COMMISSION OF THE EUROPEAN COMMUNIITIES

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Annex to the

**COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**Annual Report
to the Discharge Authority
on Internal Audits Carried out in 2007**

(Article 86 (4) of the Financial Regulation)

{COM(2008)499 final}

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TABLE OF CONTENTS

This Annex is based on the original executive summaries **(reflecting the state of play at the time when the audits were finalised)** of audit engagements finalised by the IAS in 2007. Each summary underwent the applicable standard professional validation and contradictory procedures between auditor and auditee at the time of finalisation.

The tables on implementation status contain both the auditees' view and the IAS view, where available.

For 2007 audits, more detailed follow-up reporting will be covered in the Annual Report for 2008.

DG/Service	Engagement	Issue date
Administrative and other support systems		
SG/BUDG/REGIO/EMPL /RTD/INFSO/JLS/AIDCO /ADMIN/DIGIT	AAR Assurance Process	21 January 2008
ADMIN	Follow-up human resources management phase I	13 December
BUDG	ABAC-implementation of accrual-based accounting (parts 1 and 2)	3 May
BUDG	Comparative Analysis of the Accrual-Based Accounting Systems and Financial Reporting as Implemented by the European Commission and some Member States	26 April
COMM	Examination of the purchase of office buildings in Cyprus	14 September
COMM	Special report on tendering procedures for transmission services in DG COMM	14 December
DGT	The management of translation demand	13 June
DGT	Follow-up of IAS validation of self-assessment of the IAC of DGT	14 December
DIGIT	IT procurement and service delivery in DG DIGIT	5 December
EPSO	Follow-up of limited review of the selection process as managed by EPSO	18 December
ESTAT	Second follow-up audit of the in-depth audit of Eurostat	9 March
ESTAT	IT procurement and service delivery in ESTAT	20 November
OIB	Management of procurement contracts in OIB	3 April
OIB	Management of buildings procurement contracts by OIB	3 April
OIB	Follow-up on buildings infrastructure managed by the European Commission	8 February

OIB	Follow-up on transaction testing	20 April
OIB	Evaluation of targeted ICS	4 October
OIL	Management of procurement contracts in OIL	3 April
PMO	Controls over payment of pensions	7 September
SCIC	Follow-up of validation of self-assessment of the SCIC IAC	29 November
Internal policies		
COMP	Follow-up report on the audit of IT controls in DG COMP	16 May
EAC	ABAC - implementation of accrual-based accounting in DG EAC/2006 closing	18 July
EAC	Follow-up report on the implementation of ABAC in DG EAC	18 July
EACEA	Implementation of the financial circuits for operational budget of the EAC executive agency	19 March
ENTR	Management letter on ex-post controls	20 April
ENTR	Follow-up report on the financial management of the Innovation Relay Centre (IRC) network	23 October
ENTR	Follow-up of validation of self-assessment of DG ENTR IAC	18 December
ENV	Monitoring the implementation of EC law	22 January
ENV	Second follow-up audit of DG ENV's 2004 in-depth-audit	29 March
ENV	Grant management of non-life-programmes	18 September
INFSO	Ex-post controls	20 February
JRC	Second follow-up of in-depth audit of the JRC of 2004	21 September
MARKT	Follow-up report on DG MARKT financial management and financial circuits	18 January
RTD	Follow-up report on the in-depth audit of DG RTD (2003) and the audit on financial circuits & financial management in DG RTD (2005)	16 March
RTD	IT procurement and service delivery in DG RTD	30 November
TAXUD	IT Procurement and service delivery in DG TAXUD	18 October
TREN	Follow-up report on the audit of financial management and financial circuits in DG TREN	20 March
TREN	Follow-up report of "Audit de processus de gestion de l'informatique locale"	7 September
TREN-IEEA	TREN executive agency	30 January
TREN	Follow-up of validation of self-assessment of DG TREN IAC	20 December
Structural Measures and Common Agricultural Policy		
AGRI	Local IT systems of DG AGRI feeding into ABAC	25 May

AGRI	Interventions in agricultural markets	23 November
AGRI	Follow-up report on structural funds - DG AGRI EAGGF GUIDANCE	22 November
EMPL	Prevention and detection of fraud in the Structural Funds	19 December
EMPL	Implementation of programmes in the new Member States	12 December
FISH	Follow-up audit report on Structural Funds - financial instrument for fisheries guidance	20 July
REGIO	Implementation of programmes in the new Member States	13 November
REGIO	Follow-up on the ERDF - audit of the implementation of Article 38 of Council Regulation 1260/1999	14 December
REGIO	Prevention and detection of fraud in the Structural Funds	19 December
External Policies		
AIDCO	Eligibility of costs under DG AIDCO's financial and administrative framework agreement with the United Nations	19 June
AIDCO	Ex-post control activities in DG AIDCO	18 July
AIDCO	Follow-up audit on NGOs funding in DG AIDCO	31 July
AIDCO	Financial Management of Main Programmes in Directorate D	20 December
ECHO	Follow-up audit on NGOs funding in DG ECHO	6 June
ECHO	Monitoring and supervision tools in DG ECHO	23 November
ECHO, ADMIN	Management letter on security issues in DG ECHO	29 November
ELARG	Follow-up audit report on the in-depth audit of DG ELARG	15 March
RELEX	Follow-up audit of the audit on handling of classified information and communication among the delegations and DG RELEX	4 July
TRADE	Implementation of selected internal control standards in DG TRADE	13 June

1. ADMINISTRATIVE AND OTHER SUPPORT SYSTEMS

1.1. SG/BUDG/REGIO/EMPL/RTD/INFSO/JLS/AIDCO/ADMIN/DIGIT - AAR Assurance Process

Objectives and Scope

The main objective of the audit was to assess the effectiveness of the Annual Activity Report (AAR) assurance process as a whole and, in particular, the extent to which it provides a sound basis to support the reasonable assurance given by management to the Commission on the functioning of its internal control systems. These assurances from the Directors General/Heads of Services provide the basis for the Synthesis Report of the Commission, which is its main accountability instrument in terms of taking political responsibility for the management of the Commission. These accountability instruments were introduced in 2000 and are key components of the Commission's Reform.

This audit engagement looked at the control systems and procedures set up in selected DGs and families of DGs, aimed at building the necessary assurances, together with a consideration of the central co-ordination and guidance roles exercised by both the Secretariat General and DG BUDG. The audit has focused only on the parts of the AAR process concerned with the specific management and control assurances provided in the annual declaration, rather than on those linked to the achievement of political objectives defined in the AMP. Moreover, it has not covered the completeness and accuracy of the financial information (accounts) provided by DGs in their AARs.

In the present engagement, the IAS has aimed at identifying possible improvements in the AAR assurance building processes, together with best practices amongst individual DGs and/or families of DGs. In this way, this engagement is also expected to contribute to the Commission objective leading up to a positive Declaration of Assurance (DAS).

As defined in the IAS strategic audit plan 2007-2009, endorsed by the APC on 2 February 2007, the present engagement has covered for the reporting year 2006:

- The Structural Funds "family" (DG REGIO/DG EMPL),

- The Research "family" (DG RTD/DG INFSO),

- DG JLS,

- SG & DG BUDG (in particular as co-ordinators of the AAR process).

In order to help maximise the coverage and to cover all management modes, AIDCO has also been included as part of the analysis.

1.2. ADMIN - Follow-up of the Review of DG ADMIN Human Resources Management – Phase 1

Objectives and Scope

The objective of this first follow-up engagement is to assess the progress made in implementing the issues accepted for consideration that resulted from the *Review of DG ADMIN Human Resources Management – Phase 1* – carried out in 2005 (date of the Final Report: 7 April 2006).

In line with IAS follow-up policy, this follow-up engagement does not result in an assessment of the adequacy of controls as a whole, but focuses on the specific issues for consideration in the original review.

1.3. BUDG - ABAC - Implementation of Accrual-Based Accounting

Objectives

As from 1 January 2005, the general accounts of the European Communities are maintained according to the principles of accruals based accounting. The new accounting system of the Commission, hereafter called ABAC, serves as the technical and operational platform for the new accounting framework. According to the Financial Regulation (FR), the Accounting Officer of the Commission in DG BUDG is responsible for the maintenance of the overall accounting framework, including an effective system of accounting controls, while the authorising officers are responsible for implementing the budget in accordance with the principles of sound financial management and for ensuring compliance with the requirements of legality and regularity. The scope and nature of those responsibilities can be found under different articles in the FR and its Implementing Rules (IR).

The objective of the present audit was to assess the current status of the systems and controls put in place centrally by DG BUDG in order to ensure the quality of the accounting data – in terms of their integrity, completeness and accuracy – and the financial information derived from such data.

The term 'accounting data' means data entered into ABAC Workflow, either directly or through the local systems in the DGs and, thereafter, transferred via interface to the central accounting system (SAP), its General Ledger or any of the other modules that are part of it. Financial information means, primarily, the year-end accounts and financial statements of the Commission.

The present audit does not assess the quality of the accounting data provided by the DGs via their local systems or manually encoded into ABAC Workflow.

The present audit included a follow-up of one recommendation classified as very important and which was issued in 2005 as a result of an audit follow-up of three different IAS audits targeting DG BUDG and performed during 2002-2003.

Scope

The scope of the audit consisted of three different parts, namely Accountancy (Part 1), Supporting IT-systems (Part 2) and Comparative analysis of the accounting systems as implemented by the European Commission and some Member States (Part 3).

The present audit report includes the results in the form of an audit opinion, findings and recommendations related to Parts 1 and 2.

The results of Part 3 are not included in this audit report and will be reported separately. This is due to the different nature of the exercise, which was to make a comparative analysis, at a general level, of the current status of accruals based accounting and financial reporting between three Member States – United Kingdom, Sweden and Finland – and the European Commission.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	8	8	100	0	0
Important	13	11	84,62	2	15,38
Desirable	**3**	3	100	0	0
Total	**24**	**22**	**91,66**	**2**	**8,33**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	8	3	37,50	5	62,50
Important	11	7	63,64	4	36,36
Desirable	3	3	100	0	0
Total	**22**	**13**	**59,10**	**9**	**40,90**

1.4. BUDG – Comparative Analysis of the Accruals Based Accounting Systems and Financial Reporting as implemented by the European Commission and some Member States

Purpose and Objective

This comparative analysis was carried out as part of an audit performed by the Internal Audit Service of the European Commission. The audit targeted the new accounting system of the Commission, effective as from 1 January 2005 and based on the International Public Sector Accounting Standards (IPSAS).

The purpose of the analysis was to make a comparison between the accruals based accounting systems and related financial reporting as implemented by four different actors, namely the European Commission and the Governments of the United Kingdom, Sweden and Finland. Our choice of the three countries was based – apart from the fact that they are members of the European Union – on their record as forerunners among the public administrations which have made the transition into accruals based accounting and financial reporting.

The objective of the analysis was to gain understanding, at a general level, of the current status of implementation of accruals based accounting and financial reporting in these three Member States as well as in the Commission – including the principal developments preceding the transition – and to share these experiences with the participants by means of an overview report.

More specifically, our objective was to identify both the similarities and differences in the approach taken by the four actors participating in the review, which might in turn prove to be useful input for them as their respective systems evolve. The report does not seek to make any qualitative assessments on the respective approaches. Neither does it make any recommendations.

Scope and Methodology

Within the scope of our analysis we contacted, and subsequently, met with, eight different bodies representing the European Commission and the three Member States, as follows:

(1) European Commission / Directorate-General for Budget

(2) HM Treasury / UK

(3) National Audit Office / UK

(4) Ministry of Finance / Sweden

(5) Swedish National Financial Management Authority / Sweden

(6) National Audit Office / Sweden

(7) Ministry of Finance / Finland

(8) State Audit Office / Finland

The factual details underlying the observations contained in this report have been checked with the bodies concerned after our meetings with them.

To support the review process both prior to and after the meetings/interviews, we reviewed a significant amount of documentation such as the legal basis underpinning the framework of accounting and financial reporting which has been set up by each of the four actors concerned and descriptions of systems and procedures.

We also reviewed examples of annual reports and accompanying financial statements of Government departments/agencies as well as reports at a consolidated level. The aim of our review of this material was simply to gain a general understanding of the principles underlying the preparation of such reports, their contents and general presentation.

1.5. COMM – Examination of the purchase of office buildings in Cyprus

The annual Work Programme 2007 of the IAC of DG COMM included an audit on Asset Management. The objectives and scope were to:

1.   Review, test and evaluate the internal controls over the asset management within the Representations and in Headquarters units;

2.   Review and evaluate the implementation of ABAC Assets;

3.   Identify and analyse the processes within DG COMM used for the (co)purchase of buildings, including those located in Member States' capital cities.

In order to share the knowledge acquired by the IAS in previous audits in the area, the IAS was asked to participate in the audit mission to Cyprus in June 2007 to specifically cover (3) above in respect of the (co)purchase of the Commission's Representation building in Nicosia.

The aim of the present note is to outline the main findings resulting from the IAS's examination, together with a list of recommendations on how to address the weaknesses identified. As was agreed, the IAS's findings will be incorporated into the overall reporting and validation process. The IAS will not issue a separate report itself to DG COMM, but of course we are available, where necessary, to discuss the points raised with DG COMM.

Objective and scope

The objective was to identify and assess the controls put in place by DG COMM for the (co)purchase of the Commission's Representation building in Cyprus (Nicosia).

	Acceptance Status	Yes	No

Priority	#	#	% Total	#	% Total
Very Important	2	2	100	0	0
Important	1	1	100	0	0
Total	**3**	**3**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	2	2	100	0	0
Important	1	1	100	0	0
Total	**3**	**3**	**100**	**0**	**0**

1.6. COMM – Special report on tendering procedures for transmission services in DG COMM

Objectives and Scope

The *Audit on the Tendering Procedures for Transmission Services in DG COMM* was performed at the request of the Director-General of DG COMM.

The **objective** of this audit was to assess whether the call for tenders PO/2006-26/C1 – as mentioned in the scope below – complied with the Financial Regulation (FR) and its Implementing Rules (IR) and with the "Public Procurement Vade-Mecum", issued by DG BUDG and to review specific allegations made concerning this contract.

The **scope** of this audit was the call for tender **PO/2006-26/C1** concerning an open procedure for the supply of transmission services.[1] The call for tender contained the following lots:

Lot I: Provision of the technical infrastructure necessary for the transmission of television services via satellite.

Lot II: Ad hoc provision of transmission bandwidth and supporting services for TV transmissions.

Lot III: Permanent bidirectional video link between Luxembourg and Brussels.

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[1] See Contract Notice: 2006/S128-136072, published in the OJEU S128 on 08/07/2006.

In order to be able to interpret the tendering specifications included in this call for tender, the previous contract – the negotiated procedure **PN/2001-41/B3** concerning the supply of satellite transmission services (and especially its lot I)[2] – was also analysed.

The following were not covered in this audit:

- Commission policies (e.g. Europe by Satellite (EbS) objectives).
- Data protection issues.
- Document access issues.

No scope limitations were identified.

1.7. DGT – The Management of Translation Demand

Objectives and Scope

In accordance with the IAS audit plans 2006-2007, this audit covered the management of translation demand within DGT, from the planning to the delivery of the requested translations. Some aspects of the translations directly managed by other Commission Services with no or little involvement from DGT were also addressed.

The scope did not include the management of web translation.

The objectives of this audit were to assess the adequacy, efficiency and effectiveness of internal control systems related to the management of translation demand within the Commission.

There is no reservation in the AAR concerning the areas/processes audited.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very important	4	4	100	0	0
Important	1	1	100	0	0
Total	5	5	100	0	0

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[2] Negotiated Procedure PN/2001-41/B3 concerning the supply of satellite transmission services, Lot I: Provision of the technical infrastructure necessary for the transmission of a television service via satellite; Lot II: Ad-hoc provision of transmission bandwidth and supporting services and equipment for TV transmissions to and from any part of the world, at short notice.

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	4	4	100	0	0
Important	1	1	100	0	0
Total	**5**	**5**	**100**	**0**	**0**

1.8. DGT – Follow-up of IAS validation of self-assessment of the IAC of DGT

The objective of the follow-up engagement is to assess the progress made in implementing the accepted[3] recommendations that resulted from the IAS Validation of Self-Assessment of the Internal Audit Capability (IAC) of DGT, which was carried out from February tol June 2006.

1.9. DIGIT – IT procurement and service delivery in DG DIGIT

Objectives and Scope

This audit is part of a wider audit, the objective of which was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to IT procurement and the delivery of IT services to the European Commission.

The purpose of the audit was to assess whether the ICS provides reasonable assurance regarding:

- *Compliance* with the Commission rules on IT procurement, the Financial Regulation and the appropriate Commission Internal Control Standards. The issue of compliance with the provisions of Regulation (EC) 45/2001 on the protection of personal data was also considered.

- *Effectiveness and efficiency* of the procurement and service delivery processes. The IAS examined whether DIGIT is making the best use of all type of IT human resources and the way in which the follow-up and management of IT activities provides assurance that the Commission is obtaining the right service at the right price. In this respect, we also took into account the need to simplify internal administrative rules and procedures.

The audit of DG DIGIT's IT procurement and service delivery is part of the overall IAS audit objective to provide an audit opinion on IT procurement and service delivery in the Commission. After having audited a sample of DGs, an overview report will be produced containing the consolidated results and conclusions on the above-mentioned audits and on the crosscutting observations and recommendations.

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[3] The following recommendation was not accepted by DGT: IAS-2006-DGT-001: 8 standard 2410: criteria for communicating "*The IAC should ensure the timely communication of action plans related to its audit engagements after having assessed their reasonableness*".

As a result of the desk review and the interviews in the preliminary survey (which took into account the work already performed by the IAC, the European Court of Auditors and the IAS) the scope of the audit engagement in DG DIGIT focused on the following aspects of the internal control system, risk management and governance of IT procurement and service delivery:

- *Contract preparation* process, from the identification of the business needs to the signing of the contracts and specific contracts. This can include all types of IT expenditure (equipment and services).

- *Management and monitoring of these contracts with external contractors.* The audit included the monitoring of services agreed to under "fixed-price" or "time-and-means" contracts, as well as the measures taken to ensure continuity of business on the expiry of the contracts. The management of certain services and equipment was not included insofar as these are already covered by other IAS audits (data centre, telecommunications or ABAC ASSETS), However, information systems developed and maintained by external suppliers were included in the scope.

DIGIT's 2006 Annual Activity Report raised the following issue specifically in relation to the area covered by the scope of this audit:

"The lack of necessary staff (due to the absence of EUR-12 AD IT reserve list) with technical ICT and project management competences has put DIGIT in difficulties to deliver foreseen outputs".

No scope limitations were identified.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	8	8	100	0	0
Desirable	2	2	100	0	0
Total	**11**	**11**	**100**	**0**	**0**

1.10. EPSO – Follow-up of the Limited Review on the selection process as managed by EPSO

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the issues accepted for consideration that resulted from "The Limited Review on the selection process as managed by EPSO" carried out in 2005 (date of the Final Report: 7 April 2006).

This follow-up does not result in an assessment of the adequacy of controls as a whole but focuses on the specific issues raised in the original limited review.

1.11. ESTAT – 2nd Follow-up Audit of the In-depth Audit of ESTAT

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the in-depth audit of ESTAT carried out in 2003 (final report dated 19 March 2003) and that were outstanding at the time of the first follow-up audit conducted in 2005 (final report dated 5 October 2005).

In line with IAS policy, this follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the 16 recommendations assessed as still being open at the time when the first follow-up audit was completed.

1.12. ESTAT – IT Procurement and Service Delivery in ESTAT

Objectives and Scope

This audit forms part of a wider audit, the objective of which was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to IT procurement and the delivery of IT services to the European Commission.

In particular, the audit assessed whether the ICS provides reasonable assurance as regards:

- *Compliance* with the Commission rules on IT procurement, the Financial Regulation and the appropriate Commission Internal Control Standards. We also looked at compliance with the provisions of Regulation (EC) 45/2001 on the protection of personal data.

- *Effectiveness and efficiency* of the procurement and service delivery processes. The IAS examined whether ESTAT makes the best use of all type of IT human resources and the way in which the follow-up and management of IT activities provides assurance that it obtaining the right service at the right price. In this respect, we also took into account the need to simplify internal administrative rules and procedures.

The audit of IT procurement and service delivery of ESTAT is part of the overall IAS audit objective to provide an audit opinion on IT Procurement and Service Delivery in the Commission. After having audited a sample of DGs, an overview report will be produced containing the consolidated results and conclusions on the above-mentioned audits and on the crosscutting observations and recommendations.

As a result of the *desk review and the interviews in the preliminary survey* (which took into account the work already performed by the IAC, the European Court of Auditors and the IAS) the scope of the audit engagement in ESTAT focused on the following aspects of the internal control system, risk management and governance processes of IT procurement and service delivery:

- <u>Contract preparation</u> process, from the identification of the business needs to the signing of the contracts and specific contracts. This process included all types of IT expenses (equipment and services).

- <u>Management and monitoring of these contracts with external contractors</u>. The audit included the monitoring of services agreed to as "fixed-price" or "time-and-means" as well as the measures taken to ensure business continuity on the expiry of contracts.

There are no observations/reservations in the Annual Activity Report that relate to the area audited.

No scope limitations were identified.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	3	3	100	0	0
Important	5	5	100	0	0
Desirable	1	1	100	0	0
Total	**9**	**9**	**100**	**0**	**0**

1.13. OIB –Management of procurement contracts in OIB

Objectives and Scope

The objective of the audit was to assess the adequacy and effectiveness of OIB's internal control system with respect to the "Regularity of Financial Management" of the procurement process. The present report focuses on OIB's procurement arrangements with respect to non-buildings contracts. The audit focused principally on procurement contracts completed during the period 2005-2006.

The audit includes the follow up of the former audit engagement conducted in 2004 on transaction testing (IAS-2004-OIB-OOl Risk Assessment OIB - OIB Transaction Testing), which will be covered in a separate report.

A reservation was made in the AAR 2005 in this area, due to the difficulties in keeping to the timetable of the calls for tenders and, as a consequence of this, the need to conclude negotiated procedures for extensions of the contracts.

It should be noted that at present four cases are currently under investigation by OLAF. On these cases, OLAF has been consulted. This has not resulted in any scope limitations in the context of this audit.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Critical	1	0	100	1	100
Very Important	6	6	100	0	0
Important	7	7	100	0	0
Total	**14**	**13**	**92,86**	**1**	**7,14**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	6	4	66,67	2	33,33
Important	7	7	100	0	0
Total	**13**	**11**	**84,62**	**2**	**15,38**

1.14. OIB –Management of buildings procurement contracts

Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of OIB's internal control system with respect to the "Regularity of Financial Management". The present report focuses on buildings procurement contracts and related issues, such as the policy development process, the governance structure, the decision making process, portfolio management and long term planning of the buildings policy. OIB's procurement arrangements in respect of non-buildings contracts have been examined separately and addressed in a separate report. The audit focused mainly on Buildings Procurement Projects completed during the period 2005-2006.

The results of the audit of in 2002 (IAS Task 01/1B/01) on the buildings infrastructure were the subkect of a follow-up, which will be covered in a separate report.

There are no observations/reservations in the AAR 2005 that relate to the specific buildings procurement area audited, even though there is a general reservation regarding "deficiency in OIB's contracts and procurement management".

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Critical	1	1	100	0	0
Very Important	6	6	100	0	0
Important	4	4	100	0	0
Total	**11**	**11**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Critical	1	1	100	0	0
Very Important	6	6	100	0	0
Important	4	2	50	2	50
Total	**11**	**9**	**81,82**	**2**	**18,18**

1.15. OIB – Follow-up on buildings infrastructure managed by the European Commission

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the Audit of Buildings Infrastructure managed by the European Commission, carried out in 2002.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

1.16. OIB – Follow-up on transaction testing

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the Audit of Transaction testing carried out in 2004.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

1.17. OIB – Evaluation of targeted Internal Control Standards in OIB

Objectives and Scope

The objective of the audit was to assess the adequacy and effectiveness of the implementation of Internal Control Standards n°s 15 (Documentation of procedures), 16 (Segregation of duties), 17 (Supervision) and 24 (Annual review of internal control) within OIB. Previous IAS audits of OIB have indicated a need to look at these specific standards in OIB and consider the scope for making improvements.

The Internal Control Standards specify the requirements, actions and expectations which are necessary to build an effective system of internal control and which provide reasonable assurances as to the achievement of objectives. The Director of OIB (as delegated authorising officer) is responsible for ensuring that these standards are met within his service.

The audit focused on the operational and administrative operations and did not cover the financial operations. The latter were covered by the IAS audits on the management of procurement contracts and by the follow-up of transaction testing and IAC's audit of financial circuits.

It should be noted that the European Court of Auditors covered 17 DGs (including OIB) and the ICS n°s 11, 12, 14, 17, 18, 20, 21 and 22 in its DAS 2006 exercise; the IAC also reported on the ICS n°s 5, 11, 12, 18, 19, 20 in its draft audit report "*Audit sur l'application d'une selection des standards de contrôle internes*".

OIB did not express any reservations in the AAR 2006 that relate to the ICS 15,16, 17 and 24 (see page 30 of the AAR 2006).

In its Readiness Assessment 2006, OIB states that it is fully compliant with all the baseline requirements of the ICS 15, 16, 17 and 24, except for n°s 3 and 5 of ICS 15 (n° 3: appropriate documentation of administrative and operational procedure and n° 5 : review and update of all procedures in order to be compliant with relevant regulations, the Financial Regulations and its implementing rules).

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very important	2	2	100	0	0
Important	1	1	100	0	0
Total	**3**	**3**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	2	2	100	0	0
Important	1	1	100	0	0
Total	**3**	**3**	**100**	**0**	**0**

1.18. OIL – Management of Procurement Contracts in OIL

Objectives and Scope

The objective of the audit was to assess the adequacy and effectiveness of OIL's internal control system with respect to the "Regularity of Financial Management" of the Procurement Process. The present report focuses on OIL's procurement arrangements with respect to non-buildings contracts. The audit focused mainly on Procurement Contracts completed during the period 2005-2006.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	7	7	100	0	0
Important	6	5	83,33	1	16,67
Desirable	1	1	100	0	0

		In Progress		Completed	
Total	**14**	**13**	**92,86**	**1**	**7,14**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	7	4	57,14	3	42,86
Important	5	2	40	3	60
Desirable	1	0	0	1	100
Total	**13**	**6**	**46,15**	**7**	**53,85**

1.19. PMO – Controls over Payment of Pensions

Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the internal control system and risk management with respect to the design and the implementation of the financial circuits and procedures relating to the determination and payment of individual rights of retired Commission staff (post active).

In particular, its objective was to assess whether the internal control system (ICS) provides reasonable assurance regarding:

- compliance (legality and regularity) with the FR and its IR, including the effective implementation of the financial circuits;

- the safeguarding of assets;

- the reliability of financial information;

- the efficiency and effectiveness of financial processes ("sound financial management", Art. 27 of the FR).

The audit did not cover procedures related to the determination and payment of sickness and accident insurance cover, the invalidity pensions/allowances, the current financing scheme for pensions or the transfers of pensions from the Member States. Nor did it cover the functionality of the underlying system for processing the payments of entitlements, known as "Nouvelle Application de Paie" (NAP).

The scope of the audit has focused on the adequacy of the design and implementation of the procedures involved in the decision to grant a retirement pension; the evaluation and payment

of individual rights of retired staff, as well as the biennial declarations (life certificate) and the procedure in case of pensioner death. All of the above are under the responsibility of PMO-4 (Pensions, and transfers of pension rights).

There are no reservations in the 2006 AAR that relate to the specific area audited. However, PMO made the following observations in relation to its overall functioning:

- The permanent number (stock) of files of transfer of pension rights remained at a very high level (6,255 files at the end of 2006), which is approximately twice as high as in the years preceding the reform of the Staff Regulations. Also, despite a reduction in its personnel, PMO has seen a considerable increase in its general workload. In 2005 some 3,376 recalculations were made pursuant to Article 26 §§ 5 and 6 of Annex XIII of the Staff Regulations (page No 5)

- The reviews that were conducted internally, and confirmed by the external audits, detected the same structural weaknesses:

  a) PMO does not have sufficient numbers of qualified staff;

  b) The computer system is too out of date to be able to include automated controls.

- The Office is therefore heavily dependent on manual controls which, while they help to ensure the regularity and effectiveness of operations, are not always the most efficient (pages No 22 and 23).

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Important	5	5	100	0	0
Desirable	2	2	100	0	0
Total	**12**	**12**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	5	5	100	0	0
Important	5	5	100	0	0
Desirable	2	2	100	0	0
Total	**12**	**12**	**100**	**0**	**0**

1.20. SCIC – Follow-up of validation of self-assessment of the SCIC IAC

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the IAS Validation of Self-Assessment of the Internal Audit Capability of DG SCIC carried out from February to June 2006.

2. INTERNAL POLICIES

2.1. COMP - Follow-up report on the Audit of IT Controls

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted4 recommendations that resulted from the Audit of IT Controls of DG COMP IT carried out in 2003.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

2.2. DG EAC – ABAC-Implementation of Accruals Based Accounting in DG EAC/2006 Closing

Scope and objectives

The audit covered the year-end 2006 closing of the accounts in Directorate-General Education and Culture (DG EAC) and the Executive Agency (EACEA).

For 2006 "combined" financial statements were issued by DG EAC and EACEA giving a comprehensive overview of the "Education and Culture" activities managed jointly by both audited entities. This was due to the fact that the different financial data (pre-financing, invoices, etc.) had not been adequately allocated between the cost centres of DG EAC and the Executive Agency.

The objective of the audit was to obtain a reasonable assurance that:

- the accounting systems and procedures established locally by DG EAC and by the Executive Agency in the context of the implementation of accrual accounting are effective in ensuring the reliability of the financial information (including compliance with the Commission's accounting rules), both local and, following transmission of the year-end closing data to DG BUDG, consolidated at the level of the Commission.

- the controls integrated into the accounting environment (including supporting IT systems) locally in DG EAC and in EACEA are adequate and effective enough to ensure the

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4 For the purpose of this report, all subsequent references to "accepted recommendations" include two recommendations which were originally rejected by DG COMP, but for which actions have been in fact implemented in practice

integrity of the financial information and the true and fair view of their financial position and their financial performance.

The audit was performed in co-operation with the European Court of Auditors, which will use its results as part of the DAS audit of 2006.

The audit consisted of three different parts, namely:

- Follow-up of the implementation of the recommendations issued last year by the IAS (for which a separate follow-up audit report has been issued);

- Review of the accounting procedures and the supporting IT systems, including systems and procedures to collect and consolidate accounting data for the year-end closing, cut-off and validation of opening balances;

- Substantive testing of the closing balances (as of 31/12/2006) based on transaction samples of "pre-financing and related guarantees" and "invoices received but not yet settled".

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	3	3	100	0	0
Desirable	4	4	100	0	0
Total	**8**	**8**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	1	0	0	1	100
Important	3	2	66,67	1	33,33
Desirable	4	2	50	2	50
Total	**8**	**4**	**50**	**4**	**50**

2.3. DG EAC – Follow-up Audit Report on the Implementation of ABAC in DG EAC

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the audit of the "Implementation of ABAC in DG EAC" carried out in 2006.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

2.4. EACEA – Implementation of the Financial Circuits for Operational Budget of the Education, Audiovisual and Culture Executive Agency (EACEA)

Objectives and Scope

The overall **objective** of this audit is to issue an opinion on the compliance with the Commission rules and on the effectiveness and efficiency of operations regarding the implementation of Financial Circuits set up by the Agency to support its operational budget, and the related aspects of the financial management (i.e. management of financial roles; administration of sub-delegations; design of ex-post control structures; monitoring functions and internal reporting) and the Agency's reporting to its parent DGs.

The **scope** of the audit was further defined in the preliminary phase taking into account two fundamental aspects: First the Agency is to some extent still in its start-up phase as its operational work began on 1 January 2006 and the Agency became administratively autonomous from 24 July 2006. Secondly, the audit engagement reflects the co-ordinated approach between the IAS and the Agency's IACs aiming at complementary coverage of the audit plans while targeting the most stable aspects of the Agency's activities.

Accordingly, the following areas were **excluded** from the scope:

- The administrative budget as the Agency only became administratively autonomous as of July 2006.
- The accounting system and the Agency's financial reporting, including the IAS recommendations issued following the audit of the implementation of ABAC in DG EAC[5] . Due to the fact that the Agency's IT systems are the same as those used by DG EAC (i.e. APPFIN, Sincom2 and ABAC), the IAS findings are, in principle, applicable to the Agency. The IAS, in coordination with the Court of Auditors, will carry out an audit in 2007 on the closure of accounts process which will cover DG EAC and the consolidation process which will include the Agency's accounting for the operational budget.
- Information Technology (IT) and Human Resources (HR) as they will be covered by the Agency's IAC either directly (HR) or with the assistance of external experts (IT).

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[5] Audit Report IAS-2006-EAC-002 dated 30/06/06.

- When the Agency was set up it inherited a backlog of 183 ex-post audits from DG EAC all of which required detailed follow-up by the Agency[6]. However the present audit did not include substantive tests on the implementation of these audits, as its scope was limited to the design of the new ex-post control function.
- Finally, some (parts of) programmes managed by the Agency are not relevant to the audit scope (i.e. Procedure B of Leonardo Da Vinci[7] and Non-closed projects corresponding to Media II-1996-2000[8]).

With regard to evolving aspects, such as ex-post control structures and the Agency's reporting to its Parent DGs, the aim of this audit is to identify potential areas of improvement for the near future.

Following the transfer of part of DG EAC's and DG INFSO's activities to the Agency and owing to its impact on the Agency's financial management, this audit engagement also assesses the progress made in implementing eight IAS recommendations (1 critical, 2 very important, 4 important and 1 desirable) which resulted from the IAS in-depth audit of DG EAC carried out in 2004[9] and followed up in 2005[10]. The remaining IAS recommendations, in particular the aspects related to the abnormal RAL, were not part of the scope.

In line with the project to amend the Commission Decision setting up the Executive Agency, the Agency's mandate is very likely to be extended[11]. This extension would increase the Agency's operations with the next generation of programmes currently managed by the Agency (e.g. Life Long Learning) but also other new programmes (e.g. EU/USA cooperation in the field of higher education and vocational training) or activities, following the takeover of the Eurydice European Unit. Therefore, this audit may provide a good overview of the situation prior to this expansion, which will both be quantitative (i.e. in terms of both budget and staff) and qualitative (i.e. more diversity in the type of activities under the Agency's responsibility).

The Agency was set up in January 2005 and its first Agency Annual Activity Report (AAR), for the 2005 financial year, was adopted by the Steering Committee in February 2006. As the Agency's activities did not really start until January 2006, the AAR contained no reservations or Declaration of Assurance.

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[6] Source: EACEA audit database: State of play at 2006 year end: Out of the 183 inherited audits, 137 remain open: 90 have reached the reporting phase; 36 are awaiting the Draft report and 11 (6% of the total) have outstanding fieldwork.

[7] Management of procedure B is decentralised to National Agencies and the Agency's task is only to coordinate the selection of beneficiaries which is carried out by outsourced experts. Those experts are paid not from the Agency's operational budget but from the administrative budget, which is excluded from the scope.

[8] Media II was created before the Commission's requirements on financial circuits were defined and applicable.

[9] Audit Report IAS-2004-EAC-001 dated 21/09/04.

[10] Follow-up audit report IAS-2004-EAC-001 dated 22/12/05.

[11] "Projet de Décision de la Commission modifiant la décision 2005/56/CE instituant l'Agence exécutive 'Éducation, audiovisuel et culture' pour la gestion de l'action communautaire dans les domaines de l'éducation, de l'audiovisuel et de la culture, en application du règlement (CE) n°58/2003 du Conseil" CISNet, consultation [EAC]D(2006)/R/11593.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	10	10	100	0	0
Total	**14**	**14**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very important	4	4	100	0	0
Important	10	5	50	5	50
Total	**14**	**9**	**64,29**	**5**	**35,71**

2.5. DG ENTR – Management Letter Ex-Post Controls (no report)

2.6. DG ENTR - Follow-up report on the financial management of the innovation relay centre (IRC) network

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the joint IAS-IAC DG ENTR final audit report on the Financial Management of the Innovation Relay Centre (IRC) Network dated 6 April 2006.

This follow-up audit does not present an assessment of the adequacy of controls as a whole, but focuses more on the specific recommendations in the original audit.

2.7. DG ENTR - Follow-up Audit Report on the IAS Validation of Self-Assessment of Internal Audit Capability (IAC) of DG ENTR

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the IAS Validation of Self-Assessment of the Internal Audit Capability of DG ENTR which was carried out from February until June 2006.

2.8. DG ENV – Monitoring of the Implementation of EU Law

Objectives and Scope

Monitoring the application of EU law is one of the Commission's core activities laid down in the Treaty. It is a very broad and multi-faceted issue which covers a whole range of activities. The objective of the engagement is to provide an opinion on the management, efficiency and effectiveness of the pro-active and ex-post monitoring of EU law for the years 2003 – 2005, in particular relating to the transposition of directives and complaints and infringements.

The scope of the audit includes:

1) Assessing the efficiency and effectiveness of DG ENV's processes for pro-active monitoring of the timely, correct and complete implementation of EU law (Treaty provisions and directives) - mainly for the years 2003 to 2005 - against the (success) criteria/factors defined for the different phases of proposing, negotiating and transposing a directive and the measures proposed in the 2002 Communication on *Better Monitoring*.

2) Assessing DG ENV's handling of complaints and infringements related to directives, regulations and the Treaty, for the period 2003 to 2005, with respect to efficiency and effectiveness which includes, inter alia compliance with the Manual of Procedures[12].

3) Assessing the management of the EU law monitoring function (pro-active as well as ex-post) during 2003 – 2005 against relevant Commission Internal Control Standard baseline requirements.

4) Assessing potential areas for simplification of procedures.

5) Assessing compliance with the provisions of Regulation (EC) 45/2001 on the protection of personal data.

As of 31 December 2005, there have been no observations/reservations in the AAR that relate to the area/process audited.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Critical	2	2	100	0	0
Very important	7	7	100	0	0
Important	2	2	100	0	0
Total	**11**	**11**	**100**	**0**	**0**

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[12]Manual of Procedures — SEC(2005)254/2 — Version of 13/12/2005: *Monitoring the application of Community law: Manual of procedures*.

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Critical	2	1	50	1	50
Very important	7	1	14,29	6	85,71
Important	2	0	0	2	100
Total	**11**	**2**	**18,18**	**9**	**81,82**

2.9. DG ENV – Second Follow-up audit of DG ENV's 2004 In-depth audit

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the in-depth audit report dated 19 September 2004 and from the first follow-up audit report dated 9 February 2006.

In line with the IAS follow-up policy, this follow-up audit does not result in an assessment of the adequacy of controls as a whole, but focuses on the specific recommendations in the original audit.

2.10. DG ENV – Grant management under the non-LIFE-programmes

Objectives and Scope

The audit of the grant management by DG ENV under the non-LIFE programmes is included in the 2007 work programme of the IAS. This follows an audit risk assessment carried out in 2006 on DG ENV as part of the preparation of the IAS's Strategic Audit Plan for 2007-2009, which was endorsed by the Audit Progress Committee (APC) in February 2007. A new programme entitled LIFE+ will become the EU's single financial instrument on the environment from 2007. It will group together most of the current support programmes for the environment except for Civil Protection and Marine Pollution.

The audit focused on the assessment of the adequacy and effective functioning of the internal control systems in relation to DG ENV's grant management process under the non-LIFE programmes during the 2004 - 2006 period, as follows:

–   Programmes without a basic act: Development of New Initiatives and General call for proposals,

–   Programmes with a basic act: Civil Protection, NGOs and Forest Focus.

The audit assessed whether the internal control systems comply with the specific legal basis of the programmes selected and with the Financial Regulation and its Implementing Rules, and the efficient and effective implementation of the programmes.

There are no reservations in the AAR that relate to the process audited. However, DG ENV has however associated itself with the reservation expressed by DG ENTR under centralised direct management relating to over-declarations of cost claims due to the problem of the eligibility of the costs incurred by European Standardisation Organisations, such as CEN and CENELEC, with whom the DG has a number of open action grants.

Of necessity, audits are a "snapshot" of the situation as it exists within the time-frame covered by the audit. In some cases, auditees have subsequently taken actions or have plans for future actions which are designed to improve the control system. However, as these have not yet been audited, the efficacy of these changes will be assessed as part of the IAS follow-up audit work.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	9	9	100	0	0
Desirable	1	1	100	0	0
Total	**14**	**14**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	4	2	50	2	50
Important	9	5	55,56	4	44,44
Desirable	1	0	0	1	100
Total	**14**	**7**	**50**	**7**	**50**

2.11. DG INFSO – Ex-Post Controls

Objectives and Scope

In accordance with its Audit Plan 2006, the IAS has assessed the effectiveness and efficiency of the ex post controls put in place by DG INFSO to obtain assurance on the legality and regularity of the transactions covered by the Research Programmes and on sound financial management.

It should be noted that, from 2002 to 2004, DG INFSO included in its AAR a reservation on the *"correctness" or "frequency of errors" in "multi-annual cost declarations and payments"*. In 2005, the reservation related only to FP5 cost claims and payments.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Critical	1	1	100	0	0
Very Important	7	7	100	0	0
Important	3	3	100	0	0
Total	**11**	**11**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Critical	1	0	0	1	100
Very Important	7	1	14,29	6	85,71
Important	3	0	0	3	100
Total	**11**	**1**	**9,09**	**10**	**90,91**

2.12. JRC – Second Follow-up of In-Depth Audit of JRC of 2004

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the In-depth Audit of DG JRC, carried out from April to October 2004.

A first follow-up audit was carried out from October 2005 until February 2006. The Final Report on the Interim Follow-up Audit of JRC, dated 09/02/2006, considered ten recommendations as fully implemented and the other eleven as still in progress.

This second follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit, and more specifically on the eleven recommendations still open after the first follow-up audit.

2.13. DG MARKT - Financial Management and Financial Circuits

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from DG MARKT's Financial Management and Financial Circuits. The final report was issued on 21 December 2005.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole, but focuses on the specific recommendations in the original audit.

2.14. DG RTD - Follow-up report on the in-depth audit of DG RTD (2003) and the audit on financial circuits & financial management in DG RTD (2005)

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the In-depth Audit of DG RTD, carried out from April to November 2003, and the Audit on Financial Circuits / Financial Management of DG RTD, carried out from April to October 2005.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole, but focuses on the specific recommendations in the original audit.

2.15. DG RTD - IT procurement and service delivery in DG RTD

Objectives and Scope

This audit of IT procurement is part of a wider audit, the objective of which was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to IT procurement and the delivery of IT services to the European Commission.

The purpose of the audit was to assess whether the ICS provides reasonable assurance regarding:

- *Compliance* with the Commission rules on IT procurement, the Financial Regulation and the Commission Internal Control Standards. Compliance with the provisions of Regulation (EC) 45/2001 on the protection of personal data was also taken account of;

- *Effectiveness and efficiency* of the procurement and service delivery processes. The IAS examined whether the Commission makes the best use of all type of IT human resources and how the follow-up and management of IT activities ensures that the Commission obtains the right service at the right price. In this respect, the need for simplifying internal administrative rules and procedures was also taken account of.

The audit of the IT procurement and service delivery process in DG RTD is part of the overall IAS objective to provide an audit opinion on the IT procurement and service delivery cycle in the Commission. Once our audit work is completed in a sample of DGs, an overview report

will be produced containing the consolidated results and conclusions of these audits, as well as crosscutting observations and recommendations.

As a result of the desk review and the interviews in the Preliminary Survey, the scope of this audit engagement in DG RTD focused on the following aspect of the internal control system, risk management and governance processes of IT procurement and service delivery:

- *Management and monitoring of contracts with external contractors.* The audit included the monitoring of services agreed to on a "fixed-price" or "time-and-means" basis as well as the measures taken to ensure continuity of business once the work contracted has been completed.

The IAS decided not to include the tendering phase of the procurement process in this audit, as RTD mainly uses the IT framework contracts of DG DIGIT. Aspects closely linked to the project management of IT systems are covered by the IAS audit on IT systems in the Research family, and therefore these are also excluded from the scope of the present audit.

There are no observations/reservations in the 2006 AAR that relate to the area audited.

No scope limitations were identified.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Total	**1**	**1**	**100**	**0**	**0**

2.16. DG TAXUD - IT procurement and service delivery in DG TAXUD

Objectives and Scope

This audit is part of a wider audit, the objective of which was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to IT procurement and the delivery of IT services to the European Commission.

The purpose of the audit was to assess whether the ICS provides for reasonable assurance regarding the following:

- *Compliance* with the Commission rules on IT procurement, the Financial Regulation and the Commission Internal Control Standards. The compliance with the provisions of Regulation (EC) 45/2001 on the protection of personal data was also taken account of;

- *Effectiveness and efficiency* of the procurement and service delivery processes. The IAS examined whether the Commission makes the best use of all type of IT human resources and how the follow-up and management of IT activities ensures that the Commission

obtains the right service at the right price. In this respect, the need for simplifying internal administrative rules and procedures was also taken account of.

The audit of the IT procurement and service delivery process in DG TAXUD is part of the overall IAS objective to provide an audit opinion on the IT procurement and service delivery cycle in the Commission. After a sample of DGs has been audited, an overview report will be produced, containing the consolidated results and conclusions on the above-mentioned audits and on the crosscutting observations and recommendations.

As a result of the desk review and the interviews in the Preliminary Survey (which took into account the work already done by the IAC, the European Court of Auditors and the IAS), the scope of this audit engagement in DG TAXUD focused on the following aspects of the internal control system, risk management and governance processes of IT procurement and service delivery:

- *Management and monitoring of contracts with external contractors.* The audit included the monitoring of services agreed to as "fixed-price" or "time-and-means" as well as the measures taken to ensure business continuity at the expiry of contracts.

There are no observations/reservations in the 2006 AAR that relate to the area audited.

No scope limitations were identified.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Important	2	2	100	0	0
Desirable	1	1	100	0	0
Total	**3**	**3**	**100**	**0**	**0**

2.17. DG TREN - Follow-up report on the audit of financial management and financial circuits in DG TREN

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations resulting from the Audit of Financial Management and Financial Circuits in DG TREN carried out on 22 July 2005.

In line with IAS policy, this follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

2.18. DG TREN - Follow-up Audit Report on "Audit de processus de gestion de l'informatique locale"

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the "*Audit de processus de gestion de l'informatique locale – DG TRE*N" carried out on 10 May 2005.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole, but focuses on the specific recommendations in the original audit.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	3	3	100	0	0
Total	**3**	**3**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	3	3	100	0	0
Total	**3**	**3**	**100**	**0**	**0**

The recommendations shown in the tables are new recommendations issued in the framework of the follow-up audit.

2.19. TREN-IEEA - Audit of the Intelligent Energy Executive Agency

Objectives and Scope

The objective of this audit was to survey the adequacy and effective application of the internal control system (ICS), risk management and governance processes in the IEEA. In particular the audit assessed whether the ICS provides for reasonable assurance regarding:

- Compliance with the Commission rules regarding the executive agencies, the Financial Regulation and the Commission Internal Control Standards.

- The reliability of financial and non-financial information.

- The effectiveness and efficiency of operations.

As a result of the *desk review in the preliminary survey,* which took into account the work already done by the IAC of the Agency, the scope of this audit engagement was limited to the following aspects regarding the internal control system, risk management and governance processes within the IEEA:

A. The overall organisation of the agency (including governance issues, data protection and the performance of the IAC).

B. The regularity of financial management and the implementation of financial circuits (with the emphasis on grant management and procurement).

C. The accounting system (with the emphasis on the administrative budget), including the accounting organisation, accounting for fixed assets, salaries, purchases and the closing procedures.

D. The relations between the agency and other Commission services (focusing on the service level agreements) and with external service providers.

E. Monitoring by DG TREN as parent DG.

In November 2006, the European Court of Auditors (ECA) started a performance audit that is complementary to this audit. The Court's audit has two main planks: (1) performance audit (i.e. the effectiveness and efficiency) of the Intelligent Energy Programme itself, and (2) the management implementation structure, including the cost/benefit of the Agency and the programme; the management information for the programme with special attention on the indicators. These aspects have been taken into account in establishing the scope of this audit. Thus, once the ECA has completed its audit, the main aspects of the Agency's business will have been audited.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Critical	1	1	100	0	0
Very Important	3	3	100	0	0
Important	10	10	100	0	0
Desirable	2	2	100	0	0
Total	**16**	**16**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Critical	1	0	0	1	100
Very Important	3	0	0	3	100

Important	10	1	10	9	90
Desirable	2	0	0	2	100
Total	**16**	**1**	**6,25**	**15**	**93,75**

2.20. DG TREN - Follow-up of validation of self-assessment of DG TREN IAC

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the IAS Validation of Self-Assessment of the Internal Audit Capability of DG TREN which took place from February to April 2006.

3. STRUCTURAL MEASURES AND COMMON AGRICULTURAL POLICY

3.1. AGRI - Local IT systems of DG AGRI feeding into ABAC

Objectives

The objective of the present audit was to assess the adequacy of the systems and controls put in place by DG AGRI to ensure the integrity of the accounting-related data as processed by the local IT systems.

Accounting-related data can be defined as the data entered into ABAC Workflow through the local systems of DG AGRI and, thereafter, transferred to the central accounting system (SAP), its General Ledger or any of the other modules that form part of it.

Scope

Based on a preliminary risk analysis, the two major local IT systems, which processed €55.7 billion of payments in 2006 - were chosen for the audit scope:

– AGREX2, which provides data for the detailed budgetary follow-up related to the implementation of the Common Agricultural Policy in respect of measures financed by the Guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF);

– GFO, which is used to manage the financial data of the EAGGF Guidance section, SAPARD and the new Rural Development Financial Instrument for the EU 10. Although this system is hosted in DG AGRI, DG EMPL is the system supplier and is responsible for development and maintenance (it is a copy of their SEA system).

This audit also covers the management of ABAC Workflow local users, which is sub-delegated by DG BUDG to DG AGRI.

The IAS adopted a three-step approach:

1. Assess general controls ensuring the integrity of the IT systems (e.g. user access management, change management, completeness and regular analysis of audit trails…);

2. Assess application controls: the monitoring controls applied manually and controls performed automatically by AGREX2 and GFO;

3. Assess the integrity of the data transmitted from AGREX2 and GFO to ABAC Workflow.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	2	2	100	0	0
Important	12	12	100	0	0
Total	**14**	**14**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	2	1	50	1	50
Important	12	12	100	0	0
Total	**14**	**13**	**92,86**	**1**	**7,14**

3.2. AGRI - Final Audit Report on DG AGRI – Interventions in Agricultural Markets

Objectives and Scope

The audit focused on Market Intervention Measures, and in particular Export Refunds and Import Tariff Quota. The objective of the audit was to assess the adequacy and effectiveness of the control systems in place to ensure the legality and regularity of operations in the area, while having due regard to effectiveness and efficiency. In order to assess the adequacy of the systems in place, two sectors were selected for further scrutiny, namely the Cereals sector and the Meat sector.

The audit included the impact of IT-systems on operations, but did not include an assessment of reliability, completeness and integrity of the data in these systems, as this is included in the IT-audit currently being carried out by the IAC of DG AGRI.

Wherever possible, in order to avoid waste of scarce audit resources, use was made of previous audits conducted by either the IAC of DG AGRI or by the European Court of Auditors.

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

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	8	8	100	0	0
Total	**9**	**9**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	8	8	100	0	0
Total	**9**	**9**	**100**	**0**	**0**

3.3. AGRI - Follow-up Audit Report on Structural Funds – DG AGRI EAGGF-GUIDANCE

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the audit of the Structural Funds - DG AGRI EAGGF-Guidance - in 2005 (date of the Final Report: 5 December 2005).

This follow-up audit does not produce an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Total	**1**	**1**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Total	**1**	**1**	**100**	**0**	**0**

3.4. EMPL – Prevention and detection of fraud in the Structural Funds

Objectives and Scope

In accordance with its Audit Plan 2007, the IAS has examined the measures taken by DG EMPL on the prevention and detection of fraud in the European Social Fund.

The main objective of the audit is to assess whether the policy and procedures implemented by DG EMPL contribute effectively to the fight against fraud in the field of Structural Funds, in accordance with the competencies of the Commission, as defined by Article 280 of the Treaty, and the definition of responsibilities set out in Commission Decision SEC(1995) 249/1 concerning the fight against fraud, and Regulation (EC) N° 1073/1999 of the European Parliament and of the Council concerning investigations conducted by the European Anti-Fraud Office (OLAF), as well as Council Regulation (EC) N° 1260/1999 laying down general provisions on the Structural Funds.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Total	**5**	**5**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Total	**5**	**5**	**100**	**0**	**0**

3.5. EMPL – Implementation of Programmes in the New Member States

Objectives and Scope

In accordance with the IAS strategic audit plan 2007-2009, this audit covered the implementation by the Commission of the ESF programmes in the New Member States (namely the EU-10 countries that acceded on 1 May 2004: Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia).

The scope did not include the Community initiative, EQUAL, or Innovative Measures under Article 6, as these are subject to different procedures. The focus was on ESF mainstream programmes.

The objectives of this audit were to assess how some risks related to the implementation of programmes in the New Member States identified in a management letter by the IAS (2003), and other risk assessments conducted by, in particular, DG EMPL, have been mitigated by management, and whether new risks are emerging that the management should be aware of.

There is a reservation in the AAR 2006 related to the areas/processes audited concerning the management and control systems of the ESF in Latvia, Slovenia and Slovakia. The reservation concerns deficiencies in the management and control systems, most notably the segregation of duties (Art. 4 of Reg 438/2001), selection of projects, first level verifications (Art. 4), audit trail (Art. 7), and certification process (Art. 9 of Regulation 438/2001). In addition, DG EMPL has assessed that 16 programmes in the EU-10 countries (in total 64% of the total number of the EU-10 programmes) "work well, but need improvements" according to the audit results. The main problems with these programmes have been related to the checks under Art. 4, Art. 7 and Art. 9, the lack of a sufficient audit trail and (in the case of Poland) the IT system. However, as far as the latter category is concerned, these deficiencies have not resulted in a reservation in the AAR 2006, because DG EMPL has determined that the weaknesses are under control and has agreed action plans with the Member States to implement the Commission's recommendations.

Considering the above mentioned reservation and qualified opinions, and in order to avoid unnecessary duplication of effort in line with the single audit approach, the IAS has decided to focus on additional aspects related to the effective and efficient implementation of the 2004-2006 programmes in the new Member States.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	2	2	100	0	0
Total	**2**	**2**	**100**	**0**	**0**
	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	2	2	100	0	0

	Total	2	2	100	0	0

3.6. FISH – Follow-up Final Audit Report on Structural Funds - Financial instrument for Fisheries Guidance (FIFG)

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the Structural Funds - Financial instrument for Fisheries Guidance (FIFG) audit carried out in 2005 (date of the Final Report: 10 November 2005).

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

3.7. REGIO – Implementation of programmes in the new Member States

Objectives and Scope

In accordance with the IAS strategic audit plan 2007-2009 this audit covered the implementation by the Commission of the ERDF programmes in the New Member States (EU-10 countries with the accession date of 1/5/2004: Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia).

The scope did not include Community initiatives (INTERREG) nor interventions by the Cohesion Fund as these are subject to different procedures. The focus was on the mainstream programmes.

The objectives of this audit were to assess how some risks related to implementation of programmes in the New Member States identified in a management letter by the IAS (2003) and other risk assessments by, in particular, DG REGIO, have been mitigated by management, and whether new risks are emerging which management should be aware of.

There are no reservations in the AAR related to the areas/processes audited. However, the AAR 2006 does mention that "the opinion was qualified in relation to material deficiencies affecting key elements of the system" for the following EU-10 countries: Czech Republic, Latvia, Lithuania and Slovakia. For Slovenia, the opinion was qualified due a limitation of the scope. Finally, in the case of Poland, the opinion was adverse for one programme (SOP Competitiveness), qualified for two programmes (IROP and SOP Transport) and there was no opinion on one programme (Technical Assistance). The above opinions have not resulted in reservations in REGIO's 2006 AAR, taking into account the fact that "the arrangements in place for the performance of DG Regional Policy's supervisory role under the system of shared management provide for actions to be taken in a timely way in response to the detection of deficiencies in management and control systems".

Considering the abovementioned qualified and/or adverse opinions on six of the ten new Member States, and in order to avoid unnecessary duplication of effort in line with the single

audit approach, the IAS has decided to focus on additional aspects related to the effective and efficient implementation of the 2004-2006 programmes in the new Members States.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	2	2	100	0	0
Total	**2**	**2**	**100**	**0**	**0**

3.8. REGIO – Follow-up Audit Report on the European Regional Development Fund (ERDF) – Audit of the Implementation of Article 38 of Council Regulation 1260/1999 in DG REGIO

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations resulting from the following audit carried out in 2005 at DG REGIO: "European Regional Development Fund - Audit of the implementation of Article 38 of Council Regulation 1260/1999".

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

3.9. REGIO – Prevention and detection of fraud in the Structural Funds

Objectives and Scope

In accordance with its Audit Plan 2007, the IAS has examined the measures taken by DG REGIO to prevent and detect fraud in the European Regional Development Fund.

The main objective of the audit is to assess whether the policy and procedures implemented by DG REGIO effectively contribute to fighting fraud in the field of the Structural Funds, in accordance with the competencies of the Commission, as defined by Article 280 of the Treaty and the definition of responsibilities set out by Commission Decision SEC (1995) 249/1 concerning the fight against fraud, and Regulation (EC) N° 1073/1999 of the European Parliament and of the Council concerning investigations conducted by the European Anti-Fraud Office (OLAF) and Council Regulation (EC) N° 1260/1999 laying down general provisions on the Structural Funds.

	Acceptance Status	Yes	No

Priority	#	#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	1	1	100	0	0
Total	5	5	100	0	0

4. EXTERNAL POLICIES

4.1. AIDCO - Eligibility of Costs under the Financial and Administrative Framework Agreement with the United Nations by DG AIDCO

Objectives and Scope

On 28 July 2006, the IAS issued its final audit report13 on: "The Implementation of the Financial and Administrative Framework Agreement with the United Nations by DGs AIDCO & ECHO". This report was presented to the Audit Progress Committee (APC) at its meeting of 5 October 2006.

As noted in the minutes of that meeting, "the APC considers that the audit findings did not sufficiently substantiate the IAS' unsatisfactory opinion. The APC further notes the clarification from the IAS that the opinion is not contrary to the DGs declarations of assurance. With regard to indirect costs, the APC considers that the audit process did not enable it to assess the materiality of recommendations N°4 and N°5. The APC therefore invited the IAS, in its follow-up audit, to assess the materiality of the residual risks with regard to indirect costs in particular, associated with the overall controls on EC-UN funding in the framework of the Financial and Administrative Framework Agreement (FAFA) and the UN financial control system".

In response to this APC request, the IAS adapted its 2006 audit plan to "supplement the up-coming DG AIDCO audit with work on the control system for verifying the eligibility of costs including the testing of transactions". This plan was communicated to the APC on 19 October 2006.

Regarding the eligibility of direct costs and indirect costs, DGs AIDCO and ECHO commented on the July 2006 IAS report13 stating that:

"Although the report concludes that there is a "lack of control of indirect costs", the report does not address the way costs are actually controlled by DGs AIDCO and ECHO according to the system put in place under Articles 3 and 4 of the FAFA. The principle in the EC financial rules is that the only costs that are inter alia:

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[13]IAS 2005 - AIDCO/ECHO – 001 dated 28 July 2006.

- Necessary to carry out the action and mentioned in the grant agreement

- In compliance with the principles of sound financial management (including value for money and cost effectiveness)

- Actually incurred in the implementation period

- Recorded in the accounts

- Identifiable, backed by originals of supporting documents and verifiable

will be considered as being eligible for support by the Commission ("direct costs tests").

In addition to this, the Commission, when negotiating the FAFA, agreed that it would add up to 7% to cover any indirect costs that could have been attributed to the action but are administratively difficult and costly to identify. The 7% figure was based on past experience and on the advice of the Financial Controller. This is also reflected in Article 181 of the Implementing Rules."

The approach of the IAS audit work, as presented in the July 2006 report, consisted primarily of a systems review with walkthrough testing. The audit work contained in this present IAS report focuses more specifically on the eligibility of the direct costs and related control activities, and thus addresses both DG AIDCO's concern and the APC request as described above. In this context, the IAS:

- Reviewed 35 contracts (299,9 Mio EUR) out of the total population of 286 contracts (1540 Mio EUR) as reported by DG AIDCO on 19 October 2005 as being signed by the UN bodies under the FAFA. The primary focus was on payments and controls performed by AIDCO. This sample represented 12.2% of the total number of contracts and 19.4% of the total amount of the population.

- Reviewed the reports of the verification missions performed in 2005-2006; and

- Analysed the survey conducted by AIDCO in October 2006 on the explicit application of Article 4.5[14] FAFA.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	4	4	100	0	0
Total	**4**	**4**	**100**	**0**	**0**

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[14] Article 4.5: "Where the rates applied in accordance with United Nations' governing bodies decisions exceed 7%, the United Nations may recover the balance as direct eligible costs, subject to the provisions governing direct eligible costs referred to in Article 3 being fulfilled".

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	4	2	50	2	50
Total	**4**	**2**	**50**	**2**	**50**

4.2. AIDCO - Ex-Post Control Activities in DG AIDCO

Objectives and Scope

This engagement is part of a series of audits that the IAS conducted on the Ex-Post Control (EPC) activities in the RELEX Family - i.e. in DG AIDCO, DG ELARG and DG RELEX.

The main purpose is to assess the effectiveness and efficiency of EPC and their contribution to the overall assurance on the legality and regularity of the transactions and on sound financial management. The period covered in the present audit was 2005 and 2006. EPC activities are a complementary and an additional layer of control activities, and this audit did not attempt to analyse or call into question the other control layers. It should be noted that verification missions related to joint management (in particular on the implementation of the FAFA agreement with the UN) were included in the scope of prior IAS audit work and are therefore not included in the scope of the present audit. Moreover, not all the verification missions related to FAFA were EPC activities.

In conducting this audit, the IAS covers the control components linked to the EPC, mainly "Control Environment" (organisational structure, staff, etc.) and "Information & Communication"; and the two main EPC processes in DG AIDCO, i.e.:

- Transactional Ex-Post Controls, which are centralised controls that focus on the effectiveness of the controls performed by DG AIDCO's staff in the payment control chains;

- Financial Audits, which are financial and financial/system audits managed by DG AIDCO and are included in their Annual Audit Plan. They cover projects and are performed on the spot in the premises of the Beneficiaries/Contractors.

There are no observations/reservations in the 2006 AAR of DG AIDCO for these two EPC processes.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	4	4	100	0	0

		In Progress		Completed	
		4	4	100	0	0

			In Progress		Completed	
Important		4	4	100	0	0
Desirable		1	1	100	0	0
Total		**9**	**9**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	**#**	**#**	**% Total**	**#**	**% Total**
Very Important	4	4	100	0	0
Important	4	4	100	0	0
Desirable	1	1	100	0	0
Total	**9**	**9**	**100**	**0**	**0**

4.3. AIDCO - Follow-up Audit Report on NGO funding in DG AIDCO

Objectives and Scope

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the audit of NGOs' funding carried out in DG AIDCO in 2005 (final report dated 6/07/2005).

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

	Acceptance Status	Yes		No	
Priority	**#**	**#**	**% Total**	**#**	**% Total**
Very Important	1	1	100	0	0
Total	**1**	**1**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	**#**	**#**	**% Total**	**#**	**% Total**

Very Important	1	1	100	0	0
Total	**1**	**1**	**100**	**0**	**0**

4.4. AIDCO - Financial management main programmes in Directorate D

Objectives and Scope

The overall **objective** of this audit is to provide an opinion on compliance with Commission rules and on effectiveness and efficiency of devolved operations regarding:

- The implementation of Financial Circuits and specific related aspects of financial management (i.e. management of financial roles and administration of sub-delegations) in Asian Delegations;

- Monitoring and supervisory activities by HQ (i.e. Directorate D) of the Asian Delegations and

- Directorate D and Asian Delegations' reports (SDAO report and Delegations' EAMRs).

This audit was selected on the basis of the IAS Strategic audit plan for 2007-2009 which took into account a co-ordinated approach between the IAS and the IAC aimed at ensuring complementary coverage of the audit plans while targeting the highest risks. The **scope** was further defined in the IAS risk assessment, conducted in the preliminary phase of the audit. For details on the areas excluded from the scope of the audit see section 2.1.2.

The Asian Delegation network belonging to AIDCO D consists of 12 Delegations. AIDCO D plans to carry out four accompanying missions (a review of the internal control systems of AIDCO-related activities in the Delegations) of which two were finalised at the time the IAS fieldwork was completed. Applying the principle of representativeness, the IAS selected three from the remaining population, i.e. seven Delegations. These three Delegations represent a coverage of 32% and 34% respectively of open contracts and commitments as at April 2007. Taking the results of the two completed AIDCO D accompanying missions into consideration, the overall coverage amounts to 60% and 45%.

Although the scope of the IAS audit did not include all Delegations, the IAS believes the findings for the three Delegations could be applicable to the remaining Delegations. As Delegations are not homogeneous, there may well be risks that are specific to particular Delegations which are not covered in the IAS sample. However, the analysis of the EAMRs of the 12 Delegations by the IAS did not identify any additional issue not disclosed in the present report.

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

	Acceptance Status	Yes		No	
Priority	**#**	**#**	**% Total**	**#**	**% Total**

Very Important	7	7	100	0	0
Important	11	11	100	0	0
Total	**18**	**18**	**100**	**0**	**0**

4.5. ECHO - Follow-up audit of NGO funding in DG ECHO

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the audit of NGOs funding in DG ECHO conducted in 2005 (final report dated 5/10/2005).

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Total	**1**	**1**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	1	0	0	1	100
Total	**1**	**0**	**0**	**1**	**100**

4.6. ECHO - Monitoring and supervision tools in DG ECHO

Objectives and Scope

In past audit engagements in DG ECHO, the IAS followed a "partners' approach" successively auditing the main types of partners/beneficiaries, i.e. NGOs and the UN, who absorb approximately 95% of DG ECHO's budget.

In addition, recent IAC engagements have covered important functional aspects such as the management of ECHO offices, financial circuits and IT systems. Finally, the ECA recently examined "supervisory and control systems of ECHO" in the context of the DAS 2006 as reported in its Annual Report for 2006; this work focused on DG ECHO's system for auditing its NGO partners.

The IAS' prior audit work resulted in a high level of coverage in terms of ECHO operations and budget. Subsequently, the IAS determined that in terms of coverage and risk considerations resulting from the IAS strategic plan 2007-2009, the remaining major area to be audited should be DG ECHO's monitoring tools. However, it should be noted that the IAS audit plans are based on annually updated risk assessments and that additional audit work will be considered if the new risks emerge. The main purpose of this audit was to assess the effectiveness and efficiency of the Monitoring Tools and their contribution to DG ECHO's overall management assurance.

There are no observations/reservations in the AAR that relate to the area/process audited. Nevertheless, the AAR clearly outlines the main features of the internal control structure and process, as well as the main risks inherent to humanitarian operations.

	Acceptance Status	Yes		No	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	5	5	100	0	0
Desirable	1	1	100	0	0
Total	**7**	**7**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	5	3	60	2	40
Desirable	1	1	100	0	0
Total	**7**	**5**	**71,43**	**2**	**28,57**

4.7. ECHO, ADMIN – Management letter on security issues in DG ECHO (no report)

4.8. ELARG - Follow-up Audit Report on the In-depth Audit of DG ELARG

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted15 recommendations that resulted from the "In-depth audit" of DG ELARG carried out in 2003 (final report dated 22/12/2003). The "In-depth audit" focused on financial control activities related to pre-accession assistance under the Decentralised Implementation System (DIS), Financial Circuits and Management Reporting Systems.

An interim follow-up audit conducted at the end of 2004 (final report dated 14/01/2005) validated the implementation of four recommendations (out of 23). This second follow-up was carried out because, in 2006, DG ELARG reported that all recommendations were now implemented.

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit.

4.9. RELEX - First Follow-up audit of the Audit on Handling of classified information and communication among the Delegations and DG RELEX

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the recommendations that resulted from the "Audit on handling of classified information and communication among the Delegations and DG RELEX" carried out in 2005.

In line with IAS follow-up policy, this follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the specific recommendations in the original audit. In July 2006, the IAS performed a desk review at the request of the APC to assess progress made by DG RELEX in implementing the action plan. This 2006 desk review confirmed the implementation of two of the 15 recommendations in the Action Plan. Thus, the scope of the present IAS follow-up engagement focused on the 13 recommendations that were "Not Implemented" as of July 2006. Of the 13 recommendations, two recommendations (one Critical and one Very Important) had implementation dates that were not yet due. These were included in the scope of this follow-up audit, as they represent a high risk and in order to see whether the deadlines are likely to be met.

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[15]The scope of this follow-up audit also includes recommendations which had been formally rejected (13 and 23) or partly rejected (8, 11 and 14), but which nevertheless have been followed-up entirely (8 and 11) or partly (14), as reflected in the Issue-Track database and for which implementation had been reported.

4.10. TRADE - Implementation of selected Internal Control Standards in DG TRADE

Objectives and Scope

The main purpose of the audit is to assess the effective implementation of the selected Internal Control Standards ('ICS') by DG TRADE, i.e.

- whether the DG complies with the respective baseline requirements issued by DG BUDG and with other relevant rules applicable to DG TRADE (compliance objective);
- whether the main measures taken to implement these standards are effective, efficient and adequate in terms of the specific mission of DG TRADE (efficiency and effectiveness objective) and, in doing this,
- to identify good practices and areas for potential simplification.

Considering the work already done (or currently being done) both by DG TRADE's Internal Audit Capability (IAC) and by the IAS, the IAS chose to focus on the implementation of the ICS linked to:

- Risk Management (4 standards: 11, 19, 20, 24),
- the DG's Management Information Systems ('MIS') and
- selected standards linked to "internal communication and control" (five standards: 12 to 15 and 17).

The ICS linked to the following were not part of the scope:

- the programming cycle (ICS 2, and 7 to 10, already included in the scope of a completed IAS engagement at Commission level);
- Human Resources management (ICS 1 to 6 and 10, partly covered by the IAC audit of Directorate B, final report dated 11/12/2006);
- ICS 16 - segregation of duties, which was audited by the IAC in 2004;
- the IAS validation of the self assessment of the IAC of DG TRADE (final report dated 17/05/2006), which covered ICS 21 and 22;
- ICS 18 "Recording Exceptions", currently covered by the IAC's Audit of DG TRADE's Financial Transactions Circuit. Therefore, the IAS does not express an audit opinion on the implementation of this particular standard.

There are no observations or reservations in the Annual Activity Report 2005 of DG TRADE that relate to the area/process audited.

	Acceptance Status	Yes	No

Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	6	6	100	0	0
Desirable	1	1	100	0	0
Total	**8**	**8**	**100**	**0**	**0**

	Auditee's Assessment	In Progress		Completed	
Priority	**#**	**#**	**% Total**	**#**	**% Total**
Very Important	1	1	100	0	0
Important	6	5	83,33	1	16,67
Desirable	1	1	100	0	0
Total	**8**	**7**	**87,5**	**1**	**12,5**