

In absence of a formal definition of the *Charge-back process* within the Commission, the IAS considers it as a set of coordinated activities conducted by a provider and a client aiming at providing/receiving value-for-money services in the respect of the existing (budgetary) rules. This process encompasses different steps, from the definition of the needs by the client to the delivery of the service requested and the monitoring of the results, and is based on an agreement (formalised or not) between the two parties.

The main objective of this process is to ensure that internal resources and existing competencies are used efficiently and effectively (by requesting the provision of services to in-house specialised providers) and in compliance with the budgetary rules (to ensure the proper use of the budgetary appropriations). This should permit to realise economies of scale as well as to have more flexible and rapid response comparing with what the market could offer. In addition, the development of a cost-accounting system, necessary to correctly define the amount to be charged-back, should help in promoting the sound financial management, as

it would allow gathering information on the real costs of the services to be then used to take management decisions.

The risk factors inherent to the process relate to:

- erroneous identification of services to be charged-back (possibly leading to double budgeting of services, those not charged-back when due or to misuse of budget lines[8]);
- miscalculation of costs (resulting in an over or under charge-back to the client);
- lack of information available to allow the client DG/Service to take informed decision on the services requested or obtained.

Central services, in their responsibility for ensuring compliance with rules and regulations, and for fostering sound financial management, should contribute to the efficient functioning of the process by providing guidance and instructions on the charge-back process and on the costing mechanism and by monitoring their implementation.

There is no consolidated figure providing an overview of the amounts charged-back to internal and external clients by all Commission service providers.

Audit objectives

The **objectives** of the audit were to assess whether the charge-back process complies with existing Commission's rules and instructions (Financial Regulation, budgetary rules, central guidance) and is implemented consistently and transparently (including how the costs of the services provided are defined and communicated). In addition, the IAS looked at whether the information is used to promote sound financial management (to operate economically, effectively and efficiently).

Audit Scope

The **scope** of the audit encompassed the charge-back process implemented in a sample of DGs/Service (DG BUDG, DG DIGIT and SCIC) as well as the support and monitoring activities provided by Central Services. In this context, the IAS identified DG BUDG as the main auditee for its responsibility in the implementation of the Commission budget.

There are no observations/reservations in the 2011 AAR that relate to the area/process audited.

The fieldwork was finalised in November 2012. All observations and recommendations relate to the situation at that time.

Risks and audit recommendations

The following high risks that may impact the achievement of the business objectives for the process audited were identified:

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[8]   *This may occur when administrative budget lines are used to fund operational expenditure or vice-versa.*

- **Governance of the charge-back process (Risk rating: High):** The absence of a formal definition/description of the charge-back process and of a clear allocation of responsibilities could lead to an ineffective and inefficient charge-back process due to a lack of a common understanding or to incoherent implementation. In addition, it could lead to non-compliance with the budgetary rule of specification[9] or to double budgeting of services[10]. The absence of endorsement by central services of cost model(s) currently used to define the unit cost to be charged-back may lead to non-transparent and/or inaccurate calculation of costs of the services provided.

  To mitigate those risks, an existing governance body (the ABM Steering Group) should own the process and be the ultimate responsible body for the definition (scope, actors, responsibilities, reporting arrangements) of the process. It should also be in charge of endorsing the cost models used by the service providers (where relevant).

- **Central guidance and instructions (Risk rating: High):** The lack of central guidance and instructions may lead to inconsistencies within and across DGs/Services, possibly resulting in non-compliance with budgetary rules. In addition, Commission resources may be used to finance activities of non-EC bodies.

  DG BUDG, under the responsibility of the ABM Steering Group and with the support of the DGs involved in the charge-back process, should develop a framework including guidance and instructions on the charge-back process (identification of actors and responsibilities, types of services/costs to be charged-back, charge-back mechanisms, guidelines to calculate cost of services, definition of reporting arrangements). The legality and regularity constraints and the needs for transparency and flexibility should be taken into consideration, as well as the need to avoid increasing the administrative burden.

- **Clarity and transparency of budget lines used for financing IT expenditures (Risk rating: High):** Due to a lack of sufficiently detailed (budgetary) information, funds may be used in a way that is not in compliance with the budgetary principle of specification (not for the intended purpose) or services may be budgeted twice. In addition, the client DG may perceive the charge-back as unjustified, leading to possible mistrust in the service provider.

  For the lines used to fund specific (IT) expenditure, DG BUDG should remind the Authorising Officers about the clarity of the budgetary comments and the type of information to be included, in line with the relevant legal base. In addition, the availability of easily accessible information on the free (not charged-back) services proposed by the providers would improve the clarity of the management of the administrative budget lines used to finance IT expenditure.

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[9] *Administrative budget lines used to fund operational (policy-related) expenditure or vice-versa.*

[10] *This may occur when a service for which the provider receives appropriations is then charged-back to the client.*

(DG AGRI, DG ENV, DG CLIMA, DG MARE, EAHC, DG SANCO)

2.2.1. Control Strategy in DG MARE - European Fisheries Fund

Background

Council Regulation (EC) n° 1198/2006 established the European Fisheries Fund (EFF), defining the framework for EU support for the sustainable development of the fisheries sector, fisheries areas and inland fishing. This programme financial envelope is 4.3 billion € for the 2007-2013 period and it is implemented by shared management.

Although the Member States (MSs) have primary responsibility for implementing effective internal control systems to prevent, detect and correct irregular and illegal expenditure, the Commission performs a supervisory role over national systems and assumes final responsibility for the implementation of the budget. Therefore, DG MARE should have a credible control strategy for demonstrating that they are seeking reasonable assurance on the effective functioning of the Management and Control Systems in the MSs.

Audit Objectives

The main objective of the audit was to assess the effectiveness and efficiency of DG MARE's Control Strategy for obtaining reasonable assurance on the correct functioning of the Management and Control Systems relating to the EFF in the MSs.

Audit Scope

The audit specifically assessed:

- whether DG MARE EFF Control strategy:
  - is adequate, properly planned, and the DG's audit plans are risk-based and timely updated to reflect the results of key supervisory controls; is effectively implemented, regularly monitored and adequately reported on in terms of delivery status and key results;
  - ensures that corrective measures (interruptions, suspensions and financial corrections) are taken promptly and proportionately, when the Commission's audit activities detect serious deficiencies;
  - is effective in monitoring the implementation of the audit strategies and plans by the National Audit Authorities (NAAs), e.g. timely detecting deviations from national audit plans and insufficient audit coverage by the NAAs;
- whether DG MARE has adequately and effectively demonstrated the reasonable assurance obtained for the EFF in the 2011 Annual Activity Report (AAR), and in

particular if the key information supporting reasonable assurance is adequately disclosed.

DG MARE has included the following reservation in its 2011 AAR concerning the processes within the scope of this audit:

- Management and Control Systems for EFF programmes in the following 8 MSs: Czech Republic, Spain, Finland, Italy, the Netherlands, Romania, Slovakia and Sweden. For 5 of these MSs, national audit reports revealed error rates exceeding 2% of declared expenditure. For 3 MSs (CZ, IT and RO), the error rates were not considered to be reliable.
- Eligibility of expenditure under Art. 25(2) of Council Regulation n° 1198/2006: in a number of cases MSs did not verify that investments on board did not increase vessels' ability to catch fish. Some investments that have been funded have increased the ability to catch fish.

The fieldwork was finalised on 15 June 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following Very High risks that may impact the achievement of the business objectives for the process audited were identified:

- **The EFF Audit Strategy and Audit Plan concerning the assurance on the effective functioning of the MSs' Management and Control Systems – Risk rating: Very High:** If the audit strategy lacks clear quantitative and measurable targets and the risk assessment is incomplete, the DG may not timely achieve its audit objectives to provide reasonable assurance that the Management and Control Systems in MSs function properly.

  DG MARE's audit strategy should therefore include the overall coverage that the NAAs plan to reach in terms of system audits, the assurance targets to be achieved, and the related audit coverage targets for its own audit work, based on the available resources. DG MARE should develop a more complete risk assessment on the reliability of NAAs, including specific risk factors.

- **Execution and monitoring of the Audit Strategy and Audit Plans – Risk rating: Very High:** DG MARE not sufficiently or appropriately monitoring the implementation of its Audit Strategy and audit plan may lead to insufficient audit coverage. The DG may also not take timely actions to correct potential significant delays or deviations compared to planned activities. Partial audit coverage of NAAs' work may jeopardise the reliance on their audit opinions and therefore the level of assurance provided by NAAs. In addition, insufficient audit procedures on the spot and audit trail may put at risk the reliance put on NAAs.

DG MARE should therefore provide a finer analysis of the information related to the assurance on the reliability of the NAAs, obtained on the basis of the modules and countries/regions covered by its audit work. It should seek to increase this level of assurance by optimising the use of its limited human resources. In addition, DG MARE should seek to optimise the added value of the work done by Structural Funds DGs on common NAAs, e.g. exploring possible ways to obtain efficiency gains in the audit function, which would also increase the level of assurance.

DG MARE Ex-post control sector should introduce a consolidated table to monitor the timely issue of reports and the associated follow-up of recommendations, sharing the information regularly with the Authorising Officers by Sub-delegation (AOSDs).

- **Monitoring of the National Audit Strategies and Annual Control Reports – Risk rating: Very High:** An ineffective monitoring mechanism of National Audit Strategies may prevent DG MARE from promptly identifying and addressing problems, timely launching procedures for suspending payments and applying financial corrections to safeguard the EU budget. In addition, unreliable error rates communicated by MSs may lead to an inaccurate declaration of assurance by the Authorising Officer by Delegation (AOD).

DG MARE should hence reinforce the monitoring of National Audit Strategies through an additional interim review, by further developing its central overview of the assessment of the OPs including the main Intermediate Bodies, and by developing procedures to improve the assessment of the reliability of the error rate calculated by MS.

2.2.2. Control Strategy in DG SANCO

Background

The IAS audit on the Control Strategy in DG Health and Consumers (DG SANCO) was included in the IAS 2012 Audit Work Programme. This followed the audit risk assessment carried out in 2011. The relative importance of the budget of DG SANCO in the context of the IAS Overall Opinion and the residual error rate reported in DG SANCO's 2011 AAR (4,8% observed in payments made for co-financing Member States' animal disease eradication programmes) justified its inclusion in the IAS's Strategic Audit Plan for 2011-2012.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to the Control Strategy in DG SANCO. In particular, the audit assessed whether the ICS provided reasonable assurance regarding compliance with the relevant legislation, the reliability of

financial and management information and the effectiveness and efficiency of the processes mentioned in the scope below.

Audit Scope

As a result of the desk review and the interviews carried out during the Preliminary Survey (which took into account the work already performed by the IAS, the IAC, the Ex-Post Control Section in DG SANCO and by the Court of Auditors), the scope of this audit engagement focused on the:

- Ex-ante financial controls in the following sub-processes of DG SANCO: commitments, payments (pre-financing – interim payments – final payments), recoveries and de-commitments.
- Ex-post controls (external audit).

The activities of DG SANCO in Luxembourg and Ireland were excluded from the scope because the budget involved is very small. The budget delegated to EAHC was also excluded because DG SANCO is only involved in the programming phase.

Observations/reservations made in the 2011 Annual Activity Report (AAR) of DG SANCO concerning the process under the scope of the audit:

The AAR 2011 mentioned <u>one reservation</u> regarding the scope of this audit.

> It was a reservation concerning the rate of residual errors with regard to the accuracy of Member States' cost claims under the animal disease eradication and monitoring programmes in the food and feed policy area. With the residual error rate of 4,8% observed in payments made for co-financing Member States' animal disease eradication programmes, the average residual error rate in the relevant ABB activity amounted to 4,3% which was higher than the materiality threshold of 2%. The main sources of the detected errors were cost claims of Member States, which did not correctly apply the eligibility rules fixed in the legislation.

> DG SANCO took corrective actions: more precise and restrictive definition of eligible expenditure in the Commission Decision for programmes starting on 01/01/2011 and the introduction of lump sums as from the 2012 programmes. The corrective actions, however, will only affect the results of the ex-post controls starting from 2014.

During the audit, no scope limitations were identified.

The fieldwork was finalised on 19 October 2012. All observations and recommendations in this report relate to the situation as of that date and do not consider improvements introduced since then.

Risk and audit recommendation

The following high risks that may impact the achievement of the business objectives for the processes audited were identified:

- **Control strategy – Risk rating high:** The many incomplete and lacking chapters in the control strategy create uncertainties or may lead to wrong actions. The spread of the control strategy over various notes may lead to inefficiencies and unclarity as to which document is applicable and to be used.

  The IAS recommends DG SANCO to complete and finalise as soon as possible "DG SANCO Control Strategy" and to integrate all current related notes in one comprehensive document.

2.2.3. Control Strategy in DG AGRI - Directorate J

DG AGRI budget finances the Common Agricultural Policy expenditure (2007-2013) mainly through two shared management Funds, the European Agricultural Guarantee Fund (EAGF) which fully finances EU direct aid and market measures (€250 billion payments for the period 2007-2012) and the European Agricultural Fund for Rural Development (EAFRD) which co-finances rural development programmes (€53 billion payments for the period 2007-2012). Expenditure under both funds is managed through some 81 national or regional Paying Agencies (PAs) (sometimes through delegated bodies as well) in the 27 Member States (MSs), bearing a significant inherent risk that the Commission may reimburse irregular expenditure declared by them.

The Commission performs a supervisory role over national systems to obtain reasonable assurance on their effective functioning and assumes final responsibility for the implementation of the budget.

Audit Objectives

The main objective of the audit was to assess the adequacy of the design and the effectiveness and efficiency of the monitoring of the Control Strategy put in place by DG AGRI Directorate J for 2007-2013.

The practical execution of the Control Strategy, in particular as regards the implementation of the audit engagements, their supervision and the financial corrections process, will be examined by the IAS in future audits.

Audit Scope

Specifically, the audit was conducted to assess whether DG AGRI Directorate J Control strategy for 2007-2013 is adequate, in that:

- it clearly sets out how the audit activity will adequately cover all funds,

- the available resources are properly deployed (capacity analysis and human resources management aspects),
- audit activities are properly planned, based on a thorough risk assessment, and timely updated to reflect the results of key controls carried out; in this context Directorate J Central Risk Analysis and Annual Work Programmes have been examined;
- its Key Performance Indicators (KPIs) are well defined and properly used;
- it is regularly and effectively reported on in terms of delivery status and key results.

Since this audit aimed to be forward looking, it took into account the perspective of the changes under discussion about the Clearance of accounts system post-2013.

During the audit we also analysed the action plan prepared by DG AGRI aimed at reducing the error rates in rural development.

DG AGRI has included the following reservations in its 2011 AAR concerning the processes within the scope of this audit:

- Serious deficiencies in the IACS (Integrated Administration and Control System) in Portugal and Bulgaria, in particular in the identification system, covering all agricultural areas, called Land Parcel Identification System (LPIS);
- The whole EAFRD, as the residual error rate, based on the statistical information on the results of the controls carried out by MSs, was 2.36% of the whole ABB activity and thus above the 2% materiality threshold;
- Deficiencies in the supervision and control of certified organic products, with potential negative impact on the market and on the organic farming sector and bearing the risks that the related underlying transactions are not legal and regular.

The fieldwork was finalised on 15 November 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following Very High risks that may impact the achievement of the business objectives for the process audited were identified:

- **DG AGRI's Directorate J Audit Strategy – Risk rating Very High:** In the absence of a formalised audit strategy and measurable specific audits objectives and indicators, the DG may not be able to define an appropriate audit plan and achieve the assurance that it is expected to reach.

  Insufficient analysis of the reliability of the CBs, inadequate consideration of their work, and insufficient coordination between the EC audit services may lead to inefficient use of audit resources and jeopardise the assurance obtained.

DG AGRI should therefore develop and formalise its audit strategy, and seek to strengthen the role of the CBs as assurance providers, achieving further synergies with their work.

- **Risk assessment and Audit planning - Risk rating Very High:** Inadequate risk-assessment and therefore inappropriate audit planning may preclude the DG from achieving its audit assurance objectives.

  Because of an incomplete capacity analysis, the audit plan may not be achievable, entailing backlogs, and the allocation of resources to priorities may be inadequate.

  Directorate J should re-engineer the Central Risk Analysis and the other risk assessments, according to the targets defined in its Control Strategy, ensure a proper coverage of IT security matters, properly monitor and follow up recommendations issued; and conduct a thorough capacity analysis in order to have a more realistic audit plan.

- **Monitoring and reporting of the implementation of the Audit Strategy and Audit Plans - Risk rating Very High:** Insufficient monitoring of audit activities may hinder timely measures to correct potential significant delays or deviations compared to planned activities.

  Insufficient disclosure of the results of certain key building blocks supporting management's assurance may limit its effective utilisation by third parties and expose the Commission to reputational risks.

  DG AGRI should improve its quantitative and qualitative KPIs in order to enhance the monitoring of audit activities; develop monitoring of actual resource spent compared to plan; and improve the disclosure of all relevant key indicators in its AAR.

- **Human resources management aspects - Risk rating Very High:** High turnover and insufficient audit-related training may undermine the Directorate's productivity and performance levels.

  DG AGRI Directorate J should adopt specific targets and KPIs on human resources matters, develop a training program for its auditors, identify the causes of the high turnover and develop a policy to encourage retention of staff in the Directorate.

2.2.4. Audit on Public Procurement in the EAHC (Joint IAS-IAC)

Background

The Agency's current mandate covers the Public Health Programme, the Consumers Programme and the "Better Training for Safer Food (BTSF)" actions. EAHC is monitored by

its parent Directorate General, DG SANCO, which will continue to address all policy-making and institutional tasks related to the Programmes.

Public Procurement is a significant activity of the Executive Agency for Health and Consumers (EAHC) contributing to 37,4% of its budget 2011 (23% in 2010) with the up going trend which justifies this joint IAS-IAC audit in the coordinated 2011 Audit Plan.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to the Procurement process in EAHC.

In particular, the audit assessed whether the ICS provided reasonable assurance regarding *compliance* with the relevant legislation, the *reliability of financial and management information* and the *effectiveness and efficiency* of the processes mentioned in the scope below.

Audit Scope

As a result of the desk review and the interviews in the Preliminary Survey, the scope of this audit engagement focuses on EAHC Public Procurement management:

- Contract Preparation (Calls for tenders, Evaluation of tenders. Awarding decision)
- Budgetary commitments and contract/decisions
- Delivery and Closure (Payments, Recovery, RAL and de-commitment)
- Financial and management reporting (incl. completeness of the Annual Activity Report)

There were no observations/reservations made in the 2010 AAR of DG SANCO and EAHC concerning the processes under the scope of this audit.

During the audit, no scope limitations were identified.

The fieldwork was finalised on 28 November 2011. All observations and recommendations relate to the situation as at that date.

Risks and audit recommendations

The following high risks that may impact the achievement of the business objectives for the process audited were identified:

> **Autonomy- Risk rating High:** The EAHC's incomplete operational autonomy may result in non-compliance with the delegation act and the Implementing Rules (Art. 45), non-optimal use of resources, duplication of administrative tasks, weakened accountability for decisions and actions taken and some uncertainties about the EAHC's capacity to perform its duties fully in line with the delegation act.
>
> DG SANCO should therefore complete the transfer of operational tasks to the EAHC or consider managing a limited number of contracts entirely within the DG (e.g. due to their political dimension, specific field of expertise needed, etc.). The EAHC should

take actions to increase efficiency and effectiveness and better align the human resources available in the Agency and the delegated tasks and control requirements.

Risk Management - Risk rating High: Inadequate risk management procedures may lead to a partial view on the current risk status of the EAHC and the possible actions to be taken, a late response to risks, new risks not being identified and mitigated and non-compliance with internal control standard №6.

The EAHC should thus systematically and regularly update its risk register, reassess risks and include any new risks in the risk register.

Award Notices for calls for tender - Risk rating High: Non-compliance with public procurement rules and regulations on award notice publications may expose the EAHC to litigation.

The Agency should therefore establish controls and checks for publishing contract award notices in a timely manner.

Negotiated Procedure- Risk rating High: The procurement objective of best value for money may not be achieved, if the use of negotiated procedures is not sufficiently justified, as it may restrict competition. DG SANCO's late submission of programme preparation documents to the Agency, may lead to excessive time pressure and ineffective execution of the EAHC's tasks and objectives. Consequently, the EAHC should formally and systematically document the justification for choosing any type of procurement procedure and further develop its knowledge on the related market. DG SANCO should ensure the timely submission of work documents.

Assessment of eligible costs- Risk rating High: Unstructured and vaguely defined contractual requirements may lead to ineffective and inefficient controls over eligibility of costs incurred by beneficiaries and thus may result in irregular transactions. The lack of a sampling methodology when assessing eligibility of costs in a high number of cost claims may result in ineffective and inefficient checks.

The EAHC should therefore improve the contractual requirements for receiving reimbursement of expenditure, develop and effectively use a sampling procedure for its eligibility checks and enhance its controls for executing payment transactions.

2.2.5. Modulation (DG AGRI)

In line with the IAS Strategic Audit Plan 2010-2012, an audit on Modulation in DG AGRI was announced in October 2011 and started in December 2011. The objective of the audit was to assess the adequacy and effective application of the governance, risk assessment and internal control process for managing Modulation in DG AGRI.

The IAS identified modulation as a high risk area in the risk assessment underpinning its strategic plan, due to the experience with voluntary modulation prior to the CAP Health Check of 2008 and the fact that it appeared to be a complex system, involving risks of difficult implementation and control.

The preliminary review resulted in a re-assessment of the originally identified risks. This led to the following conclusions.

There is no financial risk from the EU budget point of view, because once the amount of modulation was calculated for the period 2009-2012, it was transferred directly from the 1st Pillar to the 2nd Pillar of the CAP and allocated to the Rural Development Programmes. The overall expenditure allowed for agriculture and rural development remains unchanged as the transfer is budgetary neutral.

The indicative budget concerned is small compared to the total CAP Expenditure (about 3% of commitments appropriations for the period 2009-2012). Modulation currently concerns only the EU-15 Member States.

In the current system only compulsory modulation applies to the vast majority of MSs concerned, as only the UK decided to apply voluntary modulation in addition to compulsory modulation.

The new net ceilings of direct aids were set up for the period 2009-2012 in the regulation and then closely monitored by the relevant DG AGRI units as part of the budgetary and financial processes.

Practical implementation of modulation (compulsory, and voluntary only for the UK) at the level of the MSs is controlled by the Certifying Bodies and therefore by DG AGRI's Audit Directorate.

For the new programming period 2014-2020 there is no need for compulsory modulation, as the budget is directly allocated between the two pillars. Besides, the draft legislation for the new period does not foresee voluntary modulation.

The sums retained by Member States under the pre-2008 voluntary modulation scheme have been accounted for and cleared.

The results of the IAS' preliminary review and the above mentioned reassessment showed that the expected risks regarding modulation did not materialise over the last few years as both the controls in place and modified procedures adequately mitigated them.   The IAS therefore decided to close the audit engagement without performing any further detailed testing.

(DG REGIO, DG EMPL)

2.3.1. Cohesion Fund 2000-06 - Closure (DG REGIO)

Background

The Structural Funds (SF) DGs' spending accounts for about one third of the total EC budget annually under shared management in the 2000-06 Programming Period (PP). There are some 1140 Cohesion Fund (CF) projects with a budget of EUR 32, 7 billion. According to latest data received, DG REGIO has received the full set of closure documents for 960 projects and has completed its review of 614.

The closure of projects in the case of CF represents the financial settlement of the outstanding Community commitment through payment of the final balance to the MS or issue of the debit note and de-commitment of any unused balance. Final settlement does not prejudice the Commissions right to adopt financial corrections.

Member States submit a set of closure documents (a Final Report (FR), a Winding-Up report and declaration (WU documents), and a certified statement of expenditure) to accompany the final request for payment (within 6 months for the CF)[11].

DG REGIO reviews and analyses these closure documents, making admissibility and qualitative checks in three separate workflows. The operational (Geographical) units (GU) make admissibility and qualitative checks on the FR of the body responsible for implementation (or implementing body). The Audit units (AU) check the WU documents of the national audit body. The financial and geographical units (officers) check the certified statement of expenditure, including the final payment claim. Certified statements of expenditure are only processed once the other two workflows have been finalised. The DG can also perform closure audits to obtain additional assurance if necessary.

The general rule is that closure of CF projects should be performed within a reasonable time after the deadlines for the submission of documents necessary for the payment for the balance. The Cohesion Fund guidelines foresee that in principle, if the set of documents received is complete and there are no issues requiring clarification (for which additional delays are foreseen), the closure procedure could be completed within two months.

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[11] *The Commission, as a general rule, set for CF the initial final date of eligibility not beyond 31 December 2010 for CF and at end December 2008 or 31 April 2009 for ERDF in light of the financial crisis, the Commission authorised for both Funds, in April 2010, the extension of the final eligibility date for a limited number of projects to 31 December 2011 and 2012 under certain conditions. The Commission may decide to extend the final date of eligibility beyond the dates mentioned (end 2011 and 2012) only under exceptional and duly justified circumstances.*

The SFs DGs should have a credible closure process for demonstrating that all errors and irregularities in relation to deficiencies identified in the Member States management and control systems during the implementing period are detected and corrected at the latest at the closure of the OP. The objective of the closure procedure is to ensure the timely treatment of the closure documents in order to lead to a prompt liquidation of the unspent commitment balance (RAL) while ensuring compliance with the principles of sound financial management (including the application of financial corrections where necessary).

Audit Objectives

The objective of this audit was to assess whether DG REGIO has a robust and sound approach to the closure of the Cohesion Fund 2000-06 projects. More specifically, whether controls have been put in place and are being exercised in practice to ensure the adequate, timely and effective closure of CF projects, including the determination of reliable final residual error rates. Given that the closure process is still very much on going, the IAS aimed to identify improvements, for which there is still time to implement, before the closure process is finalised and all the CF projects are successfully closed. This is expected to last for another 3-4 years.

Audit Scope

The scope of the audit covered the following areas:

- The work done by DG REGIO's geographical/financial/audit units on the closure documents (the winding up declaration, final report and certificate of final expenditure) based on the admissibility and qualitative check-lists developed for the closure exercise;
- The methods used to establish and to apply financial corrections, and their effective application, including consistency aspects;
- The monitoring and reporting provisions in place for the closure process, their accuracy, completeness, timeliness, including related disclosure in the AAR;
- The risk assessment supporting the DGs' Audit Plan for closure audits and the impact of the closure audits on the establishment of the final payment amount.

The audit scope also included coordination arrangements between GUs and AUs, and between DG REGIO and other DGs/Services. In addition, the scope included the current state-of-play, the recently introduced organisational changes within DG REGIO, together with the subsequent changes in the monitoring and reporting mechanisms and the tools in place, that support the closure of the remaining open CF projects.

There were no scope limitations.

The fieldwork was finalised at the end of November 2012.

DG's AAR: The following observations/reservations were made in the 2011 AAR concerning specifically the area/process under the scope of this audit engagement:

- *Reservation concerning the Cohesion Fund management and control systems for the 2000-2006 period, in Hungary and Spain for reputational reasons[12].*

Risks and audit recommendations

The following high risk that may impact the achievement of the business objectives for the process audited was identified:

- **Gaps in the assessment of closure documents (Report Finding 1: Risk rating – High):** The gaps noted in the assessment process together with a lack of standardised approach may lead to inconsistencies which, coupled with a lack of audit trail, may impact on the quality of the assessment made. This can in turn mean that errors and irregularities are not properly detected and corrected. It can also lead to unequal treatment between Projects and Member States, which can in turn impact on the Commission's reputation.

  For the remaining CF Projects to be closed, DG REGIO should update the assessment notes, templates and methodology (e.g. Cohesion Fund Manual) in order to address the gaps in the assessment process, avoid unnecessary checks and ensure more consistency as regards the use of additional checklists or templates. It should improve coordination between the GU and AU through the development of standardised templates, including for the assessment of the FR, and ensure that qualitative checks on all key closure documents are applied on a consistent basis. Taken together, these measures should result in a better audit trail of the assessments made and help improve timeliness for closing the remaining CF projects. The IAS notes that DG REGIO recently introduced harmonised templates for the notes from the AUs to the GU[13].

2.3.2. ERDF 2000-06 - Closure (DG REGIO)

Background

The Structural Funds (SF) DGs' spending accounts for about one third of the total EC budget annually under shared management in the 2000-06 PP. There are some 379 Operational Programmes (OPs) for ERDF with a budget of EUR 129,6 billion.

The closure of OPs in the case of ERDF represents the financial settlement of the outstanding Community commitment through payment of the final balance to the MS or issue of the debit note and de-commitments of any unused balance. Final settlement does not prejudice the Commissions right to adopt financial corrections[14].

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[12] *AAR 2011, page 136*
[13] *Ares(2012)1539817 of 21 December 2012*
[14] *Closure guideline ref C(2006)3424*

Member States submit a set of closure documents comprising of a Final Implementation Report (FIR), a Winding-Up Declaration (WUD) and a certified statement of expenditure to accompany the final request for payment within 15 months after the deadline for eligibility of expenditure.

DG REGIO reviews and analyses these closure documents, making admissibility and qualitative checks in three separate workflows. The operational (Geographical) units (GU) make admissibility and qualitative checks on the final implementation reports (FIR) of the managing authority. The audit units (AU) check the winding-up declarations (WUD) of the national audit body. The financial and geographical units (officers) check the certified statement of expenditure, including the final payment claim. Certified statements of expenditure are only processed once the other two workflows have been finalised. The DG can also perform closure audits to obtain additional assurance if necessary.

The SFs DGs should have a credible closure process for demonstrating that all errors and irregularities in relation to deficiencies identified in the Member States management and control systems during the implementing period are detected and corrected prior to or at the latest at the closure of the OP. To this effect, the SF DGs have agreed on a common methodology for building up their opinion on the admissibility and reliability of the final report and WUD and on the correctness of the final statement of expenditure. The three key elements of this methodology are i) a quality review of the submitted documents, ii) the calculation of the residual error rate for each OP in order to show the extent of the potential remaining deficiencies and their financial impact and iii) the determination of the financial corrections to be applied.

The objective is to ensure the timely treatment of the closure documents in order to lead to a prompt liquidation of the unspent commitment balance (RAL) while ensuring compliance with the principles of sound financial management (including the application of financial corrections where necessary).

Audit Objectives

The objective of this audit was to assess whether the SF DGs have a robust and sound approach to the closure of the 2000-06 PP. More specifically, whether controls been put in place were being exercised in practice to ensure the adequate, timely and effective closure of OPs/Projects, including the determination of reliable final residual error rates.

Given that the closure process takes place over a number of years and that much of that process has already been implemented, the IAS has placed particular emphasis on identifying improvements which can be used for the closure of the current, 2007-13 programming period, the planning for which is already underway[15].

Audit Scope

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[15] *Draft Commission decision on guidelines for the closure 2007-2013 – version 29/05/2012*

In determining the scope of the audit, the IAS took into account the comments already made by the ECA in the framework of its audits on the closure process[16] as well as the audits reports already produced by the IAC.

More specifically, the scope of the audit covered the following areas:

- The work done by DG REGIO's geographical/financial/audit units on the closure documents (the winding up declaration, final report and certificate of final expenditure) based on the admissibility and qualitative check-lists developed for the closure exercise;
- The methods used to establish the residual error rate and to apply financial corrections, and their effective application, including consistency aspects;
- The monitoring and reporting provisions in place for the closure process, their accuracy, completeness, timeliness, including related disclosure in the AAR;
- The risk assessment supporting the DGs' Audit Plan for closure audits and the impact of the closure audits on the establishment of the final payment amount.

DG's AAR: It should be noted that in its 2011 AAR DG REGIO made a reservation concerning specifically the area/process under the scope of this audit engagement:

- *Reservation for reputational reasons concerning the ERDF for the 2000-2006 period linked to outstanding issues at closure stage in Spain, Germany, Ireland, Italy and Cross-Border programmes[17].*

The IAS fieldwork was finalised at the end of November 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following high risks that may affect the achievement of the business objectives for the process audited were identified:

- **Report on the closure 2000-2006 and DG REGIO Preparation for closure (Planning, methodology and guidance) - [Report Finding 1 – Risk Rating - High]:** Preparation is key to the successful closure of OPs under shared management. Both in terms of timeliness and in terms of providing clear guidance to MS to help minimise the scope for interpretation and ensure consistent treatment. Without this, there is the risk that, in a multi-annual control environment, the time taken to deal with ensuing problems will lead to delays and overlaps between different programming periods. This may impact on the prioritization of the work done due to resource constraints and ultimately risks that the closure process fails to properly detect and correct errors and irregularities.

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[16] *Chapter 5 of the ECA Annual report for 2011 and the **ECA special report 2012 n°3** "Did the Commission successfully deal with deficiencies identified in the MS's management and control systems?"*
[17] *AAR 2011, page 136*

The closure of the 2000-06 PP is nearing conclusion, but preparations are already underway for closing 2007-13 programmes. Based on the lessons learned, DG REGIO, should, in coordination with the other SF DGs, ensure that it has a timely and proper strategy and planning process in place for the next closure exercise, which is supported by clear and comprehensive guidance to MS and which is fully in line with the legal framework. The IAS notes that draft guidance to MS on the key issue of sampling and treatment of errors and irregularities has already been prepared and that the guidelines are expected to be issued in February 2013.

In addition, and recognising the importance of the role closure plays in bringing the multi-annual control process to a conclusion, DG REGIO should, also in conjunction with the other SF DGs, report on the current state of play and effectiveness of the process in detecting and correcting errors and irregularities. In this regard, the IAS notes that in response to the Parliament's request to ensure legality and regularity when closing 2000-06 programmes[18], the SFs DGS are planning to report in early 2013 on the state of play as regards the closure process and demonstrate the corrective capacity of financial corrections.

- **DG REGIO Checks on closure documents [Report Finding 2- Risk Rating - High]:** A lack of a common basis between SF DGs for checks on MS closure documents may lead to inconsistent treatment, particularly where there are common MS bodies involved. Inconsistencies of approach, coupled with a lack of audit trail and effective supervision may impact on the quality of the assessment made, which could in turn mean that errors and irregularities are not properly detected and corrected.

The financial risk of unfinished projects is particularly high for Greek OPs where at the moment about 1.92 billion EUR projects remain unfinished and for which Greece will have to reimburse the EU co-financing received if the projects are not completed by the deadline.

Using the experience of the 2000-06 closure exercise, DG REGIO should ensure that the methodology and internal guidance, including the checklists to be used, are finalised in good time for closing the 2007-13 PP. They should be communicated to staff on a timely basis and the checks which are made in practice should be properly documented and supported by effective supervisory arrangements. DG REGIO should continue to monitor carefully the completion of unfinished projects for Greece and Italy and to resume recovery procedures for those projects which do not meet the deadlines (September 2012 and March 2013).

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[18] *Specific request from the Rapporteur to the European Parliament following the ECA special report n°3/2012*

2.3.3. ESF 2000-06 - Closure (DG EMPL)

Background

The Structural Funds (SF) DGs' spending accounts for about one third of the total EC budget annually under shared management for the 2000-2006 Programming Period (PP). There are 239 Operational Programmes (OPs) for the European Social Fund (ESF) with a budget of EUR 68,5 billion.

The closure of an OP represents the financial settlement of the outstanding EU budgetary commitment through payment of the final balance to the MS or the issue of a recovery order and de-commitment of any unused balance. Financial settlement does not prejudice the Commission's right to make financial corrections.

Member States submit a set of closure documents, comprising of a Final Implementation Report (FIR), a Winding-Up Declaration (WUD) and a certified statement of expenditure to accompany the final request for payment within 15 months after the deadline for eligibility of expenditure.

DG EMPL reviews and analyses these closure documents, making admissibility and qualitative checks in three separate workflows. The operational (Geographical) units (GU) make admissibility and qualitative checks on the FIR of the managing authority. The Audit units (AU) check the WUD of the national audit body. The financial and geographical units check the certified statement of expenditure, including the final payment claim. Certified statements of expenditure are only processed once the other two workflows have been finalised. The DG can also perform closure audits to obtain additional assurance if necessary.

The SFs DGs should have a credible closure process for demonstrating that all errors and irregularities in relation to deficiencies identified in the MS management and control systems during the implementing period are detected and corrected at the latest at the closure of the OP. To this effect, the SF DGs agreed on a common methodology. The three key elements to support this methodology are i) a quality review of the submitted documents, ii) the calculation of the residual error rate for each OP in order to show the extent of the potential remaining deficiencies and their financial impact and iii) the determination of the financial corrections to be applied.

The objective is to ensure the timely treatment of the closure documents in order to lead to a prompt liquidation of the unspent commitment balance (RAL) while ensuring compliance with the principles of sound financial management (including the application of financial corrections where necessary).

Audit Objectives

The objective of this audit was to assess whether the DG EMPL had a robust and sound approach to the closure of the 2000-06 PP and more specifically, whether controls put in place have been adequately exercised in practice to ensure a timely and effective closure of OPs,

with a particular focus on the controls related to the determination of adequate financial corrections and reliable final residual error rates.

Given that the closure process takes place over a number of years and that much of that process has already been implemented, the IAS has placed particular emphasis on identifying improvements which can be used for the closure of the current, 2007-13 programming period, the planning for which is already underway[19].

Audit Scope

In determining the scope of the audit, the IAS took into account the comments already made by the ECA in the framework of its audits on the closure process[20] as well as the audits reports already performed by the IAC.

More specifically, the scope of the audit covered the following areas:

- The work done by DG EMPL's geographical/financial/audit units on the closure documents (the winding up declaration, final report and certificate of final expenditure) based on the admissibility and qualitative check-lists developed for the closure exercise;
- The methods used to establish the residual error rate and to apply financial corrections, and their effective application, including consistency aspects;
- The monitoring and reporting provisions in place for the closure process, their accuracy, completeness, timeliness, including related disclosure in the AAR;
- The risk assessment supporting the DGs' Audit Plan for closure audits and the impact of the closure audits on the establishment of the final payment amount.

DG's AAR: It should be noted that in its 2011 AAR, DG EMPL made a reservation concerning specifically the area/process under the scope of this audit engagement. For the 2000-2006 PP, it concerned 13 ESF OPs[21] for which the reservation was maintained from the previous AAR and related to "*deficiency of the management and control systems set up in relation to the requirements of Regulation 438/2001*".

The IAS fieldwork was finalised mid-November 2012 and all recommendations relate to the situation as of that date.

Risks and audit recommendations

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[19] *Draft Commission decision on guidelines for the closure 2007-2013 – version 29/05/2012*
[20] *Chapter 5 of the ECA Annual report for 2011 and the **ECA special report 2012 n°3** "Did the Commission successfully deal with deficiencies identified in the MS's management and control systems?"*
[21] *The 13 OPs concerned are : 2000DE162DO001 / 2000ES051PO015 /2000ES053PO303 /2000FR162DO010 /2000FR162DO011 / 2000FR162DO017 /2000FR162DO021 /1999IT053PO007 /1999IT161PO006 /1999IT161PO007 /1999IT161PO009 /1999IT161PO010 /1999IT161PO011*

The following high risks that may impact the achievement of the business objectives for the process audited were identified:

- **Preparations for closure (Planning, methodology and guidance) - [Report Finding 1 – Risk Rating - High]:** Preparation is key to the successful closure of OPs under shared management. Both in terms of timeliness and in terms of providing clear guidance to MS to help minimise the scope for interpretation and ensure consistent treatment. Without this, there is the risk that, in a multi-annual control environment, the time taken to deal with ensuing problems will lead to delays and overlaps between different programming periods. This may impact on the prioritization of the work done due to resource constraints and ultimately risks that the closure process fails to properly detect and correct errors and irregularities.

  The closure of the 2000-06 PP is nearing conclusion, but preparations are already underway for closing 2007-13 programmes. Based on the lessons learned, DG EMPL, should, in coordination with the other SF DGs, ensure that it has a timely and proper strategy and planning process in place for the next closure exercise, which is supported by clear and comprehensive guidance to MS and which is fully in line with the legal framework. The IAS notes that draft guidance to MS on the key issue of sampling and treatment of errors and irregularities has already been prepared and that the guidelines should be issued in February 2013 followed by information/training sessions to the DG's staff and representatives of the MS.

  In addition, and recognising the importance of the role closure plays in bringing the multi-annual control process to a conclusion, DG EMPL should, also in conjunction with the other SF DGs, report on the current state of play and effectiveness of the process in detecting and correcting errors and irregularities. In this regard, the IAS notes that in response to the Parliament's request to ensure legality and regularity when closing 2000-06 programmes[22], the SFs DGS are planning to report in early 2013 on the state of play as regards the closure process and demonstrate the corrective capacity of financial corrections.

- **DG EMPL Checks on closure documents [Report Finding 2- Risk Rating - High]:** A lack of a common basis between SF DGs for checks on MS closure documents may lead to inconsistent treatment, particularly where there are common MS bodies involved. Inconsistencies of approach, coupled with a lack of audit trail and effective supervision may impact on the quality of the assessment made, which could in turn mean that errors and irregularities are not properly detected and corrected.

  Using the experience of the 2000-06 closure exercise, DG EMPL should ensure that the methodology and internal guidance, including the checklists to be used, are finalised in good time for closing the 2007-13 PP. They should be communicated to staff on a timely basis and the checks which are made in practice should be properly documented and supported by effective supervisory arrangements.

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[22] *Specific request from the Rapporteur to the European Parliament following the ECA special report n°3/2012*

DG EMPL has envisaged to organise information/training sessions to the DG's own staff on the content of the closure guidelines and the different aspects of the closure. In addition, for the 2007-2013 closure, The IAS notes that DG EMPL does not intend to outsource the analysis work of the closure documents.

2.3.4. Implementation of 2007-13 Programmes (DG REGIO)

Background

The Cohesion area spending accounts for more than one third of the total EC budget. For the 2007-2013 Programming Period (PP) covering the European Regional Development Fund (ERDF) and Cohesion Fund (CF), there are a total of 317 Operational Programmes (OPs). In 2011, DG REGIO made payments of EUR 25,84 billion covering both ERDF and CF.

Under shared management, the Member States (MS) have primary responsibility for implementing effective internal control systems to prevent, detect and correct irregular expenditure, while the Commission performs a supervisory role over national systems and assumes final responsibility for the implementation of the budget.

Audit Objectives

Recognising the persistently high error rates in the Cohesion area, the IAS conducted this audit on the implementation of the 2007-13 PP for ERDF/CF programmes in order to assess firstly, the extent to which DG REGIO has determined and reported reliable error rates and secondly, the extent to which it has taken sufficient and adequate measures to reduce the high error rates.

Audit Scope

The audit specifically covered the following areas:

- The guidance provided to MS Audit Authorities (AAs) on the methodology for determining error rates and the checks made by DG REGIO on the reliability of those error rates.
- The checks made by DG REGIO in order to place reliance on AAs and their Annual Control Reports (ACR), based on a sample of files and by accompanying DG REGIO auditors during audit missions to MS.
- Follow up of the actions resulting from the Commission working paper on the analysis of errors on Cohesion Policy and from other action plans.
- Preventive, detective and corrective measures to tackle the problem of high error rates.
- Through file examination, analysis of the key decision processes basis for making/lifting reservations, interruptions, suspensions and financial corrections.
- Analysis of the DG process for addressing the high risk OPs, including accompanying DG REGIO auditors in a sample of Bridging the Gap missions to MS.

There were no scope limitations.

The fieldwork was finalised in mid-November 2012. All observations and recommendations relate to the situation as of that date.

DG's AAR: The following reservation was made in the 2011 AAR concerning specifically the area/process covered by the scope of this engagement:

- "Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013:
    o Significant issues regarding the effective functioning of management and control systems in the following Member States: Austria, Bulgaria, Czech Republic, Estonia, France Germany, Italy, Latvia, Lithuania, the Netherlands, Poland, Slovenia, Slovakia, Spain, United Kingdom and Territorial Cooperation programmes.
    o Compliance assessment not yet approved: one Italian programme
    o Reputational risks for Greece, Hungary, Romania."

The total number of OPs in reservation for the ERDF/CF is 146 of which, 93 are in reservation for the entire programme, 28 for only part of the programme, and 25 are in reservation for reputational risks.

Risks and audit recommendations

The following high risks that may impact on the achievement of the business objectives for the process audited were identified:

- **Reliability of Audit Authority error rates (Report Finding 1: Risk rating – High):** The IAS recognises the high inherent risk of a process in which DG REGIO depends heavily on the work of the AAs. Reliable AA error rates are key to the assurance building process and the IAS notes the progress made. However, problems experienced by AAs in interpreting the guidance on sampling means there is a risk that error rates may be understated. DG REGIO recognises this and, together with the other SFs DGs, is currently finalising revised guidance aimed at addressing the gaps noted. DG REGIO should complete this process as soon as possible and follow up with AAs to ensure that the guidance is properly understood and implemented in practice.

    Concerning the DG's checks on the reliability of AA error rates, the complex and time-consuming nature of this work means there is a risk that mistakes may not be identified and corrected and/or key information is not taken into account when concluding on reliability. DG REGIO should amend its checklist for reviewing the AA ACR, taking also into account the on-going clarifications on guidance, to ensure that auditors conclude in their checklist on the potential impact of their review on the overall assessment of the AA error rate.

- **Detective measures to reduce error rates (Report Finding 2: Risk rating – High):** Given the high inherent risks of the shared management system whereby the DG is so dependent on the work of AAs, it is essential that it undertakes its own very robust detective checks on the spot in the MS. Notwithstanding the need for a risk based approach, the variations in the depth and extent of DG REGIO audit testing noted by the IAS, in particular for on-the-spot work at final beneficiaries and checks made on original documents, means there is a risk that system weakness and/or errors and irregularities may not be detected. DG REGIO should ensure more consistency of approach for the same audit enquiry type through further instruction/guidance on the extent of testing to be carried out on-the-spot. It should explain more clearly in its Audit Strategy that the scope of on-the-spot work can vary considerably between the audit teams, depending on programmes and ensure that appropriate checklists are used on missions. Their completion should be clearly evidenced for management/quality review and tailor-made checklists used for each mission which involves the follow up of an action plan, including the specific corrective measures set out in the interruption/pre-suspension letter.

2.4. Research, energy and transport

(EACI, ERCEA, DG CNECT, JRC, REA, DG RTD, TEN T-EA, DG MOVE, DG ENER)

2.4.1. Control Strategy in DG ENER

Background

The IAS audit on *The Control Strategy in DG Energy (DG ENER)* was included in the IAS coordinated 2011 Audit Work Programme. This followed the audit risk assessment carried out in 2010. The relative importance of the budget of DG ENER (174 million EURO commitments in 2011) and the error rate (4,4% for the 6th Research Framework Programme in 2010) which affects the ECA DAS, justified its inclusion in the IAS' Strategic Audit Plan for 2011-2012.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to the Control Strategy in DG ENER.

In particular, the audit assessed whether the ICS provides reasonable assurance regarding *compliance* with the relevant legislation, the *reliability of financial and management information* and the *effectiveness and efficiency* of the processes mentioned in the scope below.

Audit Scope

As a result of the desk review and the interviews carried out during the *Preliminary Survey* (which took into account the work already performed by the IAS, the SIAC and the Financial Audit Unit SRD.5 in DG ENER and by the Court of Auditors), the scope of this audit focussed on the following processes:

- Ex-ante financial controls in the following sub-processes of DG ENER: commitments, payments (prefinancing − interim payments − final payments), recoveries and decommitments.
- Ex-post controls (external, financial audit).

The part of the budget sub-delegated to the Executive Agency for Competition and Innovation (EACI) is excluded from the scope of this audit because it is covered by other audits[23].

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[23] *IAC Audit of the supervisory process of the EACI in DG ENER, dated 15 December 2011 and IAS Audit on the EACI Control Strategy planned for 2012.*

Observations/reservations made in the 2011 AAR of DG ENER concerning the processes under the scope of this audit:

- Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Sixth Framework Programme (FP6) contracts. The residual error rate observed by ex-post controls was 4,44%, which is higher than the control objective (2%).
- Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Seventh Framework Programme (FP7) contracts. The residual error rate detected by ex-post controls is higher than the control objective (2%). As the limited number of random FP7 audits was insufficient to give a representative indication of the likely trend in its FP7 error rate, DG ENER considers 4,5% (i.e. the average of the DG RTD and DG INFSO error rates) as the best estimate of its likely error rate.

During the audit, no scope limitations were identified.

The fieldwork was finalised on 24 February 2012. All observations and recommendations relate to the situation as at that date and do not consider improvements introduced since then.

Risk and audit recommendation

The following high risks that may impact the achievement of the business objectives for the processes audited were identified:

- **3220- Completeness and consistency of audit working papers – Risk rating high**: Ex-post audits that are not properly documented, reviewed and filed may affect the control efficiency and might lead to non-compliance with the International Audit Standards. The risk of fraud is not sufficiently mitigated.

  The IAS recommends DG ENER to improve the audit files by using standardised audit programmes and working papers, by cross-referencing information on the working papers with the underlying evidence and the audit issues in the audit report and by documenting their review and approval. Checks should also address fraud prevention and detection.

2.5. External Aid, development and enlargement

(DG DEVCO, DG ECHO, DG ELARG, FPI)

2.5.1. Set-up of internal organisation in EU delegations (DG DEVCO) - Limited Review

Background

The creation of the European External Action service (EEAS), along with the adaptation of the relevant legal provisions, has required the set-up of a number of new structures and processes, involving both Headquarters and Delegations, while at the same time ensuring the implementation of the main operations related to external aid. Delegations, in particular, play a crucial role in implementing both the Commission's operational budget and the EEAS's administrative budget[24]. The setting up of adequate financial circuits is a key element to ensure financial and operational accountability and an effective implementation of a sound financial management system. This exposes DG DEVCO to a high level of residual risk in this area.

As a result, the IAS undertook a limited review on the set-up of the internal organisation in EU Delegations following the creation of the European External Action Service (EEAS). The related report deals exclusively with the issues identified in the management of the operational budget of the Commission. A separate report was addressed to the EEAS concerning issues related to the administrative budget and those of a cross-cutting nature.

Due to the constantly changing environment following the creation of the EEAS (e.g. revised financial circuits in place after the end of the limited review fieldwork) or the implementation of a revised internal control architecture in the Delegations (e.g. revamped External Assistance Management Reports, declaration of assurance from Heads of Delegation), the effective implementation of these revised arrangements will be the subject of a future audit once the controls have been embedded in DG DEVCO and the Delegations.

Objectives and Scope

The general objective of this engagement was to assess the procedures put in place between the European Commission and the EEAS to ensure the sound financial management of the external aid budget implemented through EU Delegations.

The detailed objectives were as follows:

- To assess the organisational arrangements and functioning of financial circuits, including sub-delegations and deputising arrangements.
- To assess the support provided by DG DEVCO (HQ) to EU Delegations, i.e. in defining internal management and control systems in Delegations, the provision of

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[24] *Approximately 52% of which is financed by the Commission (DG DEVCO).*

specific training to newly appointed Heads of Delegation addressing in particular their duties, obligations and accountability towards the Commission.

- To assess the role of Heads of Delegation (and Deputy Heads of Delegation, where applicable) to ensure the set up and functioning of an adequate internal management and controls system and for the management of funds and operations within their Delegations.

- To assess the reporting mechanisms from EU Delegations to provide assurance to DG DEVCO's Authorising Officers by Delegation (AOD), i.e. completeness, quality, timeliness, etc.

- To assess the procedures put in place by the Appointing Authority to ensure that the rotation exercise does not have a negative impact on the implementation of the external aid budget.

Main risks and recommendations

In addition to the setting up of new structures and processes following the creation of the EEAS, DG DEVCO launched a major revision of its internal control architecture (Control Pyramid strategy) in 2010. One of the expected benefits is better accountability through improved reporting systems. This initiative has resulted in a number of specific actions including a new web-based reporting tool (External Assistance Management Reports) for Delegations. As from 2012, Heads of Delegation have also been required to provide a declaration of assurance and hence need to cooperate closely with the Commission for the proper implementation of the funds in order to ensure, in particular, the legality and regularity of financial transactions, the respect of the principle of sound financial management of the funds and the effective protection of the financial interests of the union.

One high risk was identified and a corresponding recommendation was made:

Role of Deputy Head of Delegation

- *Risk:* A cross-cutting inter-institutional governance issue identified in an audit report of the IAC of DG ELARG concerns the current role of Deputy Heads of Delegation. The post of Deputy Head of Delegation was created in the enlargement EU Delegations to help the Head of Delegation in the management of financial assistance. These officials were selected due their knowledge and experience in financial assistance at the Commission. As of 1 January 2011, all Deputy Heads of Delegation were transferred to the EEAS. In line with the current rules (Financial Regulation), they can no longer hold a sub-delegation or act in the financial circuit for the execution of the operational budget. However, this automatic transfer of all Deputy Heads of Delegation to the EEAS, regardless of the nature of their tasks and the expertise they possess, led to disruptions in the operation of these enlargement EU Delegations and may represent an inefficient allocation of resources and skills across the two institutions at the level of the Delegations.

- *Recommendation (Very Important):* The IAS invites DG DEVCO to consider whether the creation of a DEVCO middle management function - particularly in the

larger EU delegations - may help the Head of Delegation in the management of financial assistance.

Conclusion

Delegations play an important role in the control architecture of DG DEVCO. One of the most tangible benefits of DG DEVCO's new Control Pyramid strategy is expected to be better accountability through improved reporting systems of the quality of implementation of aid programmes. In this respect, the delegations' External Assistance Management Reports together with the declaration of assurance by Heads of Delegations as from 2012 are considered to be the foundation of this Control Pyramid.

The creation of the EEAS has necessitated changes to the working environment and rules within Delegations and which has brought about an added complexity. During 2011, working arrangements between Commission services and the EEAS were issued and subsequently fine-tuned to mitigate the risks associated with issues detected. Some of the measures put into place had not been fully embedded at the time of the limited review fieldwork and can only be assessed once a full cycle of budget implementation has been completed.

The creation of the Steering Committee for Delegations (EUDEL) should help resolve most, if not all, of these issues. However, some inefficiency may be unavoidable due to the separate legal structure of the two institutions and the need to strictly comply with the financial regulation.

The IAS intends to conduct a follow-up within two years of the issuance of this report. It will also assess (as part of a future audit) the controls put in place to assess the risks, if any, associated with the other issues identified and for which no recommendations have been made in this report.

2.5.2. Financial Management of Regional Programmes (DG ELARG)

Following the completion of its preliminary survey, the IAS decided not to pursue its planned audit on *Financial Management of Regional Programmes* in DG ELARG. The main reasons for this decision are as follows:

- The IAC of DG ELARG was undertaking an audit on Joint Management (including Regional Programmes) at the time.
- The remaining part of Regional Programmes, which is managed under centralised direct management, was assessed as a low risk activity by DG ELARG management,
- The relatively low value of commitments and payments made during the period 2009-2011.

2.6. *Education and citizenship*

(DG COMM, DG EAC, EACEA, DG HOME, DG JUST)

2.6.1. Lifelong Learning Programme (DG EAC/EACEA)

Background

The Lifelong Learning Programme (LLP) is an umbrella programme integrating various educational and training initiatives. It has a budget of over €7 billion for the 2007-2013 period, of which around 11% is managed by the Education, Audiovisual and Culture Executive Agency (EACEA – hereafter the Agency) under the supervision of its parent DG (DG EAC – Education and Culture). EACEA started its operations on 1 January 2006 and its current mandate ends at the end of 2015[25].

Audit Objectives

The objective of this audit was to assess whether the control strategy in place in the Education, Audiovisual and Culture Executive Agency for the management of the Lifelong Learning Programme enables it to obtain reasonable assurance on the legality and regularity of the underlying financial transactions.

In addition, the audit also assessed the adequacy, efficiency and effectiveness of the internal control system put in place by DG EAC for exercising its supervisory role as parent DG in the implementation of LLP by EACEA.

Audit Scope

The detailed scope of the audit was as follows:

- EACEA's procedures and control systems in place for the *processing of final payments of the LLP programme* in terms of compliance with the applicable rules, regulations and sound financial management principles;
- DG EAC's control strategy and the internal control system in place for exercising its *supervision on the implementation of LLP by EACEA*.

In its 2011 AAR, the Agency made a reservation concerning the high rate of residual errors regarding the implementation of the 2000-2006 and 2007-2013 LLP programmes of 3,02% and 3,93% respectively. The analysis of the errors by EACEA shows that these resulted mostly from difficulties faced by beneficiaries to produce adequate justifying documents and the non-respect of some eligibility rules during reporting. However, the 2011 value at risk represented 0,80% of the 2011 total payments budget of the Agency (€4,3 m out of total

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[25] *Commission Decision No 56 of 2005(EC) of 14.1.2005 setting up the Educational, Audiovisual and Culture Executive Agency for the management of Community action in the fields of education, audiovisual and culture in application of Council Regulation (EC) No 58/2003. OJ L 11, 16.1.2003. Later amended by the Commission Decision of 20 April 2009.*

payments of €533,4 m). In order to deal with this reservation on LLP and a previous reservation in 2010 on two other EACEA managed programmes (Culture and Youth), EACEA is in the process of implementing an action plan[26], which was prepared for the 2010 reservation.

Areas excluded from the scope of this audit included final payments of the administrative budget and procurement as well as those parts of LLP implemented through the National Agencies in the Member States.

The audit fieldwork was finalised on 2 October 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following High risks that may impact the efficiency of the achievement of the business objectives for the process audited were identified:

- Sub-optimal effectiveness with the parent DG's supervisory requirements of Council Regulation No 58/2003 (Executive Agency statute) and the Delegation Act, which may have an adverse impact on the achievement of the parent DG's efficiency objectives as well as an inefficient and ineffective implementation of the LLP programme.
- Insufficient clarity or duplication of roles and responsibilities may result in inefficiencies in the implementation of LLP and sub-optimal use of resources.
- An inconsistent treatment/approach in applying the control strategy when processing final payments and weaknesses in the application of the non-retroactivity rule may result in the approval of ineligible costs leading to inappropriate payments made, inconsistency in the treatment of beneficiaries and reputational damage for the Agency.

DG EAC should therefore:

- define an updated supervision strategy for the Agency which should be validated by its senior management,
- conduct a review to identify efficiencies in the use of its resources by, for example, performing a resource mapping of the DG EAC policy units , or building on the results of a Cost Benefit analysis of alternative delegation arrangements between DG EAC and EACEA.

The EACEA should:

- ensure that its desk control strategy is applied systematically,
- take the necessary steps to ensure compliance with the non-retroactivity rule.

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[26] *Action plan added to the EACEA AAR 2011.*

2.6.2. Control Strategy in DG HOME

Background

The mission of the Directorate-General for Home Affairs (DG HOME) is to create, on the basis of the principle of solidarity, an area of freedom, security and justice without internal borders where EU citizens and third-country nationals may enter, move, live and work. Four separate Funds; the External Borders Fund (EBF), European Return Fund (RF) , European Refugee Fund (ERFIII), and the European Fund for Integration of third country nationals (EIF), are together managed under the "Solidarity and Management of migration flows" general programme (SOLID). The management of these funds is a shared responsibility between the Commission and the Member States under Article 53 of the Financial Regulation. Grants are disbursed over a thirty-month period for each annual programme and the Commission's funds co-finance these activities at a percentage between 50 and 75%.

In 2011, DG HOME had committed in total 1.382M€ in appropriations for the SOLID Funds.

The IAS audit on the Control Strategy in DG HOME is included in the IAS 2012 Audit Work Programme. This follows the audit risk assessment carried out in 2010/11. The requirement for the supervision and management of an Annual Programme for each year, for four funds, by 27 Member States and 3 associated Countries[27], using a control structure that has been designed principally in respect of the (multi annual programme based) Structural Fund DGs, is a demanding challenge for a relatively small DG. This audit should contribute to the Internal Auditor's overall opinion.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to the operational financial and ex post controls system for the operation of the four shared management SOLID Funds managed by DG HOME.

The audit focussed on the procedures and processes applied by the DG in establishing the annual management opinion of the Director-General in this area based on the assurance provided using the building blocks of both an audit opinion (from DG Home Affairs auditors) and an operational opinion (from the Authorising Officer by Sub-delegation) and on the processes in place to ensure that the Commission fully complies with its regulatory and supervisory responsibilities in managing the SOLID Funds.

Audit Scope

The audit focussed on the procedures and controls in respect of the closure and final payments of the SOLID Funds for the 2007 (EBF and EIF) and 2008 (all four funds) Annual

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[27] *EBF only for the 3 associated countries implementing the programme*

Programmes (APs), as well as procedures in place for suspensions and financial corrections. The audit also reviewed the overall audit and control strategy developed and implemented by DG HOME to ensure the Commission's compliance with its regulatory and supervisory responsibilities in managing the Funds.

There are no reservations in the DGs 2011 Annual Activity Report (AAR) for this area.

The fieldwork was finalised on 13 July 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following high risks that may impact the achievement of the business objectives for the process audited were identified:

1. **Submission of Closure Files:** There is a materialised risk that the DG is not acting in accordance with the requirements of the underlying Council Decisions. This practice could be considered as giving an unfair treatment to some MS. Further, this could bring a reputational risk to the Commission or weaken the Commission's position when enforcing other deadlines. Also, these extended delays could limit the Commission's ability to take prompt corrective actions.

The IAS recommends DG HOME to take immediate steps to confirm with MS the current practice and to report these non-compliance events to its Internal Control coordinator and kept centrally in the register of exceptions and non-compliance events. It should take steps to implement the procedures within the earliest timeframe possible, and ensure that any future exceptions of this nature are appropriately reported and followed up (See also recommendation 3).

2. **Ex Post Audit Strategy;** Without a methodology for the incorporation of the results of ex post audits in the declaration of assurance, the level of assurance that might cost effectively be taken from ex post audits in DG HOME cannot be identified and realised in the AAR, and an error rate cannot be correctly established. The Audit Strategy in respect of ex post control is incomplete and fails to properly identify the full scope of audit work, the level of audit assurance sought, and its resourcing requirements over the period. If the overall approach for the ex post audits is not risk based there is a risk that the audit sampling and coverage might not be sufficient to provide the level of assurance for the DG in the overall opinion.

The IAS recommends DG HOME should establish a methodology for the incorporation of the results of ex post audits in the DGs assurance model, in the declaration of assurance, and in the AAR. In doing so, the DG should determine the level of assurance that might cost effectively be taken from the results of ex post controls and establish the means of determining an annual error rate. Further, the IAS recommends that the key details of the DGs planned ex post audit work for the SOLID Programme (levels of assurance sought overall number of audits, resource and cost budget analysis) should be updated to the Audit Strategy and the overall manner of audit selection if not risk based, should be justified. Lastly, the IAS

recommends that the DG clearly identify the budget required to meet the ex post audits plan both annually and as far as possible for the likely sample population over the period of the Programme.

3. **Management and supervision of closure procedures:** With a significantly growing number of cases the current tools used to track and manage Closure files cannot be considered sufficient to avoid errors and oversights and maintain an effective control to ensure the sound monitoring of the funds. A lack of up to date, approved, and clear guidelines could lead to inefficiencies and delays in the conduct of the Closure process and a possible loss of audit trail.

The IAS recommends that the DG revise its procedures in both the current and the new legislative programme replacing the SOLID Funds to strengthen its management and control systems in proportion with the amount of funds involved. Further, the IAS recommends that the DG take steps to appropriately revise and formalise their Closure Checklist and Guidelines. Particular attention should be paid to the determination of clear policies and procedures in respect of Closure file document management and retention.

2.6.3. Control Strategy in DG JUST

Following the completion of its preliminary survey, the IAS has decided not to pursue its planned *Audit on the Control Strategy* in DG JUST. The main reasons for this decision are as follows.

The IAS preliminary audit work confirmed that the Grant and Procurement Programmes implemented by DG JUST from 2011 have not yet reached the stage in their implementation that would have allowed a sufficient audit examination and assessment of the management controls and procedures in respect of both ex ante and ex post controls to be conducted.

On grounds of materiality, it was not considered that the audit would have covered a sufficient volume of final payments (insufficient level of final payments compared to commitments).

2.6.4. Monitoring the implementation EU Law (DG JUST)

Background

A timely and correct application of EU legislation is primarily the responsibility of the Member States. The control of the exercise of that responsibility by the Member States is one of the Commission's core activities as laid down in the Treaty in the fulfilment of its role as the "Guardian of the Treaties". The IAS audit on *Monitoring the Implementation of EU law in DG JUST* was included, as a result of a risk assessment, in the 2012 IAS-IAC coordinated Audit Work Programme. Ineffective and inefficient monitoring and implementation of EU law as well as difficulties to deal with infringement cases are examples of risks that DG JUST may run if the audited process is not sufficiently under control. Both DG JUST

acquis and policy areas (Union Citizenship, Civil / Criminal Justice, Equality and Fundamental Rights) give rise to more than 10 % of all Commission-wide active infringement cases. Furthermore, the adoption of the Charter of Fundamental Rights has generated many inquiries. Finally, a higher number of infringements are expected in the coming years due to the implementation of the Lisbon Treaty and the shift of legislation from the first to the third pillar in the Justice policy area.

Audit Objectives

The objective of this audit was to audit the management, efficiency and effectiveness of the monitoring of EU law for the years 2007 to 2011 in DG JUST.

After having performed similar audits in other DGs, the IAS intends to address in 2013 an overview report to the Secretariat-General on possible recurrent and Commission-wide issues.

Audit Scope

The audit focussed on:

- Pro-active monitoring: assessing the efficiency and effectiveness of the DG's process for monitoring the timely, correct and complete implementation of Directives, mainly for the years 2007 to 2011, against the criteria defined for the different phases.
- *Ex post* monitoring: assessing the DG's handling of complaints and infringements related to Directives, Regulations and the Treaty, with respect to correctness, efficiency and effectiveness, including compliance with the Manual of Procedures.
- Assessing compliance of the EU law monitoring function (pro-active and *ex post*) with relevant Commission Internal Control Standards and provisions.
- Assessing potential issues for simplification of procedures, including IT processes.

This process had been audited in DG JUST neither by the IAS, the IAC nor the European Court of Auditors (ECA).

There are no reservations in the Annual Activity Reports (AAR) from 2007 to 2011 that relate to the area / processes audited.

The fieldwork was finalised in July 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following high risk that may impact the achievement of the business objectives for the process audited was:

Due to insufficient formal performance measurement notably in the MP and the AAR, the activity "monitoring the application of EU law" may not be performed effectively, efficiently and economically.

In order to better monitor performance, DG JUST should:

- consolidate the most relevant data in the MP and AAR;
- regularly report to management on the output of indicators and achievement of MP objectives in relation to this activity, analyse performance evolution over time and root causes of delays and/or increasing backlog and propose remedial solutions;
- assess the volume of the activity (number of cases, staff involved, etc.) in relation to preliminary rulings;
- put in place a uniform DG-wide monitoring system to enable a reliable statistical reporting both for DG JUST management and SG coherence exercises.

2.7. Economic and financial affairs

(DG COMP, DG ECFIN, DG ENTR, DG MARKT, OLAF, DG TAXUD, DG TRADE)

2.7.1. Implementation by the EIF of the CIP Programme (DG ECFIN)

Background

The High Growth and Innovative SME Facility (GIF) is a Community financial instrument for small and medium-sized enterprises (SMEs) within the Competitiveness and Innovative Framework Programme (CIP)[28]. CIP has a budget of € 3.6 billion for the period 2007-2013. It comprises the following specific programmes: the Entrepreneurship and Innovation Programme (EIP); the ICT Policy Support Programme and the Intelligent Energy Europe Programme. The EIP devotes € 1.1 billion to improving access to finance for the start-up and growth of SMEs and for investment in innovation as follows: € 0.5 billion through the SME Guarantee Facility (SMEG) and € 0.6 billion through the High Growth and Innovative SME Facility (GIF). The European Investment Fund (EIF) implements GIF on behalf of the Commission on the basis of a Fiduciary Management Agreement (FMA).

Objectives and scope

The general objective of this joint IAS/ECFIN-IAC audit was to assess how effectively the EIF implements GIF, and in particular i) how the EIF complies with the FMA and ii) how effectively and efficiently ECFIN supervises that GIF achieves its specific objectives.

There are no observations/reservations in the 2010 AAR in relation to the area/process audited.[29]

The fieldwork was finalised on 16 November 2011. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following high risks that may affect the achievement of the business objectives for the process audited were identified:

- **Indicators – Risk rating High:** Non-effective indicators may mean that ECFIN cannot measure GIF's progress towards its objectives. This may also mean that the actors involved cannot correct timely their actions. In order to mitigate these risks, DG

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[28] *Decision No. 1639/2006/EC of the European Parliament and of the Council of 24 October 2006*

[29] *In 2006 ECFIN inserted in the AAR a reservation related to the achievement of additionality requirements under SMEG 01 (predecessor programme of SMEG 07). Corrective actions allowed the lifting of the reservation in 2009.*

ECFIN should, within the scope of its responsibilities, define and monitor relevant indicators for CIP's successor programme.

- **Material events – Risk rating High:** If DG ECFIN receives incomplete or insufficient information it may not have all material elements to approve or reconsider financing decisions. In order to mitigate this risk, DG ECFIN should require the EIF: 1) to review its procedures for identifying material events; 2) to ensure that the information contained in financing proposals is complete and up-to-date; new material developments, if any, should be reported. This is particularly important when the EIF's Due Diligence happens long before the Request for Approval to the Commission.

2.7.2. Off-budget operations (DG ECFIN)

Background

Since 2008, the global economy is facing a financial crisis involving banking systems, stock markets and the flow of credit which has turned into a sovereign debt crisis. In order to deal with this unprecedented situation, the European Union has created new financial instruments or revamped existing ones to act as a borrower and on-lend money to Member States in financial difficulties.

The European Commission, acting on behalf of the European Union (EU), currently operates three programmes of financial assistance under which it may grant loans and fund these by issuing debt instruments in the capital markets:

- The European Financial Stabilisation Mechanism ("EFSM"): assistance to all EU Member States, currently activated for Ireland and Portugal. In addition, the European Financial Stability Facility (EFSF), providing financial assistance to Euro area Member States, was created as a temporary and inter-governmental crisis management instrument. The activities of these two instruments have been absorbed by the new EU's permanent crisis mechanism, the European Stability Mechanism (ESM), which entered into force on 27 September 2012;
- The Balance-of-Payments ("BoP") assistance: assistance to Member States that have not yet adopted the euro;
- The Macro-Financial Assistance ("MFA"): assistance to third countries that are experiencing short-term balance of payments difficulties.

In addition, the European Commission manages the package of pooled bilateral loans from Euro Area Member states to Greece.

Audit Objectives and Scope

The objective of this audit was to assess whether the existing controls are adequate to ensure **compliance** of the borrowing and lending operations and the related monitoring activities related to the **EFSM** with the relevant procedures and market practices.

The following activities were considered out of scope of this engagement:

- The verification of the yearly budget appropriations' compliance with the maximum allowed own resources threshold[30] (task assigned to DG Budget in the communication accompanying the empowerment decision SEC(2010)941).
- The accounting of the borrowing and lending activities under the EFSM as it is audited by the European Court of auditors ("ECA") as part of the annual audit of the financial statements.

There are no observations/reservations in DG ECFIN's 2011 AAR that relate to the area/process audited.

The fieldwork was finalised on 31 August 2012. All observations and recommendations relate to the situation as at that date. The audit findings have taken into consideration the findings and recommendations of the recent audits relevant to off budget operations and in particular the IAC's audit on BoP Borrowing and Lending operations[31] and on Macro Financial Assistance.[32]

Risks and audit recommendations

The weaknesses may affect business continuity and the efficiency and effectiveness of operations resulting in the Commission's image with external stakeholders and the wider public being undermined and expose it to a high reputational risk.

Due to the number of outside parties involved in the process, some risks may be unavoidable (e.g. leaks of sensitive information). However, given the nature of the activities, the interest of the media and the EP in the process, DG ECFIN should ensure that robust controls, adapted to the evolving nature of the crisis, are developed to mitigate the above risks as follows:

- Given the interrelationship between the issues identified, DG ECFIN should firstly perform a risk assessment of the activities related to the management of the financial crisis it currently performs under EFSM (risk identification, risk rating, identification of resource implications),
- DG ECFIN should secure support at the highest level from the central services in terms of the provision of logistic support and involve other parties concerned (DG HR[33], DIGIT, DG COMM, DG BUDG, etc.),
- DG ECFIN should set its risk appetite for the process accordingly,
- DG ECFIN should develop appropriate controls to mitigate the risks identified,

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[30] *The EFSM regulation (Council Regulation No. 407/2010 of 11 May 2010) introduced the necessity to monitor the respect of the "own resources ceiling", intended as the margin between the own resources ceiling of 1.23% of GNI and the budgeted payment appropriations for every budgetary year. Credit reimbursements and interest payments of all financial instruments due by Member States or other counterparties should not exceed that margin in any budgetary year.*
[31] *Report issued on 25/02/2011.*
[32] *Report issued on 28/10/2010.*
[33] *Including HR DS*

- DG ECFIN should have appropriate staff arrangements and contingency planning in place to ensure business continuity.

2.7.3. Control Strategy in DG ENTR

Objectives and Scope

The IAS audit on *the Control Strategy for managing the operational budget in DG Enterprise and Industry (DG ENTR)* was included in the IAS' 2011 and 2012 audit plan. This follows the audit risk assessment carried out in 2010 and updated in 2011. Furthermore, DG ENTR manages a relatively important budget in the context of the IAS Overall Opinion (€ 706 million commitments excluding administrative expenditure in 2012). Moreover, the DG made reservations in its 2011 Annual Activity Report concerning the residual error rate with regard to the accuracy of cost claims in the 6th and 7th Research Framework Programmes (2,83% and 5,41% respectively). Audits to ensure that a coherent control strategy is being implemented for every significant area of expenditure to address the risk of error in the underlying transactions have received priority in the IAS' audit plan, as they should contribute to achieving a more positive Statement of Assurance (DAS) by the European Court of Auditors (ECA).

The objective of the audit was to assess whether DG ENTR's control strategy designed to obtain assurance on the legality and regularity of underlying transactions is adequate, effectively implemented, regularly monitored and adequately reported on and is ensuring that corrective measures are taken promptly and proportionately.

The scope of this audit engagement covered the processes of ex-ante financial controls, ex-post controls and DG ENTR antifraud strategy. The Global Navigation Satellite Programmes (GNSS) were excluded from the scope as they had been already audited by the IAS in 2011.

DG ENTR disclosed the following two reservations in the 2011 AAR concerning specifically the areas under the scope of this audit:

- *Reservation concerning the rate of residual error with regard to the accuracy of cost claims in the 6th Research Framework Programme (FP6). At the end of 2011, the cumulative residual error rate is 2.83 % and exceeds the 2% multiannual control objective.*
- *Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7th Research Framework Programme (FP7). As the audit sample is not representative, it is not possible to state with certainty that the cumulative residual error rate (5.41% for DG ENTR at the end of 2011) or if the level of financial impact of errors identified will fall below the materiality threshold at the end of the multi-annual period.*

During the audit, no scope limitations were identified.

The fieldwork was finalised on 25 May 2011. All observations and recommendations relate to the situation as of that date.

Risks and Recommendations

The following high risks that may impact the achievement of the business objectives for the processes audited were identified:

- Internal Control Coordinator (ICC) role. The limited ICC's role may lead to ineffective and inefficient oversight and coordination of the implementation of the internal control standards and audit recommendation, especially in the financial area. Therefore, DG ENTR should strengthen his role.
- e-Domec rules. Non-compliance relating to e-Domec rules (internal control standard n° 11) may lead to loss of files, inefficient processing of documents and weak accountability. DG ENTR should strengthen document management, at least in the audited Directorates, through awareness actions, proactive support and close monitoring.
- Exception register. Incomplete and inaccurate registration of exceptions does not comply with the internal control standard n°8 and weakens the ICC's capacity to monitor the functioning of the internal control. Exception reporting should be implemented for non-financial exceptions and duly monitored.

2.7.4. Monitoring the Implementation of EU Law (DG TAXUD): joint IAS-IAC audit

Background

A timely and correct application of EU legislation is primarily the responsibility of the Member States. The control of the exercise of that responsibility by the Member States is one of the Commission's core activities as laid down in the Treaty in the fulfilment of its role as the "Guardian of the Treaties".

The Joint IAS-IAC audit on *Monitoring the Implementation of EU law in DG TAXUD* was included in the 2011 IAS-IAC coordinated Audit Work Programme as a result of a risk assessment.

Ineffective and inefficient monitoring and implementation of EU law in the field of customs and taxation as well as difficulties to deal with infringement cases are examples of risks that DG TAXUD may run if the audited process is not sufficiently under control. DG TAXUD is one of the three most infringement-prone policy areas with more than 12 % of all Commission-wide active infringement cases. However, the inherent risk related to transposition is lower because of a limited number of directives, which are rather stable.

Audit Objectives

The objective of this audit was to audit the management, efficiency and effectiveness of the monitoring of EU law for the years 2006 to 2011 in DG TAXUD. After having performed similar audits in other DGs, the IAS should address in 2013 an overview report to the Secretariat-General on possible recurrent and Commission-wide issues.

Audit Scope

The audit focussed on:

- Pro-active monitoring: assessing the efficiency and effectiveness of the DG's process for monitoring the timely, correct and complete implementation of Directives, mainly for the years 2006 to 2011, against the criteria defined for the different phases.
- *Ex post* monitoring: assessing the DG's handling of complaints and infringements related to Directives, Regulations and the Treaty, with respect to correctness, efficiency and effectiveness, including compliance with the Manual of Procedures.
- Assessing compliance of the EU law monitoring function (pro-active and *ex post*) with relevant Commission Internal Control Standards and provisions.
- Assessing potential issues for simplification of procedures, including IT processes.

The IAC of DG TAXUD, the IAS or the ECA had not yet audited this process.

There were no reservations made by DG TAXUD in its 2011 AAR, which relate to the audited processes.

The fieldwork was finalised in March 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following high risks that may impact the achievement of the business objectives for the process audited were identified:

- STRATEGIC PLANNING AND PROGRAMMING – **Risk rating: High:** The planning and results of these core business activities may remain under the radar of top management and other stakeholders if insufficiently reported on, possibly resulting in an incoherent and inefficient approach of the monitoring of EU law and non-optimal use of resources. MPs and AARs should provide sufficient information on planned and executed activities related to the monitoring of the correct implementation of EU law as one of the core business activities of DG TAXUD.
- PERFORMANCE MEASUREMENT – **Risk rating: High:** Insufficient performance measurement may prevent the DG's management to monitor resource allocation and time schedules in compliance with the benchmarks set by the SG. Furthermore, without clear objectives translated into indicators, allowing for a performance measurement over time, management may not know whether the activity is carried out in an efficient, effective and economical manner. DG TAXUD should therefore

develop SMART[34] objectives and a set of standardised RACER[35] indicators in its MP and AAR to better steer the activity. Statistical data (volume, staff allocated, average duration, origin, complexity, etc) should form the basis for forthcoming performance measurement. Measuring performance evolution over time will enable management to put in place timely and appropriate remedial actions in case of bad performance.

- **AWARENESS-RAISING ON DG TAXUD PERFORMANCE – Risk rating: High:** The lack of awareness on performance aspects may negatively affect the efficient and effective monitoring of EU law. DG TAXUD should therefore enhance its focus on performance aspects. Infringement coordinators should have the responsibility to better monitor the progress of the cases managed in their unit by anticipating deadlines. DG TAXUD bad performance cases against the SG benchmarks should be brought to the attention of management in order to identify their causes and develop remedial measures.

- **COORDINATION IN THE CUSTOMS AREA – Risk rating: High:** If legal breaches detected in the course of monitoring actions are not appropriately and timely reported and the appropriate process initiated leading to the decision to start or abandon a coordinated action in the case of potential infringements, the Commission may fail to assume its responsibility to check the correct application of the customs legislation. DG TAXUD should consequently ensure that the unit responsible for infringements in the customs area be systematically informed of the outcome of such actions and play a supportive role, providing overall coherence, guidance and advice. It should be involved in any decision to start (or drop) further enquiries in case of suspicion of infringements with a structural character detected during monitoring actions.

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[34] *Specific, Measurable, Achievable, Relevant, Timely.*

[35] *Relevant, Accepted, Credible, Easy and Robust.*

2.8. General services and HR

(DG HR, DG BUDG, DGT, DG DIGIT, EPSO, DG ESTAT, SJ, OIB, OIL, OP, PMO, SCIC, SG)

2.8.1. Strategy and coordination of statistical data production, development and dissemination
(DG ESTAT and DG AGRI, DG MARE, DG RTD and JRC)

(5 audit reports: DG ESTAT and included in the audit sampling: DG AGRI, DG MARE, DG RTD, JRC)

Background

Official statistics play a fundamental role in today's society. The availability of impartial and objective statistical information is essential for all decision-makers. At EU level, statistics has become increasingly important for the development, implementation, monitoring and evaluation of EU policies, such as the Europe 2020 strategy.

Regulation (EC) No 223/2009 establishes the legal framework for the development, production and dissemination of European statistics. It has entrusted DG ESTAT (Eurostat) with the responsibility at Community level to ensure the production of European statistics according to established rules and statistical principles[36]. In this respect, Eurostat has the sole responsibility for deciding on processes, statistical methods, standards and procedures and ensures its independence, integrity and accountability through compliance with the European Statistics Code of Practice[37].

In fulfilling its role under Regulation (EC) No 223/2009, Eurostat has to deal with many actors and, in particular, to coordinate (i) the work of the European Statistical System (ESS)[38], and (ii) the work of policy DGs within the Commission. The lack of coordination between policy DGs and Eurostat on statistical work was included in DG ESTAT's 2011 risk register as a critical risk. This prompted Eurostat and SG to issue a note[39] to all Directors Generals and Heads of Services regarding the coordination of Commission activities with statistical aspects. The note drew their attention to the risk of a lack of coordination on activities with a statistical dimension and recalled the need for all DGs and services to associate Eurostat at an early stage on all such initiatives.

An important recent development related to the production of European statistics is the current revision of Commission Decision 97/281/EC[40], which foresees the strengthening of

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[36] *Regulation (EC) No 223/2009, Article 6.*
[37] *COM(2005)0217 final.*
[38] *Partnership between Eurostat and the National Statistical Institutes and other national authorities responsible in each Member State for the development, production and dissemination of European statistics.*
[39] *Ares(2011)318441.*
[40] *Commission Decision on the role of Eurostat as regards the production of Community statistics.*

DG ESTAT's role to ensure the quality management of European statistics[41]. This decision is expected to address most, if not all, of the very important issues raised in this report.

Audit Objectives

The general objective of the audit was to assess the **adequacy, efficiency and effectiveness** of processes related to the *production, development and dissemination of statistics* managed by DG ESTAT.

In particular, this audit assessed whether the existing legal, methodological and quality management framework and mechanisms put in place are **sufficiently developed in order to ensure a sufficient and efficient coordination** between DG ESTAT and other Commission DGs and Services active in the production, development and dissemination of statistics.

Audit Scope

The scope of this audit engagement was on the coordination between DG ESTAT and other Commission DGs and Services for the production, development and dissemination of statistics. The relationship between DG ESTAT and the Member States (National Statistical Offices) was considered to be out of scope for the current audit engagement as it has recently been addressed by the European Court of Auditors[42]. The following four DGs were included in the sample for the audit engagement: DG AGRI, DG MARE, DG RTD and JRC.

Separate reports containing issues specific to the four DGs included in the sample have been issued. These are attached in Annex 3 (see below).

There are no observations/reservations in the 2011 AAR of Eurostat that relate to the area/process audited.

The fieldwork was finalised on 31 May 2012. All observations and recommendations relate to the situation as at that date.

Risks and audit recommendations

The High risks faced by the Commission services due to the weaknesses noted above can be summarised as follows:

- Eurostat not fulfilling the responsibility entrusted to it under Regulation (EC) No 223/2009 to ensure the production of European statistics according to established rules and statistical principles (Findings No 1 and 2).
- Eurostat not being in a position to provide the necessary input to help achieve the Commission's strategic objectives (Finding No 2).

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[41] *Interservice consultation estat.a.5(2012)582639.*
[42] *Preliminary observations on "Did the Commission and Eurostat improve the process for producing reliable and credible European statistics?", dated 29 March 2012.*

- Inconsistencies, gaps, low quality of data, overlaps and disruption to business continuity (Findings No 3 and 5).
- Impairment of the independence, integrity and accountability of Eurostat as the statistical authority of the European Union (Findings No 3 and 4).

To mitigate the above risks, Eurostat should:

- Develop, in cooperation with other DGs, a Commission-wide definition of the term "statistics".
- Develop a statistical roadmap to include short and long term strategic action plans and require policy DGs to provide their short and longer term needs as part of the 2014-2020 MFF.
- Sign harmonised Memoranda of Understanding with policy DGs to define their respective roles and responsibilities.
- Ensure that statistics produced by policy DGs and external providers that fall under the scope of Regulation (EC) No 223/2009 are the subject of an independent external review to complement the annual monitoring done by the European Statistical Governance Advisory Board (ESGAB).
- Coordinate the use of external providers of statistical services.

Separate reports addressed to DG AGRI, DG MARE, JRC and DG RTD

The issues detected in this audit, together with those stemming from the audits in DG MARE, DG RTD and JRC, are summarised in the consolidated report addressed to DG ESTAT.

→ Separate report addressed to DG AGRI

DG AGRI was selected on the basis of its extensive use of data and the results of an IAS survey conducted in February 2011.

The objective of this audit was to assess whether the existing tools and procedures are adequate to ensure a sufficient and efficient coordination between DG ESTAT and DG AGRI of processes related to the production, development and dissemination of statistics.

There are no observations/reservations in the 2011 AAR of either DG AGRI or DG ESTAT that relate to the area/process audited.

The fieldwork for DG AGRI was finalised on 5 June 2012. All observations and recommendations relate to the situation as at that date.

Risks and audit recommendations

The following high risk that might affect the achievement of the business objectives for the process audited was identified:

- **Coordination of contracts – Risk rating High:** The lack of coordination between DG ESTAT and policy DGs, including DG AGRI, on external providers of statistical services may lead to inefficiency and ineffectiveness due to low quality of statistical data, overlaps, waste of resources and missed economies of scale.

  In order to mitigate this risk, DG AGRI should cooperate with DG ESTAT in coordinating contracts with external providers of statistical services, in order to achieve economies of scale through a stronger negotiating power.

→ **Separate report addressed to DG MARE**

DG MARE was selected on the basis of its extensive use of data and the results of an IAS survey conducted in February 2011.

The objective of this audit was to assess whether the existing tools and procedures are adequate to ensure a sufficient and efficient coordination between DG ESTAT and DG MARE of processes related to the production, development and dissemination of statistics.

There are no observations/reservations in the 2011 AAR of either DG MARE or DG ESTAT that relate to the area/process audited.

The fieldwork for DG MARE was finalised on 6 June 2012. All observations and recommendations relate to the situation as at that date.

Risks and audit recommendations

The following high risk that might affect the achievement of the business objectives for the process audited was identified:

- **Coordination of contracts – Risk rating High:** The lack of coordination between DG ESTAT and policy DGs, including DG MARE, on external providers of statistical services may lead to inefficiency and ineffectiveness due to low quality of statistical data, overlaps, waste of resources and missed economies of scale.

  In order to mitigate this risk, DG MARE should cooperate with DG ESTAT in coordinating contracts with external providers of statistical services, in order to achieve economies of scale through a stronger negotiating power.

→ **Separate report addressed to JRC**

In particular, JRC was included in the sample due to its role as a producer of statistical data for other Commission services.

The objective of this audit was to assess whether the existing tools, procedures are adequate to ensure a sufficient and efficient coordination between DG ESTAT and JRC of processes related to the production, development and dissemination of statistics.

There are no observations/reservations in the 2011 AAR of either JRC or DG ESTAT that relate to the area/process audited.

The fieldwork for JRC was finalised on 30 May 2012. All observations and recommendations relate to the situation as at that date.

Risks and audit recommendations

The following high risk that might affect the achievement of the business objectives for the process audited was identified:

- **Coordination of contracts – Risk rating High:** The lack of coordination between DG ESTAT and policy DGs, including JRC, on external providers of statistical services may lead to inefficiency and ineffectiveness due to low quality of statistical data, overlaps, waste of resources and missed economies of scale.

In order to mitigate this risk, JRC should cooperate with DG ESTAT in coordinating contracts with external providers of statistical services in order to achieve economies of scale through a stronger negotiating power.

→ **Separate report addressed to DG RTD**

DG RTD was included in the sample as a DG with specific data needs and as a DG using external contractors for statistical purposes.

The objective of this audit was to assess whether the existing tools and procedures are adequate to ensure a sufficient and efficient coordination between DG ESTAT and DG RTD of processes related to the production, development and dissemination of statistics.

There are no observations/reservations in the 2011 AAR of either DG RTD or DG ESTAT that relate to the area/process audited.

The fieldwork for DG RTD was finalised on 1 June 2012. All observations and recommendations relate to the situation as at that date.

Risks and audit recommendations

The following high risk that might affect the achievement of the business objectives for the process audited was identified:

- **Coordination of contracts – Risk rating High:** The lack of coordination between DG ESTAT and policy DGs, including DG RTD, on external providers of statistical services may lead to inefficiency and ineffectiveness due to low quality of statistical data, overlaps, waste of resources and missed economies of scale.

In order to mitigate this risk, DG RTD should cooperate with DG ESTAT in coordinating contracts with external providers of statistical services in order to achieve economies of scale through a stronger negotiating power.

2.8.2. Service Level Agreements (DG HR, OIB, OIL and PMO)

Background

In line with the IAS Strategic Audit Plan 2010-2012, an Audit on the Management of Service Level Agreements (hereafter SLAs) by DG HR, OIB, OIL and PMO was announced in October 2011 and started in January 2012.

The main risk underpinning the inclusion of this topic in the IAS Strategic Audit Plan was a potential lack of harmonized approach and content of the SLAs signed between DG HR and related Offices on the one hand, and the EU Agencies and the Institutions on the other hand. Indeed, DG HR considered the potential lack of standard SLAs with Agencies as a critical risk in its 2010 risk register.

The relative importance of SLAs, in terms of revenue generated by providing services in the framework of the SLAs versus total budget, differs between the four Services reviewed, ranging from 12% for PMO activities (including Agencies only) to around 2% for OIL.

Objectives

The objective of the review was to assess the adequacy of the design and management of the SLAs signed between DG HR, OIB, OIL and PMO on the one hand, and the EU Agencies and the Institutions on the other hand.

Scope

The results of the preliminary survey indicated that management had taken the appropriate initiatives in order to reduce the risks originally identified, in particular as regards inconsistencies between the SLAs in use and supervision over their design. The IAS therefore decided to limit the scope of its work to a compliance test of recent SLAs with the templates approved by the Offices' Management Boards, and to checking overall consistency of a sample of SLAs from the four Services. Issues relating to the determination of prices were also analysed, focusing on PMO and OIB for which the importance of SLAs in their activities is relatively more significant.

There are no observations/reservations in the 2011 AARs of DG HR, OIB, OIL or PMO that relate to the area audited.

The fieldwork was finalised on 30 April 2012. The report relates to the situation as of that date.

No significant risks that may adversely affect the achievement of the business objectives for the process reviewed were identified.

2.8.3. Ethics in the Legal Service (consulting engagement)

The Legal Service ("LS"), due to the nature of its activities, may be exposed to ethical incidents that potentially might harm the Commission's reputation.

For this reason, it should set up and implement an ethics framework that encourages high standard of behaviour by formalising the common values and standards of conduct the LS consider important for the proper functioning of its activities.

The ethics framework normally includes an *Ethics Policy* (high-level principles or "core values") and a *Code of Conduct*. In particular:

- the Ethics Policy describes the core values of the organization in terms of expected (acceptable) behaviour for staff members in day-to-day decision making, The aim of the Ethics policy is to express Senior management's view on ethics, diffuse the ethical culture within an organization and ensure a long-term commitment to important values;
- the Code of Conduct translates the high-level principles into concrete procedures and standards to guide the staff in handling ethical issues.

The European Commission has set out general Ethical rules[43] that each Service has to translate into specific procedures which takes into account its own specificities (environment, type of activities performed and internal organisation) and the ethical-related risks it is facing.

For this reason it is essential that each Service identify its own ethical vulnerability and risks in order to address them properly in the Code of Conduct.

The process to define the ethics framework is divided into three steps:

1. Define a dedicated structure, with roles and responsibilities clearly identified and assigned. The structure should include an Ethics Steering Committee (strategic level), Ethics Task Force and Ethics Correspondent (operational level). The Ethics Steering Committee is a high-level decision-making body providing strategic direction and policy guidance and oversight of the implementation of the ethics framework.
2. Establish and implement the "roadmap", i.e. the milestones to be achieved to set up the ethics framework. The roadmap will enable the LS to define the Ethics policy, identify the values gap, detect the inherent ethical risks, draw up detailed procedures applicable to LS staff (Code of Conduct), develop training, awareness-raising and communication programmes, define monitoring and reporting systems and a review process. For each

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[43] *The general framework is set up in the Staff Regulation (Title II) and in the Commission's Code of Good Administrative Behaviour, complemented by Commission communication SEC(2008)301 on "Enhancing the environment for professional ethics in the Commission".*

milestone, the roadmap should include the logical sequence of tasks to be completed, persons responsible for the tasks, deadlines and expected outputs.

3. Monitor the implementation of the roadmap.

2.9.1. Local IT in DG DEVCO

Background

The activities of DG DEVCO rely heavily on IT systems. Two main systems are currently in production to support the operational and financial management of the projects funded by DG DEVCO and other DGs belonging to the Relex family (CRIS[44]) and to allow third parties applying for grants to register their organisation data (PADOR[45]). In addition, different programmes are currently under development to fill the gaps between business needs and the current information systems, among which PCM and PROSPECT[46]. All those systems are considered by DG DEVCO as critical.

DG DEVCO IT unit's mission is to assists the DG in achieving its strategic objectives by supporting business processes and operational procedures with Information Technology and Infrastructure.

Audit Objectives

The overall objective of the audit was to assess the internal control system put in place by DG DEVCO to ensure an effective and efficient management of its local IT activities, with a particular focus on the following areas:

- IT Governance;
- physical and logical security arrangements;
- organisation and management of the IT operations and projects.

This audit did not cover the effectiveness and efficiency of the main IT systems in supporting DG DEVCO's business processes. In this context, it is worth mentioning that in May 2012 the ECA finalised an audit, of which the objective was to assess *"whether CRIS is effective in responding to the Commission's information needs in the field of external actions"*. This audit covered effectiveness, reliability of data and the security aspects.

Audit Scope

The audit looked in particular to the following CobiT processes[47]:

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[44] *CRIS [Common RELEX Information System] is a modular system covering the establishment of policy and country strategy, action preparation and their execution and reporting, complemented by a data warehouse for reporting purposes.*

[45] *The "Potential Applicant Data On-Line Registration" - PADOR" database is managed by DG DEVCO and contains information about organisations applying for grants of the European Commission in the field of external assistance.*

[46] *PCM (Project Cycle Management) aims at covering modules of the project management cycle not yet provided by other applications while PROSPECT will replace the current system Call for Proposal (it is planned to be in production in the course of 2012).*

[47] *For each of the processes selected for the audit, the IAS identified specific control objectives for which detailed analyses and tests were performed during the fieldwork. The selection of these control objectives*

- Plan & Organise (IT architecture, IT organisation and IT governance, quality management, risk assessment and project management);
- Acquire & Implement (IS acquisition and maintenance, change and release management);
- Deliver & Support (third party services, logical and physical security, service desk and incidents management, configuration management, data management and management of the configuration).

No observations or reservations were made in the Annual Activity Report 2011 that relate to the processes audited.

The fieldwork was finalised in February 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following High risks that may impact the achievement of the business objectives for the process audited were identified:

- *IT Security* - **Risk rating: High:** The lack or the inadequacy of security plans may lead to failure in protecting information systems, as necessary and sufficient controls are not implemented to mitigate threats to a level acceptable for the business. In addition, if the LISO is not sufficiently involved in supervising IT security matters, the information systems may not be adequately protected, which is the case if uncontrolled or unauthorised software is run on a workstation. This could lead to security breaches with an impact on all Commission IT resources as well as to violation of software licensing policies that could expose the Commission to reputational and financial risks.

  DG DEVCO should therefore define IT security plans for all its information systems, including as a minimum the definition of IT security needs, the IT security requirements and the description of measures selected to meet the identified requirements. In addition, the DG should promote the role of the LISO to ensure its involvement in the management of information systems security and the performance of tasks foreseen in the Commission framework in that domain and its independence from IT operations. Concerning unauthorised software, DG DEVCO should define a "white list" of software allowed, perform periodic scans of software installed and launch an awareness raising program to inform users of the obligations and risks related to the installation and usage of unauthorised software.

- *IT Operations* - **Risk rating: High:** Inadequate management of service packs or patches may lead to information systems being prone to malware attacks, resulting in security breaches like unauthorised disclosure (confidentiality), unauthorised modification or deletion of information (integrity) or denial of service (availability). DG DEVCO should therefore define and implement a configuration management procedure to support changes in workstation or servers configuration and integrate it with the existing processes of change, incident and problem management procedures. The DG should also review the current configuration of equipment, and report for

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was based on the results of the assessment of inherent and residual risk performed during the preliminary survey phase of the audit. The list of the control objectives covered during the fieldwork is in Annex 1 – Audit methodology.

correction the identified non-compliances with the reference configuration published by DG DIGIT.

Privileges not respecting the "need to know" and "least privileges" principles may lead to unauthorised access to IT systems and undetected security breaches. This may result in unauthorised disclosure, deletion or modification of information and denial of service. To mitigate this risk, DG DEVCO should define and implement procedures for the user account management at the OS level and regularly review the system administration privileges.

2.9.2 Local IT in DG TRADE

Background

The activities of DG TRADE rely heavily on IT systems. The four main Information Systems (ISs) currently in production support the handling of Trade Defence cases and investigations (Sherpa and Sherlock) and the exchange of denials of dual goods items between EU Member States (Dual Use), and provide the import licenses and surveillance documents in the area of textile and steel (SIGL).

The IT unit's mission is to provide DG TRADE with high quality, secure and cost-effective information technology solutions in support of its activities. The IT unit manages all DG TRADE's ISs (hosted in local computer rooms) and provides Office Automation services (File services, Intranet, remote access to ISs). DG TRADE will join ITIC in 2013.

Audit Objectives

The overall objective of the audit was to assess the internal control system put in place by DG TRADE to ensure an effective and efficient management of its local IT activities, with a particular focus on the following areas:

- IT Governance.
- Physical and logical security arrangements.
- Organisation and management of the IT activities and projects.

Audit Scope

The scope of the audit included the following processes:

- Plan & Organise[48] (IT organisation and IT governance, quality management, risk assessment and project management);
- Acquire & Implement[49] (ISs development, change and release management);

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[48] ***Plan & Organise*** *covers strategy and tactics, and concerns the identification of the way IT can best contribute to the achievements of the business objectives.*

- Deliver & Support[50] (services continuity, logical and physical security, service desk & incidents management, performance management, configuration management, data management).

The audit focused in particular on the activities performed by unit A4 – Information technology and IT systems. Other units and key staff (A1 – Resources and Strategic Planning, and Directorate H – Trade Defence) were also consulted regarding their respective responsibilities.

No observations or reservations were made in the Annual Activity Report 2011 that relate to the processes audited.

The fieldwork was finalised in September 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following High risks that may impact the achievement of the business objectives for the process audited were identified:

- **Role of IT Steering Committee – Risk rating: High:** Effective IT Governance involves business senior management taking the lead and allocating resources, attention and support to the process. Without proper participation and supervision at business level, there is a risk that the IT strategy is not in line with the organisation's strategy and IT-enabled investments cannot support the organisational goals and objectives.

  DG TRADE should reinforce the role of the ITSC to enhance the IT Governance setup and ensure effective business–IT alignment. The ITSC should be convened at least twice a year with ad-hoc meetings to be organised if critical issues need to be discussed. The ITSC mission and tasks should be adequately formalised in a charter/foundation document. Its scope should include both IT and information security issues. In this area, proper co-ordination with the work of the Ethics and Information Security Steering Committee should be ensured.

- **Management of IT-related risks in DG TRADE – Risk rating: High:** Weaknesses in the risk management approach may lead to significant IT risks not being timely detected and effectively mitigated, which, if materialised, may have operational repercussions (e.g. business disruptions or inadequate services provided to the business due to IT problems) and / or reputational consequences (e.g. if sensitive information is disclosed due to a security failure in an IT system).

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[49] *Acquire & Implement covers identification, development, acquisition, implementation and integration of IT solutions, including changes and maintenance of existing systems, to ensure that solutions continue to meet business objectives.*

[50] *Deliver & Support is concerned with the actual delivery of required services, which include management of security and continuity, service support to users, and management of data and operational facilities.*

DG TRADE should raise awareness on the importance of the IT–related risks for the achievement of its business objectives and should instruct its staff to consider among the different risk factors, those related to the support provided by IT to the operational activities. The IT experts, in addition to performing their own specific risk assessment, should support the business owners in the detection and evaluation of the impact of IT–related risks.

- **Management of shared drives – Risk rating: High:** Lack of proper control of user privileges to sensitive resources may lead to unauthorised access to sensitive data and possible unauthorised disclosure, modification or deletion of information with subsequent impact on the reputation of the DG and, eventually, the Commission as whole.

  DG TRADE should ensure that, at the end of each investigation, all final documents have been uploaded in Sherlock and the related working folders on the shared drive are no longer accessible to the users. In addition, it should enhance the management of the shared drive by performing an exhaustive review of current users' privileges to the shared drive and plan regular reviews (on a sample basis). The requests for granting/modifying/revoking users' privileges to the shared drive should be adequately recorded.

  In view of the migration to ITIC, consideration should be given to the opportunity to formalise and document the procedure used for managing users' privileges to shared drives.

2.9.3. Horizon 2020 (DG RTD, DG CNECT, ERCEA)

Background

Horizon 2020 is the financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. Running from 2014 to 2020 with a proposed budget of €80 billion, the EU's new programme for research and innovation is part of the drive to create new growth and jobs in Europe. DG RTD owns the Development of IT Systems, which will support the management of the Horizon 2020 Framework Programme. An IT audit in this area was included in the 2011 Work Programme of the IAS, as a result of a risk assessment, considering the budget importance and the IT systems contribution to the assurance to be given on the financial management in this area.

Another Commission's objective is to streamline the IT spending and to free human resources, to be reoriented towards priority areas. There are notably diverging systems across various policy areas to deal with the grant process. The projects being developed in the research and innovation family have the potential to become the consolidated system to deal with grants across the whole Commission and generate savings of around 3M€ per year from 2014

onwards[51]. However, addressing all DGs' needs and interconnecting more systems will increase the complexity and the risks. IAS audits in this context can also contribute to ensuring that this strategy is sustainable.

Audit Objectives

To support the management of the Horizon 2020 Framework Programme (FP8) the Research and Innovation DGs decided to develop a common platform called SyGMA (System for Grant Management) for their project management cycle and Submission Evaluation Proposals (SEP) application. These systems, together with the updated version of Participant Data Management and Unique Registration Facility (PDM/URF), and the Participant Portal will cover to a large extent the full grant management process.

The objective of the audit was to assess the adequacy and effective application of the internal control systems (ICS), IT governance, IT Project Management and IT Development related to these common IT Projects. The IAS decided to cover URF/PDM and SEP in 2011-2012 and to audit the SyGMA project in 2012-2013 when it has sufficiently progressed. This report relates to the first part.

The IAS looked at the controls in place to verify whether DG RTD as System Owner and Business Manager, and DG INFSO and the European Research Council Executive Agency (ERCEA) as Business Managers have fulfilled their responsibilities, and whether they had the means to do so. The report is addressed to DG RTD, as System Owner and lead DG but the implementation of the recommendations may involve DG DIGIT and other Research DGs. Moreover, they should be considered in the broader perspective of all projects being developed to support the management of the new Horizon 2020 programme.

Audit Scope

As a result of the preliminary survey, the audit focused on the following critical aspects for the projects' success: organisation, planning, and resource management, as well as users' involvement and coordination.

The audit team ensured that there was no overlap with another on-going IT audit performed by the RTD IAC on operational systems (e.g. IT security aspects, interoperability and automated business controls).

There are no observations/reservations in the 2011 Annual Activity Report (AAR) that relate to the area/process audited.

The fieldwork was finalised on the 22 December 2011. All observations and recommendations relate to the situation as of that date.

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[51] *SEC(2011) 1500 Communication from VP Šefčovič to the Commission: Follow up to the Communication "Getting the best from IT in the Commission" of 7 October 2010 - First decisions in the IT rationalisation process*

Risks and audit recommendations

The following high risks that may impact the achievement of the business objectives for the process audited were identified:

- **Project Management Methodology and Reporting - High:** Lack of clear procedures or applying different procedures along the project organisation may lead to a situation where, because of uncertainty of rules some key project tasks are not performed on a timely basis or not performed at all. Without proper project performance reporting, the Project Steering Committees may not be able to perform an overall control of the project priorities and related costs. The project might be delayed. Since these are critical projects, their failure may affect Research DGs' and the Commission's reputation.

  DG RTD should therefore propose to the IT Project Steering Committee (ITPSC) (or the Architecture Steering Committee (ASC)) to define minimum procedural requirements in line with the budget/importance of the project to ensure applied project management procedures are consistent and complete. DG RTD should formally specify performance measurement, reporting and monitoring requirements and set standards, indicators and targets for the projects under its ownership in the Vision document of the respective projects.

- **Project Resource Planning - High:** In the absence of a proper project planning process the System Owner may not be able to properly monitor its projects and optimise its resource usage.

  DG RTD should define the project work and resource plan as one of the first deliverables for the projects under its ownership and ensure that its implementation is appropriately monitored.

  The IAS notes that some of the issues below, (risk management, quality management) were already noted and reported to the IT Programme Steering Committee and Research DGs in 2008 in its Management Letter on the inter-DG FP7 IT Governance Structure.

  In line with the Commission standards for project management, the System Owners have delegated daily project management activities to Business Project Managers in order to concentrate on strategic issues. However, for a number of project management processes (see observations 3, 4, 6) the business side did not fully succeed to provide the expected input, which would maximise the effectiveness of project management procedures.

  As often in the Commission, stakeholders may think that the project management of an IT project is the sole responsibility of the System Supplier. IT project management procedures can only succeed if they are effectively applied by both sides of the project organisation. DG RTD should ensure that the pre-agreed project management

procedures resulting from the selected methodologies are equally applied on the business side, and that formalised input for the project planning, risk and change management processes is provided.

DG RTD should also consider whether project management assistance to the Business Project Managers could alleviate the administrative burden resulting from a stricter application of the above project management and development methodologies.

2.9.4. IT Governance and performance (DG SANCO/EAHC)

Background

The IT audit of the *IT Governance and performance in DG SANCO and the EAHC* was included in the 2012 Work Programme of the IAS. This followed the audit risk assessment underpinning the IAS' Strategic Audit Plan for 2010-2012. This audit could also contribute to a possible overview report on IT performance management in the Commission.

The engagement was justified by the fact that DG SANCO has a relatively high IT Budget (11,5 m€) and finances most of its IT spending from operational credits. This could enable the auditors to identify specific issues related to this type of IT spending. Moreover, DG SANCO is developing and operating many IT systems, notably for crisis management.

Audit Objectives

The objective of the audit was to assess the internal control systems put in place to ensure an effective and efficient management of local IT, IT governance and IT Performance management in DG SANCO and the Executive Agency for Health and Consumers (EAHC).

Audit Scope

As a result of the preliminary survey, and due to the fact that DG SANCO made significant progress in the area of IT General Controls the scope was narrowed and the IAS selected specific CobiT[52] processes that are focusing on governance, performance and quality aspects for the scope of this audit.

The IAS analysed and evaluated the controls put in place by DG SANCO management to mitigate the major risks associated with these processes, with the objective of assessing their adequacy of design and operating effectiveness. A more limited review of these controls was performed for the EAHC taking into account its much smaller IT Budget.

There are no observations/reservations in the 2011 AARs of DG SANCO or the EAHC that relate to the area/process audited.

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[52] *COBIT is an internationally recognised IT control framework*

The fieldwork was finalised on 1st September 2012. All observations and recommendations relate to the situation as of that date.

Risks and audit recommendations

The following High risks that may impact the achievement of the business objectives for the process audited were identified:

- **IT governance - High**: The lack of a co-ordinated IT governance may prevent DG SANCO and the EAHC from effectively allocating and managing IT investments, which may ultimately result in increasing costs for IT investments and operations. Ineffective coordination and communication of IT matters between the Agency and DG SANCO may lead to technical and contractual captivity and IT investments that are not in line with the overall IT strategy.

  DG SANCO should therefore reinforce a coordinated multi-annual IT strategy by including the EAHC's activities. The strategy should be discussed and coordinated with all key stakeholders and approved at the highest level of management. DG SANCO should implement a formal change procedure, which ensures that important amendments to the IT master plan are approved and coordinated at the same level of governance and authority as the original plan.

- **IT performance management - High**: The relative lack of project performance management may prevent the board and senior management of DG SANCO and the EAHC from effectively directing and controlling key IT activities and related costs and may lead to wrong decisions on priorities and budget distribution. Furthermore, the lack of effective performance monitoring may lead to failure in timely responding to performance issues and lost opportunities for improvement. This might eventually lead to a situation where business needs are not efficiently or effectively met.

  DG SANCO should therefore review the catalogue of its IT-enabled services and redefine S.M.A.R.T. (Specific, Measurable, Achievable, Relevant and Timed) performance criteria and RACER (Relevant, Accepted, Credible, Easy, Robust) KPI's (Key Performance Indicators) against them. DG SANCO should improve the system for collecting and reporting of performance data and measures to allow for better supervision of IT performance by its stakeholders. The IT master plan and staff appraisal reports should reflect the performance targets, so that staff and managers can be held accountable for meeting them and performance achievement should be appropriately recognised.

- **IT procedures in EAHC - High:** Inadequate formal procedures may result in deliverables failing to meet business and user requirements, unauthorised project decisions, lack of continuity of service and inability to support the operations of systems.

The EAHC should therefore implement a formal and documented change control, quality and performance management procedure. Since the majority of underlying activities are already performed in the Agency, the formalisation of the procedures should not create any additional workload.

2.9.5. Internal Market Information System (IMI) Project Management (DG MARKT)

Objectives and scope

The main objective of this audit was to verify the efficiency and effectiveness of the IMI system. The specific objectives of this audit were to:

- obtain an overview of the project, its processes and operations
- assess the efficiency and effectiveness of the System
- assess compliance with the rules on protection of individuals with regards to the processing and free movement of personal data, and
- assess compliance with IT requirements.

The audit scope included a review of the IMI's project architecture, use of resources, established processes and operations, and performance in 2010 and 2011. The review was expanded until July 2012 to include the most recent developments of the project and related documentation. All observations and recommendations relate to the situation as of 12 September 2012 when the fieldwork was finalised.

The risks and associated recommendations are grouped under the following risks:

Risk of taking ineffective strategic decisions on the IMI system's future and exercising inadequate project's management oversight

The IMI Steering Committee (IMISC), the key decision-making body of the project, has not met so far and thus has not discharged its responsibilities and tasks. The System Owner (DG MARKT) should convene meetings of the IMISC at regular periods. Members from all policy areas included in the IMI system and a representative of the System's end users should attend these meetings. DG MARKT's LISO, DPC, DMO, and a staff member of the DG's financial unit should also be invited to take part in the deliberations of the IMISC or the IMI's Project Steering Committee, as appropriate. Minutes should be prepared and distributed to all participants and to the senior management of DGs using the IMI.

Risk of applying ineffective security measures for the IMI system

The current security measures are based on an outdated risk assessment, do not include sufficient controls, and have not been subject to a security audit. The responsibilities and accountabilities for the security of the IMI system are not clear.

a) The System Owner should revise the IMI's Security Plan with the assistance of DG MARKT's LISO and taking into consideration all new guidance, templates and mandatory standards issued by the Security Directorate of DG HR (HR.DS) as well as any Security Plans of DG DIGIT.

b) The new Security Plan should contain a Security Audit Strategy, and should be approved by the Director-General of DG MARKT, submitted for review to the HR.DS, and reported to the European Data Protection Supervisor.

c) For any future security audits and studies, full access to the relevant documentation and to the premises of DG DIGIT's Data Centre should be ensured via an appropriate request at Director-General level.

d) The System Owner should inform regularly the LISO of DG MARKT about developments that can affect the security of the IMI system and ask for his opinion/advice as necessary.

e) As part of the Service Level Agreement on Hosting, a formal agreement should be drawn up between the System Owner and the System Supplier (DG DIGIT) delegating the implementation and monitoring of the IMI system's security requirements to the System Supplier and defining how to deal with any constraints when performing these tasks.

Risk of inadequate activities in case of a business interruption/disruption due to the use of inconsistent and unapproved documentation for the IMI system's development and project management, and to a limited access to essential technical documentation

There is no documentation explaining how the methodologies applied by the IMI project have been customised and what artefacts have to be produced, how often, and by whom. The System Owner, in cooperation with the System Supplier, should prepare a document that specifies how the PM² and RUP@EC methodologies are customised for the IMI system. This document should in particular clarify a) which artefacts (e.g., plans, logs, and reports) should be produced and by whom, b) what methodology each artefact should follow, and c) how often the artefacts should be reviewed.

Key project documents do not contain evidence of approval or version control. The System Owner should ensure that the latest versions of all significant IMI's artefacts are regularly reviewed and formally approved. A version control should be introduced for each of these artefacts.

The System Owner has limited access to essential technical documentation prepared by the System Supplier. DG MARKT should sign an agreement with DG DIGIT to receive full access to the technical documentation of its IT systems. The owner of the IMI system should consider including a provision to the same effect in the next version of the Memorandum of Understanding with the System Supplier.

2.9.6. Capitalisation of Internally Generated Intangible Assets

In line with the 2012 IAS strategic planning, an audit on the *Capitalisation of internally generated intangible assets (IGIA)* was launched in February 2012.

The objective of the audit was to assess the efficiency and effectiveness of the systems and procedures put in place centrally (in DG BUDG) and locally (in operational DGs managing IT projects) to comply, as of 1 January 2010, with the principles laid down in Accounting rule 6 for intangible assets internally generated. The scope of the audit included the identification of the assets to be capitalised, the amount to be capitalised and the information to be disclosed in the annual accounts.

The inherent risks identified at the audit planning stage related to financial statements not providing a true and fair view of the Commission's financial position, financial performance and cash flows due to an under/over estimation of amounts to be capitalised as internally generated intangible assets and to be disclosed as development expenses by each DG/Services managing IT projects.

As a result of the preliminary review, the IAS identified the main risks that may impair the correct capitalisation of internally generated intangible assets by the individual DGs/Services, ultimately affecting the reliability of the accounting data. They include:

Incompleteness of the IT projects to be capitalised, due to:

- non-recognition by the DG/Service of the criteria set by DG BUDG for the capitalisation of intangible assets;
- lack of proper monitoring of IT projects within the DG/Services (no project management methodology, weak project and IT governance within the DGs/Services, no monitoring of costs, no adequate tools to monitor the IT expenditures).
- Inaccuracy or incompleteness of costs to be capitalised and disclosed, due to lack of clarity of the instructions for defining the costs of the IT projects or lack of appropriate cost accounting system in the DGs/ Services.
- Inconsistent implementation of the accounting rule in the different DGs (with similar projects receiving different accounting treatments).

In order to assess the materiality of the risks identified, the IAS analysed the final figures for the year-end 2011 of the internally generated costs to be capitalised and disclosed Commission's accounts.

According to those figures, the amount of the internally generated intangible asset as of 31/12/2011 (25.476.416€) represents respectively, 0,028% of non-current assets[53] of the Commission; 0,020% of the total assets; while the costs disclosed for research and

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[53] *Non-current assets include Intangible assets, Property, plant and equipment, Financial assets, Long-term receivable and pre-financing.*

development represent 0,23% of "Other operating expenses" incurred by the Commission in 2011[54].

The maximum error in the capitalisation of IGIA would be represented by the amount of development expenditure charged in 2010 and 2011 (246 million €). This amount of unrecognised internally generated intangible assets would represent 0,27% of the total non-current assets, well below the materiality threshold fixed by the ECA.

Taking into account the results of its preliminary review, and in particular the low value of the amount capitalised as internally generated intangible assets as well as the corresponding level of materiality, the IAS decided to <u>close the audit without performing any detailed testing on the internal control and monitoring systems implemented</u>. The level of risk related to this process will be re-assessed in the next planning period.

2.10. Follow-up engagements[55] finalised in 2012

2.10.1. 1st Follow-up Audit on Interventions in Agricultural Markets and 2nd Follow-up Audit on Interventions in Agricultural Markets

The IAS assessed that the recommendations addressed to DG AGRI resulting from the original audits have been <u>satisfactorily implemented</u>.

2.10.2. Follow-up audit on the Management of Procurement by DG HR

The IAS assessed that all the recommendations addressed to DG HR have been adequately and effectively implemented.

2.10.3. Follow-up audit on the activities of OIB.OS3: Social Infrastructures ISPRA

The IAS assessed that all the recommendations addressed to OIB have been adequately and effectively implemented.

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[54] *Other operating expenses represent 1,5% of the total expenses of the year. The other 98,5% of expenses are the so-called "primary operating expenses", that covers the various headings of the financial framework (direct and indirect centralised management, decentralised, shared and joint management).*

[55] *Follow-up audits do not result in a re-assessment of the adequacy of controls as a whole, but focus on the specific recommendations in the original audit. They are carried out in accordance with the IAS methodological guidelines. The assessment of the state of implementation is mainly based on a review of evidence provided by the auditee. In most cases, no formal report - as envisaged in the Mutual Expectations Paper- was issued and the engagement was treated as final in respect of this follow-up work by means of a note.*

2.10.4. Follow-up audit on the Official Journal Production Process as managed by the Publications Office

The IAS assessed that the recommendations addressed to the Publications Office have been adequately and effectively implemented, except for one recommendation.

2.10.5. 2nd Follow-up Audit on Missions in PMO

The IAS assessed that all relevant recommendations addressed to PMO have been adequately and effectively implemented.

2.10.6. Follow-up audit on Monitoring the implementation of EU law in DG ENTR

A second follow-up audit on *Monitoring the implementation of EU law* has been performed in DG ENTR. The IAS agreed to close the two last outstanding recommendations.

2.10.7. Audit Follow-up of Audits on the Global Navigation Satellite System Programmes in DG ENTR

Based on the results of our follow-up audit, the IAS assessed that 15 out of the 16 recommendations addressed to DG ENTR that resulted from the above-mentioned audits and that were sent for audit review have been adequately and effectively implemented. One very important recommendation has been reopened again because it was only partially completed.

2.10.8. Audit Follow-Up on Enterprise Europe Network IT Tools in EACI

The IAS assessed that all the recommendations addressed to EACI that resulted from the audit have been adequately and effectively implemented, except for one very important recommendation.

2.10.9. Follow-Up Audit on Local IT systems supporting financial management in DG TREN/EACI/TEN-T EA

The IAS assessed that all the recommendations addressed to DG MOVE, DG ENER, EACI and TEN-T EA that resulted from the audit on the Local IT systems supporting financial management in DG TREN/EACI/TEN-T EA have been adequately and effectively implemented, except one recommendation.

2.10.10. Follow-up audit on Schengen Facility in DG HOME

The IAS assessed that all the recommendations addressed to DG HOME that resulted from the audit on the Schengen Facility have been adequately and effectively implemented, except for two recommendations.

The recommendations kept open will be subject to a second follow-up audit.

2.10.11. Follow-up audit on the EAHC Management of the operational budget

The IAS assessed that all the recommendations addressed to EAHC and DG SANCO that resulted from the audit have been adequately and effectively implemented, except for two recommendations addressed to DG SANCO and EAHC

2.10.12. 2nd Follow-up audit on Procurement in JRC

The IAS assessed that all the recommendations addressed to JRC that resulted from the audit on Procurement in JRC have been adequately and effectively implemented.

2.10.13. Follow-up audit on Life+ Grant management in DG ENV

The IAS assessed that all the recommendations addressed to DG ENV that resulted from the audit LIFE+ Grant Management have been adequately and effectively implemented.

2.10.14. 2nd Follow-Up Audit on Data Centre – Operations and Security in DG DIGIT

A second follow-up engagement on the audit on "Data centre – Operations and Security" has been performed in DG DIGIT. The IAS considers that three out of the remaining 11 recommendations have not been fully implemented.

2.10.15. Follow-Up Audit on Management of the telecommunication infrastructure and services sTESTA (DG DIGIT)

The IAS assessed that the recommendations have been adequately implemented and will be closed.

2.10.16. Follow-Up Audit on Security of IT environment in subcontracted projects (DG REGIO)

The IAS has assessed that ten recommendations have been adequately and effectively implemented (and will be closed).

Four remaining recommendations require further improvements.

2.10.17. Follow-Up Audit on Treasury and Accounting System (TAS) of DG ECFIN

The IAS assessed that all the recommendations have been adequately and effectively implemented (and will be closed), except for one recommendation.

2.10.18. Follow-Up Audit on Corporate Data Network Infrastructures & Services Management (DG DIGIT)

The IAS assessed that 10 of 11 recommendations have been adequately and effectively implemented and will be closed.

2.10.19. Follow-Up Audit on Management of local IT (DG EAC)

The IAS assessed that all of them have been adequately and effectively implemented and will be closed.

2.10.20. Follow-up Audit on Control Strategy - Audit and Financial Correction Processes (DG REGIO)

The IAS assessed that all 7 recommendations subject to the follow-up have been adequately and effectively implemented.

2.10.21. Follow-up Audit on Control Strategy – On-the-spot controls and Fraud prevention and detection (DG RTD)

The IAS assessed that all 7 recommendations issued in the final report have been adequately and effectively implemented.

2.10.22. Follow-up Audit on Control Strategy - Audit and Financial Correction Processes (DG EMPL)

The IAS assessed that 7 out of the 8 recommendations issued in the final report have been adequately and effectively implemented.

2.10.23. Follow-up audit on Financial management of main programmes in Asia (DG DEVCO)

The IAS assessed that 17 out of the 18 accepted recommendations can be closed.

2.10.24. Follow-up audit of Financial management of main programmes under the European Neighbourhood Policy Instrument (DG DEVCO- ENPI)

The IAS assessed that 9 out of 13 recommendations have been implemented.

2.10.25. Follow-up audit on Financial management of main programmes in Latin America (DG DEVCO-LA)

The IAS assessed that 11 out of the 14 accepted recommendations can be closed.

2.10.26. Follow-up audit of Financial Management of Regional Projects (DG DEVCO-Regional)

The IAS assessed that 5 out of 12 recommendations have been implemented.

2.10.27. Follow-up audit of Food Aid (DG ECHO)

The IAS assessed that all recommendations addressed to DG ECHO that resulted from the "*Financial Management of Food Assistance in DG ECHO*" audit have been adequately and effective implemented, except for two recommendations.

2.10.28. Follow-up audit on Public Procurement under IPA (DG ELARG)

The IAS assessed that all the recommendations addressed to DG ELARG that resulted from the audit "*Public Procurement under IPA*" have been adequately and effectively implemented, except for two recommendations.

2.10.29. Follow-up audit on Closure of pre-IPA instruments (DG ELARG)

The IAS assessed that all the recommendations addressed to DG ELARG that resulted from the audit "*Closure process of pre-IPA instruments*" have been adequately and effectively implemented.

2.10.30. 2nd Follow-up audit on Ex-post Control activities in the former DG RELEX (FPI)

The IAS assessed that all the recommendations addressed to the former DG RELEX and transferred to FPI that resulted from the audit "*Ex-post Control activities in DG RELEX*" have been adequately and effectively implemented.

2.10.31. 3rd Follow-up audit on "Implementation of selected Internal Control Standards in DG ECFIN"

The IAS assessed that all the recommendations addressed to DG ECFIN that resulted from the audit "*Implementation of selected Internal Control Standards in DG ECFIN*" have been adequately and effectively implemented.

2.10.32. Follow-up audit on Ethics in the Commission (multi-DG)

HR specific findings

The IAS assessed that the actions taken by DG HR for the recommendations addressed to DG HR and reported as 'implemented' by the services are adequate and effective. **Other specific findings: SG, TRADE, OIB, CONNECT, RTD**

The IAS assessed that all the recommendations addressed to these DGs have been adequately and effectively implemented.