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Internal

DG INFSO'S CONTROL & ANTI-FRAUD STRATEGY: VERSION MARCH 2010

1. Context and background

The action plan in the context of the Commission's "*Roadmap towards an integrated internal control framework*" (a.k.a. "*Towards a +DAS*") has led to a common "Internal Control Template" for better presenting a DG's overall internal control system in the Annual Activity Report (AAR – cf. Part 2 & Annex 5) and to a number of initiatives for further improving the DGs' internal control systems. This was also the case in DG INFSO, which has been building on lessons learnt from its ex-ante and ex-post controls and has taken account of the indications resulting from its annual High Level Risk Assessment exercises.

In addition, initiatives by OLAF have called for an "*Operational Cooperation between OLAF and the Commission*" to improve the combat against fraud by working together on risk analysis and prevention, on investigation and detection, and on exchange of information and of intelligence (see the 2007 OLAF Conference and the OLAF note of 11.04.08). Further to this, DG INFSO confirmed fraud prevention as an important part of its control strategy and started a close cooperation with OLAF, both by strengthening the cooperation between external auditors and investigators, and by incorporating OLAF's intelligence tools in its External Audit Unit's operations.

In this context, it appears useful to take stock of DG INFSO's anti-fraud-related control elements – which are embedded in its general internal control system – and to describe especially the recent developments in the area of ex-post controls and the subsequent improvements of ex-ante controls based on lessons learnt (*see annex I - recent elements added in blue*). The entire control system, as it stands, is described in annex II (*recent elements added in blue*). This documentation is to be understood taking into account the specificities of an operational DG which is respecting the responsibilities of OLAF in this matter.

2. Anti-fraud controls embedded in DG INFSO's internal control system

As highlighted by the European Court of Auditors (ECA) in its 'single audit' model (ref. Opinion N° 2/2004 - OJ 2004/C 107/01), a DG's internal control system should provide reasonable assurance - while taking into account that zero risk of irregularity is neither realistic nor economic and that the intensity of checks and verifications should be set with an acceptable balance between costs and benefits.

In this context, adding exhaustive anti-fraud controls in spite of an unfavourable cost/benefit-balance would not only be against the principle of "sound financial management" (cf. "effectiveness, efficiency and economy"), but would also disturb the efforts undertaken for establishing a "trust/simplification" culture towards our stakeholders. Still, DG INFSO's internal control system does embed a number of anti-fraud control elements – i.e. for fraud prevention, detection and correction – some of which are common at corporate and/or family-level. These are aimed against financial fraud (from both external and internal origin) as well as against scientific fraud (e.g. rigged selections/evaluations/reviews, plagiarism in deliverables). But they are not operated on a stand-alone basis. They are embedded in DG INFSO's general 'overall' control system. If the DG's verification checks and/or on-the-spot audits detect "intentional" erroneous behaviour, then the Commission-standard anti-fraud measures are being taken promptly (e.g. transmission to OLAF, EWS-flag).

Given that DG INFSO's anti-fraud control elements are embedded in its general internal control system of preventive, dissuasive, detective and corrective controls, it is only meaningful to show those fraud-related aspects in relation to the overall control system. Therefore, for the "inventory purposes" of this document, the description of the fraud-related control elements which are embedded in the control system (*see annex I*) follows the structure (e.g. categories and subtitles) of the "Internal Control Template" for describing the DG's internal control system (in the AAR) (*see annex II*).

Taking into account the existing anti-fraud elements embedded in the general internal control system, the perceived residual risks (likelihood/impact) have been so far considered to be acceptable. However, in the light of recent audit findings and in the context of DG INFSO's "continuous improvement" working environment, additional measures have been considered for implementation in a (cost/benefit) balanced way – on the basis of resources available – e.g. by taking advantage of new technological possibilities (see point 3 below).

3. Recent developments: newly strengthened anti-fraud control elements in DG INFSO's ex-post and ex-ante controls

Since 2008, DG INFSO has taken the following initiatives which have strengthened its cooperation with OLAF:

- Regular meetings between OLAF and INFSO/02 to assess the state of play of the open cases. In addition, ad hoc meetings between auditors and investigators are organised as often as needed.
- When appropriate, pre-assessment of fraud suspicion in cooperation with OLAF at an early stage, before formal submission of a file to OLAF. This allows improving the collection of information to be forwarded and/or avoiding forwarding files which do not contain sufficient indications of fraud. This has led to the transfer of initial formal information to OLAF, complemented with the results of an ex-post audit on-the-spot as soon as those became available. On a case by case basis it is decided to what extent additional audit work is needed to support the investigations.
- Cooperation with OLAF during investigations, by providing relevant administrative information to the investigators, participating in their analysis and providing technical support to on-the-spot controls.
- Technical cooperation with OLAF's Operational Intelligence Unit in order to structure contractual data available in DG INFSO in such a way that these can be retrieved easily in the context of risk-based auditing (data-mining via PLUTO database).
- Formalised follow-up of OLAF final cases, by treating these administratively in a similar way as audit reports. The contradictory procedures and the calculation of the adjustments to be implemented are carried out similarly as for an audit report. The relevant information is also integrated in the ARPS-system. In addition, the administrative follow-up is now organised in parallel with the criminal follow-up rather than subsequent to it, in order to protect the EU's financial interests in the most effective manner.

Since 2008, DG INFSO has implemented additional measures for further increasing the effectiveness of DG INFSO's anti-fraud-related control mechanisms:

- Preventive and directive anti-fraud elements: ethics and staff competences

  The operation of any type of controls can only be effective if facilitated under a favourable managerial environment. The Commission's set of ethical values and its staff regulations already ensure a dissuasive effect on any internal fraud temptations – especially when accompanied by exemplary behaviour by managers setting the "tone-at-the-top" and by regular communication to increase the awareness among staff about ethics/fraud themes (cf. yearly reminder on "ethics" and "improprieties").

  Still, further actions have been implemented:

  - The 2008 Commission-wide "ethics" campaign and both the IAS' and DG INFSO's own IAC audits on "ethics" have been taken as an opportunity (context and occasion) for discussing and consequently further nurturing DG INFSO's "anti-fraud" sense of values. Actions included e.g. setting up an INFSO contact point for collecting fraud suspicions, a strong awareness raising of senior/middle management, a DG-tailored ethics & values info-campaign, a specific 'culture change' campaign action stressing that signalling indications is a positive contribution, coaching of junior staff by experienced senior staff in order to detect inappropriate behaviour (e.g. conflict of interest, inappropriate lobbying, etc).

  - Finally, the risk analysis made twice-annually in the context of INFSO's potential sensitive functions and/or mitigating controls has contributed as well to a better understanding of INFSO's residual internal risks in terms of vulnerability to fraud related to finances and/or sensitive information.

- Detective and corrective anti-fraud elements: new stance and scopes

  With the introduction of the common FP6 Audit Strategy, the detective controls have already been further strengthened (e.g. increased number of random and risk-based audits on-the-spot + related external communication which has a dissuasive/preventive effect). This will be continued under the FP7 audit strategy which explicitly mentions the risk-based audits as a fundamental element of the detective and corrective part of the strategy.

  Moreover, in line with international audit standards, the auditors' working methods have been adjusted (risk-based selection, broad scope for contracts to be audited, professional scepticism, ISA 240 on the Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements).

4. Current steps

DG INFSO has asked feedback from OLAF on the draft version of this document (note 102583 of 09.02.09). DG INFSO has also communicated to OLAF the various measures taken in the framework of its reply to OLAF's recommendations on the "fraud-proofing" in research policies (note 120079 of 12.05.09). In its reply (note 5678 of 25.06.09), OLAF has welcomed DG INFSO's initiative and considers the INFSO approach as appropriate.

OLAF recommended DG INFSO to share these measures among all Research DGs. In fact, beyond the efforts to increase awareness and strengthen the anti-fraud vigilance within DG INFSO itself, unit INFSO/02 has organised already information sessions on lessons learnt for other DGs – contributing to an overall improved anti-fraud culture in the Commission. In this context, an inter-service working group on fraud issues has been established (FAIR), the PLUTO application is going to be used by DG RTD and regular exchanges of relevant information and practices exist within the Research family. Furthermore, also operational information on fraud cases is shared with the other Research DGs on a need-to-know basis, in order to facilitate the administrative follow-up and to share the lessons learnt.

In 2010, DG INFSO will be implementing additional measures for further increasing the effectiveness of DG INFSO's anti-fraud-related control mechanisms:

- In the ex-post controls, experience has been gained with specialised software tools for the detection of plagiarism in deliverables and project proposals. The integration of such tools in the ex-ante control system is under development.
- Inter alia based on an IAC audit on DG INFSO's "project review" process – a third working group will elaborate measures to strengthen the ex-ante controls in the DG's project (evaluation and) review procedures.

Obviously, the implementation of the additional actions mentioned above has implications in terms of assignment of tasks and allocation of resources. These are documented in a separate document on "*DG INFSO's Anti-Fraud Measures*".

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Annexes:

I. Description of DG INFSO's fraud-related control elements embedded in the DG's general control system - status end-2009

II. Description of DG INFSO's general control system - updated "Internal Control Template"

Annex I

Description of DG INFSO's fraud-related control elements embedded in the DG's general control system (*) - *status end-2009 (most recent elements added in blue)*

(*) structured in a similar way (e.g. categories and subtitles) as the standard "Internal Control Template" for describing the DG's internal control system in annex 5 to the AAR Part 2 - cf. DG INFSO's FP ICT Cooperation payments under direct centralised management

Characteristics of DG INFSO's policy environment: inherent risks

A complex legal framework is required to implement a co-financing system based on the reimbursement of 'actual eligible costs'; given the large number of criteria to be complied with, and the relative lack of financial management expertise of the beneficiaries, errors in cost claims are rather frequent.

Potential fraud risks

- Financial fraud: some of the errors in cost claims by beneficiaries might be intentional, some of the financial transactions might be unduly but intentionally adjusted by staff, some of the participants in the project might be fictitious, some beneficiaries may depend exclusively on EU funding
- Scientific fraud: project selections/evaluations/reviews might be rigged, deliverables might be affected by plagiarism

Management and control systems: anti-fraud-related control elements embedded in the general internal control system

The control environment – including the organisational, administrative and accountability structure

The DG's internal control system aims at providing reasonable assurance that the budget is spent in a regular and legal way. Therefore, to a certain extent, some controls include anti-fraud measures at the same time. However, for an operational DG, having a 100% risk-free and zero-fraud control system is not feasible (cf. cost/benefit balance, balance between simplified service-mindedness and burden of heavy bureaucracy).

Still, if the DG's general control system would signal indications that fraudulent behaviour might occur and/or be going on, then the risk-based part of the ex-post controls is adjusted to analyse and cover these potential issues as well. If need be, the DG hands over any suspicious issues to the Commission's dedicated anti-fraud services (OLAF, IDOC).

The design of the research co-funding system embeds preventive anti-fraud control elements in the legal framework, the Framework Programmes and/or the model contract:

- vulnerability testing & proofing of FPs and model contracts;
- co-financing system by partial reimbursement of eligible 'real' costs;
- financial guarantee for FP6 projects / guarantee fund for FP7 projects;
- full traceability of money flows.

The design of the internal workflows embeds 'internal' anti-fraud control elements from the FR-IR, the financial circuits and the staff regulations:

- 'absolute' enforcement of the FR-IR principles and articles;
- ICS: inter alia the 4-eyes-principle, exceptions recording, supervision aspects and a whistle-blowing possibility are embedded in the organisation and the operational workflows;

- user accesses of iFlow and ABAC are regularly checked for violations of the 4-eyes-principle (e.g. a PO replacing his HoU de facto signing twice);
- twice-annual risk assessment of potential sensitive functions and their mitigating measures;
- FO's financial accountability and liability ("art. 22 – financial responsibility");
- AOSD's accountability (Charter and Sub-delegation) and their DMRs;
- storage of routing, decisions, justifications and supporting documents (iFlow).

In terms of organisational culture and internal communication, all newcomers receive, as part of their introduction training, a presentation by the Director-General, in which the importance of ethics and resistance to fraud is emphasised. On an annual basis, all staff of the DG is reminded of the rules and guidelines on ethics and integrity. In addition, the DG's ethics policy has been strengthened, and includes coaching of junior PO staff by experienced senior POs in order to detect potential fraud.

Selection process (of beneficiaries, intermediaries, agencies etc.) – including preventive measures

The selection/negotiation processes of the research co-funding system embed preventive anti-fraud control elements:

- selection/evaluation of projects by a group of external experts under peer-pressure (who are rotated and sign a declaration on absence of conflicts of interests);
- legal and financial checks of candidate-coordinators (FEL & LFV);
- renewed guidelines for the negotiation process (cf. adopted recommendations from the 2009 INFSO-WG on negotiations);
- systematic screening of consortia in new calls;
- corporate, inter-DG, pre-warning system (EWS-flags);
- validity check of SME self-declarations (ex-post).

Preventive and directive measures to improve the quality of financial management and provision of data by beneficiaries and intermediaries

The contracting process of the research co-funding system embeds preventive/dissuasive anti-fraud control elements:

- contractual penalties and sanctions (reinforced as from FP7).

Detective and corrective controls: verification of payments and key milestones

The payment process of the research co-funding system embeds detective anti-fraud control elements:

- certified cost claims (audit certificates);
- PO and FO checking scientific and financial information;
- possibility for additional desk checks if considered needed;
- systematic screening of deliverables for plagiarism (integration under development; as from 2010);
- renewed guidelines for the review process (cf. 2009 IAC audit and 2010 INFSO-WG on reviews; as from 2010);
- renewed guidelines for the payment process (cf. recommendations from the 2009 INFSO-WG on payments; as from 2010);
- guidelines and templates allowing a more structured and efficient way of dealing with contract terminations, payment suspensions and early warnings for the EWS-system;
- suspicious projects are being signalled for a financial audit on-the-spot and/or for transmission to OLAF.

Corrective controls and audit

The post-payment process of the research co-funding system embeds corrective anti-fraud control elements:

- ex-post control by audits on-the-spot (selection both random and risk-based);
- strengthened risk-based audits, as a fundamental element of the FP audit strategy;
- data-mining integrated into the audit working methods (pre-investigations, preparation of audit batches);
- stricter working methods in terms of 'professional scepticism' (cf. auditors' ISA240 standard);
- implementation and extrapolation of audit results;
- recovery orders (or compensation against next payments);
- termination of ongoing project participations of beneficiaries with irregular cost claims;
- exclusion of beneficiaries from future projects in case of irregularities or professional misconduct;
- strengthened cooperation with OLAF (pre-assessment, administrative/technical cooperation, regular follow-up of cases);
- OLAF-related procedures and legal action (as civil party);
- contractual penalties/sanctions (reinforced as from FP7).

Verification that processes are working as designed

The supervision, monitoring and management processes in DG INFSO embed feedback mechanisms which may lead to additional anti-fraud actions:

- assessment of residual risks and/or suspicion of 'cases' may give rise to extra 'ad hoc' action, e.g. data mining for analysing potential structural weaknesses (e.g. abuse of SME-status) and/or inclusion of such weaknesses in the scope a for risk-based audit (cf. part C of ex-post audit strategy);
- tracing and follow-up of the exceptions and weaknesses reported – any lessons to be learned.

Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors

The supervision, monitoring and management processes in DG INFSO embed feedback mechanisms which may lead to additional anti-fraud actions:

- IAC's audit of the experts' roles in project selections/evaluations;
- evaluation of the added-value of audit certificates;
- quality check of the contracted audit firm.

High level management reporting (e.g. to the Director General) and its role in monitoring problem issues

The design of the management reporting embeds elements from the Charter of AOSDs which are partially anti-fraud control elements as well:

- assessment of residual risks;
- improvements to the internal control system;
- weaknesses and exceptions recorded;
- opinion on the state of internal control and declaration of any issues which may need the AOD's attention on potential reservations.

Annex II

Description of DG INFSO's general control system - *status end-2009 (most recent elements added in blue)*

Updated "Internal Control Template" for describing the DG's internal control system in annex 5 to the AAR Part 2 - cf. DG INFSO's FP ICT Cooperation payments under direct centralised management

("full" version, including the anti-fraud elements mentioned in annex I)

DG INFSO's standard Internal Control Template (*for DG INFSO's FP6 and FP7*[*] *ICT Cooperation payments under direct centralised management*[**]) (*status end-2009*)

1. The control environment

including organisational, administrative and accountability structures

Summary: The Research Projects are co-financed through the reimbursement of eligible costs

The control environment is characterised by a large number of beneficiaries, each operating their own control system.

Key inherent control risks in this environment:

- Complex legal framework required to implement a system based on the reimbursement of 'actual eligible costs';
- Beneficiaries must allocate personnel cost and overheads via productive hours and time recording and deduct a range of ineligible items (VAT, duties, interest) from direct costs and overheads via management accounting in accordance with the complex contractual and regulatory provisions;
- Budgets allocated at the award stage are indicative only – amounts paid are always provisional and subject to recovery if not in line with actual costs;
- Given the large number of criteria to be complied with, and the relative lack of financial management expertise of the beneficiaries, errors are expected to be frequent.

DG INFSO's **organisational and accountability structure** is based on a de-centralised organigram, in which sub-delegations are assigned accordingly. Key controls and supervision measures are embedded in the DG's organisational structure, financial circuits and even electronic workflows. A cascading structure for problem solving, monitoring, reporting and senior supervision is operating on a weekly basis (e.g. Directorate meetings, OS-AFU-meeting, ICT Directors meeting, INFSO Directors meeting – see below). DG INFSO's Authorising Officers by Sub-Delegation (AOSD) report twice annually via their Director's Management Report (DMR) to their Authorising Officer by Delegation (the Director General as AOD). In addition, the DG's ethics culture, fraud awareness training and sensitive functions policy have been strengthened.

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[*] The information in the Template is applicable to FP6 and FP7. The FP7 controls are the same as for FP6 with additional controls recently added where mentioned.

[**] Given their limited importance in terms of the overall INFSO ICT budget, the PPP-style "Joint Undertakings" (JUs) – which in the 2 cases of DG INFSO constitute a mix of "indirect and/or shared management" modes (both for a minority stake of 1/6th of the participations values) – are not included in this template covering FP6 & FP7 under "direct centralised management".

Relevant key figures

Management mode = direct centralised management.

Grants are awarded directly to the beneficiary consortia. The coordinator of each consortium manages the distribution of funds.

Grant period = up to 5 years

Grant basis = actual costs, in principle 50% co-funding of eligible costs + overhead (*smaller amounts as lump sums*)

Average value of FP6 grants = 3.890 M€ / 1.126 contracts = 3,4 M€ (*Commission's co-financed contribution*)

Average value of FP7 grants = 3.115 M€ / 919 contracts = 3,4 M€ (*Commission's co-financed contribution*)

The **number of participants** per project is up to 95 participants per project, and several contractors participate in several projects

It is estimated that the 200 largest beneficiaries ("TOP200 participants") account for 50% of the grants budget

Volume of transactions per year = 516 (FP6) + 733 (FP7) = 1.249 payments (2009)

Source: INFSO Management Information System

2. Stages and actors and main issues addressed at each stage

The **planning, programming, monitorring and reporting** processes in place.	Planning and programming For DG INFSO's ICT-related policies, the multi-annual LT-planning as from the Research Framework Program (FP) is translated per year in an annual Work Plan (WP). This WP, plus the annual planning for the DG's other policy areas, is reflected in the DG's Annual Management Plan (AMP), of which all the objectives are covered by the DG's annual High-Level Risk Assessment (HLRA) exercise. General coordination, supervision and reporting In general, DG INFSO has structured its organisation and reporting channels in such a way as to be able to manage its heterogeneous activities at the right

	level, namely semi-autonomously where appropriate but co-ordinated when necessary. Directorates A and B, "Audiovisual, Media and Internet Policy" and "Electronic Communications Policy" respectively, operate on a de-centralised basis. Directorate C "Lisbon Strategy and Policies for the Information Society" ensures coordination for all other "ICT" Directorates (D to H), both within DG INFSO and with the other Research DGs. General co-ordination is provided at senior level through the weekly INFSO Directors meeting (all Directors, presided by the Director General) and the ICT Directors meeting (ICT Directors, presided by the Deputy Director General). Operational co-ordination for administrative and financial matters is ensured at Head of Unit level through the weekly meeting of the Administration and Financial Units plus the Operational Sectors (OS/AFU). Finally, horizontal units from the "Resources" and "General Affairs" Directorates (R and S), and the Internal Audit Capability (IAC), provide assistance, guidance and/or support to all units of the DG. Evaluation, monitoring and impact assessment DG INFSO's evaluation activities are performed according to the Commission's evaluation standards, and their results are available in due time for operational and strategic decision-making and reporting needs. Implementation of the major interventions under the current financial perspectives has been subject to ongoing monitoring. Monitoring of the calls for proposals for ICT research in the 'Co-operation' and 'Infrastructures' specific programmes in FP7 and in the ICT Policy Support Programme (ICT PSP) within the Competitiveness and Innovation Programme (CIP) has been completed and the monitoring reports were well received by the programmes management committees. DG INFSO makes impact assessments for policy initiatives, which are submitted to the Impact Assessment Board for opinion.
Selection process (of beneficiaries, intermediaries, agencies etc.), including **preventive** measures.	The evaluation of proposals is a critical step within the internal control system. Proposals are selected based on their evaluation against public evaluation criteria. It is aimed to get the best value for public money by selecting the best quality proposals in the fairest, most transparent and most efficient way possible. Key controls include the screening of submitted proposals for eligibility; the choice of independent expert evaluators (signing a declaration of absence of conflicts of interests), the evaluation by a minimum of three experts; and a panel review for quality control and ranking of proposals. In addition, the whole evaluation process is subject to the monitoring by a panel of independent observers. In FP7, a formal redress procedure is introduced as an additional mandatory control. This procedure is foreseen in the Rules for Participation as an additional safeguard in order to assure a fully transparent, fair and reliable evaluation process. Based on the prioritised list, the Commission establishes the final list of approved proposals and proceeds to negotiate the grant agreements with the

	successful applicants. The purpose of the negotiation is to clarify and adapt the work to be carried out and the operational objectives of the project, substantiate its costs and determine its duration and the maximum contribution from the EU budget. Based on the recommendations from a 2009 INFSO Working Group, the internal guidelines for the negotiation process have been renewed. They include a systematic screening of the consortia in new calls. The Commission seeks to implement the advice of the independent expert evaluators and, where applicable, the recommendations resulting from the ethical review. This process generates significant efficiencies in the use of Community funds by discarding work which is not essential for the achievement of the scientific objectives of the project and ensuring that the budgeted costs are commensurate to the work to be carried out. Negotiation results are put forward to the Programme Committee, which must approve proposals over certain financial thresholds and funding levels. The grant agreements are then prepared for signature. This phase includes legal and financial verifications, which include the verification of the legal status of the beneficiary and its possible inclusion in the Early Warning System in all cases, whilst the financial viability and the co-funding capacity is analysed on the basis of the specific legal provisions of the programme concerned. With regard to the latter, the practice regarding research programmes has evolved over time, taking into account the introduction of joint financial liability in FP6 and the participants' guarantee fund in FP7. On that basis, financial viability checks are mandatory in FP6 and FP7 for project coordinators and also for individually significant project participants. Risks not covered by the generic mitigating provisions are addressed through targeted ex-post controls on the basis of a dedicated detailed risk analysis (risk-based audits).
Preventive and directive measures to improve the quality of financial management and provision of data by beneficiaries and intermediaries	The Commission has developed a specific communication strategy to ensure that both beneficiaries and the certifying auditors fully understand the contract requirements and provisions, in order to reduce the number of errors and omissions in the cost claims submitted to the Commission. This notably includes extensive guidance notes which are published in the Cordis website in addition to the legal basis and the implementing documents. In the context of FP7, initiatives have been taken to reinforce the ex-ante controls even further. Mainly aimed at reducing the most common misunderstandings and errors among beneficiaries (eligible personnel and/or indirect costs), the Research DGs have introduced 'agreed upon procedures' for better audit certificates and have submitted proposals on the possibility of having an ex-ante certification of the beneficiary's accounting methodology, in terms of average personnel costs and/or overall cost accounting (including indirect costs). In addition, a Guarantee Fund has been set up to offset unrecoverable recovery orders. Finally, as a dissuasive measure, contractual penalties and sanctions have been reinforced under FP7.
Detective and	Beneficiaries submit progress reports, financial statements and an explanation on the use of resources. When required by the grant agreement, beneficiaries

correc-tive controls: Verifica-tion payments and key milestones	submit also a certificate on the financial statements (the audit certificate) issued by an independent external auditor (the certifying auditor). The certifying auditor checks whether the claims made are 'actual', correctly recorded in the accounts and in the eligible project period. The certifying auditor must be independent from the beneficiary and qualified to carry out statutory audits of accounting documents. Before a payment is authorised, all relevant operational and financial aspects are verified by at least two independent members of staff. Scientific/Project officers verify that the work carried out by the beneficiary is in all respects in compliance with the grant agreement by evaluating the project reports and deliverables. To do so, they may seek the advice of independent experts and organise review meetings. Financial officers carry out accounting and arithmetical checks to ensure financial statements and audit certificates have been submitted in accordance with the provisions of the grant agreement. The authorising officer ascertains that these checks on the supporting documents have been done and validates the expenditure. When opportune, "in depth" ex ante desk checks are carried out. These include the verification of individual cost items against other sources of information (reconciliations, authorisation) based on third-party invoices or payslips provided by the beneficiary. Basic deficiencies in beneficiaries' understanding of the contract provisions can be detected and improved this way, with a resulting corrective effect on future claims. The generalised use of audit certifications has reduced the need to carry out these tests. However, in line with the negotiation processes, also the project review and payment processes are being further strengthened. Based on recommendations from a 2009 INFSO-Working Group on payments, renewed guidelines for the payment process will be adopted in 2010. Following a 2009 IAC audit, a 2010 INFSO-Working Group on project reviews will consider new measures for the review processes. In the meantime, systematic screening of deliverables for plagiarism is being integrated in the processes (as from 2010), while guidelines and templates allowing a more structured and efficient way of dealing with contract terminations, payment suspensions and early warnings for the EWS- system have already been made available. Any suspicious projects are, of course, signalled for a financial risk-based audit on-the-spot and/or for transmission to OLAF. Project participations of beneficiaries having been found to have committed irregularities and/or professional misconduct are terminated and they are excluded from participating in future projects.
Correc-tive controls and audit:	Ex-post audits are a key element of the control strategy. The control objectives of the ex-post audit functions are two-fold: (1) to provide an adequate indication of the effectiveness of ex-ante controls; and (2) to ensure the accuracy of the expenditure and, therefore, the legality and regularity of the underlying transactions, on a multi-annual basis. This is achieved by auditing and, where necessary, adjusting a sizeable

	proportion of the expenditure (between 40 and 50%) and by checking compliance on the rest. The contracts to be audited are selected using a multi-annual, three-layered sampling strategy ensuring a comprehensive coverage of the audit population. The three strata are: (1) the 200 contractors representing the largest share of the budget (individually significant beneficiaries); (2) a representative, value-based random sample from the remaining population; and (3) a risk-based sample focusing on potentially riskier contractors. Contracts with the individually significant beneficiaries represent over 40% of expenditure under FP6. The systemic, i.e. non-clerical, errors detected on the audited contracts are extrapolated to non-audited contracts. This will ensure, on a multi-annual basis, that a substantial share of the expenditure is largely free from systemic errors. All audit results are implemented by the authorising officers. Errors detected are corrected by issuing recovery orders or deducing amounts wrongly paid from future payments to the same beneficiary. Given that the Research FPs are multi-annual programmes, these corrective controls are executed over a time-span of several years. Any adjustments which need to be made to the costs initially claimed can first of all be made by offsetting against the next pre-financing period payment. Only when adjustments are needed after the final payment has already been made, then recovery orders are issued for cashing. In addition, if applicable, contractual penalties and/or sanctions are applied. In DG INFSO, the recovery order process and the related balance is monitored on horizontal level. In the context of further strengthening the fraud detection and correction powers of the ex-post controls, risk-based audits have become a fundamental element of the audit strategy. Furthermore, 'data-mining' has been integrated into the audit working methods (pre-investigations, preparation of audit batches), working methods have become stricter in terms of 'professional scepticism' (cf. auditors' ISA240 standard), and cooperation with OLAF has been strengthened (pre-assessment, administrative/technical cooperation, regular follow-up of cases).
3. Supervision and monitoring of the internal control systems and audit follow-up	
Verification that processes are working as designed	Feedback on the effectiveness of the operational processes is available through several information channels: - management's knowledge about the state of the DG's internal control systems, gathered through the day-to-day work and experiences; - the DG's formal supervision, follow-up and monitoring arrangements; - the results from the annual ICS review ('full compliance with baseline requirements' and priorities for 'improvements towards further effectiveness'), which offer 'top-down' information on the DG's state of its internal control system; - the Directors' Management Reports (DMR), which provide twice per

	year 'bottom-up' confirmation or counter-indications to the overall ICS reviews; - the results of the High Level Risk Assessment (HLRA) exercise; - the ex-ante and ex-post controls, including reports of exceptions and/or internal control weaknesses; - the results and lessons learnt from the DG's external financial audits; - the audits and consultancy work performed by the DG's Internal Audit Capability.
Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors	DG INFSO depends on external parties for (i) the selection and scientific evaluation of the research projects (by external experts), (ii) the execution of the outsourced financial audits of contractors (by an audit firm under a framework contract), and (iii) the delivery of audit certificates (by audit companies) to contractors supporting their cost claims for projects. DG INFSO remains ultimately responsible for the consequences of potential problems related to these outsourced services. Therefore, the DG monitors the quality of the project review process (cf. IAC audit), the quality of the financial audit reports issued by the external audit firm contracted and the quality of the audit certificates provided by the beneficiaries' appointed audit firms.
High level management reporting e.g. to the Director General) and its role in monitoring problem issues	General co-ordination (and problem solving, if needed) is provided at senior level through the weekly INFSO Directors meeting (all Directors, presided by the Director General) and the IST Directors meeting (IST Directors, presided by the Deputy Director General). DG INFSO uses a number of management scoreboards on a monthly/quarterly basis covering, inter alia: - Budget execution (commitments and payments) - Payment times - FDI (final date for implementation) - Audit results and implementation/extrapolation - FOR (forecasts of revenue) and Recovery orders outstanding - Experts (TCLs/ALs, meetings) - Studies (so far on an 'ad hoc' basis) In addition, such info is available as well at directorates' level (Authorising Officers by Sub-Delegation, AOSDs) and/or even at unit level (e.g. on workflow status in "iFlow") to enable follow-up as required. Over the years, DG INFSO has improved its internal reporting channels by adding extra chapters on management issues to the Directors' Management Reports. These reports, which are written in line with the Charter of Authorising Officers by Sub-Delegation, allow more detailed 'bottom-up'

	information related to risk, control, audit and (potential) reservations issues to be collected twice per year.

Summary description of **other key controls**	Furthermore, it should be noted that a number of **non-financial key controls** are exercised at different stages of the programme management cycle, which also contribute to the assurance on legality, regularity and sound financial management. The most important contributions to the overall assurance derive from the following other key controls: • Assurance on the scientific and technical scope of the work programme and the content of calls for proposals is derived from the consecutive consultations of the external scientific advisory committee (ISTAG), the programme management committee (comitology), the internal inter-service consultation prior to the Commission Decision taken by Habilitation/Delegation. • Assurance on the transparency, reliability and fairness of the project evaluation procedure is built on the soundness of the overall design and documentation of these procedures, the positive conclusions of the monitoring panels of independent observers and the absence of valid complaints in the context of newly introduced redress procedure in FP7. • Assurance on the actual delivery of valid scientific results is obtained through the reviews of projects and their main deliverables at least once in the lifetime of every research project. These reviews are held with the support of independent external experts and lead if need be to the request of complementary work to achieve the required results, to the rejection of deliverables and in extreme cases to the termination of contracts and the recovery of unduly paid amounts. The system of project reviews in place in DG INFSO has been audited by the DG's internal audit unit, which has confirmed the adequacy of the system in place. In addition, DG INFSO's research programmes impact assessments and evaluation reports have received positive feedback from internal and external stakeholders (SG-IAB, ECA, BUDG, OECD and peers such as JRC). • The continuous monitoring through the DG's Internal Control Co-ordination Group provides an important contribution to the assurance on the adequate follow-up of identified risks, the actual implementation of action plans and the early discovery of any new issues requiring mitigating management measures.