

Audit Handbook



Audits performed by External Audit Firms

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European Commission
DG INFSO

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1. INTRODUCTION

1.1. Legal basis of the external audits

The Information Society and Media Directorate-General (hereafter "DG INFSO") is involved in financing indirect research actions awarded under the 6th Framework Programme (2002-2006) (hereafter "FP6").

Indirect research actions are defined here as research and technological development ("RTD") activities undertaken by one or more participants (and not directly by the Joint Research Centre) by means of an instrument of the Sixth Framework Programme.

Usually, the Community financial contribution to indirect research actions under FP6 is made by means of grants. Those contributions are computed on the basis of financial statements (the so-called "Forms C") completed by the beneficiaries and submitted to the European Commission (hereafter "EC"). All the rights and duties surrounding the indirect research action are formalised by the mean of a signed contract (or grant agreement) between the EC and the contractor.

In order to protect the European Communities' financial interests, a set of internal controls have been put in place within the European Commission. External audits are part of these (ex post) controls and aim at verifying whether the costs declared in the financial statements have been properly incurred and are eligible costs, as defined under the contract between the European Commission and the beneficiary.

The possibility for the European Commission to carry out an audit is foreseen in Article II.29 of the Annex II ("General Conditions") of the model contract concluded between the European Commission and the beneficiary.

"The Commission may, at any time during the contract and up to five years after the end of the project, arrange for audits to be carried out, either by outside scientific or technological reviewers or auditors, or by the Commission departments themselves including OLAF. Such audits may cover scientific, financial, technological and other aspects (such as accounting and management principles) relating to the proper execution of the project and the contract. [...] Any amount due to the Commission as a result of the findings of any such audit may be subject of a recovery as mentioned in Article II.31. [...]"

1.2. Outsourced external audits

Given the limited resources of the External Audit Units within the Research DG's (hereafter "RDG's"), the EC has decided to outsource partly its external audits to external audit firms ("EAF's").

As a result thereof, a framework service contract (contract number FP 6/2005/1) has been signed between the EC and Blömer accountant en adviseurs BV. The three following firms, in order of precedence, have been awarded to undertake, on behalf of the EC, financial audits of the costs and expenses reported by participants receiving a community financial contribution in research contracts under FP6:

- Blömer accountants and adviseurs BV – The Netherlands;

- LubbockFine – United Kingdom;
- Ernst & Young – Belgium.

This framework contract allows the EC to procure audits on RTD contractors under two forms: batch and individual assignments. A batch is actually a list of participations (involvement of several contractors in one or several selected contracts for one or several selected periods) to be audited. In essence, batch assignments aim for a high number of audits to be performed, while individual assignments enable the procurement of 'tailor made' audit services aimed to a specific contractor

The concept of batch assignments is based on a standardised process, allowing the EC to cope with its objective to significantly increase the quantity and the quality of the audits performed.

In the course of their audit, and as defined under the framework service contract referred to here above, the EAF has to submit to the External Audit Unit of DG INFSO (hereafter "S5") predefined and duly completed deliverables. Those will be explained here below in this report.

It is important to underline that, whilst some important parts of the audit field work and reporting work are outsourced to EAF's, S5 remains solely responsible for the entire external audit process, from the initiation phase to the closure and communication of audit results. Therefore, S5 will have to perform a quality review on the deliverables provided by the EAF's in order to assess whether the evidence provided is sufficient and appropriate enough to provide a basis for conclusion.

1.3. Objective of this Audit Handbook

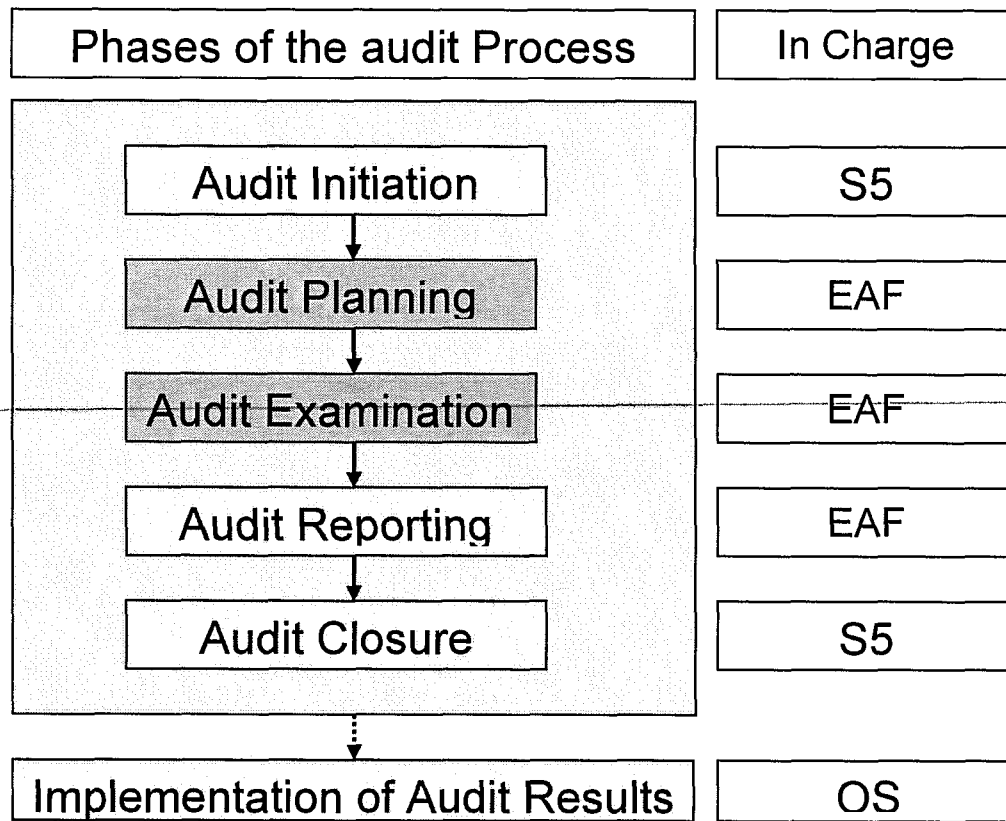
The objective of this Audit Handbook is to provide guidance to members of S5 on how to process an outsourced audit engagement from the audit initiation to the closure and finally the communication of audit results. This process is characterised by several phases related to activities to be performed by the auditor. In all those phases, specific procedures are foreseen which are usually laid down in related checklists or guidelines that are either mandatory or recommended to be followed.

Please note that the Audit Handbook does not replace or substitute existing guidelines i.e. the FP6 Audit Manual and the Guide to Financial Issues relating to Indirect Research Actions of the Sixth Framework Programme. These manuals represent mainly interpretative and explanatory guidance on the specific contractual provisions as such.

This Audit Handbook is a tool for the auditors of S5 to interpret and act coherently in each of the phases involved in the external audit process of batch audit assignments which are outsourced to an EAF.

2. THE AUDIT PROCESS

The audit process includes the following phases



Each of those phases, together with the input expected from S5, if any, will be explained in the following chapters.

We briefly present here below an overview of the main roles and responsibilities of the tasks that are described in detail in the following chapters.

3. THE AUDIT DOCUMENTATION

As referred to in the International Standard on Auditing ("ISA") 230 on "Audit Documentation", *"audit documentation means the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached"*.

Proper audit documentation is a key element to strive towards high-quality audit engagements.

The auditor should prepare, on a timely basis, audit documentation that provides

- (1) A sufficient and appropriate record of the basis for the auditor's report; and
- (2) Evidence that the audit was performed in accordance with applicable requirements and standards within the EC.

The benefits of proper documentation are multiple. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized.

With respect to the level of documentation required, the auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:

- (1) The nature, timing, and extent of the audit procedures performed;
- (2) The results of the audit procedures and the audit evidence obtained;
- (3) Significant matters arising during the audit and the conclusions reached thereon.

This Audit Handbook is, amongst others, designed to help the S5 auditor to determine whether his/her documentation is sufficient and appropriate. Indeed, (i) by fulfilling all the steps described here below and allocated to S5 and (ii) by properly completing on a timely basis the procedures/checklists presented here below, the auditor will meet the minimum requirements in terms of audit procedures and related documentation.

Audit documentation also needs to be addressed from an "organisational" perspective.

4. AUDIT INITIATION

The Audit Initiation is the first phase in the Audit Process. It mainly relates to the selection of contractors and contracts to be audited, the mutual agreement on the selection with the EAF, the announcement of the audit towards the beneficiary and the preparation of the audit input file.

4.1. Audit sampling methodology

S5 is responsible for the selection of contractors and contracts to be audited within DG INFSO.

However, all RDG's have agreed on a common FP6 ex-post audit strategy. The FP6 ex-post audit strategy aims to achieve two main objectives over the course of a multi-annual implementation:

- Correct and adjust the largest possible proportion of the budget in order to make it free of systematic errors;
- Obtain statistically valid extrapolations on the error rate in the population of non-audited contracts in order to contribute to the reasonable assurance.

As a result thereof, three main sources of selection criteria are taken into consideration for the selection of audits:

1°) Top beneficiaries

The underlying reason to select top beneficiaries is to provide reasonable assurance on a significant part of the budget in a very cost effective way.

A selection is made for each selected contractor of maximum 3 contracts and a maximum 3 cost periods.

2°) Statistical sample from the remaining beneficiaries

The underlying reason to select beneficiaries based on a statistical method is to be able to extrapolate statistically audit findings to the entire population from which the sample is drawn.

The statistical sampling method used is the Monetary Unit Sampling ("MUS").

A selection is made for each selected contractor of maximum 3 contracts and a maximum 3 cost periods.

3°) Risk-based sample

The objective of those audits is to provide assurance based on the analysis of the risk profile at individual contractor's level. In order to collect sufficient and appropriate evidence to corroborate potential risk indicators, a checklist has been issued in order to collect information in a systematic way.

Sampling is executed within S5 by the Administrative Support Officer, under supervision of the (Deputy) Head of Unit.

4.2. Batch assignments

Once selected, contractors to be audited are assigned to a specific batch and given a batch reference number. These tasks are performed by the Administrative Support Officer.

A batch assignment is defined as a selection of audits to be carried out by the EAF within the context of the framework service contract.

The batch reference number follows the following pattern: "YY-BAXX-ZZZ" where:

- YY stands for the year of initiation of the audit;
- XX stands for the number of the batch. It follows a sequential numbering amongst RDG's;
- ZZZ stands for the identification of the contractor within the specific batch. It follows a sequential numbering within the batch.

The framework service contract foresees that the audit of a contractor will normally cover the financial statements for a maximum of 3 specific RTD contracts, with a maximum of 3 costs periods per contract audited. Therefore, the individual audit scope may range from a minimum of 1 to a maximum of 9 audited financial statements.

4.3. Communication of batch assignments towards the external audit firm

Once selected, DG INFSO shall provide the external audit firm with the batch(es).

The external audit firm has to confirm the batch with the contractors to be audited within working days after receipt. This agreement will mark the start date of the batch duration.

Potential changes may arise in cases of conflicts of interests.

4.4. Archiving of the batches confirmed by the external audit firm

4.5. Recording of the confirmed batch assignments in ARPS

Each audit assignment shall be recorded in the Audit Results Processing System ("ARPS") of DG INFSO. This is the responsibility of the Administrative Support Officer.

ARPS is an application located on the intranet of DG INFSO.

It has been developed to monitor the external audits from the initiation phase to the closure phase. It is linked to Phoenix which is the single contract production and management system within DG INFSO. This tool supports FP6, along with non-research programmes.

At this stage, the information that shall be recorded in ARPS shall mainly relate to

- The batch assignment number;
- The organisation to audit;
- The contracts to audit;
- The periods to audit.

4.6. Letter of announcement

The decision to perform an audit and the relevant underlying contracts to be audited are to be formally communicated and announced to the contractor in writing.

As a result thereof, the Secretary to the Audit Team shall, within one week of the confirmation of the batch by the EAF, inform, by registered mail, all organisations to be audited of the forthcoming audit and remind them of their contractual obligations related to the audit. This letter shall ask the contractor to provide the EAF with additional information in order to arrange the planning and performance of the forthcoming audit. It also includes an indicative list of documents that should be prepared by the contractor prior to the visit of the EAF at the premises of the contractor.

Once properly signed, the Secretary to the Audit Team shall send the original to the contractor.

4.7. Creation of the "Audit Input File"

An "Audit Input File" consists of copies of documents which constitute the primary information deemed necessary to plan the audit prior to the fieldwork. Those documents need to be collected for every batch audit from the Operational Directorates.

The documents considered as necessary at this stage of the audit include mainly copies of:

- The Letter of Announcement;
- The signed contract including amendments and annexes;
- The signed Financial Statements ("Forms C");
- The signed audit certificates when applicable;
- The participant finance sheets extracted from Phoenix;
- The periodic management reports.

The request of documentation shall be initiated towards the operational directorates by the Administrative Support Officer of S5. The information shall be provided by the operational services to the Administrative Support Officer in electronic format. It is the responsibility of the Administrative Support Officer to ensure the completeness of the information and/or documentation provided by the operational services.

The Secretary to the Audit Team shall set up a HC file per audit assignment including the input file. This HC input file shall be created from the electronic format file and shall be reviewed by the Secretary to the Audit Team in order to ensure that **only** the data relating to the audited beneficiary (and not the other beneficiaries involved in the audited contract) is collected in the HC file. Once compiled, this file shall be transferred together with the first flash report to the in charge auditor of S5. Any missing documentation should be reported and requested directly by the in charge auditor to the Administrative Support Officer.

4.8. Data gathering regarding the contractor

In recent years, the international auditing standards have undergone important developments in the context of the responsibility of the auditor to consider fraud in an audit of financial statements. Revised auditing standards (ISA 240 and SAS 99) have been issued in that respect.

In order to demonstrate sound healthy scepticism and identify any risk indicator related to the contractor, the S5 auditor shall gather miscellaneous information regarding the audited contractor.

5. AUDIT PLANNING

Once the Letter of Announcement has been sent out to the contractor, the EAF should follow up to make the necessary arrangements regarding the planning of the audit at the premises of the contractor.

Based on the information included in the audit input file, the EAF should be able to estimate the required resources, the time needed and the level of competence required to perform the audit.

The planning of the audit is the responsibility of the EAF.

6. AUDIT EXAMINATION

The audit examination consists of performing audit procedures in order to collect sufficient and appropriate evidence on which to base an opinion (as to whether the costs declared in the financial statements have been properly incurred and are eligible costs, as defined under the contract between the EC and the contractor).

Audit procedures include the assessment of systems and internal controls as well as substantive procedures (by verifying more individual transactions and balances).

It is the responsibility of the EAF to develop an Audit Plan and an Audit Program in order to meet the objectives of the audit as defined in the Framework Contract.

7. AUDIT REPORTING

As foreseen in the working practice of the framework service contract, the EAF shall submit to S5 specific documents summarising its audit conclusions. Those mandatory documents are the following:

- The Flash Report;
- The draft Audit Report;
- The final Audit Report.

Therefore, S5 external auditors shall perform procedures to obtain sufficient appropriate audit evidence that the work of the EAF is adequate for EC purposes, in the context of the specific framework contract.

All those documents shall be sent in electronic format by the Audit Co-ordinator of the external audit firm to the Deputy Head of Unit of S5 and to the Secretary to the Audit Team.

The Secretary to the Audit Team is responsible for disseminating these documents to the S5 auditor in charge of the audit. As a result thereof, the Secretary to the Audit Team has to

- (1) Forward the e-mail sent by the Audit Co-ordinator of the EAF to the S5 auditor in charge of the audit;
- (4) Update ARPS in order to register the date of communication of information provided by the EAF. This information is important to assess whether the time limits foreseen in the framework service contract are respected;
- (5) Print the e-mail and the attached document and transfer it to the auditor of S5 in charge of the audit.

7.1. The Flash Report

When the EAF shall have completed the work on the premises of the audited contractor, a Flash Report (in a format such as disclosed in annex 4 of the current

handbook) shall be sent to DG INFSO. It is recommended and expected that the Flash Report is sent to DG INFSO within two weeks after completion of the field work.

This Flash Report should be considered as an "early warning report", giving the EAF the opportunity to provide DG INFSO with the preliminary audit findings and their relative significance in relation to any identified risks and/or audit adjustments/recommendations.

The Flash Report should contain the following information:

- Date of review and acceptance by the Audit Partner
- Details of auditor including amongst others:
 - Assignment batch reference number
 - Details of the EAF carrying out the audit
- Specific audit details including amongst others
 - Name of the audited contractor
 - Information regarding contract(s) being audited
 - Confirmation of audited period(s)
- Audit information including risk evaluation based on the internal control system
- Attached copies of documentation including amongst others
 - A summary, in accordance with Annex 1 of the Audit Report, of the audit findings
- Additional information including amongst others
 - Explanations on the nature of the proposed audit adjustments
 - Summary of the key points arising from the discussions/meetings held with the audited contractor

S5 auditor should carefully review this Flash Report together with the information provided in the Audit Input File within _____ from the date of its receipt.

The objective is to ensure that

- (1) The submitted Flash Report is compliant.
- (2) The submitted Flash Report is in line with the scope defined within DG INFSO (i.e. related to the correct contractor, contract(s) and period(s) to be audited);
- (3) Any specific risk associated with the audited contract(s) is identified and properly followed up;
- (4) The figures and other relevant contractual data as reported by the EAF are accurate with respect to the underlying costs claimed and costs accepted by the EC financial officer and the underlying contractual information

In case when any of the control activities foreseen in the Flash Report control checklist would give rise to any comment by the S5 auditor, he/she should:

- (1) Contact via e-mail the Audit Co-ordinator of the EAF in order to ask him/her to amend and/or complete the Flash Report according to his/her comments;
- (2) Copy the Deputy Head of S5 and the Secretary to the Audit Team in every correspondence sent to the EAF;

- (4) Ensure that his/her comments have been properly considered in the subsequent Flash Report submitted by the EAF via the Audit Co-ordinator.

In case the subsequent Flash Report would still give rise to any comments from the S5 auditor, the steps (1) to (4) disclosed here above should be repeated again until the S5 auditor accepts the Flash Report.

Once the S5 auditor agrees with the submitted Flash Report, he/she shall:

- (4) Notify via e-mail the Audit Co-ordinator of the EAF with the acceptance of the Flash Report and ask him to proceed with the draft Audit Report. The deputy head of S5 and the Secretary to the Audit Team should be copied in this correspondence.
- (5) Print this correspondence and file it in the HC audit file together with the last version of the Flash Report.

It is the responsibility of the Secretary to the Audit Team to

- (2) Register the date of notification of acceptance of the Flash Report within ARPS.

7.2. The draft Audit Report

Once the Flash Report has been accepted by S5 through e-mail notification, the Audit Co-ordinator of the EAF shall send to DG INFSO a draft Audit Report

The Audit Report is the main deliverable issued by the EAF. It is a long form audit report. As a result, it does not only report the audit conclusions via the audit opinion but it also gives additional valuable information by detailing per cost category the work performed and the related findings. This draft Audit Report should contain the following information:

- Executive summary including amongst others
 - Scope and responsibilities
 - Summary of audit adjustments and recommendations
 - Audit opinion
- General information about the audited contractor and contract(s)

- Conclusion as to reliability on internal control
- Description of audit work performed and findings
- Annexes to the audit report including amongst others
 - Costs claimed according to financial statements, costs accepted by EC financial officer and audit adjustments
 - Analysis of direct personnel costs and indirect costs
 - Copies of required audit certificates
 - Contractor comments on audit findings

The objective of the draft Audit Report is to provide DG INFSO with a provisional Audit Report aimed at summarizing the audit procedures performed and their related findings on which the EAF based its audit conclusions. The audit conclusions brought forward by the EAF shall, however, remain subject to their final approval by S5.

The S5 auditor should carefully review this draft Audit Report together with the information contained in the accepted Flash Report

The objective is to ensure that:

- (1) The submitted draft Audit Report is consistent with the information included in the accepted Flash Report;
- (2) The submitted draft Audit Report is compliant with the template agreed upon within the framework service contract;
- (3) The figures reported in the draft Audit Report are coherent amongst the different sections of the draft Audit Report;
- (4) The draft Audit Report is adequate and reliable, and provides therefore sufficient and appropriate evidence to corroborate the audit conclusions.

Point (4) is probably the most important and difficult step to be completed by the S5 auditor.

The conclusions of the quality review performed by the S5 auditor should be discussed with and approved by the Deputy Head of Unit of S5. As a result thereof, the S5 auditor shall prepare a "signataire" to be submitted for approval to the Deputy Head of Unit of S5. It shall include the following information:

- (1) The draft Audit Report;
- (2) A list of all remarks arising from the control activities foreseen in the Audit Report Control Checklist;

After having reviewed the information contained in the "signataire", the Deputy Head of Unit shall request a meeting with the S5 auditor in order to discuss the conclusions of his/her quality review. The objective is to enforce the "4-eyes principle" by reaching an agreement on the content and extent of the conclusions of the quality review which will thereafter be notified to the Audit Co-ordinator of the EAF.

Based on the comments arising from the quality review as approved by the Deputy Head of Unit, the S5 auditor shall:

- (1) Contact via e-mail the Audit Co-ordinator of the EAF in order to ask him/her to amend/complete the draft Audit Report according to his/her comments;
- (2) Copy the Deputy Head of Unit and the Secretary to the Audit Team in every correspondence sent to the EAF;
- (3) Save the sent e-mail on the shared drive of S5
- (4) Ensure that his/her comments have been properly considered in the subsequent draft Audit Report submitted by the Audit Co-ordinator of the EAF.

In case the subsequent draft Audit Report would still give rise to further comments from the S5 auditor, steps (1) to (4), as disclosed above, should be repeated until the draft Audit Report is considered acceptable by the S5 auditor.

In case of amendments and/or updates requested by S5, the EAF shall include these in the revised draft Audit Report and dispatch the revised draft Audit Report within 20 days to the audited organisation for their comments. The EAF should grant the audited organisation one month to introduce any comments to the report. The observations made by the contractor should be in writing and should be disclosed as appendix to the draft Audit Report.

Once the S5 auditor agrees with the submitted draft Audit Report, he/she shall

- (4) Notify the Audit Co-ordinator of the EAF via e-mail of the acceptance of the draft Audit Report and ask him to proceed with the final Audit Report. The Deputy Head of Unit and the Secretary to the Audit Team should be copied in this correspondence;
- (5) Print this correspondence and file it in the HC file together with the final accepted version of the draft Audit Report.

It is the responsibility of the Secretary to the Audit Team to

- (2) Register the date of notification of acceptance of the draft Audit Report within ARPS.

7.3. The final Audit Report

After written acceptance from S5 of the draft Audit Report, the Audit Co-ordinator of the EAF shall send an electronic (PDF) version of the final Audit Report to the Secretary to the Audit Team without delay.

The S5 auditor should ensure that the final Audit Report agrees with the accepted final draft Audit Report. Any discrepancy should be communicated immediately to the Audit Co-ordinator of the EAF.

In the absence of any reaction from S5, the EAF shall send paper versions of the final Audit Report to S5

It is the responsibility of the Secretary to the Audit Team to

(2) ~~Register the date of receipt within ARPS.~~

8. AUDIT CLOSURE

The Audit Closure is the last phase of the audit process within the External Audit Unit. This phase mainly consists in

- (1) The monitoring of the completeness of the audit file;
- (2) The update of audit records within the Audit Results Processing System ("ARPS");
- (3) The dissemination of the agreed audit conclusions towards related parties;

8.1. Monitoring of the completeness of the HC audit file

The Audit Closure is the last phase of the audit process where S5 is actively involved and the most critical one. The S5 auditor shall ensure that all the required steps were properly performed and documented during the audit process before disseminating the audit results towards related parties.

8.2. Update of audit records in ARPS

The conclusions of the audit need to be recorded in ARPS by the S5 auditor.

Since the audit results recorded within ARPS must reconcile with the audit results brought forward in the final Audit Report, it is important to wait until the Audit Coordinator of the EAF has sent the hard copies of the final Audit Report before proceeding with this step.

It is the responsibility of the Secretary to the Audit Team to ensure that the submitted hard copies of the final Audit Report reconcile with the final accepted version of the draft Audit Report filed in the HC audit file.

After verification of the HC final Audit Report, the S5 auditor shall record the following information in ARPS:

- (1) The audited costs claimed per contract;
- (2) The audited costs accepted by the EC financial officer per contract;
- (3) The audited costs considered as eligible by the external audit firm per contract.

The costs should be entered in ARPS in a splitted form, so as to guarantee that the amounts are detailed per type of activity (Research & technological development/innovation, Management of the consortium, Demonstration and Training). This categorization is important since the adjustment at funding level, computed automatically by ARPS, may vary depending on the type of activity.

The S5 auditor should also verify that the audited periods are labelled within ARPS as "audited", as often there might be an additional period audited which was not originally foreseen and labelled as "audited" period in ARPS. Finally, the S5 auditor should also verify that the non-audited periods are labelled within ARPS as "check only".

The S5 auditor should ensure that

- (1) The information recorded in ARPS reconciles with the annex I of the HC final Audit Report
- (2) The audited costs accepted by the EC financial officer as recorded by the S5 auditor in ARPS reconcile with the amount mentioned in ARPS under "Phx eligible costs".

This last step aims at verifying whether the amounts of the costs accepted by the EC financial officer as retrieved from Phoenix correspond to the amounts considered as "accepted by the EC financial officer" in the Final Audit Report. These amounts should be identical. If this would not be the case, the S5 auditor shall either write a brief note towards the operational services to explain the reasons for the discrepancies or ask for a revised Audit Report from the EAF.

8.3. Dissemination of the final audit results towards the related parties

The final audit results should be communicated to:

- (i) The contractor for information purposes, and when applicable, with the related request to submit revised financial statements;

A number of documents need therefore to be completed and signed by the Head of the Unit of S5 and the Director of the General Affairs' Directorate as indicated below:

- (4) The Letter of Conclusion towards the contractor (signed by the Head of Unit of S5).

8.3.1. Audit Summary Sheet

The Audit Summary Sheet is a summarized report aimed at highlighting the main conclusions of the audit in terms of quantitative (audit adjustment) and qualitative (recommendations) impact.

8.3.1.1. Extrapolation

The audit results that are described in the final Audit Report can be differentiated into 3 categories namely (i) non-systematic errors (hereafter "NSE's"), (ii) systematic errors (hereafter "SE's") and recommendations (hereafter "R's").

Non-systematic errors are typically non-repetitive errors such as individual working errors. The correction of these errors is generally limited to the audited areas.

Systematic errors are repetitive and recurring. The implication of this type of error is that the contractor is not complying with his contractual obligation in a systematic way. In this context it is essential that the audit finding is extrapolated to non-audited areas.

This judgement is critical as it will have a significant impact on the implementation phase. In this manner, the procedure to be followed in each case varies as such:

- (1) In case of NSE's, the implementation of the audit results will be limited to the audited contracts and periods;
- (2) In case of SE's, the implementation of audit results will not be limited to the audited contracts and periods but also extrapolated to (i) non-audited periods of audited contracts, (ii) non audited FP6 open contracts within DG INFSO and to (iii) non-audited FP6 open contracts within other RDG's.

In the context of the harmonization of the FP6 audit strategy amongst the DG's of the Research family, it has been decided that the results of an audit where extrapolation is proposed should be forwarded to every RDG. This would enable the other RDG's to implement the results of an audit performed by another RDG in case of extrapolation.

8.3.3. Letter of Conclusion towards the contractor

This letter formalizes the finalisation of the audit managed within S5 towards the Contractor.

A distinction shall be made depending on the presence or not of extrapolation. Indeed, the content of the Letter of Conclusion towards the Contractor is different in both scenarios.

8.3.3.1. No extrapolation required

In case no extrapolation is required, the content of the letter shall be limited to the following:

- (1) The confirmation of the finalisation of the audit, with reference to the proper consideration of contractor's comments in annex 4 of the Audit Report
- (2) The EC reaction on the comments of the contractor on the audit adjustments
- (3) Further information regarding the contractor's involvement with the Operational Services with regards to the implementation and/or extrapolation of the audit results.

The Secretary to the Audit Team shall prepare this document, save the draft on the shared drive "H" and print it for inclusion in the "signataire" of audit closure.

The letter of audit closure is to be addressed to the contractor, signed by the Head of Unit of S5 and sent together with the final Audit Report. A copy, for information purposes, shall be sent to the EAF and to the DG INFSO Directors of directorates where the audited projects are carried out.

It is important to understand that in this scenario, no extrapolation is required and therefore the implementation of the audit results will be limited to the audited contracts and periods.

If the audit adjustment is in favour of the Commission, the operational services may either adapt future payments due on this contract either issue a recovery order for all amounts overpaid (in case all the payments are already executed).

8.3.3.2. Extrapolation required

In case extrapolation is required, the content of the letter shall contain the following:

- (1) The confirmation of the finalisation of the audit;
- (2) Explanation on the systematic errors identified;

- (3) Explanations on the procedures that our services intend to apply regarding the implementation of the audit results and their extrapolation to other existing open non-audited contracts;
- (4) The awareness of a potential follow-up audit.

The Secretary to the Audit Team shall prepare this document, save the draft on the shared drive "H", and print it for inclusion in the "signataire" of audit closure.

In cases where extrapolation is recommended, the Letter of Conclusion addressed to the contractor shall be signed by the Head of the External Audit Unit and sent together with the final Audit Report. A copy, for information purposes, shall be sent to the EAF and the DG INFSO Directors of directorates where the audited and non-audited projects are carried out. A list of the opened contracts which are subject to extrapolation, as obtained from the ARPS, shall be sent in annex to this Letter of Conclusion to the contractor.

It is important to understand that in this scenario, extrapolation is required and therefore the audit results implementation will not only be implemented to the audited contracts and periods but also extrapolated to non-audited periods of audited contracts and to non-audited contracts.

Regarding the audit adjustment due on audited contracts and periods, the operational services may either adapt future payments due on this contract either issue a recovery order for all amounts overpaid (in case all the payments are already executed).

8.3.4. List of all INFSO contracts to be annexed to the letter of closure addressed to the audited participant.

As referred to in previous chapter, this list consists of the open contracts where the audited organisation is involved with DG INFSO. This list can be retrieved from ARPS.

The auditor in charge will therefore perform a "search" in ARPS based on the audit assignment number. The results of the search will give a list of projects in which the audited contractor participates.

This list shall be attached to the letter of closure addressed to the Contractor in cases where extrapolation is recommended. Indeed, it will give an indication on the scope of the extrapolation.

8.3.5. Share of audit results towards other RDG's

In order to increase the efficiency of the overall audit strategy common to all the RDG's, it has been decided to communicate the results of the audits performed within one specific RDG, namely DG INFSO in this current report, to the other RDG's.

The workflow regarding the preparation of the documents described in the steps 8.3.1 to 8.3.5 above can be summarized as follows:

- (1) The Secretary to the Audit Team shall draft all the documents discussed here above in case no differences were highlighted during her review of the final Audit Report.
- (2) The Secretary to the Audit Team shall prepare a "signataire" including all the documents referred to here above as well as the final Audit Report and transfer it to the S5 auditor.
- (3) The S5 auditor shall update the audit results in ARPS.
- (4) The S5 auditor shall properly and exhaustively complete all those draft documents and save them on the shared drive of S5.

- (6)
- (7).
- (8) The S5 auditor shall print all the updated documents referred to here above and file them in the "signataire".
- (9) The S5 shall submit this "signataire" for review purposes to the Deputy Head of Unit of S5
- (10) Once agreed by the Deputy Head of Unit, the S5 auditor shall transfer the "signataire" to the Secretary to the Audit Team.
- (11) The Secretary to the Audit Team shall adonize all the documents.
- (12) The Secretary to the Audit Team shall submit the Letters of Conclusion for signature to the Director of the General Affairs' Directorate and to the Head of Unit of S5
- (13) Once properly signed, the Secretary to the Audit Team shall send the documents to the concerned recipients and transfer a copy of those documents to the S5 auditor for filing in the HC audit file.

Once the audit results have been disseminated to the concerned related parties, the audit process on a specific audit assignment can be considered as closed by the External Audit Unit.

9. IMPLEMENTATION OF AUDIT RESULTS

This task comprises in essence (i) the implementation of audit results to the audited projects, (ii) the extrapolation of audit results to non-audited periods and/or projects via dialogue with contractor, (iii) the initiation of recovery orders or compensation where appropriate, and (iv) the update of ARPS.
