



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27.2.2008

SEC(2008) 259

**COMMISSION STAFF WORKING DOCUMENT**

*accompanying the*

**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN  
COURT OF AUDITORS**

**Report on the Commission Action Plan towards an Integrated Internal Control  
Framework**

{COM(2008) 110 final}

Sub action	Title	Completion Indicator	Status	Deadline set in Action Plan
1	Keep under consideration simplification of the rules for the 2007-2013 period concerning in particular the eligibility of expenditure in the structural funds and in the research programmes.	■■■■■	All major sectoral legislation is now complete. All services are issuing extensive guidelines on how to implement this new legislation in their policy areas.	31/12/2006
2	Propose internal control as budgetary principle in the revised Financial Regulation on the basis of the results of the inter-institutional consultation.	□□□□□	Rejected by the legislator in negotiations for FR but mostly integrated in Art. 28 (a).	01/06/2006
3a	Establish Internal Control Templates which outline the range of control components (management declarations, balance of ex ante and ex post checking, certification, etc.) which would be expected in a given control environment.	■■■■■	Standard templates, with basic structure, developed for two management modes.	31/05/2006
3b	Demonstrate how DGs will gain assurance on the internal control structures for shared management and internal policies, taking the developed templates and control strategies at Commission-level into account.	■■■■■	Templates now included in AAR standing instructions.	30/09/2006
3c	Organise peer review to enhance coherence and consistency of control strategies per family.	■■■■■	Peer reviews of AAR control strategy presentation were held by family in 2007 for research and structural funds – this will be extended and improved as a regular feature of yearly reviews.	New deadline: <b>31/03/2007</b> (was 31/12/2006)
3d	Demonstrate how DGs will gain assurance on the internal control structures for external policy, administrative expenditure, pre-accession aid, EDF and own resources, taking the developed templates and control strategies at Commission-level into account.	■■■■■	Templates are already in use by external policy, administrative and pre-accession DGs from the AAR 2006. For AAR 2007 they are mandatory for all areas.	New deadline: <b>31/12/2007</b> (was 30/06/2007)
3e	Organise peer review to enhance coherence and consistency of control strategies per family.	■■■■■	Reflected in AAR 2007 guidelines: peer reviews will be undertaken in March 2008.	31/12/2007

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<i>New Action: 3N</i>	<i>As from the Synthesis Report 2006, the Commission will clearly set out and communicate to the budgetary authority reservations to the global assurance, including where relevant by sector or Member state, together with the corresponding financial corrections or suspensions of payments.</i>	■■■■■	Complete for the Synthesis Report 2006, and will be a regular feature of future reports.	31/03/2007
4	Launch inter-institutional initiative on the basic principles to be considered regarding the risks to be tolerated in the underlying transactions and the definition of common benchmarks for the management of this risk.	□□□□□	Commission's proposal for inclusion in the revised Financial Regulation rejected by Council. Commission internal action to be integrated with Actions 10 & 11.	31/03/2006
5	Promote the use of management declarations at operational level in the negotiations on the 2007-2013 legislation for indirect centralised management (through national agencies, mostly in the area of education and culture) and the establishment of national coordinating bodies able to provide an overview of the assurance available for example by a synthesis of operational declarations per policy area.	■■■■■	Declarations of assurance on respect of regulatory requirements foreseen in Education and Culture 2007-2013. Summary of declarations now foreseen in legislation, MS support required for implementation. Some MS (NL, DK, and UK) are pursuing declaration initiatives independently. UK has not set a date.	30/06/2006
6a	Develop guidelines on making management declarations more effective in research and other internal policies (at beneficiary level).	□□□□□	Combined with Action 7 on audit certification and the use of certification of methodology.	Action removed
6b	Extend guidelines on making management declarations more effective for external policies.	□□□□□	Based on the evaluation of the Commission's services, the introduction of declarations would not provide sufficient added value compared to the likely costs. The action has therefore been eliminated.	New deadline: <b>31/12/2007</b> (was 30/06/2007)

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7a	Establish criteria for certification audits in research and internal policies, focusing on the use of 'agreed upon procedures'.	■■■■■	The action has been fully completed by introducing the use of agreed upon procedures in the certification for FP7. Further to this, a complete set of guidelines for the beneficiaries and the auditors has been prepared in consultation with auditing profession. Clearer cost reporting with methodology certification for certain beneficiaries now integrated in the FP7 model grant agreement.	31/12/2006
7b	Examine criteria, where these are not already in place, for certification audits in shared management 2007-2013, considering also the use of 'agreed upon procedures'.	□□□□□	Recommendations included in the guidance note on good practices in first-level management checks for outsourced certification audits. Agreed upon procedures have not been developed more widely, in keeping with the principle of subsidiarity applicable in the Structural Funds. The 2007-2013 legislation provides for more responsibilities on the audit authority and the Commission is providing the relevant guidance.	31/03/2007
7c	Extend criteria for certification audits, focusing on the use of 'agreed upon procedures', to other management modes, where appropriate.	■□□□□	Examination with DG EAC postponed into 2008.	New deadline: <b>31/12/2007</b> (was 30/06/2007)
8	Analysis of potential additional assurance from SAIs on existing practice related to EU-funds.	■■■■■	Data exchange with SAIs has been launched and feedback obtained from some SAIs. Commission, Court and SAIs discussed further initiatives at Contact Committee in December 2006. Data exchange continues in 2007 and beyond.	31/12/2006
<i>New Action: 8N</i>	<i>To build on the momentum created by this action, the Commission will pursue contact with the SAIs with a view to determining how their work can be used to provide assurance on the execution of its programmes in the Member States. It will also launch a case study on the key issues faced by SAIs in examining Community expenditure.</i>	■■■■■□	Pilot conducted with Slovenia, with contacts with other SAIs (esp. Germany and UK). Financial report from the Commission to SAIs has been improved in line with comments.	31/12/2007

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9a.1	Assess potential actions necessary for enhancing the sharing of audit and control results and recording of their follow-up in the area of Internal policies, including Research.	■■■■■	Developed in the framework of the Research family audit strategy, finalised in 2007. For Education and Culture 2007-13, the MS will report the results of the national controls to the Commission through the declaration of assurance process.	New deadline: <b>31/12/2006</b> (was 30/10/2006)
<i>New Action:</i> 9a.1N	<i>To oversee the initial stages of data-sharing in ABAC, the Commission will, for the Sixth Framework Programme, monitor the use of data sharing and management reporting with a view to identifying key factors for success in better integrating the sharing of data in the overall control process.</i>	■■■■■	ABAC tool contains over 2,700 audits. Registering of audits obligatory from 1/1/2008.	31/12/2007
9a.2	Assess potential actions necessary for enhancing the sharing of audit and control results and recording of their follow-up in the area of Structural Funds 2007-2013.	■■■■■□	Reporting of audit results by Member States and the use made of this information by the Commission has been steadily improved. Commission audit reports are exchanged between the services and each DG has IT monitoring tools.	31/05/2007
9a.3	Assess potential actions necessary for enhancing the sharing of audit and control results and recording of their follow-up in the area of other policies.	□□□□□	As ABAC tool applies to all legal entities, this will be carried out within Action 9b.	31/12/2007
9b	For expenditure under direct management, implement a tool linked to ABAC for a Commission-wide exchange of information on control and audit missions on all legal entities.	■■■■■	Module now functioning within ABAC (and covers all legal entities, not just international bodies). Automatic interface with local systems now available. Compulsory registration from 2008.	31/12/2007
9c	Award tender for a Commission-wide contractual framework to assist DGs on methodological issues, implementation of control work and tracking control performance.	■■■■■	Framework contract awarded. Contracts can be signed with contractor from latter half of 2007.	30/04/2007
10a.1	Assess costs of controls in shared management: define a common methodology.	■■■■■	Methodology developed in collaboration with shared management DGs.	31/05/2006

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10a.2	Assess costs of controls in shared management: launch initiative for data to be provided by Member States.	■■■■■	Launched for agriculture. Launched for Structural Funds starting with four pilot Member States; rolled out to the other Member States in mid-2007.	30/09/2006
10a.3	Assess costs of controls in shared management: provision of data by Member States.	■■■■□	Data collection nearly completed and verification of data is underway for 10 Member States.	28/02/2007
10a.4	Assess costs of controls in shared management: analysis of received information.	■■■■□	The exercise with AGRI is completed. Data received by REGIO and analysis underway. To be reported on in detail in October 2008.	30/09/2007
10b	Make a first estimation on the costs of control incurred in direct management expenditure.	■■■■■	Complete for the 2 DGs selected for pilot. Data have been validated. Exercise extended to all DGs in centralised direct management: and now in final stages.	New deadline: <b>31/12/2007</b> (was <b>30/06/2007</b> )
10N	<i>To further explore the cost-benefit ratio of control, the Commission will examine the effect of programme design and eligibility requirements on costs of control to develop a detailed analysis of tolerable risk on a practical basis.</i>	■■■□□	'Red lights' initiative: 2007 AARs of the DGs concerned to report on actions taken or envisaged to reduce the level of errors associated with the measures concerned The Commission will prepare a Communication to the Council and the Parliament on the cost effectiveness of control systems for October 2008	31/12/2007
11	Run a pilot-experience for evaluating benefits in the context of control of internal policies.	■■■■□	Methodology developed, ABAC not able to provide relevant data. Limited data available in the local systems of INFOS and ENV. Action 11N launched to improve collection of data on benefits.	New deadline: <b>31/12/2007</b> (was <b>30/06/2007</b> )
<b>New Action: 11N</b>	<i>To determine whether recovery and offsetting systems are working effectively, by identifying amounts recovered in 2005 and 2006 and their coherence with errors identified during controls the Commission will, in direct management, develop a typology of error and the relationship with recoveries, financial corrections and adjustments to payments and for shared management it will examine the reliability of national monitoring and reporting systems.</i>	■■■□□	Initial analysis of adequacy of recoveries as well as typology of error had been made. Typology of error under development and reliability of recovery systems being examined. Reconfiguration of ABAC is underway to capture better quality information on recoveries on a more systematic basis. The Structural Funds are testing the reliability of national monitoring systems through audits in a sample of 10 Member States.	31/12/2007

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12	Put in place steps to close these gaps via the Annual Management Plans, with follow up reporting on progress in the Annual Activity Reports.	■■■■■	Follow up at Commission service level in AARs, and analysed in synthesis report. Commission will continue to monitor and extend best practices.	New deadline: <b>15/06/2007</b> (was 31/03/2006)
<i>New Action: 12N</i>	<i>To ensure effective delivery of added assurance, the Commission will perform 300 audits for FP6 in 2007, compared with the 45 carried out in 2006. In addition, having developed a systematic approach to analysing and sampling the FP6 beneficiary population as part of Action 16b, the Commission will proceed with the identification and correction of errors in beneficiaries receiving the most significant proportion of the budget. This will also provide, by the end of 2007, a representative picture of the level and nature of irregularities in the research budget as a whole.</i>	■■■■■	378 completed audits in 2007.	31/12/2007
13.1	Finalise, as requested by Ecofin, the analysis for Structural Funds on the present controls at sector and regional level and the value of existing statements and declarations, taking the Article 13 annual reports due by June 2006 and the results of Commission audits into account.	■■■■■	The SF DGs report on the assessment of the functioning of the management and control systems in the Member States for 2000-06 in their AARs.  In the guidance note on the annual summaries (Financial Regulation Article 53b(3), Member States were asked to include the audit results for 2007 concerning the period 2000-06 and 2007-13.	New deadline: <b>31/03/2007</b> (was 31/12/2006)
13.2	Update, in the context of the Annual Activity Reports, how DGs gain assurance from the internal control structures for Structural Funds and Agriculture for the 2007-2013 period.	■■■■■	DG REGIO has formalised its procedures in providing assurance to the Director General, which were set out in the AAR 2006. Updated and improved description of the system for the management and control of agricultural expenditure, based on four complementary levels, included in DG AGRI's AAR as of 2005.	31/12/2007

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14a	Disseminate good practices for primary level checks to manage the risk of error in underlying transactions and recommend Member States to step up their information activities directed at beneficiaries, including information on controls and risk of cancellation of funds.	■■■■■	Completed. SF DGs have issued guidance recommending good practices for management checks, and checks by paying authorities. A letter was sent to the Member States to remind them to step up their information activities directed at beneficiaries.	30/06/2006
14b	Provide in the context of the Structural Funds and indirect centralised management 2007-2013 guidelines for beneficiaries and/or intermediate levels on controls and responsibilities in the control chain.	■■■■■ ■■■■■	Guidance notes were discussed and issued to Member States during 2006 and 2007 to assist the national authorities on controls and responsibilities in the control chain. A training seminar will be provided to managing and certifying authorities in mid-2008. DG EAC has developed models for the ex-ante declaration of assurance and the yearly declaration as well as guidelines for national authorities. Training and information activities are also in progress.	31/01/2007 31/12/2007
15	Conclude for Structural Funds 'Contracts of Confidence' with 8 Member States, if sufficient volunteers, as a sound basis to prepare for implementation of the new legislation and to improve assurance on expenditure under the existing legislation.	■■■■■	Signed contracts of confidence with Wales, Austria, Portugal, Denmark, Slovenia and Estonia, up to February 2008. Additional efforts will be made to conclude further contracts where Member States fulfil the conditions.	New deadline: <b>31/12/2007</b> (was 30/09/2006)
16a	Establish guidelines, based on existing experience, on accreditation, training and monitoring of external auditors in the domain of research and other internal policies.	■■■■■	RTD has established an audit manual for FP6. More general best practices on managing audit framework contracts have been issued.	New deadline: <b>30/09/2007</b> (was 30/06/2007)
16b	Develop common approaches to using risk and representative sampling in research and other internal policies, and external policies.	■■■■■	Done for Research family. Being developed with other internal policies DGs on a needs basis <sup>1</sup> .	31/12/2006 31/12/2007

<sup>1</sup> For external policies, AIDCO uses a risk-based approach to sampling and has concluded that representative sampling is not appropriate given the characteristics of their control environment and beneficiary population.



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16c	Coordinate audit standards, error rate reporting, etc. for Structural Funds.	■■■■□	In progress. Audit manual for the Structural Funds being revised to incorporate new requirements in the legislation and guidance on the application of internationally accepted auditing standards. Based on the needs of the Member States, the guidance notes issued during 2007 address the requirements of the new regulations. These notes will form the first part of the manual. Further sections will be completed in 2008 of a more general nature.	31/12/2007