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COMMISSION STAFF WORKING DOCUMENT

Summary of Executive summaries

Internal audit engagements finalised by the IAS in 2013

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 2013 (Art 99(5) of the Financial Regulation)

{COM(2014) 615 final}

CONTENT OF THIS ANNEX

This annex contains the introduction, the objectives and scopes, the strengths and the critical and very important recommendations of the original executive summaries reflecting the state of play when the audit engagements were finalised (cut-off date for the exercise 31/01/2014).

Each executive summary underwent the applicable standard professional validation and contradictory procedures between auditor and auditee at the time of the finalisation. It aims to provide a quick understanding of the audit and its main results.

1. STATISTICAL DATA

1.1. Implementation of the 2013 audit plan[1]

By the cut-off date of 31 January 2014, the IAS.B had implemented[2] 100% of its planned engagements (target 100%).

Eighty-seven reports (including audits, follow-ups, limited reviews and one management letter) were finalised, and can be broken down as follows:

	2013		2012		2011	
	Engagements	Reports	Engagements	Reports	Engagements	Reports
Audit	22[3]	23	29	49	20	23
Follow-up	48	59	32	37	41	50
Limited Review	4	4	1	1	3	3
Management Letter	1	1	1	1		
Consulting	0	0	1	1	1	1
Total[4]	**75**	**87**	**64**	**89**	**65**	**77**

In order to ensure an efficient and effective implementation of the audit plan, the IAS plans its audit work on the basis of a risk assessment and a capacity analysis. The implementation is then regularly monitored and adjustments are made as necessary.

[1] See also IAS's Annual Activity Report 2013.

[2] The Annex provides an overview of all completed audit and follow-up audit engagements.

[3] The "Audit on Control Strategy - Implementation in DG AGRI" is counted as two engagements conducted by two different audit teams resulting in a single audit report.

[4] The variation of number of engagements and reports is not a suitable indicator on the workload as the individual engagements may vary in length.

1.2. Statistical data on IAS recommendations[5]

The IAS issued the following number of recommendations (including their acceptance rate) in 2013:

	New recommendations	Accepted recommendations		Non-accepted recommendations	
Priority			%		%
Critical	2	2	100%	0	0%
Very Important	59	59	100%	0	0%
Important	67	67	100%	0	0%
Desirable	6	6	100%	0	0%
Total	**134**	**134**	**100%**	**0**	**0%**

For all accepted recommendations, the auditees drafted action plans, which were submitted to and assessed as satisfactory by the IAS.[6]

With respect to the period 2009-2013, the auditees reported that 79% of the accepted recommendations were implemented in the beginning of 2014 as follows:

Year	Priority	Total	Implemented[7]		In progress (by number of months overdue)					
			Nr	%	Nr	%	No delay	0 - 6	6 - 12	12+
2009	Critical	2	2		0		0	0	0	0
	Very Important	131	130		1		0	0	0	1
	Important	143	141		2		0	0	0	2
	Desirable	13	13		0		0	0	0	0
	2009 Total	***289***	***286***	***99%***	***3***	***1%***	***0***	***0***	***0***	***3***
2010	Critical	2	2		0		0	0	0	0
	Very Important	120	113		7		1	0	0	6
	Important	150	139		11		0	1	0	10
	Desirable	11	11		0		0	0	0	0
	2010 Total	***283***	***265***	***94%***	***18***	***6%***	***1***	***1***	***0***	***16***
2011	Critical	0	0		0		0	0	0	0
	Very Important	47	44		3		0	1	0	2
	Important	101	93		8		0	0	1	7
	Desirable	10	10		0		0	0	0	0
	2011 Total	***158***	***147***	***93%***	***11***	***7%***	***0***	***1***	***1***	***9***

[5] A comprehensive overview on the IAS recommendations is provided in the report addressed to the Audit Progress Committee dated 4 March 2014 (Ares(2014)573822).

[6] See section 3.4.4. for more details.

[7] As per the auditee.

Year	Priority	Total	Implemented[8]		In progress (by number of months overdue)					
			Nr	%	Nr	%	No delay	0 - 6	6 - 12	12+
2012	Critical	0	0		0		0	0	0	0
	Very Important	81	49		32		24	7	1	0
	Important	110	77		33		18	10	3	2
	Desirable	0	0		0		0	0	0	0
	2012 Total	**191**	**126**	**66%**	**65**	**34%**	**42**	**17**	**4**	**2**
2013	Critical	2	1		1		1	0	0	0
	Very Important	59	4		55		55	0	0	0
	Important	67	5		62		61	1	0	0
	Desirable	6	0		6		5	1	0	0
	2013 Total	**134**	**10**	**8%**	**124**	**93%**	**122**	**2**	**0**	**0**
TOTAL 2009-2013		**1055**	**834**	**79%**	**221**	**21%**	**165**	**21**	**5**	**30**

Out of all recommendations rated 'very important' or 'critical' and issued in the period 2009-2013, ten very important recommendations (2.3%) were overdue by more than six months with respect to the deadline set in the initial action plan[9]. Three additional overdue very important recommendations were issued before 2009[10]. No critical recommendation is outstanding. The Audit Progress Committee (APC) was regularly informed of critical or very important recommendations overdue for more than six months.

The total number of accepted recommendations issued during 2009-2013 and for which the IAS had conducted follow-up audits by the end of 2013, amounts to 686 (65%).

The follow-up work carried out by the IAS confirmed that overall recommendations are being implemented in a satisfactory way thus contributing to the improvement of the control systems in the audited services. The IAS closed 96% of the recommendations followed-up during this period.

2. HORIZONTAL AUDITS

2.1. Management letter on the delegation of new tasks to Executive Agencies (multi-DG)

Introduction

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[8] As per the auditee.

[9] Cut-off date is 31 January 2014.

[10] IAS - 2006 - DIGIT - 001 Data Center - Operations and Security, IAS - 2007 - DIGIT - 001 Corporate Data network infrastructures & services and IAS.B - 2008 - ADMIN - 004 Audit on Security.

In order to concentrate on its institutional tasks, such as policy-making and strategic management, the Commission has delegated responsibility for the implementation of some Community programmes to third-party bodies (executive agencies). This has proved to be successful in terms of cost savings, the provision of better service delivery (reduced time for contracting, more rapid approval procedures for technical and financial reports, lower payment delays) and simplification of processes. It has also resulted in increased external communication and dissemination of results, which contribute to enhance the visibility of the EU.

The next Multiannual Financial Framework (MFF) will bring new challenges due to the financial and economic crisis, constraints in public spending and a 5% reduction of staff in each EU Institution, body and agency over the period 2013-2017. To address these challenges, the Commission has committed, amongst others, not to create new executive agencies for the implementation of programmes but to make use of the existing ones through, where appropriate, an extension of their mandate.

Objectives and scope

The purpose of this management letter addressed the main issues of a horizontal nature raised in the 2010 IAS overview report on executive agencies and subsequent audits conducted in this field and to help those responsible for the design and implementation of the process to delegate tasks to executive agencies to mitigate the attendant risks. It was not intended to provide an assessment of the state of implementation of the recommendations contained in these reports nor to provide an opinion on the design or effective implementation of on-going actions or processes not yet subject to an audit, such as the Cost Benefit Analysis currently being performed.

Main issues for consideration

Cost benefit analysis

The cost benefit analysis used to assess the various options should be based on a well-defined and consistent methodology, including the use of appropriate tools and methodologies to support the staff allocation process (data on workload, productivity). It should take account of the risks/impact of the transfer of new programmes (e.g. their complexity) to the agencies. Where accurate and/or reliable data cannot be obtained, a sensitivity testing of all options should be performed with a clear indication of the range of assumptions used to address the uncertainties. In addition, the selected option should be regularly confirmed throughout the life of the project.

Roles and responsibilities

As part of the delegation of programme management process, the current supervisory and support functions should be reviewed to ensure the most efficient use of staff of both parent DGs and agencies based on the maturity of the agencies' internal control systems. In addition, appropriate indicators should be developed to enable an assessment of the effectiveness of the supervision strategy. As executive agencies grow in size in terms of staff and reach a critical mass of programmes to be managed, consideration should be given to alternative scenarios to achieve further cost savings and efficiency gains by pooling together various agencies' horizontal services such as IT, HR or communication .

Monitoring performance

Greater focus should be placed on improving their performance to meet the rising expectations of stakeholders.

Human resource management

Given the scale of the delegation of programme management exercise, appropriate steps should be taken to ensure the continuous availability of sufficient contractual agents with the required profile in the long run together with a policy on the retention of agency staff. In addition, consideration should be given to ensuring that the conditions for the secondment of Commission officials to executive agencies are attractive enough. Central services should also further develop the framework for the management and monitoring of staff allocation.

IT

Guidance to executive agencies regarding the acquisition of hardware and the development of software should be further developed to ensure compatibility with the Commission's infrastructure and architecture. In addition, executive agencies should be more integrated in the Commission's IT governance framework by, in particular, requiring them to describe their IT projects in Business Cases, Vision documents and progress reports which are submitted to the Information Systems Projects Management Board (ISPMB) for approval.

Guidelines

Executive agencies should be reminded of the need to comply with appropriate guidance such as the development of a roadmap for the handover of programmes (including a readiness assessment and update of Business Continuity Plans and control strategies).

2.2. Limited review - Performance of Coordination with EU Decentralised Agencies (DGs SANCO, HOME, JUST, ENV, MOVE, ENTR)

The IAS limited review on the Performance of Coordination with EU Decentralised Agencies was included, as a result of a risk assessment; in the 2012 IAS-IAC coordinated Audit Work Programme. The engagement was announced in July 2012 and was planned to be started in the latter part of 2012 but, due to other on-going engagements, it commenced only in 2013.

The objective of the limited review was to assess the performance of the Commission regarding its relationship / supervision / coordination with EU decentralised agencies, and any risks arising from the agencies' activities to which the Commission may be exposed. The scope included all decentralised agencies, their parent DGs and horizontal Commission services providing administrative support to them.

The European Parliament, Council and Commission adopted in July 2012 a comprehensive set of guiding principles — a "common approach[11]", in order to make the agencies more coherent, effective and accountable. Moreover, in this respect, the Secretariat-General of the Commission prepared in December 2012 a "roadmap on the follow-up to the Common Approach with concrete timetables for the planned initiatives[12]", including an action list with deadlines set for the implementation of remedial measures tackling the risks identified to which the Commission may be exposed, whether of an operational, reputational, safety, efficiency or governance nature. All actions are expected to be implemented by the end of 2014.

During the fieldwork, the IAS held interviews with both a sample of parent DGs[13] and horizontal Commission services providing administrative support to decentralised agencies[14], and sent a survey to a sample of 16 agencies[15]. The IAS also relied on previous IAS, Internal Audit Capability (IAC) and European Court of Auditors (ECA) audit reports.

The fieldwork confirmed that almost all risks in the above categories had already been satisfactorily addressed by the Secretariat-General in its "roadmap".

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[11] http://europa.eu/agencies/documents/joint_statement_and_common_approach_2012_en.pdf.

[12] http://europa.eu/agencies/documents/2012-12-18_roadmap_on_the_follow_up_to_the_common_approach_on_eu_decentralised_agencies_en.pdf.

[13] DG SANCO, MOVE, ENER, ENV, HOME and JUST.

[14] DG BUDG, HR, DIGIT and Secretariat-General.

[15] ACER, CEPOL, EASA, EASO, ECDC, EEA, EFSA, EIGE, EMCDDA, EMEA, EMSA, ERA, EUROJUST, EUROPOL, FRA, and FRONTEX.

2.3. Performance Audit on the Effectiveness of HR management to support the financial crisis in DG ECFIN, DG COMP, DG MARKT

(Three audit reports: DG COMP, DG ECFIN, DG MARKT)

General background

Since 2008, the global economy has been facing a financial crisis involving banking systems, stock markets and the flow of credit. This has turned into a sovereign debt crisis for the EU with a subsequent crisis of confidence in the Euro-zone. The Commission has been engaged in designing, negotiating and implementing policy responses. In this context, a number of DGs are involved in identifying and managing solutions to handle and mitigate the consequences of the financial crisis.

Audit Objectives

The objective of the audit was to assess whether the Human Resources Management (hereafter referred to as HRM) of the DG has been effective in responding to HR challenges resulting from the policy responses to the financial crisis and enabled the DG to achieve its operational objectives in dealing with the financial crisis situation.

In particular, the audit focused on the following topics:

a) The adequacy of the HR planning, allocation and selection

b) The adequacy of the monitoring, reporting and follow-up of HR matters.

In addition, the IAS looked at the level of coordination and dissemination of good management practices on HR matters between DG COMP, DG ECFIN and DG MARKT.

Audit Scope

This audit engagement focused on the procedures, methods and tools in place for HRM in relation to the DG's contributions to tackle the financial crisis and related staff allocations. However, where the DG had not implemented any distinct process for activities related to financial crisis policy responses, the audit analysed the standard process existing since the beginning of the financial crisis, regardless of the type of resources/activities managed (whether or not related to the financial crisis).

In 2013 IAS performed a comprehensive audit on “Management and monitoring of staff allocation in the Commission services" which also included DG COMP. Processes and controls analysed as part of that audit have not been included in the scope of this audit.

The Task Forces for Cyprus and Greece, though administratively part of DG ECFIN, have not been included in the scope of this audit.

Audit report addressed to **DG ECFIN**:

Background

As one of the DGs that are involved in identifying and managing solutions to handle and mitigate the consequences of the financial crisis, DG ECFIN is responsible for:

- **Program country support** based on instruments (such as EFSF[16]/EFSM[17] and ESM[18]), operating in five[19] euro area Member States (MSs) and Balance-of-Payments assistance for two non-Euro countries[20].
- **New economic governance instruments** providing a stronger role for the Commission to vet national draft budgets (e.g. "6-pack", "2-pack" and fiscal compact treaty).[21]
- **Financial market regulation** that creates measures to restructure banks, reregulate the financial sector and prevent future crises.

To be able to deal with the new challenging responsibilities deriving from the financial crisis and fully assume its role in reinforcing EU economic governance, DG ECFIN has received from the central services a substantial reinforcement of human resources[22] (in the form of annual and complementary allocations) with a level of flexibility to be able to recruit many new staff in a short period of time. The DG has also adapted its structure and operations to this new environment, by implementing a major reorganisation and creating three new Directorates[23].

From a human resource management point of view, those changes have required the DG to increase its flexibility and capacity in order to adapt to its new tasks by systematically redefining priorities, redeploying staff[24] and reducing staff allocated to the administrative tasks to concentrate the resources on the DG's core activities[25].

Overview of Major Strengths

DG ECFIN has launched a number of strategic HR initiatives aimed at addressing the important challenges it faces in terms of HRM in the recent years:

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16 The EFSF was established with a three-year tenure that expires in June 2013.

17 Council Regulation (EU) No 407/2010 – establishing a European financial stabilisation mechanism (EFSM).

18 COM (2010) 713 final "Communication from the Commission to the Council and the Economic and Financial Committee on the European Stabilisation Mechanism".

19 Greece, Portugal, Ireland, Spain, Cyprus

20 Latvia and Hungary. In Romania only BoP pre-cautionary assistance programme is implemented for the period 2011 – 2013.

21 The importance of these instruments is expected to increase significantly in the future.

22 Staff growth of 35% (126 posts) since 2008 meant mainly an increase of posts for the Administrators specialised profiles

23 There are currently 11 Directorates in DG EFCFIN, out of which seven are currently involved in financial crisis-related activities.

24 The 2013 redeployment exercise entailed 47 posts (9% of the total establishment posts of the DG).

25 Local overheads decreased by 14% end of 2009 to 9.4% in January 2013

- An HR Management Board was established to define and coordinate DG ECFIN's overall HR policy. It is composed of the DG, the two DDGs, the Resource Director and the Head of Unit R1.
- Together with DG MARKT and DG COMP, and with the support of DG HR, DG ECFIN launched a Commission-wide call for expression of interest in November 2008 to reinforce on a temporary basis existing teams in the three DGs. An additional call for interest was launched in 2011 particularly for DG ECFIN.
- The DG has recently launched a 360° feedback mechanism for middle and senior managers to develop a feedback culture in DG ECFIN, and help managers improve their HRM capacities.
- DG ECFIN invested substantial resources in the specialised competition for macroeconomics and financial economics specialists launched by EPSO to build a more stable and qualified labour force for the next years. In particular, the DG developed detailed competency profiles for economists and participates in the selection board of the competition.
- ECFIN has revamped its Learning & Development strategy, in particular by improving the training offer (now open to many other DGs), developing ECFIN training passports to provide guidance to ECFIN staff and by introducing new delivery model (short courses, a summer school, course linked to the timing of the surveillance cycle).

Major Findings

The IAS has identified the following three very important issues:

HRM Strategy (Observation 1)

HR-related strategic issues are regularly discussed at senior management level, in particular in the HR Management Board meetings and formalised in different documents including the status of the reflection, the identified challenges and the actions planned/taken. These strategic documents do however not contain any qualitative and quantitative (multi-annual) analysis of staffing needs[26] and do not prioritise the actions identified to address the HR challenges. In addition, there is neither a monitoring nor a follow-up mechanism to measure their level of implementation and effectiveness (deadlines, targets and KPIs[27]).

Annual HR Planning (Observation 2)

DG ECFIN's HR unit coordinates the annual resource planning based on discussions among the different levels of management and within the HR Management board. The HR unit prepares the detailed justification for requests for additional posts or credits. However, DG ECFIN does not have at its disposal comprehensive data to support the (possible) re-allocation of resources in the context of the annual resource planning.

[26] Currently, the strategic documents prepared by DG ECFIN do not include any specific analysis aiming at identifying possible approaches to address the 5% staff reduction over the next 5 years.

[27] KPI: Key Performance Indicator

Monitoring and Reporting on HRM (Observation 3)

DG ECFIN provides management with a number of HRM related statistics and reports (e.g. vacancy reports, screening of local overhead, equal opportunity figures, HR budget consumption) both in the context of the HR planning exercises and in response to ad-hoc requests. However, there is no comprehensive HR report that would allow regular monitoring and measuring of HR-related performance and exhaustive and periodic reporting to management based on KPIs and targets agreed with senior management.

Audit recommendations

In order to address these issues, following very important recommendations were issued:

HRM Strategy – Very important

DG ECFIN should further develop its multi-annual HR strategy based on a qualitative and quantitative analysis of staff needs, including the identification of possible options to address the staff reduction. The implementation of the HR strategy should be supported by tools to measure, monitor and report on its effectiveness.

Annual HR Planning – Very important

DG ECFIN annual resource planning process should be based on complete, reliable and up-to-date information on the existing HR and their allocation to the DG's tasks and associated priorities (so-called "task mapping"). In addition, the DG should implement tools to assess regularly the staff workload in order to align the staff allocations with tasks, priorities and workload identified.

Monitoring and Reporting on HRM – Very important

DG ECFIN should enhance its monitoring and reporting process on the HRM related activities by developing a comprehensive HR report that covers the different aspects of HRM and measure and monitor the related KPIs. This would enable the DG to measure HR management's performance and facilitate management decisions on HR.

DG ECFIN established an action plan which the IAS considers adequate to address the identified issues.

Audit report addressed to **DG COMP**:

Background

As one of the DGs that are involved in identifying and managing solutions to handle and mitigate the consequences of the financial crisis, DG COMP plays a leading role in tackling the crisis, in particular by using State aid rules as a key coordination instrument. In addition, it participates in the coordination of the financial market regulation, and is active in maintaining the stability of the financial system as a whole.

To be able to deal with the new challenging responsibilities deriving from the financial crisis, DG COMP has received a substantial reinforcement of human resources from the central services (in the form of annual and complementary allocations[28] as well as derogation to

[28] Since 2008 the DG staff has increased by 8% (66 posts).

speed up the recruitment process) and has adapted its structure and operations to this new environment, including the management of human resources. In particular, the DG has created the *"Task Force Financial Crisis"* to deal with the additional workload, redefined its priorities refocusing its activities on files related to the financial crisis and has systematically redeployed its staff (by regrouping people from different units to work on priority files). In addition to the matrix organisation already in place in DG COMP, these changes have helped the DG to react/adapt quickly to new requests/more urgent tasks.

Overview of Major Strengths

DG COMP has launched a number of strategic HR initiatives aimed at addressing the important challenges it faces in terms of HRM in the recent years, notably:

- Together with DG ECFIN and DG MARKT, and with the support of DG HR, DG COMP launched a Commission wide call for expression of interest in November 2008 to reinforce on a temporary basis existing teams in the three DGs.
- Following the request of DG COMP, EPSO launched in 2010 a specialist lawyers and economists competition to provide a more stable and qualified labour force for the years to come. DG COMP invested a substantial amount of resources by participating in the selection panels and developing detailed competency profiles.
- In 2009 and 2012, DG COMP organised temporary agent AD5 and AD8 competitions for the Chief Economist Team, which reserve lists were shared with DG MARKT.
- DG COMP has developed a comprehensive workload assessment tool (called PETRA) which allows timely reporting on HR allocation and workload. The information provided by this tool is an integrated part of DG COMP's HR planning processes.
- DG COMP has developed a knowledge-sharing platform called Comp-Wiki to disseminate information of an operational nature. Staff involved in case handling update it on a daily basis. It is also used by newcomers to become quickly operational, as it includes case summaries and sector-related information.
- DG COMP has developed a comprehensive learning and development framework and a rolling training programme based on an extensive internal consultation launched in 2009.

Major Audit Findings

The audit in DG COMP did not identify any issues that gave rise to critical or very important recommendations.

Audit report addressed to **DG MARKT**:

Background

As one of the DGs that are involved in identifying and managing solutions to handle and mitigate the consequences of the financial crisis, DG MARKT is at the forefront of the activities to tackle the financial crisis. It works on structural measures to address key reforms necessary in the development and the completion of the Single Market, which is a central element of the European growth agenda. In particular, the focus is on rules for bank recovery and resolution and consumer protection in financial services.

To be able to deal with the new challenging responsibilities deriving from the financial crisis, DG MARKT has received from the central services a substantial reinforcement of human resources[29] (in the form of annual and complementary allocations) as well as derogations to speed up the recruitment process. The DG has also adapted its structure and operations to this new environment. In particular, the DG implemented a major reorganisation and created three new units and one principal advisor's post.

From the HRM point of view, those changes have required the DG to increase its flexibility by systematically redefining priorities, redeploying staff[30] and reducing the staff allocated to the administrative tasks to concentrate the resources on the DG's core activities[31].

Overview of Major Strengths

DG MARKT has launched a number of strategic HR initiatives aimed at addressing the important challenges it faces in terms of HRM in the recent years, notably:

- Together with DG ECFIN and DG COMP, and with the support of DG HR, DG MARKT launched a Commission wide call for expression of interest in November 2008 to reinforce on a temporary basis existing teams in the three DGs. An additional call for interest was launched in 2011 particularly for DG ECFIN.
- Following the request of DG MARKT and DG ECFIN, EPSO launched in 2013 an AD5/AD7 specialist competition in macroeconomics and financial economics to provide a more stable and qualified labour force for the years to come. DG MARKT invested substantial resources by participating in the selection board of the competition and developing detailed competency profiles for financial economics.
- As part of its learning and development framework DG MARKT has carried out an in-depth analysis of learning needs in each Directorate in order to identify key competencies and knowledge required for the future and related learning solutions to fill the gaps.
- To facilitate mobility between the DGs, DG COMP and DG MARKT agreed on an inter mobility programme for Heads of Unit.
- DG MARKT modified its structure to address the challenges deriving from the financial crisis. In particular, it strengthened the financial services coordination unit under the direct authority of the DDG for financial services, and created a dedicated economic analysis unit (G1) to reinforce the economic analysis capability in financial services, a unit for Financial stability (H4) to deal with crisis management and resolution issues and another one on Banks and Financial Conglomerates II (H2) to meet policy priorities pertaining to structural bank reform.
- The DG has recently launched a 360° feedback mechanism for managers to develop a feedback culture in DG MARKT, and help managers improve their HRM skills.

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29 Since 2008 staff has increased by nearly 7% (53 posts).

30 The 2013 redeployment exercise entailed 47 posts (9% of the total establishment posts of the DG).

31 DG MARKT has reduced the amount of staff allocated to the administrative tasks. As of 1/2/2013 the overheads represents the 8,7% of the posts.

Major Audit Findings

The IAS has identified the following three very important issues:

HRM Strategy (Observation 1)

HR-related strategic decisions are described in the Personnel Action Plan and in some other additional documents and are regularly discussed at senior management level. These strategic documents do however not contain any quantitative (multi-annual) analysis aiming at, among other things, identifying possible approaches to address the 5% staff reduction over the next 5 years and do not prioritise the actions identified to address the HR challenges. In addition, there is no monitoring and follow-up mechanism to measure their level of implementation and effectiveness (deadlines, targets and KPIs).

Annual HR Planning (Observation 2)

DG MARKT implemented an annual HR resource planning cycle, which involves both the HR team and the operational units. In particular, each unit has to prepare a management plan (UMP) including, among others, the list of tasks and an estimation of current and future staff required to accomplish them. The IAS noted however that DG MARKT is not fully equipped to assess the workload of each team/unit.

Monitoring and Reporting on HRM (Observation 3)

DG MARKT provides management with a number of HRM related statistics and reports (e.g. weekly vacancy reports, screening of local overhead, equal opportunity figures) both in the context of the HR planning exercises and in response to ad-hoc requests. However, there is no comprehensive HR report that would allow regular monitoring and measuring of the HR-related performance and an exhaustive and periodic reporting to management based on KPIs and targets agreed with senior management.

Audit recommendations

In order to address these issues, following very important recommendations were issued:

HRM Strategy – Very important

DG MARKT should further develop its multi-annual HR strategy based on a qualitative and quantitative analysis of staff needs, including the identification of possible options to address the staff reduction. The implementation of the HR strategy should be supported by tools to measure, monitor and report on its effectiveness.

Annual HR Planning – Very important

DG MARKT should implement tools to regularly assess staff workload and should set the priorities of its tasks. The staff allocations should be done on the basis of tasks, priorities and the workload identified.

Monitoring and Reporting on HRM – Very important

DG MARKT should enhance its monitoring and reporting process on the HRM related activities by developing a comprehensive HR report that covers the different aspects of HRM and measure and monitor the related KPIs. This would enable the DG to measure the HR management's performance and facilitate management decisions on HR.

DG MARKT established an action plan which the IAS considers adequate to address the identified issues.

3. AGRICULTURE, NATURAL RESOURCES AND HEALTH

3.1. Limited review of residual error rate calculations in DG AGRI (pillar 1 and 2)

Background

The IAS strategic audit plan for 2013-2015 includes, for 2013, a limited review on the RERs reported by DG AGRI for the 2012 reporting year. Similar reviews were conducted in 2013 for DG DEVCO and DG RTD.

Objectives

The objective was to review the calculation and underlying methodology of the RERs reported by DG AGRI in its (draft) AAR 2012 enabling DG AGRI to take appropriate actions, if any, before their disclosure in the final AAR and Synthesis report.

Scope

The review covered the following aspects:

- methodology for the calculation of the RERs for both EAGF and EARDF and the underlying control statistics (including reliability of the MSs control statistics);
- testing of the calculated RERs;
- presentation of the RERs in the draft AAR (including compliance with the Standing Instructions for the AAR 2012).

The IAS reviewed the draft AAR transmitted to the central services (SG/BUDG) on 1/03/2013 and the draft part 2 of the AAR transmitted on 4/03/2013 and the preliminary RER calculations which were provided by DG AGRI on 6/03/2013.

It should be noted that in its 2011 AAR and in the draft AAR 2012 DG AGRI has included a reservation on Rural Development expenditure based on the RER exceeding the materiality threshold and/or reputational grounds.

The fieldwork was finalised on 08/03/2013. All observations and recommendations relate to the situation as of that date.

Major Findings

The review made findings on the reliability of the MS control statistics used by DG AGRI to calculate its RERs (Critical), DG AGRI's calculation of the RERs (Very important), the process for making reservations in its AAR (Very important) and the presentation of the RERs in the AAR (Very important).

Recommendations

The following critical and very important recommendations were issued in order to address the issues identified:

Reliability of MS control statistics used by DG AGRI to calculate RERs – Critical

In calculating its RERs DG AGRI depends very heavily on control statistics reported by MS, which the IAS found to be unreliable, taking account the work performed by the ECA and MS Certifying Bodies (CB).

DG AGRI should broaden the basis for calculating its RERs, in particular by ensuring that it takes into account all relevant, available information and making corrections where necessary. For the 2012 AAR, it should assess and quantify the impact of the weaknesses affecting the reliability of the statistics and strengthen the reliability of its assurances by taking into account the statistics which are actually validated by the CB.

Also for the 2012 AAR, it should take account of known/proposed corrections from previous years or on-going clearance of accounts procedures when concluding on the reliability of the MS statistics as a basis for its error rate calculations. To reinforce the assurances for 2012, it should try to validate certain of the highest spending aid/measures and where necessary, correct the control statistics or apply flat rates.

Looking beyond the 2012 AAR, DG AGRI should put in place a system to improve the reliability of the MS statistics. Specifically, it should:

- ensure that there is a proper process in place for assessing reliability, together with appropriate internal guidance to staff;
- ensure that its audit work specifically addresses reliability;
- reinforce the work of the CB to include legality and regularity aspects, which should in turn strengthen the assessment of the Paying Agency's on-the-spot checks and control statistics;
- automate the transmission of control statistics by MS to the Commission;
- issue adequate instructions/guidance to the MS on the control statistics and underlying sampling requirements, in particular on the random sample component;
- ensure the CBs provide reliable opinions on the PA management declaration covering the legality and regularity of the underlying transactions, based inter alia on the re-performance of a representative sample of transactions checked by the PA on-the-spot, as foreseen in the proposal for the post 2013 CAP regulations;
- following the entry into force of the post 2013 CAP regulations DG AGRI should closely monitor the reinforced work of the CB on the legality and regularity aspects of the PA's controls. The results of that work should be assessed on a yearly basis in the context of the AAR and be subject to a comprehensive review after two years of application with a view to deciding whether the reinforced work of the CB has delivered the expected results or whether DG AGRI should consider other ways for obtaining assurance. This would be in line with the provision of Art 32(5) of the Financial Regulation, which requires improvements/re-design of systems if weaknesses in control systems are seen to persist. This could be obtained through the CB performing independently on-the-spot checks on a representative sample of transactions (out of the total population of payments approved) and reporting the resulting error rates to DG AGRI.

Calculation RER – Very important:

DG AGRI should ensure that the RERs are calculated on the basis of correct and representative data for all parts of the budget and takes into account residual errors after administrative checks. It should address the inconsistencies noted and ensure that cross-compliance errors are included in the calculation. If excluded, the impact should be explained.

DG AGRI should ensure adequate back-up and business continuity procedures, including full documentation of the calculation basis and procedure. It should automate both the calculation process and the process for compiling MS control statistics.

Reservations – Very important:

DG AGRI should not apply the currently used 25% margin to the RERs as a basis for the decision on reservations, unless there is a clear and statistically sound rationale to support it. It should consider adapting the procedure for making reservations, where supportable by reliable MS control statistics. This would be more in line with the latest materiality criteria used by other shared management DGs.

AAR presentation – Very important:

DG AGRI should clearly explain in the AAR the reasons for differences between its own error rates and those of the ECA. It should explain the basis on which it relies on the MS control statistics and make better use of available information on financial corrections/recoveries to corroborate the level of residual error in the population and assess the residual amount at risk. In addition, it should disclose RERs by MS/ABB activity where relevant.

DG AGRI established an action plan which the IAS considers adequate to address the identified issues. It was followed up in the context of the AAR for the reporting year 2013 which revealed that considerable progress had been made already for the 2012 but in particular for the 2013 AAR.

3.2. Audit on Control Strategy - Implementation in DG AGRI

Background

Common Agricultural Policy (CAP) expenditure is mainly accounted for under two shared management funds. The European Agricultural Guarantee Fund (EAGF) finances direct aid and market measures (€330 billion in total between 2007-13) and the European Agricultural Fund for Rural Development (EAFRD) co-finances rural development programmes (€96.3 billion in total between 2007-13). Expenditure under both funds is managed through some 81 national Paying Agencies (PAs) across the MS.

Under shared management, the MS have primary responsibility for implementing effective internal control systems to prevent, detect and correct irregular expenditure, while the Commission performs a supervisory role over national systems and assumes final responsibility for the implementation of the budget.

Audit Objectives

This audit was a continuation of the IAS's audit in 2012 on the design of the control strategy employed by DG AGRI's Audit Directorate (Directorate J). The objective was to assess the execution of the audit and control strategy in practice, in particular the effective implementation of audit engagements, their supervision and corrective measures to address weaknesses in MS management and control systems.

Audit Scope

The audit specifically covered the following areas:

- The audits and checks made by Units J2, J3 and J4 as part of the multi-annual Conformity Clearance process, which is designed to obtain assurance on the legality and regularity of underlying transactions.
- The audits and checks made by Unit J5 as part of the annual Financial Clearance of Accounts process, which is designed to provide assurance on the veracity, completeness and accuracy of the PAs' accounts.
- The work of the Coordination Unit J1 as support to the audit process.

There were no scope limitations.

DG AGRI included in its 2012 AAR reservations on both EAGF and EAFRD. For EAGF the reservation concerned serious deficiencies in direct payments in Portugal, Bulgaria and France, mainly due to deficiencies in the functioning of the Land Parcel Identification Systems (LPIS). For EAFRD, two reservations were made. One concerned the reliability of the MS control statistics used to derive the RER. The other reservation concerned deficiencies in the supervision and control of organic production.

The IAS fieldwork was finalised in mid-June 2013. All observations and recommendations relate to the situation as of that date.

Strengths

The auditors recognise the on-going efforts made by DG AGRI to reduce error rates and protect the budget through a range of detective and corrective measures. On the detective side, the DG is working hard to understand and assess the root causes of errors in close cooperation with the MS bodies with a view to identifying corrective measures. The DG continues to build, refine and develop its audit procedures. Furthermore, as part of this audit the IAS saw first-hand (by accompanying DG AGRI's auditors on-the-spot) the challenges they face, the extreme time pressure they work under and the professionalism and competency with which they conduct their work. In addition, the IAS notes in particular the efforts made to strengthen corrective measures through the implementation of the recent revision of Commission Regulation n° 883/2006 to interrupt payments.

Major Audit Findings

Detective measures (report finding 1)

There is scope for improving the audit process in a number of key areas. Currently, the planning and preparation stages are hampered by the need to translate and analyse important

MS documentation before auditors leave on mission, which if not done well in advance puts pressure on the time available on-the-spot for actual testing. In addition, where sampling is used, this is not always clearly justified and the Clearance (of Accounts) Audit Trail System (CATS) is not always used. Documents setting out the MS key and ancillary controls are out of date. Regarding EAGF, although there are some attempts to involve the operational units in the audit planning process to exploit their knowledge and expertise on the actual implementation of policy, it is clear that this is limited in practice.

There is a general lack of trail/cross-referencing between the various audit documents, including from the planning stage through to reporting, together with a lack of documented supervision. Although there is an increasing use of standardised checklists and audit programmes in certain areas, significant scope for improvement remains in order to provide a more solid basis for the assurance process. Furthermore, despite the increasing error rates and concern over the effectiveness of the first level MS checks, very few re-performance checks of controls are made on-the-spot. The focus is very much on the overall systems rather than operations. The time taken to finalise the audit process is very lengthy and is not helped by a lack of effective audit monitoring tools (see Report Finding 3). However, the IAS acknowledges that the contradictory and conciliation procedure is itself very long and that it is in the interests of MSs to delay this in order to lessen the impact of financial corrections.

Finally, the coordination and communication arrangements both within the Audit Directorate and outside can be improved in order to strengthen the assurance process overall. The Audit Directorate has the challenge of dealing with many different responsibilities in very demanding circumstances, but currently suffers from a lack of effective sharing of key information, including potentially very valuable input from the operational side.

Corrective measures (report finding 2)

Key to an effective control strategy is an effective sanctions process, which in the first instance ensures that weaknesses and deficiencies are subject to financial corrections, but in the longer term ensures real and sustainable improvements in MS management and control systems. Again, this is even more important in the light of increasing concerns as regard the higher error rates and the effectiveness of the first level MS controls. The IAS acknowledges the effectiveness of the financial corrections process in protecting the budget, but notes that DG AGRI has not so far extensively used the interruption and suspension measures, which come earlier in the process, due to complex legal provisions in the current legislative framework. However, the rules proposed for the period 2014-2020 introduced new interruption and suspension clauses in the legislation. These measures are potentially very powerful tools in reinforcing the responsibility of MS to implement robust systems of control. In terms of ensuring that those improvements to MS system are sustained in practice, there is a real need to build capacity. However, DG AGRI has yet to put the monitoring systems in place to help deliver this. There is no central overview of the audit findings and recommendations, which would provide a solid basis to help both the audit and operational units track improvements in the MS and to feed back into the audit planning cycle, although the IAS notes that very preliminary work has been undertaken on establishing a recommendations database.

In addition, the IAS noted that, for EAGF, there is very little guidance concerning the processes for establishing, reviewing and following up specific MS Action Plans, including the respective roles and responsibilities. So far, such plans have been made for Greece and Portugal and one is currently being prepared for France.

Monitoring and reporting (report finding 3)

Adequate monitoring, measurement and reporting mechanisms are essential for ensuring the effective management of an audit function. Although very powerful, the existing COMBO database system lacks the reporting functionality the Audit Directorate needs to monitor overall progress and for the Units to monitor their own day to day work. As a consequence, certain units have developed their own manual based systems. Although progress on audits is in fact monitored in practice, this could be done on a more regular basis. This is even more important in view of the length of time it takes to close audits, as noted in Report Finding 1 and the large number of audits still open. In addition, there is significant room for improving current audit performance information. At the moment this is very limited in both quantitative and qualitative terms and lacks the consistency and depth necessary for effectively managing and monitoring the audit process.

Audit recommendations

The following recommendations were issued to address above mentioned findings:

Detective measures (report finding 1: Very important)

DG AGRI should ensure that the key preparatory documents are obtained in advance and, where necessary, translated and analysed. It should also try to better match auditors' language skills. Sampling criteria need to be properly justified and more use made of CATS. The key data on MS key and ancillary controls should be updated.

It should make more use of the operational units' knowledge and expertise at the planning stage.

DG AGRI should undertake tests of operations that are selected on a risk basis, in order to strengthen assurance on the legality and regularity of underlying transactions.

The DG should ensure that the relevant completion and reporting deadlines are met. It should ensure that the appropriate programmes and checklists are used, properly signed off and evidenced for management review.

DG AGRI should ensure that it takes advantage of key information provided by other sources within the DG, notably in the context of the proposed strengthening of the role of the CBs and the checks foreseen on legality and regularity of transactions. It should ensure that it liaises effectively with other partners.

Overall, in view of the measures needed to strengthen the audit process, DG AGRI should develop a quality assurance and improvement programme, in line with international audit standards, which could include provisions for internal and external quality review.

Corrective measures (report finding 2: Very important)

DG AGRI should apply payment reduction and suspension procedures where appropriate. It should use its existing IT system (COMBO) and finalise the initial work undertaken to establish a database to better track and follow up audit recommendations.

DG AGRI should also clarify the roles, responsibilities and modalities as regards MS action plans. This should include a clear statement and guidance on the conditions under which MS are required to submit such plans, the respective roles of DG AGRI's audit and operational units, together with review, reporting and follow up arrangements.

Monitoring and reporting (report finding 3: Very important)

DG AGRI should ensure that it regularly monitors and reports on audit progress and achievement of targets and objectives. Bearing in mind the problems of data reliability in the COMBO system, checks should be made to ensure the accuracy and consistency of the data presented in the reports. It should ensure that the monitoring system implemented is supported by clear reporting requirements for the communication of performance data, including the regularity, content and level, together with a clear statement of responsibilities.

DG AGRI established an action plan which the IAS considers adequate to address the identified issues.

4. COHESION

4.1. Implementation of ESF 2007-13 (DG EMPL)

Background

The European Social Fund (ESF) is a key vehicle at the disposal of the European Union (EU) to assist MSs in the field of employment. Over the programming period 2007–13 ESF spending will amount to over EUR 75 billion, representing around 8 % of the total EU budget. The ESF is put into action through 117 Operational Programmes (OPs) for the 2007–13 programming period (PP). In 2012, DG EMPL made payments of EUR 11,28 billion.

Although the management and control systems for the ESF, ERDF and CF are governed by common rules, in practice most ESF operational programmes have their own specific authorities and control systems. Under shared management, the MSs have primary responsibility for implementing effective internal control systems to prevent, detect and correct irregular expenditure, while the Commission performs a supervisory role over national systems and assumes final responsibility for the implementation of the budget.

Audit Objectives

Recognising the persistently high error rates in the Cohesion area, the IAS conducted this audit on the implementation of the 2007-13 PP for ESF programmes in order to assess the extent to which DG EMPL has taken sufficient and adequate measures to reduce the high error rates.

Audit Scope

The audit specifically covered the following areas:

- The checks made by DG EMPL in order to place reliance on national audit authorities (AAs), based on a sample of files and by accompanying DG EMPL auditors during audit missions to MS.

- Follow up of the actions resulting from the Commission working paper on the analysis of errors on Cohesion Policy and from other action plans.
- Preventive, detective and corrective measures to tackle the problem of high error rates.
- Through file examination, analysis of the key decision processes at the basis for making/lifting reservations, interruptions, suspensions and financial corrections.

There were no scope limitations.

The fieldwork was finalised in mid-October 2013. All observations and recommendations relate to the situation as of that date.

The following reservation was made in the 2012 AAR concerning specifically the area/process covered by the scope of this engagement:

"Reservation concerning the ESF Fund management and control systems for the period 2007-2013:

Significant issues regarding the effective functioning of management and control systems for 27 OPs in the following Member States: Belgium, Czech Republic, France, Germany, Ireland, Italy, Poland, Romania, Slovakia, Spain, United Kingdom and IPA programmes for Turkey and FYROM."

Strengths

The IAS recognises the continuing efforts made by DG EMPL to reduce error rates through a range of preventive, detective and corrective measures and in seeking to report those error rates clearly and concisely. On the preventive side and recognising the critical role the MS AAs have to play in the assurance building process, the DG has worked very hard to build capacity and understanding by developing, in cooperation with the other Structural Funds DGs, comprehensive guidance to AAs on how to assess MS control systems and on the sampling methodologies and by organising a range of seminars on specific topics. In response to the Commission Staff Working Paper[32] and previous ECA reports, DG EMPL has strongly encouraged the MS to use the simplified cost options (SCOs), and provided supporting guidance, with the result that one or more of these options have been used in nearly 60% of OPs. ECA recognizes in its 2012 Annual Report the positive impact the simplification rules have had on the level of errors in ESF[33].

From a detective side, the DG continues to build, refine and develop its audit procedures through the various Enquiry Planning Memorandums (EPMs), particularly those covering the "Re-performing the audit work conducted by a national audit authority" aimed at gaining assurance on the reliability of AAs and "Review of management verification process in place", which aims to get direct assurance on MS systems where the AA cannot be relied on. These are robust and proactive responses to the assurance building challenge. Furthermore, as part of this audit the IAS gained first-hand knowledge (by accompanying DG EMPL's auditors on-the-spot) of the challenges they face, the extreme time pressure they work under and the professionalism and competency with which they conduct their work. However, the

[32] Commission Staff Working Paper "Analysis of errors in cohesion policy for the years 2006-2009_actions taken by the Commission and the way forward" SEC(2011) 1179 final of 5.10.2011

[33] ECA Annual Report 14/11/2013 – Chapter 6 ESF - § 6-23

IAS also recognises that the audit process is only one of a package of measures aimed at reducing error rates. DG EMPL has devoted a significant effort, mainly through the Audit Directorate, to discussing in detail the results of ECA findings and explaining and clarifying specific cases in the framework of the contradictory procedure.

In addition, the IAS notes in particular the strong corrective measures implemented by DG EMPL, through timely and increased levels of interruptions and suspensions which are monitored by the Interruption Suspension Financial Corrections Committee (ISFC Committee) and which is also strongly driven by the work of the Audit Directorate.

Major Audit Findings

Detective measures to reduce error rates (Report Finding 1)

As noted in previous IAS reports, DG EMPL has reinforced its audit approach in all areas. However, the IAS found that the preparation phase could be strengthened by a better consideration of the Geographical Units' (GU) knowledge and, in case of follow-up audits, the initial risks and the action plan to be tested. Similarly, for re-performance audits of Audit Authority work, the specific risks could be better reflected in the Mission Planning Memorandum (MPM). Preparation is even more important in view of the time pressures brought about by the overlapping of two programming periods from 2014 onwards and the numerous other tasks borne by the audit units, such as supporting the ISFC Committee work, contradictory procedures with ECA and continued capacity building work with MSs, all of which are aimed at reducing the error rate. The IAS's first-hand experiences in accompanying the DG auditors on-the-spot found that there were variations between missions in the depth of testing undertaken and the extent of work at the beneficiaries' premises. We acknowledge the need to adapt the work to fit the circumstances, but consider there is room for more consistency overall, particularly given the pressure to make the most effective use of scarce audit resources. Finally, the IAS noted that the reporting phase could be improved for follow-up audits. DG EMPL reports on an exception basis only and does not provide a clear confirmation that recommendations and corrective actions have been implemented in practice.

Audit recommendations

The following recommendations were issued to address above mentioned findings:

Detective measures to reduce error rates (Report Finding 1: Very important)

DG EMPL should incorporate in the MPM the relevant key information received from the GUs; the GUs should examine case-by-case the added value of their participation in the audit mission and decide accordingly whether to participate in the whole mission, the closing meeting, or not at all. Furthermore, DG EMPL should ensure more consistency of approach for the same audit enquiry type through further instruction/guidance and supervision on the extent of testing to be carried out on the spot. It should ensure that appropriate checklists are used on missions and that tailor-made checklists are developed for each mission that involves the follow up of an action plan or with specific risks. For follow-up audits, it should develop a specific template to record the auditor's conclusion on whether recommendations and corrective actions have been implemented.

DG EMPL established an action plan which the IAS considers adequate to address the identified issues.

4.2. Performance Audit of DG REGIO Performance Measurement Systems

Background

Knowing how well an organisation is doing is essential in developing strategy and policies to meet the organisation's aims. Performance information shows how well an organisation is performing against its stated objectives. Clear objectives, with well-selected performance measures, are the foundation of a good performance measurement system. This not only determines what needs to be done, but also sets the conditions for success.

Following the entry into force of the Lisbon Treaty, the European Commission is required to submit to the European Parliament and the Council a yearly evaluation report on the Union's finances based on the results achieved (Article 318 report). Moreover, the European Parliament considers that performance audits measuring the extent to which spending has achieved its objectives pursued have become ever more important and the Commission should develop a new culture of performance. In June 2011, the central services of the Commission reminded operational services that the current financial and economic crisis and severe constraints in public spending has shifted the focus to achieving more with less and that post-2013 spending programmes should place a greater focus on performance measurement. Other initiatives have been taken at Commission level on this move towards a performance culture, e.g. the setting up of a working group of Directors-General of the Commission on "Move to a performance culture" in February 2013.

In order to meet stakeholders' expectations, one of the objectives of the IAS in its Strategic Audit Plan for the period 2013-2015 is to carry out performance audits focusing on the economy, efficiency and effectiveness of the use of resources. A number of audits have been planned in 2013 to assess the performance measurement system of DGs, including not only DG REGIO, but also DGs EMPL and EAC.

For DG REGIO, the issue of performance management is particularly relevant. Operating in a multi-annual shared management framework, it faces the challenge of supervising closely the MSs, but being ultimately accountable for implementing the budget. It has the dual responsibility of ensuring legality and regularity of the expenditure, but at the same time trying to promote sound financial management and effective overall implementation of policy. The focus on policy performance will be even greater in the new 2014-20 programming period with the stronger overall results orientation and the introduction of the Performance Framework and Performance Reserve.

Audit Objectives

The main objective of the audit was to assess the extent to which DG REGIO has adequate performance measurement systems in place for monitoring, reporting and evaluating the performance of activities both in terms of its day to day, operational and administrative activities (internal) and in terms of measuring the delivery of policy objectives (external). The audit addressed the following key questions:

- Is the performance measurement framework comprehensive?

- Does the DG adequately monitor and measure internal performance including the use of human resources?
- Does the DG adequately monitor and evaluate its policies?

Audit Scope

The audit focused on:

- A horizontal analysis of DG REGIO's internal processes for setting objectives and KPIs and related reporting and monitoring systems.
- A detailed review of the processes for setting objectives, indicators, monitoring, evaluation and performance reporting concerning the ERDF and Cohesion Fund.

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

The fieldwork was finalised on 11/10/2013. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS recognises the on-going efforts made by DG REGIO to strengthen the results and performance aspects not just of its management of the ERDF and CF, but also of its own internal activities and resources.

This focus is very evident in the draft regulations for the 2014-20 programming period, whereby key pillars for this new results and performance based focus include a clear articulation of objectives of programmes with a strong intervention logic, the definition of a set of mandatory common output indicators, the introduction of a performance framework for each programme linked to a performance reserve and strengthened provisions for the evaluation of programmes. Although the preparations for the new programming period (e.g. development of guidance, negotiation of partnership agreements and operational programmes) are still on going, the IAS acknowledges the efforts devoted to bringing the results and performance orientation into practice.

The IAS also recognises the challenge the DG faces to monitor and evaluate the 2007-2013 programmes and to report on their performance, for example because of the lack of mandatory common indicators. In particular, the IAS notes the efforts already made by the DG to improve the quality of the data reported by the MS on core indicators and also the continued efforts to improve the quality of evaluations conducted by the MS and the DG itself.

DG REGIO considerably strengthened its internal performance measurement systems by setting out in the Management Plan (MP) a set of priorities and reporting progress towards their achievement on a bi-monthly basis to the board of directors. In addition, units' reporting on progress towards these priorities is reported to the board on a quarterly basis.

Also, a major effort has been devoted to mapping human resources to activities and tasks and assessing the workload linked to these activities and tasks. The IAS considers this workload assessment can provide a good basis for helping the DG to make important HR allocation decisions and further developing its performance measurement systems.

Major Audit Findings

The IAS identified three very important issues which should be the main priority:

Performance measurement framework

- The MP and the AAR constitute the main elements of the performance measurement framework. One sets out the performance information to be reported (objectives, priorities and indicators), whilst the other is used to report what was actually achieved in practice. In general, priorities are well defined and accompanied by indicators, but the MP should explain more clearly how priorities relate to objectives. More fundamentally, the way in which performance indicators are set and reported on needs to be improved in terms of presentation, content and coverage. Currently, they do not generally meet the widely accepted RACER[34] criteria and the number of indicators is not always proportionate to the importance or size of the activity measured. Also, there are no efficiency/economy indicators in the MP. Policy achievements are reported mainly in terms of the degree of financial implementation and according to a limited number of core indicators. Although presented as if they are results or impacts-based, they are in fact more outputs-based.

Monitoring and evaluating Regional Policy

- The quality and reliability of MS performance information is a major issue for the DG. It carries out desk checks on the indicators reported, but these are very limited in nature and there is currently no audit work undertaken to specifically check reliability. Although the draft regulations for 2014-20 set out certain quality expectations for managing the Performance Framework as a process, there is nothing foreseen aimed specifically at ensuring the quality and reliability of MS performance information. The MS Audit Authorities are not obliged to audit the reliability of performance information, but equally there is nothing to stop them doing so in practice. In addition, there are concerns about the quality and coverage of the MS evaluation work. The lack of reliable MS performance information also presents an obstacle to the effectiveness of the Commission's own evaluation work.

- The new regulations for 2014-20 foresee a much greater emphasis on performance aspects, with the introduction of requirements for programme specific result indicators with baselines and obligatory common output indicators as well as a Performance Framework and a Performance Reserve. Currently however, the monitoring of policy implementation, as exercised by the Geographical Units (GUs), mainly focuses on financial implementation rather than assessing performance against objectives. Operational progress on the ground is monitored, but without clear objectives, methodology and procedures on what criteria/information should be taken into account. The move to a new performance oriented environment brings with it new expectations, which need to be prepared for. Internal guidance on the Performance Framework has been developed, but as current monitoring arrangements are not performance-orientated, such guidance will need to be made very practical and concrete. More specifically, the introduction of the Performance Reserve poses the risk that MS will set un-ambitious milestones and targets and calls for properly targeted checks. The extent to which monitoring, evaluation and audit can play a part in responding to this overall challenge is still very much under reflection in the DG, particularly given the continued pressure on audit resources to supervising MS management and control systems.

Audit recommendations

[34] RACER: Relevant, Accepted, Credible, Easy, Robust (Internal Control Standard N° 5)

To address the issues, DG REGIO should:

- Better integrate the DG's priorities into the MP, and explain how they contribute to the specific objectives. Ensure that its indicators are RACER and targets are well defined and accompanied by appropriate milestones. If indicators/targets are unlikely to be met this should be clearly explained. The number of indicators should be proportionate and less important ones reported only in lower level documents. Efficiency indicators should be developed for internal activities. For policy implementation in 2014-20, indicators should be developed based on an assessment of the overall performance of each OP. Policy achievements should be better explained in terms of targets and objectives met and the resources used. The AAR should report more clearly also on general/specific objectives, in addition to reporting on priorities. Looking forward and working in conjunction with the other European Structural and Investment Funds (ESIF) DGs, it should ensure that the evaluation strategy for 2014-20 draws upon the lessons learnt from the current period, in particular on how the DG plans to obtain evaluation evidence over time and how this can contribute to the AAR and art. 318 report.
- Together with DG EMPL, develop a strategy to improve the reliability of performance information reported by the MS. Given that performance measurement impacts across a wide range of different aspects of programme management (e.g. monitoring, evaluation, reporting, financial impact for 2014-20 period), DG REGIO should consider a multi-disciplinary approach, involving the Geographical Units, Evaluation Units and the Audit Directorate. Although the key challenge will be to develop a comprehensive strategy for the next programming period, DG REGIO should continue to do as much as possible to improve further the quality of data reported for the 2007-13 programming period and continue to strengthen the capacity and contribution of MS evaluation work.
- Strengthen the role of the GUs in monitoring the performance of the OPs and ensure that results are properly reflected in the AOSD management opinion. Although the focus should be on the 2014-20 period, it should also ensure that the performance of OPs is sufficiently assessed for the remainder of the 2007-2013 period, taking into account the limitations of the current legal base. This could be done, for example, by adapting the checklists used to review the Annual Implementation Report (AIR). It should develop practical guidance for the GUs to assess milestones and targets and ensure that assumptions are properly documented. It should develop a clear approach for building up assurance on the performance of Cohesion policy, particularly for the 2014-20 programming period. It should assess how this assurance can be delivered, including through monitoring, evaluation and audit.

DG REGIO established an action plan which the IAS considers adequate to address the identified issues.

4.3. Performance Audit of DG EMPL Performance Measurement Systems

Background

Knowing how well an organisation is doing is essential in developing strategy and policies to meet the organisation's aims. Performance information shows how well an organisation is performing against its stated objectives. Clear objectives, with well-selected performance measures, are the foundation of a good performance measurement system. This not only determines what needs to be done but also sets the conditions for success.

Following the entry into force of the Lisbon Treaty, the European Commission is required to submit to the European Parliament and the Council a yearly evaluation report on the Union's finances based on the results achieved (Article 318 report). Moreover, the European Parliament considers that performance audits measuring the extent to which spending has achieved its objectives pursued have become ever more important and the Commission should develop a new culture of performance. In June 2011, the central services of the Commission reminded operational services that the current financial and economic crisis and severe constraints in public spending has shifted the focus to achieving more with less and that post-2013 spending programmes should place a greater focus on performance measurement. Other initiatives have been taken at Commission level on this move towards a performance culture, e.g. the setting up of a working group of Directors-General of the Commission on "Move to a performance culture" in February 2013.

In order to meet stakeholders' expectations, one of the objectives of the IAS in its Strategic Audit Plan for the period 2013-2015 is to carry out performance audits focusing on the economy, efficiency and effectiveness of the use of resources. A number of audits have been planned in 2013 to assess the performance measurement system of DGs, including DG EMPL, but also DGs REGIO and EAC.

For DG EMPL, the issue of performance management is particularly relevant. The DG has a major role contributing to key objectives of the EU 2020 strategy on employment, social inclusion and education. Regarding the ESF, operating in a multi-annual shared management framework, it faces the challenge of supervising closely the MSs, but being ultimately accountable for implementing the budget. It has the dual responsibility of ensuring legality and regularity of the expenditure, but at the same time trying to promote sound financial management and effective overall implementation of policy. The focus on policy performance will be even greater in the new 2014-20 programming period with the introduction of the Performance Framework and Performance Reserve.

Audit Objectives

The main objective of the audit was to assess the extent to which DG EMPL has adequate performance measurement systems in place for monitoring, reporting and evaluating the performance of activities both in terms of its day to day, operational and administrative activities (internal) and in terms of measuring the delivery of policy objectives (external). The audit addressed the following key questions:

- Is the performance measurement framework comprehensive?
- Does the DG adequately monitor and measure internal performance including the use of human resources?
- Does the DG adequately monitor and evaluate its policies?

Audit Scope

The audit focused on:

- A horizontal analysis of DG EMPL's internal processes for setting objectives and KPIs and related reporting and monitoring systems.
- A detailed review of the processes for setting objectives, indicators, monitoring, evaluation and performance reporting concerning the European Social Fund (ESF)

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

The fieldwork was finalised on 11/10/2013. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS recognises the on-going efforts made by DG EMPL to strengthen the results and performance aspects not just of its management of the ESF, but also of its own internal activities.

This focus is very evident in the draft regulations for the 2014-20 programming period, whereby key pillars for this new results and performance based focus include a clear articulation of objectives of programmes with a strong intervention logic, the definition of a set of mandatory common output and result indicators, the introduction of a performance framework for each programme linked to a performance reserve and strengthened provisions for the evaluation of programmes. Although the preparations for the new programming period (e.g. development of guidance, negotiation of partnership agreements and operational programmes) are still on going, the IAS acknowledges the efforts devoted to bringing the results and performance orientation into practice.

The IAS also recognises the challenge the DG faces to monitor and evaluate the 2007-2013 programmes and to report on their performance, for example because of the lack of mandatory common indicators (other than data by participants). In particular, the IAS notes the efforts already made by the DG to improve the quality of the data reported by the MS on core indicators and the continued efforts to improve the quality of evaluations conducted by the MS and the DG itself.

DG EMPL considerably strengthened its internal performance measurement systems by developing a bi-annual report to the Policy Management Board (PMB) on progress towards objectives, based on a comprehensive set of operational objectives and indicators for ABB activities and horizontal activities.

Major Audit Findings

The IAS identified four very important issues which should be the main priority:

Performance measurement framework

- The MP and the AAR constitute the main elements of the performance measurement framework. One sets out the performance information to be reported (objectives and indicators), whilst the other is used to report what was actually achieved in practice. Objectives are not always clearly defined, for example concerning EMPL's operational activities contributing to the ESF's specific objectives, and horizontal activities are not included in the MP itself. Indicators are not always well defined or classified. Currently, they do not always meet the widely accepted RACER[35] criteria and the number of indicators is not always proportionate to the importance or size of the activity measured. There is room for improving consistency between objectives, indicators and targets. In particular, main outputs by specific objective are not presented in terms of objectives (or description of outputs), indicators and targets and hence their usefulness as performance information is limited. Also, there are no efficiency and/or economy indicators included in the MP. Policy achievements of the ESF are reported mainly in terms of the degree of financial implementation and the number of participations to ESF programmes. Information reported on the DG's own activities which contribute to the ESF specific objectives is limited. Also, known problems concerning data quality are not reflected when reporting on ESF.

Monitoring and measuring internal performance including the use of human resources

- The DG has carried out workload assessments for certain activities when these were reorganised. However, there is currently no system in place for assessing workload across the full range of the DG's activities and tasks in order to provide assurances on the efficient and effective allocation of staff resources. As human resources are currently not mapped to objectives and activities and workload assessments are not conducted, this means that, as noted under finding N°2, the DG's internal performance measurement systems currently do not cover the efficiency of the use of its resources. EMPL is in the process of identifying its HR needs in terms of experience, knowledge and main skills and competencies. However, the DG does not yet have a clear picture of current profiles of staff in terms of previous experience, knowledge and main skills and competencies in relation to future needs. It has not yet developed an HR plan identifying the resources and staff's profiles needed to carry out its current and future activities/tasks and meet its priorities, as well as the planned measures to address any gaps (e.g. training, redeployment, recruitment, staff reduction, etc.).

Monitoring and evaluating the ESF

- The quality and reliability of MS performance information is a major issue for the DG. It carries out desk checks on the indicators reported, but these are very limited in nature and there is currently no audit work undertaken to specifically check reliability. Although the draft regulations for 2014-20 set out certain quality expectations for managing the Performance Framework as a process, there is nothing foreseen aimed specifically at ensuring the quality and reliability of MS performance information. The MS Audit Authorities are not obliged to audit the reliability of performance information, but equally there is nothing to stop them doing so in practice. In addition, there are concerns about the quality and coverage of the MS evaluation work. The lack of reliable MS performance information also presents an obstacle to the effectiveness of the Commission's own evaluation work.

- The new regulations for 2014-20 foresee a much greater emphasis on performance aspects, with the introduction of a Performance Framework and a Performance Reserve. Currently however, the monitoring of policy implementation, as exercised by the Geographical Units (GUs), mainly focuses on financial implementation rather than assessing performance against objectives. Operational progress on the ground is monitored, but without clear objectives, methodology and procedures on what criteria/information should be taken into account. The move to a new performance

[35] RACER: Relevant, Accepted, Credible, Easy, Robust (Internal Control Standard N°5)

oriented environment brings with it new expectations, which need to be prepared for. Internal guidance on the Performance Framework has been developed, but as current monitoring arrangements are not performance-orientated, this will need to be complemented by very practical and concrete guidance. More specifically, the introduction of the Performance Reserve poses the risk that MS will set un-ambitious milestones and targets and calls for properly targeted checks. The extent to which performance audit can play a key part in responding to this overall challenge is still very much under reflection in the DG, particularly given the continued pressure on audit resources to supervise MS management and control systems. Since the completion of the fieldwork DG EMPL has informed the IAS that the Policy Management Board (PMB) has adopted the audit strategy for 2014-16 which includes plans for performance audits and that the related audit methodology is under development.

Audit recommendations

To address the above mentioned issues, DG EMPL should:

- Better integrate into the MP the objectives/planned outputs for the DG's operational activities which contribute to the ESF's specific objectives and the objectives for the main horizontal and administrative activities. Further improve its indicators to be RACER and targets to be well defined. Present main outputs in support of the specific objectives in terms of objectives, indicators and targets and consider transferring a number to lower level (e.g. unit) plans. Efficiency indicators should be developed for internal activities. For ESF policy implementation in 2014-20, indicators should be developed based on EMPL's assessment of the overall performance of each OP. Improve reporting on the achievements of the ESF by including more qualitative analysis and explanations in relation to achievements, by providing more information on the context (target, inputs of resources) so that users can properly understand the extent to which objectives are being met. Also, by reporting in the AAR on the DG's operational activities which contribute to the ESF's specific objectives.
- Building on its work done so far in this area, it should further develop its approach to workload assessments and extend the exercise to cover the full range of activities across the DG in order to help ensure an optimal allocation of resources. It should use the information obtained through workload assessment, for example on human resources linked to specific activities and workload indicators, in its performance measurement system, to ensure it also covers the efficiency of the use of its resources. It should ensure that it has up-to-date information on the current experience, knowledge, skills and competencies of its staff and further develop its HR plan accordingly to include the assessment of resource needs and gaps and identify measures to address them.
- Together with DG REGIO, develop a strategy to improve the reliability of performance information reported by the MS. Given that performance measurement impacts across a wide range of different aspects of programme management (e.g. monitoring, evaluation, reporting, financial impact for 2014-20 period), DG EMPL should consider a multi-disciplinary approach, involving the Geographical Units, Evaluation Units and the Audit Directorate. Although the key challenge will be to develop a comprehensive strategy for the next programming period, DG EMPL should continue to do as much as possible to improve further the quality of data reported for the 2007-13 programming period and continue to strengthen the capacity and contribution of MS evaluation work.

- Strengthen the role of the GUs in monitoring the performance of the OPs and ensure that results are properly reflected in the AOSD management opinion. Although the focus should be on the 2014-20 period, it should also ensure that the performance of OPs is sufficiently assessed for the remainder of the 2007-2013 period, taking into account the limitations of the current legal base. This could be done, for example, by adapting the checklists used to review the Annual Implementation Report (AIR). It should develop practical guidance for the GUs to assess milestones and targets and ensure that assumptions are properly documented. It should develop a clear approach for building up assurance on the performance of the ESF, particularly for the 2014-20 programming period. It should assess how this assurance can be delivered, including the need for performance audits, and, in the light of the continued pressures on the existing audit work, it should consider how to best develop the expertise and resources needed, for example by making use of multi-disciplinary teams.

DG EMPL established an action plan which the IAS considers adequate to address the identified issues.

5. RESEARCH, ENERGY AND TRANSPORT

5.1. Limited Review of the calculation and the underlying methodology of DG RTD's residual error rate for the 2012 reporting year

Background

The IAS strategic audit plan for 2013-2015 includes, for 2013, a limited review on the RERs reported by DG RTD for the 2012 reporting year.

Similar reviews were conducted in 2013 for DG AGRI and DG DEVCO.

Objectives and scope of the review

The objective was to review the calculation and underlying methodology of the RERs reported by DG RTD in its (draft) AAR 2012 enabling DG RTD to take appropriate actions, if any, before their disclosure in the final AAR and Synthesis report.

The scope of the limited review was as follows:

- review of the methodology for the calculation of the RERs that are based on the results of the audits of the Common Representative audit Sample (CRaS);
- testing of the calculated RERs;
- presentation of the RERs in the draft AAR (including compliance with the Standing Instructions for the AAR 2012).

In its 2011 AAR the DG made two reservations concerning the rate of the residual errors with regard to the accuracy of cost claims in the FP6 and FP7.

The review was finalised on 06/03/2011. All observations and recommendations relate to the situation as of that date.

Strengths

The CRaS was selected for the first time in 2012 to identify the common errors across the whole of FP7 operations for all research Commission services. This reduced the audit burden on beneficiaries by reducing the number of repeat audits whilst providing a representative view of the implementation of FP7.

The IAS notes the co-ordination in place among Commission research services to ensure a common approach for auditing the CRaS. In particular, the common approach is ensured by:

- A common audit manual;
- The Audit Steering Committee for harmonizing audit results at DG level;
- The Extrapolation Steering Committee, which decides on the need to proceed with extrapolation cases, if an audit detects a systematic error in cost statements;
- The CAR group (Coordination Group for External Audits in Research Family) meetings;
- The Audits' Internal Supervision Committee – chaired by the Director of Directorate RDT.M, which examines all cases with major errors (over 10% for the CRaS) to ensure coherence.

Major findings

The review raised the following very important finding:

Calculation of the RER (Finding No 1):

The accuracy of the RER calculated for AAR reporting purpose is affected by the partial completion of audits of the Common Representative Audit Sample (84%). Furthermore, the assumption made for the calculation of the RER that 100% of the participations subject to extrapolation are clean from systematic errors is found to be over-optimistic considering the past performance, i.e. 79% of FP6 extrapolation are implemented[36].

Recommendations

Calculation of the RER – Very important:

While some of the reasons for the delays of the audits are outside the DG's control, DG RTD should nonetheless further improve its planning of the audits of the CRaS in order to increase the completion rate of the audit sample at the reporting date.

DG RTD should also revise its assumptions and take a more conservative approach when extrapolating ex-post results to reflect the possibility that part of the extrapolated systematic errors will not be implemented. DG RTD accepted the recommendation and corrected itfor the 2013 AAR.

DG RTD established an action plan which the IAS considers adequate to address the identified issues.

5.2. Joint IAS-IAC Audit on Grant Management in TEN-T EA

Background

The IAS-IAC joint audit on Grant Management of the Trans-European Transport Network Executive Agency (TEN-T EA) was included in the IAS 2010-2012 Strategic Audit Plan and launched at the end of 2012. Following the rotation of audit portfolios in Directorate IAS.B, a new audit team in the IAS took over as from February 2013.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system related to the grants under direct management of TEN-T EA. Taking into account the audits already performed and planned by the IAS and the IAC, this joint engagement focused on the grant proposals evaluation process managed by the Agency.

[36] Source: draft 2012 AAR

Audit Scope

The scope of the audit included the sub-processes for which the Agency is fully responsible in the evaluation process for grants awarded following the call for proposals.

There are no observations or reservations in the 2012 AAR that relate to the process audited.

The fieldwork was finalised on 17/04/2013. The conclusions in this report relate to the situation as of that date.

Strengths

The auditors recognise the on-going efforts made by the TEN-T EA, and in particular the following aspects:

- ***Guidance and preparation in the external evaluation*** - Well prepared external evaluation as well as training and guidance provided to all actors involved in the evaluation, from experts to secretaries.

- ***Continuous improvement of the evaluation process*** - Each year, TEN-T EA appoints an 'independent observer' with a view to providing the Agency with an independent assessment of the conduct and fairness of the evaluation sessions, on the way the experts apply the evaluation criteria, and on ways in which the procedures could be improved. In addition, TEN-T EA launches lessons learned exercises after each call based on a feedback survey from TEN-T EA staff and the external experts (evaluators for the call).

- ***Clear and timely information*** published on the website for applicants.

- ***External expertise*** - TEN-T EA uses external expertise from other Agencies (i.e. ERA and EMSA) to participate in external evaluation panels.

No significant issues that may adversely affect the achievement of the business objectives for the process reviewed were identified.

5.3. European Economic Recovery Plan (DG ENER)

Background

The origin of the European Energy Programme for Recovery (EEPR) lies in the European Economic Recovery Plan, adopted by the Commission on 26 November 2008 as a response to the economic and financial crisis in Europe. The Plan called for coordinated national action, complemented by direct EU action, aimed at injecting purchasing power and boosting demand in the economy. The European Council endorsed the Plan in December 2008 and invited the Commission to present a list of concrete energy projects. Regulation (EC) No 663/2009 of 13/07/2009 established the financial envelope for the implementation of the EEPR for 2009 and 2010 at 3,98 billion EUR.

The IAS audit on the EEPR in DG ENER was included in the IAS 2012 Audit Work Programme. This followed the strategic audit risk assessment carried out in 2011. Risks related to the limited time available for setting up and implementing the programme were verified, as all the funds had to be committed by the end of 2010 to help Europe recover from the economic crisis.

As 146 million EUR was not committed by the end of December 2010, the Budgetary Authority authorised the creation of a financial facility supporting initiatives for energy efficiency and renewable energy. This was done in 2011 by the creation of the European Energy Efficiency Fund (EEEF) investment vehicle.

The relative importance of the budget of the EEPR in the context of the IAS Overall Opinion, justified its inclusion in the IAS' Strategic Audit Plan for 2010-2012.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to the European Energy Programme for Recovery, managed by DG ENER.

In particular, the audit aimed to assess whether the ICS is adequate and effective in providing reasonable assurance regarding compliance with the relevant legislation[37], the reliability of financial and management information and the effectiveness and efficiency of the audited processes.

Audit Scope

The audit specifically covered the following areas:

- Implementation, financial follow-up and closure of the EEPR programme relating to electricity and gas infrastructure;
- Governance and monitoring of the EEEF under joint management with the European Investment Bank (EIB).

This scope takes into account the work already performed by the IAS on the Control Strategy in DG ENER, the IAC on the Offshore Wind Energy and Carbon Capture and Storage part of the EEPR and the Court of Auditors on the DAS 2010 and 2011.

There were no reservations in the 2011 AAR that relate to the audited processes.

The 2012 AAR includes a reservation on reputational grounds related to beneficiaries of EEPR contracts not respecting public procurement rules when subcontracting.

The fieldwork was finalised on 15/02/2013. All observations and recommendations relate to the situation as of that date.

Strengths

[37] Especially Regulation (EC) no. 663/2009 and Regulation (EU) no. 1233/2010.

The auditors recognise DG ENER's following on-going efforts to manage the EEPR in an effective and efficient way.

EEPR Electricity and Gas Infrastructure

- A model Commission Decision for the granting of financial aid for actions in the field of EEPR has been developed, which the operational units have to complete according to the financed project. The model includes detailed annexes explaining the financing rules and reporting requirements.
- Project Officers make on the spot visits to verify progress made on the projects with the assistance of an external technical expert. Further, Project Officers make a formal appraisal of the reporting information submitted by the beneficiaries at the time of the interim and the final payments.
- Consolidated monitoring files exist for managing the projects' budget, reporting requirements and delays. These are regularly crosschecked with the financial management unit.
- Segregation of duties between the operational and financial side is clearly defined. A dedicated person in the financial management unit SRD3 is responsible for EEPR payment files.

EEE F

- A Delegation Agreement with the EIB sets out the rules and reporting requirements for managing the fund, including the Commission representation in the decision making process.
- Board meetings are regularly held with detailed agendas and minutes. High-level Commission staff participates in these meetings: an Advisor in the Management Board meetings and a Director in the Supervisory Board meetings. The European Commission is represented with 50% of the votes in the Supervisory Board and may appoint the Chair. The chairperson has the decisive vote in case of a tie.
- A dedicated person has been assigned in unit C3 for dealing with the technical assistance approvals of the projects.

Major Audit Findings

EEPR project management and risk management.

Many projects are running late due to political and operational difficulties and part of the funds reserved for some projects have not been used for a long time since the commitment was made. The Commission report on the Implementation of the EEPR[38] states that when a viable solution to mitigate the delays is not found, the Commission may terminate its financial support to the project, in which case the funds flow back to the EU general budget. Further, for some projects, the risk assessments foreseen in the Commission Decision granting financial aid are not updated. Finally, the Project Monitoring Table is mainly limited to financial figures and does not include the project's milestones with individual actions.

Public procurement monitoring and implementation.

[38] See COM(2012)445 final of 08/08/2012.

Beneficiaries do not always follow the EC public procurement rules governed by the Directives 2004/18/EC and 2004/17/EC. Reimbursement of ineligible costs incurred by beneficiaries having concluded contracts in order to carry out the action would therefore constitute illegal and irregular expenditure.

Audit recommendations

EEPR project management and risk management (Very Important)

The IAS recommends DG ENER to reinforce its project management, in particular for delayed projects, and the project's risk management process in view of the Europe 2020 Connecting Europe Facility. It should also develop specific KPIs for managing the EEPR's performance.

Public procurement monitoring and implementation (Very Important)

The IAS recommends DG ENER to reinforce and bring forward the timing of ex-ante and ex-post controls on payment files, including the tendering procedure used by the beneficiaries, to establish clear, user-friendly guidelines to beneficiaries regarding the application of public procurement law and to improve the Project Officers' advisory role to beneficiaries in following public procurement law.

DG ENER established an action plan which the IAS considers adequate to address the identified issues.

5.4. Audit on Control Strategy in EACI

Background

The EACI is responsible for the management of EU actions in the fields of energy, entrepreneurship and innovation (including eco-innovation), and sustainable freight transport under several EU programmes. The EACI is supervised by its four parent DGs, i.e. DG ENTR, DG MOVE, DG ENER and DG ENV. For the period 2007-2013, the Agency manages four programmes for a total amount of € 1 700 million.

Audit Objectives

The main objective of the audit was to assess whether the EACI's control strategy is adequate, effectively implemented, regularly monitored and adequately reported on, and is ensuring that corrective measures are taken promptly and proportionately.

Audit Scope

The audit covered the main building blocks to obtain assurance for the managed funds, ex-ante and ex-post controls, and the disclosure of the assurance within the AAR.

The EACI's AAR does not state any observations/reservations related to the areas/processes audited.

The fieldwork was finalised on 31/05/2013. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS recognises the EACI's significant efforts to put in place a sound internal control system when implementing the EU programmes delegated by the European Commission with the supervision of its four parent DGs. Moreover, the most recent EACI evaluation[39] has pointed out a high overall level of satisfaction by the beneficiaries with the service delivery (e.g. through simplifications and increased proximity to beneficiaries).

Major Audit Findings

The assurance building process and disclosure of the assurance.

The EACI has not developed a comprehensive and formalised overall control strategy explaining how it expects to get reasonable assurance on the legality and regularity of underlying transactions, with appropriate KPIs. According to its AAR 2012, the declaration of assurance is mainly based on ex-post controls. However, the RER provided is not fully representative for all underlying transactions. An alternative assessment pattern to support the declaration of assurance, as requested by the 2012 AAR Standing Instructions, should be further developed. There is room for re-balancing the relative importance of ex-ante and ex-post controls in terms of the allocation of resources.

Ex-ante checks.

The ex-ante controls are based on desk reviews, which provide limited assurance regarding the expenditure checked. The EACI has not established an ex-ante control plan describing in detail its various constituting elements and how they contribute to the AOSD's expected level of assurance (e.g. desk reviews, reporting of error rate, audit certificates, project visits, etc.). The IAS has found some weaknesses in the ex-ante verification of the eligibility of costs, KPIs and formal empowerment of staff to sign "passed for payment" endorsements for the validation of expenditure. Although project visits were disclosed in the AAR 2012 as one of the elements in the building blocks towards reasonable assurance, their actual contribution to the assurance is limited due to the focus on the project deliverables and the very limited number of financial controls on cost eligibility performed during these missions.

[39] *"Cost Benefit Analysis for the delegation of certain tasks regarding the implementation of Union programmes 2014-2020 to the Executive Agencies"* – ICF GHK Consulting Ltd - 8 February 2013 (page 72)

Ex-post checks.

The target objectives of the ex-post Audit Strategy are not sufficiently clarified and the actual coverage is far below the targets for some of the programmes audited for the first time in 2012. The risk factors applied to support the selection of projects are not sufficiently prioritised and their quality and quantity can be improved. The methodology for extrapolating audit results to non-audited projects is not fully developed. Finally, the ex-post control sector is part of the Internal Audit Function with very limited resources.

Anti-fraud strategy.

As the EACI has not yet developed an Anti-fraud Strategy and the existing fraud prevention and detection measures are not fully embedded in an overall control strategy, the capacity to detect and prevent fraud is very limited. The EACI does not apply financial penalties, which are key deterrent measures to prevent fraud.

Audit recommendations

The assurance building process and disclosure of the assurance – Very important

The EACI should formally and comprehensively describe its Control Strategy and re-assess the internal control system, including the link between key controls and their results and the specific assurance objectives regarding legality and regularity. The Agency should update the procedures for the reporting by the AOSDs by including additional control related KPIs and should consider re-balancing the weight of ex-ante and ex-post controls according to the assurance to be obtained.

Ex-ante checks – Very important

The EACI should strengthen the ex-ante checks by developing a risk-based approach for all the levels of checks (desk reviews, audit certificates, project visits, etc.), establish solid and consistent KPIs, reinforce the verification of eligibility of costs and adopt formal decisions to empower technically competent staff to provide the "passed for payment" endorsements. Following the adoption of the new FR and in view of the next MFF, the EACI should conclude its current internal reflexion regarding the restructuring and strengthening of the financial function.

Ex-post checks – Very important

The EACI should better define and justify global and specific objectives of the ex-post audit strategy, and improve the risk-based selection process of projects by reassessing the quantity and the quality of the related risk factors. The EACI should separate the ex-post control sector from the IAC and provide it with adequate resources.

For the next MFF, the EACI should explore the possibility to apply a common ex-post Audit Strategy with the DGs/Agencies managing the same or similar programmes.

Anti-fraud strategy – Very important

The EACI should develop an anti-fraud strategy to ensure proper fraud awareness in its overall control strategy.

EACI established an action plan which the IAS considers adequate to address the identified issues.

5.5. Implementation of FP7 Control Systems in REA

Background

The Research Executive Agency (REA) is responsible for managing research projects funded under four research themes (People, SMEs, Security, Space) of the 7th Framework Programme. The Agency carries out its tasks under the supervision of its parent DGs (EAC, RTD and ENTR) and its Steering Committee.

The total amount of FP7 funds managed by REA since 2009 amounts to € 6.4 billion (12% of the entire FP7 budget) for the scientific projects funded under the four above-mentioned research themes.

Audit Objectives

The main objective of the audit is to assess whether the REA's FP7 control systems were effectively and efficiently implemented, in particular as regards the assurance process, and whether the Agency ensured that corrective measures were taken promptly and proportionately in order to obtain reasonable assurance on the legality and regularity of the transactions.

Audit Scope

The audit assessed whether the REA's FP7 control strategy has produced the expected results until the end of 2012, in particular:

- whether the Agency has adequately and effectively demonstrated reasonable assurance for the managed programmes over the years, including the calculation of RERs,
- whether the action plans and other measures put in place to correct weaknesses reported through the assurance process are adequate, effective and efficient, and whether the Agency has properly and consistently applied corrective and deterrent measures during the lifecycle of projects, such as early termination of projects, financial penalties, liquidated damages and recoveries, and
- whether the Agency implemented, through its Anti-Fraud Strategy, adequate measures to mitigate the high risk of fraud identified in its own Risk Assessment Exercise.

The following two reservations were made in the 2012 AAR concerning specifically the process under the scope of this audit engagement:

- RER above 2% in cost claims for research projects for Space and Security;
- RER above 2% in cost claims for research projects for SMEs.

The fieldwork was finalised on 7/11/2013. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS recognise the REA's efforts to put in place a sound internal control system when implementing the EU programmes delegated by the European Commission and supervised by its three parent DGs.

In particular, the IAS acknowledges the following strengths:

- The REA's supervision campaigns concerning the review of project reports and the grant agreement termination and recoveries proved to be good practice for systematically improving its processes and following-up identified recommendations through the Quarterly Reporting to the parent-DGs and in the corresponding internal database (ASUR).
- The External Evaluation of the REA covering the first three years of the Agency's activities[40] comes overall to a positive conclusion assessing that the REA "has been efficient and effective" in managing the various programs under its responsibility and providing administrative and logistical support to services to all programme areas of the People, Capacities and Cooperation Programmes (for example in respect of improving "Time to Grant" and "Time to Pay", maintaining good relationships with parent-DGs and simplifying its internal organisation). It recognised that the REA successfully addressed the challenges related to the set-up phase of an Agency. Feedback from key stakeholders and grant beneficiaries is also generally positive.
- The REA participated proactively in the Research family working groups (e.g. close cooperation with the ERCEA) and was the first service that developed a centralised monitoring system for amending grant agreements. The REA also took an active part in the working groups to prepare for H2020, e.g. on the new grant agreement models.

Major Audit Findings

Research for the benefit of SMEs theme

Ex-post audits carried out in 2010-2012 detected that the SMEs schemes were affected by significant errors. The REA, based on an exception note decided, under certain conditions, not to initiate any financial correction against the beneficiaries concerning the detected lack of proper accounting records. Until 31 March 2013, concerning the two related schemes, the REA had 582 running projects with a budgetary open balance of €176 million, one 2012 ongoing call for proposal with a planned budget of €234 million and it had closed 161 projects. Until the time of the IAS audit (November 2013) REA had not assessed the possible impact of these errors, which only ex-post controls can detect. However, the direct ex-post audit coverage of the related schemes remains very low, at around 1%.

Calculation and disclosure of the representative and RER in the AAR

The REA, for the purpose of deciding on reservations in its AAR 2012, did not use the Common Representative Error Rate across the whole FP7 operations as other Research DGs did. Instead, it opted for an alternative approach. Furthermore, the REA substituted the error rate relating to legality and regularity by the financial budgetary impact indicator of the errors.

In the absence of a representative error rate to rely on for assurance building purposes, the final assessment on the declaration of assurance for the People Programme, for which no reservation was made, did not follow the alternative assessment pattern proposed by the AAR Standing Instructions.

Ex-post control planning, execution and follow-up

[40] The final report is dated June 2013.

The REA's Audit Plan does not contain a specific approach to ex-post control activities (representative sampling, audits on the main (top) beneficiaries and risk-based audits), KPIs for monitoring the performance of these activities and the quality of its deliverables, and the definition of the criteria to be used for the risk-based selection of audits.

REA's corrective actions following the AAR Reservations

The REA developed an action plan for the AAR reservations. However, it did not include expected measurable/quantified results, the actions were insufficiently monitored and their impact on reducing the error rate cannot be measured. The very limited application of deterrent measures (only liquidated damages[41] as the REA has never applied any financial penalties), no risk-driven ex-ante controls, no systematic on-the spot visits and inefficient use of the Certificates of Financial Statements have also impeded the reduction of the error rates.

Anti-fraud measures

Although the REA has identified a significant risk of fraudulent behaviour by beneficiaries, only a very small number of actual cases of potential fraud have been detected. In particular, the IAS noted that the risks of double funding and plagiarism, the two most common fraud types in research grants, are not sufficiently covered by the REA's current Anti-Fraud Strategy. The total amount recovered in fraud cases is only € 7 031.

Audit recommendations

Research for the benefit of SMEs theme – Very important

The REA should assess the risk of irregularity and potential fraud in the SMEs schemes and report it in the AAR 2013, clearly stating the reasons and justifications for any exceptions made and the actions taken, formalise the conditions established in the Communication Campaign regarding SMEs accounting practice, fully apply the actions foreseen in the note and launch a specific intensified audit exercise on these schemes.

Calculation and disclosure of the representative and RER in the AAR – Very important

The REA should use CRaS as the basis for calculating and communicating the representative and RERs for all managed funds. Any other error rate used to build up assurance should be disclosed as "detected" and not representative. The methodology to calculate its net financial impact rate should be aligned to the one applied by DG RTD and this indicator should be disclosed separately.

Ex-post control planning, execution and follow-up – Very important

The REA should formalize a specific audit strategy, defining objectives, priorities, KPIs for monitoring the performance and an improved risk assessment approach to increase the number of risk-based audits. In formulating the audit strategy, the ex-post audit resources should be allocated to the various programmes based on their risk profile and the resulting cost/benefit ratio.

The REA's corrective actions following the AAR reservations – Very important

The REA should further develop a risk-based approach for ex-ante controls, including risk-based on-the-spot visits, and improve checklists and the use of Certificates of Financial

[41] Liquidated damages = unjustified financial contribution x (overstated expenditure/total claimed).

Statement. The REA should also apply systematically the deterrent measures foreseen in the FP7 grant agreements and in particular develop guidelines to apply financial penalties.

Anti-fraud measures – Very important

The REA should speed up the implementation of the actions included in its Anti-fraud Approach document, initiate a reflection in the Research family on how to perform a proper risk assessment on double funding, coordinate efforts with other Research services on anti-plagiarism, and should take into account specific identified risk cases when establishing its ex-post control strategy.

REA established an action plan which the IAS considers adequate to address the identified issues.

6. EXTERNAL AID, DEVELOPMENT AND ENLARGEMENT

6.1. Limited Review of DG DEVCO's Methodology and Calculation of the Residual Error Rate (RER)

Background

The IAS strategic audit plan for 2013-2015 included, for 2013, a limited review on the RERs reported by DG DEVCO for the 2012 reporting year. Similar reviews were conducted in 2013 for DG AGRI and DG RTD.

In its annual report for the 2009 financial year, the ECA[42] recommended that DG DEVCO develops a key indicator for the estimated financial impact of residual errors after all compliance controls (including ex-post) have been implemented. Since 2010, DG DEVCO has undertaken work to develop a methodology for the calculation of its RER in consultation with DG BUDG and the ECA. The RER methodology was developed by an external contractor (Moore Stephens LLP) who subsequently carried out a study by applying this methodology to all contracts closed by DG DEVCO in 2012 (covering all financial instruments, the EU budget and EDF).Based on this study, a provisional RER underpinning the Director General's conclusions and statement of assurance was established for the first time and disclosed in DG DEVCO's 2012 AAR (RER of 3.63%).

Review Objectives

The objective of the IAS limited review was to review the calculation and underlying methodology of the RER reported by DG DEVCO in its (draft) 2012, enabling DG DEVCO to take appropriate actions, if any, before its disclosure in the final AAR and Synthesis report for the 2012 reporting year.

In addition, the review also aimed to contribute to the 2012 Overall Opinion of the IAS.

Review Scope

[42] ECA Annual Report on the Activities Funded By The Seventh, Eighth, Ninth And Tenth European Development Funds (EDFs) for 2008 financial year, OJ 2009/C 269/02 10.11.2009, page 274, § 29

The scope of the limited review included an assessment of:

- the design of the RER methodology;
- the accuracy and relevance of its implementation and the actual calculation of the RER (with the exception of the appropriateness of the choice, use and implementation of the statistical method); and
- the presentation of the RER in the draft AAR for the 2012 financial year, including the underlying comments and explanations by DG DEVCO and compliance with the Standing Instruction for the AAR 2012.

The drafting of DG DEVCO's AAR for the 2012 financial year was on-going at the time of the IAS limited review. The findings and conclusions highlighted in this report are based on the draft version of DG DEVCO's 2012 AAR as officially communicated to the IAS[43], DG BUDG and SG on 28 February 2013. Given the limited time available to carry out this limited review and the on-going nature of the process at the time of its engagement, the IAS could not fully review the work of the external contractor. The IAS carried out a limited analysis on a sample of 23 transactions (out of a total of 226 transactions) tested by the external contractor.

The fieldwork was finalised on 15 March 2013. All observations and recommendations relate to the situation as of that date.

Strengths

The RER study launched by DG DEVCO is an important step towards the improvement of its assurance building process. It addresses the recommendation made by the ECA on the implementation of a "key indicator for the estimated financial impact of residual errors, after all ex-ante and ex-post controls have been implemented"[44].

DG DEVCO discussed the design of the methodology with the main stakeholders (DG BUDG and the ECA) and the adopted methodology (issued in December 2011) took into account their comments. DG BUDG was of the view that “the methodology, pilot study and manual could be used as good practice examples even outside the specific DEVCO management environment”[45], and encouraged DG DEVCO to share the results with the External Relations family of DGs.

The development of the RER methodology was guided by cost-efficiency factors related to this particular exercise (i.e. verifying transactions rather than whole contracts and limiting the sample to 240 items[46] covering the entire financial universe of DG DEVCO).

The methodology was designed to provide a 95% confidence level and takes into account a materiality level of 2%.

Major Findings

43 Functional mailbox : IAS-AAR-REPORTS@ec.europa.eu

44 ECA 2008 Annual Report on EDF, 10.11.2009

45 Note DG BUDG to the Resource Director of DEVCO.R, 21/10/2011

46 The final sample contained 226 items (instead of 240) as some transactions' values were greater than the sampling interval and therefore counted more than once.

Compliance with Commission's AAR Standing Instructions – ABB Stratification (finding no. 1)

DG DEVCO implements its programmes through a variety of instruments, management modes and contract types, each with its own risk typology. The Standing Instructions also require the materiality of weaknesses to be calculated for each relevant ABB activity. Due to cost-efficiency considerations, the RER study has been performed without allowing for any differentiation by ABB activity with the use of one single sample. However, the 2012 draft AAR does not contain sufficient information to enable an assessment of the cost-efficiency of the controls in place to be made. Moreover, no explanation was provided in the draft AAR on the reasons for the different most likely error rates of the EU Budget and EDF respectively identified by the ECA in its annual reports on the 2009, 2010 and 2011 reporting years.

Implementation of the methodology - Reliability of CRIS data (finding no.3)

Risks related to data accuracy and reliability of CRIS had already been identified in previous IAS audits and the ECA's Special report on CRIS (no. 5/2012). In addition, the initial population of transactions extracted from CRIS contained transactions that do not fall under the scope of the RER study. There is no assurance that other transactions not falling under DG DEVCO's RER scope have not remained within the final population of transactions.

Reliability of the RER study and its incorporation in the draft AAR (findings no. 3 and 4)

The RER study concludes that the RER is 3.63% (i.e. 2.67% based on actual errors found and 0.96% based on an estimation of errors). According to the terms of reference agreed between DG DEVCO and the external contractor, the RER study is considered to be a measurement exercise, i.e. not an assurance engagement intended to provide an opinion on the actual RER. The review by the IAS of the work performed by the external contractor has revealed a number of weaknesses such as the absence of a methodology that is consistently applied for estimating errors in the absence of underlying documentation.

As a result, the IAS considers that no reliance can be placed on the projected estimated error of 0.96% and that the provisional statement included in the draft 2012 AAR that "it is possible to give assurance regarding the 96.4% of the budget implemented in 2012" has not been fully substantiated.

In addition, the importance attached to the RER exercise in the draft AAR is not reflected as such in its narrative part. It is also not clear how the other "building blocks" or the errors detected in the implementation of other various internal controls contribute to the declaration of assurance and taken into account when issuing the reservation.

Recommendations

Very important recommendations for the next AAR (2013 reporting year)

DG DEVCO should consider including in its 2013 AAR, as part of its obligation stemming from the new Financial Regulation, an overview of all costs (both internal and external) associated with existing controls in place. This assessment of the overall cost of controls, together with the future conclusions of the working group on cost of controls led by DG BUDG, may allow to identify opportunities for cost efficiency and/or areas where controls could be redesigned allowing the AOD to assess weaknesses by ABB activity (finding no. 1).

DG DEVCO should ensure that appropriate steps are taken to ensure the use, for the next RER exercise, of a database of transactions extracted from CRIS where consistency checks have already been performed (finding no. 3).

Very important recommendations for the 2012 final AAR

DG DEVCO should consider improving the narrative part of the AAR on the RER by:

- Making a distinction between the actual errors identified and those estimated and ensure that its statement on providing assurance on the implementation of the 2012 budget not being affected by errors is fully substantiated. (finding no. 3)
- Providing a comprehensive explanation of its overall control strategy, the inter-relationship between the various controls performed by DG DEVCO and a detailed presentation of the methodology and the assumptions used for the measurement exercise. (finding no. 4)

DG DEVCO established an action plan which the IAS considers adequate to address the identified issues.

6.2. DG DEVCO's state of preparedness for the revised ECA DAS Methodology (Performance Audit)

Background

In 2011, the ECA introduced methodological changes to its audit on the legality and regularity of underlying transactions for the EU and European Development Fund (EDF) budgets. The 2011 financial year served as a dry-run exercise for the Court's revised methodology and the new approach was applied by the Court for the first time as of the 2012 reporting year.

The methodological changes concern (a) the redefinition of the underlying transactions in its audit sample (which now excludes pre-financings but includes clearings), and (b) the method for quantifying serious irregularities in public tendering in all policy areas, i.e. findings which would seriously impair the application of the principles of "open, fair, transparent competition" and "award to the best qualified bidder". These serious procedural procurement errors will be quantified by the Court at 100% for all management modes.

Given the Court's decision to apply the revised methodology ex-nunc (i.e. only for new public procurement procedures which led to commitments and/or payments based on contracts signed from 2011 onwards), the changes related to the quantification of serious procedural procurement errors will gradually impact the error rate in the following years, as each year more transactions (i.e. clearings, payments etc.) based on contracts signed after 2011 will take place and will thus be included in the Court's sample.

In view of the Court's new approach, which is likely to increase the reported error rates due to the exclusion of less error-prone pre-financing transactions from the sample and the qualification of serious irregularities in public tendering at 100% for all management modes, the IAS undertook an audit on DG DEVCO's state of preparedness for the revised ECA DAS (Statement of Assurance) methodology.

Audit Objectives and Scope

The objective of the IAS audit was to assess DG DEVCO's preparedness to deal with the ECA's revised DAS methodology.

The audit focused on the actions decided, planned and implemented by DG DEVCO in order to address the ECA revised DAS methodology and ultimately to mitigate the discharge risk (i.e. DG DEVCO's strategy and actions taken as from 2012 onwards based on the conclusions related to errors identified by the Court in previous DAS exercises, specific actions related to 2012 DAS exercise, other actions envisaged as from 2013 onwards).

The fieldwork was finalised on 10 June 2013. All observations and recommendations relate to the situation as of that date, with the exception of the final ECA error rates quoted which were made available on 1 July 2013.

Major Findings

The audit showed that DG DEVCO has made adequate preparations in order to mitigate the discharge risk associated with the revised ECA DAS Methodology.

DG DEVCO has prepared a comprehensive action plan that deals with the revised DAS methodology and also addresses other issues identified by its external auditors or in audits carried out by the IAC of DG DEVCO or the IAS. It was approved by DG DEVCO's senior management on 22 May 2013. Due to its recent issuance, the effective implementation of the action plan by DG DEVCO was not assessed by the IAS as part of this audit. The IAS did not issue any recommendation.

6.3. Audit on Financial Management Humanitarian Aid (DG ECHO)

Background

The Directorate General for Humanitarian Aid and Civil Protection (DG ECHO) provides humanitarian aid to the most vulnerable victims of disasters in their immediate aftermath and also in cases of complex and protracted crisis situations, whenever needs arise that overwhelm the capacities of the governments and local authorities of the third countries concerned or when authorities in third countries affected are not willing to provide assistance.[47]

Humanitarian aid represents over 60%[48] of DG ECHO's budget (around EUR 650 million) implemented under direct centralised management mode[49] mainly through European non-governmental organisations (NGOs) and specialised agencies in MSs and under joint management mode[49] through United Nations (UN) agencies and international organisations such as the International Committee of the Red Cross. In addition, DG ECHO maintains also a network of offices in 37 countries[50] to support its operations in the field. Most of these field offices manage an imprest account. Controls in place to ensure a sound financial management of humanitarian aid include ex-ante controls on projects and quality controls on partners,

[47] Legal bases for DG ECHO actions are article 214 of the TFEU and Council Regulation 1297/96 on Humanitarian aid.
[48] Ratio of budget lines 23 02 01/23 02 applicable both to commitments and payments for the years 2011, 2012, budget 2013.
[49] Under the Financial Regulation and Implementing Rules applicable until 31 December 2012.
[50] http://myintracomm.ec.europa.eu/echo/units/echo-c/Documents/echo-c4/List%20of%20ECHO%20offices.pdf

audits and verification missions[51] carried out by internal staff and by contracted auditors[52] and ex-post controls.

Audit Objectives and Scope

The objective of the audit was to assess the adequacy and effective application of the internal control system, risk management and governance processes related to the financial management of Humanitarian aid operations funded by DG ECHO, and in particular:

- Whether final payments were made in accordance with the regulatory and contractual requirements (including the imprest accounts),
- The efficiency and effectiveness of the ex-post controls put in place for the detection and correction of errors, and
- The reporting of financial management in the DG's AAR.
- The following areas were considered to be out of the scope of the audit:
- Compliance with payment deadlines (as they were extensively covered in recent IAS and IAC audits[53]);
- Disaster preparedness (low impact on the budget) and food aid (already covered by the IAS[54]).

There are no observations/reservations in the 2011 AAR that relate to the area/process audited.

The fieldwork was finalised on 12 December 2012. All observations and recommendations relate to the situation as of that date.

Strengths

The auditors recognise the on-going efforts made by DG ECHO (Directorate C) to strengthen the controls on the humanitarian aid operations. In particular:

- Payments: DG ECHO ensures the correct application of the "certified correct" procedure and improved the quality of its payment checklists in 2011;
- Imprest account: A comprehensive methodology on ex-post controls has been developed with a good coverage of the imprest account;
- Audits: Methodology in place for the preparation of the annual audit plan; and

[51] Verification missions are carried out only for projects implemented through UN agencies.
[52] Littlejohn since 2002 and KPMG since 2012
[53] IAS audit on compliance with payment deadlines (2010), contained two very important findings on the deadline for the acceptance of the final reports and the management of suspensions; IAC Audit on the legality and regularity on a sample of payments (2012) found weaknesses in terms of late payment and lack of timeliness in the so called "stop the clock procedure"; IAC Audit on the speediness of financial circuits (2012) recommended to further improve the checklists in order solve inconsistencies and establish a clear separation between units.
[54] IAS audit on Financial Management of Food Assistance ("FA") in DG ECHO (2009, follow up performed in 2012): The audit concluded that the internal control system in place provided reasonable assurance regarding the achievement of the business objectives on the compliance with rules and the effectiveness and efficiency of the financial management of FA projects.

- AAR: Methodology developed for the calculation of the RER.

Major Audit Findings

Imprest account (Finding no 2)

Although the procedures for the management of the imprest accounts have undergone changes and administrative requirements for the submission of supporting documents have been made lighter, no corresponding increased focus has been given to ex-post checks. Moreover, the process for the preparation, submission and verification of imprest expenses is managed inconsistently between ECHO offices and within the same office.

Follow-up of audit recommendations (Finding no 3)

The current audit procedure does not require the auditee to submit an action plan with implementation dates. Horizontal audit recommendations with a potential financial impact addressed to partners are followed up a long time after the recommendations are supposed to be implemented. A significant number of recommendations related to horizontal issues are not closed but simply re-issued.

Residual error rate (Finding no 6)

The methodology developed by DG ECHO to calculate the RER that is reported in its AAR is based on the implementation of the audit strategy. Weaknesses in the methodology (use of commitment rather than payment appropriations and methodology not sufficiently explained and documented) and process inefficiencies in the recovery procedure (long time lag from the time an audit report is finalised to the potential issuance of a recovery order, non-formalisation of objective criteria and responsibilities in determining amounts to be recovered) may have an impact on the calculation of the annual RER.

Audit recommendations

DG ECHO should strengthen controls, adapted to the specific environment it operates in, in order to address the findings:

- DG ECHO should review the roles and responsibilities related to the imprest account, taking into consideration the specific risks presented by the different actors in the process. DG ECHO should also ensure that ex-post checks comply with internal procedures and provide appropriate written guidance and training to staff involved in the management of the imprest account. (very important)
- DG ECHO should ensure a timely and systematic follow-up of audit recommendations addressed to partners, in particular those with a potential financial impact for the Commission's finances. DG ECHO should consider introducing an obligation for DG ECHO partners to submit an action plan with deadlines for the implementation of recommendations of a potential financial impact, including clarifying deterrents in case of non-implementation. This could be combined with the development of an internal monitoring tool. (very important)
- DG ECHO should review and streamline its recovery procedures bearing in mind the cost-effectiveness of its controls. The calculation of the RER should be better formalised and documented to ensure its representativeness in a given year. (very important)

DG ECHO established an action plan which the IAS considers adequate to address the identified issues.

6.4. Procurement – decentralised (DG DEVCO)

Background

DG DEVCO is responsible, together with the European External Action Service (EEAS), for the multi-annual programming of the external aid instruments that come under its remit. It implements the European Union's external aid instruments financed from the European budget and the European Development Fund (EDF) mostly in a devolved manner, through the EU Delegations in countries outside the European Union.

Procurement contracts in DG DEVCO fall under both centralised direct and decentralised management modes[55]. Under decentralised management, the Commission may decide to entrust the management of certain tasks (procurement award procedures and payments to final beneficiaries) to the authorities of beneficiary third countries. As reported by DG DEVCO in its 2012 AAR[56], the cumulative amount of procurement under decentralised management mode and programme estimates represent 14% of the total value of new legal commitments of the DG.

The IAS audit on Procurement under decentralised management mode (ref. IAS.B5-2013-DEVCO-004) was included in the IAS 2013 Audit Work Programme following the risk assessment carried out in 2013 by the IAS as part of the preparation of the IAS Coordinated Strategic Audit Plan for 2013-2015. The main risk related to procurement under decentralised management mode relates to the lack of capacity of national administrations of the recipient countries to manage EU funds, making delivery of aid less effective and more risky. In addition, the ECA is applying a revised methodology on errors related to procurement (with serious errors leading to a 100% error rate) in all management modes as from the 2012 reporting year.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system, risk management and governance processes related to procurement award and contracting processes of the European Development Fund (EDF) and the EU budget which are implemented under the decentralised management mode, including procurement awarded within the imprest component or as a specific commitment of Programme Estimates.

Audit Scope

[55] As from 1 January 2014, following the entry into force of the new Financial Regulation (ref. no. 966/2012 and Commission Delegated Regulation C(2012)7507 on the rules of application) the decentralised management mode will be classified as indirect management (art. 58 and 60 of the new Financial Regulation). A similar classification is intended to be used for the new Financial Regulation of the 11th EDF.

[56] Procurement under decentralised management mode: €765.3 m, Programme Estimates: €358.5 m, compared to the total value of €8258.8 m of new legal commitments signed by DG DEVCO in 2012 (source: *page 196, Annex 5 of the 2012 AAR, DG DEVCO*)

The following issues related to procurement under decentralised management were included in the scope of the audit:

- Steps of the procurement procedure from the needs analysis and planning to the signature of the contract,
- General coordination by the EU Delegations (EUDs)/DEVCO headquarters (HQ) units of the procurement process, and
- Horizontal issues: staff availability and resources, specific training, filing and archiving, use of relevant IT systems.

DG DEVCO made a global reservation in its 2012 AAR based on a RER of 3.6%, due to the significant occurrence of errors in the underlying transactions (legality and regularity). The "lack of documentation in tender procedures" represented 15.2%[57] of the overall error rate. However, there is no specific reference in this reservation to issues related to procurement under decentralised management mode[58].

This audit report summarizes the main findings following the IAS fieldwork in the context of the audit, including missions to four EUDs (Ghana, Jordan, Mauritania and Barbados and the Eastern Caribbean), as well as a review of the tender files managed by DEVCO.E3 and E4 units with the Africa, Caribbean and Pacific (ACP) Group of States Secretariat. The IAS reviewed only those steps of the procurement procedures under the scope of our audit that had been finalised as at the start date of each of our missions to EUDs/DEVCO HQ (i.e. 26 August - Ghana, 15 September – Jordan and 30 September 2013 – Mauritania and Barbados and Eastern Caribbean).

The fieldwork was finalised on 8 November 2013. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS noted the following strengths concerning the organisation and the implementation of the tender procedures:

- The calls for tender and contracts included in the audit sample were launched and signed in accordance with the relevant Financing Decisions;
- The applicable thresholds that determine the choice of the relevant procurement procedures were adequately applied[59] and there is no indication of calls for tender split into smaller amounts in order to qualify for a different type of procurement procedure and/or qualify for a different authorisation level (except for Programme Estimates);

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57 This figure relates to one single transaction in Afghanistan for which the documentation was missing.

58 According to DG DEVCO (2012 AAR, section *3.1.1.2 Legality & regularity of transactions, §7. Retrospective checks and recoveries*), "*errors resulting from contracts implemented directly by the Commission such as service, supply and works contracts were not particularly prevalent in the population by value, and the number of errors detected were similarly small in number. However, the nature of the errors detected in these contract types (e.g. access to procurement documentation) means that a greater proportion of the resultant expenditure is affected by error – as a consequence, the contribution made by these contract types to the overall measured error rate is disproportionately high*."

59 Except for one case in Mauritania, contract no. (CRIS) 268-445 (*Marché de formation des professionnels de la justice*)

- There is a clear distinction between exclusion, selection and award criteria in all contract notices reviewed and the award criteria were adequately set;
- In all the calls for tender included in the audit sample, DG DEVCO staff attended (part or all) the meetings of the Evaluation Committee, the composition structure of which was adequate in all cases.

Major Audit Findings

Ethics and conflict of interest (finding no. 1):

Two cases raising questions related to ethics and prevention of conflict of interest were identified by the IAS. In these two cases, at the time of the signature of the contract, the key expert of the successful bidder was either (i) still a member of staff of the EU Delegation (local agent), or (ii) an official representative of the Contracting Authority.

Audit recommendations

Ethics and conflict of interest – Very important

DG DEVCO should clarify in its instructions (PRAG) the specific instances of experts proposed by tenderers, to ensure that:

- members of staff of the EU Delegations (local agents) must have officially terminated their contract with the EUD before starting to work on an EU project under a contract with an external organisation/company, and
- civil servants or collaborators/other staff of other beneficiary entities, such as international or regional organisations shall not be recruited as experts by tenderers, unless the prior approval of the European Commission has been obtained (as is the case for the civil servants or other staff of the public administration of beneficiary countries).

DG DEVCO established an action plan which the IAS considers adequate to address the identified issues.

7. EDUCATION AND CITIZENSHIP

7.1. Performance audit of National Agencies (DG EAC)

Background

Knowing how well an organisation is doing is essential in developing strategy and policies to meet the organisation's aims. Performance information shows how well an organisation is performing against its stated objectives. Clear objectives, with well-selected performance measures, are the foundation of a good performance measurement system. This not only determines what needs to be done but also sets the conditions for success.

Following the entry into force of the Lisbon Treaty, the European Commission is required to submit to the European Parliament and the Council a yearly evaluation report on the Union’s finances based on the results achieved (Article 318 report). Moreover, the European

Parliament considers that performance audits measuring the extent to which spending has achieved its objectives pursued have become ever more important and the Commission should develop a new culture of performance. In June 2011, the central services of the Commission reminded operational services that the current financial and economic crisis and severe constraints in public spending has shifted the focus to achieving more with less and that post-2013 spending programmes should place a greater focus on performance measurement. Other initiatives have been taken at Commission level on this move towards a performance culture, e.g. the setting up of a working group of Directors-General of the Commission on "Move to a performance culture" in February 2013.

In order to meet stakeholders' expectations, one of the objectives of the IAS in its Strategic Audit Plan for the period 2013-2015 is to carry out performance audits focusing on the economy, efficiency and effectiveness of the use of resources. A number of audits have been planned in 2013 to assess the performance measurement system of DGs, such as DGs REGIO, EMPL and EAC.

The Directorate-General for Education and Culture (DG EAC) aims at reinforcing and promoting lifelong learning, linguistic and cultural diversity, mobility and the engagement of European citizens, in particular the young. In order to accomplish its mission, the designated bodies, i.e. National Agencies (NAs) in the MSs, implement a number of programmes (representing approximately 51% of the total budget for the period 2007-2013 of DG EAC). The NAs are co-funded by the Commission through operating grants (representing €354,9 m over the 2007-2013 period), covering approximately 50% of their running costs. Externalisation, as a form of management, imposes additional risks in the set-up of the supervisory system in DG EAC for the achievement of its policy objectives.

The new MFF for the period 2014-2020 establishes the "Erasmus+" programme, which will bring together several activities currently covered by separate programmes. The budgeted commitments are expected to increase by approximately 64%, with an allocation of €19 billion for the 2014-2020 programming period.

Audit Objectives

The main objective of the audit was to assess whether DG EAC has set up an effective performance measurement system to monitor, report and evaluate the performance of NAs.

In particular, the audit assessed two specific dimensions:

- the internal dimension of the process: i.e. how DG EAC measures the economic and efficient use by NAs of their operating grant, and
- the external dimension of the process: i.e. how DG EAC measures the efficient and effective use by NAs of the decentralised grants.

Audit Scope

The NAs implementing the Lifelong Learning (LLP) and Youth in Action (YiA) programmes were included in the scope of the audit.

The audit focused on the 2011 work programmes and annual reports of NAs as this is the most recent year where a full implementation cycle of activities could be assessed. In addition, the 2012 and 2013 work programmes and 2012 annual reports were reviewed for the NAs visited.

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

The fieldwork was finalised on 8 July 2013. All observations and recommendations relate to the situation as of that date.

Strengths

The proposal establishing the new "Erasmus+" programme places greater emphasis on performance and results. It requires the Commission, in cooperation with the MSs, to regularly monitor and report on the performance and results of the programme against its stated objectives.

The IAS recognises the on-going efforts that DG EAC is making in defining a performance measurement system that will be implemented for the 2014 – 2020 programming period. DG EAC started the preparations for the next programming period relatively early at the beginning of 2012, by setting up a number of working groups to deal with various aspects of the new programme, including one specifically on the development of indicators, and by launching a number of consultations, both within the DG and with the NAs. This has resulted in a high level of commitment among the NAs to ensure the successful implementation of the Erasmus+ programme.

The IAS notes that the overall performance of NAs is assessed by DG EAC on the basis of a set of elements, such as the NAs declarations of assurance, the yearly reports from NAs, visits, etc. which provide assurance to the DG in terms of legality and regularity. In addition, the performance of NA management of the decentralised funds is measured on the basis of the budget executed, number of final beneficiaries, respect of deadlines, number and type of complaints, etc.

Major Findings

The IAS has identified the following three Very Important issues: Internal dimension of the process:

- Indicators which explicitly measure the efficient or cost-effective use of the operating grant by NAs (i.e. use of resources and link between performance and resources available) have not been defined. An analysis performed by the audit team has revealed wide variations in the economic and efficient use of the operating grant (Finding 1).

External dimension of the process:

- Although the Estonian YiA NA has successfully cascaded its high-level objectives, NAs in general cannot clearly link their objectives with the higher-level objectives of the Commission. In particular, the current objectives set at NA level are too numerous (LLP), with the pre-defined actions not always relevant for each country/action (LLP), or contain too many confusing priorities (permanent, annual, national) (YiA). There may also be lost opportunities to achieve synergies with programmes implemented by other services of the Commission. In addition, the indicators (and the associated targets) used for the management of the decentralised funds are mostly output-based (i.e. measurement of the efficiency of the use of funds), with few or no indicators on outcome or impact (measurement of the effectiveness of the use of the funds). Moreover, some of the indicators used in DG EAC's Management Plan do not yet fulfil the RACER[60] criteria (Finding 2).

- Weaknesses in the definition and use of performance measures (indicators, targets and milestones) at NA level (Finding 3).

Audit recommendations

To mitigate the risks related to the issues noted above, DG EAC should:

- **Establish** analytical techniques to monitor the **economic and efficient use of the operating grant** by NAs and enable it to **drive performance improvement** while ensuring the cost-effectiveness of the use of resources.
- **Decompose its high level political objectives** into lower-level SMART objectives in its MP and filtered down to NA level. The objectives set for NAs should be specific and limited in number.
- **Review its indicators in its MP** in order to ensure that they meet the RACER criteria and cover both outputs and outcomes accompanied by targets and milestones.
- **Better define performance measures** (indicators, targets and milestones) for NAs, which should be regularly assessed in order to identify unexplained variances that may require a change in the implementation of the programme.

DG EAC established an action plan which the IAS considers adequate to address the identified issues.

7.2. Performance Audit on Risk Management in DG COMM

Background

Communication to the Commission SEC(2005)1327 "*Towards an effective and coherent risk management in the Commission services*" introduced a risk management framework in the Commission aimed at implementing a "*continuous, proactive and systematic process of identifying, assessing, and managing risks in line with the accepted risk levels, carried out at every level of the Commission to provide reasonable assurance as regards the achievement of the objectives*".

Risk management in the Commission is embedded into the planning and decision-making processes (SPP/ABM cycle) and each DG/Service should ensure, in that respect, that it operates an effective and continuous Risk Management process.

In 2011, the IAS launched an audit to assess the Risk Management framework implemented in DG COMM[61]. At that time, the process was at an early stage of implementation and

[60] RACER: Relevant, Accepted, Credible, Easy and Robust.

[61] In 2009 the IAS already performed an audit on Risk Management in the Commission covering DG BUDG and the SG and a number of operational Services. As result of this engagement, the central services revised the Implementation Guide and produced the current version of October 2012 used as a reference in the current engagement.

important weaknesses were detected, in particular regarding the roles and responsibilities in the Risk Management process, the methodology for identifying and assessing risks, the reporting on risks[62] and the implementation of the Risk Management process as a continuous exercise. For this reason, the IAS issued an Interim report inviting the DG to address properly the issues identified during the preliminary survey.

Audit Objectives and Scope

The objective of this audit was to assess the progress made by DG COMM in the implementation of the Risk Management process compared to the situation observed in 2011 when the IAS launched the audit. Overall, the audit assessed:

- compliance with the corporate framework and existing guidelines;
- the adequate and effective implementation of Risk Management in DG COMM.

In particular, the focus was on:

- roles and responsibilities in the risk management process;
- the process in place for:
  - identifying and assessing risks (including cross-cutting ones);
  - defining, implementing and monitoring mitigating actions;
  - reporting on risks (risk register, Management Plan, AAR).
- knowledge management (instructions, training) and awareness raising initiatives.

No scope limitations were identified.

The fieldwork was finalised in mid-November 2013. All observations and recommendations relate to the situation as of that date.

Overview of the major strengths

DG COMM has made significant efforts since 2011 to implement a Risk Management process. The following strengths were observed:

- Strong support from top management during the process of building DG COMM's risk management framework and regular top-level steer of the exercise (discussion of significant risks and endorsement by the Senior management);
- Very committed staff involved in the Risk Management process;
- Creation of a Risk Management Group (RMG) in charge of monitoring the exercise and ensuring consistent implementation of BUDG guidelines and quality review;
- Implementation of the Risk Management as a continuous exercise, with a regular review of the risks and update of the Risk Register.

Audit Findings

[62] In Risk register, Management Plan and AAR.

The IAS did not identify any issues that gave rise to critical or very important recommendations.

8. ECONOMIC AND FINANCIAL AFFAIRS

8.1. Performance Audit of GMES/Copernicus Programme (DG ENTR)

Background

The Global Monitoring for Environment and Security (GMES) is an EU-led Earth observation programme, carried out in partnership with the MSs and the European Space Agency (ESA). Its objective is to provide, on a continuous basis, reliable and timely services related to environmental and security issues.

The programme is based on the development of three main components: the space component consisting of five dedicated satellites; in situ observations (e.g. airborne, seaborne); and service covering six areas (i.e. land monitoring, marine monitoring, atmosphere monitoring, emergency response, security support and climate change).

The total EU contribution for GMES was approximately €1.2 billion over the period 2008-2013. Approximately 60% has been dedicated to the development of the space component and implemented indirectly by entrusting budget implementation tasks to the European Space Agency (ESA). The EU contribution to the space component only covered approximately 30% of its total cost, the rest was paid by ESA's MSs. The first satellite will be launched at the beginning of 2014.

The service component is based on a series of research projects financed by the successive EU framework programmes for research (i.e. FP5, FP6 and FP7). Two services are operational since 2012.

This audit takes place in a transition period between the current GMES Initial Operations (GIO), implemented in 2011-2013, and the operational phase of the programme, renamed Copernicus, in the next MFF, which will increase the total contribution from the EU budget to approximately €4.3 billion over the period 2014-2020.

DG ENTR is mainly responsible for the overall coordination of the programme's activities and implementation of the EU dedicated Budget.

Audit Objectives and scope

The overall objective of the audit was to assess the effectiveness of the governance arrangements, risk management and internal control systems put in place by DG ENTR to support the management of GMES. The audit addressed this overall objective by examining mainly the following:

- whether the relationship between the bodies involved in GMES is clear;
- whether the management and oversight by the Commission is accountable and has clearly defined objectives and responsibilities;

- whether DG ENTR organisational structure is adapted to the goals of GMES;
- whether DG ENTR plans its operations adequately to achieve its objectives;
- whether DG ENTR identifies and manages its risks;
- whether DG ENTR evaluates the results of the implementation of GMES/GIO, identifies and implements the lessons learned;
- whether DG ENTR has adequately prepared the transition towards Copernicus.

DG ENTR included the following reservation in its 2012 AAR concerning specifically the area under the scope of this audit engagement: Reservation concerning the reliability of the annual financial reporting by the European Space Agency (ESA) about the joint implementation of the space component of the Global Monitoring for Environment and Security (GMES).

The fieldwork was finalised on 18/10/2013. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS recognizes the efforts made by DG ENTR to achieve the following objectives:

- Two services – i.e. Land Monitoring and Emergency Management - are fully operational. An external evaluation concluded that they are highly relevant to the identified needs of users. As regards the space component, the first satellites will be ready for launch in 2014.
- The Commission adopted a Delegated Regulation[63] on data policy and user access to GMES dedicated data and service information. This will clarify for all stakeholders the principles of free, full and open access to Copernicus data and information.
- EC-ESA cooperated via a task force on financial reporting to work on actions following the qualification of ESA 2011 accounts in order to have no qualification for 2012. This objective was achieved with the ESA independent auditor's report no longer containing a qualified opinion on ESA’s annual accounts for 2012.
- The administrative arrangements with REA, EEA and JRC as described in the related Service Level Agreements are clear and appropriate with regard to the distribution of roles and responsibilities.

Major Audit Findings

The IAS has identified the following three Very Important issues: Governance

Whilst the Commission should ensure the overall coordination of the EU Earth observation programme including programme management, federation of user requirements, and EU budget implementation, the current Delegation Agreement (DA) signed with the European Space Agency (ESA) includes a number of limitations in the Commission's control functions as regards ESA. In this respect, DG ENTR's audits and checks are strictly limited to the financial aspects, excluding any relevant technical and operational elements. Although recognizing the context of the negotiation of the current DA (under which the EU participation is only 30% to the space component), the IAS assesses that the next DA

[63] C(2013) 4311 of 12.07.2013

covering the period 2014-2020 under Copernicus should enable an increased EU control over the programme in line with the planned increase of its contribution up to 70% of the space component and the Commission’s responsibilities in the areas of programme, contract and asset management.

Management, Monitoring and Evaluation

DG ENTR follows up and reports on the developments of the space component by means of high level roadmaps showing the key milestones prior to the launch of satellites set by ESA and attends key progress and acceptance reviews. Since ESA was de facto programme manager for the development of the Space Component, DG ENTR was not in a position to produce more detailed roadmaps (e.g. including objectives/milestones) to follow closely the programme implementation. ESA's current reporting does not allow a clear comparison between actual versus budgeted expenditure at a detailed level. Although the IAS recognizes the context mentioned above (see issue on Governance), it assesses that the current arrangements to monitor and report on the progress of the space component from a technical and financial point of view should be improved in line with the Commission's overall responsibility over the programme in particular in the context of increased EU participation and funding scheme under Copernicus.

The external evaluation on GMES initial operations[64] (i.e. covering the two operational services) recommended developing a formal monitoring framework and indicator system.

The IAS notes that the interim evaluations required in the FP7 legal base[65] as well as the Regulation on GMES and its initial operations (GIO) were issued with a significant delay and no formal specific and structured action plan was established to address the weaknesses identified.

Transition to Copernicus

The Commission’s proposal for a Regulation establishing the Copernicus programme has been submitted to the Council and the Parliament. According to DG ENTR, its entry into force may be delayed up to the second semester of 2015.

Such delayed adoption of the Regulation may prevent the Commission to finance certain key activities related to the manufacturing of the satellites or to the implementation of the services. DG ENTR is investigating potential remedial scenarios, in particular consulting DG BUDG on an exception that may allow the use of 2014-2020 MFF funds before the Copernicus Regulation is adopted.

The IAS was not provided with any clear and detailed calculation supporting the budget set for the space and service components (€2944 million and €1328 million respectively). Although recognizing the difficulty for DG ENTR to establish or challenge the estimates from a technical or cost point of view, the IAS considers that the current level of detail of the budget estimates for the different components of Copernicus does not enable an appropriate monitoring of the programme.

For Copernicus, in line with the need for enhanced control stemming from the planned increase of the EU contribution to 70% of the space component, DG ENTR has proposed that

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[64] Interim evaluation report on the GMES Initial Operations (2011-2013) of January 2013

[65] Regulation 911/2010 on the Earth Monitoring Programme (GMES) and its initial operations (2011 to 2013).

the Commission will become the contracting authority for the space component. This will entail additional responsibilities, which need to be supported by appropriate organizational arrangements. The EU will also become the owner of all tangible and intangible assets created or developed under Copernicus, subject to the adoption of the final text of the Copernicus Regulation in this regard. Despite these increased responsibilities, the IAS was not provided with a detailed analysis of the impact of such decision on the expected changes in the DG's organisation.

Audit recommendations

To address the above mentioned issues, DG ENTR should:

- Ensure that the new Delegation agreement with the European Space Agency is negotiated with the objective to appropriately reflect the overall responsibilities of the Commission for the programme, in line with the applicable rules.
- Negotiate with ESA for the next delegation agreement that all necessary information for an effective monitoring of the implementation of the delegated tasks are provided, in particular for monitoring the delays and the budget consumption.
- Develop an appropriate objectives and indicators framework to monitor and report on the progress of the programme overall and for each individual service.
- In the context of Copernicus, improve its monitoring of the actual versus budget consumption, in particular for the space component, with due regard to the change of funding schemes which implies that cost overruns may have to be financed by the EU. In case a reserve is used to cover unexpected expenditure, clear provisions should be in place so that this is duly justified by ESA and agreed by DG ENTR.
- Draw a structured action plan at operational level to remedy the weaknesses identified in the interim evaluation report to enable continuous improvement in the management of the GMES-Copernicus.
- Coordinate with DG BUDG to prepare remedial plans ensuring continuous funding of the Copernicus activities, in case of delayed adoption of the Regulation.

DG ENTR established an action plan which the IAS considers adequate to address the identified issues.

9. GENERAL SERVICES AND HR

9.1. DG ESTAT's preparedness to fulfil its role in the Economic Governance Framework (Performance Audit)

Background

The mission of DG ESTAT is to be the leading provider of high quality statistics on Europe[66]. To this effect, the statistical production of the DG covers the whole range of EU policies and

[66] DG ESTAT's Annual Management Plan for 2013.

supports the functioning of key activities, such as the verification of public finance statistics in Excessive Deficit Procedures (EDP), the EU 2020 strategy, social Europe, energy and climate, the calculation of own resources, etc.

Government Finance Statistics (GFS) play a key role in EU economic monitoring. They include in particular the data on government debt and deficit reported under the EDP. On behalf of the Commission, DG ESTAT is responsible for assessing the quality of the EDP statistics transmitted by MSs and for providing the statistics to be used for EDP. It has the sole competence for the methodology underlying these statistics.

The European Union governance framework for fiscal statistics was in the light of the recent economic crisis in MSs found to be insufficient to mitigate to the extent necessary the risk of incorrect or inaccurate data being notified to the Commission. Accordingly, to ensure that DG ESTAT's objective to publish deficit and debt figures of the highest quality is met, the key legislation (Regulation 479/2009) was amended in 2010. This amendment[67] extended the powers of DG ESTAT and the National Statistical Institutes (NSIs) with respect to their assessment and control of upstream data.

The economic and financial crisis also revealed a number of key structural weaknesses in the economic governance of the EU's economic and monetary union. The cornerstone of the EU response has been to approve the so-called economic governance "six-pack" of new rules that entered into force on 13 December 2011. This was followed by the "two-pack" initiative aimed at stepping up financial discipline within the Eurozone, which the European Parliament approved on 12 March 2013.

Whilst the overall implementation of both the six-pack and two-pack proposals is ensured by DG ECFIN, DG ESTAT has been given the responsibility under one Commission Delegated Decision for one aspect of the effective enforcement of budgetary surveillance in the euro area. The Commission is empowered by EU Regulation 1173/2011 to detect and expose manipulation of general government deficit and debt data relevant for the application of the multilateral surveillance system and the EDP. Regulation 1173/2011 sets out a system of sanctions for enhancing the enforcement of the preventative and corrective parts of the Stability and Growth Pack. Accordingly, under Article 8 of this Regulation and Commission Delegated Decision 678/2012 "on investigations and fines related to the manipulation of statistics", DG ESTAT has a responsibility for undertaking the work to establish the detailed rules concerning the procedures for investigations, the amounts, timing and collection of fines, and rules establishing the rights of defence, etc.

Commission Delegated Decision 678/2012 was adopted on 29/06/2012 (operational from 26/11/2012). A specialised Directorate (DG ESTAT.D) was put in place from January 2012 to deal exclusively with these new and reinforced GFS responsibilities.

Audit Objectives

The overall objective of the current audit engagement was to judge whether DG ESTAT has appropriately prepared itself to fulfil its new role in the economic governance framework. This overall objective was further broken down as follows:

[67] Regulation 679/2010.

- The first objective was to evaluate whether the controls and procedures in place for the planning, management, and implementation of the amended Protocol on the EDP operate satisfactorily to address the objective of the Commission, to ensure that deficit and debt figures are of the highest possible quality, and that the risks of incorrect or inaccurate data being notified by MSs are mitigated.
- The second objective was to review and assess the work undertaken by DG ESTAT with key partners in respect of the responsibilities and new investigative powers placed upon it by Delegated Decision in respect of the requirements of EU Regulations in place as part of the "six-pack".

Audit Scope

The audit scope was on the activities of DG ESTAT that directly address Economic Governance focussing firstly on the activities undertaken by the DG in respect of the processes applied under Regulation 479/2009 and secondly on the DG's responsibilities, including new investigative powers, arising from the Six-Pack and Two-Pack legislation that reinforce the Stability and Growth Pack under the new rules for economic and fiscal governance.

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

The fieldwork was finalised on 27/08/2013. All observations and recommendations relate to the situation as of that date.

Overview of Major Strengths

The auditors recognise the considerable efforts being made by DG ESTAT and its staff in the period of financial crisis to deal with its revised responsibilities in the area of GFS to support and ensure the monitoring and provision of high quality fiscal data.

The Directorate has ensured that its core tasks of the publication of biannual press releases on MSs Notifications of Deficit and Debt, and its quarterly publications on "debt" and on "seasonally adjusted surplus/deficits" have been delivered on time. Further, the IAS notes that the new Directorate D has significantly strengthened the overall number of visits being undertaken in MSs and that these visits and other tasks of the Directorate are underpinned by a robust and well-developed risk model that is subject to internal review and on-going enhancement. The Directorate has developed a package of audit programmes that comply with international standards to underpin not only its upstream dialogue visits (UDVs) but to also support the standard dialogue visits (SDVs) that are increasingly focussing on the assessment and control of upstream data in MSs.

The IAS further notes the commitment of the Directorate to not only improving the quality and provision of information from organisations upstream of the NSIs but also to focus on the improvements of the GFS Quality Management covering the whole chain of the provision and control of fiscal data. DG ESTAT is also playing a lead role in driving improvement in the quality and reliability of public accounting systems and is promoting the use of European public sector accounting standards (EPSAS) for all sectors of General Government in EU MSs.

In realising these objectives, the DG is working hard to further improve its coordination and cooperation with both NSIs and with the national State Audit Institutions.

Major Audit Findings

The IAS identified the following one critical and three very important issues:

Preparedness of the DG to fulfil its role in the Economic Governance Framework – New Investigation Powers (Critical)

In the period since the agreement of the Delegated Decision 678/2012, no comprehensive documentation or procedures, except for one summary document prepared in parallel to the audit, have been prepared or discussed by DG ESTAT to deal with the DG's new investigation responsibilities. The advice received from the DG's Legal Unit on the necessary preparatory work has not been fully followed, no detail work (manuals, guidelines, procedures, templates) has been undertaken in respect of the different investigative steps, and no DG guidance has been prepared explaining the criteria to be evaluated in terms of when to employ the investigation procedure, including elements on the interpretation of key terminology.

Resource management (Very important)

The impact on Directorate D to maintain its delivery of its core tasks in the case of a future methodological visit or investigation under Delegated Decision 678/2012, has not been sufficiently evaluated. The DG does not in its Management Plan 2013 make any allowance or contingency for the occurrence of methodological visits or investigations under the new powers. No guidance on the required competences, selection or training of staff that possibly might be required to undertake this new work has been prepared.

In addition, there are competing pressures on the available resources to ensure both the continued delivery of the DG's core tasks, principally the EDP Notification procedures April and October, and also to recognise the impact and importance of other activities.

Risk Analysis, visit and EDP verification planning (Very important)

There has not been an independent peer review of the Risk Model to evaluate its compliance with the requirements of a standard Quality Management System (QMS). The DG has only begun in 2013, on a pilot basis, to integrate elements of detection risk (along with inherent and control risk) into the model. The participation of key European Statistical System (ESS) partners in the risk evaluation will not be fully integrated into the process, and the results of the risk analysis are not shared with DG ESTAT's partners in the ESS.

The DG has been unable to sustain and increase the number of UDVs and the reports of these visits are not systematically separately published or distributed on completion, in the same manner as the SDV reports. Further, there is no clear and formal manner by which the organisations consulted and controlled upstream of the NSIs, can have access to, or comment on, a UDV report and any recommendations therein.

Methodological and ad-hoc visits (Very important)

Since the adoption of the revised Regulation 479/2009, one methodological visit has taken place. DG ESTAT judges that it would prefer to conduct either a series of more targeted ad-hoc (or technical) visits or UDVs and this has contributed to the relatively low number of methodological visits so far conducted.

Audit recommendations

The IAS issued therefore the following critical and very important recommendations:

Preparedness to implement New Investigation Powers – Critical

The IAS recommends DG ESTAT to take immediate steps to formalise its operational and technical procedures, as appropriate taking cognisance of the expertise and advice elsewhere in the Commission and prepare manuals and guidelines to support the conduct of all phases of these investigations.

Resource Management – Very important

The IAS recommends that DG ESTAT should alert the Commission on any necessary resource gaps/contingency required in the context of a risk and impact of event(s) scenario for 2013 and 2014 and conduct an evaluation of the necessary competences required, and appropriately train a core team for the new investigation tasks.

The IAS also recommends DG ESTAT to undertake a resource analysis, with a view to confirming that the allocated level of resourcing and expertise to each of the Directorate's core tasks is sufficient. The DG should also amend its Management Plan to take account of planning, training, and other possible issue related work arising from the new investigation responsibilities.

Risk analysis, visit and EDP verification planning – Very important

The IAS recommends DG ESTAT to ensure that the Risk Model is subject to an independent peer review that meets the requirements of a recognised QMS process and to take action to ensure that the essential information for the detection risk component of the model is achieved as soon as possible. The DG should further review the added value that a more direct involvement of DG ECFIN and the NSIs might have on the quality of the model and its output and give additional qualitative information on the results of its risk exercise to key EDP partners.

The DG should routinely, and separately, publish all UDV Reports and forward them to the Economic and Financial Committee (EFC) and with NSIs, take steps to encourage the consultation of upstream bodies visited in the finalisation of reports and implementation of actions.

Methodological and ad-hoc visits – Very important

The IAS recommends DG ESTAT to prepare a clear justification for the conduct of each planned ad-hoc visit where this visit type is being used, and to submit a summary of the ad-hoc visits conducted in each year to thekey stakeholders.

DG ESTAT established an action plan which the IAS considers adequate to address the identified issues. In a recent follow-up audit, the IAS noted the progress made. While not being able to close the 'critical' recommendation, it was downgraded to 'very important'.

9.2. Performance audit on the efficiency and effectiveness of the design and implementation of the financial circuits in OIB

Background

The mission of OIB is to "*ensure the implementation of all actions connected with the accommodation of personnel, the management of social infrastructure and the logistics of the institution in Brussels as well as social infrastructure on the Ispra site*."

Its responsibilities include, among others, "*to manage the purchase, rental and maintenance of the movable and immovable property of the Commission*". This implies the management of a consequent number of contracts for goods and services and a consequent processing of the related financial transactions, from the budgetary commitment to the final payment (and the recovery of unduly paid amounts, if necessary).

These amount to around 10.000 transactions per year[68] (including more than 8.000 payment orders) and both financial and operational units intervene in the process[69]. If the financial circuits are not optimally designed and implemented, they can result in an inefficient use of resources if either too many staff is involved in or too much time is spent on processing a financial transaction.

Taking into account the high number of transactions processed by OIB, and the leverage effect any improvements in the design and/or implementation of the circuits can have in terms of resources used to process transactions, the IAS decided to include a performance audit on the design and implementation of the financial circuits in its audit plan for 2013.

Audit objectives and scope

The main objective of the audit was to assess the efficiency of the circuits in place in OIB to process financial transactions. In this context, a financial circuit is efficient when it reaches the best cost/benefit relationship between the resources employed (staff) and the outputs produced (financial transactions processed)[70]. Given its output (authorisation of the financial transactions), a financial circuit is efficient if it is capable of minimising the resources involved in the management of the transactions and/or reducing the time to process them.

When reviewing the financial circuits, the auditors also looked at the control environment in place in OIB to support the processing of transactions[71] and at some effectiveness- related aspects[72] to the extent that they can have an impact on the overall efficiency of the financial circuits.

The audit did not cover the legality and regularity of the transactions. However, when assessing the design of the financial circuits and testing their implementation, the IAS paid attention to elements that could have flagged possible irregularities.

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[68] In 2012 OIB processed 540 commitments/de-commitments, 8 385 payment orders and 2 014 recovery orders. Around the same number of transactions were processed in 2011.

[69] Only for Legal Commitments and for ISPRA the Service has implemented a fully decentralised model with all the operations performed in the operational units, including the authorisation of the transactions.

[70] Efficiency can be measured in terms of quantity (number of financial transactions processed), quality (legal and regular financial transactions, complying with the Financial Regulation and the signed legal agreement with the counterparties) and timing (financial transactions processed timely)

[71] The control environment comprises training of staff, provision of guidelines/instructions/working tools and the implementation of a monitoring system.

[72] The audit looked at the implementation of the circuits by the financial actors, the flow of information/documentation throughout the circuits and the 'certified correct' (*Conforme aux fait)* procedure.

The audit covered all the operational departments of OIB (RE, CPE and OS)[73], the central financial unit DR.2 of DR department (Resources), and looked at the circuits in place to process Budgetary commitments, Legal commitments and Payments (including the 'certified correct' (*Conforme aux faits*) CAF procedure).

No scope limitations were identified.

The fieldwork was finalised on 07/11/2013. All observations and recommendations relate to the situation as of that date.

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

Strengths/Good practices

The IAS recognises the efforts made by OIB to improve the efficiency of its financial circuits.

At central level, the Service has set up a Working Group on simplification that has identified actions to streamline the financial procedures and ensure a better use of resources.

At department level, OIB has revised their internal organisation by setting-up central coordination Units to centralise and better coordinate the operational initiation and verification of the transactions and improve their efficiency.

Overall, these actions have contributed to a significant improvement in OIB performance in processing financial transactions, in particular in terms of the time to pay.

Major Findings

The audit did not reveal any issues that would give rise to a critical or very important recommendation.

10. IT AUDITS

10.1. Performance Audit on Management of Local IT in DG ESTAT

Background

The role of the Directorate General for Statistics (DG ESTAT), as set up in the Regulation 223/2009[74], is to provide accurate European statistical data, as part of the European Statistical System (ESS).

DG ESTAT business strategy for the period 2010-2020 (so-called VISION) is defined in Commission Communication COM(2009)404. Its main goal is to improve the efficiency of statistical production, enabling the ESS to cope with the conflict between increasing information needs on the one hand and resource constraints on the other. This vision implies

[73] RE: Real Estate, CPE: Centre Petite Enfance, OS: Operations and Services

[74] Regulation (EC) n° 223/2009 of the European parliament and of the Council of 11 March 2009

moving from the existing "augmented stovepipe model" to an integrated model for producing European statistics (labelled “European systems method to statistics”).

DG ESTAT relies entirely on IT systems and IT services to support the cycle of statistical data collection, development, production and dissemination. IT is also essential for adequately replying to the challenges imposed by the new business strategy, in particular in terms of use of common methodological and ICT tools and knowledge sharing within ESS.

In this context, DG ESTAT launched in 2012 the ESS.VIP programme, aiming at realising economies of scale and productivity gains through sharing information, services and costs and at developing a common ESS infrastructure and appropriate legal framework and new administrative mechanisms that will allow for sharing of information, services and costs among ESS partners.

The IT activities in DG ESTAT are mainly under the responsibility of Directorate B (Corporate Statistical and IT services), whose mission includes, among other objectives, to "provide the statistical and IT infrastructure, the developments and the support required to assure efficient and secure administrative and statistical production processes – from data collection to dissemination"[75]. DG ESTAT hosts and manages a dedicated infrastructure (network, firewall and servers) for the processing of confidential data sets, while non-confidential data is hosted in the Data Centre, under the responsibility of DG DIGIT.

For 2012, the IT budget was 17,835 k€, financed at more than 98 % by operational expenditures, and staff resources of 109 FTE for Directorate B - Corporate statistical and IT services – complemented by 42 FTE from contractors and a certain number of IT capabilities in the operational Directorates.

[75] Extract of Dir. B mission statement (source: ESTAT Intranet)

Audit Objectives

The overall objective of the audit was to assess the internal control system put in place by DG ESTAT to ensure an effective and efficient management of its local IT activities, with a particular focus on the following areas:

- IT Governance,
- physical and logical security arrangements,
- management of IT programmes and projects,
- organisation and management of the IT operations.

Audit Scope

The scope of the audit included the following processes:

- Plan & Organise[76] (IT organisation and IT governance, quality management, risk assessment and project management);
- Acquire & Implement[77] (Change and release management);
- Deliver & Support[78] (Services continuity, logical and physical security, configuration management).

The audit focused on the activities performed by Directorate B.

There are no observations or reservations in the AAR 2012 relating to the processes audited.

The fieldwork was finalised on 12/05/2013. All observations and recommendations relate to the situation as of that date.

Strengths

Overall, the IAS noted a well-established IT department, with very competent staff strongly committed to deliver high quality services to the end users. DG ESTAT has set up an articulated IT organisation with the objective to respond quickly and effectively to business needs in any of the phases of the statistical production. Integrity and availability of data are in line with business requirement and the costs of the IT activities, in particular those charged by the external providers, are closely monitored.

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76 **Plan & Organise** covers strategy and tactics, and concerns the identification of the way IT can best contribute to the achievements of the business objectives.

77 **Acquire & Implement** covers identification, development, acquisition, implementation and integration of IT solutions, including changes and maintenance of existing systems, to ensure that solutions continue to meet business objectives.

78 **Deliver & Support** is concerned with the actual delivery of required services, which include management of security and continuity, service support to users, and management of data and operational facilities.

Major Audit Findings

IT projects management (finding n° 1)

DG ESTAT is managing a large portfolio of IT projects (mainly related to the collection, production and dissemination of statistical data), some of which are essential for the achievement of its strategic objectives (so-called ESS.VIP projects).

So far, DG ESTAT did not establish a fully-fledged IT project management office, to ensure the proper implementation of the IT project management methodology across the DG and to support and supervise the IT project managers. In the transition to the new project management methodology (PM2[79]), the DG did not put in place an effective mechanism to ensure that it is applied in a standardised way when initiating, planning and controlling the execution of the IT projects.

IT security (findings n° 4 and 5)

According to the Commission IT security framework[80], DGs are required to assess the security needs of their information systems and to implement the IT security policies that enable them to protect information against threats to its availability, integrity and confidentiality. DG ESTAT implemented a series of security measures to protect its information systems, in particular the confidential data collections. It did not classify its information systems according to the levels defined in Commission Decision C(2006)3602 and did not prepare and implement formal security plans for its IT system in production or IT services.

Furthermore DG ESTAT did not formally assess the risks to which the statistical data is exposed to in order to identify the additional security requirements, if any. There are mitigating actions currently in place, which should be improved.

Audit recommendations

IT projects management framework – Very important

DG ESTAT should set up a Project Management Office (PMO) in charge of supporting the implementation of the project management methodology, coaching projects teams and promoting internal coordination and best practices. The PMO should identify a common set of practices, artefacts and processes to be used by DG ESTAT for each category of IT projects. It should also define and implement a Quality Management System to ensure that the deliverables are aligned with business requirements.

IT security – Very important

DG ESTAT should assess the criticality of its information systems (in line with Commission Decision (2006)3602), revise the IT security needs and requirements and identify the measures that meet the identified additional requirements, if needed, (through security plans).

79 DG DIGIT developed PM2 and promotes it as a possible standard in IT project methodology at the Commission.

80 The Commission IT security framework is formed by Commission Decision C(2006)3602 of 16.08.2006 (concerning the security of information systems used by the European Commission), its implementing rules and a series of guidelines and standards issued by DG HR.DS.

DG ESTAT established an action plan which the IAS considers adequate to address the identified issues.

10.2. Agrex 3 (DG AGRI)

In line with the IAS strategic planning, an audit on the IT project “AGREX 3” was launched in December 2012 in DG AGRI.

The IAS completed the in-depth preliminary review, which scope was to gain a better understanding of the processes, to identify the specific risks and controls in place and to more precisely define the objectives and scope of the audit engagement.

During the preliminary survey, the auditors interviewed the key actors in the project, from both business and IT sides, and performed an in-depth review of the documents provided by DG AGRI.

The analysis of the available information indicated that DG AGRI has defined and implemented adequate controls to reduce the inherent risks to an acceptable level. In particular, the IAS highlighted the involvement of both the business and IT management in the different phases of the project and the methodologies used to manage the project (in particular the development and the testing methodologies). This assessment confirms the results of self-assessment made by DG AGRI in the IT Master Plan 2013 (according to which, overall, the IT risks have a relatively low likelihood and impact).

Therefore, the IAS did not perform tests of detail and closed the engagement after the preliminary survey.

10.3. Performance Audit on the management of the security of EU ETS IT system (DG CLIMA, DG DIGIT and DG HR Security Directorate)

Background

The European Emission Trading System (EU ETS) is an international system for trading greenhouse gas (GHG) emission allowances, covering more than 11.000 installations[81] in 31 countries[82], including aircraft operators. It is a key tool for reducing industrial GHG emissions in a cost-effective manner and is a cornerstone of the European Union's policy to combat climate change.

[81] In particular, EU ETS covers CO^2 emissions from installations such as power stations, combustion plants, oil refineries and iron and steel works, as well as factories making cement, glass, lime, bricks, ceramics, pulp, paper and board.

[82] 28 EU Member States plus Iceland, Liechtenstein and Norway. When transactions involve other countries covered by the Kyoto protocol, they are processed through the Independent Transaction Log (ITL) system of the United Nations that holds the emission rights of these countries.

The EU ETS is supported by an IT platform (EU ETS IT System) that has two main components:

- The *European Union Central Registry* (EUCR)[83], an online database that contains all the accounts of stationary installations and aircraft operators and manages the various operations related to the ETS processes (e.g. allocation of allowances, account management, transaction management). Currently, more than 25.000 end-users have access to the EUCR.
- The *European Union Transaction Log* (EUTL) that automatically checks, records and authorises all transactions that take place between accounts.

The value of the allowances held in the EU ETS Registry accounts is determined by the market, according to the principle of "supply and demand"[84]. Currently this value is estimated at approximately 110 billion €, but it varied significantly in the course of 2013[85].

DG CLIMA is the system owner and system supplier of EU ETS system while an external contractor is in charge of developing and maintaining ETS software[86]. DG DIGIT provides hosting and specialised security services[87] and DG HR.DS supports the process with advice and recommendations in the security domain (in particular for the preparation of the IT Security plan, the GAP analysis and the risk assessment).

As "guardian and regulator of the carbon market" and responsible for managing the EU ETS IT system, the Commission is exposed to high risks that vulnerabilities of the system may be unlawfully exploited, resulting in its dysfunction and that security flaws[88] may ultimately lead to the carbon market distortion and to reputational and financial consequences for the Institution. This risk materialised in the past when the national registries (now replaced by the EUCR) were subject to cyber-attacks that succeeded in stealing emission allowances. The EUCR is facing the same inherent risks as previously and for this reason requires an adequate level of protection against internal and external threats.

Since 2010, DG CLIMA has notified these risks in its AARs[89]. In particular, in the 2012 AAR the DG reported that the security measures to cope with significant and systemic weaknesses detected were only "partially implemented" and that "measures from the 2010-2011 action plan are not fully adequate anymore to mitigate current risks and new threats". This risk was

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[83] The new single registry is established under Decision No 280/2004/EC of the European Parliament and of the Council of 11 February 2004 concerning a mechanism for monitoring Community greenhouse gas emissions and for implementing the Kyoto Protocol. The EUCR has replaced, as from June 2012, all the national registries previously managed at the level of individual MS.

[84] According to this principle, too many allowances available will result in a low carbon dioxide price, while too few allowances will lead to an increase in the carbon dioxide price.

[85] End of April 213 the carbon price decreased significantly due to the refusal of the European Parliament to delay the auctioning of 900 million of pollution certificates. The current price is back to the levels of the first quarter of 2013.

[86] A second external contractor is in charge of the quality assessment of the deliverables prepared by the contractor in charge of the development.

[87] Hosting services are provided by Directorate C of DG DIGIT and the security services are delivered by the Security Operation Centre (SOC) in DIGIT.01.

[88] Unauthorised disclosure, misuse, alteration or destruction of information, including carbon allowances thefts and illegal transactions.

[89] In 2010 and 2011 DG CLIMA issued a reservation due to significant security weaknesses in the national registries of ETS while in 2012 the reservation covered the EU single Registry ETS.

also flagged as cross-cutting and an action plan was jointly prepared by DG CLIMA and DG DIGIT.

Audit Objective and scope

The overall objective of the audit was to assess whether the control system put in place by DG CLIMA, together with DG DIGIT and HR.DS, ensured that adequate security measures were identified and that they are effectively implemented for the EU ETS system.

Focusing on the security aspects, the engagement covered in particular:

- The governance set-up for the ETS project and the effectiveness of the strategic decision-making process.
- The management of the project (including the management of internal and external providers and the implementation of the security measures).
- The cooperation among key actors in the decision-making process and in the subsequent implementation phase.

The audit covered DG CLIMA, DG DIGIT and the Security Directorate of DG HR according to their respective roles and responsibilities for managing the security aspects of the EU ETS system.

The fieldwork was finalised in mid-November 2013. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS noted that unit B1 (the Registry team) in DG CLIMA, in charge of the ETS systems, is made up of very competent staff, strongly committed to deliver high quality services to the end-users despite its small size. In addition, they have managed to meet very tight deadlines.

Over recent years, the Registry team has acquired a solid competence in the security domain and established a strong partnership with the Security Directorate of DG HR to ensure that the Commission security framework is duly and properly applied in the ETS project.

Major Audit Findings

In the course of the audit, the IAS identified the following very important issues:

IT Security

Finding No. 1 - Implementation of the ETS's security controls (Lead DG: DG CLIMA in cooperation with DG DIGIT and DG HR.DS)

Finding No. 3 – DG DIGIT cooperation with DG CLIMA (Lead DG: DG DIGIT)

The security measures defined as from 2010 have not yet been fully implemented.

In addition, cooperation and the information flow between DG DIGIT and DG CLIMA were not optimal and major disagreements on the appropriateness or feasibility of certain key security measures were not settled. This further delayed the identification and implementation of adequate security measures for the ETS system.

ETS Project Governance

Finding No.2 - (Lead DGs: DG CLIMA in cooperation with DG DIGIT and DG HR.DS for the part on IT project governance structure, DG CLIMA for the part on Organisational structure)

The governance arrangements failed to resolve the participants' conflicting positions and to achieve a common understanding on the appropriate security measures for ETS and their timely and effective implementation. In addition, no evidence exists that the decisions of the ETS Project Steering Committee have been properly followed up.

The current organisation of the Registry team has not evolved since the beginning of the project, despite it growing from two to twelve persons, and it is currently not ensuring an adequate segregation of duties between key business and IT actors and an optimal use of competences available in DG CLIMA.

ETS Project management

Finding No.4 – Project Quality management and Test management (Lead DG: DG CLIMA)

DG CLIMA implemented a quality management system. However, the Quality Manager is not involved in assessing all contractor deliverables and in the quality review of the project and methodology applied by both the Registry team and the contractors. In addition, the DG has not yet approved the Project Quality Plan of the development contractor (which consequently is not yet implemented) and the quality contractor is not performing all the duties foreseen in the contract.

The complex process for testing ETS IT system releases is not fully adequate and not documented. The Test and Use cases are not complete or up-to-date and key actors (Quality contractor, business manager and development contractor) do not perform some of the key quality-related tasks. Also the complex and mostly manual deployment process is not documented.

Audit recommendations

The IAS issued therefore following recommendations in order to address the above issues:

IT Security – Very important

DG CLIMA, in cooperation with DG DIGIT, should ensure that the remaining necessary security measures for ETS are duly implemented and in a reasonable time frame.

ETS Project Governance – Very important

Liaising with DG DIGIT and the Security Directorate of DG HR, DG CLIMA should enhance the governance set-up and decision making process of the ETS project to ensure that the implementation of the necessary security measures is no longer delayed. DG CLIMA should also revise and optimise the organisation of the Registry team to ensure a clear attribution of roles, an adequate segregation of duties and the best use of the available IT expertise.

ETS Project management – Very important

DG CLIMA should strengthen those processes to ensure that IT project-related activities are controlled, measured and improved and that the tests are organised in a more effective and efficient way.

The DGs audited established action plans which the IAS considers adequate to address the identified issues.

10.4. SYGMA - Phase 1 - audit on development process (DGs RTD and CNECT) (Performance Audit)

Background

In the context of the Horizon 2020 Framework Program (H2020[90]), the Research family DGs/Services are moving towards harmonising the grant management business processes and streamlining the supporting IT systems, which had already started during the FP7[91]. The aim is to standardise the way similar activities are performed within the Research family members and to reduce the number of local applications supporting the grant management sub-processes. This should also contribute to improving data quality and the services offered to the public.

SYGMA is an IT system supporting the grant management process for FP7/CIP[92], H2020 and other non-research grants operated by the Research family members. It will complement the existing common IT systems covering the process from preparing to closing grants and it will gradually replace all legacy applications (FP6 and FP7).

SYGMA is an inter-DG project currently managed within the Research family, but with the long-term objective to become the corporate grant management system. For this reason, it is at the core of the Grant Management rationalisation exercise[93].

DG CNECT (as System Owner) and DG RTD (as System supplier) are the main actors involved in the development of SYGMA. They both report to the IT Programme Steering

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90 Horizon 2020 is the financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. It will cover the period 2014-2020 with a budget of around €70 billion.

91 In the context of FP7, the Research DGs developed common applications like the Submission and Evaluation System (SEP) and the Unique Registration Facility and Participant Data Management (URF/PDM). However, at the end of FP7, the Research Family DGs were running 19 IT systems, each one having its own governance structure.

92 Competitiveness and Innovation Framework Programme (CIP) target small and medium-sized enterprises (SMEs). Its supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions. The CIP runs from 2007 to 2013 with an overall budget of € 3621 million.

93 The grant Management Rationalisation exercise was launched in March 2011 following the Communication "Getting the Best from IT in the Commission" from Vice president Sefčovič. The aim is to achieve an efficient use of the Commission's resources and investments and to ensure that efficient IT tools support the real business needs.

Committee (ITPSC[94]) and to the Architecture Office Steering Committee[95]. Representatives from all Research DGs and Services are involved in defining the business requirements. As from 1/1/2014 the responsibility for SYGMA will move to the Common Support Centre (CSC), a newly created Directorate in DG RTD in charge of providing high quality services to all Research DGs, executive agencies and joint undertakings implementing the Horizon 2020 programme.

The SYGMA project is financed from both the FP7 and Horizon 2020 budgets. The estimated Total Cost of Ownership[96] for the period 2011-2015 is about 23,6 M€[97].

A first pilot of SYGMA was delivered during 2013 in order to cover FP7 grant process support functionalities for about 40 projects in unit S2 (Space research) of REA. However, the major functionalities of SYGMA should be operational for all Services managing the H2020 programme as from March 2014.

Audit Objectives

The objective of the audit was to assess the effectiveness and efficiency of the management of the SYGMA project.

The audit focuses on the following three main areas:

- IT Project governance
- IT Project Management
- Readiness of IT Operations for the SYGMA system.

Audit Scope

The present audit covered the management of the SYGMA project, both from the business and IT perspectives, since its inception in March 2012 (when the Business case and Vision document were produced), until mid-November 2013, when the current audit fieldwork was completed. All observations and recommendations relate to the situation as of that date.

The audit covered both the system owner and the system supplier, in particular:

- DG CNECT
  - Directorate E Net Futures
  - Directorate R.3 Informatics
- DG RTD

[94] The IT Programme Steering Committee is composed of the Resources Directors of the Research DGs and it is in charge of monitoring and decision-making at operational level.

[95] The Architecture Office Steering Committee (AOSC) coordinates at IRM-level the IT activities between the IT teams. It supply its services based on the agreement reached in the ITPSC meeting of 13/11/2008 on the mission of the Architecture Office and its Service Level.

[96] The Total Cost of Ownership (TCO) should include investments and costs at IT and business side for the whole life of the project until its final phase out. TCO is currently defined as all the costs (design, construction and deployment) as well as the running costs (maintenance, support, training, hosting, licences…) for the first five years of the project. These costs should distinguish between outsourcing costs (in €) and "internal ones" (to be expressed in FTE).

[97] Considering the cost of the phasing out to exiting IT systems in DG CNECT and RTD, the total cost of the SYGMA Project goes up to 29M€.

- Directorate M.2 Coordination of RTD framework programme operations
- Directorate R.3 Informatics

The IAS also conducted interviews with other SYGMA stakeholders, namely:

- Members of the Architecture Office (DG DIGIT.B4).
- Business representatives in the REA (REA.S.2).

Strengths

The IAS recognises the Research DGs' efforts to move to a business process-oriented organisation, with the H2020 operational activities being organised around nine standard business processes covering the complete cycle of grant operations.

To support this new organisation, the Research DGs have defined a new governance model, operational since October 2013, and decided to create the Common Support Centre (CSC) as from 1 January 2014, whose mandate is to provide high quality services to the entities implementing the Horizon 2020 programme. This should enhance their cooperation and facilitate the simplification and harmonisation of the existing grant management business processes and convergence towards common IT solutions.

In addition, the IAS observed a constructive collaboration between business stakeholders and the IT team, as well as the latter's high level of expertise and commitment.

Finally, the joint approach to the project, based on good practices and experiences in project management of both DG RTD and DG CNECT, represents a key success factor.

Major Audit Findings

During the audit, the IAS identified the following very important issues:

Business Processes (Observation no 1)

The definition of common and agreed business processes for H2020 has not been completed yet. This is only partially due to the late adoption of the key legislative acts by the legislative authority, which has additionally delayed the delivery of other legal documents. Moreover, some elements (relationship between the new IT governing bodies and the CSC not yet defined, lack of proper monitoring on the progress of the Working Groups, lack of a unique and up-to-date Business glossary, unclear roles and responsibilities for the preparation of H2020 business documentation) could further delay (or even impair) the Business Process definition, if not adequately addressed.

Project Management (Observation no 2)

The DGs do not estimate and monitor the full cost of the project (internal/external, IT/business). Only the cost for external IT staff is identified and reported. In addition, there is neither an integrated project work plan nor business implementation and transition to production plans for SYGMA. In terms of risk identification and management, the IAS observed that the risk log of the SYGMA project does not include any risks/threats linked to the on-going reorganisation of the activities and its possible impact on the projects.

Audit recommendations

The IAS issued therefore the following recommendations:

Business Processes – Very important

DG RTD and DG CNECT, in liaison with the Research Family members, should ensure the definition of common and widely agreed Business Processes.

To reach this goal, the DGs should ensure an effective interaction among the IT governing bodies, the new CSC and the Working Groups and define common and coherent indicators and mechanisms for monitoring and reporting progress. In addition, a unique and complete Grant management Business Glossary should be established to provide a common basis for identifying and agreeing requirements and translating them in the IT systems.

Project Management– Very important

DG RTD and DG CNECT should improve the project management by performing an appropriate cost-benefit analysis in case of future decisions with significant impacts on the project and its resources, by ensuring that detailed integrated Project Work Plan, Business Implementation Plan and Transition to Production Plan are developed, and by identifying and managing the risks related to major changes in the environment. In addition, the DGs should accurately plan and monitor the use of internal and external resources (from both business and IT) and identify the full cost of the project.

Both DGs established action plans for the recommendations which the IAS considers adequate to address the identified issues.

11. FOLLOW-UP ENGAGEMENTS (SUMMARISED)

11.1. 2nd Follow-up on DG DEVCO audit - Financial Management of main programmes in Latin America

Based on the results of our follow-up audit, IAS assessed that all three recommendations had been adequately and effectively implemented and could be closed.

11.2. 2nd Follow-up on DG DEVCO audit - Financial Management of main programmes in Neighbourhood

Based on the results of our second follow-up audit, IAS assessed that the design of the controls to mitigate the risks identified are adequate. The residual risks have been re-assessed as part of the preparation of the IAS 2013-2015 Strategic Audit Plan and the effective implementation of these recommendations will be assessed in future IAS audits. As a result, the three recommendations are now closed[98].

[98] A recommendation may be closed when partial actions have been taken (e.g. design of the control) and/or where the internal control environment has undergone significant change since the original audit, and

11.3. 2nd Follow-up on DG DEVCO audit - Implementation of the framework agreement with UN agencies

Based on the results of IAS' second follow-up audit, IAS assessed that the design of the controls to mitigate the risks identified are adequate. The internal control environment in DG DEVCO has significantly evolved since the original audit, namely with the creation of the European External Action Service (EEAS) in 2011 and the implementation of DG DEVCO's revised internal control architecture (control pyramid). The residual risks have been re-assessed as part of the preparation of the IAS 2013-2015 Strategic Audit Plan and the effective implementation of these recommendations will be assessed in future IAS audits. As a result, the three recommendations are now closed.

11.4. 2nd Follow up of AFIS (OLAF)

Based on the results of our follow-up audit, IAS assessed that all the recommendations addressed to OLAF that resulted from the IAS Audit on the Anti-Fraud Information System (AFIS) in OLAF, dated 21 January 2009, had been adequately and effectively implemented.

11.5. 2nd Follow up on the financial management of the Common Foreign Security Policy budget (FPI)

Based on the results of our follow-up audit, IAS assessed that the very important recommendations “Overall monitoring and supervision of ESDP missions” and “Timely closing procedure” could be closed.

The very important recommendation “Set-up of CFSP actions” could also be closed, however, the IAS will assess the effective application of the comprehensive guidance on the financial management set-up during the next audit on the Control Strategy of FPI and brought the i*nventory of IT applications and analysis of staff potentially available from previous missions* to the attention of DG IAS.A for consideration in their future engagements of the EEAS.

11.6. Follow-up on Management of Guarantees (multi-DG)

(Four follow-up reports: DG BUDG, DG ELARG, DG DIGIT, EACI)

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therefore either the residual risk needs to be reassessed or its effective implementation in the context of the new internal control environment has to be reassessed as part of a future audit. These recommendations, although closed, are not considered by the IAS as implemented.

Based on the results of IAS' follow-up audit, IAS assessed that all the recommendations which were addressed to the three DGs and one Executive Agency as a result of the audit "Management of Guarantees" had been adequately and effectively implemented.

11.7. Payment deadlines (BUDG, ENER/MOVE, DEVCO, ECHO) (including IT part)

(Four follow-up reports: DG BUDG, DGs ENER and MOVE (ex-DG TREN), DG DEVCO, DG ECHO)

DGs ENER, MOVE and BUDG specific findings:

Based on the results of our follow-up audit, the IAS assessed that they have all been adequately and effectively implemented.

DG DEVCO specific findings:

Based on the results of our follow-up audit, the IAS assessed that six recommendations had been adequately and effectively implemented (and were closed). The five remaining recommendations require further improvements to ensure that the payments are correctly and timely processed.

In particular:

Recommendation 1 – Monitoring and reporting on the payment process (Very important)

The recommendation requested DG DEVCO to improve its monitoring activities over the entire payment process, both at central and directorates levels.

Monitoring activities on the payment process are performed at central and Directorate levels, and CRIS reports are made available to the DEVCO's Directorates for further analysis.

However, IAS observed that despite monitoring activities in place, DG DEVCO remained among the 5 DGs with the highest number of late payments.

As a result, the IAS recommended DG DEVCO to ensure that monitoring activities are regularly performed at central and directorate levels, and that dedicated action plans addressing the issues identified as a result of these monitoring activities are systematically implemented.

Recommendation 5 – Time to encode invoices (Very important)

The recommendation requested DG DEVCO to raise awareness of staff and to update the accounting manuals regarding the timely encoding of invoices.

DG DEVCO implemented several actions in order to improve the timely registration of invoices (update of manuals, specific notes, etc.).

Consequently,, DG DEVCO should ensure that the current and on-going analysis and reporting on payment delays allow the DG to identify the necessary information (causes, main directorates concerned by the non-timely registration, etc.) and/or take additional actions in order to improve the situation with respect to the timely registration of invoices.

Recommendation 6 – Management of suspensions (Very important)

The recommendation requested DG DEVCO to clarify guidelines and manuals regarding suspensions, adapt CRIS to ensure proper transfer of data in ABAC, implement regular monitoring and perform spot-checks on suspensions.

The IAS found that only part of the recommendation has been implemented.

Recommendation 7 - Payment checklists for operational and financial initiating and verifying agents (Very important)

The recommendation requested DG DEVCO to enhance quality of checks included in the checklists and aimed at ensuring the effectiveness of the payment process.

The checklists were updated in 2011 with some checks relating to the proper encoding of data impacting payment delays. The follow-up audit highlighted that the checklists should be further detailed as to focus on key dates relating to the calculation of payment deadlines, in particular in those areas where systemic problems are identified.

DG ECHO specific findings:

The overall result of this follow up audit is that DG ECHO implemented adequate solutions to address the issues detected in the original audit and in particular adequately and effectively implemented all the very important recommendations. However, in some cases, they were not fully effective and hence did not allow for major improvement of the timeliness of the payment process. Consequently, the IAS identified areas were additional effort is required by DG ECHO to ensure that the payments are correctly and timely processed.

11.8. Follow-up of Joint Audit on Implementation by the EIF of the High Growth and Innovative SME Facility (GIF) under the Entrepreneurship and Innovation Programme (EIP) in DG ECFIN

Based on the results of our follow-up audit, IAS assessed that all the recommendations addressed to DG ECFIN that resulted from the audit and had been sent for audit review are adequately and effectively implemented. The two open recommendations, of which one is classified as very important, were not yet due for implementation and, therefore, were not covered by this follow-up engagement. They will be covered by a second follow-up.

11.9. Follow-up on the Spot Controls/Fraud in DG CNECT

Based on the results of our follow-up audit, IAS assessed that all the recommendations addressed to DG INFSO/CNECT had been adequately and effectively implemented.

11.10. 2nd Follow-up on DG DEVCO audit - Financial Management of Regional Programmes

Based on the results of our second follow-up audit, IAS assessed that three recommendations had been adequately and effectively implemented or were no longer relevant as the internal control environment in DG DEVCO had significantly evolved since the original audit.

11.11. 2nd Follow-up on DG DEVCO audit - Eligibility of Costs under the Financial and Administrative Framework Agreement with the United Nations by DG AIDCO

Based on the results of our second follow-up audit, IAS assessed that the design of the controls to mitigate the risks identified for two very important recommendations[99] was adequate. Given that the internal control environment in DG DEVCO has significantly evolved since the original audit, their effective implementation will be assessed in future IAS audits. As a result, the two recommendations were closed. The third outstanding recommendation, i.e. "*Rec no.3 – Nature of verification work – Verification missions*" (Very important) was assessed by the IAS as implemented.

11.12. Follow-up on Risk Management Implementation (SG, BUDG, RELEX, ENV)

(Three follow-up reports: SG and DG BUDG, DG ENV, FPI)

SG and DG BUDG specific findings:

In 2010, the IAS finalised the audit on Risk Management process in the Commission. The overall objective of the audit, conducted in the Secretariat-General and in DG BUDG (in their central role) and in two operational DGs (DG ENV and DG RELEX, now FPI), was to assess the adequacy of the Risk Management framework and its effective implementation in the Commission. The scope of the audit covered the design of the Commission's Risk Management framework and its implementation, and the roles of the central services in providing guidance, training and support to the operational DGs/Services.

Based on the results of our follow-up audit, IAS assessed that thirteen out of fourteen recommendations had been adequately and effectively implemented and were closed.

Concerning the remaining one on the “Management of cross cutting risk” (recommendation n. 13), the IAS noted the progress made in particular regarding the mandatory participation in the cross-cutting exercise, the clarification of the definition of cross-cutting risks, the establishment of a dedicated peer-review process for the cross cutting risks and the systematic feedback provided to DGs/Services, and the implementation of a cross-cutting risk register.

[99] Rec no1: "*Ex-ante controls on contribution agreements*" and Rec no. 2: "*Ex-ante controls on payments*".

However, as regards the monitoring and following-up of the implementation of action plans for mitigating cross-cutting risks, the IAS considered that further improvements were still needed.

DG ENV specific findings:

Based on the results of our follow-up audit, IAS assessed that all recommendations had been adequately and effectively implemented and were closed.

FPI specific findings:

Based on the results of our follow-up audit, IAS assessed that all very important recommendations had been adequately and effectively implemented and were closed.

11.13. Follow-up on Business Continuity Management (DG DIGIT)

Based on the results of the follow-up audit, IAS assessed that all recommendation reported as implemented by the DG had been adequately and effectively implemented.

11.14. 2nd Follow-up on Set up of Internal Control and Financial Management Systems in REA

Based on the results of the follow-up audit, IAS assessed that overall, all the recommendations addressed to the REA had been adequately and effectively implemented.

11.15. Follow up of Control Strategy audit (TEN T-EA)

Based on the results of the follow-up audit, IAS assessed that overall all the recommendations addressed to the TEN-T EA had been adequately and effectively implemented.

11.16. 2nd Follow up of Operational Budget management audit in the TEN-T EA (recommendation addressed to DG MOVE)

Based on the results of the follow-up audit, IAS assessed that overall the recommendation addressed to DG MOVE had been adequately and effectively implemented.

11.17. 2nd FU on Recoveries (multi-DG)

(Four follow-up reports: DG BUDG, LS, DG DEVCO, DG EAC)

DG BUDG specific findings:

Based on the results of the 2nd follow-up audit, the IAS closed the two remaining recommendations.

LS specific findings:

IAS assessed that the remaining four recommendations had been adequately and effectively implemented and could be closed.

DG DEVCO specific findings:

IAS assessed that the one remaining recommendation had been adequately and effectively implemented and could be closed.

DG EAC specific findings:

Based on the results of the second follow-up audit, IAS assessed that the four remaining recommendations had been adequately and effectively implemented and could be closed.

11.18. Follow up on the Monitoring and Supervision of DG EAC National Agencies

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to DG EAC that resulted from the audit "Monitoring and Supervision of DG EAC National Agencies" had been adequately and effectively implemented.

11.19. 2nd Follow up of Enterprise Europe Network Audit

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to the EACI that resulted from the IAS Audit on Enterprise Europe Network IT Tools in EACI had been adequately and effectively implemented.

11.20. 2nd Follow up: Management of the operational budget of EAHC

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to EAHC that resulted from the audit EAHC Management of the operational budget had been adequately and effectively implemented.

11.21. 2nd Follow up on Ex-post control activities and implementation of financial circuits in EACEA

Based on the results of our second follow-up audit, we assessed that two remaining recommendations had been adequately and effectively implemented.

The third remaining open recommendation was closed and its implementation will be assessed during the IAS follow-up of the audit on "*Lifelong Learning Programme*" in EACEA/DG EAC, where a similar recommendation was made.

11.22. 2nd Follow up: Procurement in EAHC

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to the EAHC that resulted from the audit "Public Procurement in the EAHC" had been adequately and effectively implemented.

11.23. Management of local IT - the 2nd follow up (SJ)

As a result of the second follow-up, IAS assessed that all the recommendations issued in the original audit were adequately implemented.

11.24. 2nd follow-up on Treasury and Accounting System (DG ECFIN)

Based on the results of the work, IAS assessed that the one recommendation remaining open at the time of the first follow-up had been adequately and effectively implemented and could be closed.

11.25. 2nd follow up audit on Grant Management of Schengen Facility (DG HOME)

Based on the results of the follow-up audit, IAS assessed that all three recommendations remaining open after the first follow-up in 2012 had been adequately and effectively implemented and could be closed.

11.26. Follow up audit on EFF Control Strategy (DG MARE)

Based on the results of the follow-up audit, IAS assessed that all recommendations considered "ready for review" by the DG had been adequately and effectively implemented and were closed.

11.27. 2nd follow-up on the management of procurement contracts in OIL

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to OIL that resulted from the audit "The management of procurement contracts" had been adequately and effectively implemented.

11.28. Management of local IT - the 2nd follow up (PMO)

Based on the results of the follow-up audit, IAS assessed that all remaining very important recommendations had been adequately and effectively implemented and could be closed.

11.29. Follow up on Development of IT systems to support Horizon 2020 programmes under DG RTD, Part I (URF/PDM & SEP)

Based on the results of our follow-up audit, we assessed that all the recommendations addressed to DG RTD that resulted from the above-mentioned audit had been adequately and effectively implemented, except for recommendation No 3 on Project Work and Resource Plan.

This recommendation required to improve the project and resource planning by identifying activities and interdependencies that are necessary to reach the project objectives and by ensuring that both IT and business related resources involved in the system development are included in the planning.

DG RTD made progress in the project planning, but the current Resource Plan does not include information on the resources involved on the business side. In addition, the DG only estimates the cost of the external resources. For this reason the IAS considered the recommendation not yet to be fully implemented but the residual risk sufficiently mitigated to justify downgrading the rating of the recommendation to 'Important'.

11.30. Follow up of audit on Fraud Prevention and Detection (DG HOME)

Based on the results of the follow-up audit, IAS assessed that all eight recommendations issued in the final report had been adequately and effectively implemented.

11.31. Follow up of audit on Fraud Prevention and Detection (DG JUST)

Based on the results of the follow-up audit, IAS assessed that all six recommendations issued in the final report had been adequately and effectively implemented.

11.32. 2nd follow-up of Security of IT environment in subcontracted projects (DG REGIO)

Based on the results of the work, IAS assessed that the three recommendations proposed for closure at the time of this second follow-up had been adequately and effectively implemented and could be closed.

11.33. Follow up Programme Estimates (DG DEVCO)

Based on the results of the follow-up audit, IAS assessed that all very important recommendations had been adequately and effectively implemented and could be closed.

11.34. Follow up EDF grants (DG DEVCO)

Based on the results of the follow-up audit, IAS assessed that all very important recommendations had been adequately and effectively implemented and could be closed.

11.35. Follow up of Competitive Activities audit (JRC)

Based on the results of the follow-up audit, IAS assessed that overall all the recommendations addressed to DG JRC had been adequately and effectively implemented.

11.36. 2nd Follow up on HR management, part II (DG HR)

At the time of the first follow-up, the IAS found that all recommendations were adequately and effectively implemented with the exception of the very important recommendation n. 9 on "Management of absenteeism: day-to-day management" for which not all the planned actions had been completed. The issues that were not fully implemented related to initiatives and training to raise Heads' of Unit awareness in the field of absence management, to the definition of a formal strategy for absence management, and to improving the quality of the checks made in relation to illness related absences and recurrent short term absences.

IAS' analysis during the second follow-up highlighted that noticeable improvements had been made.

Some actions still needed to be implemented: The full training path will only be available in 2014 and the awareness raising initiatives envisaged was going to start in January 2014 only. In addition, the corporate strategy for absence management, in draft version at the time of the second follow-up, had not been formally adopted yet.

Considering the improvements already made and the state of play of the on-going actions, the original risk has been partially mitigated, and IAS proposed to downgrade the rating of the recommendation from very important to important.

11.37. Follow up of EIP Performance audit (DG ENTR)

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to DG ENTR had been adequately and effectively implemented.

11.38. 2nd Follow up of GNSS Audits (DG ENTR)

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to DG ENTR had been adequately and effectively implemented or were no longer applicable and therefore closed

11.39. HR IT Corporate Application - NAP - the Follow-up (PMO)

Based on the results of the follow-up audit, IAS assessed that all very important recommendations reported by PMO as implemented had been adequately and effectively implemented.

11.40. Follow up of Control Strategy audit (DG ENER)

Based on the results of the follow-up audit, IAS assessed that overall all very important recommendations addressed to DG ENER had been adequately and effectively implemented, except for the recommendation listed below.

Recommendation n° 3220 - Completeness and consistency of audit working papers (Very important), points 3) and 4):

- *Concerning recommendation n° 3220, point 3)*, it was found that the audit sector does not use during its audits audit programme/checklist with the audit procedures to be performed. Therefore, the audit sector will develop and use a standardised audit programme/checklist, tailored to its needs, listing the audit procedures and tasks to be carried out. The completion of the checks will be documented by signing off the appropriate step in the audit programme/checklist.
- *Concerning recommendation n° 3220, point 4)*, it was found that the audit sector during its audits does not address fraud prevention and detection. Therefore, in line with DG MOVE & DG ENER Anti-Fraud Strategy, adopted in November 2013, DG ENER will in particular develop ex-post auditors' anti-fraud awareness and capacity (e.g. through training). In this context, the IAS encourages DG ENER to take into account in the audit programme/checklist the specific fraud risks factors and indicators ("red flags") relevant for the programmes managed by the DG.

Considering that the other points of this recommendation were implemented, IAS downgraded the recommendation from 'Very important' to 'Important'.

11.41. Follow up: Procurement (OIB)

Based on the result of the follow-up audit, IAS assessed that all recommendations considered as 'ready for review' by OIB had been adequately and effectively implemented.

11.42. Follow up of Local IT in DG EMPL

Based on the results of the follow-up audit, the IAS assessed that all very important recommendations had been adequately implemented, except for two of them where further improvements were needed. In particular:

Recommendation no 1 on IT governance (Very important)

The IT governance model was updated and the roles and responsibilities of IT governance bodies, including the IT Steering Committee (ITSC), are now defined in the *Terms of Reference for the IT Governance at DG EMPL*. However, this document does not define any responsibility for horizontal IT security issues. In addition, the current practice is not in line with what is formally established (i.e. ITSC representative group is foreseen in the Terms of Reference, however it is not conveyed and according to DG EMPL it is replaced by the project steering committees which meet on a monthly basis with similar functions).

Considering the improvements already made, the IAS downgraded the rating of the recommendation from Very important to Important.

Recommendation no 2 on IT risk management (Very important)

The follow-up showed that no specific IT risk management framework had been implemented in DG EMPL. Its risk register mainly included risks related to IT projects (which represent an important part of DG EMPL's IT activities), while there was no evidence of identification and assessment of other IT risks (e.g. related to IT security, infrastructure, operations or continuity). For this reason, the IAS considered the recommendation open and downgraded the criticality from Very important to Important.

11.43. Follow-up on Thematic Budget Lines (DG DEVCO)

Based on the results of the follow-up audit, the IAS assessed that all six recommendations had been adequately and effectively implemented.

11.44. Follow-up on Fraud prevention and detection in OLAF

Based on the results of the follow-up audit, IAS assessed that all the recommendations addressed to DG OLAF that resulted from the Fraud Prevention and Detection audit and that had been declared as 'ready for review', had been adequately and effectively implemented.

11.45. 2nd Follow-up on DG DEVCO audit - Financial Management of main programmes in Asia

Based on the results of the second follow-up audit, the IAS assessed that adequate measures had been taken to ensure that future Verification Missions were based on risk criteria. The effective implementation of the recommendation will be assessed in future IAS audits. As a result, the recommendation was closed following this second follow-up.

11.46. 2nd Follow-up on DG DEVCO audit - Ex-Post Control Activities

Based on the results of the second follow-up audit, the IAS assessed that the internal control environment in DG DEVCO had significantly evolved since the original audit (2006) and the subsequent follow-up (2010) with the creation of the European External Action Service (EEAS) in 2011, the implementation of DG DEVCO's revised internal control architecture (control pyramid) and the recent suspension by DG DEVCO's management of ex-post controls, as stated in DG DEVCO's 2012 AAR.

As a result, this recommendation was closed and its effective implementation will be assessed in future IAS audits.

11.47. Follow-up of IPA Grants (DG ELARG)

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG ELARG that resulted from the audit “Management of IPA Grants” had been adequately and effectively implemented and could be closed.

11.48. Follow-up on Monitoring of Public Procurement in the Member States (DG MARKT)

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG MARKT that resulted from the audit "Monitoring by DG MARKT of the Application of Public Procurement Rules in the Member States" had been adequately and effectively implemented and could be closed.