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AND THE COUNCIL**

**Annual Report to the Discharge Authority  
on internal audits carried out in 2009**

**(Article 86(4) of the Financial Regulation)**

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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 2009<sup>1</sup>. 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.

<b>List of finalised IAS audits</b>		
<b>Service</b>	<b>Engagement</b>	<b>Finalisation date</b>
<b>Business continuity and risk management</b>		
ADMIN/JLS/SG/ TAXUD	Business Continuity Management (BCM)	15 September
OIB	Second follow-up on risk assessment	11 November
Cons. ENV, RELEX	Risk management	22 January 2010
<b>Procurement and grant management</b>		
ENV	Follow-up on grant management of non-Life programmes	23 March
OIB	Follow-up on the Management of the Buildings Procurement Contracts in OIB	3 April
JRC	Procurement	30 April
TAXUD	Follow-up on IT procurement and service delivery	6 May
DIGIT	Follow-up on IT procurement and service delivery	11 May
ESTAT*	IAC-IAS Joint Audit on Grant Awarding Process 2007-2009	19 May
INFSO	Internal Control System for managing the 7th Framework Programme - Design	29 May
RTD	Internal Control System for managing the 7th Framework Programme - Design	29 May

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<sup>1</sup> Some reports finalised at the beginning of 2009 had been included in the 2008 report and are therefore not included again in the 2009 report. Likewise, some reports drafted in 2009, but finalised at the beginning of 2010 are included in the 2009 report.

JLS	Grant management of the Schengen facility	14 September
ESTAT	Follow-up on IT procurement and service delivery	16 November
<b>Executive Agencies</b>		
EACEA	Follow-up on ABAC	23 March
TREN- TEA*	Operational Budget in the Trans-European Transport Network Executive Agency	15 October
EACI	Management of the operational budget	18 November
EAHC	Follow-up on the public health executive agency	24 November
<b>IT issues</b>		
TREN	Follow-Up on local IT systems	3 March
SG/DIGIT	Management letter - IT project management in the Commission for large IT systems	17 March
AGRI	Follow-up on local IT systems feeding into ABAC	1 April
TAXUD	Follow-up on large IT systems	21 April
BUDG	Follow-up ABAC IT	8 May
PMO	Management of local IT	5 June
TAXUD	E-customs project and IT service management contract	30 September
ECFIN	Treasury and accounting system (TAS)	22 October
DIGIT	Management letter on the management of corporate IT systems	27 November
DIGIT, ADMIN, OIL	Follow-up data center (OIB, OIL, ADMIN DS)	22 December
<b>Shared management (if not in above categories)</b>		
AGRI	Rural development	30 July
MARE	European fisheries fund 2007-2013 as managed by DG MARE	8 December
AGRI	Direct aids, including IACS (focused on specific processes)	11 December
AGRI	Second follow-up on Structural Funds - DG AGRI - EAGGF Guidance	17 December
EMPL	Internal control systems for managing the new structural funds programming period - Phase II	21 December

REGIO	Internal control systems for managing the new structural funds programming period - Phase II	21 December
<b>Asset management</b>		
BUDG	SAM Project Management	29 May
OIB	Inventory process as managed by OIB	15 July
OIB	Management letter on the inventory process as managed by OIB	16 July
OIL	Management letter on the inventory process as managed by OIL	16 July
OIL	Inventory process as managed by OIL	4 September
OIB	Second follow-up on buildings infrastructure managed by the European Commission (OIB)	3 December
OIL	Follow-up of on buildings infrastructure managed by the European Commission (OIL)	16 December
<b>External Policies</b>		
RELEX	Second follow-up on handling of classified information	16 July
RELEX*	Financial management of the common foreign and security policy budget	17 July
ECHO	Financial Management of Food Assistance	23 July
ECHO	Follow-up on monitoring and supervision tools	26 October
AIDCO	Second follow-up on IAS validation of self-assessment of the IAC	4 November
AIDCO	Financial management of main programmes in directorate A	23 November
TRADE	Internal control standards	7 December
ELARG	Closure process of 'pre-IPA' instruments	18 December
<b>Follow-up audits (if not in above categories)</b>		
EAC	Follow-up on ABAC	27 February
ADMIN/BUDG/SG	Follow-up SPP/ABM in the Commission	24 March
BUDG	Follow-up on ABAC	8 May
ECFIN	Follow-up on implementation of selected internal control standards	3 November
MARKT	Follow-up on monitoring the implementation of EU law	18 November
ENV	Follow-up on CITL management	25 November

ENTR	Follow-up on monitoring the implementation of EU law	14 December
MARE	Second follow-up on in-depth audit of DG FISH	14 December
MARKT	Second follow-up on the IAS validation of the self-assessment of the IAC of DG MARKT	14 December
EMPL	Follow-up on preventing and detecting fraud in structural funds	17 December
EMPL	Follow-up on implementation of programmes in new Member States/new programming period	18 December
SG/BUDG	Follow-up AAR assurance process	21 December
<b>Other</b>		
COMP	Handling of sensitive information and Ethics	17 July
APC	Consultancy: APC handbook	21 December

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

## 1. BUSINESS CONTINUITY AND RISK MANAGEMENT

### 1.1. ADMIN, JLS, SG, TAXUD Business continuity management (BCM)

#### Objectives and Scope

The overall objective of this audit, conducted in the Secretariat General (in its central role) and in a sample of three DGs (DG ADMIN, DG JLS and DG TAXUD), was to assess the adequacy and the effectiveness of Business Continuity Management (BCM) in the Commission.

The **scope** of the audit covered the activities performed by the actors throughout the different steps of the Business Continuity Management System (BCMS) cycle as well as the coordination with "Service provider" DGs.

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

The fieldwork was finalised at the end of April 2009. All observations and recommendations relate to the situation as of that date.

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



Important	2	2	100	0	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 1.2. OIB : Second follow-up on risk assessment

Based on an analysis of the outstanding recommendations it was found that

- two recommendations had already been addressed and assessed as implemented by the IAS during the 1st follow-up audit of IAS-OIB-2006-001 (financial management and implementation of financial circuits) and
- the content of the remaining 4 recommendations had also been addressed by the audit engagement IAS-OIB-2006-001, but could not yet be considered as implemented. Therefore, it was decided to transfer the 4 open recommendations to the engagement IAS-OIB-2006-001 and address those during a future IAS follow-up engagement.

Consequently, the audit engagement of 2004 could be closed.

## 1.3. Consolidated report, ENV, RELEX : Risk Management

### Objectives and Scope

The Commission's Risk Management framework (Communication to the Commission SEC(2005)1327 - hereafter SEC(2005)1327) was introduced in 2005 together with an action plan for 2005 to 2007. This communication defined Risk Management as a "*continuous, proactive and systematic process of identifying, assessing and managing risks in line with the accepted risk levels, carried out at every level of the Commission to provide reasonable assurance as regards the achievement of the objectives*".

As indicated in the above communication, the Commission's Risk Management approach is "*strongly inspired by the COSO Enterprise Risk Management framework (COSO-ERM), which is considered best practice in this domain*", adapted in order to fit the Commission's working environment and activities.

The implementation of the 2005 communication has been supported by training, guidance and tools developed by the central services in recent years.

The overall **objective** of this audit, conducted in the Secretariat General and DG BUDG (in their central role) and in a sample of two DGs (DG ENV and DG RELEX), was to assess the adequacy of the Risk Management framework and its effective implementation in the Commission.

The **scope** of the audit covered the design of the Commission's Risk Management framework, the roles of the central services and the implementation of Risk Management in the two sampled DGs. In order to provide a broader coverage of the Commission's services, a survey focusing on targeted groups including senior management, Resource Directors/Internal Control Coordinators (ICCs), IACs and a sample of both Heads of Unit and staff was conducted by the IAS in October 2009. The results of the survey are referred to in the relevant sections of this report.

The fieldwork was finalised in October 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Very Important	18	16	89	2	11
Important	11	11	100	0	0
<b>Total</b>	<b>29</b>	<b>27</b>	<b>93</b>	<b>2</b>	<b>7</b>

## 2. PROCUREMENT AND GRANT MANAGEMENT

### 2.1. ENV: Follow-up on grant management of non-Life programmes

#### 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 on grant management -of non LIFE programmes carried out between April and September 2007 (Final Report dated 18 September 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.

### 2.2. OIB: Follow-up on the management of the buildings procurement contracts in OIB

#### 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 on "*The Management of Buildings Procurement Contracts*" carried out in 2006/7 (Final Report issued on 3 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.

### 2.3. JRC : Procurement

#### Objectives and Scope

The objective of this audit was to assess the adequacy of the design and effective application of the ICS<sup>3</sup>, risk management and governance processes related to the procurement process in DG JRC.

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

There are no observations/reservations in the 2007 AAR that relate to the audited process. The fieldwork was finalised in February 2009. All observations and recommendations relate to the situation as at that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	10	10	100	0	0
Important	7	7	100	0	0
<b>Total</b>	<b>17</b>	<b>17</b>	<b>100</b>	<b>0</b>	<b>0</b>

#### **2.4. TAXUD : Follow-up on IT procurement and service delivery**

##### **Objectives and Scope**

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the "IT procurement and subcontracting in DG TAXUD" audit engagement (final report issued at 18/10/2007).

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.

#### **2.5. DIGIT: Follow-up on IT procurement and service delivery**

##### **Objectives and Scope**

The objective of the follow-up engagement is to assess the progress made in implementing the accepted recommendations that resulted from the "IT Procurement and Service Delivery in DG DIGIT" audit engagement (final report issued on 05/12/2007).

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. ESTAT : IAC-IAS Joint Audit on Grant Awarding Process 2007-2009**

##### **Objectives and Scope**

The objective of this audit, which was jointly conducted by the IAS and the IAC of DG ESTAT, was to assess the compliance, effectiveness and efficiency of the management and control systems implemented by ESTAT on the grants awarding process. The following sub-processes implemented in 2008-2009 were included in the scope of the audit:

- Programming and allocation of budget to actions, including selection of the financing procedures

- Adoption and publication of the Annual Work Programme for grants
- Preparation and launch of calls for proposals / invitations to submit proposals
- Receipt and evaluation of proposals
- Award procedure and decision.

In addition, the statutory framework and key Internal Control Standards related to the grant awarding process have been analysed in the framework of the audit.

- Supervision, monitoring and reporting procedures (ICS9)
- Objectives and performance indicators (ICS 5)
- Risk management (ICS 6)
- Processes and procedures (ICS 8)
- Evaluation of activities (ICS 14)
- Filing procedures (ICS 11)
- Simplification (in conformity with requirements of the Community Statistical Programme (CSP) 2008-2012) and change management, to take into account risk identified in the preliminary survey, related to the diversity and change in legal bases.

The audit scope was determined based on the results of a risk analysis finalised by the IAC on 12 November 2008, and a preliminary survey conducted by the IAS in the first week of February 2009.

The audit focused on grants committed and to be committed by DG ESTAT's own operational budget and credits sub-delegated by other DGs. The sample was chosen amongst the grants awarded during 2008. The audit did not cover grant contracting, implementation of financial circuits and user support activities, since these processes were included in recent engagements conducted by the IAC in 2008.

There are no reservations relating to the processes audited in the Annual Activity Report (AAR) 2007, nor in the AAR 2008.

The audit fieldwork was finalised on 4 March 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Important	6	6	100	0	0
<b>Total</b>	<b>11</b>	<b>11</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 2.7. INFSO: Internal Control System for managing the 7th Framework Programme - Design

### Objectives and Scope

Recognising the evolving and multiannual nature of the Commission's Research Programmes, together with the gradual development and deployment of FP7 procedures which have been developed not from scratch, but through adapting the experience of previous programming periods and which take into account the priorities within the FP's life-cycle, the present audit focused first and foremost on the set up and design of the DGs' internal control systems which underpin the management of FP7 implementation. The aim was to assess whether the controls designed adequately address the control objectives. At a later date and depending on how the Framework Programme progresses as a whole, the IAS plans to conduct a further examination of the implementation of those internal controls in practice, i.e. to determine whether those controls have actually been implemented and are working as intended.

For this first "design" phase, the audit covered the internal controls put in place by the DG concerning the award process, the negotiation and signature of grant agreements, the implementation of grant agreements, and ex-post activities intended to ensure on a multi-annual basis the detection and correction of the main errors. In this regard, it should be noted that the IAS considers it too early to undertake any meaningful coverage of the evaluation and monitoring process for assessing the results of FP7.

There are no observations/reservations in the 2008 AAR that relates to the area/process audited, due to the early stage of FP7 implementation. However, the 2007 AAR includes a reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Framework Programme 6 contracts.

The fieldwork was finalised on 25 March 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Important	6	6	100	0	0
Total	11	11	100	0	0

## 2.8. RTD: Internal control system for managing the 7<sup>th</sup> framework programme - design

### Objectives and Scope

The objective of this audit was to assess the adequacy of the design of DG RTD's internal control systems which underpin the management of FP7 implementation, with the aim to highlight, in advance, any weaknesses which could jeopardise the

achievement of the FP7 objectives including the protection of the Communities' financial interests. The audit constitutes the first phase of a wider IAS objective to assess the implementation of those internal controls in practice. For this first "design" phase, the audit covered the internal controls put in place by the DG concerning the award process, the negotiation and signature of grant agreements, the implementation of grant agreements, and ex-post activity. The IAS considers it too early to undertake any meaningful coverage of the evaluation and monitoring process for assessing the results of FP7, which had previously been foreseen as part of this audit.

It should be noted that in its 2008 AAR, DG RTD made a reservation concerning the rate of residual errors with regard to the accuracy of cost claims in the FP6. Although this relates to the previous framework programme, it is relevant to the extent that the internal control systems included in the scope of this audit have certain areas in common.

The fieldwork was finalised on 31<sup>st</sup> March 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
<b>Very Important</b>	6	6	100	0	0
<b>Important</b>	7	7	100	0	0
<b>Total</b>	<b>13</b>	<b>13</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 2.9. JLS: Grant management of the Schengen facility

### Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the internal control system, risk management and governance processes related to grants under decentralised management of the Schengen Facility (1 and 2), managed by DG JLS.

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

- a) compliance with the legal basis;
- b) effectiveness and efficiency of the processes; and
- c) reliability of financial information (with a special focus on the internal control systems related to the monitoring of the eligibility of declared expenses and the financial corrections).

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

- a) monitoring by the Commission of the setting up of the management and control systems in the member states;

- b) financial closure (clearance of accounts);
- c) financial correction and recovery of both unspent and unduly spent funds.

The following observations were issued in the 2008 Annual Activity Report concerning specifically the processes under the scope of this audit: -

1. *"Par ailleurs, une grande partie du budget s'exécute à travers la procédure de gestion partagée et décentralisée. Dans ce cas, la JLS, soit se trouve liée par un cadre juridique limitant sa marge de manœuvre (cf. Facilité Schengen) soit, en vérifiant la conformité des systèmes de contrôle mis en place dans les États membres, fait face à une grande disparité de systèmes nationaux et est tributaire des performances premières de ces Etats, (page 60)*
2. *Le problème est que l'Acte d'adhésion comprend plusieurs dispositions qui réduisent juridiquement les possibilités de contrôle de la Commission qui ne peut les exercer qu'au terme des 3 années de vigueur de cet instrument. Les risques intrinsèques de cet instrument sont donc que les Etats Membres imputent sur ces Fonds des coûts inéligibles qui ne pourront être identifiés qu'enfin de programme, (page 63)*
3. *Pour la Bulgarie, il y a lieu de mentionner un "risque réputationnel" lié à la perte de l'accréditation ELARG d'une des autorités de gestion impliquées dans ce programme. Une visite sur place s'est déroulée en février 2009 pour vérifier la mise en œuvre du programme et statuer sur le niveau d'assurance dans les opérations sous-jacentes. La plupart des mesures incriminées ayant été corrigées (annulation de la majorité des appels d'offres), le risque est limité, (page 77)"*

The fieldwork was finalised on 23 June 2009. 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	6	6	100	0	0
Desirable	1	1	100		
<b>Total</b>	<b>10</b>	<b>10</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 2.10. ESTAT: Follow-up on IT procurement and service delivery

### Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the recommendations (all of them being accepted) that resulted from the "IT Procurement and Service Delivery" audit engagement carried out at 20/11/2007.

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.

### **3. EXECUTIVE AGENCIES**

#### **3.1. EACEA: Follow-up on ABAC**

##### **Objectives and Scope**

The objective of the follow-up engagement was to assess progress made in implementing the accepted recommendations addressed to the Executive Agency EACEA that resulted from the "ABAC - implementation of accrual based accounting in DG EAC / 2006 closing" audit (ABAC audit) carried out in 2007. This original audit initially focused on DG EAC. As a result of the split of responsibility between DG EAC and EACEA, operational since January 2006, consolidated financial statements were issued for the financial year 2006 combining DG EAC and EACEA accounts. Consequently, the audit performed by the IAS on the 2006 closing of the accounts covered both DG EAC and EACEA, with recommendations addressed to both entities. The present audit report focuses only on recommendations that were addressed to EACEA.

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.

#### **3.2. TEN-T EA: Operational Budget in the Trans-European Transport Network Executive Agency**

##### **Objectives and Scope**

The objective of this joint IAS-IAC audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to grants managed by TEN-T EA. In particular, the audit assessed whether the ICS provided reasonable assurance regarding *compliance* with the relevant legislation, *effectiveness and efficiency* of the processes and the *reliability* of financial information (with special focus on the monitoring of the eligibility of declared expenses and the financial corrections).

The scope of this audit focused on the following sub-processes managed by TEN-T EA: establishment of the Agency's work programme, calls for proposals, evaluation of proposals, awarding decision, payments, recovery, outstanding commitments (RAL) and de-commitments, ex-post publicity and ex-post controls (external audit). DG TREN was only audited to the extent that it is involved in these sub-processes (e.g. clear assignment of responsibilities, communication, reporting).

*There were no observations/reservations made in the 2008 AAR of DG TREN and TEN-T EA concerning the processes under the scope of this audit.*

During the audit, no scope limitations were identified.

The fieldwork was finalised on 26 August 2009. All observations and recommendations relate to the situation as of that date.



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

### 3.3. EACI : Management of the operational budget

#### Objectives and Scope

The objective of this IAS audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to grants managed by EACI. In particular, the audit assessed whether the ICS provided reasonable assurance regarding *compliance* with the relevant legislation, *effectiveness and efficiency* of the processes and the *reliability* of financial information.

The scope of this audit focused on the following sub-processes managed by EACI: establishment of the Agency's work programme, call and evaluation of proposals, awarding decision, payments, recovery, outstanding commitments (RAL) and de-commitments, ex-post publicity and ex-post controls (external audit). DG TREN, DG ENV and DG ENTR were only audited to the extent that they were involved in these sub-processes.

*There were no observations/reservations made in the 2008 AARs of DG TREN, DG ENV, DG ENTR and EACI concerning the processes under the scope of this audit.*

During the audit, no scope limitations were identified.

The fieldwork was finalised on 18 September 2009. 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	10	10	100	0	0
Total	13	13	100	0	0

### **3.4. EAHC : Follow-up on the public health executive agency**

Based on the results of the follow-up audit, all the recommendations addressed to the EAHC that resulted from the Audit of the *Public Health Executive Agency (Administrative Budget)* have been adequately and effectively implemented.

## **4. IT ISSUES**

### **4.1. TREN: Follow-up on local IT systems**

#### **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 de processus de gestion de l'informatique locale - DG TREN* carried out in 2005 and from the *Audit de processus de gestion de l'informatique locale DG TREN- Follow-up* carried out in 2007 (Final Report dated 7 September 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.

The fieldwork was finalised on 29 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.

### **4.2. SG/DIGIT: Management letter - IT project management in the Commission for large IT systems**

The IAS was requested by the APC/Preparatory Group at its meeting of 25 September 2008 to issue a management letter about the "lessons learnt" in respect of audits conducted to date on the management of large IT projects.

The purpose of this Management Letter, following the completion of the individual IT audits in DG JLS, TAXUD, SANCO, OLAF, ENV, RTD and INFSO is to summarise the main common issues identified, draw conclusions at the Commission level and present suggestions for improvement.

The Commission services develop many important information systems to implement the European policies with the national administrations and other third parties and to streamline its internal administration notably to support the human resource management, financial management and the EU decision making process and document management. Most of the IT projects are either largely outsourced or developed by mixed teams of Commission staff and service providers. It is important to recall that the management of IT projects is a shared responsibility between administration and/or policy experts and IT specialists. Despite several good practices (quality management, release management procedures and architecture planning) identified and based on the results of the audits conducted in DGs on Large IT systems, the IAS considers that there are significant risks related to the IT Project Management. The issues noted are summarised as follows:

- IT risk assessment should be strengthened in DGs with high inherent IT risks. Specific IT and IT project risk management processes should be implemented including risks related to IT outsourcing and IT contracting. To do so, IT risk management methodologies should be further enhanced on corporate level and assistance should be given to DGs if necessary.
- To ensure coherence with business strategies and enhance system integration, DGs should better plan their information system architecture. A sound project management methodology and change management should be applied for all large IT developments. Large IT Projects should only be launched if they comply with the Commission's standards and project management methodologies should be further developed notably to cover outsourcing management. Large IT systems should also be managed more systematically by IT and business project manager experts who have adequate project management experience and certification.
- Project organisation and responsibilities should be strengthened and better defined. Adequate representation of all stakeholders should be granted. This organisation should allow for a clear segregation of duties notably between end user and IT responsibilities as well as between line management and quality control with consistent reporting lines. To strengthen corporate oversight, a new body may be set up notably to issue an informed opinion before launching a new major IT project. DGs should ensure involvement of appropriate level of management in the decision making process. Project organisation and responsibilities should be set out; documented and adequate representation of all stakeholders should be granted.

#### **4.3. AGRI : Follow-up on local IT systems feeding into ABAC**

Based on the results of the follow-up audit, all the recommendations addressed to the DG AGRI that resulted from the audit of Local IT Systems feeding into ABAC carried out in 2007 have been adequately and effectively implemented.

#### **4.4. TAXUD : Follow-up on large IT systems**

##### **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 on Large IT systems in DG TAXUD* carried out in 2005 (Final Report dated 24 January 2006).

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

The fieldwork was finalised on 24 March 2009.

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

#### **4.5. BUDG: Follow-up ABAC IT**

Based on the results of the follow-up audit all the recommendations addressed to DG BUDG that resulted from the audit of *ABAC-Implementation of Accrual Based Accounting* for which the deadline had expired at the time of the audit have been adequately and effectively implemented, with the exception of two recommendations where the deadlines of implementation were revised.

## 4.6. PMO: Management of local IT

### Objectives and Scope

The objective of the engagement was to analyse and evaluate the internal control systems put in place by PMO to ensure an adequate and effective management of its local IT.

The scope of the audit included the following processes:

- Plan & Organise (definition of IT strategy, plan, organisation of IT, assessment and management of IT risks and IT project management activities);
- Acquire & Implement: (application software development, change and release management);
- Deliver & Support (management of logical and physical security, management of data and system operations, definition and management of service levels, management of continuity of services).

The audit focused in particular on the activities performed by the IT sector within unit PM0.8. The NAP Cell and representatives of IT system users and owners (PMO.3 Sickness and Accident Insurance) were also consulted regarding their respective responsibilities, in particular for the management of IT projects. In order to assess the management of the IT projects, IRIS and ASSMAL projects have been selected and analysed.

PMO's AAR 2008 provides exhaustive information on the activities performed in 2008 for the migration to the new IT systems (S YSPER2, IRIS) for the management of career and individual rights. No reservations have been included that relate to the process audited.

The fieldwork was finalised on 26 March 2009 when the validation meeting with the auditee took place. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Critical	1	1	100	0	0
Very Important	9	9	100	0	0
Important	10	10	100	0	0
Total	20	20	100	0	0

## 4.7. TAXUD : E-customs project and IT service management contract

### Objectives and Scope

Customs 2013 is a programme administered by DG TAXUD, which provides the general legal and financial basis for the development, operation and maintenance of e-Customs,

which is an electronic (i.e. paperless) information exchange systems between national administrations, the Commission and economic operators. The development of the e-Customs project is a major challenge in terms of redesigning the customs procedures in a paperless context, supporting the implementation of a new Modernised Customs Code (MCC) and developing the related IT systems due to the high level of complexity involved. Furthermore, the ITSM (IT Service Management) contract renewal and organisational changes such as the splitting of the IT unit into two new units may generate new risks.

The objective of the audit was to assess the adequacy and effective application of the IT governance, risk management and internal control system supporting DG TAXUD in managing the e-Customs Project and the IT Service Management Contract.

The COBIT framework was used as the benchmark.

The scope of this audit was limited to the Customs 2013 programme, the e-Customs project supporting the implementation of the MCC and their related IT processes and procedures. Therefore, the IT processes and procedures not directly linked to e-Customs were not assessed.

During the audit, no scope limitations were identified.

There are no observations/reservations in the Annual Activity Report 2008 that relate to the area/process audited.

The fieldwork was finalised on 10 July 2009. All observations and recommendations relate to the situation as of that date.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	5	5	100	0	0
Important	3	3	100	0	0
<b>Total</b>	<b>8</b>	<b>8</b>	<b>100</b>	<b>0</b>	<b>0</b>

#### 4.8. ECFIN: Treasury and accounting system (TAS)

##### Objectives and Scope

The off-budget financial activities of ECFIN/L are supported by the SAP Financial Supply Chain Management software (CFM & Banking modules), which is fully integrated into the Commission's ABAC Accounting environment<sup>3</sup>. In order to ensure that its activities comply with good banking practices, ECFIN/L has designed and implemented operational workflows covering various business areas, notably Treasury

front and back offices, Risk Management, borrowing/lending front and back offices, reconciliation and accounting.

The SAP application servers are housed in the Data Centre, under the management of DG DIGIT, while DG BUDG maintains and operates the SAP system as part of the Corporate ABAC Accounting system. The specific setting of the Treasury and Accounting System (TAS) modules is under the responsibility of DG ECFIN and Unit R5 of DG ECFIN provides IT support for the development and maintenance at application level with the help of external experts.

The overall objective of the audit was to analyse and evaluate whether TAS supports effectively and efficiently the business processes of Dir. L, to enable DG ECFIN to achieve its objectives in this domain.

The engagement focused on the following main aspects:

- IT Governance and value of IT investments,
- Integrity and availability of the system and operational data,
- Development and Maintenance of IT applications,
- IT services delivery and support

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

The fieldwork was finalised on 1 July 2009. 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	6	6			
Desirable	3	3	100	0	0
<b>Total</b>	<b>12</b>	<b>12</b>	<b>100</b>	<b>0</b>	<b>0</b>

#### **4.9. DIGIT : Management letter on the management of corporate IT systems**

##### **Objectives and scope**

The APC requested the IAS at its meeting of 25 September 2008 to prepare a management letter on lessons learnt in respect of the IAS audits conducted to date on the management of large IT projects.

A previous management letter, issued in March 2009, focused mainly on projects related to local IT systems used by operational DGs to support their specific business.

Corporate IT systems were not included in that management letter, as they had not been audited by then.

The present document complements the previous management letter by providing a summary of the main issues related to the management of corporate IT projects, as identified during a recent IT audit. Its purpose is to contribute to the improvement of the existing Commission's IT governance arrangements, as defined in the Commission's communication "*on the improvement of information technology governance in the Commission*" (SEC(2004)1267), and to strengthen coordination and knowledge sharing in the area of information systems.

#### **4.10.DIGIT, ADMIN, OIL: Follow-up data center (DIGIT, OIL, ADMIN DS)**

No formal report, but three notes were sent to OIL, DG ADM/IN and DG DIGIT.

### **5. SHARED MANAGEMENT**

#### **5.1. AGRI: Rural development**

##### **Objectives and Scope**

The objective of the audit was to assess the effectiveness and efficiency of the monitoring and control systems put in place by DG AGRI as regards the European Agricultural Fund for Rural Development (EAFRD) for the 2007-2013 programming period. The scope of the audit was on the controls with respect to the approval of payments and the monitoring of the implementation of the programmes in the Member States (MS), on the internal coordination and information flow within DG AGRI and on the audit of Rural Development (RD) expenditure.

In October 2008, DG AGRI established a working group to review its audit work on agricultural expenditure. The main objective of the group was to identify ways in which DG AGRI could obtain more reliable and quantifiable information on the legality and regularity of the transactions at the level of final beneficiaries which could be used by the Director General as a basis for his annual declaration of assurance. In this context, three options recommended by the European Court of Auditors (EGA) in its 2005 Annual Report were discussed. The conclusions of the working group in its draft report concern the options recommended by the EGA and possible improvements to DG AGRI's audit work.

As the report of the working group was still in a draft stage at the time of the audit, the IAS excluded the activities of the working group and its preliminary conclusions from the scope of the audit. However, the IAS takes note of the work of this group and its preliminary conclusions, and considers the initiative as a valuable contribution to improving the level of assurance to be obtained in this field.

The following reservation was made in the 2008 AAR of DG AGRI concerning specifically the area under the scope of this audit:

"The error rate of expenditure for rural development measures under Axis 2 (improving the environment and the countryside) of the 2007-2013 programming period is higher than the materiality threshold presently used by the Court of Auditors."

The fieldwork was finalised on 5 June 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
<b>Very Important</b>	1	1	100	0	0
<b>Important</b>	3	3	100	0	0
<b>Total</b>	<b>4</b>	<b>4</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 5.2. MARE: European fisheries fund 2007-2013 as managed by DG MARE

### Objectives and Scope

The objective of the audit was to assess the effectiveness and efficiency of the monitoring and control systems put in place by DG MARE as regards the European Fisheries Fund (EFF) for the 2007-2013 programming period.

The audit focused on:

- the evaluation of the Member States' (MS) Audit Strategies and compliance assessments of the Management and Control Systems, with a particular focus on activities performed by DG MARE in 2009<sup>3</sup>;
- the administrative and operational monitoring of the implementation of the Operational Programmes (OPs) in the MS;
- the review and approval of declarations of expenditure and payments;
- the internal coordination and information flow within DG MARE;
- the audit risk assessment, strategy, planning and, to the extent applicable, implementation of the audit of the EFF by DG MARE; and
- DG MARE's fraud prevention and detection strategy in the context of the EFF.

The audit also included a limited review of selected processes linked to the start of the programming period (dialogues on National Strategic Plans and adoption of OPs).

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

The fieldwork was finalised on 30 October 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total



<i>Priority</i>	#	#	% Total	#	% Total
<b>Very Important</b>	3	3	100	0	0
<b>Important</b>	3	3	100	0	0
<b>Total</b>	<b>6</b>	<b>6</b>	<b>100</b>	<b>0</b>	<b>0</b>

### **5.3. AGRI: Direct aids including IACS (focused on specific processes)**

#### **Objectives and Scope**

As part of its 2007-2009 strategic audit plan, which is prepared in cooperation with the IACs, the IAS planned to carry out an audit on the internal control systems put in place by DG AGRI concerning Direct Aids, including the implementation of the Integrated Administration and Control System (IACS).

Taking into account the analysis of the areas already covered by the IAS, DG AGRI's IAC and EGA, as well as the results of the Health Check, the current audit has been targeted at assessing the effectiveness and efficiency of the internal control systems put in place by DG AGRI regarding the following specific processes:

- the initiation, verification and authorisation of payments for Direct Aids to the Member States by Unit 14;
- the monitoring and audit of serious weaknesses identified in the implementation of IACS in specific Member States to ensure that lessons learnt are taken into account to mitigate the risk of such problems occurring in other MS including candidate countries currently taking part in accession negotiations.

In defining the objectives and scope of this audit, the IAS has, in application of the single audit model and the principles of efficiency and effectiveness, taken particular care to avoid duplicating work already performed by other auditors.

In particular, the following audits already conducted by the IAS, the Internal Audit Capability of DG AGRI and the European Court of Auditors have been taken into account:

- IAS:
  - o "Local IT systems of DG AGRI feeding into ABAC" (2007) and the follow-up of this audit (2009);
- IAC:
  - o "Direct Support" (2007);
  - o "Assurance from Shared Management"(2008);

- ○ "Direct Payments" (2009);
- ECA:
  - Special report 2008/8 "Is Cross Compliance an effective policy?";
  - Annual Report 2007;
  - Draft Annual Report 2008 ;
  - Statement of Preliminary Findings PF-2635 (2007) "Evaluation of the clearance of accounts procedure" and the Commission's replies.

Furthermore, the IAS has obtained access to the IAC's work papers concerning the audits on "Direct Payments" and "Assurance on Shared Management" in order to focus its audit on those areas not covered by the IAC.

In October 2008, DG AGRI established a working group to review its audit work on agricultural expenditure. The main objective of the group was to identify ways in which DG AGRI could obtain more reliable and quantifiable information on the legality and regularity of the transactions at the level of final beneficiaries which could be used by the Director General as a basis for his annual declaration of assurance. The report on the conclusions of this working group was discussed with the Director-General and the basic strategy agreed in September 2009.

As the reflections on this strategy were still on-going at the time of the audit, the IAS excluded the conclusions of the working group or the decisions on the strategy to be followed from the scope of the audit. However, the IAS takes note of the Report on the Review of DG AGRI's Audit Work on Agricultural Expenditure and considers, without expressing an opinion on the strategy retained, the initiative as a valuable contribution to improving the level of assurance to be obtained in this field.

The insufficient implementation of IACS in Greece has been the subject of reservations in the annual declarations of assurance of DG AGRI's Director-General since 2002. The reservations were based on the high reputational risk for the Community institutions. In order to ensure an adequate application of IACS in Greece, the Greek authorities have, at the explicit request of and in close cooperation with the Commission, set up and implemented an action plan starting from the claim year 2006. Based on audits, DG AGRI concluded that as of the 2009 claim procedure, all the elements of the IACS are in place and operational. The reservation on the deficiencies of IACS in Greece has therefore been lifted in the 2008 AAR.

The fieldwork was finalised on 4 November 2009. The conclusions relate to the situation as of that date.

#### **5.4. AGRI: Second follow-up on Structural Funds - DG AGRI - EAGGF Guidance**

Based on the results of our follow-up audit, we assess that all the recommendations addressed to DG AGRI that resulted from the Audit on Structural Funds – DG AGRI – EAGGF Guidance and its first follow-up audit have been adequately and effectively implemented.

## 5.5. EMPL: Internal control systems for managing the new structural funds programming period - Phase II

### Objectives and Scope

This audit constitutes the second phase of a wider IAS objective aimed at assessing the supervisory controls put in place by DG EMPL for obtaining assurance on the set-up and functioning of the Member States' (MSs) management and control systems for the Structural Funds 2007-13 programming period. The first phase, which concentrated on the design of the system, raised very important concerns about the quality of MSs' compliance assessment reports (CAR) and audit strategies (AS).

Although it is generally considered that one of the major problems in the control of the Structural Funds is the reliability of the first level MS controls aimed at preventing and detecting irregularities, the focus of this audit was necessarily on the higher level supervisory controls exercised by DG EMPL under shared management arrangements. Weaknesses in the MSs' systems continue to be the subject of reservations made by DG EMPL in its AAR.

The objective was to assess whether those supervisory controls exercised at each of the key stages of the assurance building process so far have been implemented in an adequate, efficient and effective manner. It covered the DG's processes for assessing the CARs and ASs, the implications for the DG's audit and control strategies and the DG's controls over the setting up of MSs' communication plans. The fieldwork was finalised on 23 October 2009. All observations and recommendations relate to the situation as of that date.

The present audit provided the IAS with an opportunity to follow up, to the extent possible, the issues raised during the audit of the design stage. In this regard, the IAS notes that DG EMPL has made progress, but that certain actions remain to be completed. These will be subject to a further formal follow-up examination by the IAS in due course.

The IAS also notes the initiative to produce MS annual summaries of available audits and declarations. Applicable for the first time for the 2007 year, these have been subject to a recent study commissioned by the European Parliament<sup>3</sup> which has raised a number of concerns. The forward looking nature of the study means that its findings will also impact on the 2007-13 programming period. However, given the evolving nature of this issue, the IAS excluded it from the scope of the present audit. Neither does the scope of the IAS audit include the related issue of National Declarations.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	3	3	100	0	0
Important	3	3	100	0	0
<b>Total</b>	<b>6</b>	<b>6</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 5.6. REGIO: Internal control systems for managing the new structural funds programming period - Phase II

### Objectives and Scope

This audit constitutes the second phase of a wider IAS objective aimed at assessing the supervisory controls put in place by DG REGIO for obtaining assurance on the set-up and functioning of the Member States' (MSs) management and control systems for the Structural Funds 2007-2013 programming period. The first phase, which concentrated on the design of the system, raised very important concerns about the quality of MSs' compliance assessment reports (CAR) and audit strategies (AS).

Although it is generally considered that one of the major problems in the control of the Structural Funds is the reliability of the first level MS controls aimed at preventing and detecting irregularities, the focus of this audit was necessarily on the higher level supervisory controls exercised by DG REGIO under shared management arrangements. Weaknesses in the MSs' systems continue to be the subject of reservations made by DG REGIO in its Annual Activity Report (AAR).

The objective was to assess whether those supervisory controls exercised at each of the key stages of the assurance building process so far have been implemented in an adequate, efficient and effective manner. It covered the DG's processes for assessing the CARs and ASs, the implications for the DG's audit and control strategies and the DG's controls over the setting up of MSs' communication plans. The fieldwork was finalised on 23 October 2009. All observations and recommendations relate to the

The present audit provided the IAS with an opportunity to follow up, to the extent possible, the concerns outlined during the audit of the design stage. In this regard, the IAS notes that DG REGIO has made considerable progress in implementing the agreed recommendations. These will be subject to a farther formal follow-up examination by the LAS in due course.

The IAS also notes the initiative to produce MS annual summaries of available audits and declarations. Applicable for the first time for the 2007 year, these have been subject to a recent study commissioned by the European Parliament which has raised a number of concerns. The forward looking nature of the study means that its findings will also impact on the 2007-2013 programming period. However, given the evolving nature of this issue, the IAS excluded it from the scope of the present audit. Neither does the scope of the LAS audit include the related issue of National Declarations.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
<b>Very Important</b>	2	2	100	0	0
<b>Important</b>	3	3	100	0	0
<b>Desirable</b>	1	1	100	0	0
<b>Total</b>	<b>6</b>	<b>6</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 6. ASSET MANAGEMENT

### 6.1. BUDG: SAM project management

#### Objectives and Scope

SAM (Supply and Assets Management) is a project of DG BUDG aimed at proposing a standard solution based on SAP with all pertinent functionalities for the management of the processes of logistics, supply and inventory of the Commission's assets in an integrated ABAC architecture.

Ultimately, SAM is intended to gradually replace ABAC Assets, the corporate system currently used in the Commission for the management of assets, over the next 2 to 3 years.

The system owner of SAM, as well as of ABAC Assets, is DG BUDG, who leads the SAM project. OIB and OIL are the business sponsors. The project Steering Committee is co-chaired by DG BUDG and OIB.

DIGIT is a management centre (for the IT assets). In addition, it is the system supplier for ABAC Assets (responsible for the development, maintenance, operation and support of the system) and the hosting service supplier.

In the context of the development of IT systems, an important role is played by the MAP working group (Methodology, Architecture, Portfolio management), which ensures the operational coordination of Information Systems development in the Commission. For projects funded under the common envelop, the MAP intervenes both in the budgetary allocation and in the budgetary release processes, providing comments on which DIGIT and DG BUDG base their decisions.

The overall audit objective of the present audit was to assess the management of the SAM project and in particular the:

- 1) internal control system implemented by DG BUDG to effectively and efficiently manage the project;
- 2) compliance with the IT regulatory framework of the Commission.

The scope of this engagement focuses on the management of the SAM project by DG BUDG. The implementation of the SAP modules (parameterization) is out of scope, as well as the actual deliverables of each project stream.

There are no observations/reservations in the AAR that relate to the area/process audited. The fieldwork was finalised on 20 April 2009. All observations and recommendations relate to the situation as of that date.

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

<b>Important</b>	4	4	100	0	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>100</b>	<b>0</b>	<b>0</b>

## 6.2. OIB: Inventory process as managed by OIB

### Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the Internal Control System relating to the inventory process.

The scope of the audit focussed on the design and the implementation of the inventory process under the main responsibility of OIB and in particular:

- the organisation of this process within OIB;
- the internal controls in place for the complete, timely and accurate physical recording, management, including maintenance, replacement, and withdrawal from service (write off, disposal, stolen, lost or destroyed) of the following categories of assets: Land and Buildings, Leased buildings. Fixtures and Fittings, Plants and Equipment and Furniture and Vehicles. The focus for buildings was on the operational support provided by OIB (i.e. maintenance aspects and insurance policy).

The reliability and integrity of financial information, including the correct depreciation and valuation of assets in the accounts, was not covered as this is addressed by the audit of the financial statements performed by the European Court of Auditors.

The management centre for IT equipment is under the responsibility of DIGIT, and therefore excluded from the scope of the current audit.

There are no observations and/or reservations in the AAR 2008, which relate to the process audited.

The fieldwork was finalised at the end of May 2009. All observations and recommendations relate to the situation as of that date.

It has also to be noted that the IAC carried out an audit on "Inventory management of the fixed assets by the OIB" in 2004. The objectives of the IAC audit were to verify whether:

- ✓ the allocation of tasks and responsibilities was clear;
- ✓ policies, procedures and regulations were complied with;
- ✓ the information provided to DG BUDG for setting up the consolidated balance sheet of the European Union was reliable.

In defining the scope of the present audit, the IAS has taken into account the IAC's findings and recommendations rated as "Critical" and "Very Important" and the

implementation of the action plan, in order to assess risks, avoid duplication and ensure an effective use of resources.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
<b>Critical</b>	1	1	100	0	0
<b>Very Important</b>	3	3	100	0	0
<b>Important</b>	3	3	100	0	0
<b>Total</b>	<b>7</b>	<b>7</b>	<b>100</b>	<b>0</b>	<b>0</b>

### **6.3. OIB : Management letter on the inventory process as managed by OIB**

According to Article 220 of the Implementing Rules (IR) of the Financial Regulation, "a system of property inventories shall be established by the authorizing officer with technical assistance from the accounting officer. That inventory system must supply all the information required for keeping the accounts and safeguarding assets" Furthermore, according to the Commission Regulation on Inventories and management of the property of the European Commission (E/96/280 adopted on 22 January 1997), items shall be entered in the inventory.

During the audit, the IAS found that all users (mainly GBIs) had view access not only to items registered in ABAC Assets against the DG they are working for but also to those registered under their Management Centre. This access also includes the right to view sensitive items, despite ADMIN-DS not having granted the appropriate security authorisation.

No adequate guidance regarding access to this sensitive information recorded in ABAC Assets / ABAC SAM has been developed.

Access to information about sensitive items registered in ABAC Assets / ABAC SAM needs to be restricted to authorised staff based on a 'need-to-know' in order to carry out their duties or missions.

Therefore the IAS recommends that ADMIN-DS together with OIB:

- develop policies/procedures to restrict access to sensitive information registered in ABAC Assets / ABAC SAM to authorised staff based on a 'need-to-know' in order to carry out their duties or missions;
- ensure compliance with changes to the Financial Regulation and its Implementing Rules as and when they are decided.

### **6.4. OIL: Management letter on the inventory process as managed by OIL**

According to Article 220 of the Implementing Rules (IR) of the Financial Regulation, "a system of property inventories shall be established by the authorizing officer with technical assistance from the accounting officer. That inventory system must supply all

the information required for keeping the accounts and safeguarding assets." Furthermore, according to the Commission Regulation on Inventories and management of the property of the European Commission (E/96/280 adopted on 22 January 1997), items shall be entered in the inventory.

During the audit, the IAS found that all users (mainly GBIs) had view access not only to items registered in ABAC Assets against the DG they are working for but also to those registered under their Management Centre. This access also includes the right to view sensitive items, despite ADMIN-DS not having granted the appropriate security authorisation.

No adequate guidance regarding access to this sensitive information recorded in ABAC Assets / ABAC SAM has been developed.

Access to information about sensitive items registered in ABAC Assets / ABAC SAM needs to be restricted to authorised staff based on a 'need-to-know' in order to carry out their duties or missions.

Therefore the IAS recommends that ADMIN-DS together with OIL:

- develop policies/procedures to restrict access to sensitive information registered in ABAC Assets / ABAC SAM to authorised staff based on a 'need-to-know' in order to carry out their duties or missions;
- ensure compliance with changes to the Financial Regulation and its Implementing Rules as and when they are decided.

## **6.5. OIL: Inventory process as managed by OIL**

### **Objectives and Scope**

The objective of the audit was to assess the adequacy and effective application of the Internal Control System relating to the inventory process.

The scope of the audit focussed on the design and the implementation of the inventory process under the main responsibility of OIL and in particular:

- the organisation of this process within OIL;
- the internal controls in place for the complete, timely and accurate physical recording, management, including maintenance, replacement, and withdrawal from service (write off, disposal, stolen, lost or destroyed) of the following categories of assets: Land and Buildings, Leased buildings. Fixtures and Fittings, Plants and Equipment and Furniture and Vehicles. The focus for buildings was on the operational support provided by OIL (i.e. maintenance aspects and insurance policy).

The reliability and integrity of financial information, including the correct depreciation and valuation of assets in the accounts, was not covered as this is addressed by the audit of the financial statements performed by the European Court of Auditors.

The management centre for IT equipment is under the responsibility of DIGIT, and therefore excluded from the scope of the current audit.



There are no observations and/or reservations in the AAR 2008, which relate to the process audited.

The fieldwork was finalised at the end of June 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	3	3	100	0	0
<b>Total</b>	<b>4</b>	<b>4</b>	<b>100</b>	<b>0</b>	<b>0</b>

#### **6.6. OIB: Second follow-up on buildings infrastructure managed by the European Commission (OIB)**

Based on the results of our follow-up audit, all the recommendations addressed to OIB that resulted from the audit on buildings infrastructure managed by the European Commission have been adequately and effectively implemented. Concerning the need for an "accord de siège" (recommendation n°69), it is recognised that this would need to be addressed at another level; the negotiation between the EC and the Belgian authorities has been postponed following a decision of the Secretaries General of the Institutions.

#### **6.7. OIL: Follow-up of on buildings infrastructure managed by the European Commission (OIL)**

The assessment of the state of implementation was based on a desk review of evidence provided by your services in IssueTrack. Based on the results of our follow-up audit, all the recommendations addressed to OIL that resulted from the audit of buildings infrastructure have been adequately and effectively implemented. Concerning the need for an "accord de siège" (recommendation n°84), it is recognised that this would need to be addressed at another level, i.e. inter-institutional.

### **7. EXTERNAL POLICIES**

#### **7.1. RELEX: Second follow-up on handling of classified information**

Based on the results of the follow-up audit all recommendations to DG RELEX that resulted from the 2005 audit, and which were reviewed during the 2007 follow-up audit, have been adequately and effectively implemented.

## 7.2. RELEX: Financial management of the common foreign and security policy budget

### Objectives and Scope

Both the 2009 work plan of the DG RELEX Internal Audit Capability (IAC) and the DG IAS 2007-2009 strategic audit plan included the Common Foreign and Security Policy (CFSP) as a high-risk area. Further to a coordinated approach, the audit was conducted jointly by the IAS and the DG RELEX IAC.

The overall objective of this audit was to assess the adequacy, effectiveness and efficiency of the internal control system put in place by DG RELEX surrounding the financial management of the CFSP actions. This audit also addressed compliance issues with the Financial Regulations (FR) and DG RELEX internal procedures, the involvement of the Commission in the preparation of Joint Actions (JA), the monitoring and supporting roles of the DG RELEX A3, as well as the closure process. The CFSP actions are decided by the Council and implemented by the High representative of the Union for Foreign Affairs and Security Policy. The Commission is in charge of the implementation of the CFSP budget.

**The scope of the audit covered the financial management of the CFSP activities by DG RELEX for the years 2006 to 2008. Activities carried out by the General Secretariat of the Council, in particular by the Civilian Planning and Conduct Capability (CPCC), were excluded from the scope.** Section 2.1.1 of the report provides further details regarding areas excluded from the scope of this audit.

The audit work was mainly carried out at DG RELEX Headquarters (HQ). We also visited seven CFSP actions: EUSEC and EUPOL in the Democratic Republic of Congo, EULEX and EUPT in Kosovo (under UNI244/99), and in Brussels, EUJUST LEX and two European Union Special Representative (EUSR) (for the Great Lakes Region, and for Central Asia and the crisis in Georgia, respectively).

There are no reservations in the DG RELEX 2008 Annual Activity Report (AAR) that relate to the area audited.

The fieldwork was finalised end of May 2009. All observations and recommendations relate to the situation as of that date.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

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

### 7.3. ECHO: Financial Management of Food Assistance

#### Objectives and Scope

The overall objective of this audit is to provide an opinion on the compliance with the applicable rules and regulations and on the effectiveness and efficiency of the controls in place in DG ECHO with regard to the financial management of Food Assistance (FA) projects.

The scope includes accordingly the compliance of FA actions with the legal basis, the adequacy of the periodic assessment of partners related to FA projects, the financial management of FA projects and the effectiveness and efficiency of the working modalities within ECHO HQ and between ECHO HQ and field offices. For details on the areas excluded from the scope of the audit, see section 2.1.2 of the full report.

The audit covers the activities carried out in the framework of FA by both DG ECHO HQ and the ECHO field offices. Whereas decision makers (i.e. Delegated and Sub-delegated Authorising officers) are at HQ, the field offices, through their continuous presence in the field and technical expertise, play a key role in the management of humanitarian projects. Applying the principle of representativeness and considering the work performed by the external consultants on the evaluation of FA, the IAS selected and visited three ECHO field offices and reviewed 20 Food Assistance projects. For details on the selection criteria, see section 2.1.3 of the full report.

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

The fieldwork was finalised in April 2009. All observations and recommendations relate to the situation as of that date, with the exception of Observation 7 for which a note of DG ECHO dated 5/06/2009 was taken into consideration to provide a complete view on the latest developments on the Food Insecurity Needs Assessment Template (FINAT).

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

### 7.4. ECHO: Follow-up on monitoring and supervision tools

Based on the results of the follow-up audit all recommendations to DG ECHO that resulted from the 2007 audit audit have been adequately and effectively implemented, except for four recommendations which will be closed and replaced by the corresponding recommendations from the IAS audit on DG ECHO Food Aid.

## 7.5. AIDCO: Second follow-up on IAS validation of self-assessment of the IAC

Based on the results of the follow-up audit four out of five recommendations to DG AIDCO have been adequately and effectively implemented.

## 7.6. AIDCO: Financial management of main programmes in directorate A

### Objectives and Scope

The overall **objective** of this audit was 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 aspects of financial management in European Neighbourhood Policy Instrument (ENPI) Delegations;
- The monitoring and support activities by HQ (i.e. Directorate A) of the ENPI Delegations and;
- Directorate A and ENPI Delegations' reporting duties.

This audit was included in the IAS Strategic audit plan for 2007-2009, which was prepared in coordination with the IAC of DG AIDCO aiming at complementary coverage of the audit universe while targeting the highest risks. The scope was further defined during the risk assessment conducted in the preliminary phase of the audit<sup>3</sup>. The ENPI Delegations network consists of 15 Delegations. Applying the principle of representativeness, the IAS selected three Delegations for conducting field work.

There are no observations/reservations in DG AIDCO Annual Activity Report (AAR) 2008 relating to the area/process audited.

The fieldwork was finalised on 18 September 2009. 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	10	10	100	0	0
Total	13	13	100	0	0

## 7.7. TRADE: Internal control standards

### Objectives and Scope

The objective of the follow-up engagement is to assess progress made in implementing the accepted recommendations that resulted from the Final Audit Report on the

Implementation of selected Internal Control Standards in DG TRADE carried out on 13 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.

## 7.8. ELARG: Closure process of 'pre-IPA' instruments

### Objectives and Scope

The overall **objective** of this audit is to provide an opinion on the compliance with the applicable rules and regulations and on the effectiveness and efficiency of the controls in place in DG ELARG with regard to the closure process for 'pre-IPA' instruments (i.e. PHARE, CARDS and pre-accession instrument for Turkey).

In the absence of a clear definition in the Financial Regulation of the "*closure process/act*", for the purpose of this audit, the closure process is assumed to start with DG ELARG's analysis of a beneficiary's request for final payment (in centralised/joint management), or analysis of NAO's final declaration, including Clearance of Accounts procedures (in Decentralised management), and ends with decommitment (if applicable) and technical closure of a commitment in CRIS. Therefore, the **scope** of this audit comprises the following sub-processes and aims at assessing the following main aspects:

1. Validation of expenditure act (FR 79), including Clearance of accounts (CoAcc) procedure for Decentralised management (FR 53.e, IR 42). (i.e. 'closure of expenditure').
  - *IAS focus - Assurance*: Has the AOSD gained sufficient assurance to validate the expenditure when handling the beneficiaries' request for final payment (centralised/joint management) or the National Authorities' Final Declaration (decentralised management)?
2. Decommitment and technical closure in CRIS of 'level 1' (i.e. decisions) and 'level 2' (i.e. contracts/financing agreements) commitments.
  - *IAS focus - Monitoring activities*: Are DG ELARG monitoring activities appropriate to ensure a timely decommitment and closure of projects?

The audit covers the closing activities carried out by both DG ELARG HQ and its seven delegations in candidate and potential candidate countries. Applying the principle of representativeness, the IAS visited two delegations and reviewed 33 closed projects. For details on the **selection criteria** of delegations and projects, see section 2.1.3 of the full report.

Regarding the areas **excluded** from the scope of the audit, see section 2.1.2 of the full report.

The **fieldwork was finalised** in October 2009. All observations and recommendations relate to the situation as of that date, except for the data provided in observation 2 on time delays and RAL, which is based on CRIS extracts and excel tables provided by DG ELARG as of mid September 2009.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
Priority	#	#	% Total	#	% Total
Very Important	1	1	100	0	0
Important	3	2	66,7	1	33,3
<b>Total</b>	<b>4</b>	<b>3</b>	<b>75</b>	<b>1</b>	<b>25</b>

## 8. FOLLOW-UP AUDITS

In addition to the follow-up audits carried out by the IAS, the latter also regularly reports to the APC on the state of play regarding implementation of IAS audit recommendations. A summary table from the latest such report shows the implementation status as at 29 January 2010 for recommendations issued since 2002. Overall, 86% of the recommendations made over the period 2002-2009 are considered by auditees as implemented:

Year	Priority	Total	Implemented			In progress (by number of months overdue)								
			No	2009	2008	No	%	No delay	0-3	3-6	6-9	9-12	12+	
2002	Critical	108	108											
	Very important	739	717			22			2					20
	Important	854	825			29			4	3	1			21
2007	Desirable	122	120			2			1					1
		<b>1 823</b>	<b>1 770</b>	<b>97%</b>	<b>91%</b>	<b>53</b>			<b>7</b>	<b>3</b>	<b>1</b>			<b>42</b>
2008	Critical													
	Very important	152	97			55			24	10	3	13	3	2
	Important	168	111			57			21	10	11	8	2	5
	Desirable	14	9			5				3	2			
		<b>334</b>	<b>217</b>	<b>65%</b>	<b>17%</b>	<b>117</b>			<b>45</b>	<b>23</b>	<b>16</b>	<b>21</b>	<b>5</b>	<b>7</b>
2009	Critical	2				2			1	1				
	Very important	95	8			87			71	16				
	Important	83	12			71			46	20	4	1		
	Desirable	3	1			2			2					
		<b>183</b>	<b>21</b>	<b>11%</b>		<b>162</b>			<b>119</b>	<b>29</b>	<b>4</b>	<b>1</b>		
<b>TOTAL 2002-2009</b>		<b>2 340</b>	<b>2 008</b>	<b>86%</b>	<b>84%</b>	<b>332</b>			<b>165</b>	<b>67</b>	<b>23</b>	<b>23</b>	<b>5</b>	<b>49</b>

### 8.1. EAC: Follow-up on ABAC

Based on the results of the follow-up audit all recommendations to DG EAC that resulted from the ABAC audits carried out in 2006 and 2007 have been adequately and effectively implemented.

## **8.2. ADMIN/BUDG/SG : Follow-up SPP/ABM in the Commission**

### **Objectives and Scope**

The objective of the follow-up engagement was to assess progress made in implementing the accepted<sup>2</sup> recommendations that resulted from the *Audit on the SPP/ABM Cycle in the Commission (Consolidated Report)* carried out in 2006 (Final Report dated 27 November 2006).

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

The fieldwork was finalised on 23 February 2009.

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

## **8.3. BUDG: Follow-up on ABAC**

See point 4.5.

## **8.4. ECFIN: Follow-up on implementation of selected internal control standards**

### **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 Implementation of selected Internal Control Standards in DG ECFIN carried out in 2008 (final report dated 11 April 2008).

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.

## **8.5. MARKT: Follow-up on monitoring the implementation of EU law**

### **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 on *monitoring the implementation of EU law* carried out between April and November 2006 (Final Report dated 7 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.

## **8.6. ENV: Follow-up on CITL management**

### **Objectives and Scope**

The objective of the follow-up engagement was to assess progress made in implementing the accepted recommendations that resulted from the *IAS Audit of CITL Management* carried out in 2008 (Final Report dated 10 May 2008).

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

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

#### **8.7. ENTR: Follow-up on monitoring the implementation of EU law**

##### **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 on *monitoring the implementation of EU law* carried out between June and November 2006 (Final Report dated 5 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.

#### **8.8. MARE: Second follow-up on in-depth audit of DG FISH**

Based on the results of our follow-up audit, all the recommendations addressed to DG MARE that resulted from the In-Depth audit of DG FISH have been adequately and effectively implemented.

#### **8.9. MARKT: Second follow-up on the IAS validation of the self-assessment of the IAC of DG MARKT**

Based on the results of the follow up audit, all the recommendations addressed to DG MARKT that resulted from the audit IAS Validation of Self-Assessment of Internal Audit Capability (IAC) of DG MARKT have been adequately and effectively implemented.

#### **8.10.EMPL: Follow-up on preventing and detecting fraud in structural funds**

##### **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 *"Prevention and detection of fraud in the Structural Funds"* carried out in DG EMPL in 2007 (final report dated 19 December 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.

#### **8.11. EMPL: Follow-up on implementation of programmes in new Member States/new programming period**

##### **Objectives and Scope**

The objective of this follow-up engagement was to assess progress made in implementing the accepted recommendations that resulted from the audit "Implementation of Programmes in the new Member States" (Final Report reference IAS-2007-EMPL-OOI issued on 13 December 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.

## **8.12.SG/BUDG: Follow-up AAR assurance process**

### **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 on the AAR Assurance Process carried out in 2007. The final report D(2008)118 was issued on 21 January 2008.

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 that were addressed to SG and DG BUDG.

The original audit also covered 6 other DGs (DGs REGIO, EMPL, RTD, INFSO, JLS, and AIDCO). Given that the specific IAS recommendations pertaining to them were classified as important and desirable only, these will be followed-up separately with each DG on the basis of desk reviews.

## **9. OTHER**

### **9.1. COMP : Handling of sensitive information and Ethics**

#### **Objectives and Scope**

The mission of the Directorate-General for Competition (DG COMP) is "to enforce the competition rules of the Community Treaties, in order to ensure that competition in the EU market is not distorted and that markets operate as efficiently as possible, thereby contributing to the welfare of consumers and to the competitiveness of the European economy".

In accomplishing its tasks, DG COMP handles sensitive information provided by undertakings (business secrets and market sensitive information) or produced internally as a result of the decision-making process on competition matters. In this respect, DG COMP faces high legal, financial and reputational risks related to possible breaches of confidentiality.

In order to mitigate these risks, DG COMP has implemented since the beginning of 2008 specific procedures for handling sensitive information as well as a guide (code on Ethics) to ensure that its staff meet the highest possible professional and ethical standards.

The **objectives** of the present audit on Handling of Sensitive Information (HSI) and Ethics were to assess the adequacy and the effectiveness of:

- a) DG COMP's internal control system for ensuring the confidentiality of sensitive information covered by the obligation of professional secrecy or resulting from the internal decision making process, including the arrangements in place with third parties for promoting DG COMP's confidentiality standards, the internal monitoring systems/tools and the escalation mechanisms;

- b) DG COMP's internal control system for ensuring the ethical behaviour of its staff, including its alignment to the Commission's ethical framework, the adequacy of its ethics' guidance, the monitoring/ supervision system and the reporting mechanisms of ethics related incidents.

The **scope** of the audit included:

- a) For HSI: anti-trust and merger. The audit did not cover State Aids, physical security, IT Systems and the provisions of Reg. 1049/2001 regarding public access to European Parliament, Council and Commission documents.
- b) For Ethics: DG COMP's specific Ethics framework, focusing in particular on conflict of interest (Col) and insider trading.

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

The fieldwork was finalised on 30 April 2009. All observations and recommendations relate to the situation as of that date.

Acceptance Status		Yes		No	
		#	% Total	#	% Total
<i>Priority</i>	#	#	% Total	#	% Total
<b>Very Important</b>	4	4	100	0	0
<b>Important</b>	9	9	100	0	0
<b>Total</b>	<b>13</b>	<b>13</b>	<b>100</b>	<b>0</b>	<b>0</b>