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## **COMMISSION STAFF WORKING DOCUMENT**

### **Summary of Executive summaries**

#### **Internal audit engagements finalised by the IAS in 2016**

#### *Accompanying the document*

#### **Report from the Commission to the European Parliament and the Council**

#### **Annual report to the Discharge Authority on Internal audits carried out in 2016 (Art 99(5) of the Financial Regulation)**

{COM(2017) 497 final}

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## **CONTENT OF THIS STAFF WORKING DOCUMENT:**

Part 1 of this SWD contains the objective and scope, key findings and the critical and very important recommendations of the IAS engagements which were part of the 2016 IAS audit plan (cut-off date for the exercise: 31 January 2017). Important and desirable recommendations are not reproduced in this SWD. The information contained in this SWD reflects the state of play when the audit engagements were finalised as stated in the executive summary of the audit report. Each executive summary underwent the applicable standard professional validation and contradictory procedures between auditor and auditee at the time of the finalisation and aims to provide a quick understanding of the audits and their main results.

Part 2 of this SWD contains a summary of the IAS follow-up engagements in the period from 1 February 2016 to 31 January 2017<sup>1</sup>.

Part 3 provides a summarised overview of the 18 long overdue very important recommendations as at 31 January 2017.

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<sup>1</sup> The summary reflects the assessment of the IAS on the status of implementation of the audit recommendations at the end of the follow-up assignment. It does not take into account any further actions that may have been undertaken by the auditee and reported to the IAS since the release of the IAS follow-up note or report, possibly having an impact on the status of the recommendation.

## **PART 1: FINAL REPORTS**

### **1. HORIZONTAL AUDITS**

<b>1.1. Audit on the management of intra-muros contractors</b>
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#### **Audit objectives and scope**

The overall objective of the audit was to assess if the Commission uses the external contractors working intra-muros in an effective and efficient way. The audit covered the arrangements both at the corporate level aimed at facilitating the management of intra-muros contractors by DGs and the way in which they are managed in practice at the individual DG level.

At the corporate level, the audit scope included the overall framework put in place by DG HR, responsible for coordinating the personnel and administrative policy of the Commission, as well as by DG BUDG, responsible for laying down the procurement procedures and contract templates. The audit also focussed on DG DIGIT, given that a large number of intra-muros contractors work in the IT domain.

At the individual DG level, the audit scope included the process of monitoring the work performed by intra-muros contractors to ensure that DGs get value for the money spent and that the associated risks are adequately identified and appropriate mitigating measures put in place.

There are no observations/reservations in the 2015 Annual Activity Reports of any of the DGs covered by this audit that relate to the area/process audited.

The fieldwork was finalised on 25 May 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS identified two very important issues:

- ***Lack of a corporate framework for the use of intra-muros contractors***

Despite the significant number of intra-muros contractors in the Commission, there is no corporate framework and there are no comprehensive corporate guidelines to support DGs in their management. Certain DGs have developed guidelines at the local level, but these lack the corporate dimension needed to properly address not just the contractual issues, but also to allow them to take into account the HR implications of significant dependency levels. The need for such corporate guidance was clearly expressed by the audited DGs.

- ***Value for money in "time and means" contracts***

DGs/Services can use two major categories of service contracts. Either "result" contracts, which involve buying pre-defined deliverables, or "time and means" contracts, which are used to purchase human resource capacity with certain skills for a given period of time, but without necessarily pre-defined deliverables.

Although "time and means" contracts may be appropriate in certain circumstances, for example in the early stages of a project or operational service in which an output

cannot be clearly defined upfront, they tend to be used more because of their flexibility and the relatively lighter contract preparation work needed up front. However, they generally involve much less stringent reporting requirements on the work actually performed by the contractor and, unless properly monitored, provide less assurance on the achievement of value for money. Although the IAS identified certain good practices where framework contracts used on a "time and means" basis also included reporting requirements to allow implementation progress to be tracked, these appear to be exceptions rather than the rule. Furthermore, DG DIGIT's recent guidelines on outsourcing in the IT domain do not clearly advise DGs to use "result" contracts in preference over "time and means" contracts.

### **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***A corporate framework for the use of intra-muros contractors***

The IAS recommends that the responsibility for defining the corporate framework for the use of intra-muros contractors should be allocated to the main central services involved (DGs BUDG, HR and DIGIT), under the general oversight of the ABM Steering Group. These central services should work with the DGs that make most significant use of intra-muros contractors to define a corporate framework. This should build upon the existing guidance at local level and be more specific in spelling out which types of contract are most applicable to different situations.

- ***Value for money in "time and means" contracts***

As corporate domain leaders in IT and communication, DGs DIGIT and COMM should, for any new framework contract using "time and means" and, to the extent possible, for existing ones, build in contractual safeguards aimed at ensuring value for money. This could include the use of indicative milestones and/or defining deliverables, together with reporting requirements on the activities performed by intra-muros contractors.

Finally, DG DIGIT should revise the recently finalised guidelines to clearly state that a reflection should be carried out prior to the launch of the procurement procedure and that "result oriented" contracts should be privileged over "time and means" contracts.

<b>1.2. Audit on coordination and working arrangements with EU decentralised Agencies in DG SANTE and DG HOME</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy of the coordination and working arrangements of the partner DGs (HOME and SANTE) with their Agencies to ensure that Agencies' activities contribute efficiently and effectively to the DGs' policy objectives.

The audit focussed on the following three areas: (1) the clarity of the role and responsibility of the partner DG vis à vis its Agencies; (2) the adequacy of the overall strategy of the partner DG vis à vis its Agencies to ensure that their activities contribute efficiently and effectively to the achievement of the DG's policy objectives

and (3) the adequacy of the organisational structure of the partner DG in order to have efficient and effective interactions with its Agencies.

As the areas under review are managed separately and under different organisational structures in the partner DGs (HOME and SANTE), two separate reports have been issued by the IAS for clarity purposes and to facilitate the follow up of the recommendations at partner DG level.

There are no observations/reservations in the 2014 Annual Activity Reports (AAR) of the DGs that relate to the area/process audited.

The fieldwork was finalised on 15 January 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified one very important issue with regard to the overall strategy of each partner DG towards its Agencies in three key areas (i.e. programming, monitoring and control/reporting) as follows:

### **DG HOME**

- ***Partner DG's contribution to Agencies' programming and link to the DG's own programming activities***

The Commission (via DG HOME) has to provide an opinion on the work programmes of its Agencies as requested by the Agencies' Founding Acts. The IAS observed that the work programmes of certain Agencies lack quality in terms of objective setting (i.e. no SMART objectives) and the definition of Key Performance Indicators (KPIs) (i.e. no result and impact indicators). Furthermore, some issues on the programming process have been noted: delays in providing the Commission's opinion, the need for closer links between the partner DG and the Agency and for a more proactive Commission's role to facilitate the timely assessment of Agency's budget needs. In addition, despite the link between the DG's policy objectives and the outputs of the Agencies, performance indicators are not systematically included in the DG's Management Plan which reflect the Agencies' contribution towards the achievement of DG HOME's policy objectives. Finally, DG HOME does not explicitly take into account the extent to which the risks reported by the Agencies may hamper the achievement of those policy objectives.

- ***Partner DG's monitoring of Agencies' activities***

The main mechanisms for monitoring the performance of decentralised Agencies are through the work of the respective Management Boards as well as through regular (informal) contacts. As is the case for other partner DGs, DG HOME is represented on the Boards of its Agencies. Key to effective monitoring is to have appropriate KPIs and adequate performance measurement systems and reporting at Agency's level. While this is the Agencies' responsibility, DG HOME has a vested interest that these arrangements adequately support the achievement of its own policy objectives. As noted above appropriate KPIs are not always in place and the quality and regularity of performance measurement and reporting in the Agencies varies considerably. Furthermore, although the DG has supported the Agencies in implementing certain actions under the 'Common approach' and associated 'Roadmap' aimed at making the

Agencies more coherent, effective and accountable, the IAS considers that it could further strengthen its monitoring in this area.

- ***Partner DG's control strategy to build assurance and report on the tasks entrusted to its Agencies in the framework of the Annual Activity Report***

DG HOME has not formalised yet its control strategy towards its Agencies, including a provision for adapting the intensity of controls to match the Agencies' respective risk profiles. Furthermore, no 'differentiated' control strategy exists for the two Agencies which have been entrusted by DG HOME with budget implementation tasks through 'Delegation Agreements'. The risks of fraud and of conflict of interest (CoI) are not systematically monitored by the partner DG as a member of the Management Board. In addition, there is room for improvement in the way in which the DG builds up its assurance on the activities of the Agencies, due to the inefficient use of independent sources of assurance such as evaluation and audit work but also due to the limited nature of the reporting process on Agencies' matters by the AOSD which does not systematically report on the results of the Agencies' activities and on the DG's monitoring arrangements towards its Agencies.

## **DG SANTE**

- ***Partner DG's contribution to Agencies' programming and link to the DG's own programming activities***

DG SANTE has a very limited role in the establishment of the work programmes of its Agencies. This is mainly due to the fact that under the Agencies' Founding Acts, there is no legal requirement for the DG to provide an opinion on the work programmes, but also due to the fact that in some cases the Agencies allow the DG only a limited opportunity to participate in the discussions at an early stage of the programming phase. The IAS observed that the work programmes of certain Agencies lack quality in terms of objective setting (i.e. no strategic objectives) and KPIs (i.e. no result and impact indicators). Furthermore, despite the link between the DG's policy objectives and the outputs of the Agencies, there are no performance indicators in the DG's Management Plan which reflect the Agencies' contribution towards the achievement of DG SANTE's policy objectives. In addition, in its risk assessment, DG SANTE does not document the extent to which the risks reported by the Agencies may hamper the achievement of those policy objectives.

- ***Partner DG's monitoring of Agencies' activities***

The main mechanisms for monitoring the performance of decentralised Agencies are through the work of the respective Management Boards and Audit Committees (when applicable) as well as through regular (informal) contacts. To support these monitoring activities, amongst other sources of information, appropriate performance indicators should be in place. While this is the Agencies' responsibility, DG SANTE has a vested interest that these indicators adequately support the monitoring of the achievement of the DG's policy objectives. As noted above this is not always the case. Furthermore, although the DG has supported the Agencies in implementing certain actions under the 'Common approach' and associated 'Roadmap' aimed at making the Agencies more coherent, effective and accountable, the IAS considers that it could further strengthen its monitoring in this area. Finally, although the IAS acknowledges that the quality checks performed by DG SANTE on its Agencies' scientific opinions necessarily

follow different approaches depending on the particular circumstances, it found that neither the common principles nor the justification for the different approaches were documented.

- ***Partner DG's control strategy to build assurance and report on the tasks entrusted to its Agencies in the framework of the Annual Activity Report***

The IAS notes that DG SANTE has formalised its overall control strategy towards its Agencies. Although this is risk-based, it does not describe the different Agencies' risk profiles and does not explain how the intensity of controls should be adapted to those risk profiles. In addition, there is room for improvement in the way in which the DG builds up its assurance and reports on the activities of the Agencies. Currently, independent sources of assurance such as evaluation and audit work are not used as efficiently as they could be and the reporting made by the AOSD on Agencies matters focuses more on budget execution than on results linked to policy achievements, operations and monitoring arrangements.

### **Recommendations**

To address these issues, the IAS formulated the following recommendations for each partner DG:

#### **DG HOME**

- ***Partner DG's contribution to Agencies' programming and link with DG's programming***

DG HOME should reinforce its leverage effect on Agencies' programming. Firstly by being involved earlier in the programming phase to support more effectively the Agencies for the setting of adequate objectives and the definition of appropriate KPIs and secondly by establishing closer links between Agencies (i.e. field expertise) and Commission (i.e. 'Policy') to ensure that lessons learnt can feed into all levels of policy development. The DG should also reinforce its risk assessment process by taking account of the risks reported by the Agencies and strengthen its planning documents (i.e. Strategic Plan (2016/2020) and annual Management Plans), by explaining clearly how the Agencies activities contribute to the achievement of the policy objectives and how this is in turn supported/measured by appropriate indicators.

- ***Partner DG's monitoring of Agencies' activities***

Through its role as a member of the respective Management Boards, DG HOME should strengthen its performance monitoring using the KPIs established by the Agencies. It should further promote and support the implementation of the 'Common Approach' by its Agencies and follow up on the implementation of the 'Roadmap' in each individual Agency.

- ***Partner DG's control strategy for building assurance and report on the tasks entrusted to its Agencies in the framework of the Annual Activity Report***

DG HOME should strengthen its control and assurance building process as follows. Firstly, a control strategy should be formalised for the Agencies, allowing for different levels of control intensity in line with the Agencies' respective risk profiles. Secondly, a separate control strategy for Agencies with delegated budget implementation tasks (i.e. Delegation agreements) should be established as the discharge in respect of the

delegated funds is given to the Commission (not to the Agency) and the Director General of DG HOME is the Authorising Officer by Delegation (not the Director of the Agency). Thirdly, the building blocks supporting the Authorising Officer by Delegation's declaration of assurance should be reinforced by a more efficient use of independent sources of assurance and by a more systematic bottom-up reporting process aimed at ensuring that the information needed for the DG's AAR on the Agencies' activities is reported consistently and on a timely basis and properly identifies issues which could have an impact on the declaration of assurance. Fourthly, the information included in the AAR on the Agencies' activities should be improved, particularly with regard to the main results and the contribution to DG HOME's policy objectives. Finally, the DG should monitor that Agencies establish adequate Anti-Fraud and conflict of interest policies which we recommend to be adopted by their respective Management Boards.

## **DG SANTE**

- ***Partner DG's contribution to Agencies' programming and link with DG's programming***

DG SANTE should reinforce its leverage effect on Agencies' programming. Firstly by being involved earlier in the programming phase to support more effectively the Agencies for the setting of adequate objectives and the definition of appropriate KPIs and secondly by establishing closer links between Agencies (i.e. science/field expertise) and Commission (i.e. 'Policy'), while respecting both the independence of the Agencies and the role of the Commission to ensure that lessons learnt can feed into all levels of both organisations. The DG should also reinforce its risk assessment process by documenting properly how the risks reported by the Agencies are taken into account. It should also strengthen its planning documents (i.e. Strategic Plan (2016/2020) and annual Management Plans) by explaining clearly how the Agencies activities contribute to the achievement of the policy objectives and how this is in turn supported/measured by appropriate indicators.

- ***Partner DG's monitoring of Agencies' activities***

Through its role as a member of the respective Management Boards, DG SANTE should strengthen its performance monitoring using the KPIs established by the Agencies. It should further promote and support the implementation of the 'Common Approach' by its Agencies and follow up on the implementation of the Roadmap in each individual Agency. The DG should ensure that the different approaches used as regards quality checks on Agencies' scientific opinions are properly documented and justified accordingly.

- ***Partner DG's control strategy for building assurance and report on the tasks entrusted to its Agencies in the framework of the Annual Activity Report***

DG SANTE should strengthen its control and assurance building process as follows. Firstly, the control strategy should describe the different Agencies' risk profiles and how the level of control intensity should be adapted to these risk profiles. Secondly, the building blocks supporting the AOD Declaration of assurance should be reinforced by a more efficient use of independent sources of assurance. Thirdly, there should be a more systematic bottom-up reporting process aimed at ensuring that the information needed for the DG's AAR on the Agencies' activities is reported consistently and on a

timely basis. Finally, the information included in the AAR on the Agencies' activities should be improved, particularly as regards the main results and the contribution to DG SANTE's policy objectives.

### **1.3. Audit on performance and coordination of Anti-Fraud activities in the Traditional Own Resources area**

#### **Audit objectives and scope**

The overall objective of the audit engagement was to assess whether or not the Anti-Fraud activities in the area of Traditional Own Resources (TOR) are planned, managed and coordinated in an effective manner to ensure the best protection of the Commission's financial interests.

The scope of this audit engagement covered the Commission's Anti-Fraud activities in the TOR area with a particular focus on customs duties and cigarette smuggling.

The audit covered:

- The Commission Anti-Fraud Strategies (CAFS) and high level coordination and policy in the TOR area;
- Anti-Fraud Strategies (AFS) of the main DGs involved in TOR-related activities;
- Operational activities in the audited DGs to address the fraud risks at each stage of the Anti-Fraud cycle;
- Communication and information within the framework of Commission governance and reporting such as the annual risk assessment exercise, the Annual Activity Reports (AARs), Management Plans (MPs), etc.

The audit focused on the activities of OLAF, DG BUDG and DG TAXUD.

There are no observations or reservations in the 2015 AARs of the audited DGs, which relate to the audited process.

The fieldwork was finalised on 30 September 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS identified three very important issues:

- ***Anti-Fraud Strategies in own resources at Commission and DG level***

The CAFS and the individual DGs' AFSs do not sufficiently address specific fraud risks in the domain of EU own resources. In particular, the CAFS does not provide a clear framework for fighting fraud in the own resource areas as a whole (including TOR), while concerning the AFSs, the TOR DGs do not coordinate their preparation to ensure that common fraud risks are adequately identified and addressed.

- ***OLAF support***

OLAF's support and facilitation activities on fraud prevention and detection in the TOR area are less structured and comprehensive than in the expenditure area. In particular, the central guidance, support and coordination provided to the DGs, the



training programme and the information provided in the Anti-Fraud website are mostly focusing on the expenditure area and very limitedly on TOR. There is moreover no working group or forum for all the TOR DGs to discuss and share common challenges and best practices in the TOR area.

- ***Roles and responsibilities in the TOR area***

There is no clear overview of how the TOR DGs share the Commission's competence for fraud prevention and detection in the TOR area, and how they ensure effective cooperation and resolve strategic issues on fraud prevention and detection. In addition, the different committees with the Member States address Anti-Fraud aspects to a very limited extent, not all the TOR DGs attend them or are involved in the preparation of meetings to define a common EC position or propose issues for discussion. Lastly, the TOR DGs do not sufficiently coordinate their preparation and distribution of reports to the Member States on Anti-Fraud activities and performance.

### **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Anti-fraud Strategies in own resources at Commission and DG level***

OLAF should revise the CAFS in order to address appropriately issues and risks related to own resources, including TOR and facilitate a better coordination among the TOR DGs to enable identifying common risks and defining coordinated mitigating actions.

- ***OLAF support***

OLAF should strengthen its support to the TOR DGs by ensuring an enhanced service to TOR DGs as for expenditure DGs. This should include revising the AFS guidance in the TOR area, developing an appropriate range of awareness, communication and training tools and ensuring that the Fraud, Prevention and Detection Network addresses TOR issues.

- ***Roles and responsibilities in the TOR area***

OLAF, DG BUDG and DG TAXUD should better cooperate by setting up a strategic steering function responsible for AFS in TOR, defining clearly the respective roles and responsibilities and establishing procedures for the cooperation among them (including when preparing reports on Anti-Fraud activities). The DGs should also review and formalise the different current practices for Member State committees and working groups.

<b>1.4. Audit on the new Better Regulation agenda in the Commission - what is the state of play approximately one year after its adoption?</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess the state of play of the Better Regulation (BR) package approximately one year after its adoption. Although still relatively early for such an important and wide ranging initiative, with expectation levels so high, it is important to assess the progress made so far, confirm or otherwise

that it is on track and to highlight as early as possible any areas for possible improvement/corrective action.

The audit scope included:

- At the corporate level: the framework put in place to support the implementation of the BR package at Commission level and the measures taken by the SG so that DGs are ready to manage, monitor and report on the efficient and effective implementation of the package;
- At the DG level: the preparedness of a sample of DGs (EMPL, ENV and GROW) to efficiently and effectively implement the BR package in practice.
- There are no observations/reservations in the 2015 Annual Activity Reports of the audited services that relate to the area/process audited.

The fieldwork was finalised in mid-June 2016 and all observations and recommendations relate to the situation as of that date. However, the situation is continuously evolving and various factors and events have come to light since the end of the fieldwork. These have been taken into account when finalising the audit engagement.

## **Major audit findings**

The IAS identified two very important issues:

- ***State of play of the main Better Regulation components***

Although the Commission has put in place the main components of the package (REFIT - Regulatory Fitness and Performance Programme - Platform, Regulatory Scrutiny Board, feedback/consultation mechanism and agenda planning etc.), it has yet to establish proper monitoring and measurement arrangements for assessing whether these components are functioning adequately in practice. The IAS notes that the continual development of the supporting IT tools (the BR portal and Decide) will allow key data/statistics to be collected and indeed this is already underway. However, it still remains to be decided how these will be best used for monitoring and assessment purposes.

As regards the REFIT platform, the IAS found that the working arrangements still need to be finalised, together with clearer explanations as to precisely what is expected from the platform. At the fieldwork date, these were still not clear to the platform's members.

Concerning the Regulatory Scrutiny Board (RSB), there is a need for DGs to be better informed about the quality and content requirements for impact assessments and evaluations, as this would help them to prepare high-quality outputs from the outset. Furthermore, the RSB's rules of procedure and working arrangements, which were available only in draft at the time of fieldwork, still need to be finalised.

Although the feedback and consultation mechanisms have been strengthened as part of an attempt to reach out to stakeholders, in practice this has proven to be a challenge as the response rate is, with a few notable exceptions, generally quite low. The language requirement appears to be a particular problem with less than 20% of the 2016 open public consultations being made in all EU languages. This poses a natural barrier in the attempts to reach out to all EU citizens. In addition, the operational DGs audited

expressed concerns as to the proportionality of the feedback/consultation mechanism, although the IAS acknowledges that it may be too early to draw conclusions in this area in the absence of relevant performance information referred to above.

As regards the new approach for planning and validating major initiatives, the statistics available for 2016 at the time of the fieldwork show that the average time for the validation process is very encouraging overall, at ten working days, but about one quarter experienced considerable delays. In order to address this issue, the IAS notes that towards the end of the fieldwork the SG simplified the process and it expects the situation to improve.

- ***Fostering the Better Regulation culture***

The new impetus that the BR agenda brought also requires a change in culture whereby the objectives and principles need to be deeply embedded in the regulatory activities of the Commission. To this end, the IAS found that whilst tools and guidelines have been made available, much less emphasis was given in practice to helping foster the necessary change in culture. However, it notes that a communication strategy was developed early this year and is gradually being put in place in the context of the roll-out of the new BR portal. Furthermore, the audit identified a need to communicate more clearly on the workflow for policy development, the roles and responsibilities within the SG and the support that the SG is offering to the DGs.

In addition, the coordination within the SG, in particular between the Directorate responsible for the BR agenda and those responsible for coordinating the policies throughout the Commission needs to be improved. The role of the SG is pivotal in fostering the BR culture and it follows therefore that the BR principles are understood, applied and communicated to the DGs in a coherent manner. The IAS also noted room for improvement with regard to quality review by the SG. In particular, supporting documents to guide the quality review are not used consistently and there is no indicative timeline for the submission of documents.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***State of play of the main Better Regulation components***

SG and, where relevant, the RSB, should define appropriate performance measures for the main components of the BR package and monitor and evaluate these in practice. Furthermore, the SG should explain to the REFIT platform members more precisely what is expected from them and from the process and should ensure that the working arrangements are agreed and properly understood amongst the platform's members.

The RSB, in collaboration with the SG, should make it clear to the DGs what is expected of them in terms of quality and content for impact assessments and evaluations and should also finalise its rules of procedure and working arrangements.

Concerning the feedback/consultation mechanisms, the SG should carefully monitor progress, particularly as regards both the application of the language regime used for consultations, and the proportionality of the efforts made (inputs) to responses received (outputs) in relation to both consultation and feedback mechanisms.

Furthermore, it should investigate the reasons for the low feedback rate and adapt the communication approach accordingly.

Finally, as regards the planning of major initiatives, the SG should monitor the application of the new simplified process to assess whether the expected benefits are actually being achieved in practice and take any necessary remedial action.

- ***Fostering the Better Regulation culture***

To better foster the BR culture in the Commission and building on what is in place already, the SG should further develop its communication strategy promoting the BR objectives. Particular emphasis should be placed on the importance of the 'tone at the top' and for Senior Management to be sending the right signals as to the importance of this initiative. This could be further complemented through stronger support from the political level.

On a very practical level, the SG should clearly set out (and communicate accordingly) who does what and when, highlighting key review points for documents. Finally, the SG should strengthen its internal coordination and quality review arrangements to provide more consistent support to the DGs/services

## **1.5. Audit on financial management in the SG, LS, EPSC and DGT**

The overall objective of the audit was to assess the adequacy of the financial management of the SG, LS, EPSC and DGT. In particular, it reviewed the design and the implementation of the controls in place to assess whether they ensure the legality and regularity of the financial transactions. Furthermore, the audit assessed the efficiency of the financial workflow.

This audit covered the key controls designed and implemented in the following processes:

- The procurement process, from the determination of the needs and planning to the effective implementation of the contract;
- The financial circuits of procurement, including commitments, payments (including payment deadlines) and recovery orders, to ensure proper segregation of duties and authorisation;
- The recording of exceptions and ABAC access rights;
- The risk register and Anti-Fraud strategy;
- The reporting of the financial activity in the Annual Activity Report (AAR).

The engagement covered the period 2015 and the first five months of 2016. There are no reservations in the 2015 AAR of the SG, LS, EPSC and DGT that relate to the area/process audited.

The fieldwork was finalised during September and October 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

#### **The SG, EPSC and DGT**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **The LS**

The IAS identified one very important issue:

- ***Procurement process: Weaknesses in documentation***

The IAS found that as regards the procurement procedures relating to legal services, the documentation lacks a sufficient degree of formalisation to ensure a proper audit trail, as required by the Financial Regulation (FR). For example, there is no trail of the exclusion, selection and award criteria used for the procedure. In addition, exceptions to the FR and its rules of application (RAP) are not properly documented as required by the relevant internal control standard. Moreover, there is no formal evaluation and award decision and the relevant manual used by the LS is very brief and does not explain in sufficient detail the main steps to be followed for the procurement procedure.

The IAS also noted that the LS does not request a declaration on honour from the legal service contractors and is currently seeking the opinion of DG BUDG on the necessity to do so.

Finally, the audit found that the requirements of the RAP regarding the publication of contracts awarded were not fully complied with. Their publication on the website of the LS was not exhaustive and did not meet the deadline as set in the RAP.

## **Recommendation**

To address this issue, the IAS formulated the following recommendation:

- ***Procurement process: Weaknesses in documentation***

The LS should:

- Develop a document (or further develop the existing template), which formalises the main steps of the procurement procedure for legal services, including exceptions to the FR and RAP;
- Update its internal operational manual (Guide sur l'activité "contentieux" du service juridique - 2016) to provide more detailed guidance to the legal officers in this respect;
- Clarify with DG BUDG whether the LS has to request the ESPD/declaration of honour before awarding a contract for legal services and follow the position as expressed by DG BUDG. For procurement procedures below EUR 15 000, carry out a risk assessment in order to assess whether or not to request these documents;
- Publish a full list of all legal service contracts awarded in a given year respecting the deadline of 30 June year n+1.

<b>1.6. Audit on the early implementation of ESIF control strategy 2014-2020 in DGs REGIO, EMPL and MARE</b>
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## **Audit objectives and scope**

The overall objective of the audit was to assess if the control strategy of DGs REGIO, EMPL and MARE for the management of their European Structural and Investment Fund (ESIF) was properly designed, effectively implemented and well-coordinated in the early stages of the 2014-2020 programming period.

The scope of the audit focussed on the following three main areas for the ESI funds managed by DGs REGIO (ERDF and CF), EMPL (ESF) and MARE (EMFF):

- The appropriateness of the design of the control strategy for building up assurance on the management of the ESI funds for the 2014-2020 period;
- The effective implementation of the control strategy in the early stages of the 2014-2020 period to ensure that sufficient assurance is available before reception of the first assurance packages with declared expenditure;
- The appropriateness of the coordination arrangements between the three DGs (i.e. internal coordination) and with Member State authorities (i.e. external coordination) to ensure a consistent and sound control approach as well as an efficient use of resources in the early stages of the 2014-2020 period.

The assessment of the IT systems used for the control/audit activities were excluded from the scope of the audit.

There are no observations/reservations in the 2015 Annual Activity Reports (AAR) of DGs REGIO, EMPL and MARE that relate to the area/process audited.

The fieldwork was finalised on 29 July 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified two very important issues:

- ***Design of the ESIF control strategy 2014-2020***

### *DGs' assurance process*

The legal basis for the 2014-2020 programming period introduced a number of new features which the DGs are yet to fully assess in terms of their impact from a control/assurance perspective. In particular, this concerns the impact of the 10% retention of interim payments on: (a) the procedure for interruption and suspension of payments, (b) the DG's decisions whether or not to issue a reservation in the AAR and its quantification and (c) the calculation of the 'amount at risk'. Also, it is not yet clear how multi-fund Operational Programmes (OPs) will be treated (a) when drawing conclusions and making financial corrections based on audit results resulting from common samples (i.e. covering both funds) and (b) when defining in the audit methodology the scope when covering those OPs. Finally, also not yet fully addressed is the control approach to be applied on the legality and regularity of payments under each stage of the control cycle.

### *DGs' audit plans*

Delays in the start-up of the 2014-2020 programming period have resulted in the need for continuous adjustments of the DGs' audit plans. Although these are risk-based (in line with auditing standards) and properly supported by a workload analysis, there is a lack of consistency between the DGs on how to take into account resources shortages

when developing their plans and it is not clear to what extent those shortages might impact on the assurances needed for a given reporting period.

#### *'Control-related' simplification measures*

It is not yet sufficiently clear how the control related simplification measures introduced in the 2014-20 programming period will deliver the expected results. Issues still to be clarified include: (1) article 148 of the Common Provisions Regulation (CPR) on 'proportional control of OPs', setting out provisions to avoid overlap with Member States/ECA audits under certain conditions, (2) article 140(1) of the CPR on 'shorter retention period of documents', limiting the time for audit activities and financial corrections and (3) article 122(3) of the CPR on 'e-Cohesion', providing that by 31/12/2015 Member States have to exchange all information between beneficiaries and their national authorities by means of electronic data exchange systems.

- ***Implementation of the ESIF control strategy in the early stages***

#### *Designation review*

The Commission's progress in reviewing Member States designations depends very much on progress made by the Member States on the designation process itself, which is under their responsibility and has been subject to persistent delays. As at September 2016, the Commission had received notice of complete designation for only 214 out of the 538 approved OPs (i.e. 40%). The DGs have provided guidance to help facilitate the designation process and some Audit Authorities found this to be useful. However, others raised concerns about the feasibility to implement the so-called 'Light designation' for management and control systems, whereby the authorities concerned have essentially the same systems which existed in the previous period.

The risk factors used by the Commission to select OPs subject to designation reviews (DR) are driven mainly by the amount of EU-co-financing at stake, rather than other factors such as the reliability of the Independent Audit Body (IAB). The IAS considers the latter to be more critical given the objective of the DR is to confirm the reliability of the IAB report. Also, although the DGs' methodology for the DR and guidelines to IABs on how to treat IT issues at the designation stage are clear on paper, the IAS found that in two out of the four sampled cases, either the DG's auditors (in one case) or the IAB (in the second case), had not completely followed the set procedures in practice.

#### *Early Preventive System Audits (EPSA)*

Concerning the EPSA methodology, the IAS notes that the impact of such audits on the application of article 148 of the CPR (which limits the audits that can be performed on the same beneficiary by the DGs, the AA and the ECA) has not been properly reflected in the methodology. Also, the DGs have yet to update the checklist to verify compliance with the EU public procurement directive to cover the contracts published from April 2016. Additionally, the risk assessment process used to select OPs for such audits is lacking in so far as the decision-making is not always clearly documented and weightings are not adequately assigned to certain risk factors.

#### *Review of National Audit Strategies (AS)*

The DGs' review of the AS is risk-based and includes the AS of the OPs which are subject to DR. However, the DR automatically excludes lower-value OPs (i.e. below the thresholds in the legal basis) even though these may have a high-risk profile. The

IAS notes that the DGs do not currently plan to review the AS for certain OPs identified as risky according to the EPSA risk assessment. Also, there is room for improvement on the process and tools used for monitoring the reviews of AS.

*Thematic audits on: (1) Performance Data Reliability (PDR) and (2) Financial Instruments (FI)*

The single audit strategy attaches priority in the first years of implementation, in addition to the compliance audits, to audits on the reliability of data in the Member States and on Financial Instruments. However, at the end of the IAS audit fieldwork, in REGIO and MARE there had been no audits on assessing data reliability and a number of underlying methodological issues have yet to be resolved in the existing methodology developed jointly by the DGs. These include the question as to which performance indicators should be included in the scope of the audit, the risk factors used for selecting OPs, the extent to which desk officers and evaluation experts can be used and finally the impact on suspension/interruption of payments and on financial corrections. Concerning Financial Instruments, there is no audit methodology in place yet and no audits performed so far. However, the IAS notes that a working group has been set up to develop a methodology for mid-2017.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Design of the ESIF control strategy 2014-2020***

DGs REGIO, EMPL and MARE should clarify: (1) the impact of the 10% retention from interim payments on the interruption and suspension of payments, on the calculation of the 'amount at risk' and when deciding on the need to qualify the annual declaration of assurance by a reservation; (2) the impact of the 'multi-fund' OPs on the sampling method and the scope of the enquiry planning memorandum when covering those OPs and (3) the control approach and level of assurance for each type of payment and for each stage of the control cycle and clearly disclose this in the AAR.

The DGs should revise their audit plans for the 2016-June2017 period to address any changes needed as a result of new events (e.g. new AA system audits reported). The plans should be either aligned to the resources available or alternatively explain the impact of any shortages in resources on the level of assurance in the reporting year.

Finally, the DGs should address some points resulting from the control-related simplification measures: (1) clarifying the sampling implications and a process to exchange information on samples at beneficiary level, so as to avoid overlaps between audits on the same beneficiary by the DGs, the AAs and, under certain conditions, the ECA as per article 148 of the CPR; (2) consideration of the time limit for audit as per article 140.1 of the CPR in the risk assessment used for the selection of the OPs to be audited and (3) addressing the potential audit detection risk resulting from the use of 'e-cohesion' through audit work on this topic.

- ***Implementation of the ESIF control strategy in the early stages***

DGs REGIO, EMPL and MARE should:



- 'Designations': in the short term, better facilitate the designation process through, for example, bilateral contacts with the Member States, giving priority to the risky OPs selected for designation review. In the long term, the DGs should assess the experiences of the 2014-2020 designation process to draw lessons and define the control approach for the post-2020 legislative framework;
- 'EPSAs': strengthen the methodology and risk assessment process, including improving the audit trail and attaching a higher weight to the reliability of the AA's work;
- 'Review of national audit strategies': include as part of their review the additional high risk OPs identified in the EPSA risk assessment. DGs should also improve the existing tools and further develop the monitoring process;
- 'PDR audits': strengthen the methodology by clarifying the scope, the role of desk officers and evaluation experts and the impact of any errors detected and ensure that such audits are carried out on the selected OPs as a matter of priority;
- Audits on 'Financial Instruments': develop the necessary methodology and launch audits as soon as possible, after taking due consideration of any audit work by the AA on Financial Instruments to respect the "single audit principle" and based on the first substantial data on Financial Instruments reported by the Member States.

#### **1.7. Audit on effectiveness of simplification measures under 2014-2020 ESI Funds in DG EMPL, REGIO and MARE**

##### **Audit objectives and scope**

The overall objective of this audit was to assess whether or not DGs REGIO, EMPL and MARE have put in place the necessary processes to ensure that the simplification measures introduced in the 2014-2020 regulatory framework are effective in achieving the objective of reducing the administrative burden (at beneficiary and Member State level), whilst at the same time obtaining the necessary assurances on legality and regularity of transactions and performance of programmes. The IAS audit focused on the following three areas:

- The appropriateness of the design of the processes for implementing simplification measures;
- The activities of the European Structural and Investment Funds (ESIF) DGs in the areas of promoting the use and monitoring the take-up of simplification measures and in identifying any weaknesses in their implementation;
- The DGs' efforts to identify any further simplification measures as well as take action in order to address the identified weaknesses in the existing measures.

The scope of the Commission's simplification exercise for the multi-annual financial framework period 2014-2020 encompasses the Member States' national authorities as well as the beneficiaries of ESIF grants. It does not include simplification measures at the Commission level. The main simplification measures covered by this audit are:

- Measures related to simplifying cost reimbursement rules, notably Simplified Cost Options (SCO), simplifying eligibility rules and reducing "gold plating", and simpler rules for revenue generating projects;
- Joint Action Plans (JAP);

- e-Cohesion.

Another 2016 IAS audit on *'Early implementation of ESIF control strategy 2014-2020 in DGs REGIO, EMPL and MARE'* has covered the design aspects of several control related simplification measures.

There are no observations/reservations in the DGs' 2015 Annual Activity Reports that relate to the area/process audited.

The fieldwork was finalised on 28 September 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified two very important issues:

- ***Uptake and impact of simplification measures and the DGs' processes to promote and monitor these measures***

The provisional results of a DG REGIO study show that the reduction in administrative costs is likely to be lower than expected, largely as a result of the lower than expected uptake of a number of simplification measures. A notable exception concerns the ESF, where the expected uptake of SCO represents some 36% of the total ESF funding. This compares to some 2% for the ERDF/CF, and zero for the EMFF. For the ESF, this is a significant increase in comparison to the 7% uptake rate for the 2007-2013 programming period, but still below the ambitious target of 50% set for this period. For the other Funds, the DGs have not set any targets for the 2014-2020 programming period and there is no significant increase in the use of SCO yet in comparison to the previous period. Furthermore, the e-Cohesion requirements were fulfilled for only 58% of the ERDF/CF Operational Programmes (OPs) as at 31 December 2015. No information was available on the uptake of this measure in the case of the ESF. In addition, there has been no take up of JAP so far.

Despite the ESIF DGs' efforts, they have not yet succeeded in overcoming a number of obstacles to further increase the uptake of simplification measures and to reduce the administrative burden of beneficiaries and the administrative costs of the Member States.

The expected uptake of SCO is very much dependent on the type of projects funded. ESF funded actions are often more suitable for applying SCO. For ERDF/CF and EMFF, it is often not feasible to use flat rates, unit costs or lump sums. According to a survey of ESF Management Authorities carried out by DG EMPL, all intend to use SCO in this programming period. However, other surveys/studies indicate that respondents have certain doubts about the attractiveness of SCO that need to be addressed.

Furthermore, SCO under article 67 Common Provisions Regulation cannot be used for operations that are fully publically procured. This limits the potential for the further uptake of SCO for ERDF/CF and EMFF. The different rules applicable to State Aid and simplification measures have not yet been sufficiently clarified and explained.

The lengthy adoption procedure of delegated acts under article 14(1) of the ESF Regulation is among the blocking factors for Member States opting for SCO. The lack

of legal certainty on the Commission accepting the Member States SCO calculation methodologies is also an obstacle the DGs need to overcome, except for DG EMPL when applying article 14(1) of the ESF Regulation.

The DGs lack a comprehensive analysis of the Member States' rules and procedures implementing the ESI Funds at the local level to be able to help them reduce gold-plating in general and assess if the target for reducing gold-plating at the national level can be reached. Furthermore, overall, corrective actions for a significant number of Management Authorities not yet complying with the e-Cohesion legal requirements are not yet sufficiently clear.

Finally, whilst acknowledging that it is early in the programming period, the IAS found a number of weaknesses in the arrangements the DGs have put in place for monitoring the uptake and impact of simplification measures.

- ***Mitigating risks associated with simplified cost options***

SCO expose the ESIF DGs to a number of risks they will need to address in the current programming period. The impact assessment supporting the legislative proposal for the 2014-2020 programming period did not sufficiently assess the impact of applying simplified rules on the level of assurance on legality and regularity to be obtained when using these new instruments. Furthermore, it is not certain if the new flat rates introduced in the Omnibus Regulation are a reliable proxy for real costs of certain types of funded operations, as these have not been backed-up by an in-depth study into the various types of cost categories that comprise the financed operations of the ESI funds.

Applying article 14(1) of the ESF Regulation does not guarantee simplification for the final beneficiaries. Firstly, national managing authorities can use a SCO to reimburse beneficiaries which is different to the one approved under article 14(1) or can reimburse them based on actual costs incurred, necessitating a double accounting system adding administrative burden. Secondly, beneficiaries have to keep a full audit trail when the operations are financed by more than one ESI fund and the Member State has chosen a SCO provided under article 67 of the CPR for part of the financed operation (i.e. when the operations are 'cross-financed'). The IAS has also found certain weaknesses in the procedures for applying article 14(1), mainly regarding key supporting documentation. Furthermore, the ESIF DGs have yet to develop their approach for assessing the continued relevance of the methodologies approved ex-ante under article 14(1) and possible over or under reimbursements to beneficiaries if they take another form than the SCO applied under article 14(1) for the reimbursement of Member States by the Commission. DG EMPL considers that the principle behind the use of article 14(1) ESF SCO means that this is not required.

The use of SCO does not necessarily result in a stronger focus on results, as Member States using article 14(1) have chosen to be reimbursed based on process or output based indicators rather than results in several cases. Furthermore, previous Commission audits have identified risks concerning the reliability of performance data collected and reported by the Member States, but it is unclear how the DGs and national audit authorities intend to cover the reliability of performance measurement indicators for SCO.

It is also not yet clear how the DGs will keep an overview of all the findings concerning SCO resulting from audit work in order to be able to identify systemic

issues and identify the need for a thematic approach to audit SCO. Finally, the role of the national audit authorities in providing assurance on the SCO calculation methods is yet unclear, as the applicable Regulations are silent about their precise role in this area. Certain national audit authorities are reluctant to get involved in assessing these methods because they fear that this would endanger their independence.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Uptake and impact of simplification measures and the DGs' processes to promote and monitor these measures***

DGs EMPL, REGIO and MARE should, for the 2014-2020 period, further remove the above obstacles hindering the implementation of simplification measures, monitor the uptake and effectiveness of the simplification measures further along the programming period and take corrective measures where necessary. For the post 2020 period, they should gather up-to-date data on the Member States' progress regarding simplification before submitting their legislative proposals for the post 2020 period. They should also set targets and indicators for the improved uptake of simplification measures and ensure that these are translated into the different funding priorities and OPs for the post 2020 period to enable both the Member States and the Commission to monitor the Member States' actions in the area of simplification.

- ***Mitigating risks associated with Simplified Cost Options***

DG EMPL should further strengthen its procedures for approving the Member States' SCO methodologies under article 14(1) of the ESF Regulation. The DG should also analyse any potential instances of significant differences between reimbursement by the EC of the Member State and payments made by the Member State to beneficiaries to assess the underlying reasons and decide whether or not the approved SCOs need to be adjusted for future operations, where appropriate.

DGs EMPL and REGIO should ensure that their own or the national audit authorities' audit work sufficiently covers the risks related to using an SCO throughout the 2014-2020 programming period, if necessary through thematic audit work. They should also ensure that the SCO related data/indicators are output/results based where possible and their quality is sufficiently covered by audit work. For the post 2020 period the DGs should properly assess the effects of simplification on the assurance on legality and regularity of the underlying transactions and performance, and analyse the cost profiles and real costs incurred by publically financed projects that have similar characteristics to those funded under the ERDF/CF, ESF and EMFF to provide a solid basis for calculating the flat rates proposed in the EU Regulations.

<b>1.8. Audit on the processes for managing and sharing data on agri-environmental-climate issues in DG AGRI, DG CLIMA and DG ENV</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess whether DG AGRI, DG CLIMA and DG ENV have put in place effective and efficient processes for managing and sharing agri-environmental-climate data.

Agri-environmental-climate data was defined for the purpose of this audit as data and information related to the impact of agriculture on the environment and climate.

The concept of knowledge management, which involves elements over and above the simple sharing of data, namely the use of skills and expertise needed to analyse and interpret data, was not included in the scope of the audit.

The audit covered the review of the following processes in DG AGRI, DG CLIMA and DG ENV:

- Processes for identifying and prioritising agri-environmental-climate data needs for policy support;
- Processes for collecting agri-environmental-climate data, including the identification and mapping of available data;
- Processes for storing, sharing and disseminating agri-environmental-climate data.

The audit also included the review of the collaboration between DG AGRI, DG CLIMA and DG ENV and with other Commission services and European Union (EU) bodies that play a major role in the collection and dissemination of agri-environmental-climate data, in particular Eurostat, the Joint Research Centre (JRC), DG RTD and the European Environmental Agency (EEA). However, the audit did not cover the data management and sharing processes in these other Commission services and EU bodies.

The audit work took into account the rules and regulations regarding access to documents, protection of personal data and confidential statistical data and protection of intellectual property rights. However, its primary purpose was not to assess compliance with these rules and regulations.

The 2015 Annual Activity Reports of DG AGRI, DG CLIMA and DG ENV do not contain any reservation/observation related to the processes audited.

The fieldwork was finalised on 11 November 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified two very important issues:

- ***Mapping of information needs and available data related to agri-environmental-climate issues***

Despite certain initiatives undertaken by the DGs to list information needs and available data, there is no comprehensive and coordinated inventory of information needs, together with a list of already available data in the field of agri-environmental-climate issues. Existing inventories are limited in scope and not always shared amongst the three DGs. As a consequence, the IAS noted during its review of a sample of contracts for procuring studies in the agri-environmental-climate field, that it was often left to the contractors to make an inventory of available data/ information,

including data/ information produced by the Commission itself, by the EEA and through EU research projects.

In the addition, current coordination mechanisms do not always function effectively. The IAS found in particular that there is insufficient coordination on the indicators related to agri-environmental-climate data and that DG AGRI, DG ENV as well as Eurostat and the EEA have developed indicators which either address the same information needs, but are formulated differently or, should be the same, but in fact are calculated using different sources and/or methodologies and hence lead to different results.

- ***Coordination of Member State reporting requirements and reuse of data***

There is insufficient coordination of the Member State reporting requirements, including insufficient reuse of collected data. This results in overlaps in Member State reporting requirements, increase in the workload and possible inconsistencies. The DGs informed the IAS that in some cases this was caused by insufficient coordination in Member States themselves, coupled with resistance on their part to build into the underlying legislation the need for consistency between the different reports/data they are responsible for.

In addition, the IAS noted that the spatial data collected by Member States (and belonging to Member States) under the Common Agricultural Policy (CAP) control system and which could be useful for environmental/climate policy, is not in fact available to be used in this way in certain Member States or in the Commission. In practice, this data is used essentially for controlling the CAP on the basis that under the personal data protection rules, as recalled in the CAP horizontal regulation, personal data should not be used for another purpose than it was collected for. These restrictions occur in spite of the requirements of the Inspire Directive for sharing spatial data for environmental purposes.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Mapping of information needs and available data related to agri-environmental-climate issues***

DG AGRI, DG CLIMA and DG ENV should (taking account of the role played by the main EU data providers and building on existing arrangements) reinforce the coordination of agri-environmental-climate data and related indicators and enhance its sharing. They should also establish a coordinated inventory of agri-environmental-climate information needs and available data.

- ***Coordination of Member State reporting requirements and reuse of data***

DG AGRI, DG ENV and DG CLIMA should:

Actively coordinate between themselves and with the EEA and Eurostat to ensure better consistency and, where possible, simplification through more effective re-use of collected data in Member States reporting requirements. In particular, this can be included in the European Commission's Regulatory Fitness and Performance

Programme (REFIT) aimed at making EU law simpler and reducing the regulatory costs.

In addition, DG AGRI, DG CLIMA and DG ENV should:

Clarify with the Legal Service what can be legally required from Member States under EU legislation, regarding the sharing of CAP spatial data between public authorities at national level and with the European Commission and the EEA for environmental/climate purposes.

Upon clarification of the Legal Service, work together and with Member States to define clear arrangements/processes for the sharing of the CAP spatial data for environmental-climate purposes.

## **1.9. Audit on the procurement process in OIB, OIL and DG BUDG**

### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy of the design and the effective implementation of DG BUDG, OIB and OIL's internal control systems for the management of the procurement process and the effectiveness and efficiency of the related financial circuits.

This audit tested the key controls as well as management and monitoring controls throughout the procurement process, from the identification and planning of the needs until the signature of the contract, including amendments and price revisions, if applicable.

The audit covered the controls on the financial transactions in the period 1 January 2015 – 31 May 2016 related to procurement procedures awarded in the same period as well as payments for procurement processed in the same period, which may however not necessarily be linked to procurement procedures awarded in the period under review.

There are no reservations in DG BUDG, OIB or OIL's 2015 Annual Activity Reports relating to the process audited.

The fieldwork was finalised in November 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified four very important issues:

#### **OIB**

- ***Procurement procedures***

The audit identified weaknesses in the planning phase (i.e. needs analysis) and in relation to the transparency of public procurement procedures.

During testing of the planning phase, the IAS found weaknesses in OIB's needs analysis in one of the eleven high value procedures tested. In this case, OIB did not sufficiently consider local building regulations before the start of the procedure. As a

consequence, OIB could not sufficiently demonstrate the proper use of an exceptional procurement procedure. The IAS also noted that the real estate procedure currently in place (the 'Kallas procedure') has not been updated to reflect the changes made to the Financial Regulation that requires a greater degree of involvement of the Budgetary Authorities. The 'Kallas procedure' is currently being revised and OIB has already prepared a first draft.

Transparency is one of the fundamental principles in public procurement law. In this respect, the audit found that in the real estate procedure tested, OIB excluded one tenderer without formally explaining the grounds on which the decision was taken. However, a bilateral meeting was arranged at a later stage with the tenderer excluded. The IAS also noted that OIB did not take minutes of the meetings held with tenderers at the initial stages of the negotiation phase.

- ***Ex-post controls***

The audit also identified weaknesses in the methodology applied to ex-post controls. In particular, no pre-determined risk factors are defined and applied to the additional risk based sample of OIB. Furthermore, OIB does not make use of advanced sampling techniques, such as stratification of the population, which could increase the efficiency of the ex-post control function.

In addition, the IAS found that the OIB had not tested the full number of transactions required for statistically meaningful results. This occurred because OIB made certain assumptions when selecting the sample during the year without assessing the need to adjust it at year-end in order to take account of significant differences between the assumptions made and the actual situation. Also, it did not correctly extrapolate the errors found in the sample across the entire population. The IAS does acknowledge however, that this had no significant impact on the 2015 error rate.

Furthermore, although the services subjected to ex-post control receive recommendations from the ex-post control team, they do not establish action plans which could help foster the timely implementation of these recommendations.

Finally, the IAS noted that a high number of recommendations are still open some of which were classified as errors of importance up to level 2 which means that they could have a financial or reputational impact. However, OIB has not carried out an assessment of the actual risks that the office is facing by not implementing these recommendations and whether it would be cost-effective to do so.

## **OIL**

- ***Procurement procedures***

The audit identified weaknesses mainly concerning the initial steps of procurement procedures, namely the planning phase and the drafting of tender specifications.

As regards the planning, the IAS found that that OIL does not provide sufficient information on how such needs have been quantified, which meant in practice that OIL could not sufficiently justify using exceptional procedures. Furthermore, in one particular case, services vital for the implementation of a contract were not included at the needs assessment stage and consequently the tender specifications. They needed to be estimated by the Commission services at the evaluation stage.



Regarding the tender specifications, the audit found that in one case, these were overly specific and even included brands, which had the effect of limiting the competition. In one of the real estate procedures we tested, the award criteria were not clearly defined, although this constitutes a key element of the procurement procedure.

- ***Ex-post controls***

The audit also identified weaknesses in the methodology applied for ex-post control. In particular, OIL's ex-post controls do not cover procurement procedures. Hence, a key risk is not covered, even though this constitutes a key building block for the assurance of the Authorising Officer by Delegation. In addition, the statistical method for selecting the sample and the extrapolation of the error rate were not correctly applied in practice.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

### **OIB**

- ***Procurement procedures***

OIB should improve the needs analysis by including compliance with specific building laws and regulations.

Furthermore, OIB should take the necessary steps to launch a College decision on the revision of the 'Kallas procedure' by taking into account, inter alia, the changes to the Financial Regulation by including the new procedure as stipulated in Art. 203 of the Financial Regulation and Art. 286 of the Rules of Application to the Financial Regulation. All relevant actors in the field of real estate procurement should be consulted during the course of the revision.

OIB should also formally justify to tenderers when the decision is taken to exclude any one of them.

- ***Ex-post control***

OIB should comprehensively document its sampling methodology, in particular the risk factors applied for the additional risk based sample. Furthermore, OIB should consider stratifying the sampled population to increase the efficiency of the sample testing.

It should also assess the need to adjust the selection of the sample at year-end to take account of significant differences between the assumptions made and the actual situation as required by the Monetary Unit Sampling technique and correctly apply the statistical methodology when extrapolating the errors identified.

Finally, the services that are subjected to the ex-post control should establish an action plan with target dates for the most significant recommendations made by the ex-post control team. Furthermore, OIB should make an assessment of the risks associated with open recommendations for the lesser important errors and evaluate whether it is still cost-effective to implement these.

### **OIL**

- ***Procurement procedures***

OIL should improve the needs analysis and, in particular, document how it has quantified its needs. When drafting tender specifications, it should avoid restrictive clauses or references to brands or trademarks, except for duly substantiated exceptions. Furthermore, OIL should also set clear award criteria for real estate procurement procedures.

- ***Ex-post control***

OIL should include the key steps of the public procurement procedures in the scope of its ex-post controls and correctly apply the statistical method when sampling and extrapolating the errors identified.

<b>1.10. Audit on the procurement process in DG COMM, DG Interpretation (SCIC) and EPSO/EUSA</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy of the design and the effective implementation of the service's internal control system with regard to the management of the procurement process and, in particular, its compliance with the Financial Regulation and its Rules of Application.

This audit tested the key controls related to the procurement process, including the management and monitoring controls. Testing covered the identification and planning of the needs until the signature of the contract, including amendments and price revisions, if applicable. It also included payments relating to procurements processed in 2015.

The responsibilities of DG HR laid down in the Service Level Agreement concluded between EPSO/EUSA and DG HR for the provision of financial management and procurement services were also included in the audit scope.

There are no reservations in DG COMM, SCIC or EPSO/EUSA 2015 Annual Activity Reports that relate to the area/process audited.

The fieldwork was finalised between 25 May and 13 June 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

#### **DG COMM and EPSO/EUSA**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

#### **SCIC**

The IAS identified one very important issue:

- ***Procurement process: weaknesses in tender documents, compliance issues***

The audit revealed non-compliance issues with the Financial Regulation (FR), its Rules of Applications (RAP) or the case law of the European Court of Justice. More specifically, the IAS found weaknesses in the tender documents, such as one procedure in which an award criterion which referred to the experience of the tenderer and therefore overlapped with a similar selection criterion and two procedures in which the tender specifications were either not entirely clear for the tenderers or not fully defined. With regard to the evaluation of tenders, the IAS identified two cases in which the tender specifications were not strictly followed. Furthermore, in one procedure, some tenderers were contacted without ensuring that the other tenderers received the same level of information. Finally, the IAS noted one missing declaration of honour by a tenderer and four missing award decisions for low value procedures.

DG SCIC's manual on public procurement provides for a formal visa by the finance unit at the stage of the *draft* tender documents. However, in practice this control is exercised only in an informal manner.

The audit showed that, while the relevant ex-ante controls were carried out at the stage of the budgetary and legal commitment, i.e. after the evaluation and before awarding and signing of the contract, they neither prevented nor detected and corrected the weaknesses observed by the IAS.

### **Recommendation**

To address this issue, the IAS formulated the following recommendation:

- ***Procurement Process: weaknesses in tender documents, compliance issues***

DG SCIC should:

- Remind all services and potential members of evaluation committees to ensure compliance with the FR, its RAP and the case law of the European Court of Justice for the cases identified through this audit;
- Update its procedures on ex-ante controls on public procurement procedures and formalise the control ensuring that the tender specifications meet the main requirements as set out by the FR and the RAP before the tender documents are published. This should be done for all high value procedures, together with a risk-based selection of low-value procedures;
- Revise the internal checklists used for commitments and payments by specifically including the main elements to be checked.

## **2. AGRICULTURE, NATURAL RESOURCES AND HEALTH**

<b>2.1. Audit on the design of DG AGRI's performance measurement system for the CAP 2014-2020</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess whether DG AGRI has adequately designed the Common Monitoring and Evaluation Framework (CMEF), including the

Common Monitoring and Evaluation System (CMES), in order to monitor, evaluate and report on the performance of the CAP 2014-2020.

As the CMEF is still in an early stage of implementation, the audit focused on its design and covered the following main steps:

- A review of the design of the Common Agricultural Policy (CAP) intervention logic, including the CAP objectives and their related indicators;
- A review of the design and preparedness of the processes put in place by DG AGRI for ensuring that reliable data will be available on time for calculating the CMEF indicators values and reporting on them;
- A review of the processes put in place by DG AGRI for providing support to the Member States in the implementation of the CMES, including through the European Evaluation Helpdesk for Rural Development;
- A review of the processes put in place by DG AGRI for planning evaluations of the CAP 2014-2020.

The audit scope did not include the following:

- Processes related to the detailed monitoring activities performed by the different units of DG AGRI for the policies they implement;
- Processes for conducting evaluations, as well as processes for managing the contractual relationship with the contractors implementing the European Evaluation Helpdesk;
- Processes for the performance review linked to the performance reserve that Regulation (EU) No 1303/2013 introduced for the European Structural and Investment Funds (ESIF), including the EAFRD. This is a specific process, which may be the subject of a separate audit at a later stage.

DG AGRI's 2014 Annual Activity Report (AAR) does not contain any reservation related to the performance measurement framework.

The fieldwork was finalised on 4 February 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified three very important issues:

- ***Quality of objectives, indicators and intervention logic***

The specific objectives set for Pillar I/Horizontal Provisions (and related indicators) do not always clearly define what the related policy is expected to achieve and, in a few cases, appear not to cover some essential aspects of the CAP's general objectives. In addition, the intervention logic does not always allow to identify which CAP instruments contribute to which objectives and how.

- ***Consistency and completeness of the CMEF***

The CMEF does not cover all the various CAP instruments, although it should be noted that those which are not included are subject to performance measurement provisions laid down in their individual legal bases. Furthermore, while the CMEF

integrates Pillar I/Horizontal provisions and Pillar II at the level of impact indicators, this is not the case for result indicators. This complicates the work of DG AGRI in demonstrating the combined direct effect of different CAP instruments pursuing the same specific objectives (for example for the payment for young farmers under Pillar I and the measures for young farmers under Pillar II).

- ***Reliability and availability of data***

Despite the fact that DG AGRI cooperates effectively with Eurostat, it faces continued problems in obtaining reliable data for calculating the values of certain CMEF indicators, in particular for environmental indicators. This mainly concerns those for which there is no explicit legal basis for requiring the data from Member States. According to DG AGRI, there is a strong resistance from Member States to provide additional data due to the costs involved.

### **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Quality of objectives, indicators and intervention logic***

DG AGRI should ensure that the CAP specific objectives for Pillar I/Horizontal Provisions are more compliant than at present with the SMART criteria and assess whether there is a need to include related additional indicators, based where possible on available data and taking into account cost effectiveness considerations in order to better demonstrate the achievement of policy objectives. The CAP intervention logic needs to be explained much more clearly.

- ***Consistency and completeness of the CMEF***

DG AGRI should develop additional indicators to cover the CAP instruments which are not adequately addressed through the current set of CMEF indicators and use if possible existing data to integrate Pillar I and Pillar II aspects. This does not necessarily mean including additional rural development indicators, which have already been established. In the longer term and for the next multi-annual financial framework programming period, DG AGRI should consider developing a set of result indicators aimed at showing the combined effects of both rural development and Pillar I/Horizontal Provisions.

- ***Reliability and availability of data***

For the data which is currently missing, including that relating to environmental indicators, it should follow this up with Eurostat and seek to obtain additional data through the mapping and cross-linking of available data, as well as through research projects. For the data needed to support the CMEF indicators, but for which there is no specific legal obligation on Member States to provide, the DG should assess whether this needs to be addressed through an implementing regulation.

<b>2.2. Audit on DG AGRI's management and control system for Voluntary Coupled Support (VCS)</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess the design and as far as possible, depending on their stage of implementation, the processes put in place by DG AGRI for managing and controlling VCS. The audit assessed in particular whether these processes effectively contribute to the DG's assurance building process and ensure an effective monitoring of the VCS scheme.

The audit assessed the management and control system put in place by DG AGRI for VCS, including performance aspects. It covered the processes put in place by DG AGRI for the review of Member State notifications on their VCS decisions, the guidance provided to Member States, the general design of the internal monitoring process for the implementation of the scheme and the preparedness of the conformity clearance of accounts process regarding the VCS.

The audit scope did not include certain provisions permitted under the amended delegated act (i.e. modulated per unit amounts and transfers between measures), as the related processes were either only in progress during the fieldwork of the audit or only applicable to claim year 2016 to be paid under financial year 2017.

The first claim year for the VCS was 2015. The Commission reimburses only since the beginning of 2016, the expenditure made by a Member State for 2015. Thus, the 2015 Annual Activity Report (AAR) includes no reservations relating to the VCS. However, it includes a reservation on Direct Payments with regard to 10 Paying Agencies involving 6 Member States. Moreover, in annex 10 of the AAR concerning direct payments (including VCS), DG AGRI identifies risks linked to the past implementation of art. 68 of Regulation (EC) No 73/2009, which might affect the implementation of VCS. It also identifies risks linked to the implementation of the reformed system of Direct Payments, having as root cause the greater complexity of the support schemes, the flexibility given to Member States and their diverging interpretations. In the same annex, DG AGRI defines actions to mitigate these risks.

The fieldwork was finalised on 7 June 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified three very important issues:

- ***Follow-up of VCS notification assessments***

Through its assessment of VCS notifications, DG AGRI identified a number of issues, which indicated non-compliance and/or the risk of non-compliance and in certain cases had started planning EU pilot procedures. However, there is currently no formalised typology used to categorise the detected issues according to their nature, scope, frequency and seriousness. In addition, there is no clear approach on how to follow up these issues through appropriate available tools (e.g. EU PILOT procedures, reduction or suspension as well as conformity clearance procedures). Finally, it is not clear which service in DG AGRI should primarily be responsible for following up the specific cases where DG AGRI detected a risk of potential cumulative/overlapping support with rural development.

- ***Monitoring and control of the 2015 financial ceilings***

DG AGRI is required under the legislation to monitor and control that the amounts of support per measure do not breach the measure-specific ceilings. However, these ceilings are not always clearly specified. Furthermore, for the claim year 2015, although the general VCS ceiling per Member State is systematically controlled on a monthly basis by the EAGF financial unit, this is not the case for the measure-specific ceilings. The IAS analysed the draft working arrangements that were being developed in this regard at the time of the audit fieldwork and concluded that they needed to be further improved from an effectiveness and efficiency viewpoint.

- ***Monitoring of VCS performance***

The objective of the VCS scheme is to create an incentive to maintain agricultural production in vulnerable sectors and /or regions. In monitoring the performance of VCS, DG AGRI compares the total area and the total number of animals for which VCS has been paid with the area or number of animals notified by the Member State in 2014. However, the data on which this analysis is based is not always correct or clear (cases were identified where data were missing and/or calculations were erroneous). In addition, the IAS found only very limited evidence that DG AGRI had assessed whether the amount of support given is proportionate to the difficulties described in relation to those sectors or regions concerned. Also, there is no structured monitoring of the impact of VCS in areas of high overall aggregated EU support or in those areas which are most vulnerable to agricultural market crises. Currently the monitoring arrangements focus more on whether quantitative limits, as notified by the Member States, are respected, rather than at assessing the effect of VCS on the corresponding sector and/or regions.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Follow-up of VCS notification assessments***

DG AGRI should send letters of findings in the context of the conformity clearance procedure as soon as possible so that Member States can resolve the deficiencies identified in time for the claim year 2017. It should also clarify the main conditions on how to follow up issues identified both in the 2014 notifications and for future years, for example through triggering EU PILOT procedures, reduction or suspension provisions as well as conformity clearance procedures. DG AGRI should also develop internally a typology to support the comments made when assessing the VCS notifications. Finally, where DG AGRI detects a risk of potential cumulative/overlapping support with rural development, it should ensure that they are properly followed up on a timely basis. The unit primarily responsible should be clearly designated.

- ***Monitoring and control of the 2015 financial ceilings***

DG AGRI should ensure that, for all VCS measures, a fixed measure-specific ceiling is defined. It should also specifically check for the claim year 2015 that the respective ceilings are met and ensure that the staff responsible for this task are properly trained. As from claim year 2016, the checks should be automated.

- ***Monitoring of VCS performance***

DG AGRI should identify those VCS measures where the risks of not meeting the scheme's objectives are highest and where there is the greatest likelihood of market distortion. For these measures, DG AGRI should strengthen the current monitoring arrangements, for example by making more use of available complementary data and analysis.

### **2.3. Audit on public procurement in DG CLIMA**

#### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy of the design and the effective implementation of the service's internal control system with regard to the management of the procurement process and, in particular, its compliance with the Financial Regulation (FR) and its Rules of Application (RAP).

This audit tested the key controls throughout the procurement process, from the identification and planning of the needs through to the signature of the contract, including amendments and price revisions and related payments.

The audit covered the procurement procedures awarded in 2015 and in 2016 as well as procurement related payments processed in 2015. The activities of the Advisory Committee were also covered.

Public procurement procedures relating to budget appropriations that CLIMA has sub-delegated to other DGs or that DG CLIMA has received as sub-delegation from other DGs were excluded from the scope of the audit.

There are no reservations in DG CLIMA's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 24 June 2016. All observations and recommendations relate to the situation at that date.

#### **Major audit findings**

The IAS identified one very important issue:

- ***Justification of public procurement needs***

The audit revealed weaknesses in relation to the justification of public procurement needs. More specifically, it was not always possible to clearly demonstrate that a needs analysis had been systematically and consistently made. Furthermore, the documentary evidence to support the justification, verification and approval of certain significant changes to the procurement plan initially decided (for example procurement procedure or budget line) was very limited in practice.

The IAS also identified additional weaknesses concerning the definition and the assessment of award criteria and the way in which studies are identified.

#### **Recommendation**

To address this issue, the IAS formulated the following recommendation:

DG CLIMA should:



- Ensure that a systematic and consistent analysis of the needs for procurement is performed and documented and that any major modifications in planned procurement procedures during the year are properly justified in writing, approved and documented;
- Intensify awareness-raising activities (guidance, training) and strengthen ex-ante controls (internal supervision) as appropriate to ensure full compliance with the applicable rules and guidance (notably as regards award criteria and identification of studies).

## **2.4. Audit on staff allocation and process management in response to staff reduction in DG ENV**

### **Audit objectives and scope**

The overall objective of the audit was to assess whether, in the light of the challenges it faces, DG ENV has adequate systems in place for allocating staff and is ensuring that its processes are managed as efficiently as possible.

The audit covered DG ENV's HR management processes and in particular, the procedures, systems, methods and tools used to allocate staff aligned with the DG's key priorities and objectives. It also covered the DG's overall approach (including methodologies and practices in place) to identify, propose and implement efficiency gains in its processes. However, the audit did not address the issue as to whether or not the DG has the right organisational structure in place.

The 2015 Annual Activity Report (AAR) of DG ENV do not include any reservations related to the process audited.

The fieldwork was finalised on 10 June 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified one very important issue:

- ***Workload assessment***

Currently, DG ENV does not have a structured monitoring framework, together with key workload indicators (including proxy indicators), providing regular and quantitative information on workload in the DG.

### **Recommendation**

To address this issue, the IAS formulated the following recommendation:

DG ENV should develop key workload indicators, supported by a clear methodological base and ensure that these are periodically monitored and reported in order to optimise the efficient and effective allocation of its resources.

## **2.5. Audit on pilot projects and preparatory actions in DG SANTE**

### **Audit objectives and scope**

The overall objective of the audit was to assess the effectiveness of the controls covering the financial management of pilot projects and preparatory actions in DG SANTE.

In particular, the design and the implementation of the controls in place were reviewed to assess whether they ensure the legality and regularity of the financial procedures and the financial transactions and whether they are effective.

The audit also assessed DG SANTE's internal organisation for the prior assessment of the proposed pilot projects and preparatory actions as well the design and implementation of the financial circuits.

This audit covered the key controls designed and implemented in the following processes of the financial management of pilot projects and preparatory actions for 2014-2015:

- The processes for ex-ante assessment of the proposed pilot projects and preparatory actions, allocating them within DG SANTE and monitoring and reporting on their implementation;
- The procurement process, from the determination of the needs and planning to the effective implementation of the contract;
- The grants process, from the planning and preparation of the call for proposal to the closure of the grant; and
- The financial circuits of the related grants and procurement, including commitments, payments, de-commitments and recovery orders.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **3. RESEARCH, ENERGY AND TRANSPORT**

<b>3.1. Audit on Human Resources management in DG CONNECT</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess the effectiveness of DG CONNECT's Human Resource management system to support the achievement of the DG's priorities and core business.

The audit aimed to answer the following main question: *"Has DG CONNECT designed and implemented an adequate HR management process to deploy a competent and engaged workforce, in order to deliver the DG's priorities and core business?"*

The audit covered the design and implementation of the HR strategy and the HR planning process, including workforce planning (in the light of potential efficiency gains), staff allocation and change management. The audit also covered the activities performed in terms of learning & development, redeployment and career management.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

### **3.2. Audit on closure of projects of legacy programmes in DG CONNECT**

#### **Audit objective and scope**

The objective of the audit was to assess the effectiveness of the process for the closure of DG CONNECT's projects belonging to the following legacy programmes:

- The Sixth Research Framework Programme (FP6 2003-2006);
- The Seventh Research Framework Programme (FP7 2007-2013);
- The Competitiveness and Innovation Framework Programme (CIP 2007-2013);
- Safer Internet (2009-2013).

The audit covered the monitoring and reporting on the closure of projects and the management of the financial distribution report, decommitments, archiving, amendments, complaints and of the implementation of ex-post audit results.

There are no observations/reservations in DG CONNECT's 2015 Annual Activity Report that relate to the area/process audited.

The following reservations were however made in the 2015 Annual Activity Report concerning legacy programmes:

- For FP7, DG CONNECT estimated a residual error rate of 2.58%, which is above the 2% materiality threshold, and therefore issued a reservation in line with similar reservations expressed by the other DGs of the research family.
- The residual error rate for CIP amounts to 4.42%. DG CONNECT estimated that the residual error rate will not decrease under the materiality threshold at the end of the programme and therefore expressed a reservation on the legality and regularity of these payments.

The fieldwork was finalised on 28 November 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

### **3.3. Audit on the management and functioning of Euratom Safeguards in DG ENER**

#### **Audit objective and scope**

The overall objective of the audit engagement was to assess the efficiency and effectiveness of the systems and procedures in place in DG ENER in ensuring that the EC fulfils its obligations stemming from the Euratom Treaty and international agreements.

The audit focused on (1) the EC governance framework associated with the Euratom Safeguards; (2) the design and methodologies of the safeguards system; (3) the procurement of services and equipment supporting inspection activities and (4) human resources management.

The audit did not cover IT systems and related operations, the cooperation and coordination with the Euratom Supply Agency and with ENER.D - Nuclear energy, safety and ITER, as well as accompanying inspectors to on-site missions.

There are no observations/reservations in the DG's 2014 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 16 March 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **3.4. Audit on the supervision of ITER in DG ENER**

### **Audit objective and scope**

The overall objective of the audit was to assess whether the strategy for the supervision of the ITER project has been adequately designed and effectively implemented.

The audit focused in particular on:

- The legal/administrative arrangements of the supervision framework;
- The Commission's supervision strategy on the ITER project management;
- Participation in the work of the ITER IO/F4E governance bodies.

There have been no observations/reservations in the Annual Activity Reports of the respective DGs (RTD until 2014, ENER in 2015) that relate to the area/process audited.

The fieldwork was finalised on 31 March 2016. All observations and recommendations relate to the situation on that date. However, during the validation/reporting stage, the IAS also took note of the discussion of the evolution of the ITER project, which led to the agreement *ad referendum* of the long-term schedule by the ITER Council (IC) in June 2016 for the period until 2025.

### **Major audit findings**

This IAS identified two very important issues:

- ***DG ENER's supervision strategy for the ITER organisation and project***

A number of internal notes on ITER supervision highlight the different aspects and weaknesses of the ITER project set-up (including action plans) but the Commission

has not yet defined and implemented a comprehensive supervision strategy for the ITER project. It is not yet defined what the DG and Euratom aim to achieve with their supervision activities (objectives), taking into account the available supervision tools and their effectiveness and how the effectiveness of the supervision activities will be assessed.

In addition, the rules to provide relevant documents for the preparation of the line-to-take at the ITER governing bodies (ITER Council, Management Advisory Committee and Science and Technology Advisory Committee) were not respected (ITER Council) or were non-existent (Management Advisory Committee, Science and Technology Advisory Committee).

- ***Supervision and monitoring of F4E activities***

The IAS observed that the Commission is currently not in a position to effectively monitor F4E and use this knowledge in the discussions in the relevant governance bodies. This is because it does not receive all the information that is essential to find the best way to address the delays in the critical and highly critical components managed by F4E. Furthermore, the latest F4E annual report and quarterly report are not aligned with the structure of the work programme and neither is the structure of the work programme aligned with the project plan, which makes it very difficult to monitor the proposed activities and their level of achievement.

In addition, "The F4E Administrative Arrangement", signed in 2008, has not been updated to take into account several legislative changes while "The working relations" with F4E have not yet been fully implemented.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***DG ENER's supervision strategy for the ITER organisation and project***

DG ENER should develop its ITER project supervision strategy, which should set out the supervision needs, the objectives for the supervision activities and the tools to be used. DG ENER should also define working methods and procedures needed to achieve the supervision objectives. This supervision strategy should then be translated into short-term operational activities to mitigate the risks and should be accompanied by indicators to allow the monitoring of the performance of the strategy.

DG ENER should have all the necessary information for the subsequent decision-making. To this end, it has to ensure that ITER submits the documents for the meetings on time and to agree formally a submission deadline for the Management Advisory Committee and Science and Technology Advisory Committee documents. It has also to ensure the availability of/accessibility to all the pieces of information/results of analysis necessary to take a considered position in the ITER Council.

- ***Supervision and monitoring of F4E activities***

DG ENER should reach an agreement with F4E on the type of information it needs on procurement/contract/technical aspects of F4E operations and the results of related risk assessments and in which format this information should be shared to allow DG ENER to effectively address performance issues. Furthermore, DG ENER should

update "the F4E administrative arrangement" to take into account the newly adopted legislation and assess the effectiveness of the existing "working relations" established between DG RTD and F4E.

### **3.5. Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG ENER**

#### **Audit objective and scope**

The overall objective of this limited review was to examine the calculation and underlying methodology of the multi-annual Residual Error Rate (RER) reported by DG ENER in its (draft) 2015 Annual Activity Report (AAR), and in doing so, help the DG mitigate the discharge risk by enabling it to take appropriate actions, if any, before their disclosure in the final AAR and in the Synthesis Report.

The review covered the following aspects:

- The process and methodology for the calculation of the RER;
- The calculated RER;
- The presentation of the RERs in the draft AAR;
- Compliance with the Standing Instructions for the 2015 AAR.

The IAS reviewed the draft 2015 AAR and the preliminary RER calculations available on 29 February 2016. It also reviewed the final 2015 AAR to check whether the issues detected during the fieldwork were correctly addressed.

The limited review fieldwork was finalised on 15 March 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

### **3.6. Audit on Human Resources management in ERCEA**

#### **Audit objectives and scope**

The overall objective of the audit was to answer the following question:

*Has ERCEA designed and implemented an adequate HR management process to deploy a competent (knowledgeable) and engaged workforce in order to deliver its priorities and core business?*

The audit covered in particular:

- The design and implementation of the HR strategy;
- The HR planning process, including workload assessment and staff allocation;
- Selection, recruitment and retention of staff;
- Knowledge management (training, coaching, competence management);
- Monitoring and reporting on HR.

There is no reservation in ERCEA's 2015 Annual Activity Report regarding the scope of this audit.

The fieldwork was finalised on 2 June 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **3.7. Audit on the coordination by INEA with its parent DGs during the key stages of the Strategic Planning and Programming cycle**

### **Audit objective and scope**

The overall objective of the audit was to assess whether INEA has put in place appropriate coordination and working arrangements with its parent DGs to ensure the effective implementation of the key stages of the Strategic Planning and Programming (SPP) cycle.

The audit focused on INEA's coordination with its parent DGs during the three key stages of the SPP cycle: a) the planning phase (including the preparation of the CEF and H2020 work programmes and the Agency's Annual Work Programme (AWP)), b) the implementation phase (implementation of the AWP) and c) the reporting phase. The parent DGs were not audited.

There are no observations/reservations in the 2015 Annual Activity Report (AAR) of INEA that relate to the area/process audited.

The fieldwork was finalised on 27 September 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **3.8. Audit on competitive activities in DG JRC**

### **Audit objective and scope**

The overall objective of this audit was to assess whether the Competitive Activities (CA) are: (i) effectively planned, monitored and reported on, (ii) effectively and efficiently implemented, and (iii) compliant with the applicable rules and guidance.

The audit scope covered:

- At DG level, the CA governance arrangements and administrative set-up as well as their strategic planning, monitoring and reporting;

- At operational level, the CA contracts' life cycle, namely the contracts' proposals, preparation and implementation, the clients' payments, and the closure of the CA contracts.

The financial management of CA was not included in the scope of the present audit.

There are no observations/reservations in the JRC's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 3 June 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **3.9. Audit on setting of objectives and measurement of performance in DG MOVE**

### **Audit objective and scope**

The overall objective of this audit was to assess whether DG MOVE has an adequate performance management framework in place for its day-to-day operational and administrative activities (internal) and for the delivery of its policy objectives (external). The audit assessed the internal processes for setting objectives and key performance indicators as well as the related reporting and monitoring.

The audit focused in particular on the following areas:

- The process of setting high quality objectives and performance indicators (design and implementation of the process) in line with the policy;
- The performance measurement framework for monitoring, evaluating and reporting the (internal and external) performance of activities.

The audit covered the processes related to the preparation of the Strategic Plan (SP) (2016-2020), the Management Plans (MP) (2014, 2015 and 2016), the Annual Activity Reports (AAR) (2014, 2015) and the Programme Statements (PS) for the Draft Budgets 2016 and 2017.

In the context of this engagement, the IAS also performed a follow up audit of the 2014 SIAC Audit of Internal Control Standard 5 "objectives and indicators" in DG MOVE.

There are no observations/reservations in the 2015 AAR of DG MOVE that relate to the area/process audited.

The fieldwork was finalised on 18 March 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified three very important issues:



- ***DG MOVE performance framework***

The different tools DG MOVE currently uses to plan and monitor its activities, actions and initiatives are not complemented by an overarching strategic vision describing how the DG organises its interventions and how short-term outputs will lead to medium and long-term results and impacts and contribute to the achievement of its strategic objectives. Consequently, there is no overview, which demonstrates how the different DG's activities contribute to the achievement of its strategic and operational objectives without gaps or overlaps. Furthermore, there is no centralised approach to monitoring and reporting on longer-term policy achievements (i.e. results and outcomes/impacts of transport legislation and programmes). Due to weaknesses identified in the SP and PS (in particular the quality of objectives and indicators), the DG does not have a complete picture of the progress made towards the achievement of its objectives.

- ***Quality of objectives and indicators in the 2016 SP/MP***

DG MOVE's Specific Objectives (SOs) are not sufficiently specific and relevant. In particular, they do not clearly specify the situation which needs to be changed and (if relevant) the target group concerned and do not address the needs of society /stakeholders and the wider political context. In addition, six result indicators are not relevant since they measure output and not result. Furthermore, for the spending programmes CEF and H2020, objectives and indicators in the SP are different from the objectives and indicators in the PS and DG MOVE does not ensure the coherence between the two performance management tools.

- ***CEF PS***

There is no formal process to prepare the CEF PS and DG MOVE did not complement DG BUDG's Instructions with internal guidance defining the tasks to be performed, the responsibilities and roles of each unit, the timing and workflow, the definition of the indicators with the source of information, the methodology to calculate the indicators and the unit in charge. Due to the lack of clear responsibilities and ownership for the preparation of the CEF PS, the process to collect relevant information was not launched on time, resulting in shortened deadlines and finally in reduced quality of the submitted document.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***DG MOVE performance framework***

DG MOVE should complete its performance framework by preparing a strategic view of the DG's activities that establishes a clear logical link (intervention logic) between its high level priorities, objectives and short term actions. The strategic view/intervention logic should show how the DG intends to prioritise and organise its actions in order to contribute to the SOs, assess whether or not the actions planned for a given year will contribute to achievement of its SOs and assess the overall progress made towards this achievement. DG MOVE should also develop an integrated approach to performance monitoring and reporting on policy achievements.

- ***Quality of objectives and indicators in the 2016 SP/MP***

DG MOVE should ensure that its specific objectives meet the SMART criteria and are in line with the DG's responsibilities by either reformulating them or by complementing them with a set of RACER result indicators. These latter should cover the most essential aspects of the DG's activities and focus on results in terms of added value to the EU stakeholders. Furthermore, DG MOVE should streamline the process to set objectives and indicators (and to monitor them) by re-using, to the extent possible, elements included in different performance management tools (SP/MP, Programme Statement) or in the legal basis.

- **CEF PS**

DG MOVE should formally attribute the responsibilities for the preparation of CEF PS, and develop and document a procedure for its preparation and coordination.

<b>3.10. Audit on DG MOVE's monitoring of the aviation and maritime security policies, including related working arrangements with the EMSA Regulatory Agency</b>
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#### **Audit objective and scope**

The overall objective of the audit was to assess the effectiveness and efficiency of DG MOVE's monitoring of aviation and maritime security policies. The audit reviewed the planning and execution of DG MOVE's inspection activities, the use of the Member States annual reporting as well as the management of the necessary human resources for fulfilling the Commission's obligations. The scope also included: i) DG MOVE's reporting to the main stakeholders on the assurance obtained from its monitoring activities; ii) DG MOVE's preventive and reactive measures in case of serious aviation and maritime incidents; and iii) cooperation with EMSA.

The audit covered the activities conducted in the period 2011-2016.

There are no observations/reservations in DG MOVE's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on the 8 December 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS identified three very important issues:

##### **Aviation security field**

- ***Monitoring strategy for aviation security policy***

The EU legislation on aviation security does not provide a precise indication of the level of assurance the Commission has to obtain with its monitoring activities, which, consequently, has to be defined by the Commission itself. DG MOVE's approach has not been formalised in a comprehensive strategy describing the level of assurance to be provided, the monitoring objectives, criteria and methodology, the timeframe, how to use the different monitoring tools and how many resources are needed for that. In addition, DG MOVE has not defined objectives and indicators to measure the performance of the monitoring activity and to evaluate if the current resources are sufficient to achieve the required level of assurance.

- ***Monitoring tools – aviation security policy***

The information provided by the Member States in the annual report to the Commission on the measures taken to fulfil their obligations under the Regulation concerning their national quality control programmes is not always sufficient to allow DG MOVE to conclude on the effective implementation of these programmes.

There is no documentation describing the exact use made by DG MOVE of the annual reports when monitoring the implementation of EU rules by Member States. In this respect, DG MOVE does not send a formal individual comprehensive evaluation to the Member States emphasising points of reported non-compliance by the appropriate authority (AA). When summarising the information from the annual Member State reports and sharing it in the regulatory committee for civil aviation security (AVSEC), DG MOVE does not complement it with relevant conclusions about the effective implementation of the national quality control programmes.

### **Maritime security field**

- ***Monitoring strategy for maritime security policy***

The EU legislation on maritime security does not provide a precise indication of the level of assurance the Commission has to achieve with its monitoring activities (i.e. the monitoring objective), which consequently has to be defined by the Commission itself. DG MOVE's monitoring approach has not been formalised in a comprehensive strategy describing the level of assurance to be provided, the monitoring objectives, criteria and methodology, the timeframe, how to use the different monitoring tools and how many resources are needed for that. In addition, DG MOVE has not defined objectives and indicators to measure the performance of the monitoring activity and it is not possible to evaluate if the current resources are sufficient to achieve the required level of assurance.

### **Recommendations**

To address these issues the IAS formulated the following recommendations:

- ***Monitoring strategy for aviation security policy***

DG MOVE should formalise a comprehensive overall strategy for the EC monitoring of the implementation of the EU aviation security standards by the Member States. The strategy should set out the degree of assurance to be obtained through the EC monitoring activities and from the different monitoring tools (individually and collectively), the indicators to be used to measure performance and progress towards the achievement of the monitoring objectives as well as the analysis of the resources needed to obtain the desired assurance.

- ***Monitoring tools – aviation security policy***

DG MOVE should ensure that Member States provide all information necessary to conclude on the effectiveness of the implementation of the national quality control programmes. This should include, among others, swiftly following-up with the Member States cases of incomplete reporting and revising the template, if structural weaknesses are noted. DG MOVE should document the methodology to be followed by its inspectors when analysing the annual reports in order to ensure that they draw

conclusions, for each Member State, on the effective implementation of national quality control programmes. These conclusions should be shared with the other Member States in the AVSEC committee meetings.

- ***Monitoring strategy for maritime security policy***

DG MOVE should formalise a comprehensive overall strategy for the EC monitoring of the implementation of the EU maritime security standards by the Member States. The strategy should set out the degree of assurance to be obtained through the EC monitoring activities and from the different monitoring tools (individually and collectively), the indicators needed to measure performance and progress towards achievement of the objective and the analysis of the resources needed to achieve DG MOVE's objective.

<b>3.11. Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG MOVE</b>
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#### **Audit objective and scope**

The overall objective of this limited review was to examine the calculation and underlying methodology of the multi-annual Residual Error Rate (RER) reported by DG MOVE in its (draft) 2015 Annual Activity Report (AAR), and in doing so, help the DG mitigate the discharge risk by enabling it to take appropriate actions, if any, before their disclosure in the final AAR and in the Synthesis Report.

The review covered the following aspects:

- The process and methodology for the calculation of the RER;
- The calculated RER;
- The presentation of the RER in the draft AAR;
- Compliance with the Standing Instructions for the 2015 AAR.

The IAS reviewed the draft 2015 AAR and the preliminary RER calculations available on 01 March 2016. It also reviewed the final 2015 AAR to check whether the issues detected during the fieldwork were correctly addressed.

The limited review fieldwork was finalised on 15 March 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

<b>3.12. Audit on H2020 grant management in the REA: part a) from the preparation of the calls for proposals to the signature of the grant agreements part b) administrative logistical services provided for H2020</b>
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#### **Audit objectives and scope**

The overall objective of the audit was to assess the adequate design and effective and efficient implementation of REA's internal control system for:

- The grant management process from the preparation of the calls for proposals phase to the signature of the grant agreements in order to ensure that the calls for proposals effectively support the achievement of the H2020 objectives, and that the processes in place ensure that the best research projects are selected and translated into grant agreements, in compliance with the applicable rules;
- Administrative logistical services provided for H2020 programme and its implementing entities.

This audit follows the gap analysis review of the H2020 legislation performed by the IAS in 2015, which identified a number of risks faced by the Commission as a result of the co-legislative process. The current audit, as well as similar audits launched in other H2020 implementing bodies, also assessed whether the risks identified in the gap analysis audit are being addressed.

The audit covered:

- The first implementation phases of H2020 from the planning of the evaluation of proposals to the signature of the grant agreements by REA in 2014 and in 2015;
- Certain administrative and logistic support services provided for H2020 (planning for the calls for proposals and support for publication of calls, general logistical support for the evaluation of proposals including the management of the evaluation facility, and contracting of experts).

The following areas were out of the scope of the audit:

- The services, provided for the other EU programmes, including the validation process (legal validation of beneficiaries, and the preparation of the applicants' financial viability assessment);
- The payment process for experts due to the changes and integration of the payment workflow in the COMPASS IT system as of 2016;
- The Research Enquiry Service (RES) through which REA provides replies to the broader public on EU research and innovation funding.

There were no observations/reservations in REA's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 15 February 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified one very important issue on the management of conflicts of interest (CoI).

- ***Managing conflicts of interest***

The practices applied among the various operational units regarding the extent of checks for CoI varies, as the existing corporate guidance does not describe the minimum CoI-related checks to be performed and are not complemented by internal guidance.

Moreover, in some cases additional keyword checks for identifying direct CoI of evaluation experts were performed after the signature of the experts' contracts, and revealed some instances of CoI. However, as the experts were already carrying out the individual evaluations, their work needed to be re-performed and travel expenses reimbursed according to the contractual provisions.

Furthermore, there are no clear procedures and guidance on the roles, responsibilities and the coordination between the operational and the contracting units regarding actions to be taken and procedure to be followed in case of breaches of confidentiality rules and unauthorised processing of personal data.

### **Recommendation**

To address this issue, the IAS formulated the following recommendation:

- The Agency should ensure that sufficient and coherent instructions regarding CoI checks are provided and their application is systematic and consistent;
- The existing practices regarding implementation of the keywords matching controls should be harmonised and timely application of the controls – before experts being contracted – should be ensured by the Agency;

The Agency should issue specific guidance for staff on managing CoI discovered during the evaluation and establish the procedure to be followed in case of misuse of personal data in the context of the evaluation process where the role of the operational units and the contracting unit should be described with the timeline and steps to be followed.

### **3.13. Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in the REA**

#### **Audit objective and scope**

The overall objective of this limited review was to review the calculation and underlying methodology of the multi-annual Residual Error Rate (RER) reported by the REA in its (draft) 2015 Annual Activity Report (AAR), and in doing so, to help the REA mitigate the discharge risk by enabling it to take appropriate actions, if any, before their disclosure in the final AAR and in the Synthesis Report.

The review covered the following aspects:

- The process and methodology for the calculation of the RERs;
- The calculated RERs;
- The presentation of the RERs in the draft AAR;
- Compliance with the Standing Instructions for the 2015 AAR.

The IAS reviewed the draft 2015 AAR and the preliminary RER calculations available on 09/02/2016 as well as the draft 2015 AAR provided to the SG. It also looked at the final 2015 AAR to check whether the issues detected during the fieldwork were correctly addressed.

The limited review also considered the results of the work done in 2014 by the IAS on the audit on the *"Implementation of FP7 Control Systems in REA-The Assurance Process"* and by the former REA's Internal Audit Capability on the audits on *"Ex-post Audit Process"* and on *"Implementation of Ex-post audit Findings"*.

The audit fieldwork was finalised on 18 March 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **3.14. Audit on Human Resources management in the REA**

### **Audit objectives and scope**

The overall objective of the audit was to answer the following question:

*Has the REA designed and implemented an adequate HR management process to deploy a competent (knowledgeable) and engaged workforce in order to deliver its priorities and core business?*

The audit covered in particular:

- The design and implementation of the HR strategy;
- The HR planning process, including workload assessment and staff allocation;
- Selection, recruitment and retention of staff;
- Knowledge management (competency management, training, coaching);
- Monitoring and reporting on HR activities.

There is no reservation in the REA's 2015 Annual Activity Report regarding the scope of this audit.

The fieldwork was finalised on 15 July 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified one very important issue:

- ***Management of the selection process for contractual agents***

The procedure for the selection of contractual agents (which represent 76 % of current staff) does not clearly indicate where the original selection files should be kept, which documents should be part of the selection file, which documents should be registered in ARES and which ones should be kept only as a paper copies due to their sensitive nature. Most of the selection files examined were stored in different places, and additionally had key documents missing.

Moreover, some of the panel members and staff committee observers had not received sufficient guidance on the selection and recruitment procedures, despite not having sufficient experience and knowledge of the process.

The current procedure does not clearly outline the controls over the extraction of data from dedicated databases (EPSO, SADB) during the selection process, aimed at ensuring candidates' compliance with the selection criteria. The testing carried out during the audit revealed one case where the approach of the selection panel regarding application of the essential selection criteria for the candidates was not compliant with the internal rules.

### **Recommendation**

To address the issue, the IAS formulated the following recommendation:

- ***Management of the selection process for contractual agents***

The Agency should:

- Update and revise its selection procedures by clearly defining tasks and responsibilities regarding the checks to be performed, and rules on the documentation of the process, filing and archiving;
- Provide training sessions on the roles and obligations of the selection panels for all panel members, secretaries and chairs;
- Ensure that controls over the selection process are systematically implemented.

## **3.15. Audit on procurement in DG RTD**

### **Audit objectives and scope**

The overall objective of the audit was to assess whether the internal control system in place in DG RTD is effective in ensuring the legality and regularity of the procurement management process.

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

- Compliance with the Financial Regulation, its Rules of Application and the specific legal basis;
- The effectiveness and efficiency of the processes, including management monitoring and reporting, and the need for simplifying internal administrative rules and procedures.

The scope of the audit covered the procurement process, from the identification of the needs to the contract execution.

There are no observations/reservations in the 2015 Annual Activity Report of DG RTD that relate to the area audited.

The fieldwork was finalised on 5 July 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.



### 3.16. Audit on H2020 project management in DG RTD

#### Audit objective and scope

The overall objective of the audit was to assess the effectiveness of the project management process with a focus on:

- The design of the guidance and procedures by the Common Support Center (CSC);
- The implementation of the project management process in DG RTD.

The audit covered the design by the CSC and the implementation in DG RTD of:

- The monitoring approach (desk or on the spot checks or reviews, using internal or external expertise, in terms of frequency of review) in line with the inherent risks of the projects;
- Assessment of the activities of the projects based on deliverables and reports;
- Selection of the appropriate course of action in the case of underperforming projects;
- Amendments to the grant agreements.

The audit assessed how DG RTD ensures that project activities were carried out as agreed and that the project deliverables are produced as envisaged. The monitoring and assessment of the scientific content of the funded projects during project management was not included in the audit scope.

Existing automated controls were considered as part of the audited process. However, the IT tools as such were not in the scope of the engagement.

On the *Strategy for an effective dissemination and exploitation of Horizon 2020 research results*, the audit fieldwork only covered the aspects of dissemination to be addressed during the assessment of the periodic reporting, i.e. mainly the assessment of the publishable summary and the review of the progress reached in the implementation of the project's Dissemination plan.

There are no observations/reservations in the 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 13 December 2016. All observations and recommendations relate to the situation as of that date.

#### Major audit findings

The IAS identified one very important issue:

- ***Determining the level of monitoring for projects***

H2020 implementing bodies have not reached a consensus on how project monitoring should be implemented. At the level of the CSC, the existing guidance that recommends to define the level of monitoring on the basis of a project's risk profile, is not mandatory and is only presented as a good practice.

DG RTD does not systematically apply the good practice proposed by the CSC to ensure that the level of monitoring is based on a sound analysis of the risks or on the specificities of the projects. In principle, the project officers decide on the specific monitoring measures they want to apply, resulting in different practices observed

between Directorates and, sometimes, to the use of a sub-optimal mix of monitoring tools as this would require a derogation from the rules or practices established at DG or Directorate level.

### **Recommendations**

- ***Determining the level of monitoring for projects***

The CSC should adopt rules on project monitoring to ensure that the implementing bodies adapt the level of their project monitoring based on a sound project risk assessment methodology. These rules should also aim at harmonising the practices amongst the implementing bodies.

DG RTD should cooperate with the CSC for the establishment of these rules. It should implement these new rules by ensuring that the existing internal rules and procedures on missions and experts do not hamper their application.

<b>3.17. Audit on the implementation of the FP7 ex-post audit strategy by the Common Audit Service in DG RTD</b>
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### **Audit objectives and scope**

The objective of this audit report was to conclude whether the objectives of the FP7 ex-post audit strategy are achieved, by assessing the effectiveness of the key processes and internal controls designed and implemented by the Common Audit Service (CAS), with due consideration given to efficiency and economy principles.

The audit focused on:

- The control environment in the CAS;
- The audit strategy and planning;
- The execution of audit engagements;
- The monitoring and reporting functions;
- The supervision and quality assurance functions.

The IAS finalised the fieldwork on 19 July 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified two very important issues:

- ***Delivery of individual audit engagements***

There are significant delays in finalising an important number of audit engagements. The root causes for the delays in finalising the audit engagements relate to: a) a long decision-making process for sensitive cases; b) the lack of procedures to finalise the engagements under special circumstances or where systemic issues are identified; c) ineffective backup procedures in cases of long-term absences; d) ineffective prioritisation of long-outstanding engagements.

- ***Audit planning, monitoring and reporting***

The review of the internal processes of the CAS highlighted that some activities (i.e. planning of audit engagements, staff planning, and performance monitoring and reporting) are not sufficiently developed to support the level of activity of the CAS. This is significant given that the implementation of the H2020 ex-post audit strategy will bring new challenges, thus requiring a more mature internal control system.

## **Recommendations**

To address these issues the IAS formulated the following recommendations:

- ***Delivery of individual audit engagements***

The CAS should significantly reduce the average time needed to close the audit files by addressing the root causes of the delays.

- ***Audit planning, monitoring, and reporting***

For improved planning and monitoring of audit engagements, the CAS should develop a list with the audits planned for the year. It should also set target dates and completion dates for the key audit milestones. To better identify resource gaps and establish priorities, the CAS should reconcile the available resources with those necessary to complete the plan. It should also set budgets for audit and non-audit activities and make better use of the existing time-recording system. To enhance the monitoring and reporting activities, the CAS should make use of SMART objectives, indicators and targets. In addition, the H2020 annual targets should be reviewed on a regular basis against the pace that the beneficiaries are lodging cost statements.

## **4. EXTERNAL ACTIONS**

<b>4.1. Audit on payment deadlines in DG DEVCO</b>
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### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy and effectiveness of the processes in place in DG DEVCO to comply with the rules and regulations, guidance and instructions related to the time limit to pay.

The audit focused on the payment process put in place by DG DEVCO in direct and indirect management for the EU budget and the European Development Fund.

The audit included an assessment of the following aspects:

- Appropriateness of contractual conditions with external parties fixing the time limit to pay and for handling and transmitting invoices to DEVCO Headquarters/EU Delegations;
- Effective processing of payment transactions, starting with the handling of the invoices;
- Effective implementation of the encoding, registration and suspension procedures in DG DEVCO;
- Adequacy of the support (procedures, guidance, training) provided on payment processes;

- Adequacy and effectiveness of accounting, quality control, monitoring and reporting activities in place concerning payment deadlines.

The transaction testing covered payments processed by Headquarters and by seven Delegations during 2015. Throughout the audit, the IAS also addressed the risks related to the open recommendation from the previous audit on payment deadlines in DG DEVCO, which was not yet sufficiently mitigated.

The scope of the current audit did not include IT systems supporting the audited process (CRIS and ABAC).

There are no observations/reservations in the 2015 Annual Activity Report of DG DEVCO that relate to the area/process audited.

The fieldwork was finalised on 27 June 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified two very important issues:

- ***Encoding of payment requests in DG DEVCO***

Despite DG DEVCO's awareness that registration of payment requests in the accounting system is one of the major causes contributing to its weak performance as regards respect of payment deadlines, it has not been able to find a workable solution to address the issue. For the period January-June 2016, the statistics from DG BUDG show an average time to register of 9 working days for DG DEVCO (compared to the corporate reference of 5 working days). This long registration delay is due to inefficiencies in the physical circulation and the clerical treatment of payment requests.

- ***Monitoring of the payment process in DG DEVCO***

In 2015, DG DEVCO introduced the Portfolio Management Dashboard, which provides in real time the list of upcoming and already late payments, based on data coming from ABAC. However, despite continuous refinement and improvement of the dashboard, it does not provide for active monitoring by alerting the actors in the financial circuits of possible delays. Moreover, DG DEVCO is not using and analysing the available data on the time spent in the different phases of the payment. Consequently, it is unable to detect and address appropriately the underlying reasons for delays.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Encoding of payment requests in DG DEVCO***

DG DEVCO should remind staff of the procedure in place to receive and register payment requests in the five working-days deadline. It has also to ensure that all directorates monitor and manage their correct application in order to comply with the time to register.

- ***Monitoring of the payment process in DG DEVCO***

DG DEVCO should internally set deadlines for each step in the financial circuit, monitor them and alert the responsible actors in the workflow of actual and potential delays. Furthermore, DG DEVCO should also monitor the use of suspensions and signal payments with long suspension periods.

#### **4.2. Audit on performance management system in DG DEVCO**

##### **Audit objectives and scope**

The overall audit objective was to assess the adequacy of DG DEVCO's performance management system to plan, monitor and report on the achievement of its objectives.

The audit covered in particular:

- The setting of objectives and the related indicators in the different performance management tools: Strategic Plan (SP) and Management Plans (MP), and Programming documents, including the Multi-Annual/National/Regional Indicative Plans (MIPs/NIPs/RIPs), the related Annual Action Programmes (AAPs), the Action Documents (ADs) and any other programme documents;
- The monitoring of the objectives, performance indicators and related targets;
- The annual reporting in the External Assistance Management Reports (EAMRs), Sub-Delegated Authoring Officer Reports (SDAOs) and Annual Activity Report (AAR);
- The set-up of the Result Framework (RF) and the first year of reporting;
- Setting project-level indicators, monitoring and reporting, including project closure.

The scope of the audit included planning and reporting documents prepared in the period 2014-2015, as well as the setting of objectives and indicators in the 2016-2020 SP and 2016 MP (which were finalised during the fieldwork and the finding validation phase).

The scope of the audit did not include the evaluation activities and the (traditional) results-oriented monitoring (ROM), since they were included in the scope of a recent audit performed by the European Court of Auditors (Special report 18/2014 "*EuropeAid's Evaluation and Results-Oriented Management Systems*").

The fieldwork was finalised on 30 June 2016 with the assessment of the final versions of the 2016-2020 SP and 2016MP. The observations and recommendations relate to the situation as of that date.

##### **Major audit findings**

The IAS has identified one very important issue:

- ***Monitoring of and reporting on DG DEVCO's performance towards achieving its objectives***

There is no systematic monitoring of progress towards the achievement of objectives and targets set in the MP, as the majority of the result and output indicators in DG DEVCO's 2015 MP and Directorates' MPs were not regularly monitored during the

year and were calculated at year-end only for reporting in the AAR. For MP DEL, most of the EUDs sampled do not monitor the achievement of their objectives at all (not even at year-end).

In addition, there is no central guidance on monitoring and reporting on the objectives and targets set in the ADs. Although DG DEVCO monitors the performance of individual projects, the results of the projects belonging to the same AD are not consolidated to provide information on the achievement of the overall objectives.

In terms of reporting, the type of information on DG DEVCO's performance provided by the different Strategic Planning and Programming-related reports (AAR, SDAO reports, EAMRs) is limited and does not give an actual assessment of whether objectives have been achieved or not. At the level of programmes, there is no annual reporting on the progress made toward the achievement of the objectives set in the programming documents, which consolidate the results measured at the level of the projects.

### **Recommendations**

To address this issue, the IAS formulated the following recommendation:

- ***Monitoring of and reporting on DG DEVCO's performance towards achieving its objectives***

DG DEVCO should significantly improve its monitoring and reporting arrangements to ensure that key indicators established in the different performance systems are systematically and regularly monitored and appropriate information is provided to senior management and stakeholders on a timely basis. The frequency of the monitoring and reporting should be defined taking into account the nature of the objectives to monitor, the type of indicator and the collection methods as well as the monitoring and reporting needs and expectations expressed by management and stakeholders.

## **4.3. Audit on direct management of grants in DG DEVCO (DCI and EDF)**

### **Audit objectives and scope**

The overall audit objective was to assess the control systems put in place by DG DEVCO to manage grants under direct management in order to achieve the programme objectives and to ensure the legality and regularity of the expenditure.

The audit covered in particular DG DEVCO's processes for managing grants under direct management assessed to have the highest risks, namely:

- Alignment of the grant's funded activities with DG DEVCO's strategic and operational objectives set in the programming documents (Annual Action Programme and the related Action Documents);
- Assessment if the grant agreements provide an effective framework for the implementation of the projects involved (e.g. indication of the expected results and time limits, grant amendments not changing significantly the budget, the time for implementation or the core of the action);

- Operational monitoring and reporting of the implementation of the projects, including the assessment of their final results;
- Review of the process to check that the payments are in accordance with the contractual provisions (reports submitted by the grant beneficiaries, expenditure verification reports prepared by external auditors and the related checks performed by DG DEVCO).

The scope of the audit did not include: a) the selection and award of grants and b) the evaluation activities (included in the scope of the European Court of Auditors' Special Report 18/2014 on "EuropeAid's Evaluation and Results-Oriented Management Systems").

The fieldwork was finalised on 1 December 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **4.4. Audit on the instrument contributing to stability and peace in FPI**

### **Audit objectives and scope**

The overall objective of the audit was to assess the effective and efficient management of the Instrument contributing to Stability and Peace (IcSP) by the FPI.

The processes in the scope of the audit were:

- Identification/formulation of crisis response actions;
- Contracting;
- Operational and financial monitoring;
- Reporting from EU Delegations to FPI Headquarters.

The audit scope included Art. 3 and Art. 4 of the IcSP, while Art. 5 of the IcSP, managed by DG DEVCO, was outside the audit scope. In addition, the audit did not cover the IcSP legal basis, programming (Art. 4), ex-post controls of projects, and evaluations.

There are no observations/reservations in FPI's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 22 November 2016. The observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

#### **4.5. Limited review of DG NEAR's residual error rate methodology and calculation for the 2015 reporting year**

##### **Audit objectives and scope**

The objective of this limited review was to review the calculation and underlying methodology of the Residual Error Rates (RER) reported by DG NEAR in its (draft) 2015 Annual Activity Report (AAR), and in doing so, to help the DG mitigate the discharge risk by enabling it to take appropriate actions, if any, before the disclosure of the error rates in the final AAR and in the Synthesis Report.

The review covered the following aspects:

- The process and the methodology for the calculation of the RERs for the different programmes and management modes of DG NEAR;
- The calculated RERs;
- The presentation of the RERs in the draft AAR;
- Compliance with the Standing Instructions for the 2015 AAR.

The IAS reviewed the draft 2015 AAR and the RER calculations available on 11 March 2016. It also analysed the final AAR dated 5 April 2016 to verify to what extent the recommendations and comments of the Draft Audit Report were taken into account in the final AAR.

The main part of the fieldwork was finalised on 18 March 2016. All observations and recommendations relate to the situation as of that date except for the points arising from changes introduced in the methodology for the calculation of the amount at risk from the draft to the final AAR that were analysed by the IAS after the issuance of the final AAR on 5 April 2016. The results of that additional analysis have been incorporated into this report where applicable together with DG NEAR's comments as appropriate.

As the result of the fieldwork, the IAS issued two sets of recommendations in order to a) address immediately the issues detected in the 2015 draft AAR, and b) identify a long term solution for future AARs.

The sub-recommendations related to the 2015 AAR have been either immediately implemented by DG NEAR or rejected. They have been followed up in the course of the engagement, when analysing the 2015 final AAR. Therefore, no action plan was requested to the DG in response to them.

##### **Major audit findings**

The IAS has identified two very important issues:

- ***IPA - Indirect management with beneficiary countries***

The 2015 RER for indirect management with beneficiary countries (IPA), representing approx. 13% of the payments executed in 2015, is based solely on the error rates reported by the Audit Authorities of the three beneficiary countries (Turkey, the former Yugoslav Republic of Macedonia (fYRoM) and Croatia). As stated in the individual country reports, the audit work is based, for different reasons, on non-statistical samples and in some cases the sample selection is not purely random. In



addition, no specific checks are performed by DG NEAR to obtain assurance on the reliability and representativeness of these results as a basis for the RER and no other sources are used by DG NEAR to corroborate them. For those reasons, the residual error rate of 0.02% included in the 2015 AAR for the enlargement programmes implemented through IMBC is neither representative nor reliable.

Concerning the calculation of the amount at risk, for 2015 DG NEAR used a range which is based on figures which are not reliable. In particular, DG NEAR used a predicted error rate based on certain assumptions rather than the actual RER which was already known at the time of the calculation.

- ***Enlargement – Direct management***

A number of detected errors included in the ex-post audit reports on Enlargement – direct management addressed to the EU Delegations in 2015 are reported as non-quantifiable. However, the approach used by DG NEAR for the assessment of procurement errors is not in line with the Standing Instructions and some of these errors may be quantified if the methodology prescribed by the Standing Instructions was applied. This would lead to a higher RER for this category of expenditure that represents approx. 16% of the payments executed in 2015.

In addition, the calculation of the RER for Enlargement– direct management does not take into account the correct sampling interval for the establishment of the projected errors for the period 2013 – 2015. A recalculation leads to an increase of the RER from 1.48% to 1.62%.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***IPA - Indirect Management with Beneficiary Countries***

For the 2015 AAR, the IAS recommended DG NEAR to assess the reliability of the error rate information reported by the national Audit Authorities of the beneficiary countries, taking into account their annual reports and other available assessments, in order to reach a conclusion whether the reported error rate for each country is reliable and based on an appropriate and robust methodology. In the 2015 final AAR, DG NEAR maintained the 2015 RER of 0.02% despite the criticisms raised by the IAS. However, it disclosed the fact that *"in 2016, DG NEAR intends to further fine-tune its approach to calculating the RER in this control environment, as well as offer continued support to the audit authorities."*

For the future AARs, DG NEAR should define a sound methodology for the calculation of the RER and the amount at risk which follow a multi-annual approach and should develop guidance on the assessment of the reliability of the error rates reported by the Audit Authorities and the calculation method for the RER for IPA-IMBC.

- ***Enlargement – Direct Management***

The IAS recommended to DG NEAR to recalculate the RER for the 2015 AAR by applying a sampling interval based on the entire 2013-2015 population and to assess if the non-quantifiable errors reported during 2015 can be quantified based on the

methodology prescribed by the Standing Instructions. Both points were taken into account in the 2015 final AAR.

Regarding the 2016 AAR, DG NEAR should update the methodology for the treatment of errors (quantifiable versus non-quantifiable) based on the Standing instructions for the AAR.

#### **4.6. Audit on risk management in DG NEAR**

##### **Audit objectives and scope**

The overall objective of the audit was to assess the effectiveness of DG NEAR's risk management process to identify, assess and manage critical and significant risks in line with the accepted risk level.

The audit covered DG NEAR's risk management process, from the identification of objectives until the monitoring of and reporting on the implementation of the risk responses.

The audit looked at the design of the risk management process and its implementation at DG NEAR Directorate-General and Directorate level.

The following processes were out of the scope of the present engagement:

- The objective-setting exercise: the audit looked at the choice of the objectives for which the risks had been identified and assessed, but not at the process to set the objectives;
- DG NEAR's specific risk assessment exercises (e.g. in the context of IT project management, external audit plan, Business Continuity Plan or IT security plans): the IAS looked at whether these exercises had been integrated in order to have a complete picture of the risk management process in DG NEAR, but did not audit them in detail.

The fieldwork was finalised on 1 April 2016. All observations and recommendations relate to the situation as of that date.

There are no observations/reservations in DG NEAR's 2015 Annual Activity Report related to the audited area/process.

##### **Major audit findings**

The IAS identified four very important issues:

- ***Risk management framework***

DG NEAR has not clearly established and allocated the roles and responsibilities of the various actors involved in the coordination of the risk management at central and Directorate level (Internal Control Coordinator and supporting staff and risk management coordinators in the Directorates). In addition, there is no risk steering committee ensuring a high level coordination of the risk management. Furthermore, there is no integrated management of risks, encompassing all the risk assessment exercises performed in DG NEAR (e.g. coherent guidelines, unique methodology), to ensure cost-effectiveness and harmonisation.

- ***Risk identification and assessment***

DG NEAR performs its risk identification and assessment mainly through desk reviews, without complementing them with other techniques such as workshops, questionnaires, interviews or brainstorming sessions. In addition, the risk management exercise focuses solely on critical risks. Consequently, any risk not assessed as critical at DG level is not formally identified, assessed and addressed, and no action plan is prepared, monitored and reported upon. Furthermore, no instructions have been developed at DG level to ensure a consistent implementation of risk management across the Directorates. Finally, DG NEAR has not established a risk register to document risks and mitigating actions.

- ***Risk acceptance, risk response and implementation***

DG NEAR has neither identified its risk appetite nor issued guidance to support the identification of the most appropriate risk response. The description of the risk response is often vague and the action plans are frequently too generic, without stating the process owners, milestones, and deadlines.

- ***Monitoring and reporting***

DG NEAR has not established the modalities, scope, timing and allocation of responsibilities for reporting progresses on the implementation of the action plans. In addition, there is no central monitoring of and reporting on the risk identified in the context of the annual risk management exercise and the related action plan. In addition, there is no evidence of a regular reporting to the Cabinet of DG NEAR's critical risks and mitigating actions. Furthermore, sensitive information was found in documents related to the DG NEAR's risk management without an adequate protection against inappropriate disclosure.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Risk management framework***

DG NEAR should clearly describe and formally attribute the roles, responsibilities and tasks in the risk management process, and should establish a steering committee to ensure that the risk management process is coordinated and consistent across the DG. It should also improve the coordination and synergy of its various existing risk assessment exercises.

- ***Risk identification and assessment***

DG NEAR should improve the methodology used for identifying and assessing risks, and enlarge the scope of the risk management exercise to significant risks at Directorate level. It should also provide internal guidelines to clarify key aspects for risk management, and establish a risk register at both DG and Directorate level.

- ***Risk acceptance, risk response and implementation***

DG NEAR should define its acceptable risk level, ensure that each identified risk has a clear risk response, and the mitigating actions are clearly formulated with formally assigned process owners, milestones and deadlines.

- ***Monitoring and reporting***

DG NEAR should establish proper monitoring and reporting arrangements, with clearly established responsibilities. It should provide guidelines on data protection for the sensitive information included in the relevant risk management documents.

<b>4.7. Review of the tender procedure EuropeAid/133797/DHL/SUP/XK, following the article 99(4) complaint received on 20 March 2016 (DG NEAR)</b>
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**Audit objectives and scope**

On 20 March 2016 the IAS received a complaint by e-mail under Article 99.4 of the Financial Regulation. The complaint contains allegations regarding the high price that was due to be paid by the EU Office in Pristina for the supply of 12 vehicles and therefore the non-compliance of the award of the contract with the principles of economy, efficiency and effectiveness. The complainer asked the IAS to check the information provided and, if there was a case to answer, to stop the procurement.

While the IAS has no management responsibility and cannot take decisions concerning a tender procedure, it decided, in the context of its mandate, to perform a desk review of the tender procedure concerned.

**Major audit findings**

The review resulted in a few issues for consideration. However, the IAS did not require DG NEAR to prepare an action plan and will not follow-up the issues for consideration.

<b>4.8. Audit on procurement under the Instrument for Pre-Accession (direct management and indirect management with beneficiary countries) – phase I</b>
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**Audit objectives and scope**

The objective of the audit was to assess whether procurement under the Instrument for Pre-Accession - direct management and indirect management with beneficiary countries is implemented effectively and in compliance with the applicable rules to ensure the legality and regularity of operations.

The specific objectives included an assessment of:

- NEAR Headquarters (HQ) guidance/procedures on the procurement process;
- DG NEAR monitoring arrangements on the procurement process;
- Coordination, planning and monitoring of the procurement process by EU Delegations (EUDs);
- Implementation of procurement under direct management;
- Ex ante controls performed by DG NEAR staff in EUDs on procurement procedures managed by beneficiary countries under indirect management with beneficiary countries, except Turkey.

For both management modes, the audit covered:

- NEAR HQ guidance, training and procedures on the procurement process;
- NEAR HQ monitoring arrangements on the procurement process;
- Coordination, planning and monitoring of the procurement process by EUDs;
- The different phases of the procurement process from drafting the terms of reference / technical specifications to the signature of the contract and its early amendments.

There are no observations/reservations in DG NEAR's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 30 November 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **5. EDUCATION AND CITIZENSHIP**

### **5.1. Audit on performance management systems in DG EAC, including the contributions of executive agencies and national agencies to the achievement of policy objectives**

#### **Audit objectives and scope**

The overall objective of the audit was to assess the extent to which DG EAC has an adequate performance management framework/system in place both for its day-to-day operational and administrative activities (internal) and for the delivery of programme and policy objectives (external).

The audit reviewed the internal processes for defining the DG's performance systems and establishing its objectives and indicators, as well as the related reporting, evaluation, monitoring, and supervision systems. The scope also included the processes within DG EAC to ensure appropriate contributions of EACEA, REA, and of the National Agencies (NAs) to the monitoring and measurement of the external performance.

The audit covered the period 2014-2016.

The supervision of EIT, the financial instruments delegated to EIF and the parts of the programmes whose implementation is delegated to other DGs, the performance of the NAs and DG EAC IT systems supporting the performance management systems were not included in the audit scope.

There are no observations/reservations in DG EAC's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 13 September 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **5.2. Audit on DG HOME's management of emergency assistance in the context of the migration crisis**

### **Audit objectives and scope**

The overall objective of the audit was to assess if DG HOME is managing the emergency assistance (EMAS) in the context of the migration crisis effectively, while still ensuring the legality and regularity of the underlying transactions.

The audit covered both the direct management of EMAS by DG HOME and the indirect management through the delegation agreement with the UNHCR. For the direct management part of EMAS (representing 83% (384.5 million EUR) of the EMAS funds), we focused on: 1) the needs assessment 2) the application process 3) the evaluation process 4) the award and contracting process 5) monitoring and reporting and 6) control systems for making payments (including ex-post controls).

For the indirect management part (representing the 17% (80 million EUR of the EMAS funds), we focused on assessing the processes and procedures for delegating and supervising the management of the EMAS actions by UNHCR.

There are no reservations in the 2015 Annual Activity Report of the DG that relate to the area/process audited.

The fieldwork was finalised on 21 September 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified four very important issues:

- ***Direct grant management - Planning, evaluation and contracting***

Although there is no legal obligation for DG HOME to perform a needs assessment and the situation on the ground is rapidly and constantly changing, the IAS has noted that various documents exist, which assess the different Member States (MS) underlying funding needs. However, currently these are not brought together in an overall analysis to clearly contribute to and support the EMAS Annual Work Programme (AWP) and its various updates. In addition, these are not systematically taken into account for the evaluation process of applications for EMAS funding.

Furthermore, the guidance to applicants lacks clear instructions on the information to be provided about the emergency situation concerned, the proposed actions and their impact. Consequently, the quality of a number of the applications reviewed by the IAS was insufficient, particularly regarding Key Performance Indicators and targets. Also, certain applications reviewed by the IAS lacked sufficient information on similar actions that may have been funded under previous programmes or from other sources.

Internal guidance on evaluation does not clearly explain the timing and objectives of the first assessment of applications. As a result, there were different approaches on the timing, depth and scope of this assessment. In addition, the respective roles and

responsibilities of the country desk officer and the project officer were unclear and the audit trail not always complete.

As regards the evaluation process, DG HOME's requirement that applications are evaluated beforehand by three individual internal evaluators should be seen as good practice. However, the guidance and training provided to evaluators is lacking with respect to assessing applications against the award criteria, the budget forecast and the complementarity with other actions funded. As a result, there are inconsistencies and gaps in the way the individual assessments were performed and documented. In a limited number of applications, individual evaluations were not made as the process had to be conducted at very short notice in response to very urgent, high level political decisions. The IAS acknowledges that in such situations it is not always realistic to follow the normal procedures.

In addition, the minutes (reports) of the Evaluation Committee, which are the basis for the award decision by the authorising officer, lacked sufficient justification or explanation for the decisions taken or did not include information beyond what is already in the individual evaluation forms. However, the IAS notes that the minutes of recent Joint AMIF-ISF committee meetings are more detailed in this regard.

For a number of award decisions taken before the reorganisation of Directorate E at the end of 2015, the actual grant recipient was not clearly identified. In addition, certain issues which required clarification prior to the contracting phase were not properly documented and therefore it was not clear to the IAS that these had in fact been fully addressed in the grant agreement.

Where grants have been amended, these sometimes lacked a documented justification. Furthermore, the approach taken was not always consistent, for example as regards granting or refusing an extension of the period for providing the final reporting package or when properly justifying the amendment. Internal procedures were not always respected, for example on consulting policy units on amendments involving significant budget transfers or changes of the content of the actions.

- ***Direct grant management – Monitoring, payment and controls***

As part of its monitoring arrangements DG HOME carries out a range of different missions to MS, but it has not yet defined the precise nature, purpose and timing for the different types of mission. Consequently, they are not always fully effective in helping to assess the actual progress made towards achieving the objectives of the actions funded. Furthermore, the grant agreements with beneficiaries did not always include provisions for reporting progress made to DG HOME. There was no evidence that the reports submitted by beneficiaries have actually been systematically reviewed and followed up by DG HOME.

Concerning payments, the pre-financing for EMAS grants is typically set at 80%, although some grants involve a higher risk (e.g. resulting from the urgent nature of actions or the retroactive funding of actions already started). It is usually good practice to use lower pre-financing rates or pay out in tranches in order to mitigate situations where specific grants present higher risks. This was done only for two of the EMAS grants reviewed by the IAS.

Furthermore, although it is still early in the implementation phase and few final payments have been made, the IAS nevertheless found that the final payment procedure needs to be improved in certain areas. Also, due to the heavy reliance

placed by DG HOME on audit certificates, it will need to monitor very carefully the associated risks as regards their quality. Audit work performed by the IAS on the use of audit certificates in other policy areas highlights certain issues in this respect.

Finally, despite the fact that EMAS grants are higher risk because of their urgent nature and the significant increase in budgetary terms, the DG has not yet developed a fully-fledged control strategy comprising all control layers and procedures (i.e. ex-ante and ex-post; financial and operational). Also, there is not yet an audit strategy/plan in place for EMAS grants. In addition, the DG's overall Anti-fraud strategy does not yet fully take account of EMAS related risks.

- ***Indirect grant management - Delegation Agreement with UNHCR***

The basis for the Delegation Agreement (DA) with UNHCR lacks a solid documented analysis of needs and consultation of other relevant services. Furthermore, there are gaps in the design of the monitoring and supervisory arrangements. In particular, objectives are not clear or specific enough, most actions lack specific targets, key performance indicators and milestones. Although the Financial and Administrative Framework Agreement (FAFA) between the EU and the UN provides the overall framework for Commission controls on UN-led projects financed by the EU, DG HOME has not yet defined its own specific control strategy for EMAS projects implemented by UNHCR. Finally, the DG has not assessed the cost-efficiency of the actions included in the DA.

- ***Complementarity of EMAS with other DG HOME funding***

Whilst the funding of actions to address the migration crisis through EMAS is on the increase, the absorption rate under the shared management 2014-20 National Programmes is very low for most MS. This is due to a combination of factors, such as the late adoption of the legal base and delays in the designation of Responsible Authorities. Consequently, MS have found it difficult to mobilise the necessary funding from the National Programmes to address migration issues as quickly as has been possible under the EMAS mechanism.

Although it is too early to assess definitively at this stage, there is a risk that the flexibility offered by the EMAS tool, coupled with the fact that this funding comes on top of the allocation to the MS under the National Programmes, may further contribute to the low take-up of the National Programmes. In certain cases, it would appear that more use could have been made of funding under the National Programmes to provide more sustainable and longer-term results. This is very clear in the case of Greece, where the lack of budgetary and administrative capacity of the Greek government has led to EMAS being used to cover almost all funding and financial support needs for the management of the migration crisis.

## **Recommendations**

- ***Direct grant management - Planning, evaluation and contracting***

DG HOME should strengthen the needs assessment process, including the underlying analysis. It should also improve its guidance on the key steps of the EMAS management process.

- ***Direct grant management – Monitoring, payment and controls***



The DG should finalise and establish its procedures for monitoring EMAS grants, clarifying how the different monitoring tools complement each other in order to provide sufficient assurance on EMAS grants implementation. DG HOME should continue to apply a more risk-based approach to pre-financing on an exception basis and plan to monitor the quality of audit certificates. The control strategy for the direct management of EMAS should be defined, comprising all control layers and procedures (i.e. ex-ante and ex-post; financial and operational), as well as the audit strategy and audit plan.

- ***Indirect grant management - Delegation Agreement with UNHCR***

DG HOME should ensure that the decision process, including needs analysis, for any future modifications/amendments or extension of the DA is sufficiently justified, consulted with relevant parties and adequately documented. The DG should ensure that well-defined objectives and specific monitoring provisions for the funded actions in line with FAFA are established.

- ***Complementarity of EMAS to other DG HOME funding***

DG HOME should perform, in the context of its preparations for the post 2020 programming period and the mid-term evaluation of the AMIF and ISF, an analysis of the 'lessons learned' from the first years of implementation of the National Programmes and EMAS and of the complementarity between the National Programmes and the EMAS. This should be used to feed into the re-programming (amendments of National Programmes) or re-orientation of the different funding tools/resources available to help in addressing the migration crisis.

**5.3. Consulting engagement in DG HOME on the methodology for determining the 'materiality level' and measuring the 'residual amount at risk' for the Annual Activity Report**

**Audit objectives and scope**

The overall objective of the engagement was to review the processes put in place by DG HOME for determining the 'materiality level' and for measuring the 'residual amount at risk' in the context of its reporting obligations in the Annual Activity Report (AAR) and to provide advice on potential improvements.

The scope of the consulting engagement covered two areas, namely:

- The process of determining the 'materiality level' (Part 1 of the engagement);
- The process of measuring the 'residual amount at risk' (Part 2 of the engagement).

According to DG BUDG Guidance, in order to come to a sound conclusion on whether to qualify the Authorising Officer by Delegation's (AOD) declaration with a reservation and, if so, to estimate its impact in monetary terms the following approach (the "3+1 steps" approach) should be followed:

- Step 1: calculating the representative detected error rate in a sample of transactions and taking account of any corrections made for the calculation of the residual error rate in the entire population;

- Step 2: estimating the financial exposure as (net) 'amount at risk' to the value of the relevant payments authorised during the reporting year, based on those error rates calculated for a population of transactions mostly authorised in previous years;
- Step 3: relating the 'amount at risk' for the activity considered to the relevant aggregation level for determining whether a reservation would be due;
- Step 4: "if" a reservation is entered, then assessing its relative impact on the AOD's overall assurance and Declaration.

The scope of our consulting engagement as regards the 'materiality level' concerns 'Step 3' above, in particular the identification of the most appropriate "relevant aggregation level" for determining whether a reservation would be due. The scope of our consulting engagement as regards the 'residual amount at risk' concerns 'Step 1' and 'Step 2' above, in particular the assessment of the method used by DG HOME to calculate the 'residual error rate' (step 1) and the 'residual amount at risk' (step 2) for shared management.

In the context of this consulting engagement, the IAS did **not**:

- decide on the 'materiality' level to be used in the AAR or on the method used for measuring the residual amount at risk. These are management (AOD) decisions;
- perform substantive testing of the existing processes;
- develop concrete templates to support the processes;
- assess the clarity and completeness of the information provided in the AAR on 'materiality level' and 'residual amount at risk' and drafting any input for the AAR.

### **Major audit findings**

The consulting engagement resulted in a number of issues for consideration. As this is a consulting engagement and not an audit, the IAS does not follow-up these issues for consideration.

## **5.4. Audit on the management of grants under 2014-2020 Justice and Rights, Equality and Citizenship programmes in DG JUST**

### **Audit objectives and scope**

The overall objective of this compliance audit was to assess the design and effective application of the internal controls for managing grants under the 2014-2020 programming period by DG JUST. In particular, the audit assessed whether the controls in place provide reasonable assurance regarding compliance with the relevant legislation and whether they ensure sound operational management of the grant management process.

The audit took place at an early stage of the implementation of the Justice and Rights, Equality and Citizenship programmes. The grant management process could therefore only be audited up to the pre-financing stage of the 2014 grant procedures and the preparation of the 2015 calls/invitations for proposals. The audit also covered aspects of the implementation phase, to the extent possible in view of the early stages of the process overall.

The audit focused on:

- Annual Work Programmes (AWPs) – preparation and publication;
- Calls for proposals (CfP) – preparation, approval and publication;
- Evaluation – selection of experts, evaluation of proposals, adjustment of proposals, award decision, and ex post publication of the list of awarded grants;
- Contracting – formalisation of the proposal into a grant agreement, respect of deadlines;
- Payment – budgetary commitments, pre-financing;
- Communication – provision of information to applicants;
- Implementation phase – concerning mainly audit and control arrangements.

There is a reservation in the 2015 Annual Activity Report of DG JUST concerning the high residual error rate (2,86%) in direct management grants.

The fieldwork was finalised on 10 May 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified two very important issues:

- ***Evaluation process***

There is scope for considerable improvement in the overall evaluation process. Currently, there is lack of guidance to support evaluators when they score project proposals and inconsistencies and gaps in the way in which the results are documented, including the justification for third evaluations. Also, the process is less efficient because the irrelevant proposals could be eliminated at an early stage as part of a two-stage procedure. Currently, this is not done and all the proposals are evaluated in depth as part of a single review. Moreover, only two evaluators evaluate all the proposals and an additional evaluator could help eliminate the need for reconciliations and lead to fewer third evaluations being needed. Finally, there is no overall panel review involving all the evaluators aimed at ensuring overall consistency and equal treatment of applicants.

- ***Contracting phase***

At the contracting phase, a lack of guidelines has resulted in inconsistencies in the way in which proposed grant budgets are reviewed. Furthermore, this review process generally only starts after the award decision has been made, which is too late to be able to detect potential budgetary problems. Also, whereas adjustments should be flagged in the evaluation reports, in practice these are made only at the later, budget review stage.

### **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Evaluation process***

DG JUST should develop guidance on scoring, clearly justify in the evaluation reports the reasons for each third evaluation and perform a panel review with all the external

experts in order to compare and assess proposals. In order to increase the efficiency of the process, it should also exclude in a first step irrelevant projects from further evaluation.

- ***Contracting phase***

DG JUST should ensure that the budget review starts as soon as there is a provisional merit list so that recommendations for any adjustments that might be needed can be included in the evaluation report. The DG should also ensure a consistent approach between project officers for the budget review.

## **5.5. IAS review on mapping of EC refugee crisis interventions**

The mapping exercise was included in the 2016 audit plan with the aim to gather sufficient, useful and relevant information to support and better focus the future IAS audit engagements on the key risks in the area.

## **6. ECONOMIC AND FINANCIAL AFFAIRS**

### **6.1. Audit on effectiveness of the management of the COSME Programme by EASME**

#### **Audit objective and scope**

The overall objective of the audit was to assess the effectiveness of EASME's management and control systems in managing the delegated parts of the COSME programme.

In particular, the audit assessed the effectiveness of the division of roles and responsibilities between EASME and DG GROW and of the processes in place in EASME to set the operational objectives and performance indicators in the context of the implementation of the COSME actions and to report to the parent DG. The scope also included the adequacy of the internal control system to manage the delegated COSME actions.

The audit covered the period 2014-2016.

There are no observations/reservations in the Agency's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 15 October 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS identified one very important issue:

- ***Cooperation between EASME and its parent DG for implementing COSME)***

The Agency has had most of the time no robust basis for preparing the COSME related part of its Annual Work Programme (AWP) and planning its work due to the late contribution by the parent DG and the significant changes in the COSME Work

Programme (WP) during the mid-term review. This had resulted in certain COSME related parts of the AWP already implemented during the first half of the year having become obsolete after the mid-year update of the COSME WP. Therefore, the related work performed until this modification was finally wasted. EASME has not sufficiently assessed the impact of this on the efficient implementation of the delegated actions and has not established an up-to-date planning document that takes into account all the changes to the delegated actions during the year.

### **Recommendations**

To address this issue, the IAS formulated the following recommendation:

- *Co-operation between EASME and its parent DG for the implementation of COSME*

EASME should formally assess the impact of DG GROW's delays and of the changes to the WP, and identify possible measures to improve the cooperation with its parent DG, including a revision of the Memorandum of Understanding. For future COSME WPs, EASME should formally agree with DG GROW that the list of the delegated actions and support measures is provided sufficiently early to allow for preparing a robust AWP. The Agency should also revise its Department A WP to take into account any significant changes to the COSME WP.

## **6.2. Audit on financial management, procurement and grant processes in DG ECFIN**

### **Audit objectives and scope**

The audit assessed the adequacy of DG ECFIN's management of grants, procurement and the related financial transactions. In particular, it reviewed the design and the implementation of the controls in place to assess whether they ensure the legality and regularity of the financial procedures and the financial transactions and whether they are effective and efficient.

This audit covered the key controls carried out on procurement and grant procedures completed in 2015 and on financial transactions executed in 2015. The engagement covered the controls carried out on the financial transactions directly and entirely executed by DG ECFIN as Authorising Officer by Sub-Delegation (AOSD), i.e. excluding cross-delegations and sub-delegations.

There are no observations or reservations in DG ECFIN's 2015 Annual Activity Report related to the audited processes.

The fieldwork was finalised on 31 May 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

### 6.3. Audit on setting of objectives and measurement of performance in DG GROW

#### Audit objectives and scope

The overall objective of the audit engagement was to assess whether the DG has an adequate performance measurement framework in place for its day-to-day operational and administrative activities (internal) and for the delivery of its policy objectives (external). The audit assessed the internal processes for setting objectives and key performance indicators as well as the related reporting and monitoring.

The audit focused in particular on the following areas:

- The process of setting high quality objectives and performance indicators (design and implementation of the process) in line with the policy;
- The performance measurement framework for monitoring, evaluating and reporting the (internal and external) performance of activities.

The audit covered the processes related to the preparation of the Strategic Plan (2016-2020), the Management Plans (2014, 2015 and 2016), DG ENTR Annual Activity Report (2014), DG GROW Annual Activity Report (2015) and Programme Statements (Draft Budget 2016 and 2017).

There are no observations/reservations in the 2015 Annual Activity Report (AAR) of DG GROW that relate to the area/process audited.

The fieldwork was finalised on 13 April 2016. All observations and recommendations relate to the situation as of that date.

#### Major audit findings

The IAS identified two very important issues:

- ***DG GROW performance framework***

The different tools DG GROW currently uses to plan and monitor its activities, actions and initiatives are not complemented by an overarching strategic vision describing how the DG organises its interventions and how short-term outputs will lead to medium and long-term results and impacts and contribute to the achievement of its strategic objectives. Consequently, there is no overview which demonstrates how the different DG's activities contribute to the achievement of its strategic and operational objectives without gaps or overlaps. Furthermore, the different performance management tools in place in DG GROW are insufficiently coordinated at the planning and reporting phase and their respective contents are not aligned, coherent and consistent.

- ***Monitoring of and reporting on performance in the context of the SPP cycle***

The DG's 2016-2020 Strategic Plan does not always provide sufficient information to understand which unit is in charge of monitoring the different indicators and which data sources will be used for this purpose. In addition, there is neither a formalised procedure nor internal instruction/guidance available on the monitoring of the result indicators included in the Strategic Plan and for reporting on progress made towards the achievement of the established targets. As regards reporting, IAS noted some cases

where different Strategic Planning and Programming documents provided inconsistent information about indicators.

### **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***DG GROW performance framework***

DG GROW should clearly set out its strategic view by establishing a logical link (intervention logic) between high level priorities, strategic and operational objectives and short term actions as established in its different strategy documents and performance tools (Strategic Plan, Management Plan, Annual Activity Report, Programme Statements, Agenda planning, different tools at unit level). The strategic view should allow it to assess whether or not the actions planned for a given year will contribute to the achievement of its specific objectives and of the Commission's priorities.

- ***Monitoring of and reporting on performance in the context of the SPP cycle***

DG GROW should adopt a procedure for the measurement and monitoring of all result indicators included in the Strategic Plan and Programme Statements. In addition, the DG should document, for each result indicator, key information such as the data source, calculation method, person responsible for the calculation and the monitoring of the indicator and the periodicity for the reporting. Furthermore, the DG should perform and document consistency checks among the indicators included in the Management Plan, Annual Activity Report and Programme Statement.

## **6.4. Audit on financial management and IT procurement in DG TAXUD**

### **Audit objectives and scope**

The overall objective of this audit was to assess the adequacy of the design and the effective implementation of DG TAXUD's internal control systems as regards its IT procurement, contract and financial management processes as well as the effectiveness and efficiency of the related financial circuits.

The scope included the 2015 and 2016 IT procurement procedures, framework contracts, specific contracts and requests for actions as well as the related financial transactions performed.

There are no observations or reservations in DG TAXUD's 2015 Annual Activity Report related to the audited processes.

The fieldwork was finalised on 28 October 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **6.5. Audit on ethics in DG TRADE**

### **Audit objectives and scope**

The overall objective of the audit engagement was to address the following key question:

*Has DG TRADE adequately designed and effectively implemented an ethics framework in compliance with the applicable values and rules to ensure that it serves the EU interest, complies with ethics standards and ensures that its staff behave ethically?*

The audit covered in particular:

- The overall control environment for ethics in DG TRADE (risk management, roles and responsibilities, compliance with Commission's rules and guidance, provision of specific guidance, support, training and awareness raising actions, reporting);
- The compliance of DG TRADE's activities and its staff behaviour with ethics rules and standards.

The audit did not cover the handling of sensitive information as it was included in the 2013 audit of the former IAC on *document management* and in the IAS 2015 audit on the efficiency of the Trade Defence Instruments. In addition, the security and confidentiality of information related to trade negotiations is part of the scope of the ongoing IAS audit on the administrative processes supporting trade policy negotiations and implementation.

There are no observations or reservations in DG TRADE's 2015 Annual Activity Report related to the audited process.

The fieldwork was finalised on 15 September 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **7. GENERAL SERVICES**

### **7.1. Audit on management of procurement under DG ESTAT's operational budget**

#### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy of the design and the effective implementation of DG ESTAT's internal control systems for the management of the procurement process and the effectiveness and efficiency of the related financial circuits.

In particular, it reviewed whether the internal control system provides reasonable assurance regarding the:



- Compliance with the Financial Regulation, Rules of Application and specific legislation;
- Prevention, detection and correction of errors, irregularities and fraud;
- Effectiveness and efficiency of the procurement process and the need to simplify the internal administrative rules and procedures;
- Reliability of reporting and monitoring;
- Safeguarding of assets.

This audit covered the key controls concerning:

- The procurement process, from the determination of the needs and planning to the effective implementation of the contract, and;
- The financial circuits for procurement, including commitments, payments, de-commitments and recovery orders.

The audit covered procurement procedures launched and financial transactions performed during 2015 and up to 31 July 2016.

There are no observations or reservations in DG ESTAT's 2015 Annual Activity Report related to the audited processes.

The fieldwork was finalised on 14 November 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

## **7.2. Audit on procurement and grants in OLAF**

### **Audit objectives and scope**

The audit assessed the adequacy of OLAF's management of grants, procurement and the related financial transactions. In particular, it reviewed the design and implementation of the controls in place to assess whether they ensure the legality and regularity of the financial procedures and transactions and whether they are effective and efficient.

The audit covered the controls carried out on procurement and grants procedures completed in 2015 and on the financial transactions executed in 2015. The audit did not cover procurement procedures under the budget line of the Supervisory Committee of OLAF, which is subject to a separate audit in 2016.

There are no observations or reservations in OLAF's 2015 Annual Activity Report that relate to the audited process.

The fieldwork was finalised on 23 May 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS did not identify any material risks that would give rise to critical or very important recommendations.

### **7.3. Audit on the governance, planning, monitoring and implementation of the budget line of the OLAF Supervisory Committee**

This audit has been classified as EU restricted and as such was disseminated to the interested parties in paper form only.

### **7.4. Audit on the charge-back process in PMO**

#### **Audit objectives and scope**

The overall objective of the audit was to assess the effectiveness and efficiency of the design and implementation of the charge-back process in place in PMO for the services provided to the Commission's internal and external clients (e.g. other EU Institutions, Agencies and Bodies) and its compliance with the fundamental principles laid down in the corporate guidance.

The audit scope covered the roles and responsibilities of PMO related to the charge-back process for the services provided to the Commission's internal and external clients. It included all types of services provided by the Office that are subject to the charge-back of costs and the mechanisms used for charging-back costs to clients (i.e. recovery orders and delegations for specific budget lines).

There are no observations/reservations in PMO's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 29 November 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS identified two very important issues:

- ***Service Level Agreements***

PMO has not yet updated all the Service Level Agreements (SLA) with its clients signed before 2014, even though some of these date back some ten years and no longer reflect the actual workload and costs incurred by PMO. Consequently, some clients pay more and others less than the actual cost incurred by PMO.

Moreover, the cost of certain services provided to EU Institutions and other EU Bodies is not calculated by using the new cost methodology, resulting in clients being charged different prices for similar services.

Furthermore, PMO does not have a dedicated section on its website, or other readily available information that would allow (potential new) clients to understand precisely what services can be provided (its catalogue of services) and at what price. In addition, other elements which make up the charge-back mechanism, such as the grouping of

services into categories, the methodology and criteria used to calculate and to revise prices are not communicated to its clients.

Finally, although certain SLAs include provisions on the evaluation of the PMO services, so far PMO has not monitored all and not reported on any of the Key Performance Indicators as stipulated in the SLAs to its clients. In other cases, no such provisions are included in the SLAs.

- ***Cost methodology***

The IAS found that PMO's current cost methodology is likely to have overestimated the cost of the services provided, as its overhead cost was accounted for twice in the calculation for the basic services offered for one year.

In addition, the SLAs with the Agencies, as revised in 2015, include a clause granting a discount and this progressively decreases over a period of ten years. However, this discount is not related to any analysis of the associated workload of PMO.

Finally, at present, PMO's cost methodology for charging back the cost of its services is not documented in a comprehensive manner. Moreover, the knowledge regarding the actual application of the cost methodology is currently limited to a few members of staff following the departure of some key staff involved in the cost calculation.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Service Level Agreements***

PMO should initiate a revision of the SLAs signed with internal and external clients, which do not comply with the corporate guidelines on charge-back due to be finalised soon and, in particular, with the new cost methodology. Particular attention should be paid to those SLAs that no longer reflect the real costs incurred by the Office for the provision of the respective services;

- ***Cost methodology***

PMO should make available to (potential) clients its catalogue of services, together with information on how the charged-back mechanism is applied and the details of the costing methodology used; it should incorporate in its SLAs harmonised provisions on monitoring and reporting to clients on the quantity and quality of the services provided (e.g. by means of relevant Key Performance Indicators with targets).

## **8. IT audits**

<b>8.1. Audit on effectiveness of measures to handle manual interventions in ABAC</b>
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### **Audit objectives and scope**

The overall objective of the audit was to provide re-assurance on the controls over Manual Interventions (MIs), specifically by reviewing and assessing the effectiveness of DG Budget's processes and procedures in the management of MIs in ABAC Accounting (ABAC-ACC) and ABAC Workflow (ABAC-WF). This audit aimed to

complement the previous work of the European Court of Auditors by testing the implementation of the new procedure for MIs and performing a more detailed substantive transaction testing.

The audit focused on the following aspects:

- The ABAC-ACC and ABAC-WF systems. These are the two main central financial information systems dealing with and consolidating information on payments, commitments, recovery orders, invoices, etc. and therefore carry a higher risk related to MIs;
- The process for requesting and approving privileged user accounts with the necessary authorisations to perform MIs;
- The process for requesting, performing and documenting MIs in production systems;
- The process for reviewing the actual usage of privileged user accounts;
- The process for detecting and analysing recurrent MIs and for the identification of measures aimed at reducing their frequency.

The analysis of MIs was limited to DG Budget even though other DGs, such as DG ECFIN, also have user accounts that perform MIs in ABAC-ACC. This audit scope was limited because the main control mechanisms within the scope of this audit (privileged user creation, monitoring of MIs modifying DG Budget data) are applicable to all users.

There are no observations/reservations in the 2014 Annual Activity Report of DG Budget that relate to the area/process audited.

The fieldwork was finalised on 3 February 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified two very important issues:

- ***Extensive use of the Manual Intervention procedures***

MIs are extensively used to perform activities which could be performed according to more appropriate and safe arrangements, such as standard change management procedures. In some cases, the need for MIs could be avoided completely as the associated activities can be performed by users with much lower privilege rights such as a normal business user and not a privileged IT user. Furthermore, DG BUDG has produced 4 bi-annual reports on the use of MIs since 2014, and while there were recommendations formulated in the reports, no formal action plans have been drawn up to address any issues identified.

- ***Too few controls over privileged user accounts***

User accounts used to perform MIs have extensive privileges, in some cases beyond the best practices recommended by the vendor of the software. Moreover, certain high privileged user accounts are not linked to a single individual, which reduces traceability and accountability. In addition, there is no systematic and regular review of privileged user accounts, together with their access rights and insufficient resources are available for reviewing and controlling the MIs performed.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

DG Budget should reduce the use of MIs to perform changes in the production environment of the central financial IT systems by identifying activities that only require limited privileges for their execution and by performing them with less privileged users as well as by implementing specific IT developments to avoid the need for MIs. In addition, the number of privileged accounts should be reduced to a strict minimum and their accountability and traceability enhanced. Moreover, the DG should identify activities to be performed by business users and implement the functionalities which would allow them to be performed directly, rather than having IT teams executing tasks on their behalf. This would improve the inherent security of the operations, facilitate the execution of detective controls and, ultimately would result in a more cost effective use of IT and user support resources.

### **8.2. Audit on management of EESSI project in DG EMPL**

#### **Audit objectives and scope**

The overall objective of the audit was to review and assess the adequacy of the design and the effectiveness of the implementation of the internal controls put in place by DG EMPL for managing the Electronic Exchange of Social Security Information (EESSI) project, with a specific focus on its execution phase. The audit aimed to identify weaknesses in DG EMPL's processes and procedures and recommend any improvements, where appropriate.

The audit focussed on the following aspects:

- The Project Plan, including past performance for the achieved phases and future estimates for the remaining phases;
- The adequacy of the project management artefacts, developed according to the PM2 methodology;
- The definition of the functional and technical specifications;
- The process to implement, test and validate the implementation of the specifications;
- The process for involving and receiving the validation of artefacts by DG EMPL and Member States stakeholders;
- The accuracy of project reporting.

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

The fieldwork was finalised on 31 March 2016. All observations and recommendations relate to the situation as of that date.

#### **Major audit findings**

The IAS identified three very important issues:

- ***Incomplete and unstructured procedures for final acceptance testing and preparation for production release readiness***

Currently, there is not yet a detailed and comprehensive agreed list of acceptance criteria for each feature or functionality. The test procedures (objectives, test specifications, ownership, definitions as to what is acceptable/not acceptable by all stakeholders etc.) and the reporting of the results needed for the final project sign-off are still very much at the preliminary stage. The project is now in its final phase and the specifications tasks, roles and responsibilities need to be defined urgently. Furthermore, Member States need to be well-prepared for the transition period, but this is currently not sufficiently monitored by DG EMPL. Similar weaknesses in intermediary testing phases, among other reasons, have already resulted in a delay of 6 months in the project timeline, postponing the final release to June 2017 instead of December 2016.

- ***Insufficient integration of security requirements***

The necessary security requirements and specifications (such as approved EESSI security policies, standards and guidelines and appropriate business impact assessments), have not been fully built into the project architecture. Similarly, the IT Security Plan, that has to be finalised before production, is still in its very early stage of development. Although this is already part of on-going discussion in the EESSI Security Expert Forum, its finalisation has been planned for the last phase of the development and it may prove difficult and very expensive (in terms of time and/or skilled resources) to achieve in practice. Additionally, the security tests – needed to validate the actual implementation against the relevant requirements – as well as the IT security acceptance criteria and the strategy for what to do in the event of a failure to meet these criteria have not yet been defined and agreed internally (within the Commission) and/or externally (with Member States).

- ***Gaps in the Project Plan update and limited reporting***

The Project Plan is currently incomplete as it does not define or integrate the transition tasks and ownership required to test and validate the final release by the relevant stakeholders. Neither are there any provisions for monitoring the preparedness of the Member States. In addition, there is no process in place for reporting progress against agreed baselines. This is essential as the project is entering the critical finalisation and validation phases. Given the limited time available to undertake final testing, corrections and validation, this will be particularly challenging in view of the large number of stakeholders involved.

In addition, the Total Cost of Ownership (TCO) of the project has not yet been fully estimated. In particular, there is no estimate of all IT investments and costs, internal or external to be incurred by DG EMPL, foreseen for the design, construction and operation phases for the first five years (including development, deployment, maintenance, support, training and infrastructure, hosting and licences).

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Procedures for final acceptance testing and preparation for production release readiness***

DG EMPL should complete and finalise quickly the necessary elements for the acceptance tasks such as the Deliverables Acceptance Management Plan, the traceability matrix and the transition plan. This should include the testing procedures and acceptance criteria for each solution specification, as well as all requirements and milestones needed by Member States to start the transition period. It is of paramount importance to properly identify ownership, assign responsibilities and set due dates for both internal and external stakeholders responsible for testing and acceptance.

- ***Integration of security requirements***

DG EMPL should ensure that the architectural specifications are finalised as soon as possible, together with the IT Security Plan. In parallel, DG EMPL should define a timeline with tasks and ownership for security related tests to be performed in the last development and testing phase. It should allocate sufficient time for these tests, including any incremental changes planned for the final production release. Finally, it should agree with all stakeholders the strategy and approach to take in the event that the security tests are unsuccessful.

- ***Project Plan update***

DG EMPL should identify missing tasks in the Project Plan for all key stakeholders, together with any related inter-dependencies, and update and complete the existing Project Plan accordingly. Specifically, the transition plan should be integrated into the overall Project Plan, including tasks, owners and due dates for activities within the transition workstream. DG EMPL should update the baseline project plan and report updates and deviations for the remaining phases. Finally, it should make a first estimate of the TCO for DG EMPL for the transition period and the first years of solution in full production mode, as recommended by the IT Board instructions for the calculation of the TCO.

### **8.3. Audit on business continuity management at OP**

#### **Audit objectives and scope**

The objective of the audit was to assess the adequacy of the design and the efficiency and effectiveness of the management and control systems put in place by the Publications Office (OP) for its Business Continuity (BC) management. The aim of the audit was to help identify any possible weaknesses in OP's business continuity processes and to recommend improvements where needed.

The audit focussed on the following aspects:

- Completeness, relevance and consistency of OP's BC management documentation;
- Effectiveness and consistency of contracts and service level agreements with non-OP service providers (including DG DIGIT);
- Adequacy and effectiveness of OP's defined response plan to a major disruption;
- Maturity of OP's BC awareness culture;
- Adequacy and effectiveness of OP's technical arrangements including the testing of correct functioning.

The scope of the audit was limited to BC management at the DG/Service level in OP. BC arrangements at corporate level were not in the scope of this audit as they are SG's responsibility.

There are no observations/reservations in the 2015 Annual Activity Report of OP that relate to the area/process audited.

The fieldwork was finalised on 20 May 2016. All observations and recommendations relate to the situation as of that date.

## **Major audit findings**

The IAS identified three very important issues:

- ***Shortcomings of physical security in the alternate data centre***

The two data centres mirroring data for critical applications in real-time are a cornerstone of OP's BC strategy. However, the actual power density in the alternate data centre has significantly exceeded the levels assumed during the planning phase for a number of years, a problem which is well known to OP. In addition, the audit identified shortcomings in the physical security of the alternate data centre which increases the risk of a fire.

The IAS notes that OP has already initiated an action plan to address the weaknesses concerning the physical security of the alternate data centre, but stresses the need to ensure that the actions are implemented as soon as possible.

- ***Recovery Time Objectives for urgent applications not met by DG DIGIT***

Key OP business processes depend very much on services provided by DG DIGIT, which are subject to a formal Service Level Agreement (SLA) and which states the recovery requirements in the event of a disruption. Even though DG DIGIT classifies key systems in OP as critical, the recovery times stated in the current SLA with DG DIGIT are significantly higher than the Recovery Time Objectives (RTO) which OP itself has defined for these very urgent key business processes. Consequently, there are no formal assurances from DG DIGIT that it would be able to meet OP's recovery requirements in the event of a disruption.

- ***Business Impact Assessment delivering an incomplete picture and misleading results***

OP's assessment of the relative urgency of a situation may be distorted in so far as its Business Impact Assessment (BIA) wrongly confuses IT security and BC criteria. In addition, the BIA does not provide a central (big picture) overview of the various interdependencies between the various functions and the corresponding impact on services of a disruption to one or more of those functions. Furthermore, the BIA does not sufficiently document the nature and extent to which OP is dependent on external service providers.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***Physical security in the alternate data centre***



OP should reduce the power density by enhancing the space or increasing the power of the air conditioning system in the alternate data centre. In addition, OP should introduce regular checks by staff to ensure that the fire load is kept to the minimum possible.

- ***Recovery Time Objectives for urgent applications***

OP should re-assess its BC requirements, taking into account the constraints of its service providers. If a solution cannot be readily found, it should formally include this risk in its risk register and explore the possibility of alternative service providers more in line with its requirements.

- ***BIA delivery***

OP should revise its BIA by introducing a process-oriented approach and using availability as the sole criterion for the assessment of the urgency of the process concerned. In addition, OP should clearly document all dependencies and the resources needed to recover critical processes.

#### **8.4. IT governance and portfolio management in DG GROW**

##### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy of the design and the effective implementation of the management and control systems put in place by DG GROW for its IT governance, portfolio management and related domains. The aim of the audit was to help identify any weaknesses in DG GROW's processes and procedures to deliver effective and efficient results.

The scope of the audit included the review of the following aspects in DG GROW:

- IT governance and portfolio management related principles, policies, processes and procedures;
- IT service management related principles, policies, processes and procedures;
- Resources and capabilities in the domains of business process management, data/information management, enterprise architecture and programme management;
- IT sourcing related principles, policies, processes and procedures;
- IT-related skills and competences principles, policies, processes and procedures.

There are no observations/reservations in the DG's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork was finalised on 30 November 2016. All observations and recommendations relate to the situation as of that date.

##### **Major audit findings**

The IAS identified two very important issues:

- ***IT strategy, IT-related risk management and functioning of the IT Steering Committee***

Currently, the DG's IT strategy goals and related specific objectives are not linked to appropriate key performance indicators (KPIs) in a way that makes it possible to monitor progress towards their achievement and measure the achieved benefits. In addition, the IT strategy lacks a clear vision as to how the DG's IT environment/landscape is expected to change in response to meeting business needs, going forward. The possible centralisation option, which was discussed in a recent meeting of the IT Steering Committee (ITSC), was not supported by a sound cost-benefits and risk analysis.

Furthermore, there is no overall IT risk management framework to ensure that IT-related business risks at all levels (strategic, project or programme and operational) are properly identified and assessed, together with the establishment and implementation of appropriate action plans. Finally, although the results of the ITSC meetings are made available, there have been no concerted efforts aimed at informing the Directors who are currently not members of the ITSC of the wider aspects and implications of the issues discussed.

- ***IT portfolio and programme management***

For new projects at the inception phase, the DG's standard assessment methodology does not cover costs and benefits. In addition, although DG GROW is currently in the process of undertaking numerous IT-related or IT-enabled business initiatives, it has not put in place a formalised IT programme management approach. Moreover, there is no multi-annual roadmap, which links the initiatives/actions mentioned in its IT strategy to the expected deliverables, the resource effort and costs involved, milestones and any inter-related dependencies.

## **Recommendations**

To address these issues, the IAS formulated the following recommendations:

- ***IT strategy, IT-related risk management and functioning of the ITSC***

DG GROW should improve its IT strategy, more specifically by linking its objectives to appropriate KPIs and strengthening its cost-benefits-risk analysis to support the choice of the preferred option for "*The future IT Delivery Model of DG GROW*". In addition, it should approve an action plan to deliver the preferred option of the future IT Delivery model, taking due account of the need to align business and IT.

Moreover, DG GROW should adopt a comprehensive IT risk management framework that includes managing risks at the strategic, programme or project and operational level and develop an IT risk register. In addition, it should strengthen the way in which it involves and communicates key IT developments to the Directors who are not members of the ITSC.

- ***IT portfolio and programme management***

DG GROW should ensure that a formalised approach is in place to support IT-related or IT-enabled business initiatives by a comprehensive (covering cost, benefits and risks) assessment of their value, both at an early stage, at the project inception, and monitored throughout their lifecycle. Moreover, DG GROW should adopt a programme management approach for IT-related and IT-enabled initiatives and devise a multiannual roadmap linking the actions with deliverables, corresponding allocated

resources, costs and milestones, and ongoing business initiatives and dependencies on other strategic actions.

## **8.5. Audit on IT security in JRC ICT systems**

### **Audit objectives and scope**

The overall objective of the audit was to assess the adequacy of the design and the effectiveness of the implementation of the internal controls put in place by DG JRC for protecting electronic information and assets, and regarding connectivity between JRC premises and the wider European Commission information network and systems.

The audit focused on the following aspects:

- IT Security governance procedures to evaluate, design and monitor the IT security framework in the JRC. This included assessing the effectiveness of the decision making process among the different stakeholders and the regular execution of awareness campaigns;
- Security operations as regards applications, operating systems and network security devices. This included reviewing the controls currently executed by the Local Information Security Officer (LISO) and the connectivity to the Commission networks;
- Process to request, grant and provide privileged user accounts;
- Process to request, perform and document changes in the security parameters;
- Detection, communication and analysis of IT security incidents and identification of improvements in systems and processes to reduce the frequency.

Specific nuclear IT systems were not included in the scope of the current audit. These are subject to specific German and Italian regulations and under strict supervision by the authorities.

There are no observations/reservations in DG JRC's 2015 Annual Activity Report that relate to the area/process audited.

The fieldwork took place at the JRC sites of Ispra, Seville and Karlsruhe and it was finalised on 28 November 2016. All observations and recommendations relate to the situation as of that date.

### **Major audit findings**

The IAS identified four very important issues:

- ***Management oversight of IT security***

Currently, a number of key activities are not assigned to defined owners and are performed on an ad-hoc only basis and/or in an uncoordinated way. These include the evaluation of security needs and requirements, prioritisation of tasks and monitoring of according actions. In addition, there is no proven mechanism for ensuring that IT security related needs are properly heard and discussed at the appropriate level and by the right stakeholders. Furthermore, there are no clear corporate objectives for the JRC in terms of IT security or related Key Performance Indicators (KPIs) to measure the

performance of IT security actions and controls at management level. Finally, mission statements for the different IT security stakeholders including the split of responsibility for operational tasks, monitoring and risk management are not formally defined and communicated.

- ***IT security considerations built into the design of new IT systems and into the maintenance of existing systems***

Although the definition of security requirements is recommended at early stages of every IT project, both by Commission Decision C(2006)3602 concerning the security of information systems used by the European Commission and the PM<sup>2</sup> methodology, this is currently not done in JRC. Security requirements are not systematically included in the project definitions or system change lifecycle. The existing procedures do not provide for security requirements to be defined upfront in a new project or for maintenance changes to include an impact analysis for IT security. What happens in practice currently depends very much on the developer or administrator of the system and is done on an ad-hoc basis, rather than as a result of a planned approach.

- ***Deployment of security reference configurations and monitoring of new vulnerabilities***

Reviews of actual vulnerabilities (scans) are useful as they can detect and prioritise weaknesses. However, currently IT security reviews of existing systems are only performed on a regular basis for some of the systems in DG JRC. As of today, among the audited JRC sites only the site in Seville is performing regular vulnerability assessments, while for the remaining sites, only the detection of vendor published corrections (patches) is made on a regular basis and even then, only for a subset of corporate systems. In addition, there are no regular reviews performed of current security settings and privilege access to systems, etc. to detect possible unauthorised changes.

- ***Inventory of JRC IT systems and their security dependencies***

The inventories of systems and software connected to the JRC networks are fragmented and maintained by different groups, depending on the area of responsibility. The JRC lacks a complete overview of all the systems in terms of security risks. In addition, because many scientists stay for periods of only three to five years, system owners are not always timely updated in the registries, with the result that certain systems do not have a valid system owner.

## **Recommendations**

- ***Management oversight of IT security***

DG JRC should set up an IT security steering committee with members representing all relevant stakeholders (JRC management, Scientific Units, Support Units, LISO and ICT Architecture). The DG should also establish a set of objectives and measuring criteria (KPIs) for the IT security domain, based on a clear definition of the mission statements for the different teams involved in IT Security, with a clear split of scope and responsibilities.

- ***IT security considerations built into the design of new IT systems and into the maintenance of existing systems***

DG JRC should define a JRC-wide standard by enforcing new developments and relevant system changes to undergo a security analysis in the early phases of their development. In particular, management should enforce mechanisms that facilitate integrating security practices while coding. Once in production, DG JRC needs to include a set of criteria to identify the most relevant systems and establish a policy to perform regular security reviews on them. Lastly, the JRC should leverage its central IT teams and IT security experts in the organisation when creating, deploying or changing new IT systems for scientific projects, to re-use existing security good practices and align with known secure configurations and software development guidelines.

- ***Deployment of security reference configurations and monitoring of new vulnerabilities***

DG JRC should establish an automated procedure to identify current versions and patches in the whole organisation and, depending on the constraints of each machine for their operational use, enforce automated updates or isolation of appropriate areas of the network. DG JRC should generalise the use of automated vulnerability discovery tools to report on current known vulnerabilities and possible course of action, depending on the scientific activity and constraints. Ideally, the JRC should seek to leverage internal existing expertise in virtualised environments for scientific use or in reference configurations for the different types of needs in the scientific domains. As a minimum, it should instigate an awareness campaign on the recommended settings (to be selected by the scientific team as necessary). Finally, according to the residual risk identified, DG JRC should put in place the necessary compensating controls, for example network segregation, dedicated monitoring, etc., as needed.

- ***Inventory of JRC IT systems and their security dependencies***

DG JRC should assess the feasibility of integrating all IT systems and devices connected to the JRC networks in an inventory capable of identifying installed software and versions. Once in place, a process should be set up to maintain an up-to-date list of running systems and their owners, adapted to the nature of the work in the JRC and which takes into account the high rotation levels for researchers. To facilitate this, the JRC should leverage and coordinate the existing work observed separately at the audited sites of Ispra, Seville and Karlsruhe as regards the network segregation projects that allow for a better control on vulnerable devices.

## PART 2: FOLLOW-UP ENGAGEMENTS (SUMMARISED)

### 1. Follow-up audit on the design of DG AGRI's management and control system for greening

Based on the results of our follow-up audits of the accepted recommendations, we assess that:

- Recommendation N° 2 on *Assessment of the notifications of equivalent practices* (rated very important), Sub-recommendations N° 1.1 on *Correcting of the ISAMM template for EFA notification* (rated important), N° 1.4 on *Cross checks between ISAMM forms* (rated important), N° 5.2 on *Providing Member States with records of Expert Group meetings* (rated important) and recommendation N° 6 on *Improving and clarifying the greening requirements* (rated very important) have been appropriately implemented and can be closed;
- The following (sub-)recommendations have not yet been fully implemented and cannot be closed:
  - Sub-recommendation N° 1.2 on *Compatibility of the Good agricultural and environmental condition (GAEC) notifications with the notifications of greening choices for Ecological Focus Areas (EFAs) and equivalent practices* (rated important): the IAS considers that the current set of procedure does not ensure the check of the compatibility of GAEC notifications with EFA notifications. This check should either be performed as part of the GAEC assessment or as part of a second check of the EFAs once GAEC notifications are available, and the relevant procedure should be updated accordingly;
  - Sub-recommendations N° 1.3 and 1.5 on *Enhancing reporting functionalities in ISAMM and exploring possibilities of cross-validation in ISAMM and automated interface with GAEC database* (rated important): work on the enhancement of the reporting functionalities in ISAMM is still ongoing;
  - Recommendation N° 3 on the *Assessment of greening notifications that are not related to equivalent practices* (rated important) is assessed as partially implemented as the procedures for the assessment of forest exemption notifications (sub-recommendation 3.1), as well for the monitoring of permanent grassland ratios (sub-recommendation 3.2), still remain to be drafted;
  - Recommendation N°4 on *Risk of double-funding between greening measures and rural development programmes with regard to agroforestry and afforested areas* (rated very important): the sub-measure fiches for "afforested areas and woodlands" and "establishment of agro-forestry systems" as well as the explanatory document on how to avoid double funding have been modified and uploaded on CircaBC for information to the Member States. However, the IAS considers that these updated guidelines are confusing and do not provide practical details and/or examples on how to exclude double-funding in the specific cases of agro-forestry and afforested

areas selected as EFAs under the greening payment. The IAS, nevertheless, acknowledges that given the low take-up of agroforestry and afforested areas as EFAs, observed after the first year of implementation of the greening payment, the risk of double funding appears to be limited. The rating of the recommendation is therefore downgraded from very important to important;

- Sub-recommendation N° 5.1 on *Establishing a written procedure for replies to Member States*, bilateral meetings with and missions to Member States (rated important): the procedure remains to be drafted.

## **2. Follow-up audit on payments suspensions and interruptions in the 2014-2020 CAP framework**

Based on the results of our follow-up audit, we assess that:

- Recommendations N° 1 on the *Legal basis* (rated very important) and N° 4 on the *Suspension Board* (rated important) have been adequately implemented and will be closed;
- Recommendation N° 2 on the *Internal guidance and procedures* (rated very important) has been partially implemented. However, in the light of the overall progress made, the level of risk is assessed as lower and the recommendation has been downgraded to important. The following sub-recommendations remain only partially implemented:
  - Sub-recommendation N° 2.a on *The application of Articles 41(1) and 41(2) of Regulation 1306/2013* as further clarifications are still necessary, notably on the triggering conditions for applying Article 41(2)(b) for the second Pillar of the CAP (hereafter Pillar 2). However, the IAS acknowledges that the envisaged implementation date for this sub-recommendation is 30 June 2017;
  - Sub-recommendation N° 2.c on the *Criteria for proposing interruptions and suspensions/reductions including a de-minimis approach as regards applying the de-minimis approach also for the first Pillar of the CAP*.
- Recommendation N° 3 on the *Application of guidance and procedures* (rated very important) has been partially implemented. The following sub-recommendations have been only partially implemented:
  - Sub-recommendation N° 3.a on *Applying the "stop-the-clock" instructions in practice and compliance with the 45 days payment deadline*, for which the IAS acknowledges that the instructions have been adapted but nonetheless needs a reasonable number of cases to have occurred to be able to judge whether the instructions have been effectively applied or not;
  - Sub-recommendation N° 3.b on *Clarifying the criteria for requesting action plans in the context of Article 41(2) as regards Pillar 2* and the link to corrective action plans following the reservations in the Annual Activity Report, where further clarifications are still necessary;
  - Sub-recommendation N° 3.c on *Ensuring a more consistent approach to letters requesting action plans* since the drafting of the letters is still under discussion;

- Sub-recommendation N° 3.d on *Minimising the time for the overall process from requesting an action plan to the Member States to taking the final suspension decision*, on which work has been done but requires additional clarifications/consistency checks;
- Sub-recommendation N° 3.e on *Putting more emphasis on ensuring the timeliness of the interruptions, suspensions and reductions procedures* as some decisions have been taken and work is in progress, but the IAS will need to check how DG AGRI is applying this concretely during a second follow-up audit;
- Sub-recommendation N° 3.f on *Evaluating* whether or not the approach has been effective in achieving the objectives set in the discharge procedure remains open as the deadline for implementation is at the end of 2018.

<p><b>3. Follow-up audit on the management of the approval process of the 2014-2020 Rural Development Programmes (RDPs)</b></p>
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Based on the results of our follow-up audits of the accepted recommendations, we assess that:

- Sub-recommendations N° 1.1 on *Adjusting the process on the basis of the experience gained* (rated very important), N° 1.2 on *Planning and monitoring of the approval process in RDIS2* (rated very important), N° 1.3 on *Workload analysis and task allocation optimisation* (rated very important), N° 2.1 on *Updating the master checklist with checks related to financial aspects* (rated "Important"), N° 2.2 on *Completeness of information on transitional arrangements for RDPs to be approved* (rated important), N° 2.3 on *Documenting the RDP approval process* (rated important), N° 2.4 on *Identifying and following up outstanding points on adopted RDPs* (rated important), N° 3.2 on *Coordinating the follow-up of Ex-Ante conditionalities action plans with other ESIF DGs* (rated very important), N° 3.3 on *Providing support to the Member States on performance framework and indicators* (rated very important), N° 3.4 on *Back-up for experts on indicators* (rated very important), N° 4.1 on *Improving the structure of SharePoint collaborative platform* (rated important), N° 4.2 on *Sharing technical clarifications with Member States* (rated important), N° 4.3 on *Mapping the expertise gained during the approval phase* (rated important) and N° 4.4 on *Expanding the role of the Consistency Board to amendment process* (rated important) have been appropriately implemented and will be closed;
- Sub-recommendation N° 2.5 on *Correcting inconsistencies between RDPs and Partnership Agreements* (rated important) has been partially implemented. However, the residual risk has been assessed as low;
- Sub-recommendation N° 3.1 on *Appropriate assessment of ExAnte Conditionalities (ExACs)* (rated very important) is considered obsolete and the remaining residual risk lies with the monitoring of the implementation of the programmes, including ExACs. In addition, an IAS audit on the monitoring of RDPs is included in the IAS draft Plan for 2017;
- Recommendation N° 5 remains open for the following reasons: Sub-recommendation N° 5.1 on *Providing clear guidance to Member States and*



*identifying legal inconsistencies* (rated very important) has been partially implemented. However, the residual risk has been assessed as low. For sub-recommendation N° 5.2 on *Monitoring the implementation* of RDPs to prevent double funding (rated very important) three of the four planned actions have been completed. The outstanding action concerns *double funding in relation to the carry-over of agro-environmental commitments signed before 2012*. For sub-recommendation N° 5.3 on *Reviewing overlap in coverage of the two pillars of the CAP in the long term* (rated very important), the actions are on-going as part of the work paving the way for the adoption of a Communication on the modernisation and simplification of the CAP in the second part of 2017, as indicated in the Commission work Programme for 2017. While sub-recommendation N° 5.1 is considered partially implemented but the related residual risk is now assessed as low, sub-recommendations N° 5.2 and 5.3 remain open. However, as significant progress has been made in mitigating the related risks, the IAS downgrades the rating of recommendation N° 5 from very important to important.

#### **4. Follow-up audit on gap analysis of new legislation/design of 2014-2020 programming period of European Structural and Investment Funds Phase 2 in DG MARE**

Based on the results of our follow-up audit, we assess that recommendations N° 2: *OP negotiation and adoption process* (rated very important) and N° 3 *Results orientation and performance framework* have been adequately and effectively implemented and will be closed.

#### **5. Follow-up audit of IAC recommendations in DG SANTE**

##### **Follow-up of IAC audit on the management of funds in DG SANTE veterinary programmes**

Based on the results of our follow-up audit, we assess that recommendation N° 1 on the *Financial forecast for program's adoption* (rated very important) and recommendation N°2 on the *Reallocation exercise* (rated very important) have been partially implemented. In the light of the overall progress made, the level of risk is assessed as lower and the recommendations have been downgraded to important. The remaining open actions concern sub-recommendations 2.2 and 3.2 on the availability of an audit trail by using the IT system Qlikview. The IAS considers that the IT system needs to be stable and fully used for the allocation and re-allocation exercises to ensure the existence of an audit trail.

#### **6. Follow-up audit of management and supervision of contracts for the outsourced IT services in DG SANTE**

Based on the results of our follow-up audit, the IAS assessed that recommendations N° 1 on *Quality of tender documentation for DG SANCO's own framework contracts* (rated very important) and N°4 on *Follow-up of memoranda of understanding between*

*DG SANCO and DG DIGIT* (rated important) have been adequately and effectively implemented and will be closed.

One remaining recommendation N° 2 on *DG SANCO's outsourcing strategy* (rated important) cannot be considered as implemented. The recommendation required the DG to carry out a cost benefit analysis of the various outsourcing options for IT projects (time and means, quoted time and means, etc.). While DG SANTE provided evidence of a comparative analysis of the insourcing and outsourcing options for the main IT project it is currently managing, the various possibilities for outsourcing have not been assessed yet as this would be too early at this stage of the project. As a consequence, the recommendation will not be closed.

**7. Follow-up audit on preparations for use of financial instruments under 2014-2020 in DG EMPL**

Based on the results of our follow-up audit, we assess that recommendation N° 1 *Building financial instruments related capacity* (rated very important), has been adequately and effectively implemented.

**8. Follow-up audit on preparations for use of financial instruments under 2014-2020 in DG REGIO**

Based on the results of our follow-up audit, we assess that recommendation N° 2 *Building financial instruments related capacity* (rated very important) has been adequately and effectively implemented.

**9. Follow-up audit on gap analysis of new legislation/design of 2014-2020 programming period of European Structural and Investment Funds' (ESI Funds) Phase II**

Based on the results of our follow-up audit, we assess that recommendation N° 2 *OP negotiation and adoption process* (rated very important), and N° 4 *IT systems supporting the management of the 2014-2020 programming period processes* (rated very important) addressed to DG REGIO and DG EMPL have been adequately and effectively implemented, and will be closed.

Recommendation N° 3 (rated very important) concerns the performance framework and the checks performed by the DGs on the information provided by Member States (MS) in order to ensure consistency and plausibility of milestones and targets. The IAS recommendation aimed at addressing the "inherent risk of unambitious target setting by the MS" not being sufficiently mitigated by the DGs' checks.

As a result of this follow-up, the IAS notes that the first part of the recommendation, relating to the timely request of art.4 information from MS, has been adequately implemented by both DG REGIO and EMPL. The second part of the recommendation which again concerns both DGs and relates to plausibility checks performed on milestones/targets by Desk Officers (DO) of geographical units has not been adequately implemented. The IAS acknowledges that the DGs have developed internal guidance for the DO to assess the plausibility of milestones and targets at the time of

operational programme negotiation and adoption. Furthermore, the observations on the draft operational programme sent to MS included comments on targets/milestones raised by the DO and the evaluation unit. Nevertheless, the IAS has found that the actual assessment by the DO of the plausibility of targets/milestones at the time of operational programme negotiation/adoption was generally not documented by either DG.

The specific part of the recommendation addressed to DG REGIO on ensuring that "reviews of operational programmes performed by the evaluation unit are supported by a clear audit trail", has not been fully implemented. The IAS found that the documentation in WAVE of the evaluation unit's comments on the draft operational programmes was not complete as a number of comments were made outside of the system and not documented in WAVE.

The last part of the recommendation concerns the need for consistency checks on indicators to be further developed by DG EMPL. The IAS notes that this part of the recommendation was adequately implemented after the operational programme adoption and negotiation process was completed. DG EMPL has put in place the *"EMPL strategy for a performance-based culture for the ESF"* which sets out clear objectives for data reliability, and assessment of the consistency and plausibility of reported indicators. Consistent with the action plan, the evaluation unit has developed a template which allows the comparison of targets through a common dimension (e.g. cost per participant), and it is used for checking the consistency and plausibility of targets.

From the IAS analysis it can be concluded that recommendation N° 3 was overall only partially implemented at the time of operational programme adoption and negotiation. However, given that all operational programmes have been adopted, the parts of the recommendation that have been assessed as not implemented are no longer pertinent in the context of operational programme adoption and the recommendation will be closed. Nevertheless, the IAS will be reviewing whether the related risks have been mitigated for the adoption of operational programme amendments and the review of annual implementation reports in the context of the following audits:

- Audit on amendment of 2014-2020 operational programmes in DGs REGIO, EMPL, and MARE;
- Audit on monitoring the implementation and performance of 2014-2020 operational programmes by DGs REGIO, EMPL and MARE (scheduled for 2018).

<b>10. Follow-up audit on the governance and supervision of the nuclear decommissioning assistance programmes in DG ENER</b>
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Based on the results of our follow-up audit, we assess that recommendations N° 1 on *Assessment of ex-ante conditionalities* (rated critical) and N° 2 on *Control strategy of DG ENER* (rated very important) have been adequately and effectively implemented and will be closed.

## **11. Follow-up audit on the supervision of the implementation of CEF in DG ENER**

Based on the results of our follow-up audit, we assess that sub-recommendation N° 1.3 has been fully implemented while the other sub-recommendations (rated very important) still require further actions to address satisfactorily the issues detected during the audit. In particular:

- Sub-recommendation N° 1.1: DG ENER adopted in September 2016 a "Supervision strategy on PCIs development" which describes the need to develop such a strategy. It states that "The Fora in which supervision has to take place are the Regional Groups". However, the strategy does not indicate how and if an agreement on this common supervision strategy has been or will be reached in the Regional Groups. In addition, the document lists five objectives for the supervision strategy and it describes the tools that shall be used for that purpose. However it does not identify key performance indicators for measuring the performance of the supervision activity or the resources necessary to allow DG ENER to reach the objective;
- Sub-recommendation N° 1.2: The document describes the differences in the various reports on PCIs implementation which have to be prepared but it does not explain how DG ENER will ensure i) that Regional Groups exploit them efficiently and ii) that issues and recommendations made in the various reports will be systematically followed-up and in a timely manner;
- Sub-recommendation N° 1.4: DG ENER has not completed the development of a reliable comprehensive tool to monitor the implementation of the PCIs development.

Consequently, the recommendation will not be closed.

## **12. Follow-up audit on the management and functioning of Euratom safeguards in DG ENER**

Based on the results of our follow-up audit, we assess that recommendation N° 4 on *Operational objectives and performance indicators* (rated important) has been adequately and effectively implemented and will be closed.

Recommendation N° 1 on *Assessment of the Euratom safeguards approach* (rated important): DG ENER performed an assessment of the need to update the current Euratom safeguards approach document. However, the IAS found that this assessment did not contain information on the human and financial resources needed by DG ENER to effectively implement the Euratom safeguards tasks, and a time frame for subsequent re-assessments. These two elements will be included in the Commission Communication and Staff Working Document (SWD) on the principles and modalities of the implementation of Euratom safeguard tasks under article 77 of the Euratom treaty. Consequently, the IAS considers that, until the adoption of the proposal for this Communication and SWD, the recommendation is not fully implemented and will not be closed.

### **13. Follow-up audit on procurement management in JRC**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on the *Management of low value procurement* (rated very important) and N° 4 on the *Ex-post controls* (rated important) have been adequately and effectively implemented and will be closed.

### **14. Follow-up audit on strategic planning and programming / activity based management in JRC**

Based on the results of our follow-up audit, we assess that:

- Recommendation N° 2 on *Work programme, project management and management plan* (rated important): The IAS recommended JRC a) to introduce results indicators in the management plan to measure and then report on the performance in implementing the work programme, and b) to adopt and implement for the JRC work programme a framework for planning, monitoring and reporting. In this respect, the JRC has introduced in its 2016-2020 strategic plan an indicator to measure the delivery rate of the policy deliverables but no indicators have been set to measure the implementation of the planned projects and the achievement of the objectives. In addition, the work programme planning process has been reviewed, but no procedures for monitoring and reporting at the level of project or work package have been implemented yet. Consequently, the recommendation is assessed as 'partially implemented and will not be closed;
- Recommendation N° 3 on *Governance of the strategic planning and programming cycle* (rated important): The IAS invited JRC to ensure a wider involvement of senior and middle management in the preparation of the management plan and the annual activity report and to reinforce its internal communication plan. JRC adopted in December 2016 an "internal Communication strategy on key aspects of SPP cycle" which has not yet been implemented. In addition, the updated strategy does not include actions to improve the involvement of or the dialogue with staff and management as input for the preparation of the strategic plan/management plan/annual activity report. Consequently, the recommendation is not considered implemented and will not be closed;
- Recommendation N° 5 on *Reporting of the activity based management* (rated important): At the time of the audit, the IAS found that the information on the allocation of human resources in the management plan and in the annual activity report needed to be improved. However the new strategic plan/management plan introduced in 2016 does not require disclosing the human resources needed to implement each activity based budgeting activity. Consequently, this recommendation has become obsolete and will be closed.

### **15. Follow-up audit of IAC recommendations in JRC**

#### **Follow-up of the IAC audit on security and safety in the JRC**

Based on the results of our follow-up audit, we assess that recommendations N° 4 on *Language of the safety management systems documents* (rated important) and N° 12

on *Infrastructure-related IT tools impacting health and safety* (rated important) were adequately and effectively implemented.

Concerning the remaining two recommendations, the IAS found that further progress is required to fully mitigate the underlying risks. In particular:

- Recommendation N° 14 on *Scientific activities out of the JRC sites* (rated important): JRC should establish an overall procedure on security and safety needs for scientific activities conducted outside the JRC sites. According to JRC management, 'the full implementation of the action is expected to be finalised by the end of 2016'.
- Recommendation N° 19 on *Evaluation of radiation risks* (rated important): JRC has not yet completed the evaluation of the non-ionising radiation risks at the Ispra Site, under the terms of the Italian law. According to JRC management, 'the full implementation of the action is expected to be finalised by September 2016'.

#### **Follow-up of the IAC audit on nuclear decommissioning and waste management programme – financial aspects - recommendations N° 1, 2, 3 and 5**

Based on the results of our follow-up audit, we confirm the JRC's assessment that, at this moment in time, the four recommendations (rated very important) have not yet been fully implemented.

We also consider that the actions implemented so far do not substantially mitigate the risks identified in the original audit report, which, consequently, remain at a high level. This needs to be adequately reflected in the 2015 AAR.

Finally, the IAS observed that, on the basis of the information gathered during the follow-up engagement, the JRC is unlikely to respect the due date of 2 June 2016 fixed in the action plan for the completion of the mitigating measures.

#### **2<sup>nd</sup> Follow-up of the IAC audit on nuclear decommissioning and waste management programme – financial aspects**

Based on the results of our follow-up audit, we assess that recommendations N° 2 on *An urgent improvement plan addressing internal causes of procurement delays* (rated very important) and N° 4 on *Any new plans proposing investments in nuclear infrastructure, installations or buildings* (rated important) have been adequately and effectively implemented while recommendation N° 6 on *The future regulatory standard 11510* (rated important) has become obsolete in the meantime. These three recommendations will be closed.

For recommendation N° 5 on *A mid-term staffing strategy for the Decommissioning Programme* (rated very important), the former IAC highlighted the urgent need to define a mid-term staffing strategy for the Decommissioning Programme for the Ispra site, to be then extended (as soon as possible) to other nuclear sites. The IAS observed that the staffing strategy has been defined for Ispra, but not yet for the other sites. Therefore, the IAS considers the recommendation as only partially implemented and will reopen it. However, since the most urgent staffing strategy has been defined, the IAS will downgrade the recommendation to important.

#### **Follow-up of the IAC audit on management of expert groups by the JRC**

Based on the results of our follow-up audit, we assess that the four recommendations (all rated important) N° 1 on *Framework rules*, N° 6 on *Reimbursement of experts travel and subsistence expenses*, N° 7 on *Reimbursement of experts travel and*

*subsistence expenses* and N° 8 on *Document management* have been adequately and effectively implemented and will be closed.

### **Follow-up of the IAC audit on document management in JRC**

Based on the results of our follow-up audit, we assess that the six recommendations (all rated important) N° 2 on *IT tools for document management*, N° 3 on *The unfiled documents*, N° 5 on *Filing plan structure for scientific project*, N° 7 on *Storing conditions in sites other than Ispra*, N° 9 on *DMO function* and N° 11 on *Guidance and training* have been adequately and effectively implemented and will be closed.

### **Follow-up of the IAC audit on decommissioning: risk and project management at the Ispra site**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *The full adaptation of intermediate and low-level documents in line with the Nuclear Decommissioning and Waste Management Programme* (rated important); N° 2 on *The compatibility between the operation of the nuclear installations and the development of decommissioning projects* (rated important); N° 3 on *The minimisation of technological waste* (rated important); N° 4 on *The identification of the needed legal advice resources and internal legal advice specialised in nuclear law* (rated important); N° 5 on *The systematic collection and evaluation of 'lessons learned'* (rated important) and N° 6 on *An increased upstream involvement of the JRC Licensing function in all strategy and operational decisions regarding the nuclear decommissioning and waste management programme* (rated very important) have been adequately and effectively implemented and will be closed.

However, further progress is required to fully mitigate the underlying risks of the two remaining recommendations:

- Recommendation N° 7 (rated very important) on *A full strategy for guaranteeing a pool of qualified Project Leaders*: this recommendation is assessed as 'partially implemented'. Although the JRC defined the competence profile of the project leaders for decommissioning it has not yet developed a training scheme for them. In addition, the IAS has not found evidence of any formal back-up arrangements for the Project Leaders. This may lead to weaknesses in operational activities and in the monitoring of contractor activities. Therefore, the JRC should define a full strategy for guaranteeing a pool of qualified project leaders on decommissioning, which includes a plan for their training and back-up;
- Recommendation N° 8 (rated important) on *Document management requirements*: this recommendation is assessed as 'not implemented'. According to the original IAC recommendation, "the JRC should define and present a proposal for the Italian Safety Authority regarding what essential documents with legal implications should be kept on paper format". This recommendation was aimed at addressing the finding according to which "the document management requirements for decommissioning are extremely sophisticated, in term of quantity and quality of the documentation and legal implications; therefore, an electronic document management is necessary". The IAS has not found any formal opinion of the Italian public administration on this issue that was either requested or received by the JRC. The auditors, observed however, that the relevant public counterpart for this issue may not be the national Safety Authority, as requested by the IAC recommendation. Recently, the JRC has issued a procedure stating that "the original of documents with legal effect are kept for 5 years at least", but this period has no legal reference to the national law.

Moreover, the JRC Unit on decommissioning has only partially followed this procedure. The misalignment between the national law, the JRC procedure and current practices may lead to issues of irregularity and/or to inefficient use of resources for document management. On the basis of the work done, the auditors assess that the finding is still relevant although the original recommendation is not applicable or is obsolete as it stands. For these reasons, the IAS has reformulated the recommendation as follows: "JRC should obtain legal advice concerning the dematerialisation of the paper form documents on decommissioning, in line with the EU and national requirements on decommissioning. The internal procedure on document management (dematerialisation after 5 years) should be updated to match the legal requirements, and applied".

These two recommendations will not be closed.

### **Follow-up of the IAC audit on intellectual property rights management**

Based on the results of our follow-up audit, we assess that recommendations N° 3 on *Incentives for scientific staff to engage in technology transfer activities* (rated very important), No. 4 on *The rules governing the innovative project competitions* (rated important), N° 5 on *Corporate procedure for access to external scientific information resources service* (rated very important), N° 6 and 7 on *The reporting on activities under administrative arrangements within the EU Commission* (rated very important), N° 8 on *The term of reference of the license agreement provisions* (rated important) and N° 9 on *Exclusive licenses under the EU Treaties on European Union and Atomic Energy Community* (rated very important) were adequately and effectively implemented.

Concerning the remaining very important recommendation N° 2 on *The controls to prevent infringement of intellectual property rights*, the original audit report recommended to the JRC to include in the publications process a "check on the non-infringement of prior existing copyrights or other intellectual property rights from third parties before final approval for publication is given". To implement this recommendation, the JRC proposed two actions, notably a) to include in the publications process a self-declaration by the author of the articles concerning the non-infringement of prior existing copyrights, b) to provide a link to the guidelines for copyright for EC staff. The IAS found that, while a link to the guidelines for copyright was provided, the first action was not implemented. According to JRC, this was mainly due to the fact that the self-declaration by the author was considered to have little value. As a result, the high risk identified at the time of the IAC audit has not been mitigated.

The IAS invites the JRC to take the appropriate measures to enhance the procedure for the management of the intellectual property rights to avoid possible infringements, by, for instance, replacing the planned self-declaration of the author of the articles with a more robust check performed by independent officials and/or with an anti-plagiarism-software. Recommendation N° 2 will not be closed.



#### **16. Follow-up audit on the supervision of the implementation of CEF in DG MOVE**

Based on the results of our follow-up audit, we assess that recommendation N° 1 on *DG MOVE's Supervision Strategy on Corridors Development* (rated very important) has not been fully implemented. In July 2016, DG MOVE adopted the "*Supervision Strategy on Core Network Corridors Development*" which i) puts the supervision of the development of the individual Core Network Corridors (CNC) in the wider context of the "*achievement of the Commission's policy goals set out in the 2011 White Paper on Transport Policy*"; and ii) covers also the monitoring of the TEN-T legislation's performance in meeting the EU policy objectives. The strategy for the supervision of the individual CNCs' development is mainly set out in chapter "*4: Internal processes to assess progress and performance in a coherent manner*", which describes the objectives of the supervision as well as the tools/support that DG MOVE will provide. However, the objectives are not timed, specific or quantifiable and there are no key performance indicators that would allow DG MOVE to measure the performance of its supervision activity. There is also no clear indication as to how detected issues will be addressed. Consequently, the recommendation will not be closed. However, in view of the mitigating actions implemented so far, the IAS has decided to downgrade the rating of the recommendation from very important to important.

#### **17. Follow-up audit on the implementation of FP7 control systems (including supervision of external bodies) in DG RTD**

Based on the results of our follow-up audit, we assess that recommendation N°1 *Supervision of the Joint Undertakings* (rated very important) has been adequately and effectively implemented and will be closed.

#### **18. Follow-up audit of the set-up of the common support centre for H2020**

Based on the results of our follow-up audit, we assess that recommendations N° 1.1 on *The decision making process at governance level* (rated very important), N° 1.3 on *The audit strategy for H2020* (rated important) and N° 3 on *Risk management* (rated important) have been adequately and effectively implemented and will be closed.

Concerning recommendation N° 1.2 on *The decision making process at operational level* (rated important), the IAS did not observe substantial progress made to mitigate the risk of non-harmonised implementation of audit results and follow up of fraud cases. Consequently the IAS considers the recommendation as not yet implemented and will reopen it.

#### **19. Follow-up audit on EDF grants in DG DEVCO**

Based on the results of our follow-up audit, we assess that recommendation N° 7 on *Ex-post project evaluation* (rated important) has been adequately and effectively implemented and will be closed.

## **20. Follow-up audit on Budget Support in DG DEVCO**

Based on the results of our follow-up audit, we assess that recommendation N° 2 on *Human resources for budget support* (rated important) has been adequately and effectively implemented and will be closed.

## **21. Follow-up audit of IAC recommendations in DG ECHO**

### **Follow-up of the IAC audit on contribution agreements with UN Bodies and other international organisations**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *Project monitoring* (rated very important), N° 2 on *Reporting* (rated very important) and N° 5 on *Project design and selection* (rated important) have been adequately and effectively implemented.

The IAS, however, considers recommendation N° 3 on *Verifications of UN Agencies and international organisations* (rated very important) as partially implemented. Some measures have been implemented so far (corresponding to sub-points 3.1, 3.2, 3.3 and 3.6 of the recommendation). However, DG ECHO has not yet updated the audit manual to take into account the new ECHO audit strategy 2016-2020 and has not yet approved the annual audit plan for 2016. Consequently, points 3.4 and 3.5 of the recommendation are still open. They will not be closed. Based on the measures implemented so far, the IAS considers that the original risks have been partially mitigated and will downgrade this recommendation to important.

## **22. Follow-up audit of IAC recommendations in DG NEAR**

### **Follow-up of the IAC audit on special approvals and derogations**

The IAS followed up all 17 recommendations issued by the IAC. As a result:

- Recommendations N° 1 (rated very important), N° 2b (rated important), N° 3a (rated important), N° 3b (rated important), N° 3c (rated important), N° 3d (rated important), N° 4 (rated important), N° 5a (rated important), N° 5b (rated important), N° 5c (rated important), N° 5d (rated important), N° 6 (rated very important), N° 7a (rated very important), N° 7b (rated very important), N° 7d (rated very important) have been assessed as implemented;
- Recommendation N° 2a on *Processing of prior approvals and deviations* (rated important) has been assessed as not fully implemented. However, the IAS assessed the underlying risk as low and the recommendation as desirable; consequently, the recommendation will be closed;
- Recommendation N° 7c (rated very important) on *Exception reporting* has been assessed as not implemented. The original audit recommended that Director E (predecessor of the current Director R) should regularly review and analyse the information on exceptions and non-compliances, and if similar cases across the Directorate General are identified, undertake the necessary follow-up measures. While currently an analysis of exceptions and non-compliance events is required to be carried out by each directorate, no analysis at DG level is envisaged. Consequently,

recommendation N° 7c will not be closed. Its criticality level remains at very important, as originally rated by the IAC.

### **23. Follow-up audit on performance audit of National Agencies (DG EAC)**

Based on the results of our follow-up audit, we assess that recommendation N° 1 on *Internal performance* (rated very important) has been adequately and effectively implemented and will be closed.

Concerning recommendation N° 3 on *Performance measure* (rated very important), the IAS found that some actions have been implemented. In particular, DG EAC has revised the template for the National Agency Work programme and updated its assessment procedure of the National Agencies' annual report and annual management declaration to cover the National Agencies' performance against the operational objectives set in their respective work programmes. Pending the implementation of the remaining action on the conduct of the mid-term evaluation of Erasmus+ as required by the legal base (due 30/06/2018), the IAS considers that the underlying original risk has been partially mitigated and will downgrade the recommendation from very important to important.

### **24. Follow-up audit on preparedness of DG HOME for 2014-2020 legislation in shared management (ISF and AMIF)**

Based on the results of our follow-up audit, we assess that recommendations N° 1 *Overall planning of activities* (i.e. *roadmap*) (rated important) and recommendation N° 3 *Designation of responsible authorities* (rated very important) have been implemented.

### **25. Follow-up audit on knowledge management in DG COMP**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *Contribution from users to COMPWiki* (rated important), N° 3 on *The search function of COMPWIKI* (rated important) and N° 4 on *Handover file* (rated important) have been adequately and effectively implemented and will be closed.

### **26. Follow-up audit on the preparedness of the management and control systems for the SME instrument in EASME**

Based on the results of our follow-up audit, we assess that recommendation N° 2 on *Guidance to evaluators and quality of evaluations* (rated very important) has been adequately and effectively implemented and will be closed.

## **27. 2<sup>nd</sup> Follow-up audit on HR management in response to the financial crisis in DG ECFIN**

Based on the results of our follow-up audit, we assess that recommendation N° 2 on *HR annual planning* (rated very important) has been adequately and effectively implemented and will be closed.

## **28. Follow-up audit on risk management and planning processes in the new economic governance context in DG ECFIN**

Based on the results of our follow-up audit, we assess that recommendation N° 1 on *Risk management* (rated important) has been adequately and effectively implemented and can be closed.

Concerning recommendations N° 2 on *Management plan objectives and their alignment with operational planning and management* (rated important) and N° 3 on *Performance monitoring and reporting in the AAR* (rated important), improvements have been observed in terms of setting objectives and indicators in the Management Plan and their reporting in the Annual Activity Report. However, the elements related to the planning and monitoring at the operational level have not yet been fully implemented. As a result, the IAS considers that further actions are deemed necessary to adequately mitigate the underlying risks identified in the original audit. In particular:

- Recommendation N° 2: DG ECFIN carried out a pilot exercise by mapping the 2015 Management Plan with the work plans of two directorates. This exercise provides a starting point for ensuring a coherent structure and linkage to the operational tasks. However, the mapping between the Management Plan and the operational plans has still to be carried out for all the directorates. Additionally, DG ECFIN has to define a standard structure and minimum requirements for the operational plans;
- Recommendation N° 3: the reporting on performance against the key objectives in the Management Plan has been improved in the final 2015 Annual Activity Report. However, there is still no consistent, systematic monitoring of performance at the operational level and no minimum requirements for monitoring beyond the mid-year review of the Management Plan and the Annual Activity Report, e.g. through regular, documented status updates on the directorate plans in management meetings.

## **29. Follow-up audit of IAC recommendations in DG ECFIN**

### **Follow-up of the IAC audit on DG ECFIN's document management**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *Strengthen the archiving process and increase awareness* (rated important), N° 3 on *Improving quality review of document management and defining document management objectives for staff* (rated important) and N° 4 on *Encouraging the use of E-signatory within DG ECFIN* (rated important), have been adequately and effectively implemented and can be closed.

Recommendation N° 2 on *Public requests to access documents* (rated important) is assessed as not implemented. This recommendation required DG ECFIN to:

- Establish statistics to assess the performance and compliance with the applicable legislation. However, no indicators have been developed yet;
- Ensure a consistent approach and raise awareness to directorates and operational units on handling public requests. The IAS found that a note on the state of play was issued by Unit R4 on 23/06/2015, but since then no other action has been implemented.

A training course was recently promoted by R3 (former R4) on how to manage access to document requests. However, out of the entire target population of 725 staff, only two staff members attended this event. No other evidence of raising awareness to directorates and operational units on handling public requests was provided. The IAS will reopen the recommendation.

### **30. Follow-up audit of IAC recommendations in DG FISMA**

#### **2<sup>nd</sup> Follow-up of IAC audit on effectiveness of HR management to support the financial crisis**

Based on the results of our follow-up audit, we assess that for recommendation N° 3 on *Monitoring and reporting on HRM* (rated very important) further improvements are needed to effectively implement the recommendation. The IAS will reopen the recommendation.

The IAS recognises the progress made by DG FISMA in measuring several indicators on HR management and reporting them to DG FISMA's senior management. They provide a picture of the staff structure (gender, nationality and category), recruitment (turnover rate and staff profile) and working conditions (sick leave rate, parental leaves, work patterns and use of recuperation). They represent a positive first step towards the implementation of an effective monitoring and reporting system. However, the current indicators mainly focus on outputs and are not complemented with others focusing on results. For example, gender balance in middle management is measured via the percentage of middle management posts held by women but this is not complemented with other indicators to demonstrate the DG's performance in addressing it (which could be measured, for instance, via the participation rate of women in coaching for team leaders). In addition, these indicators are not accompanied by complementary information explaining whether or not indicators highlight possible problems or identifying possible correlation between factors. Finally, the comparison of DG FISMA performance with the Commission's averages is not complemented by a comparison with DG FISMA targets and their evolution over time. These additional analyses would allow DG FISMA senior management to identify potential problems and their causes and to adequately address them. In addition, the IAS considers that DG FISMA should better align the HR monitoring reports with the objectives expressed in its Strategic Plan 2016-2020 and Management Plan 2016 in order to demonstrate the progress made towards their achievement.

### **31. Follow-up audit on the performance of DG GROW's supervision of ESA's implementation of Galileo**

Based on the results of our follow-up audit, we assess that recommendation N° 3 on *DG GROW's Supervision Strategy* (rated very important) has been adequately and effectively implemented and will be closed.

Concerning recommendation N° 5 on *Key Performance Indicators* (rated important) to establish reporting by ESA that enables the DG to effectively monitor key elements of ESA's operational activities, the revised delegation agreement contains clearly defined Key Performance Indicators, on which ESA will report quarterly. As the revised delegation agreement has not yet been signed, the recommendation has not been fully implemented. Therefore, the IAS will re-open recommendation N° 5.

In view of the actions implemented so far regarding the two open recommendations N° 1 on *Implementation of the procurement activities* (rated very important) and N° 2 on *Cooperation between DG GROW and ESA* (rated very important) the IAS considers the related risks to be partially mitigated. Therefore, both recommendations can be downgraded from very important to important.

### **32. Follow-up audit of IAC recommendations in DG GROW**

#### **Follow-up of IAC audit on the internal control strategy of GSA over the budget delegated by DG ENTR, focusing on procurement**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *Manual of procedures* (rated very important), N° 2 on *Checklists* (rated very important), N° 4 on *Conflict of interest policy* (rated important) and N° 6 on *Document management policy* (rated important) have been adequately and effectively implemented and will be closed.

### **33. Follow-up audit on the customs performance measurement system in DG TAXUD**

Based on the results of our follow-up audit, we assess that recommendation N° 1 on *Performance measurement of committees and groups* (rated very important) and N° 3 on *Customs programmes evaluations and monitoring* (rated important) have been adequately and effectively implemented.

According to recommendation N° 2 *Performance measurement of DG TAXUD customs activities* (rated very important), DG TAXUD should develop its planning, measurement and monitoring processes so that these become an effective tool to manage, supervise and improve operational activities at all levels. In line with the recommendation, DG TAXUD implemented more controllable objectives and results reflecting its most important interventions and activities and introduced Unit Management Plans. In this context, the DG also strengthened the risk management assessment process by linking it to the priorities defined at unit's level and by organising several specific workshops. Internal communication reporting, monitoring and supervision were also improved. However, one of the sub-actions for this recommendation envisages that the Board of Directors is informed at least twice a

year about the results of a defined set of key performance indicators (scoreboard). This has not yet taken place and is planned to be implemented in autumn 2016. For this reason, the IAS considers that the recommendation is not yet fully implemented. As a consequence, the recommendation will not be closed. However, taking into account the improvements already made, we consider that the risk has been partially mitigated and therefore the recommendation is downgraded from very important to important.

#### **34. Follow-up audit of IAC recommendations in DG TAXUD**

##### **Follow-up of IAC audit on DG TAXUD's external communication strategy**

Based on the results of our follow-up audit, we assess that recommendations N° 3 on *Unclear definition of roles and responsibilities* (rated very important), N° 4 on *Internal networking and work coordinators* (rated important), N° 5 on *Capacity building and trainings on external communication* (rated important), N° 6 on *External communication strategy* (rated important), N° 9 on *Risk assessment in unit R3* (rated important), N° 10 on *Contractors and contract management* (rated important), N° 11 on *Europa Website and Social Med* (rated very important) and N° 12 on *Use of communication tools (other than Europa)* (rated important) have been adequately and effectively implemented and can be closed.

Recommendations N° 1 on *Communication as core business* (rated very important) and N° 14 on *Monitoring of implementation of the external communication strategy* (rated very important) are partly implemented:

- Recommendation N° 1 calls for an adequate recognition of the strategic importance of communication in the taxation and customs area. It is the subject of public presentations to newcomers. HoUs' responsibility in external communication is formalised in most but not all job descriptions. Communication activities are addressed in the Annual Communication Plan (ACP) for 2015 and the Unit Management Plans (UMP). However, neither the ACP nor the UMPs are aligned with the recently reviewed and approved Multiannual External Communication Strategy. Moreover, UMPs do not explicitly plan communication actions as required by the applicable guidelines but rather some specific outputs (e.g. publications);
- Recommendation N° 14 calls for performance measurement and management of external communication. Although DG TAXUD collects statistics on web site page views, the full implementation of this recommendation is pending the selection of the Key Performance Indicators, the online availability of DG COMM's tools and benchmarks and the on-going centralisation in DG COMM of some core horizontal communication activities.

Considering the actions already taken and the residual risk that DG TAXUD is exposed to, we propose to downgrade the level of significance from very important to important for both recommendations.

Recommendations N° 7 on *Annual planning of external communication actions in units responsible for communications and policy units* (rated very important) and N° 8 on *Incomplete audit trail for budget estimation and allocation* (rated important) are assessed as not implemented:

- According to Recommendation N° 7, DG TAXUD should establish an ACP in line with the Multiannual External Communication Strategy. The IAS observed that for 2016 only the sectorial communication plan for the Union Customs Code is

available. In addition, as mentioned previously for recommendation N° 1, the 2015 ACP was not aligned with the recently reviewed and approved Multiannual External Communication Strategy and the communication expenditure, due to the substantial modifications to the original budget made throughout the year not preceded or followed by adequate and sufficient justifications;

- Recommendation N° 8 recommends DG TAXUD to clearly establish the link between the ACP, the UMPs and the budget lines. However, the IAS did not find clear documented explanations for most of the budget revisions made in 2015.

### **35. Follow-up audit on financial and procurement management in DG TRADE**

Based on the results of our follow-up audit, we assess that recommendations N° 2 on *Procurement process, needs assessment* (rated important) and N° 3 on *Reporting on financial data* (rated important) have been adequately and effectively implemented and will be closed.

Concerning recommendation N° 1 on *Procurement procedure, compliance issues* (rated very important), for which your service has requested to review the progress, the IAS notes that DG TRADE improved its internal guidance, training and support to streamline and enhance the procurement procedures, but has not yet re-assessed its control model in place to increase the effectiveness (revised deadline: 30 June 2016) and decrease the risk of compliance issues with the applicable legal and administrative provisions. In view of the progress observed, the IAS considers that the original risk has been partially mitigated and consequently has downgraded the criticality of the recommendation from very important to important.

### **36. Follow-up audit of IAC recommendations in OIB**

#### **Follow-up of IAC audit on concept and reproduction at the OIB**

Based on the results of our follow-up audit, we assess that recommendations N° 4 on *Volume and production cost – 1* (rated important), N° 5 on *Volume and production cost – 2* (rated important), N° 9 on *Concept and reproduction-Rationalisation* (rated very important), N° 12 on *Resources Evolution* (rated very important) and N° 13 on *Industrial strategy – 1* (rated important) have been adequately and effectively implemented and will be closed.

### **37. Follow-up audit of IAC recommendations in DG SCIC**

#### **Follow-up of IAC audit on the technical support provided to meetings and conferences**

Based on the results of our follow-up audit, we assess that recommendation N° 1 on *The definition of a corporate governance framework* (rated 'very important') has been adequately and effectively implemented and can be closed.



The recent Communication on Synergies and Efficiencies explicitly clarified DG SCIC's mandate with respect to events and meeting room management, including the assignment of the ownership of the corporate process to DG SCIC. The IAS considers that in view of this, the main risks associated with the original IAC recommendation are mitigated. Furthermore, given that DG SCIC's mandate has been extended following the Synergies and Efficiencies review and following discussions with your services, the IAS considers that the four remaining recommendations, together with the related risks, remain valid even though the original audit report was drawn up at a time when DG SCIC's responsibilities were actually more limited. For example, the DG still needs to establish a list of meeting rooms that will be managed by DG SCIC (recommendation N° 2, rated important) and will need to define and validate a service management plan (recommendation N° 3, rated very important). Furthermore, the use of the IT tool for this process will need to be defined (recommendation N° 4, rated important) and a quality assurance and improvement programme for the provision of the technical services will need to be developed (recommendation N° 5, rated important). However, we acknowledge that the original action plan and target dates are now effectively superseded following the review. We therefore invite DG SCIC to draw up a new action plan addressing the four remaining recommendations and provide us with new target dates.

### **38. Follow-up audit of IAC recommendations in DG ESTAT**

#### **Follow-up of IAC audits on statistical processes I – GNI data, sensitive information, statistical process III – Agriculture statistics and ESTAT's business continuity**

Based on the results of our follow-up audit, we assess that recommendation N° 1 on *The set-up of sensitive information in ESTAT* (rated very important) from the audit on sensitive information; recommendations N° 1 on *Organisational structure* (rated very important), N° 3 on *Annual crop statistics production - collection, validation, processing and dissemination* (rated very important) and N° 5 on the *Compliance monitoring process in Unit E1* (rated important) from the audit on statistical process III – Agriculture statistics and recommendations N° 1 on *Business continuity management governance and setup in ESTAT - Roles and responsibilities* (rated important) and N° 2 on *Business impact analysis and risk assessment* (rated important) from the audit on ESTAT's business continuity have been adequately and effectively implemented.

#### **Follow-up of IAC audits on statistical processes I – GNI data, sensitive information, and ESTAT's business continuity**

Based on the results of our follow-up audit, we assess that recommendation N° 2 on *Security of sensitive information in the dissemination chain* (rated very important) from the audit on sensitive information and N° 5 on *Business continuity management testing* from the audit on ESTAT's business continuity have been adequately and effectively implemented.

#### **Follow-up of IAC audits on statistical process III – Agriculture statistics and ESTAT's business continuity**

Based on the results of our follow-up audit, we assess that recommendation N° 3 on *Business continuity plan* (rated very important) from the audit on ESAT's business continuity has been adequately and effectively implemented and will be closed.

- Recommendations N° 2 on Farm Structure Survey (FSS) statistical production, collection, validation, processing and dissemination (rated very important) and N° 4 on Treatment of confidential data in the agricultural statistical processes (rated very important) from the audit on statistical process III – Agriculture statistics are not fully implemented. However, considering the actions already taken and the residual risk that DG ESTAT is exposed to, these recommendations are downgraded from very important to important.
- Recommendation N° 2 requires DG ESTAT to improve the quality and the availability of data, and fix several weaknesses related to outdated and incomplete documentation about the production process, methodological aspects and data validation issues. It also recommends revising the structure of FSS data in the dissemination data base, better following up issues about administrative data sources presented in the Standing Committee for Agricultural Statistics and clarifying the respective roles and responsibilities between DG ESTAT and DG AGRI. Most actions have been implemented in line with the action plan. However, DG ESTAT still needs to improve the structure of FSS data in the dissemination data base. In particular, it should finalise the design of the dissemination tables, prepare them in the ESTAT dissemination database, programme the table structures into the Eurofarm database and produce the tables from the raw data;
- Recommendation N° 4 calls for securing the hosting of confidential data outside ESTAT's secure environment, updating the manual on the protection of confidential data, and strengthening the implementation of confidentiality requirements for the encrypted transmission to Member States, the access rights for staff and the filtering processes at the dissemination stage. All actions have been implemented in line with the action plan except for the part related to the hosting of confidential data and the update of the manual on the protection of confidential data.

### **39. Follow-up audit on management of local IT in DG AGRI**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *IT governance* (rated very important), N° 2 on *IT strategy* (rated very important), N° 3 on *IT risk management* (rated important), on N° 6 on *Project management* (rated important), N° 8 on *Management of firewalls* (rated important) and N° 9 on *Change management* (rated important) have been adequately and effectively implemented and can be closed.

Concerning recommendation N° 4 on *Performance management* (rated important), no performance indicators have been defined yet to cover the aspects of IT service design (service level, capacity, availability), transition (change, release, testing, and configuration management) and operations (incident and problem management).

Concerning recommendation N° 10 on *Configuration management* (rated important), the current configuration management database is limited to the main IT systems and does not include the complete inventory of configuration items, with their attributes, baseline configuration and relationships.

Therefore, the IAS concludes that recommendations N° 4 and 10 have not been fully implemented and will not be closed.

#### **40. Follow-up audit on IT governance in DG Budget**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *IT Governance structure and key roles* (rated very important), N° 4 on *Performance measurement, monitoring and reporting of IT Activities* (rated important) and N° 6 on *IT policy and strategy* (rated important) have been adequately and effectively implemented and will be closed.

Concerning recommendations N°2 on *IT organisation* (rated very important) and N°3 on *Priority setting and planning of activities* (rated very important) we have observed good progress in the implementation of the action plan, but consider that the related risks have not yet been fully mitigated and consequently the recommendations cannot be closed. Nevertheless, the rating for both recommendations is downgraded from very important to important due to the progress made.

Concerning recommendation N° 5 on *HR Management* (rated important), the IAS has not found sufficient results of the actions implemented and therefore concludes that the recommendation cannot be closed.

#### **41. Follow-up audit on management of European Commission Authentication Service - ECAS**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *Vision and strategy for identity and access management* (rated very important), N° 2 on *Definition of ECAS security roles and responsibilities* (rated important), N° 5 on *ECAS dependency on AD, CED and CUD* (rated very important), N° 6 on *Involvement of D HR DS in ECAS security management* (rated important), N° 7 on *Definition of IAM and ECAS services in the service catalogue* (rated important) and N° 8 on *Planning of the EXODUS project* (rated very important) have been adequately and effectively implemented and will be closed.

Concerning recommendation N° 4 on *Security requirements for ECAS* (rated very important), while observing good progress in the implementation of the action plan, the IAS considers that the related risks are not yet fully mitigated and consequently the recommendation cannot be closed. In addition, as identifying and implementing the missing security measures has not been finalised yet, ECAS is still vulnerable to the high risks identified at the time of the audit.

#### **42. Follow-up audit of IAC IT recommendations in DG DIGIT**

##### **Follow-up of IAC audit on external staff management**

Based on our follow-up results, we have assessed that recommendations N° 1 on *Harmonise procedure for access request* (rated important), N° 2 on *Establish a central*

*local point in Brussels* (rated very important), N° 7 on *Clean and update data in ORIANA* (rated very important), N° 8 on *Further development of ORIANA* (rated important) and N° 11 on *Return of access cards* (rated important) have been adequately and effectively implemented and can be closed.

Concerning the four other recommendations, the IAS considers that not all the planned actions have been implemented and the related recommendations can therefore not be closed:

- Regarding recommendation N° 3 on *Harmonised validity of access cards* (rated important), the main issue is that DG DIGIT encodes the end date of the framework contracts instead of the specific contracts for external service providers (ESP) in the tool ORIANA. This end date of the framework contract is then reported on the access card and checked by guards to allow entrance to the EC buildings. However, specific contracts are concluded for the acquisition of services for a particular profile, corresponding to one specific individual, for a period (from a few days to a full year) generally shorter than the duration of the framework contracts. The current practice does not respect the instructions provided by the Security Directorate of DG HR and exposes the Commission to the risk that individuals may be allowed to enter the EC buildings despite they are no longer covered by a specific contract;
- Regarding recommendations N° 6 on *Develop guidelines to address ethical aspects* (rated important) and N° 9 on *Security awareness kit for external service providers* (rated important), the issue is that there is no evidence that units hiring ESPs other than DIGIT.R.1 use the template document called "Procédure interne à remettre au prestataire", which contains practical information on entry into service, and hand it to ESPs. Furthermore, there is no formal acknowledgment of the document being received by the ESP.
- Regarding recommendation N° 10 on *Departure forms* (rated very important), the main issue is that, in the absence of an automated process, which might not be cost-effective to put in place due to the inherent complexity, DG DIGIT operational units are responsible for ensuring that access and parking cards are returned by the ESPs upon their departure of the ESPs and taking the appropriate measures to collect their access and parking cards. However, figures provided by the Security Directorate of DG HR indicate that about 10% of the access and parking cards are not returned by the ESPs at the time their contract comes to an end. Therefore, the IAS considers that this recommendation is not effectively implemented and will not be closed. Nevertheless, as the operational units deactivate the ESP profile in Oriana and inform the Security Directorate of DG HR via the "Formulaire de départ d'un prestataire de services" that the access card should be deactivated, we consider the recommendation is partially implemented and thus can be downgraded from very important to important.

As a consequence, the IAS will not close recommendations N° 3, 6, 9 and 10.

#### **43. 2<sup>nd</sup> Follow-up audit on management of local IT in DG ESTAT**

Based on the results of our follow-up, we assess that recommendations N° 3 on *Project performance measurement, reporting and monitoring* (rated important) and N° 6 on *User accounts management* (rated important) have been adequately and effectively implemented and will be closed.

The IAS considers that the planned actions for recommendations N° 4 on *Information systems security* and N° 5 on *Security requirements for managing confidential data* (both rated very important), have not been fully implemented. As the other activities mentioned in the action plan for these two recommendations have been implemented, we consider the risks have been partially mitigated and, thus, both issues can be downgraded from very important to important.

- For recommendation N° 4, the main outstanding issue is linked to the IT security plans not being in line with Implementing Rules of Commission Decision C(2006)3602:

- DG ESTAT classified its STANDARD information systems in three categories (Information Transmission, Statistical Applications and Data Management) and proposed to develop one IT security plan for each category. However, existing security plans cover only one single system in each category (resp. EBUS, EDIT and IS4STAT). We invite DG ESTAT to revise the scope of each IT security plan, to include all the information systems under each category;

An IT security plan is still missing for the SPECIFIC system EGR. As this system is planned to be migrated to a new secure environment currently under construction by DG ESTAT and DG DIGIT, we understand that this security plan will be developed and implemented in parallel with the new environment.

- The main outstanding issue for recommendation N° 5 is the following: to replace the process of mounting its secure environment on user workstations, which does not provide an adequate level of security for confidential statistical data, DG ESTAT launched a project to deploy a local IT infrastructure containing DMZ and more secure rules for access to data. When, in 2015, DG ESTAT decided to move its secure environment to the corporate data centre of DG DIGIT, a new infrastructure with 3 DMZs was designed for the storage of sensitive statistical data. Access to data and the application will be through a Windows Terminal Server, which will add a layer of security by preventing data transfer in clear through the corporate network and data storage on user workstation. The pilot for this project is planned to be finalised in February 2017, before a phased deployment in production for the different applications.

#### **44. 2<sup>nd</sup> Follow-up audit on management of local IT in DG MARE**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *IT strategy and IT priorities* (rated very important), N° 4 on *Change management* (rated very important) and 7 on *Project management, quality assurance and service management* (rated very important) have been adequately and effectively implemented and will be closed.

The IAS considers that not all the planned actions have been implemented for recommendation N° 5 on *IT security management* (rated important) for the following reasons:

- Not all IT systems under DG MARE's responsibility are covered by an IT security plan duly approved by the Director-General under in accordance with the Implementing Rules of Commission Decision C(2006)3602;
- A number of controls defined in the IT security plans have not yet been implemented;
- There is no evidence that compliance of DG MARE's IT with Commission standards is regularly reviewed and reported by the LISO;
- Absence of a procedure establishing (as a minimum) a yearly report on IT security incidents to the ITSC or immediate escalation to the senior management;
- The document on security in IT project management specifying IT security-oriented deliverables in each project phase has not been approved by the ITSC and there is no evidence that it has been implemented.

As a consequence, the IAS will not close recommendation this recommendation.

#### **45. 2<sup>nd</sup> Follow-up audit on management of local IT in DG TRADE**

Based on the results of our follow-up audit, we assess that recommendations N° 1 on *Role of the IT Steering Committee* (rated very important) and N° 2 on *Management of IT related risks in DG TRADE* (rated very important) have been adequately and effectively implemented and will be closed.

#### **46. Second follow-up to the performance audit on the Anti-fraud Information System (AFIS) by the former Internal Audit Capability at OLAF.**

Based on the results of our follow-up audit, we assess that recommendations N° 5 on *System improvements - reporting and ergonomics* (rated important), N° 8 on *Data integration with other applications* (rated important) and N° 12 on *AFIS Steering Committee* (rated important) have been adequately and effectively implemented and will be closed.

Regarding recommendation N° 9 on *User account management* (rated important), despite the deployment of the recommended tool already in February 2016, its first results, in particular the annual user validation report, will be available in February 2017 only. Therefore, the IAS cannot yet assess if the implemented functionality duly mitigates the identified risks. As a consequence, the IAS will not close this recommendation.

#### **List of follow-up audits performed in 2016 for which all recommendations have been closed after the follow-up**

Based on the results of the follow-up audits performed in 2016, the IAS assessed that all the recommendations that resulted from the audits listed below and that remained open before the follow-up could be closed.

#### **Audit Title**

<p>47. Follow-up audit on Anti-Fraud strategy– Multi DG</p> <p>48. Follow-up audit on the objectives setting process in the context of the preparation of the management plans – Multi DG</p>
<p>49. 3rd Follow-up audit on the management and monitoring of staff allocation in DG AGRI</p> <p>50. Follow-up audit of IAC and IAS recommendations in DG AGRI (IAS audit on control strategy implementation and IAC audits on DG AGRI readiness for the implementation of the enhanced role of certification bodies in the new assurance model and the international dimension of the GI and organic policies)</p> <p>51. Follow-up audit of IAC recommendations in DG SANTE (IAC audits on external stakeholder consultations in DG SANTE, on costing practices on procurement in selected funding areas in DG SANTE, on the operations of Directorate F and the Food and Veterinary Office, on business continuity and on internal controls standards 5, 6, 7 and 8)</p> <p>52. Follow-up audit on DGs ENV and CLIMA's externalisation to EASME of the LIFE programmes 2014-2020</p> <p>53. Follow –up audit of IAC recommendations in DG ENV/DG CLIMA (DG ENV-CLIMA SIAC audits on IT governance and management in DG ENV and DG CLIMA and on Anti-Fraud strategy in DG ENV and DG CLIMA)</p>
<p>54. Follow-up audit on the Limited review of the calculation and the underlying methodology of the residual error rates for the 2014 reporting year in DG EMPL</p> <p>55. 2nd Follow-up audit on DG EMPL's performance measurement systems</p> <p>56. Follow-up audit of IAC recommendations in DG EMPL (IAC audit on performance measurement)</p> <p>57. 2nd Follow-up audit on DG REGIO's performance measurement systems</p> <p>58. Follow-up audit of IAC recommendations in DG REGIO (IAC audits on major projects and on readiness assessment - ERDF 2000-2006 closure process)</p>
<p>59. Follow-up audit of IAC recommendations in DG JRC (IAC audits on business continuity, third party liability, portfolio of buildings, asset management and management and sharing of scientific and technical knowledge)</p> <p>60. Follow-up audit of IAC recommendations in DG RTD (IAC audits on objectives, indicators and monitoring, fusion expenditure, communication, implementation of ex-post audit results, management of the risk sharing finance facility, Desk review on SEP evaluation, contribution to Joint Undertakings, management of project reports and dissemination of research Results (FP7) and the processes related to the closure of FP7 grants.</p> <p>61. Follow-up audit on the implementation of FP7 control systems in ERCEA</p> <p>62. Follow-up audit of IAC recommendations in REA (IAC audit on the implementation of ex-post audit findings)</p> <p>63. Follow-up audit on Implementation of the Anti-Fraud Strategy in REA</p> <p>64. Follow-up audit on H2020 grant management in DG CONNECT</p> <p>65. Follow-up audit on the implementation of FP7 control systems in DG CONNECT</p> <p>66. Follow-up audit of IAS and IAC recommendations in DG CONNECT (IAS audits on the implementation of FP7 control systems and on H2020</p>

<p>grant management, IAC audits on impact assessment and on delegated (externalised) research)</p> <p>67. Follow-up audit on the Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG MOVE</p> <p>68. Follow-up audit on the Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG ENER</p> <p>69. Follow-up audit of IAC recommendations in INEA (IAC audit on procurement)</p>
<p>70. Follow-up audit on the adequacy and effective implementation of DG ECHO's Anti-Fraud strategy</p> <p>71. Follow-up audit on the assurance building process in EU Delegations (DG DEVCO)</p> <p>72. Follow-up audit on programme estimates financed by EU and EDF budget in DG DEVCO</p> <p>73. 2nd Follow-up audit on DG ECHO: financial management of humanitarian aid</p> <p>74. Follow-up audit of IAC recommendations in DG ECHO (IAC audits on the legality and regularity of payments for the year 2012 in DG ECHO and financial management of humanitarian aid)</p> <p>75. Follow-up audit of IAC recommendations in DG DEVCO (IAC audits on management of DEVCO's resources in EU Delegations, on communication flows between DEVCO's HQ and EU Delegations, on identification and management of recoveries)</p> <p>76. Follow-up audit of IAC recommendations in FPI (IAC audit on the management of the industrialised countries instrument by FPI HQ and the Tokyo and Washington EU Delegations)</p> <p>77. Follow-up audit of IAC recommendations in DG NEAR (IAC audits on year-end accounting closure and on cross-border-cooperation)</p>
<p>78. Follow-up audit of IAC recommendations in DG EAC (IAC audit on organisation, processes and procedures of the HR function)</p> <p>79. Follow-up audit on Limited review of the calculation and the underlying methodology of the residual error rate for 2014 in DG EAC</p> <p>80. 3rd Follow-up audit of the lifelong learning programme in EACEA/DG EAC</p> <p>81. Follow-up audit of IAC recommendations in EACEA (IAC audit on the ERASMUS MUNDUS II programme and the intra-ACP academic mobility scheme)</p>



<p>82. Follow-up audit of IAC recommendations in DG TRADE (IAC audits on document management, planning and risk management and on enforcement of trade agreements)</p> <p>83. Follow-up audit of the IAC recommendations in DG COMP (IAC audit on the monitoring of state aid granted)</p> <p>84. Follow-up audit of IAC recommendations in DG GROW (ex DG MARKT IAC audit of the stakeholders consultation process)</p> <p>85. 2nd Follow-up audit on DG MARKT's (DG FISMA's) cooperation with the three supervisory bodies on financial services</p> <p>86. Follow-up audit of IAC recommendations in DG FISMA (IAC audits on the process of managing complaints / infringements in DG MARKT and on DG FISMA's staff learning and development).</p> <p>87. Follow-up audit of IAC recommendations in DG TAXUD (IAC audit on DG TAXUD's procurement and management of studies and databases)</p>
<p>88. Follow-up audit of IAC recommendations in DG BUDG (IAC audit on the validation of local systems by unit C3)</p> <p>89. Follow-up audit of IAC recommendations in LS (IAC audit on the management of court cases in the Legal Service)</p> <p>90. 2nd Follow-up audit on the administrative processes supporting the European semester</p> <p>91. Follow-up audit of IAC recommendations in DG SCIC (IAC audits on 2013 year-end, financial management and internal control system in DG Interpretation and on the professional support provided to the interpreters)</p> <p>92. Follow-up audit of IAC recommendations in DG ESTAT (IAC audit on the statistical process I – GNI data)</p>
<p>93. Follow-up audit on outstanding IT recommendations in DG DEVCO</p> <p>94. Follow-up audit on management and supervision of contracts for the outsourced IT services in the Publications Office</p> <p>95. Follow-up audit of IAC IT recommendations (IAC audits on the reimbursement of expert's expenses managed by the PMO, information security in DGT, IT project management in ECFIN and business continuity in DG EMPL)</p>

### PART 3: SUMMARY OF LONG OUTSTANDING RECOMMENDATIONS AS AT 31 JANUARY 2017

No.	DG	Audit title	Recommendation	Comments	Final report date	Original due date	Revised due date
I	DEVCO	IAS Audit on management of the African Peace Facility (APF)	Design and effectiveness of the remedial/mitigating measures at contract level	The IAS carried out a follow up audit in January 2017 which concluded that the recommendation is only partially implemented and will be re-opened. In order to fully implement this recommendation, DG DEVCO has to redesign the TA expert pool contract, which is still ongoing. <b>Expected delay compared to the original target date of 6 months.</b>	21/01/2016	30/06/2016	15/12/2016 (new updated target date to be confirmed by DG DEVCO)
II	ENER	IAS Audit of the supervision of the implementation of Connecting Europe Facility (CEF) in DG ENER and MOVE	DG ENER's supervision strategy on Projects of Common Interest (PCIs) development	DG ENER adopted in September 2016 a "Supervision strategy on PCIs development" and declared the recommendation as implemented. In January 2017 the IAS assessed the implemented mitigating measures as insufficient and re-opened the issue. The IAS follow-up will take place as soon as the recommendation is reported as ready for review by DG ENER. <b>Expected delay compared to the original due date of 11 months.</b>	29/01/2016	30/06/2016	31/05/2017
III	ESTAT	IAC Audit on ESTAT's Business Continuity Management	Disaster Recovery Planning and IT Business Continuity	According to DG ESTAT all but one action points of this recommendation have been addressed. The last remaining action shall be implemented within a few weeks. The IAS follow-up will take place in the course of 2017 as soon as the recommendation is reported as ready for review by DG ESTAT. <b>Expected delay compared to the original due date of 1 year.</b>	16/02/2015	30/06/2016	30/06/2017
IV	JRC	IAC Audit on Nuclear Decommissioning and Waste Management at the JRC- Financial Aspects	Delays in the Nuclear decommissioning and waste management programme and external uncertainties	According to the JRC, 60% of actions stemming from this recommendation have already been implemented. The review of the Strategy for decommissioning and waste management is ongoing and the budget is currently being reviewed for all four nuclear sites. The IAS follow-up will take place as soon as the recommendation is reported as ready for review by the JRC. <b>Expected delay compared to the original due date of 1 year and 1 month.</b>	02/06/2015	02/06/2016	30/06/2017

<i>No.</i>	<i>DG</i>	<i>Audit title</i>	<i>Recommendation</i>	<i>Comments</i>	<i>Final report date</i>	<i>Original due date</i>	<i>Revised due date</i>
V	JRC	IAC Audit on Nuclear Decommissioning and Waste Management at the JRC- Financial Aspects	Relationship with authorities, licensing and insurance	<p>The communication strategy for improving the JRC's relationship with Italian authorities and other stakeholders has not been finalised yet although it has been under preparation since October 2015. The IAS also noted that despite efforts made by the JRC to improve the relations with the Italian Authorities and stakeholders, this part of the recommendation is outside the JRC's direct control.</p> <p>The IAS follow-up will take place as soon as the recommendation is reported as ready for review by the JRC.</p> <p><b>Expected delay compared to the original due date of 1 year and 1 month.</b></p>	02/06/2015	02/06/2016	30/06/2017
VI	NEAR	IAC Audit on Special approvals and derogations	Exception reporting	<p>In order to address this recommendation, all AOSDs were instructed to carry out an analysis of exceptions and non-compliance events per directorate. However, no analysis has been envisaged at the central level. Therefore, the IAS follow-up in December 2016 assessed this recommendation as not implemented.</p> <p>The IAS will follow up this recommendation in the course of 2017, once reported as ready for review by DG NEAR.</p> <p><b>Expected delay compared to the original due date of 1 year and 4 months.</b></p>	29/09/2014	31/12/2015	30/04/2017
VII	DEVCO	IAS Audit on Budget Support in DG DEVCO	Policy dialogue framework	<p>In order to fully implement this recommendation DG DEVCO has to finalise the revised Budget Support guidelines. This has been postponed until the adoption of the new Consensus for Development (expected in May 2017).</p> <p>The IAS will perform a follow-up audit on this recommendation at the end of 2017.</p> <p><b>Expected delay compared to the original due date of 1 year and 10 months</b></p>	11/12/2014	31/12/2015	31/10/2017
VIII	DIGIT	IAS Audit on Management of logical access to systems (ECAS/LDAP/Windows)	Security requirements for ECAS	<p>A first IAS follow-up performed in 2016 acknowledged the progress made in identifying the risks, drafting the security plan, prioritising the missing security controls and in the implementation of the action plan. However, the implementation of the missing security measures still has not been finalised. It is planned to be done by the end of June 2017. The IAS is planning a second follow-up of this recommendation in the second half of 2017.</p> <p><b>Expected delay compared to the original due date of 1 year and 9 months.</b></p>	24/07/2014	30/09/2015	30/06/2017

No.	DG	Audit title	Recommendation	Comments	Final report date	Original due date	Revised due date
				(a further delay of 6 months compared to the situation in the previous IAS report to the APC - October 2016)			
IX	FISMA	IAS Audit on Effectiveness of HR management to support the financial crisis in DG ECFIN, DG COMP, DG MARKT	Monitoring and reporting on HR management	<p>The IAS second follow-up audit carried out in September 2016 concluded that some improvements were made to enhance the monitoring and reporting process on the HR management related activities. However, these improvements were not sufficient to close or downgrade the rating of the recommendation.</p> <p>A third IAS follow-up audit is planned for the second quarter of 2017.</p> <p><b>Expected delay compared to the original due date of 2 years and 2 months.</b></p>	20/12/2013	31/12/2014	28/02/2017
X	GROW	IAC Audit on the Internal Control Strategy of the GSA <sup>2</sup> over the budget delegated by DG ENTR	Risk management	<p>GSA established a list of corporate risks and communicated it to the IAS in January 2017. Based on this risk register, GSA will now develop a risk management action plan and plans to follow it up by 31 December 2017.</p> <p>The IAS will follow up this recommendation once reported as ready for review by the DG.</p> <p><b>Expected delay compared to the original due date of 2 years.</b></p> <p>(a further delay of 12 months compared to the situation in the previous IAS report to the APC - October 2016)</p>	05/01/2015	31/12/2015	31/12/2017
XI	JRC	IAC Audit on intellectual property rights management	Prior existing intellectual propriety rights in the JRC publications	<p>The IAS follow-up carried out in July 2016 concluded that the actions taken by the JRC were not in line with the original action plan or with the current practices applied by the scientific community. Therefore the JRC still faces the risk that its scientific publications may contain unauthorised intellectual propriety rights by third parties.</p> <p>The JRC made a self-declaration of non-infringement of intellectual propriety rights as an interim measure. An action plan established after the IAS follow-up still remains to be implemented.</p> <p>The IAS will follow up this recommendation once reported as ready for review by the DG.</p> <p><b>Expected delay compared to the original due date of 3 years and 11 months.</b></p>	30/01/2013	30/07/2013	30/06/2017

<sup>2</sup> European Global Navigation Satellite System (GNSS) Agency.

No.	DG	Audit title	Recommendation	Comments	Final report date	Original due date	Revised due date
				<b>months.</b> (a further delay of 7 months compared to the situation in the previous IAS report to the APC - October 2016)			
XII	JRC	IAC Audit on decommissioning: risk and project management at the ISPRA site	Full strategy for guaranteeing a pool of qualified Project Leaders	According to the IAS follow-up carried out in September 2016, the original action plan was not fully implemented. Weaknesses still exist in the operational activities and in the monitoring of contractors related to the radioactive materials and assets decommissioning. The JRC accepted the risk until the full implementation of the recommendation and established a back-up procedure for the project leaders on decommissioning as an interim measure. The IAS will follow up this recommendation once reported as ready for review by the DG. <b>Expected delay compared to the original due date of 4 years.</b>	13/06/2012	13/03/2013	31/03/2017
XIII	NEAR	IAC Audit on Preparedness for IPA II in DG ELARG	HR planning for EU Delegations implementing IPA II	According to DG NEAR, the recommendation has been partially implemented. The outstanding actions – preparing a detailed workload assessment methodology and implementation for EU Delegations – will take place until mid-2017. The IAS will review the progress of this recommendation in the course of the current audit on preparedness for the mid-term review of ENI and IPA regulations in DG NEAR. A formal follow-up will take place in 2017 as soon as the recommendation is reported as ready for review by DG NEAR. <b>Expected delay compared to the original due date of 1 year and 6 months.</b>	07/05/2015	31/12/2015	30/06/2017
XIV	OIB	IAC Audit on Concept and reproduction	Local information systems - 1 - Improve the Information Systems	In order to fully implement this recommendation OIB needs to resolve certain difficulties in the implementation and complete installation of the new IT system to manage the printing requests. The new IT tool will be deployed in two phase by June 2017. According to OIB, mitigating actions have been taken in the meantime – e.g. while the old IT tool is still partially being used, its reliability was improved. Furthermore, the new tool is already used for establishing the offers. The IAS will perform a follow-up in the course of 2017.	11/11/2013	31/12/2015	30/06/2017
XV			Local information systems - 2 - Cost information for the client			31/12/2015	30/06/2017

<i>No.</i>	<i>DG</i>	<i>Audit title</i>	<i>Recommendation</i>	<i>Comments</i>	<i>Final report date</i>	<i>Original due date</i>	<i>Revised due date</i>
				<b>Expected delay compared to the original due date of 1 year and 6 months</b> (a further delay of 7 months compared to the situation in the previous IAS report to the APC - October 2016)			
XVI	PMO	IAC Audit on PMO management of accidents' insurance	Reimbursement of accident costs	The implementation of the recommendation is dependent on several IT modules (including ASMAL 2 being under development by DIGIT since Dec. 2016), which shall be in place by mid-2017. Some ad hoc measures have been taken in the meantime. The IAS follow-up will be performed once the recommendation has been assessed as implemented by PMO. <b>Expected delay compared to the original due date of 4 years and 6 months.</b>	21/02/2012	31/12/2012	30/06/2017
XVII	PMO	IAC Audit on PMO contracts related to the management of missions	CAF implementation	A first follow-up revealed that some actions have been implemented. However, the implementation of the remaining actions relates to an on-going Commission-wide IT development and for which PMO is dependent on DG DIGIT. The IAS will perform a follow up in the course of 2017. <b>Expected delay compared to the original due date of 2 years and 9 months.</b> (a further delay of 6 months compared to the situation in the previous IAS report to the APC - October 2016)	25/10/2012	30/09/2014	30/06/2017
XVIII	SCIC	IAC Audit on technical support provided to meetings and conferences	Management tools	A follow-up carried out by the IAS in the summer of 2016 confirmed the validity of the original risks and the recommendation. However, the IAS also acknowledged the significant changes brought about by the Synergies and Efficiency Review and their impact on the original action plan and the target dates, which had been superseded. Subsequently, DG SCIC prepared a new Action Plan and the new deadline was set at 31 December 2017. The IAS will follow up this recommendation once reported as ready for review by the DG. <b>Expected delay compared to the original due date of 3 years.</b>	25/06/2013	31/12/2014	31/12/2017