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Accompanying the

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

**Annual Report
to the Discharge Authority
on Internal Audits Carried out in 2008**

(Article 86 (4) of the Financial Regulation)

{COM(2009) 419}

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INTRODUCTION

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 2008¹. Each summary underwent the applicable standard professional validation and contradictory procedures between auditor and auditee at the time of finalisation.

This Annex also contains statistical information for the acceptance status and, where available, for the implementation status (the latter as of 30 January 2009).

List of finalised IAS reports		
DG/Service	Engagement	Issue date
<i>Administrative and other support systems</i>		
ADMIN, OIB, INFISO, RTD, SG, TRADE	Ethics in the Commission	12.12.
BUDG	Management letter on Ethics in the Commission	19.12.
BUDG, LS, AIDCO, EAC, INFISO, EACEA	Recoveries	7.10.
SG, BUDG, ADMIN, DIGIT	Management letter on IT procurement and service delivery in the Commission	19.12.
ADMIN, AGRI, AIDCO, BUDG, COMM, COMP, DEV, EAC, ECFIN, ECHO, ELARG, EMPL, ENV, ESTAT, INFISO, JLS, JRC, LS, MARE, MARKT, OLAF, OPOCE, REGIO, RELEX, RTD, SANCO, SG, TAXUD, TRADE	Follow-up on IAS validation of self-Assessment of the Internal Audit Capability	various dates
ADMIN	Monitoring of Security as managed by ADMIN-DS	11.12.
DGT	Follow-up demand management	17.12.
DIGIT	Corporate data network infrastructures and services	17.10.
ECFIN	Implementation of selected Internal Control Standards in DG ECFIN*	11.4.
ECFIN	Follow-up on ECFIN local IT management*	27.6.
EPSO	Facilitated self-assessment of a proposed organigramme	9.4.
ESTAT	Follow-up local IT management*	26.2.
LS	Local IT	11.12.
OIB	Follow-up on evaluation of targeted internal control standards	22.1.09
OIB	Follow-up on management of procurement contracts	23.1.09
OIL	Evaluation of targeted internal control standards	19.5.
OLAF	Anti-fraud information system (AFIS)	21.1.09
OPOCE	Procurement*	7.5.
PMO	Follow-up on regularity of financial management and implementation of financial circuits	22.12.
PMO	Missions	11.7.
SCIC	Follow-up financial management and procurement	3.12.

¹ Some reports drafted in 2008, but finalised at the beginning of 2009 have been included in the scope.

<i>Internal policies</i>		
COMP	Follow-up on the effectiveness and efficiency of the SPP/ABM cycle and activity-based management	29.5.
COMP	Recovery of fines	13.11.
EAC	2nd follow-up on the in-depth audit	25.4.
EACEA	Grant management awarding and contracting	11.12.
EACI	Follow-up on the EACI	18.4.
ENV	CITL management at DG ENV*	10.7.
INFSO	Management of research information systems	31.3.
INFSO	Follow-up on ex-post controls (2006)	8.12.
JLS	Follow-up on IT management	14.7.
JLS	Grants under shared management of the European Refugee Fund	4.11.
JLS	IT procurement	17.11.
MARKT	Follow-up on local IT management process	17.6.
PHEA	Public Health Executive Agency	24.1.
RTD	Management of research information systems	22.4.
RTD, INFSO, TREN, ENTR, DIGIT	Management letter on the inter-DG FP7 IT governance	26.5.
RTD	Follow-up ex-post controls (2006) and financial circuits and financial management (2007)	11.12.
SANCO	Follow-up on the effectiveness and efficiency of the SPP/ABM Cycle	1.4.
SANCO	Follow-up large IT systems	21.1.09
SANCO	Grant management in the food safety, animal health and welfare and plant health activity	30.1.09
TREN-TEN-T	Audit of the TREN-TEN-T executive agency	16.12.
TREN	Follow-up on the effectiveness and efficiency of the SPP/ABM cycle	11.4.
<i>Structural Measures</i>		
EMPL	Review on financial corrections and recoveries in the Structural Funds area	14.11.
EMPL	Internal control system for managing the new Structural Funds programming period - Phase I	19.11.
REGIO	Review on financial corrections and recoveries in the Structural Funds area	14.11.
REGIO	Internal control system for managing the new Structural Funds programming period - Phase I	19.11.
REGIO	Follow-up financial corrections in Cohesion Fund (2006)	12.12.
<i>External Policies</i>		
AIDCO and ECHO	Follow-up on FAFA implementation	22.1.09
AIDCO	Second follow-up on the in-depth audit	20.6.
AIDCO	Financial management procedures of Directorate C related to its devolved delegations*	30.6.
AIDCO	Financial Management of Regional Projects	18.7.
AIDCO	Financial management of main programmes in directorate B	22.12.
ELARG	Follow-up of ex-post control activities	18.7.
ELARG	Readiness assessment/phasing-in of delegations in Balkans	17.12.
RELEX	Follow-up ex-post control activities	23.1.09

* Joint audit/follow-up with the Internal Audit Capability (IAC) of the service concerned.

1. ADMINISTRATIVE AND OTHER SUPPORT SYSTEMS

1.1 ADMIN, INFSO, OIB, RTD, SG, TRADE: Ethics in the Commission²

Objectives and Scope

The objective of the audit was to assess the adequacy of the overall design of the ethics framework of the Commission; and to assess whether the Commission's ethics framework has been implemented effectively in selected DGs. The scope covered key aspects of the design of the ethics framework, for which SG and DG ADMIN are responsible: completeness, the extent to which it covered all staff, clarity of rules, and the adequacy of guidance, monitoring, supervision and enforcement. The application of these design aspects was also evaluated in selected operational DGs, i.e. INFSO, RTD, OIB, TRADE. As the ethics framework of the College of Commissioners was assessed in 2007, it was excluded from the scope of the audit. However, members of cabinet were included in the scope of the audit, as they are subject to the Staff Regulations applicable to Commission staff.

Total of all six ethics audits	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	15	15	100	0	0
Important	7	7	100	0	0
Total	22	22	100	0	0

1.2 BUDG: Management letter on Ethics in the Commission

Following the Audit on Ethics in the Commission, the IAS brought to the attention of DG BUDG two issues for consideration which were identified during the audit.

The first issue concerns differences between the provisions of the Financial Regulation and the Staff Regulations, with respect to the reporting and management of conflicts of interest (art. 52 FR, art. 34 IR) and of instructions received from the superior that are considered irregular (art. 60.6 FR).

The second issue is about the Financial Irregularities Panel.

1.3 AIDCO, BUDG, EAC, EACEA, INFSO, LS: Recoveries³

Objectives and Scope

The overall **objective** of this audit was to provide an opinion on the management of the recovery of sums unduly paid in the context of the centralised management of Community funds and of the recovery of conditionally reimbursable loans (related to the MEDIA projects). In particular, this audit assessed the internal control systems implemented locally (in the Operational DGs) or centrally (in DG BUDG and Legal Service) in order to identify

² Six reports were issued, in the present Annex only the executive summary of the DG ADMIN report is included.

³ A consolidated report was issued for the entire Recovery process. It includes six annexes (one per DG) with the specific issues identified.

unduly paid funds (*Phase 1*), issue the Recovery orders (*Phase 2*) and effectively recover or offset them (*Phase 3*) and to monitor the recovery process. The support provided by DG BUDG and LS was also assessed.

The **scope** of the audit, conducted in a sample of Operational DGs/Executive Agencies and in two horizontal DGs (DG BUDG and LS), covered the activities performed by the actors involved in each of the three phases of the recovery process as well as the monitoring/follow up activities implemented both in the Operational and in the horizontal DGs. The cooperation and communication among actors was also included in the scope of the audit.

<i>All six audits on recoveries</i>	Acceptance Status	Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
Very Important	32	32	100	0	0
Important	30	30	100	0	0
Desirable	6	6	100	0	0
Total	68	68	100	0	0

	Auditee's Assessment	In Progress		Completed	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
Very important	32	32	37,50	0	0
Important	30	30	63,64	0	0
Desirable	6	6	100	0	0
Total	68	68	59,10	0	0

1.4 Management Letter on IT Procurement and Service Delivery in the Commission

Objectives and Scope

Following a risk assessment, the IT Procurement and Service Delivery process was identified by the IAS as a high-risk area and included in its 2007 - 2009 Strategic Plan, which was endorsed by the APC in February 2007. The IAS audited several DGs in 2007 and 2008 as follows: DIGIT (including IDABC previously part of DG ENTR), ESTAT, DG TAXUD, DG RTD and DG JLS, the latter recently finalised.

The scope of the audits included the contract preparation process starting from the identification of the business needs to the signing of the contracts and the management and monitoring of these contracts with a greater focus on information systems development.

The objective of these audits was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes and, in particular, they assessed whether the internal control systems provide reasonable assurance regarding compliance with the Commission's rules and the effectiveness and efficiency of the procurement and service delivery processes.

The purpose of this overview, following the completion of the individual audits, is to summarise the main common issues identified, draw conclusions at the Commission level and present issues for consideration to the central services concerned. In this overview, we have also taken into account the findings in this area identified in several other IAS and IAC audits.

1.5 Follow-up on IAS Validation of self-assessment of Internal Audit Capabilities (IACs)

*DG ADMIN*⁴

Objectives and Scope

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 ADMIN which was carried out in 2006.

This follow-up does not result in an opinion on the IAC's compliance with the IIA Professional Practice Framework. Neither does it lead to a re-assessment of the compliance with individual standards.

The results of this follow-up exercise are limited to assessing whether specific actions have been implemented and do not necessarily have a bearing on assessments of compliance undertaken as part of future external assessments/validations. Similarly, although it may be possible to conclude on whether specific actions have been implemented, it is not always possible to determine their effective application at this date, mainly as a result of the time needed for IACs to embed those actions. Future external reviews should provide a more concrete basis for this.

Similarly, certain issues are impacted by central initiatives such as the development of a common methodology for the audit of governance and ethics. Again, future external reviews should provide the basis for assessing whether these have been effectively applied in practice.

Even where, as a result of the follow-up, the IAS has assessed that the agreed actions have been implemented as intended, this does not permit the IAC to use the phrase "Conducted in accordance with the Standards", as IIA Standard 1330 permits this only when an external assessment has demonstrated that this is the case. As noted above, **the present follow-up exercise does not result in a re-assessment of compliance.**

⁴ Follow-ups on IAS Validation of self-assessment of Internal Audit Capabilities (IACs) were also carried out in the following DGs: AGRI, AIDCO, BUDG, COMM, COMP, DEV, EAC, ECFIN, ECHO, ELARG, EMPL, ENV, ESTAT, INFOS, JLS, JRC, LS, MARE, MARKT, OLAF, OPOCE, REGIO, RELEX, RTD, SANCO, SG, TAXUD, TRADE. As the objective, scope and methodology was the same for all follow-up reports on the validation of IAC self-assessments this text is only shown once.

1.6 ADMIN: Monitoring of Security as managed by ADMIN-DS

Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the Internal Control System (ICS) relating to the coordination, supervision and monitoring role of the Security Directorate (ADMIN-DS) in the Commission.

The scope of the audit focused on the design and implementation of the monitoring system of security in the Commission under the main responsibility of the Security Directorate and other parties involved. The three main areas covered were protection of staff, information and assets.

Safety and hygiene matters and the security of the Regulatory Agencies and Executive Agencies were excluded from the scope of this audit. Whilst the specific issue of IT security has already been covered in other IAS audits, the broader issue of information security has been included.

This audit is based on the current security architecture in the Commission and has not taken into account the potential impact in this area of the future creation of an External Action Service.

There are no observations and/or reservations in the AAR 2007 related to the process audited.

It should be noted that the effective implementation of some of the very important recommendations made in this report may require the cooperation of the operational DGs concerned.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	7	7	100	0	0
Important	4	4	100	0	0
Total	11	11	100	0	0

1.7 DGT: Follow-up demand management

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 management of translation demand carried out from October 2006 to June 2007.

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.

1.8 DIGIT: Corporate data network infrastructures and services

Objectives and Scope

The Corporate Data Network Infrastructure and Services (S-Net) (hereinafter referred to as "corporate data network") have been identified as critical for the entire Commission in the context of the establishment of Business Continuity Plans. They present an overall inherent reputation, business and financial risk to effectively and efficiently support the current and future needs of the Commission's activities.

In this context, the overall objective of the present audit was to analyse and evaluate the internal control systems put in place to provide an adequate and effective corporate data network in the Commission. The scope of the audit included :

1. the operation and management of the corporate data network, including the monitoring of outsourced services;
2. logical security arrangements, in particular the effectiveness of the external perimeter protection, the effectiveness of intrusion prevention/detection capabilities and incident handling and the adequacy of corporate data network access procedures.

The audit covered the activities, which are under the responsibility of DG DIGIT, and of the ADMIN/DS directorate; it did not cover the responsibilities of the local informatics services. When assessing the Technology framework, the audit approach did not evaluate the technological choices made nor the engineering work done by the experts, but examined the process of using expertise to make proposals to be validated by management.

The main actors playing an active role in this domain are DG DIGIT (and in particular Directorate C, responsible for all information technology infrastructure and telecommunication services) and the Security Directorate of DG ADMIN (mainly Unit ADMIN/DS.5 responsible, among others, to provide guidance in the field of IT and communication security).

The audit was conducted using the COBIT framework, and specifically the processes belonging to the domains "Acquire & Install" (AI) and "Deliver & Support" (DS), as well as the Commission's regulatory framework applicable to this domain.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Important	9	9	100	0	0
Total	14	14	100	0	0

	Auditee's Assessment	In Progress		Completed	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very important	5	5	100	0	0
Important	9	9	100	0	0
Total	14	14	100	0	0

1.9 ECFIN: Implementation of selected Internal Control Standards

Objectives and Scope

The main purpose of this joint audit with the IAC of DG ECFIN is to assess the compliance, effectiveness and efficiency of the implementation of the revised Internal Control Standards (SEC 2007 1341) in those parts (units/directorates) of DG ECFIN that deal with activities of policy-making, i.e. directorates A, C, D, E, F and G. This entails assessing:

- Whether the DG complies with the respective ICS requirements issued by DG BUDG, and with other relevant rules applicable to DG ECFIN (compliance objective);
- Whether the main measures taken to implement these standards are effective, efficient and adequate, taking into account the specificities of policy-making processes in DG ECFIN.

Based on their relevance to policy-making activities and considering the work already performed (or underway) both by DG ECFIN's Internal Audit Capability (IAC) and by the IAS, the IAS fully covered the implementation of the following standards: Mission (ICS 1), Staff allocation and mobility (ICS 3), Objectives and performance indicators (ICS 5), Risk Management process (ICS 6), Processes and procedures (ICS 8), Management Supervision (ICS 9), Evaluation of activities (ICS 14) and Assessment of Internal Control Systems (ICS 15).

The following standards were partially covered:

- Ethical and organizational values (ICS 2), where the audit focused on staff awareness about sensitive information;
- Operational Structure (ICS 7), focus on sensitive functions;
- Business continuity (ICS 10), where business continuity planning was excluded;
- Document management (ICS 11), focus on handling of sensitive information;
- Information and communication (ICS 12), focus on management information tools and quality and timeliness of incoming and outgoing information.

The following standards were fully excluded from the scope:

- Staff evaluation and development (ICS 4), as the evaluation process is not specifically relevant to policy-making and the DG's training policy is currently being audited by the DG's IAC;
- Accounting and Financial Reporting (ICS 13), as risks related to financial operations in DG ECFIN have been subject to past coverage by the IAC;
- Internal Audit Capability (ICS 16), as the IAS has already carried out an IAC Quality Review in 2006.

One of the residual risks and weaknesses disclosed in the DG's Annual Activity Report of 2006 relates to the "shortage of human resources, which was already raised in previous Annual Activity Reports [and] has not been resolved in 2006". It is further mentioned that "as a result, the DG still encounters difficulties in meeting its objectives, in particular as regards economic surveillance and policy coordination." This weakness was considered not to have an impact on the declaration of assurance.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	3	3	100	0	0
Important	4	4	100	0	0
Total	7	7	100	0	0

	Auditee's Assessment	In Progress		Completed	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very important	3	3	100	0	0
Important	4	4	100	0	0
Total	7	7	100	0	0

1.10 ECFIN: Follow-up on ECFIN local IT management

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 DG ECFIN local IT management carried out in 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.

1.11 EPSO: Facilitated Self-Assessment of a Proposed Organigramme

Summary

Participants identified the strengths and obstacles associated with EPSO to date. The purpose of this exercise was to appreciate what worked well and not to unintentionally undermine it but ensure future actions address the obstacles. The second part of the workshop focused on a proposed organigramme, participants voted on 22 assertions (positive statements grouped under three modules) registering their level of agreement on a scale of 1-7 where 1 indicated strong disagreement and 7 strong agreement. After voting on each module the participant discussed strengths and identified concerns/obstacles, see the Averages of Votes by Criteria graph.

Overall the participants reacted positively to the new Organigramme, given this positive reaction the facilitators emphasised drawing out concerns so as to provide input into the planning and implementation process that will be part of management's next steps. It was clear to all that the Organigramme is only one element of realising the mission and objectives of EPSO and that focus on processes and the people-side of change will continue to be a critical part of the next steps. There was some discussion of "what functions should be in which box". However, this will be pursued separately.

1.12 ESTAT: Follow-up local IT management

Background

During the period September to December 2006, the IAS and the IAC of DG Eurostat (ESTAT) conducted a risk analysis of the local IT management, which focused on three major processes, namely:

Planning & Organisation; Project Management; Security.

Given the nature of the engagement, the final report (issued on 14/12/2006) included a list of observations and associated risks, but no recommendations. Accordingly, the IAS had not required an action plan from the auditee.

However, given the significance of the identified risks, the management of ESTAT planned a series of mitigating actions, whose implementation was mainly foreseen from February 2007 to January 2008 (with some actions planned for 2009 and beyond).

Objectives and Scope

The objectives of the follow-up audit engagement, performed jointly by the IAS and the IAC of ESTAT, were

- a) to assess the progress made by ESTAT in implementing actions defined in response to accepted observations;
- b) to assess the level of residual risk in cases where corrective actions were not fully implemented or were not planned.

This follow-up engagement is not an assessment of the adequacy of controls as a whole, but focuses on the observations made in the original engagement.

1.13 Legal Service: Local IT

Objectives and Scope

The purpose of the engagement was to analyse and evaluate the internal control systems put in place by the Legal Service (hereafter referred to as LS) to ensure an adequate and effective management of its local IT.

The scope of the audit included the following processes:

- Plan & Organise: IT architecture definition, organisation definition, risk management and IT project management activities;
- Acquire & Implement: application software development, change and release management;
- Deliver & Support: logical and physical security, incident management, problem management, operations management and data management.

The audit focused in particular on the activities performed by unit DDG.003 (Informatics). Other services (DDG.002 - Information and documentation) and representatives of IT system users and owners were also consulted regarding their respective responsibilities, in particular for the management of IT projects.

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

Priority	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	17	17	100	0	0
Desirable	4	4	100	0	0
Total	25	25	100	0	0

1.14 OIB: Follow-up on evaluation of targeted Internal Control Standards

Objectives and Scope

The objective of the follow-up engagement was to assess progress made in implementing the accepted recommendations that resulted from the audit of Evaluation of targeted Internal Control Standards in OIB carried out in June - October 2007. The final report was issued on 8 October 2007.

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 related to the ICS 15 "Documentation"; ICS 17 "Supervision" and ICS 24 "Annual review of internal control".

1.15 OIB: Follow-up on management of procurement contracts

Objectives and Scope

The objective of the follow-up engagement was to assess progress made in implementing the accepted recommendations that resulted from the audit "Management of Procurement Contracts in OIB" (Final Report issued on 03 April 2007).

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 OIL: Evaluation of targeted Internal Control Standards

Objectives and Scope

The objective of the audit was to assess the adequacy and effectiveness of the implementation of selected Internal Control Standards ("ICS") in OIL.

The basis for the audit are the Internal Control Standards that were in force until 31 December 2007. Based on the preliminary survey, the following Internal Control Standards were selected for review: n^o 15 (Documentation of procedures), 16 (Segregation of duties), 17 (Supervision), 18 (Recording exceptions), 21 (Audit reports) and 24 (Annual review of internal control).

In view of the recent introduction of the revised Internal Control Standards , applicable as of 1 January 2008, the audit also linked the former Internal Control Standards selected and relating findings to the revised Internal Control Standards.

Revised Internal Control Standards

- 8 - Processes and procedures
- 9 - Management supervision
- 15 - Assessment of Internal Control Systems

Former Internal Control Standards

- 15 - Documentation of procedures
- 16 - Segregation of duties
- 18 - Recording of exceptions
- 17 - Supervision
- 21 - Audit reports
- 24 - Annual review of internal control

Although the audit covered both financial and operational activities, its focus was mainly on operational activities. It did not focus on procedures and control activities specifically linked to the procurement process, which has been audited by the IAS (IAS-2006-OIL-001), IAC (negotiated procedures) and ECA during the last two years. The IAS procurement audit also covered the financial transactions concerning commitments, payments and recoveries.

There are no reservations in the AAR 2007 that relate to the process audited. However, OIL reports that there are weaknesses concerning the documentation of procedures (former ICS 15). The AMP 2008 indicated that OIL will focus on the improvement of revised ICS 4 (Staff competence), revised ICS 8 (Documentation of procedures) and revised ICS 16 (Internal Audit Capability).

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Important	7	7	100	0	0
Desirable	1	1	100	0	0
Total	13	13	100	0	0

	Auditee's Assessment	In Progress		Completed	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very important	5	5	100	0	0
Important	7	7	100	0	0
Desirable	1	1	100	0	0
Total	13	13	100	0	0

1.17 OLAF: Anti-fraud information system (AFIS)

Objectives and Scope

The OBJECTIVE of the audit was to assess the governance, project management, change management and security of IT systems supporting the OLAF in terms of *integrity* and *confidentiality*.

As a result of the Preliminary Survey and a CobiT risk-based analysis performed by the IAS, the SCOPE of this audit engagement focused on the *Anti-Fraud Information System (AFIS)*. Therefore, IT processes and procedures not directly linked to AFIS and to the audit objectives were not assessed.

During the audit, no scope limitations were identified.

There are no observations/reservations in the Annual Activity Report 2007 that relate to the area/process audited.

The fieldwork was finalised on 12 December 2008. All observations and recommendations relate to the situation as of that date.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	3	3	100	0	0
Total	7	7	100	0	0

1.18 OPOCE: Procurement

Objectives and Scope

The objective of this joint IAS and IAC-OPOCE audit was to assess whether the internal control system provides reasonable assurance regarding:

- the **compliance** (legality and regularity) with the Commission procurement rules, the Financial Regulation, its Implementing Rules and the appropriate Commission Internal Control Standards;
- the **efficiency and effectiveness** in terms of sound financial management (Art 27 of FR) and for procurement activities in general.

The audit mainly focused on procurement procedures related to contracts managed by the Publications Office and still in force during the period 2006-2007, i.e. it did not cover framework contracts used by the Office where the procurement process was carried out by other Institutions and/or DGs. The CORDIS information system was excluded from the scope.

A total of nine finalised calls for tender and seventeen related contracts were reviewed. Of these, 15 contracts had starting dates between 2004 and 2007 and 2 started prior to 2004 (as they were linked to two of the 15 selected contracts). The sample tested took into account value considerations and the non-homogenous nature of the contract population, to provide breadth and coverage over the main types of items linked directly to the publication activities across the three Directorates of OPOCE. Contracts that came into force as from 2004 were selected as the procedures related to the process prior to that year had already been audited (2003 IAC audit report on the procurement process).

In conducting this joint audit, the results of the audit performed by the Publications Office's IAC in 2007 on "outsourced activities and the use of framework contracts", have been taken into account in order to avoid duplication of effort. The final report, dated 28 June 2007, contained 3 Critical, 11 Very Important and 8 Important recommendations, all accepted by management, with action plans including target dates for implementation, with some exceptions, by the end of 2007. According to the Publications Office, most of these recommendations have already been implemented.

There are no observations/reservations in the 2007 AAR that relate to the process audited.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	7	7	100	0	0
Total	11	11	100	0	0

1.19 PMO: Follow-up on regularity of financial management and implementation of financial circuits

Objectives and Scope

The objective of the follow-up engagement was to assess progress made in implementing the accepted recommendations that resulted from "The Regularity of financial management and implementation of financial circuits in PMO" audit carried out in 2006 (date of the Final Report 8 December 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.

1.20 PMO: Missions

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 related to authorisation and payment of mission expenses.

In particular, the audit assessed whether the internal control system provides reasonable assurance regarding:

- compliance (legality and regularity) with the Commission procurement rules, the Financial Regulation, its Implementing Rules and the appropriate Commission Internal Control Standards;
- efficiency and effectiveness in terms of sound financial management (Art 27 of FR) and for procurement activities in general.

The audit did not cover procedures related to the calculation and payment of experts' fees. Neither did it cover the functionality of the underlying IT system for processing the calculation and payment of mission expenses.

The audit mainly focused on missions managed by PMO during 2007. Supporting documents were reviewed for a sample of 50 settlements of mission expenditure.

There are no observations and/or reservations in the AAR 2007 that relate to the process audited.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
Very Important	2	2	100	0	0
Important	6	6	100	0	0
Total	8	8	100	0	0

	Auditee's Assessment	In Progress		Completed	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
Very important	2	2	100	0	0
Important	6	6	100	0	0
Total	8	8	100	0	0

1.21 SCIC: Follow-up financial management and procurement

Objectives and Scope

The objective of this follow-up engagement was to assess progress made in implementing the accepted recommendations that resulted from the IAS audit of Financial Management and Procurement in DG SCIC, carried out in 2006 (Final Report dated 22 September 2006). The follow-up had originally been planned to be conducted within the normal period of one year following the final report, but in view of the fact the implementation of many of the recommendations would be dependent on the re-negotiation of the Convention which underpins DG SCIC's procurement of interpretation services and that this only came into force in September 2008, it was neither practical nor useful to conduct it any earlier.

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. INTERNAL POLICIES

2.1 COMP: Follow-up on the effectiveness and efficiency of the strategic planning and programming cycle and activity-based management

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 on the Effectiveness and Efficiency of the Strategic Planning and Programming Cycle and Activity-Based Management in DG COMP* carried out on 25 July 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.

2.2 COMP: Recovery of Fines

Objectives and Scope

The overall objective of the audit was to assess the effectiveness of the process of the recovery of fines imposed by DG COMP in conducting its mission of reinforcement of competition rules.

The following detailed audit **objectives** were defined:

- Effectiveness of the operations;
- Compliance with applicable rules and regulations;
- Reliability and integrity of financial and operational information.

The **scope** of the audit covered the activities performed by DG COMP, DG BUDG and Legal Service in the field of recovery of fines from the Commission decision, leading to the subsequent issuance of notifications by the Secretariat General and to its effective recovery. The audit included also the monitoring activities implemented by the different actors involved in this process.

The Secretariat General was consulted in order to obtain an understanding of the whole process and for gathering additional information.

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

2.3 EAC Second follow-up on the in-depth audit

Objectives and Scope

The objective of this second follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the In-depth audit of DG EAC carried out in 2004 (final report dated 21 September 2004) and that were still outstanding as a result of the first follow-up audit conducted in 2005 (final report dated 22 December 2005).

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the 17 recommendations assessed as still being open at the time when the first follow-up audit was completed.

7 recommendations were confirmed as implemented (3 VI and 4 I), 6 remain in-progress (1 VI and 5 I) and are now more than one year past due from the original target date. Four recommendations (3 C and 1 VI) were closed and the residual actions are addressed in two new recommendations (VI) on an "Integrated Supervision Strategy" and "Validation of local systems by the Accounting Officer of the Commission".

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

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

2.4 EACEA: Grant management awarding and contracting

Objectives and Scope

The EACEA was established in 2006. Its mission is to implement a number of strands of certain Community programs in the fields of education and training, culture, audiovisual, citizenship and youth. The Agency's mandate was extended to new actions in 2007 and 2008. The management of grants constitutes one of the main tasks of the Agency.

The objective of this audit, which was jointly conducted by IAS and EACEA IAC, was to assess if the controls provide reasonable assurance on the compliance and effectiveness of the internal control system regarding the Agency's overall selection procedure for grant management, awarding and contracting.

Based on the preliminary survey, the scope of the audit focused on Call for proposal: preparation, terms of reference and publication; selection procedure of the grant

beneficiaries; awarding of the grant beneficiaries; contracting with the grant beneficiaries; procedures and manuals; supervision, monitoring and reporting.

The audit also took into consideration still open recommendations from a previous DG EAC IAC audit covering the selection procedure before the Agency was set up. The recommendations covered the use of e-tools in the EACEA for the submission of the applications, the selection of experts, the communication process, the archives and internal procedures. On the basis of the work done, these recommendations are either implemented or closed because the related current risks and the remaining actions are mainly related to some of the recommendations issued by the present IAS/IAC joint audit report. For further details please refer to the specific follow up report issued by the Agency's IAC.

The programming managed directly by DGs, including the Comitology, was out of the audit scope. Also, in order to avoid overlapping with other audits either completed or planned by the IAS, the IAC or the ECA, the financial circuits, IT and human resources and Euridyce were out of the audit scope.

There are no observations/reservations in the 2007 AAR that relates to the area/process audited.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	3	3	100	0	0
Important	6	6	100	0	0
Total	6	6	100	0	0

2.5 EACI: Follow-up on the Intelligent Energy Executive Agency

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 Intelligent Energy Executive Agency* carried out on 30 January 2007.

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.

2.6 ENV: CITL Management at DG ENV

Objectives and Scope

The objective of the audit was to assess the adequacy and design of the internal control system put in place by DG ENV to ensure the proper functioning of the CITL (Community Independent Transaction Log) IT system, related to the Community greenhouse gas emission trading scheme (ETS). Specific key processes have been selected based on the risk assessment completed during the preliminary survey. In addition, the audit has assessed the adequacy of the reporting to the management concerning the performance and availability of the CITL application. The engagement was carried out as a joint audit between the IAS and the IAC of DG ENV.

Based on the results of the preliminary survey, it was decided to focus the audit on the following processes:

- Quality management and quality assurance.
- Change management and testing.
- Management of third parties (contractors supporting the IT activities related to CITL).
- Security, focusing on logical security and compliance with the relevant Commission legislation.

Hosting of the system (outsourced to DIGIT), business continuity planning and network security were not included in the scope of the audit.

The audit methodology is based on the fourth edition of Control Objectives for Information and related Technology (COBIT), which is directly inspired by COSO and has increasingly become the standard for "Good IT Governance" at the international level. This framework identifies 34 basic processes and proposes more than 200 controls.

There are no observations/reservations in the AAR 2007 that relate to the area/processes audited.

Priority	Acceptance Status #	Yes		No	
		#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	3	3	100	0	0
Total	7	7	100	0	0

2.7 INFISO: Management of research information systems

Objectives and Scope

The IAS audit of "Research information systems" consists of three reports: two audit reports on the management of the local IT systems (DG RTD and DG INFISO) and one review report (primarily a consulting engagement) on the governance and the project management at Inter-DG level.

Based on the results of the preliminary survey' the IAS decided to assess the adequacy and the effectiveness of the internal control system put in place for *the management of the local IT systems within DG INFISO*. This audit scope consisted of the following domains:

- **Planning and Organisation of the IT function (IT governance):** addressing all information systems owned by DG INFISO which support the grant management process.
- **Project management of the following information systems:**
 - o the PHOENIX system which is used for managing research contracts and payments for the 6th and 7th Framework Programs (FP6 and FP7).

- o the security module (APUS) for managing users access rights.
- **Security:** focusing on the logical security, continuity of operations and compliance with the relevant Commission legislation.

The audit methodology is based on the fourth edition of Control Objectives for Information and related Technology (COBIT), which is directly inspired by the COSO and has increasingly become the standard for "Good IT Governance" at the international level. This framework identifies 34 basic processes and proposes more than 200 controls.

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

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	6	6	100	0	0
Important	8	8	100	0	0
Total	14	14	100	0	0

2.8 INFSO: Follow-up on ex-post Controls (2006)

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 Ex-Post Controls 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 audits.

2.9 JLS: Follow-up on IT management

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 on IT Management in DG JLS* carried out on 8 June 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.

2.10 JLS: Grants under shared management of the European Refugee Fund

Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the internal control system (*ICS*), risk management and governance processes related to the Grants Under Shared Management of the European Refugee Fund (*ERF*) (II and III), managed by DG JLS. In particular, the audit assessed whether the ICS provided reasonable assurance regarding:

compliance with legislation, *effectiveness and efficiency* of the processes and *the reliability* of financial information (with special focus on the eligibility of expenses and financial corrections).

The scope of this audit focussed on the following sub-processes: Preparation, implementation, financial follow-up & closure; Ex-post audit; Suspension & financial correction. The grants under direct management of the ERF were not part of the scope of this audit.

The following observations/reservations have been made in the 2007 AAR concerning specifically the processes under the scope of this audit.

- 1) Weaknesses in the management and control systems of the ERF in Italy for the programming periods 2000-2004 and 2005-2007.
- 2) Limited guarantee on the operations put in force by 14 Member States for ERF II (2005-2007).

In 2008, DG JLS took appropriate actions, i.e. they launched the procedure for a financial correction of the grants paid for ERF I (2000-2004) and the suspension of payments for ERF II (2005-2007) is in preparation; and the remaining monitoring visits for ERF II were outsourced in the first semester of 2008.

Priority	Acceptance Status #	Yes		No	
		#	% Total	#	% Total
Very Important	7	7	100	0	0
Important	8	8	100	0	0
Desirable	1	1	100	0	0
Total	16	16	100	0	0

2.11 JLS: IT procurement

Objectives and Scope

The objective of this audit was to assess the adequacy of the design and effective application of the internal control system (ICS), risk management and governance processes related to IT Procurement Preparation process by DG JLS.

The scope of this audit focused on the IT contract preparation process, starting from the needs analysis and planning phase to the budgetary and legal commitment phase. It included all types of IT expenses (equipment and services).

This audit forms part of a series of audits being carried out by the IAS, which will result in the issuance of a consolidated report on crosscutting issues on IT procurement at the Commission level in the 2nd half of 2008.

There are no observations/reservations found in the 2007 AAR that relate to the process audited.

Priority	Acceptance Status #	Yes		No	
		#	% Total	#	% Total
Very Important	3	3	100	0	0
Important	2	2	100	0	0
Desirable	1	1	100	0	0
Total	6	6	100	0	0

2.12 MARKET: Follow-up on local IT management process

Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the DG MARKET Local IT Management process audit 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.

2.13 PHEA: Public Health Executive Agency

Objectives and Scope

The **objective** of this audit was to assess the adequacy and effective application of the internal control system (ICS) in the Public Health Executive Agency (PHEA). In particular, the audit assessed whether the ICS provides for reasonable assurance regarding:

- The compliance with the Financial Regulation regarding the accounting procedures related to the administrative budget.
- The reliability of financial and non-financial information related to the administrative budget.
- The effectiveness and efficiency of operations related to the administrative budget.

As a result of the contacts with the Director of the PHEA and to add greater value to the Agency before the first closure of the accounts, part of the audit normally to be performed in 2009, was brought forward to the end of 2007. Therefore, the scope of this audit engagement was limited to the following aspects regarding the internal control system of the PHEA:

- A. The Accounting Procedures related to the Administrative Budget, including the accounting organization, the accounting for fixed assets, salaries, purchases and the year-end closing procedures.
- B. Compliance with the rules for "data protection".

No scope limitations were identified.

The fieldwork was finalized on 30 November 2007. All observations and recommendations relate to the situation as of that date.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	3	3	100	0	0
Important	5	5	100	0	0
Total	8	8	100	0	0

	Auditee's Assessment	In Progress		Completed	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very important	3	0	0	3	100
Important	5	0	0	5	100
Total	8	0	0	8	100

2.14 RTD: Management of research information systems

Objectives and Scope

The IAS audit of "Research information systems" is composed of two audit reports on the management of the local IT systems (DG RTD and DG INFSO) and one management letter addressing the main issues regarding the governance and the project management at Inter-DG level.

Based on the results of the preliminary survey the IAS decided to assess the adequacy and the effectiveness of the internal control system put in place for *the management of the local IT systems within DG RTD*.

This audit scope consisted of the following domains:

- **Planning and Organisation of the IT function (IT governance):** addressing all information systems owned by DG RTD which support the grant management process.
- **Project management of the following information systems:**
 - o the Contract and Project Management (CPM) system which is used for managing research contracts for the 6th and 7th Framework Programs (FP6 and FP7).
 - o the security module (SECUNDA) for managing users access rights.
- **Security:** focusing on the logical security and compliance with the relevant Commission legislation.

The audit methodology is based on the fourth edition of Control Objectives for Information and related Technology (COBIT), which is directly inspired by the COSO and has increasingly become the standard for "Good IT Governance" at the international level. This framework identifies 34 basic processes and proposes more than 200 controls.

Priority	Acceptance Status #	Yes		No	
		#	% Total	#	% Total
Very Important	10	10	100	0	0
Important	6	6	100	0	0
Total	16	16	100	0	0

2.15 RTD, INFSO, TREN, ENTR: DIGIT: Management letter on the inter-FP 7 IT governance

INTRODUCTION

As part of the audits on the Research Information systems at DG RTD and DG INFSO, the IAS has identified several preliminary findings regarding the FP7 IT Governance structure at the inter-DG level that is progressively being implemented.

Taking into account the importance of the information systems that will support the FP7, the IAS considered it useful to already present these preliminary findings in the research family as a "limited review", keeping in mind that the other two Research DGs namely DG TREN and DG ENTR were not included in the scope of the Audit on the Management of Research Information Systems.

OBJECTIVES AND SCOPE

The main objective of the limited review consists of assessing the design of the IT governance structure. In addition to the analysis of the IT governance structure, the IAS reviewed the project management of the following information systems:

- The system for the contract and grant preparation forms (CPF/GPF) in support of the negotiation process called NEF which is being developed jointly by DG INFSO and DG RTD;
- The unique registration facility module whose main goal is to provide a unique registration service for grant beneficiaries in order to avoid redundant requests for information and ensure that information is always up-to-date. This module is called URF-PDM and is being developed by DG DIGIT.

2.16 RTD: Follow-up ex-post controls (2006) and financial circuits and financial management (2007)

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 Ex-Post Controls carried out in 2006 and the Follow-up Report on Financial Circuits & Financial Management carried out in 2007.

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 audits.

2.17 SANCO: Follow-up on effectiveness and efficiency of the SPP/ABM Cycle

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 on the Effectiveness and Efficiency of the SPP/ABM Cycle in DG SANCO* carried out on 6 April 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.

2.18 SANCO: Follow-up large IT systems

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 on Large IT Systems at DG SANCO* carried out in 2006 (Final Report dated 8 December 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.

The fieldwork was finalised on 7 January 2009. Any mitigating actions taken by the auditee after this date were not included in the IAS evaluation and assessment of the adequacy and effectiveness of the actions taken.

During the follow-up audit, no scope limitations were identified.

2.19 SANCO: Grant management in the food safety, animal health and welfare and plant health activity

Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes in DG SANCO, regarding the Food Safety, Animal Health, Animal Welfare and Plant Health activities, implemented through grants and cost reimbursements during the years 2007 and 2008. In particular, the audit assessed whether the ICS provided reasonable assurance regarding *compliance* with the relevant legislation, *effectiveness and efficiency* of the processes regarding cost reimbursements and grants management and the *reliability* of financial information.

The scope of this audit focussed on the following sub-processes:

- Preparation, implementation, financial follow-up & closure;
- *Ex post* audit; Suspension & financial correction.

There are no observations/reservations in the 2007 AAR that relate to the area/process audited.

Priority	Acceptance Status #	Yes		No	
		#	% Total	#	% Total
Very Important	5	5	100	0	0
Important	5	5	100	0	0
Total	10	10	100	0	0

2.20 TREN-TEN-T: Audit of the TREN-TEN-T executive agency

Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the internal control system (*ICS*), risk management and governance processes of the administrative budget in the Trans-European Transport Network Executive Agency (*TEN-TEA*). In particular, the audit assessed whether the ICS provided reasonable assurance regarding *compliance* with legislation, *effectiveness and efficiency* of the processes and *the reliability* of financial and non-financial information.

As the Executive Agency became autonomous in April 2008 and this will be the first year in which the financial statements have to be presented, the scope of this audit focused on the readiness for the first closure of the accounts. Therefore, the following aspects of the ICS, risk management and governance processes regarding the administrative budget were reviewed:

- 1) The overall organisation of the Agency (including governance issues).
- 2) The accounting system, including the regularity of financial management and the implementation of financial circuits, the accounting organisation, the accounting for fixed assets, salaries, purchases and the year-end closing procedures.
- 3) The treasury cycle including the management of the bank account.
- 4) The external relations of the Agency with other Commission services (i.e. the service level agreements).

No scope limitations were identified.

As 2008 is the first year of the Agency's autonomy, no Annual Activity Report is available yet.

The fieldwork was finalised on 24 November 2008. All observations and recommendations relate to the situation as of that date.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
Very Important	4	4	100	0	0
Important	6	6	100	0	0
Total	10	10	100	0	0

2.21 TREN: Follow-up on the effectiveness and efficiency of the implementation of SPP/ABM cycle

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 on the Effectiveness and Efficiency of implementation of SPP and ABM in DG TREN* carried out on 10 April 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.

3. STRUCTURAL MEASURES AND COMMON AGRICULTURAL POLICY

3.1 EMPL: Review on financial corrections and recoveries in the Structural Funds Area

Objectives and Scope

Following the ECA's recommendations in its 2006 Annual Report for improving the effectiveness of the Commission's supervisory role for structural actions, DG REGIO and DG EMPL drew up a joint action plan, COM 2008(97), dated 19th February 2008 to implement these recommendations, including actions designed to ensure the complete, transparent, reliable and consistent reporting on financial corrections and recoveries.

In response to a specific request by the APC and recognising that the implementation of the Action Plan is still very much an ongoing process, the LAS has reviewed the progress made by DG EMPL on a number of key actions related to the internal control systems for capturing and processing the information necessary to ensure the accurate reporting of financial corrections relating to Structural Actions. A separate review of the progress made by DG REGIO has been undertaken in parallel.

Specifically, the IAS focused on actions 7.1 and 7.2 in relation to the Commission reporting processes, actions 1.3, 8.1 and 8.2 aimed at increasing the impact of the Commission's audit activity and the setting up of timing benchmarks and actions 6.1 and 6.2 linked to the Member States reporting processes. The responsibility for the last two actions falls to DG REGIO as Chef de File and hence they are not addressed in the present draft review report. Nevertheless, related observations regarding these actions, which have been agreed with DG REGIO, are annexed to the present final report.

The review did not cover directly Member States' systems and processes and did not cover figures prior to 2007, but concentrated on the measures taken late 2007/2008 to improve consistency. In addition, the review did not re-examine the adequacy of the Commission DGs' audit processes giving rise to financial corrections/recoveries.

There are no observations/reservations in the AAR that relate to the area/process audited. However, the 2007 AAR reservation issued by DG EMPL has an indirect impact on the suspension and financial correction procedures as noted in DG EMPL note to ABM steering group for the follow-up of AAR 2007 reservation as at 7 October 2008.

Given the ongoing nature of the Action Plan and the fact that the IAS has focused on the progress made, the main points are summarized below in terms of observations and issues for consideration, rather than firm recommendations, which the DG is invited to take on board as it continues its process of implementation. Consequently, there is no audit opinion provided on the state of internal controls in this area. The IAS also wishes to point out that the DG has confirmed it has already been implementing several issues that were raised for consideration in the draft review report.

3.2 EMPL: Internal control system for managing the new Structural Funds programming period - Phase I

Objectives and Scope

The objective of this audit was to assess the adequacy of the design of DG EMPL's supervisory controls for gaining assurance on the set up of Member States' management and

control systems for the Structural Funds new programming period 2007-2013. The audit constitutes the first phase of a wider IAS objective to assess DG EMPL's internal control system, with the current emphasis on the design reflecting the fact that it is still relatively early on in the new programming period. As part of a second phase, the IAS will consider the implementation of the current design.

The audit included the DG's controls exercised at each of the key stages leading up to the point at which payments to Member States are triggered, namely the National Strategic Reference Frameworks (NSRFs), Operational Programmes (OPs), checks on Compliance Assessment Reports and on Audit Strategies. It also considered briefly the DG's preparations for checking Member States' obligations regarding the need to establish Communication Plans. Given that certain of these elements have already been finalised (NSRFs and OPs) and that at the date of this report, certain other elements are still in the process of being implemented (Communication Plans, Compliance Assessment Reports and Audit Strategies), this audit is forward looking to the extent it also considers possible improvements to the next programming period.

It should be noted that in its 2007 AAR, DG EMPL made a number of reservations concerning the management and control systems of certain Member States and, although these relate to the previous programming period, they are relevant to the extent that the scope of this audit specifically addresses the DG's preparations to implement new regulations designed in part to improve assurances on management and control systems in those Member States.

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

3.3 REGIO: Review on financial corrections and recoveries in the Structural Funds Area

Objectives and Scope

Following the ECA's recommendations in its 2006 Annual Report for improving the effectiveness of the Commission's supervisory role for structural actions, DG REGIO and DG EMPL drew up a joint action plan, COM 2008(97), dated 19th February 2008 to implement these recommendations, including actions designed to ensure the complete, transparent, reliable and consistent reporting on financial corrections and recoveries.

In response to a specific request by the APC and recognizing that the implementation of the Action Plan is still very much an ongoing process, with a significant number of actions only due for implementation by 31 December 2008, the IAS has reviewed the progress made by DG REGIO on a number of key actions related to the internal control systems for capturing and processing the information necessary to ensure the accurate reporting of financial corrections relating to Structural Actions. A separate review of the progress made by DG EMPL has been undertaken in parallel.

Specifically, the IAS focused on actions 7.2 (due date, 30 September 2008), in relation to the Commission reporting processes, actions 1.3, 8.1 and 8.2 (due dates, 31 December 2008 for 1.3 and 30 April 2008 for 8.1 and 8.2), aimed at increasing the impact of the Commission's audit activity and the setting up of timing benchmarks and actions 6.1 and 6.2 (due dates 30 June and 31 December 2008 respectively), linked to the Member States reporting processes.

The review did not cover directly Member States' systems and processes and did not cover figures prior to 2007, but concentrated on the measures taken late 2007/2008 to improve consistency. In addition, the review did not re-examine the adequacy of the Commission DGs' audit processes giving rise to financial corrections/recoveries, which has been audited in 2006.

There are no observations/reservations in the AAR that relate to the area/process audited. However, the 2007 AAR reservation issued by DG REGIO has an impact on the suspension and financial correction procedures as noted in DG REGIO note to ABM steering group for the follow-up of AAR 2007 reservation as at 7 October 2008.

Given the ongoing nature of the Action Plan and the fact that the IAS has focused on the progress made, the main points are summarized below in terms of observations and issues for consideration, rather than firm recommendations, which the DG is invited to take on board as it continues its process of implementation. Consequently, there is no audit opinion provided on the state of internal controls in this area.

3.4 REGIO: Internal control system for managing the new Structural Funds programming period - Phase I

Objectives and Scope

The objective of this audit was to assess the adequacy of the design of DG REGIO's supervisory controls for gaining assurance on the set up of Member States' management and control systems for the Structural Funds new programming period 2007-2013. The audit constitutes the first phase of a wider IAS objective to assess DG REGIO's internal control system, with the current emphasis on the design reflecting the fact that it is still relatively early on in the new programming period. As part of a second phase, the IAS will consider the implementation of the current design.

The audit included the DG's controls exercised at each of the key stages leading up to the point at which payments to Member States are triggered, namely the National Strategic Reference Frameworks (NSRFs), Operational Programmes (OPs), checks on Compliance Assessment Reports and on Audit Strategies. It also considered briefly the DG's preparations for checking Member States' obligations regarding the need to establish Communication Plans. Given that certain of these elements have already been finalised (NSRFs and OPs) and that at the date of this report, certain other elements are still in the process of being implemented (Communication Plans, Compliance Assessment Reports and Audit Strategies), this audit is forward looking to the extent it also considers possible improvements to the next programming period.

It should be noted that in its 2007 AAR, DG REGIO made a number of reservations concerning the management and control systems of certain Member States and, although these relate to the previous programming period, they are relevant to the extent that the scope of this audit specifically addresses the DG's preparations to implement new regulations designed in part to improve assurances on management and control systems in those Member States.

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

3.5 REGIO: Follow-up financial corrections in Cohesion fund (2006)

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 Financial Corrections in Cohesion fund carried out from April to November 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.

4. EXTERNAL POLICIES

4.1 AIDCO/ECHO: Follow-up on FAFA implementation

Objectives and Scope

The objective of this follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the audit on the Implementation of the FAFA agreement with the UN by DGs AIDCO and ECHO carried out in 2006 (final report dated 28 July 2006).

This follow-up audit does not result in an assessment of the adequacy of controls as a whole, but focuses on the 8 recommendations made at the time of the original audit and accepted by DGs AIDCO and ECHO.

Two recommendations were rejected at that time by the DGs and thus are excluded from the scope of this follow-up. The residual risk related to those two recommendations rejected, i.e. indirect costs, was covered by a special audit on the *"Eligibility of Costs under the Financial and Administrative Framework Agreement with the United Nations by DG AIDCO"* carried out in 2007 (final report dated 20 June 2007). As a result of this audit, four new recommendations, accepted by DG AIDCO, were issued to replace the 2 recommendations originally rejected. The follow up of the 4 new recommendations will be carried out in 2009 and will include visits to selected Delegations to properly assess their effective implementation.

4.2 AIDCO: Second Follow-up on the in-depth audit

Objectives and Scope

The objective of this second follow-up engagement is to assess progress made in implementing the accepted recommendations resulting from the In-depth audit of DG AIDCO carried out in 2004 (final report dated 26 April 2004) and that were still outstanding as a result

of the first follow-up audit conducted in 2006 (final report dated 22 February 2006), i.e. 22 recommendations. This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on these 22 recommendations.

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

4.3 AIDCO: Financial Management procedures of Directorate C related to its devolved delegations

The audit was conducted in co-operation with the IAS as part of a series of audits covering all of the AIDCO geographical Directorates.

Directorate C and its devolved Delegations are responsible for expenditure under the Budget and under the various EDFs.

The objective of the audit was to ensure that financial management and financial circuits in devolved Delegations was in compliance with instructions, together with the monitoring and supervision of Delegation activity, and reporting Duties, including those of Headquarters.

The financial management of Directorate C is one of the critical systems of AIDCO because of the following risks:

- The magnitude of expenditure in relation to AIDCO's total expenditure.

- Reputational risk in the face of other major Donors, working in critical areas of the developing world.

- The changes in the procedures and systems that are occasioned by the migration of information held in the EDF financial system OLAS into the CRIS information system.

- The development of the 10th EDF procedures

The audit worked on the standard that the procedures should ensure financial management systems where accounting transactions were made and recorded in a complete, accurate, timely and transparent manner.

No recommendations classed as critical have been made as a result of the audit work undertaken. Ten recommendations were made which have been classified as very important. These are listed at the end of this summary. Each of these recommendations is made to improve the internal controls systems in place, in particular to ensure that there is adequate feed back to Headquarter units. It is important that managers at HQ have assurance that the instructions and procedures that they have issued have been carried out or properly implemented by Delegations. Similarly, during times of change, it is important that the performance of management systems is monitored, especially if they are used in a number of remote locations. In both cases information should be available so that rapid and appropriate corrective action can be taken, should it be needed.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
Very Important	10	10	100	0	0
Important	6	6	100	0	0
Desirable	1	1	100	0	0
Total	17	17	100	0	0

4.4 AIDCO: Financial Management of Regional Projects

Objectives and Scope

The objectives and scope of the present audit on "Financial Management of Regional Programmes" are in line with IAS' audit strategy of providing management with an independent opinion on the current state of the Commissions control.

This audit focuses on Delegations' (DELs) and HQ activities in the management of Regional Programmes, understood as Multi Country Programmes, and covers the related monitoring and supervisory activities by HQ on DELs activities. The general audit objective was to assess the compliance, effectiveness of the coordination and the division of responsibility between the various actors involved, the financial and operational management and the monitoring and reporting activities.

Programmes implemented through joint management under F AFA were excluded from the scope of the present audit as they were covered under a previous IAS audit. In addition, the IAS did not visit projects in the field or Project Management Units and RAO as ECA covers these aspects. Rather, the present audit focused on control mechanisms set up by and available for the Commission. The IAS liaised with ECA on the project sample and on missions to Delegations and to avoid a duplication of effort. Consequently, the IAS limited its sample in the Intra-ACP programmes in AIDCO HQ -Directorate C.

There are no observations/reservations in DG AIDCO's 2007 AAR that relate to the area audited.

It should be noted that currently OLAF is investigating two cases concerning two organizations involved in the implementation of a number of regional projects managed by AIDCO HQ. In the case of one of these organisations, potential irregularities were reported in January 2007 to AIDCO's management by an external consultant recruited by a Member State and AIDCO's management informed OLAF. Moreover, concerning this organisation, AIDCO has provided the IAS with draft audit reports issued by external auditors in February 2008 identifying potential significant irregularities, currently being validated. Based on the Memorandum of Understanding between OLAF and the IAS, we have sought information from OLAF concerning the current status of these cases. However, given the nature of these investigations and the confidentiality requirements, as of the date of this report, no additional information has been obtained from OLAF yet.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	9	9	100	0	0
Important	3	3	100	0	0
Total	12	12	100	0	0

	Auditee's Assessment	In Progress		Completed	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very important	9	9	100	0	0
Important	3	3	100	0	0
Total	12	12	100	0	0

4.5 AIDCO: Financial Management of main Programmes in Directorate B

Objectives and Scope

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

- The implementation of Financial Circuits and specific related aspects of financial management in Latin America (LA) Delegations;
- The monitoring and support activities by HQ (i.e. Directorate B) of the LA Delegations' and
- Directorate B and LA Delegations' reporting duties.

This audit was selected based on the IAS Strategic audit plan for 2007-2009, which took into account a co-ordinated approach between the IAS and the IAC aiming at 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 LA Delegations network belonging to AIDCO B consists of 17 Delegations. Applying the principle of representativeness, the IAS selected four Delegations. Three other significant Delegations were initially shortlisted but finally not selected due to overlapping with other audit and control activities, lack of Delegation's reply and problems of Delegations' staff availability, respectively.

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

The fieldwork **cut off date** when drafting this report was 31 October 2008. While requested by the IAS at the beginning of the fieldwork phase (June 2008), DG AIDCO provided us six months later (1st December 2008) with supporting documents on the ex-ante assessment in the context to the FR Arti 64 due to filing problems as explained by DG AIDCO. Although the cut-off date was exceeded, due to the importance of the issue, the IAS analyzed,

exceptionally, the additional documents to provide a complete picture of this issue at the date of the final report (see further details in section 2.2, observation 1, point 1).

Priority	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Very Important	9	9	100	0	0
Important	7	7	100	0	0
Total	16	16	100	0	0

4.6 ELARG: Follow-up on ex-post control activities

Objectives and Scope

The objective of this first follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the audit of ex-post activities in DG ELARG carried out in 2006 (final report dated 20 December 2006).

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the 15 recommendations made at the time of the original audit.

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

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

4.7 ELARG: Readiness assessment/phasing-in of delegations in Balkans

Objectives and Scope

The overall objective of this engagement was to assess the process of phasing-in the European Agency for Reconstruction (EAR) into DG ELARG and the four Delegations (DELs) in the Balkans (FYROM, ECLO/Kosovo under UN 1244/99, Serbia and Montenegro) as a result of its closure by the end of 2008. This process was accompanied with the devolution of the activities of the EAR operational centre's to the four Delegations.

The engagement was planned in accordance with the 2008 IAS Audit plan and follows the IAS audit issued on 27 May 2008 on the "Planned Procedures for Winding Down the Operations of the EAR by the End of 2008".

The objectives for the current engagement were twofold:

- Short-term objective: to assess the readiness of the DELs to take over the contracts and to continue the implementation of the ongoing projects without major disruptions;
- Medium-term objective: to assess the general assurance mechanisms and Internal Control Standards (ICS) put in place in the DELs in a new devolution context; changes in management system for the HQ; new financial responsibilities for Delegations; post hand-over and reporting mechanisms.

The EAR was set up following a decision of the European Council in Cologne, Germany, on 4 June 1999. The decision of the Council to extend the mandate of the EAR until the end of 2008 was made in 2006. The phasing-out of the EAR and the phasing-in of the Delegations was designed as a gradual process in order to facilitate the continuation of activities. The number of ongoing contracts transferred is estimated to be 676. The closing-down and phasing-in processes are the first exercises of this nature ever conducted by the Commission.

Taking into account the objectives of the engagement as described above, the work covered DG ELARG HQ units (B2, C2 and C3 and E) involved in the phasing-in of the DELs, the Task Force, and the four Delegations, of which three were visited.

The fieldwork was finalized on 11 November 2008. All observations and recommendations relate to the situation as of that date.

There are no observations/reservations in DG ELARG's AAR 2007 that relate to the area/process audited.

	Acceptance Status	Yes		No	
		#	% Total	#	% Total
Priority					
Very Important	5	5	100	0	0
Important	6	6	100	0	0
Desirable	1	1	100	0	0
Total	12	12	100	0	0

4.8 RELEX: Follow-up on ex-post control activities

Objectives and Scope

The objective of the follow-up engagement was to assess the progress made in implementing the accepted recommendations that resulted from the audit of Ex-Post Control (EPC) activities in DG RELEX carried out in 2006 (final report dated 22 December 2006).

This follow-up audit does not result in an assessment of the adequacy of controls as a whole but focuses on the seven (IC, 4VI, 21) recommendations made at the time of the original audit.