

Bi-Annual Management Report DG INFSO

01 JANUARY 2007 – 30 JUNE 2007

Table of **content**

Table of content	2
1. Introduction	4
2. Status of the Work Programme	4
3. Implementation of 2007 Budget.....	5
3.1 Commitments and payments.....	5
Status of implementation up to 30 June 2007.....	5
3.2 Payment times	6
3.3 Status on recovery orders	8
4. Changes to the financial circuits	9
5. Risk management: Follow-up of DG INFSO's High-Level Risk Assessment (HLRA) exercise	9
6. Internal Control & ICS	11
6.1 State-of-play of the implementation of the InternalControl Standards.....	11
6.2 Directors' reports as Authorising Officers by Sub-Delegation	12
6.3 Gap analysis & Action Plan towards an integrated internal control framework.....	13
7. Status report on external financial audits up to 30 June 2007	14
7.1 Reinforcement of the ex post audit function.....	14
7.2 Initiation of new audits.....	15
7.3 Status on ongoing files	15
7.4 Finalised audits	15
7.5 Audit results	16
7.6 Implementation of audit results	16
8. Briefing on the main issues concerning the relations with the European Court of Auditors.....	17
8.1 DAS 2005 – Recommendations.....	17
8.2 2006 Court's Annual Report	18
8.3 DAS 2007 – audits started or ongoing	19
8.4 Court's Special Reports.....	20
9. Main issues concerning the relations with the Internal Audit Service	20
9.1 IAS Audit on ex-post controls in the Research DG's	21
9.2 IAS audit on the Annual Activity Report (AAR) assurance process	21
9.3 IAS – Audit on the management of the Translation Demand	21
10. Audits performed by DG INFSO's Internal Audit Capability and related matters	22
10.1 Audit on the IST financial statement processing and payment process	22
10.2 Starting of an audit on the (scientific) Project reviews	22
10.3 Starting of an audit on the roles of the Administrative and Finance Units.....	23
11. State of play of on-going OLAF's files.....	23
12. State of play on the European Ombudsman's files	23
13. Relations with the Education, Audiovisual and Culture Executive Agency (EACEA)	24
14. Declaration and reservations.....	25
15. Annexes	26

1. Introduction

This Bi-annual Management Report covers the period from 1 January 2007 until 30 June 2007 and is accompanied by a set of Annexes containing more detailed information. It reports on issues identified in the agreed Working Methods between Mrs Reding's Cabinet and DG INFSO⁽¹⁾ in line with the Code of Conduct on relations between Cabinets and Services.

Several chapters in this BMR include references to the topics discussed at the "Internal Control Coordination Group" (ICC Group) which was set up by DG INFSO on 15.03.2007.

This new coordination forum was established in order to (inter alia) ensure an effective follow-up to DG INFSO's *2006 High Level Risk Assessment (HLRA) exercise*. The ICC Group is chaired by the INFSO General Affairs director and composed of permanent correspondents from all INFSO directorates.

The mandate of the ICC Group is to assist INFSO's Senior Management to effectively prepare, coordinate, monitor and follow up all important internal control related issues of the DG, such as:

- compliance and effectiveness of the implementation of the Internal Control Standards (ICS);
- follow-up of internal audit recommendations;
- follow-up of risk management action plans;
- planning and follow-up of financial audits results implementation;
- coordination of issues related to the ECA, OLAF, Ombudsman, DPO;
- any other important internal control related issue which needs coordination across the DG.

The ICC Group meets on a regular basis, normally every two months. During the first half of 2007, ICC Group meetings took place on 26.04.2007 and 28.06.2007 – leading to a first progress report on the state-of-play at 30.06.2007 (see annex A.1 to A5).

A dedicated INFSO.S intranet-page includes all related documents (http://intra.infso.cec.eu.int/S/IC_coord_group/pages/meetings.htm).

2. Status of the Work Programme

The Cabinet is regularly informed, in weekly meetings with the Director General, on the state of play relating to the implementation of the Rolling Work Programme.

⁽¹⁾ VH/af D(2005)456 of 23.02.05 and VH/af D(2006) 0834 of 10.04.06 + annex, cf. points 2.6, 2.7 and 2.8

3. Implementation of 2007 Budget

The state of play relating to the implementation of the budget for commitment and payment appropriations is presented below, as well as for the payment time indicators and the follow up on recovery orders.

3.1 Commitments and payments Status of implementation up to 30 June 2007

Table 1: Status of budget implementation on 30.06.2007: commitments

	Budget Chapter	Planned	Actual
09.01	Administrative Expenditure	81,7 %	80,5 %
09.02	i2010 Electronic Comm. and Network Security	32,5 %	34,0 %
09.03	i2010 Content and Services	0,7 %	0,4 %
09.04	i2010 Cooperation – ICT	1,3 %	1,3 %
09.05	i2010 Capacities - Research Infrastructures	0,0 %	0,0 %
09.06	i2010 Audiovisual Policy and Media	46,3 %	37,7 %
	Total :	7,7 %	7,6 %

As far as commitment appropriations are concerned, the overall execution is more or less in line with forecast. For most of the new programmes, no execution of commitments has taken place, as already announced at the beginning of the year. The small delay on activity 09.06 "i2010 Audiovisual Policy and Media" concerns some Media desk files but should be caught up during the coming months. At this stage, implementation rates of 100% or close can be expected by the end of the year.

Table 2: Status on budget implementation on 30.06.2007: payments

	Budget Chapter	Planned	Actual
09.01	Administrative Expenditure	35,9 %	36,1 %
09.02	i2010 Electronic Comm. and Network Security	45,2 %	46,7 %
09.03	i2010 Content and Services	25,1 %	14,7 %
09.04	i2010 Cooperation – ICT	18,3 %	27,0 %
09.05	i2010 Capacities - Research Infrastructures	0,0 %	0,0 %
09.06	i2010 Audiovisual Policy and Media	26,2 %	16,0 %
	Total :	20,3 %	26,3 %

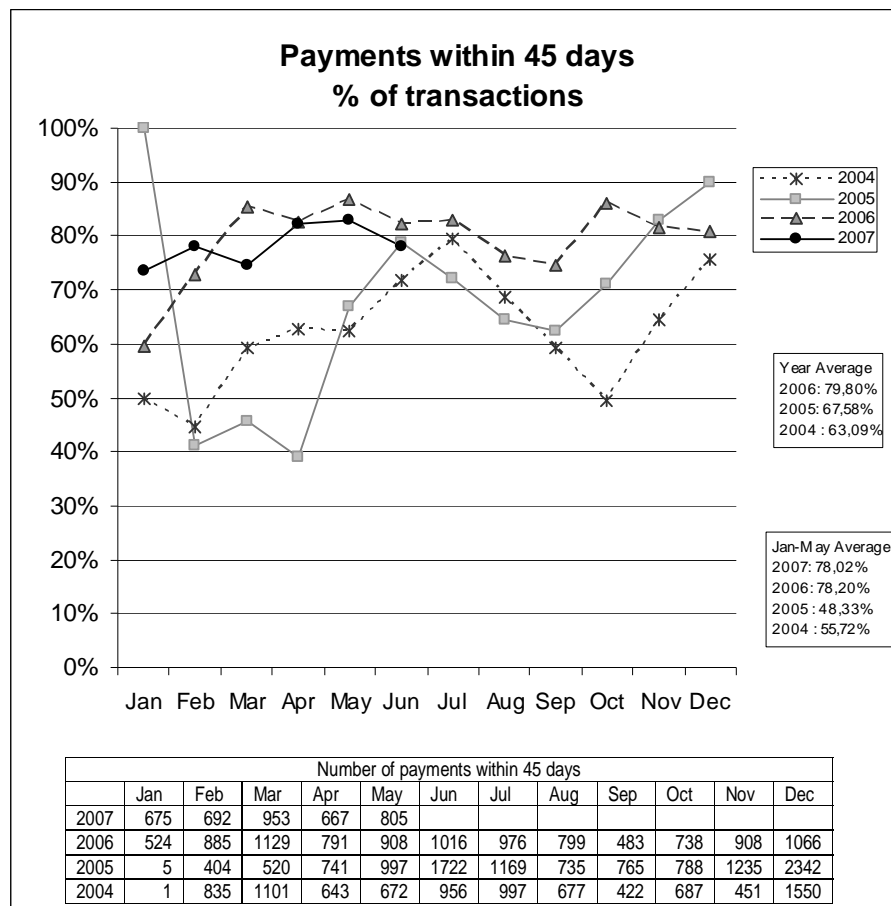
As regards payment appropriations, the general rate of execution is slightly ahead of forecast on average and in particular for the completion of the previous Research programmes which are part of the activity 09.04 "ICT Cooperation". In the activity "i2010 Content and services", the delays concern the completion programme "eTEN", and the programmes "eContent +" and "Safer Internet +". New execution forecasts have been requested from the concerned services.

As announced, a surplus of 8 M€ is to be expected at the end of the year on the CIP programme budget line. The transfer of this surplus to another activity will be proposed in the context of the Global Transfer.

3.2 Payment times

Performance over the first months of 2007 is comparable to the performance over the same period in 2006, with 78% of all payments made within 45 days. The percentage of transactions executed within 45 days is quite steady during the period, fluctuating between 74% and 82%.

Table 3: Payment times



The table below details performance by category over the period January-May during the last 4 years.

Table 4: Payment times – Performance by type of expenditure (May 2007 – payments within 45 days)

n	January -May 2007			January -May 2006			January -May 2005			January -May 2004	
	% of payments	Number of payments	Value €	% of payments	Number of payments	Value €	% of payments	Number of payments	Value €	% of payments	Number of payments
	88,8%	221	2.270.513	87,3%	276	2.128.266	66,7%	136	1.829.066	73,6%	92
	97,0%	830	317.082	79,0%	1.288	395.853	41,6%	414	112.802	66,1%	786
&	86,8%	387	6.997.366	82,0%	407	6.884.674	69,5%	233	4.532.113	62,3%	238
	84,8%	1.058	2.514.453	88,8%	1.294	3.270.749	62,4%	986	2.360.437	49,2%	980
	65,0%	322	140.911.175	67,6%	402	247.150.519	48,1%	297	52.560.881	61,7%	823
	36,5%	337	196.616	61,7%	550	340.239	33,8%	218	156.572	40,4%	298
	N/A	N/A	N/A	50,0%	10	704.891	30,9%	312	9.033.672	N/A	N/A

External staff = ENDs, Interims
 Experts = Als/TCLs for intra/extra-muros experts
 Projects = IST – Non research programmes calls
 Grants = MEDIA programme (externalised to EACEA)

Processing times for some categories of payments have improved (missions and services/studies). The positive trend observed in the previous reporting periods for the payments related to the reimbursement of meetings expenditure has however in this reporting period not been pursued. The launching of new programmes required the organisation of additional Committee meetings and an FP 7 Information day in Germany without any additional resources being available. This increase of workload had a negative effect on the processing time for reimbursements. Remedial and corrective actions have been taken in terms of additional staffing. The closure of each meeting file will be followed up carefully by the financial service.

Payment times for projects show room for further improvement. Efforts to increase the speed of payments in this category of expenditures are to be sustained. Remedial actions e.g. enhanced financial training, selection and standardisation of best practices, further improvement of the IT tools and a closer monitoring have been agreed upon in close cooperation with all parties involved (see as well chapter 10.1).

3.3. Status on recovery orders

During the first semester 2007, DG INFSO has continued its focus on following up existing open recovery orders and issued 97 new recovery orders.

As usual, the main reasons for the establishment of the new recovery orders during the first half of 2007 were the implementation of audit results (60 audits on behalf of the Commission) and the recovering of pre-financing amounts (28 cases). In addition to these categories 9 recovery orders were issued following bankruptcy or other reasons.

On 01.01.2007, the balance of 119 open recovery orders totalled 15 M€. During the first semester of 2007, the newly established 97 new recovery orders added 5.15 M€ to this amount. 85 recovery orders worth 4.2 M€ were cashed/compensated. Follow-up on outstanding recoveries have led to the waiving of 1.2 M€ during the first semester. Consequently, the balance on 30.06.2007 stood at 134 open recovery orders totalling 14 M€.

In the overall stock of open recoveries, a significant share result from the liquidation of legal entities due to bankruptcy. These recovery orders usually remain open for a long period, after which in most cases they lead to a waiving decision (once the liquidation is definitively closed, no means are available to recover the open amounts) due to the fact that the Commission is considered as unsecured creditor. During the first semester of 2007, 12 cases of bankruptcy have been closed by waiving of a total amount of 1 M€.

All details are provided in Annex B.1.

Concerning the Media Programme, during the first semester of 2007, 7 recovery order files have been received from EACEA and dealt with by DG INFSO:

- 5 waiver files above 100.000 € for submission to the College for a total of 1.471.000 €
- 1 waiver file for submission to the Director General for an amount of 32.007 €
- 1 file in view of enforced recovery procedure by adoption of an enforceable Commission decision within the meaning of Article 256 EC (for an amount of 14.000 €).

4. Changes to the financial circuits

The circuits adopted at the beginning of 2005, as modified in 2006, remain in force in 2007.

5. Risk management: Follow-up of DG INFSO's High-Level Risk Assessment (HLRA) exercise

In line with the Commission's framework *Towards an effective and coherent risk management in the Commission services* ⁽¹⁾, on 13.02.07 DG INFSO has finalised its *2006 High Level Risk Assessment (HLRA) exercise* which has covered all the DG's 2007 AMP objectives. This exercise has already been commented in DG INFSO's Annual Activity Report 2006 (see AAR 2006 chapter 2.4.1.) and the DG's 7 "critical risks" have been reported in DG INFSO's 2007 Annual Management Plan (see AMP 2007 appendix 3 ⁽²⁾).

Mandates for risk management and/or risk monitoring actions have been assigned on 3 levels. The DG's major risks with potential for further mitigating measures are subject to an action plan to reduce the residual risk level. Other important risks with less or no potential for risk reduction are nevertheless subject to a reinforced monitoring to ensure that our risk exposure would not increase. Finally, the other risks identified are subject to the usual continued line management measures by the directorate(s) concerned.

The state-of-play of the risks in these 3 categories has been reviewed at the end of June 2007. While the follow-up of the first two risk categories has been the major reason for setting-up the "Internal Control Coordination Group (ICC Group)" (see this BMR's Introduction), the state-of-play on the risks in the third category has been reported by the Director(s) concerned in their *2007 mid-term DMRs* (see chapter 6.2 below).

¹ SEC(2005)1327 of 20.10.05

² INFSO's 7 "critical risks" are/were: FP7 start-up problems, ENISA procedural failures and its extension, errors in financial transactions, efficiency losses through overlap of responsibilities following externalisation, audiovisual policy failure, roaming policy failure, regulatory review policy failure

Given that the DG's 7 "critical risks" mentioned above are, of course, part of the DG's major and/or other important risks, these are being managed and/or monitored accordingly. In fact, because of the importance of the "frequency of errors in cost claims" issue, the related (recurrent) "critical risk" ERRORS IN FINANCIAL TRANSACTIONS has been moved up from the risks to be closely monitored to the risks to be further mitigated through additional measures. During recent months, the organisational measures taken as well as the status regarding the implementation of the audit strategy have already been reported in detail to the Cabinet, Audit Progress Committee and ABM Steering Group (cf. most recent reports (3) – see annex D).

State-of-play at 30.06.2007(4) - (see annex A1 for more details)

- action plans for mitigating INFSO's major risks

Following INFSO's 2006 High-Level Risk Assessment exercise (HLRA), 8 major INFSO risks are subject to an action plan to further reduce the residual risk level by applying additional mitigating measures. For 1 such risk the mitigating measures have been finalised (reducing the PROCEDURAL RISK RELATED TO ENISA), while the action plans for the 7 other risks are in progress as intended.

- reinforced monitoring of other important INFSO risks

In addition, 6 other important INFSO risks, for which no additional mitigating measures could be taken to further reduce the residual risk level, are kept under reinforced monitoring to ensure that their risk levels would at least not increase. In 2 such cases (AUDIOVISUAL POLICY, ROAMING) the risks have even subsided given the political agreements reached during the first semester of 2007 and for 3 other risks our exposure has not increased. However, in the context of the REGULATORY REVIEW POLICY risk, the work to be done in response to the notifications of the national measures within the legal binding deadlines (cf. "Article 7") remains affected by severe strains on human resources. Therefore, in the context of the recent note on the creation of an INFSO central pool of vacant posts (note 818945 of 25.05.2007), it is suggested that Directorate B – beyond being exempt of contributing to this central pool – would be considered as a candidate for applying for additional resources for this strategic/political action.

- risks subject to continued line management

In their 2007 mid-term DMRs (see chapter 6.2 below), the Directors have reported that our exposure to none of the risks in this category has increased. Risk and control related issues remain stable and/or are being managed. In some cases, Directorates have been able to further mitigate the risks (cf. good response to Call 1 of the FP7 ICT work programme, timely adoption of the CIP work programme and launch of the call, some aspects of human resources management). However, more in general, concerns remain about the preparedness for the full life-cycle of FP7 projects (e.g. definitions and precise implementation instructions, lessons to be learned from first practical experiences, etc) even though so far the launch of FP7 (cf. Call 1) has been fairly smooth.

³ cf. INFSO(2007)823068 of 08.06.07 to Mr Strohmeier, and the ABM Progress report of 09.07.07

⁴ INFSO(2007) 827280 of 16.07.07

New risk identified

In addition, a 'new' risk has been identified:

- Failure to launch Joint Technology Initiatives (JTI) ("Artemis" and "ENIAC"), due to political pressure by certain Member States on the Council to block the Commission's proposals and/or failure to reach agreements with the industrial associations on the operational arrangements of the joint undertakings. Another risk identified lies in the possible lack of sufficient human resources with the necessary skills for this type of action.

Mitigating measures are already being taken or envisaged to the best of available resources.

Cross-cutting risks to be managed at family or corporate level

As foreseen in the Commission-wide risk management framework as well, SG and BUDG have now launched a procedure for improving the management of "cross-cutting risks" at corporate level, applicable as from May 2007(5). "Cross-cutting" risks are defined as "risks that affect several services and can be evaluated and/or addressed more effectively by a group of services than by an individual service".

DG INFSO has notified 4 of its risks as potential cross-cutting risks to BUDG-CFS for their consideration at family and/or corporate level. Three of those risks are among our "critical risks", which are being followed up as any other major and/or important INFSO risk (as mentioned above), but which could benefit from an additional coordinated approach: COMPLEXITY OF (FP) RULES & ERRORS IN FINANCIAL TRANSACTIONS; FP7 START-UP PROBLEMS - DELAYED AVAILABILITY OF UPDATED PROCEDURES AND IT SYSTEMS; EFFICIENCY LOSSES THROUGH OVERLAPS OF RESPONSIBILITIES FOLLOWING EXTERNALISATION. For the other risk (E-INFRASTRUCTURES DISCONTINUED), which is under continued line management (only affecting INFSO.F3), alternative solutions could be explored together with DG RTD to finance large, long-term research infrastructure projects upfront (ensuring them the 'critical mass' from the start, in order to be effective and sustainable).

6. Internal Control & ICS

6.1. State-of-play of the implementation of the Internal Control Standards (ICS)

In the context of DG INFSO's continuous enhancement of the effectiveness of its control arrangements in place, the annual analysis of the state of the internal control

⁵ Decision by the ABM Steering Group (22.02.2007) + note SG.D3(2007)2381 of 23.03.07

system at the end of 2006 has lead to 6 priorities for improving INFSO's application of the Internal Control Standards (ICS) during 2007, as reflected in the "annual recommendations from the Internal Control Coordinator (ICC)". These have already been commented in DG INFSO's Annual Activity Report 2006 (see AAR 2006 chapter 2.3.). Taken together with 3 such recommendations of 2006 still open, this gives a total of 9 ICC recommendations which require an action plan.

Furthermore, following an internal call for suggestions to improve INFSO's working methods on the one hand, and the analysis of the issues raised in the Directors' 2006 DMRs on the other hand, we have received and consolidated 18 suggestions for potential consideration. Most suggestions were aiming for a revision of current procedures with a view to their simplification (e.g. review of coordination needs, procedure for subscriptions to periodicals, CPP procedures), or were looking for a better balance between the number/complexity of control measures vs. taking up responsibilities at the appropriate level(s) (e.g. Cabinet briefings, costs/benefits of controls, drinks expenses for meetings).

At 30.06.2007, 4 of the ICC's recommendations are already implemented (RISK MANAGEMENT, DOCUMENT MANAGEMENT, BUSINESS CONTINUITY PLAN, IAC QUALITY REVIEW RECOMMENDATIONS), the implementation of the 5 other recommendations is in progress as intended. (See annex A.1 (6) for more details)

6.2. Directors' reports as Authorising Officers by Sub-Delegation

For the period of January-June 2007, through their *Directorate's Management Report (DMR)*, the Directors as *Authorising Officers by Sub-Delegation* have reported the following issues:

- delayed commitments and payments of the MEDIA 2007 Programme, executed by the Education, Audiovisual and Cultural Agency (EACEA)

The MEDIA 2007 delegation to the INFSO Director General is currently blocked in Inter-Service Consultation. This is causing considerable delays in the EACEA's implementation of the programme and has resulted in a much slower budget implementation than originally planned (cf. budget execution for MEDIA 2007 – see chapter 3.1).

This situation requires that MEDIA 2007 actions need to be adopted by written procedure following inter-service consultation, which implies a significantly longer procedure duration. DG INFSO - in collaboration with DG EAC and the EACEA - is currently taking all possible steps to optimise the implementation of MEDIA 2007 under these circumstances. Furthermore, remedial actions are being taken to respond to the requests of the Commission's Legal Service in order to de-block the situation with regard to the delegation to the Director General.

⁶ INFSO(2007) 827280 of 16.07.07

- In terms of major deviations from established financial or other procedures (including overruling – cf. ICS-18 "exceptions"), which were found necessary in order to deal with exceptional circumstances or events that otherwise may not have been handled appropriately, the Directors have reported only 2 such cases:
 - Overruling of a Financial Verification Agent's (FVA's) refusal for signing a specific service contract for a conference stand, which was not fully in line with all details from the framework contract, justified by (i) the urgency and the Commission's moral commitment towards the conference organisers, (ii) the complexity of the framework contract which had led to a misinterpretation, and (iii) the economy of the offer which was more favourable than if the framework contract would have been strictly applied (ref. SI2.864011 – 01.06.2007 – D(2007)822349)
 - Overruling of a 2nd FVA's formal refusal to validate an 'a posteriori' commitment to pay a contractor's invoice, for which no specific (level 2) commitment had been created in addition to the existing global (level 1) commitment, justified by (i) the business done by the contractor and (ii) the circumstances of the misunderstanding of the financial procedures by the unit (ref. SI2.466566 – 27.04.2007).
- Continuous problems in the recruitment procedures.

In this context, it is worth mentioning as well that DG INFSO has requested DG ADMIN a derogation from the Commission's current recruitment policy (whereby EU10 & EU2 candidates have priority over EU15 candidates) – not in general (even though these quota and moreover the split between Operating and Research budgets make it very difficult for DG INFSO to recruit new staff) but specifically in order to be able to set up the new external audits unit S5 more rapidly (a similar derogation has been requested and obtained by DG RTD).

6.3. Gap analysis & Action Plan towards an integrated internal control framework

In the context of the Commission's *Action Plan towards an integrated internal control framework* (7), since 2006 DG INFSO has been involved in several actions with BUDG and/or RTD as (co)-chefs-de-file. On 07.03.2007, at the occasion of the Commission's progress report in this context (8), some new measures (cf. actions with 'N' "New" in annex C.1) have been added to the action plan - some of which are relevant for the Research DGs family as well. Early July, SG and BUDG have announced (9) a new round of coordination meetings in September-October 2007, in order to ensure that sufficient progress would be made in time to enable SG to update the next standing instructions for the AAR accordingly.

See annex C.1 for further details on the different actions with a particular emphasis on INFSO's involvement.

7 COM(2006)9 - SEC(2006)49 of 17.01.06

8 COM(2007)86 - SEC(2007)311 of 07.03.07

9 SG.C1(2007)13023 of 02.07.07

7. Status report on external financial audits up to 30 June 2007

7.1 Reinforcement of the ex post audit function

Following the audit performed by the IAS on "ex-post controls", DG INFSO has prepared a detailed Action Plan for the implementation of the recommendations contained in the IAS' Final Audit report. This Action Plan was presented to the Audit Programme Committee (APC) during its meeting on 30.03.2007. The status report up to 30.06.2007 of this Action Plan is attached in annex D.1.

Building on the FP6 common audit strategy which has been prepared by the research family since the beginning of 2006 and taking as well into consideration the recommendations of the IAS' audits on ex post controls for the reinforcement of the volume and coherence of activities of the ex post functions in the research DGs, these DGs have elaborated a joint Action plan. This "Action plan to implement a new approach for ex-post audits of research programme activities" was presented to the ABM Steering Committee of 20.03.2007 (see annex D.2). Its objectives are to:

- reinforce the audit coverage
- reinforce the coherence of activities of the research ex-post audit structures
- implement a new IT audit management system and audit sharing tool
- reinforce the certification process regarding FP6 and FP7
- adopt a joint approach in dealings with the external audit firms under contract with the Commission
- adapt staffing and organisational structures to the objectives of substantially increasing the overall number of audits as well as the number of audits on own resources.

Progress on the implementation of these action plans has been reported to Cabinet by the notes INFSO/S2/AR/amc D(2007)814173 (see annex D.3.) dated 07.05.2007 and INFSO/FC/RB/IsC D(2007) 823068 dated 08.06.2007. A joint progress report has been submitted to the ABM Steering Committee in view of its meeting of 12.07.2007 (see annex D.4).

A calendar has been established, which foresees 4 reporting milestones (documents, meetings) towards the Cabinet until the end of the year.

In summary, progress has been accomplished in every area of importance. In particular to mention are organisational aspects (creation of the external audit unit, redeployment of additional posts for audit and audit related functions and creation of the ex-post audit correspondents functions in the operational directorates), the implementation of a common FP6 audit strategy concerning the number of audits foreseen to be launched in 2007, the applied selection methodology and the consistent application of audit results to non audited projects and periods.

The key actions are currently under implementation according to schedule. The creation of a common website dedicated to ex-post audits which was scheduled for implementation for end of June 2007 will be slightly delayed due to additional quality cross checks with operational services.

7.2. Initiation of new audits

In May 2007 a second audit batch comprising 40 FP6 contractors has been launched. The applied sampling criteria are in line with the common audit strategy FP6, i.e. the selection comprises big contractors in terms of funding, statistically sampled contractors as well as audits requested by the operational services on the basis of risk considerations. The batch is foreseen for completion by mid November 2007.

The audit programme 2007 foresees the launch of the following batches:

- Batch of 10 FP6 audits July 2007
- Batch of 40 FP6 audits September 2007
- Batch of 20 FP5 audits November 2007
- Batch of 5 audits non-research November 2007

7.3. Status on ongoing files

In total 135 audits are currently ongoing of which 57 relate to FP5, 72 concern FP6 and 6 are part of non-research programmes (e-Ten).

It should be noted that the backlog of FP5 batch audits caused by performance problems of the external audit firm regarding the timely provisions of reports as well as quality issues has been completely resolved within the reporting period. Currently there are no FP5 batch audits suffering from delays.

In delay is currently the FP6 audit batch (B35; 32 open audits) which was scheduled for completion by March 2007. Here again performance problems of the external audit firm charged with the conduct of FP6 audits are to be mentioned. It is, however, envisaged to close a significant part of these audits shortly.

7.4. Finalised audits

By June 2007 a total of 68 audits have been closed this year by DG INFSO's external audit unit. 53 of those relate to FP5, 13 relate to FP6 and 2 relate to the non-research programmes (e-Ten).

5 of the audits closed so far in 2007 have initially been conducted by the ECA. Those reports are included in the statistics as the formal closure and the implementation of the audit results are performed by INFSO services.

The number of audits closed so far this year is relatively large compared to previous years. This is in essence the consequence of the backlog of open files which has been carried over from previous years due to the delays regarding the provision of audit reports by the external audit firm. This backlog has been resolved in 2007.

From today's point of view it is envisaged to close in 2007 further 40 FP6 audits, 25 FP5 audits and 5 audits relating to the non-research programme. This would bring the total of audits closed in 2007 to the order of 138 files which is significantly higher compared to previous years.

7.5. Audit results

Table I of annex D.5 provides a quantitative overview of the finalised audits, both in terms of numbers of audits and the global resulting adjustment rates.

Table II provides a more detailed overview of the audit results in quantitative terms. It highlights the amounts audited, the amounts accepted after plausibility checks by the services, and the amounts of eligible cost accepted after audit.

Table III gives an overview of adjustment rates accordingly.

The gross adjustment rate is measured as the ratio between eligible costs after audit and audited/claimed costs.

The overall net adjustment rate is considered to be the most useful available indicator for the assessment of the potential magnitude of errors not detected in cost statements which are not actually subject to audits. This is in line with the view of the Court of Auditors that “off-setting both types of adjustments is a useful indicator for the budgetary impact of financial ex-post audits” (Court of Auditors, Annual Report on 2002, paragraph 6.18.).

The net adjustment rates for FP5 audits closed in 2007 (53 audits) equals 6,4%. This compares slightly unfavourable to the 74 audits closed in 2006 (6%). Adjustments typically relate to errors noted in the claiming of personnel costs such as budgeted rates versus actual rates, average rates which differ significantly from actual rates by individual.

The aggregate net adjustment rate relevant to Framework Programme 5 (based on 322 audits) equals 5%.

The net adjustment rate for FP6 audits closed in 2007 (13 audits) equals 5,3%. The aggregate net adjustment rate for Framework Programme 6 (based on 19 audits closed) equals 5,3% as well. Notice should be taken that the calculation is based on a fairly small number of 19 audits and cannot therefore be considered as statistically representative. A broader statistical basis will be available within the next months, after a significant number of FP6 audits have been closed.

The same applies for the non-research programme. The number of audits closed so far is too insignificant (6 audits on aggregate) to allow for substantiated conclusions.

7.6. Implementation of audit results

A summary of the implementation of the external audit results in DG INFSO up to 30.06.2007 can be found in Table IV of annex D.5.

The potential financial effect of the adjustments on the Community budget resulting from financial audits in 2007 amounts to 2.153 K€. This figure takes the co-financing rate of each audited project into account and gives therefore an indication of the financial impact of the audit results on the EC budget.

In line with the action plan established in following-up the IAS audit the actual status of audit results considered non-implemented has been reassessed and up-dated in the statistics over the past months. This exercise resulted in a significant reduction of the amounts considered open. Overall roughly 5.3 M€ have been cleared from the statistics of which 3,6 M€ relate to adjustments in favour of the EC and 1,7 M€ in favour of beneficiaries. An analysis of this exercise allows for the following conclusions:

- the reporting procedures in place need to be reinforced. In many cases corrective actions had already been undertaken. In these cases the amounts were not reported to the "External audit" unit as implemented and consequently remained open. Current procedures foresee that all implemented amounts are recorded in the ARPS system which is dedicated to track audits, support implementation procedures and reporting. Following this exercise it is envisaged to install automated monitoring procedures (iFlow) in order to accelerate implementing procedures and allow for accurate reporting
- whilst large progress has been achieved regarding the years 2003-2006, little progress has been accomplished for the years 2002 and prior. Currently 762 K€ relating to 18 projects are considered open. Given the considerable lapse of time problems persist regarding the compilation of the detailed dossiers necessary to allow for the launch of appropriate recovery procedures. Further clearing efforts will be launched shortly involving the function "ex post audit correspondents" which has been recently created in the research Directorates
- all amounts in favour of the beneficiaries which have not been claimed have been removed from the statistics for 2006 and prior.

The statistics will be reconciled and up-dated continuously in order to ensure accurate reporting.

8. Briefing on the main issues concerning the relations with the European Court of Auditors

8.1. DAS 2005 – Recommendations

The Council and the Parliament have formulated respectively 86 and 164 recommendations to the Commission, based on the Annual Report 2005 of the Court of Auditors. Among these recommendations, 4 and 7 respectively are addressed to Internal Policies DGs, DG INFSO included, with DG RTD as chef-de-file for the reply. On 30.06.2007 a common consolidated reply has been prepared by DG RTD and approved by DG INFSO.

One other Council's recommendation concerns the closure of programmes relating to financial operations and in particular the phasing out of MEDIA II. DG INFSO, as chef-de-file, has proposed by the end of June a draft reply to be approved by DGs AIDCO and ECFIN.

Finally DG INFSO has contributed to the reply to one other Parliament's recommendation concerning women's rights and gender equality, for which DG EMPL is chef-de-file.

8.2. 2006 Court's Annual Report

• The Court's audit work and Preliminary Findings

For DG INFSO, the Court's Annual Report 2006 is based on the results of the following audits:

- Transaction audits: for 2006, 23 DG INFSO's payments and 1 commitment were checked by the Court. Three sector letters were issued (PF 2374, PF 2397 and PF 2443) with 9 error forms concerning 6 different projects. The errors concerned audit certificates (3), late payments (2), the use of budgeted rates (1), the non release of bank guarantees (1), the award procedure of a grant (1) and the declaration of costs in the wrong cost category (1). The sole last two errors were considered by the Court as having a financial impact. Both cases were however rejected by DG INFSO. During the contradictory procedure in July, the Court accepted to consider them as "formal" instead of "substantive"
- Assessment of the audit certification system (PF 2474)
- Sharing the results of ex-post audits (PF 2499)
- Assessment of ex-ante desk checks (PF 2500)
- Statement on late payments (PF 2502)
- Audit on the reliability of accounts (PF 2497 and PF 2511)

Replies to the Court for the three transaction sector letters have been sent by the end of June. Consolidated replies on the system sector letters have been sent beginning of July. Replies to the sector letters on the reliability of accounts are being finalised.

• The Court's draft Annual Report 2006

DG INFSO is mainly concerned by Chapter 7 on Internal Policies, but also by a number of cross-cutting Chapters.

In **Chapter 1** (Statement of assurance concerning the reliability of accounts) the Court considers that the supervisory and control systems for Internal Policies, including research, are partially satisfactory (unsatisfactory in 2005). The Court however still considers that the error range for Internal Policies is above 5%. The Court mentions problems with DG INFSO concerning cut-off procedures, and the non-differentiation between long-term and short-term pre-financing. Discussions are on-going with the Court on these two points which are contested by DG INFSO.

In **Chapter 2** (Commission's internal control framework, including AAR and declarations by DGs), the Court notes that for Internal Policies, including research, the annual activity reports are generally in line with the conclusions of the DAS assessment. The Court mentions that this is not the case for large parts of the EU budget, like the common agricultural policy and the structural policies.

In **Chapter 7** (Internal Policies), the Court stresses a material level of errors in costs declared by the beneficiaries. Concerning ex-ante desk review of cost statements, the Court indicates that comprehensive procedures exist but that the sharing of results is limited. The Court also considers that the audit certificates system does not yet function as a reliable control.

The Court notes that during 2006 the Commission has remedied the situation noted in 2005 as regards the number of ex-post audits, although the proportion of audited contracts remains insufficient. The Court found that Research DGs share audit results, what is not systematically the case of the other Internal Policies DGs.

The Court also notes that "The common audit strategy for FP6 which is being implemented by the Commission represents a sound basis for addressing the problems identified by the Court". It should be noted that in the frame of its examination of a sample of 24 transactions managed by DG INFSO, for the DAS 2006, the Court did not find any substantive error with financial impact.

The contradictory meeting with the Court took place on 5 July 2007 for chapter 7 and was preceded by a pre-contradictory meeting on 22 June 2007. The contradictory meetings for chapters 1 and 2 are scheduled in September 2007.

8.3. DAS 2007 – audits started or ongoing

- **Transaction audits**

The Court has announced that for 2007 it will test 180 transactions, of which about 25% will concern DG INFSO (about 45 transactions). This represents nearly twice the number of transactions tested in 2006 for DG INFSO (24). In addition, all interim and final payments will be checked on the spot by the Court, with the beneficiaries (more than 100 on the spot controls for internal policies).

During the first semester of 2007 the Court has requested the supporting documents for 20 transactions dealt with by DG INFSO.

8.4. Court's Special Reports

- **Performance Audit: « The Commission's system for evaluating the impact of indirect actions under the EU RTD framework programmes »**

The Commission services received during the first half of 2007 two sector letters (PF 2398 and PF 2465).

The sector letter PF 2398 includes conclusions and recommendations made by the Court concerning the current design of the monitoring and evaluation system for the RTD FPs and its adequacy to meet the expectations of the stakeholders. The main messages of this sector letter and the position of DG INFSO services were communicated to the Cabinet in April 2007 (note 814295 dated 13.04.2007). These issues were discussed between DG INFSO and Mr. Colling and his services in charge of this audit during a visit made to the Court on 14.05.2007. A consolidated reply was given by the Commission services on 15.05.2007.

The sector letter PF 2465 concerns the results of two surveys carried out by the Court of Members of the CREST Committee and Members of Parliament sitting on the Industry Transport Research and Energy Committee. No formal reaction was requested from the Court on this sector letter.

The draft special report received on 23.07.2007, which will be subject to the contradictory procedure.

- **Performance Audit: « The adequacy and effectiveness of selected FP6 instruments in the achievement of Community RTD objectives »**

A first sector letter (PF 2430) was sent by the Court on 16.04.2007. This sector letter is factual and contains no assessment of the efficiency of the instruments in achieving the goals of FP6. A consolidated reply was given by the Commission services on 21.06.2007.

Further sector letters on this subject are expected in the next few weeks.

9. Main issues concerning the relations with the Internal Audit Service

During the first half of 2007, the Internal Audit Service (IAS) performed several audit engagements which were directly relating to some of DG INFSO's activities.

9.1. IAS Audit on ex-post controls in the Research DG's

This audit was launched in 2006. Its final report was issued on 14.02.2007.

The main recommendations concerned the following issues:

- Adapt the audit strategy (coverage, sampling methods)
- Improve the audit methodology
- Enhance the reporting on the ex-post audit activities
- Clarify the impact of ex-post control activities on the Annual Activity Report
- Involve the Operational Units in the ex-post audits
- Improve the monitoring of the implementation of the audit findings
- Extend the audit scope to verify the delivery of services co-financed.

All these recommendations were accepted by DG INFSO and a detailed Action Plan was elaborated and presented to the Audit Progress Committee (APC) at its meeting of 30.03.2007 (see also chapter 7 section 1).

9.2. IAS audit on the Annual Activity Report (AAR) assurance process

A kick-off meeting took place on 30.05.2007 for the launch by the IAS of its audit on the AAR Assurance process.

The main objective of the audit is to assess the effectiveness of the AAR Assurance process as a whole and, in particular, the extent to which it provides a sound basis to support the reasonable assurance given by management to the Commission on the functioning of its internal control systems. This will be done by looking at the control systems and procedures set up in selected DGs and DG families (the research DGs among others), aimed at building the necessary assurances, together with a consideration of the central co-ordination and guidance roles exercised by both the Secretariat General and DG BUDG.

This audit is planned to be concluded by October 2007.

9.3. IAS – Audit on the management of the Translation Demand

The IAS has started an audit on the management of the translation demand within the Directorate-general for translation (DGT). The related aspects of translation directly managed by other Commission Services are also covered by this audit. In this respect, the IAS designed a representative sample of DGs which resulted in the selection of DG INFSO.

A "survey questionnaire" was sent to all selected DG's. In its reply DG INFSO included an overview of all translation requests to DGT of 2006. In this context DG INFSO highlighted that this DG established a framework contract related to Article 7 notification of the Framework directive for electronic communications.

10. Audits performed by DG INFSO's Internal Audit Capability and related matters

10.1. Audit on the IST financial statement processing and payment process

During the first half of 2007, the Internal Audit Capability (IAC) of DG INFSO finalised one audit report about the Financial Statement processing and the payment process in the IST-FP6 programme. That audit had started at the end of 2006.

The report reviewed the process of reception of cost statements, analysis and verification of the information received, up to the authorisation of the payment; it put special emphasis on the adequate measurement of payment delays, in order to improve the quality of information available and make it possible to reduce them.

The report (see annex E1) issued 22 recommendations, most of which were accepted by the audited services. The main recommendations expressed concern the following issues:

- Ensure the efficient use of guidelines by the Project Officers; make the trainings mandatory
- Develop the functionalities of the IT systems
- Standardise the calculation of baseline dates and the stop-the-clock method
- Introduce the baseline date calculation and check it in the IT application
- Select and standardise good practices to improve payment delays
- Develop and use an appropriate reporting on the payment process.

As a next step, the audited services have elaborated a joint action plan.

10.2. Starting of an audit on the (scientific) Project reviews

One of the recommendations received from IAS at the end of its audit on ex-post controls (cf. chapter 9 section 1) suggested that DG INFSO should more systematically verify the delivery of services co-financed and the reality of the expenditure claimed.

In its reply, DG INFSO stated that the assessment of scientific/technical objectives was already monitored by scientific experts who regularly assess the periodic reports received from the beneficiaries.

As part of the reply, DG INFSO suggested that the methods and procedures in place for these "reviews" would be assessed, in order to check their efficiency. That task was added to the work programme of the IAC for 2007, with a target date of June 2007.

Consequently, an audit of the "review process" has started in April 2007, with the objectives, inter alia, to assess the outputs of Project reviews, and to assess the procedures in place.

This audit is currently being in its report-writing phase.

10.3. Starting of an audit on the roles of the Administrative and Finance Units

The IAC has started another audit in April 2007, on the roles of the Administrative Sectors and Finance Units existing in each of the Directorates of DG INFSO; it will include a description of their activities, an analysis of the services they provide to their users and their relationship with the other horizontal services in the DG. It will also assess the effectiveness of the internal control systems in place with respect to the audited processes.

The audit will be finalised in the second half of 2007.

11. State of play of on-going OLAF's files

In the first semester of 2007, the following changes have occurred in OLAF's files:

- 2 OLAF's files ("cases") have been closed; 1 new file, which had been communicated by OLAF to INFSO, has been closed with financial and judicial follow-up actions, and 1 file initiated in 2004 was closed without follow-up actions
- 1 new OLAF's file has been communicated to INFSO by OLAF in March, and is under investigation
- New elements have occurred for 3 cases (1 monitoring case and 2 cases closed with financial and judicial follow-up actions).

The very lengthy delays of OLAF procedures in relation to one of these cases has meant that DG INFSO was unable to take into account the findings of OLAF in relation to a principal contractant when concluding negotiations on the award of a new contract. This case highlights the difficulties caused by OLAF procedures and the uncertainty which ensures for authorising officers.

Two cases of fraudulent behaviour by third parties have been identified for possible submission to OLAF for which preparatory steps were on going at the end of the reporting period.

See **Annex F.1** for further details.

12. State of play on the European Ombudsman's files

In the first semester of 2007, the following changes have occurred in the European Ombudsman's files:

- Two new complaints were received by DG INFSO
- Four files were handled in which DG INFSO is associated
- Two requests for further information
- One closed complaint.

See **Annex G.1** for the full status report.

13. Relations with the Education, Audiovisual and Culture Executive Agency (EACEA)

MEDIA Programme – supervision of the EACEA as a co-parent DG

The Education Audiovisual and Culture Executive Agency (EACEA) has been supervised on a joint basis by DG EAC and DG INFSO (as specified in the "Act of Delegation", article 15)⁽¹⁰⁾. As from 2007, given that the EACEA will be working for DG AIDCO as well, AIDCO has joined the Agency's Management Board ("Steering Committee").

Supervision

On all operational aspects concerning the MEDIA Programme, DG INFSO is in direct contact with the EACEA via frequent meetings between the "mirror units" concerned (INFSO.A2 – EACEA.P8). For any 'horizontal' aspects, specific coordination meetings "Affaires horizontales et ressources" are organised in which INFSO.S and INFSO.R participate (most recent meeting on 07.06.2007). For high-level management aspects, the INFSO.A Director is a member of the Agency's Management Board, of which the meetings are thoroughly prepared by the Co-ordination Committee EACEA-EAC-INFSO-AIDCO (ex-"Task Force Agence"). During this semester, meetings of the Agency's Management Board ("Steering Committee") took place on 16.01.2007, 28.02.2007, 29.03.2007, 17.04.2007 and 29.06.2007.

Internal control

At the end of 2006, the EACEA had reported on the state of its procedures, manuals of operations, and internal control systems in the context of their first annual ICS self-assessment surveys. In this context, it has appeared that the Agency had fully implemented 63% of the ICS baseline requirements, while 30% were implemented only partially (the remainder being not applicable (yet)). As indicated in the EACEA's 2006 AAR (which was attached to DG INFSO's AAR), the Agency would make a special effort during 2007 in order to fully implement these remaining baseline requirements as well (cf. *"l'Agence exécutive [...] apportera un effort particulier en 2007 à la mise en œuvre des standards de contrôle interne pour lesquels les exigences de base sont partiellement implémentées au 31 décembre 2006"*).

End-June, the EACEA's (draft) action plan for the implementation of the ICS and its (draft) AMP 2007 indicated an ICS implementation target of 90% by 31.12.2007. Consequently, in order to insist on a full implementation of all (applicable) ICS by the end of 2007 at the very latest, DG INFSO has requested to change the target to 100% by 31.12.2007. In its meeting of 29.06.2007, the EACEA's Steering Committee has indeed decided to modify the target dates accordingly (i.e. all actions will either have a target date of 31.12.2007 at the latest - or will be "continuous" actions).

Risk management

In the context of the preparation of the EACEA's 2007 AMP, the Agency has made its annual risk assessment exercise as well. For 2007, 4 "critical risks" have been identified related to (i) recruitment difficulties, (ii) unavailable IT-tools, (iii) difficulties at setting up the accounting system and (iv) logistics difficulties.

¹⁰ Commission Decision C(2005)365 of 15.02.05

Measures to be taken in order to reduce the likelihood and/or impact of those risks have been initiated.

Reporting

The EACEA's BMR will be forwarded to the cabinet once received in the approved version.

14. Declaration and reservations

The Declaration in the Annual Activity Report for 2006 contains three reservations. The first concerns errors relating to the accuracy of cost claims and their compliance with the provisions of the research contracts in Framework Programme 5. The second concerns the absence of sufficient evidence to determine the residual level of persisting errors with regard to the accuracy of cost claims in Framework Programme 6 contracts. Finally, the third reservation concerns the allocation of research personnel.

For further details, notably on the justification for the reservations, the materiality criteria, the quantification of the weaknesses and the related corrective actions, see AAR 2006, p. 41-52.

The corrective actions concerning the cost claims in the framework programmes are summarised in the joint action plan which was presented by the research DGs to the ABM steering committee on 20.03.2007; the FP6 common audit policy constitutes the core of this action plan. For FP7, measures have been taken to improve the audit certification system which are based on agreed-upon procedures, in particular with respect to the certification of methodologies. For further details see annex H1.

The organisational measures taken, notably the creation of the external audit unit, as well as the status regarding the implementation of the audit strategy are described in greater detail in the note INFSO/FC/RB/IsC D(2007) 823068 of 08.06.2007 and in the ABM Progress report submitted on 09.07.2007 (see annex D.4).

As to the third reservation on personnel, through the measures announced in the AAR 2006 it has been possible to reduce the number of external staff paid working on operational activities and remunerated from the research budget from 30,6 at the end of 2006 to 3,13 person years full time equivalent (FTE) during the first semester of 2007. A change of budgetary support is made each time a contract is renewed or the assignment to the correct budget is made each time a new contract is concluded, thus reducing further the number of FTE concerned.

The equivalent figures for officials went down from 23,7 at the end of 2006 to 1,62 person years (FTE) during the first quarter of 2007. It should be noted that this figure of 1,62 person years (FTE) corresponds to 8 staff members who were paid from the research budget until 15.03.2007 but were changed to the operating budget on that date. This means that, since 15.03.2007, no statutory staff working for operating budget related activities is paid from the research budget.

15. Annexes

Annex A Introduction

- A1: First progress report from DG INFSO's "Internal Control Coordination Group" – state of play at 30.06.2007
- A2: "INFSO 2006 High Level Risk Assessment": Detailed Action plan for major risks – version ICC Group 28.06.2007
- A3: "INFSO 2006 High Level Risk Assessment": Reinforced Monitoring of significant risks – version ICC Group 28.06.07
- A4: "Recommendations from the Internal Control Coordinator": follow-up of recommendations – version ICC Group 28.06.2007
- A5: "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.2007

Annex B - Implementation of 2007 budget

- B1: Overview status of Recovery orders

Annex C – Internal Control & ICS

- C1: Action Plan towards an integrated internal control framework – overview of its implementation

Annex D – Status report on external financial audits up to 30 June 2007

- D1: IAS audit report "Ex-Post controls" of DG INFSO: Detailed action Plan (DAS) status report up to 30.06.2007
- D2: Ex-post Audit strategy of FP6 common to the Research DG's (period 2007-2010) and action Plan to implement a new approach for Ex-post audits of research programme activities
- D3: Measures taken in relation with reserve on cost claims
- D4: Action Plan to implement a new approach for ex-post audits of research programme activities – Progress report towards ABM Steering Committee of 12.07.2007
- D5: overview tables
 - Table 1: Summary table on audits and adjustments rates: status of 30.06.2007
 - Table 2: Summary table on audits and adjustments: status of 30.06.2007
 - Table 3: Overview on adjustment rates: status of 30.06.2007
 - Table 4: Summary of implementation of the external audit results in DG INFSO: status of 30.06.2007

Annex E – Audits performed by DG INFSO's Internal Audit Capability and related matters

- E1: Audit of the Financial Statement processing and payment process in the FP6-IST programme – executive summary

Annex F – State of play of on-going OLAF's files

- F1: INFSO files/cases with OLAF – changes between 01.01.2007 and 30.06.2007

Annex G – State of play on the European Ombudsman's files

- G1: Overview of INFSO's file in relation to the European Ombudsman

Annex H – Declarations and reservations

- H1: Certificates certified by external auditors guidance notes



EUROPEAN COMMISSION
Information Society and Media Directorate-General
General Affairs
The Director

Brussels, 16 JUL. 2007
INFSO-S2/WS/GV/aa D(2007) 827280

**NOTE FOR THE ATTENTION OF MR F. COLASANTI AND MR P. ZANGL,
DIRECTOR-GENERAL AND DEPUTY-DIRECTOR-GENERAL OF DG INFSO**

Subject: First progress report from DG INFSO's "Internal Control Coordination Group"

**Reference: "Set-up of DG INFSO's 'Internal Control Coordination Group' (ICC Group)",
D(2007)808823 of 15.03.07**

Further to the set-up of the "Internal Control Coordination Group" within DG INFSO (15.03.07), I am pleased to send you our first progress report related to INFSO actions in the contexts of risk management measures, internal control recommendations and suggestions for improving working methods – in time to be used as input for INFSO's "Bi-annual Management Report" (BMR) and the related mid-term meeting with the Commissioner.

The "ICC Group" has already met twice (26.04.07 and 28.06.07). The state-of-play at 30.06.07 can be summarized as follows:

1. Action plans for mitigating INFSO's major risks

Following INFSO's 2006 High-Level Risk Assessment exercise (HLRA), 8 major INFSO risks are subject to an action plan to further reduce the residual risk level by applying additional mitigating measures. For 1 such risk the mitigating measures have been finalised (reducing the *PROCEDURAL RISK RELATED TO ENISA*), while the action plans for the 7 other risks are in progress as intended.

2. Reinforced monitoring of other important INFSO risks

In addition, 6 other important INFSO risks, for which no additional mitigating measures could be taken to further reduce the residual risk level, are kept under reinforced monitoring to ensure that their risk levels would at least not increase. In 2 such cases (*AUDIOVISUAL POLICY FAILURE*, *ROAMING POLICY FAILURE*) the risks have even subsided given the political agreements reached during the first semester of 2007 and for 3 other risks our exposure has not increased.

However, Directorate B has signalled that the risk related to the REGULATORY REVIEW POLICY cannot be considered to be fully under control, in particular due to the continued severe strains on the resources allocated to the "Article 7" operations (notifications of the national measures within the legal binding deadlines). This has been discussed by the ICC Group and it was stressed that the basis for remedial action has been set with your instructions on the creation of an INFSO central pool of vacant posts (note 818945 of 25.05.07). Directorate B – beyond being exempt of

contributing to this central pool – could be considered as a candidate for applying for additional resources for this strategic/political action.

3. Recommendations from the Internal Control Coordinator

Following INFISO's annual reviews of its control systems, there are 9 recommendations from the Internal Control Coordinator for improving the application of the Internal Control Standards. While 4 of those recommendations are already implemented (*RISK MANAGEMENT, DOCUMENT MANAGEMENT, BUSINESS CONTINUITY PLAN, IAC QUALITY REVIEW RECOMMENDATIONS*), the implementation of the 5 other recommendations is in progress as intended.

4. Suggestions to improve INFISO's working methods

Following our call for suggestions to improve INFISO's working methods, 18 consolidated suggestions have been considered by the units likely to be concerned as chefs-de-file – given the topic(s). Taking into account the relevancy, feasibility and/or counter-arguments (some already taken up), the ICC Group has endorsed the implementation of 5 such suggestions, for which the actions are in progress.

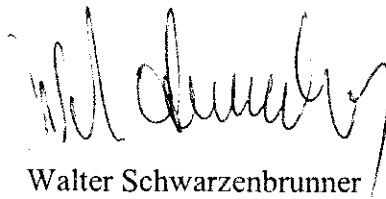
In the context of one of the suggestions for improving INFISO working methods, it is worth recalling that I have made a suggestion for a structural review of INFISO's PUBLIC PROCUREMENT (CPP) PROCEDURES by a working group composed of representatives from operational Directorates and from horizontal support units R2 and S4 (note 819304 of 22.05.07). The ICC Group has stressed the importance to finalise such review and revision by end-2007.

Conclusion

Although, in general, the progress of the above mentioned actions appears satisfactory, your attention is drawn to (i) the continued strains of the resources allocated to the REGULATORY REVIEW POLICY and to (ii) the importance of launching the review and revision of the PUBLIC PROCUREMENT (CPP) PROCEDURES.

In annex, you will find the full progress report and 4 detailed tables.

Our next progress report will be issued after the ICC Group meeting of 13.09.07.



Walter Schwarzenbrunner

Appendix: First progress report from DG INFISO's "Internal Control Coordination Group"

c.c.: INFISO Directors, C. Dewaleyne, Assistants;
members ICC Group, M. Moller, M. Fumerio;
A. Rauch, A. Vanroelen, G. Veldeman.



**FIRST PROGRESS REPORT FROM
DG INFISO'S "INTERNAL CONTROL COORDINATION GROUP"
STATE-OF-PLAY AT 30.06.07**

Context

The progress made related to INFISO actions in the contexts of risk management measures, internal control recommendations and suggestions for improving working methods is being followed up by the "Internal Control Coordination Group" set up on 15.03.07.

Its mandate includes the follow-up of 4 categories of actions:

- INFISO's annual High-Level Risk Assessment exercise ("HLRA");
- annual recommendations from the DG's Internal Control Co-ordinator ("ICC");
- suggestions received for the improvement of working methods in INFISO ("IWM");
- suggestions mentioned in the Directors' Management Reports ("DMR").

The "ICC Group", which is chaired by the INFISO General Affairs director and composed of permanent correspondents from all INFISO directorates, has already met twice; on 26.04.07 and 28.06.07 ⁽¹⁾.

State-of-play at 30.06.07

1. Implementation of action plans for mitigating INFISO's major risks (see annex 1)

Following INFISO's 2006 High-Level Risk Assessment exercise (HLRA), it was considered that for 6 major risks additional mitigating measures could further reduce the residual risk level. In the meantime, 2 such risks have been added:

- A major risk raised in the 2006 DMRs is that there is *NO LEGAL BASE TO STOP CONTRACT SIGNATURE FOR SUSPICIOUS ORGANISATIONS*, due to the difficulty to motivate a refusal to sign a legitimately expected contract with an organisation which is subject to an OLAF inquiry and flagged in the Early Warning System (EWS).
- Given the importance of the "frequency of errors in cost claims" issue, the related "critical risk" related to *ERRORS IN FINANCIAL TRANSACTIONS* has been moved up from the risks to be closely

¹ see dedicated page on the INFISO-intranet: http://intra.infso.cec.eu.int/S/IC_coord_group/pages/meetings.htm

monitored (see next category) to this category of major risks to be further mitigated through an action plan. *During recent months, the organisational measures taken as well as the status regarding the implementation of the audit strategy have already been reported in detail to the Cabinet, Audit Progress Committee and ABM Steering Group.*

Consequently, mandates for 8 action plans have been assigned.

Action plan for mitigating major risks

FP7 START-UP PROBLEMS	MAY + DEC	C5	<i>in progress</i>
PROCEDURAL FAILURES FOR ENISA AND INABILITY TO PUT FORWARD POSITIVE PROPOSAL FOR ITS EXTENSION	JAN	A3	<i>finalised; risk reduced</i>
UNAVAILABILITY OF EU	DEC	A3	<i>in progress</i>
FAILURE TO MEET REPORTING OBLIGATIONS	DEC	S3	<i>in progress</i>
OVERCONCENTRATION OF EU-FUNDING	DEC	C5	<i>in progress</i>
2010 POLICY FAILURE	DEC	C1	<i>in progress</i>
NO LEGAL BASE TO STOP CONTRACT SIGNATURE FOR SUSPICIOUS ORGANISATIONS	JUN + DEC	S4	<i>in progress</i>
ERRORS IN FINANCIAL TRANSACTIONS	JUN + DEC	S5	<i>in progress</i>

The current status is that, based on the feedback received, the ICC Group considers that for 1 risk the mitigating measures have been finalised (reducing the *PROCEDURAL RISK RELATED TO ENISA*), while the action plans for the 7 other risks are in progress as intended. While some actions are progressing in line with the operations themselves (e.g. gradually in tandem with the FP7 implementation phases), other actions will be implemented more autonomously (new measures targeted to be in place by the end of 2007).

2. Reinforced monitoring of other important INFSO risks (see annex 2)

Following INFSO's 2006 High-Level Risk Assessment exercise (HLRA), it was considered that for 7 other important risks, no additional mitigating measures could be taken to further reduce the residual risk level. However, it was decided to keep those risks under high-level surveillance, ensuring that their risk levels would at least not increase. After the category change of 1 risk (see above), 6 such risks remain under reinforced monitoring.

Reinforced monitoring of other important risks

EFFICIENCY LOSSES THROUGH OVERLAPS OF RESPONSIBILITIES FOLLOWING EXTERNALISATION	S0	<i>risk exposure stable</i>
AUDIOVISUAL POLICY FAILURE	A1	<i>risk reduced</i>
ROAMING POLICY FAILURE	B0	<i>risk reduced</i>
REGULATORY REVIEW POLICY FAILURE	B0	<i>risk exposure increased</i>
COMPLEXITY OF RULES	C5	<i>risk exposure stable</i>
DELAYED AVAILABILITY OF UPDATED IT SYSTEMS	R3	<i>risk exposure stable</i>

The current status is that, based on the feedback received, the ICC Group considers that our exposure to 3 of these risks has not increased. Moreover, in 2 cases (*AUDIOVISUAL POLICY FAILURE*, *ROAMING POLICY FAILURE*) the risks have even subsided given the political agreements reached during the first semester of 2007.

However, in the context of the REGULATORY REVIEW POLICY risk, Directorate B has signalled that the work to be done in response to the notifications of the national measures within the legal

binding deadlines (cf. "Article 7") remains affected by severe strains on human resources. The ICC Group has endorsed this concern. This has been discussed by the ICC Group and it was stressed that the basis for remedial action has been set with your instructions on the creation of an INFSO central pool of vacant posts (note 818945 of 25.05.07). Directorate B – beyond being exempt of contributing to this central pool – could be considered as a candidate for applying for additional resources for this strategic/political action.

3. Recommendations from the Internal Control Coordinator: implementation of actions to improve the application of ICS in INFSO (see annex 3)

Following INFSO's annual review of its control systems, I had selected 6 priority areas for improving INFSO's application of the Internal Control Standards during 2007. Taken together with 3 such recommendations of 2006 still open, this gives a total of 9 recommendations from the Internal Control Coordinator which required an action plan.

Recommendations from the Internal Control Coordinator

<i>SENSITIVE POSTS AND STAFFING/MOBILITY</i>	<i>OCT</i>	<i>R1</i>	<i>in progress</i>
<i>RISK MANAGEMENT</i>	<i>APR</i>	<i>S2</i>	<i>implemented</i>
<i>DOCUMENT MANAGEMENT</i>	<i>JAN</i>	<i>S1</i>	<i>implemented</i>
<i>PROTECTION OF PERSONAL DATA</i>	<i>DEC</i>	<i>S2</i>	<i>in progress</i>
<i>BUSINESS CONTINUITY PLAN</i>	<i>MAR</i>	<i>R0</i>	<i>implemented</i>
<i>IAC QUALITY REVIEW - RECOMMENDATIONS</i>	<i>MAR</i>	<i>01</i>	<i>implemented</i>
<i>EXCEPTIONS RECORDING AND REPORTING</i>	<i>DEC</i>	<i>S2</i>	<i>in progress</i>
<i>PUBLIC PROCUREMENT PROCESS</i>	<i>JUN + DEC</i>	<i>R2</i>	<i>in progress</i>
<i>FOLLOW-UP TOOL</i>	<i>DEC</i>	<i>S2</i>	<i>in progress</i>

The current status is that, based on the action plans and the implementation feedback received, the ICC Group considers that 4 of these recommendations are implemented (*RISK MANAGEMENT*, *DOCUMENT MANAGEMENT*, *BUSINESS CONTINUITY PLAN*, *IAC QUALITY REVIEW RECOMMENDATIONS*) and that the implementation of the 5 other recommendations is in progress as intended.

4. Suggestions received: implementation of selected actions (see annex 4)

Following our call for suggestions to improve INFSO's working methods on the one hand, and our analysis of the issues raised in the 2006 DMRs on the other hand, we had consolidated the received suggestions into 18 proposals for consideration by the units likely to be concerned as chefs-de-file given the topic(s). Most suggestions were aiming for a revision of current procedures with a view to their simplification (e.g. review of coordination needs, procedure for subscriptions to periodicals, CPP procedures) and/or were looking for a better balance between the number/complexity of control measures vs. taking up responsibilities at the appropriate level(s) (e.g. Cabinet briefings, costs/benefits of controls, drinks expenses for meetings).

Taking into account the comments received from the potential chefs-de-file (e.g. relevancy, feasibility, counter-arguments, already taken up by the unit in charge, etc), the ICC Group has endorsed the implementation of 5 suggestions, for which the actions are already in progress.

Suggestions for the improvement of working methods

SUBSCRIPTIONS TO PERIODICALS	DEC	C4	<i>in progress</i>
EXPENSES - DRINKS FOR MEETINGS	DEC	R2	<i>in progress</i>
PUBLIC PROCUREMENT - CPP PROCEDURE	DEC	R2 + S4	<i>mandate to be approved</i>
COMMUNICATION WITH CABINET	DEC	R1	<i>in progress</i>
COST-BENEFIT BALANCE OF CONTROLS	DEC	S2	<i>in progress</i>

However, in the context of the suggestions related to the PUBLIC PROCUREMENT (CPP) PROCEDURE, it is worth recalling that a suggestion has been made for a structural review of the INFSO CPP procedures by a working group composed of representatives from operational Directorates and from horizontal support units R2 and S4 (note 819304 of 22.05.07). The ICC Group has stressed the importance to finalise such review and revision by end-2007.

Conclusion

Although, in general, the progress of the above mentioned actions appears satisfactory, the ICC Group draws attention to (i) the continued strains of the resources allocated to the REGULATORY REVIEW POLICY and to (ii) the importance of launching the review and revision of the PUBLIC PROCUREMENT (CPP) PROCEDURES.

Next progress report

Our next progress report will be issued after the ICC Group meeting of 13.09.07.

To prepare this meeting, the next call for status updates will be launched early September.

At the meeting itself, the chef(s)-de-file of any action(s) which would be facing progress difficulties and/or which would benefit from a discussion among the ICC Group members, will be invited to do a brief presentation of the issues at hand (*e.g. on the OVERCONCENTRATION OF EU-FUNDING risk, based on data from FP7's Call 1*).

Encl.: 4 detailed tables (1 for each of the 4 categories of actions)

Annex 1 – "INFSO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
9 IST-5 (G + D + C + F + H + E)	V I	<p>FP7 START-UP PROBLEMS</p> <p>FP7 programme start-up facing similar (or worse) conditions than experienced at the beginning of FP6, in terms of implementation difficulties, due to delays in the availability of procedures and/or new IT tools and the publication of the new rules, guidelines, arrangements, model documents, etc.</p> <p><i>PS: Extra risk as suggested in the DMRs:</i></p> <p><i>"In the context of the FP7 start-up, some directorates repeat their concern about the IST-systemic risks (e.g. uncertainty with respect to procedures, unavailability of fit for purpose IT-tools, contractual complexity of research contracts, etc)".</i></p>	05.07 + 12.07	<p>Dir C + Dirs R & S</p> <p>Coordinating official: C5: Zoe Ketselidou + R3: (Augusto Burgueño -> ???) + S4: Ingrid Marien-Dusak</p>	in progress	<p>FP7 Steering Group</p> <p>Launch first calls later than foreseen</p> <p>Evaluations contingency planning in terms of space and implementation</p> <p>+ Issue being addressed in the framework of FP7 inter-service groups. Simulations of the impact of grant agreements should be run beforehand in order to simulate how the different clauses and provisions will be managed from a practical point of view.</p> <p>+ Tools, contracts, procedures and training schemes should be in place and thoroughly tested through a dry run before the 'full' programme starts (or during a first 'limited' call).</p>	<p>- <u>Readiness of IT tools (R3)</u></p> <p>As approved by the INFSO IT Steering Committee of 18 April 2007: the residual risk level since end-2006 has not changed (continues to be high=7, with likelihood=4 and impact=3). In the meantime, the following measures have been taken, with the following results:</p> <ul style="list-style-type: none"> - With respect to URF/PDM, INFSO will delay the decision to use the service until it has proven that it offers the same or higher level of service as it is currently provided by R2. - In the meantime, R3 is making sure that the necessary <u>adaptations to local IT tools</u> are being implemented; a <u>contingency plan</u> has been put in place to mitigate the risk of non-availability of URF/PDM. <p>- <u>Rules and guidelines (S4)</u></p> <ul style="list-style-type: none"> - FP7 Model Grant Agreement (MGA) adopted by the Commission on <u>10 April 2007</u> and published on CORDIS; - Draft financial guidelines, IPR guidelines and Consortium checklist published on CORDIS <u>end of April</u>; - INFSO internal guidelines on the <u>use of options and special conditions of the FP7 MGA</u> have been elaborated (<i>for decision of IST Dirs early July</i>) and will be included in <u>Negotiation training sessions as from July</u>; - Two one-day training sessions on Introduction to FP7 were held in <u>March</u> and will be organised <u>every 3 months</u>; - Specific training sessions for negotiations will be held <u>prior to the negotiations of each call</u>; - S4 will assure a <u>helpdesk</u> for contractual questions.

Annex 1 – "INFSO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
1 ECP& NS-1 + 2 A	V I	<p>PROCEDURAL FAILURES FOR ENISA AND INABILITY TO PUT FORWARD POSITIVE PROPOSAL FOR ITS EXTENSION</p> <p>ENISA procedural failures due to poor preparation of their administrative activities (e.g. preparation/execution of Management Board decisions, work programme, etc)</p> <p>Inability to put forward positive proposal for the extension of ENISA due to poor results of ENISA evaluation</p>	01.07	<p>Dir A</p> <p>Coordinating official: A3: Marton Hajdu</p>	finalised	<p>Intensive discussion of preparation of proposals Support to ENISA + Complete analysis to be made, remedies to be implemented</p> <p>Improvements are already being suggested by INFSO and put in place by ENISA + INFSO will be overseeing the contradictory phase of the evaluation report + Extensive public consultation planned</p>	<p><u>The risk level has been reduced:</u></p> <ul style="list-style-type: none"> concerning the risk of procedural failures, we are of the opinion that the risk is at an acceptable level now, given that ENISA consults DG INFSO in advance on major procedural/administrative initiatives and we analyse these issues in close cooperation with Directorate R when necessary. This is very resources-intensive, and takes up a large part of the work of two A grade officials, however, it is starting to pay dividends, and issues are cleared before they become critical. concerning the extension of ENISA, the evaluation report has already been delivered, and on this basis we are preparing a Communication, which will list proposed scenarios for the future of ENISA. This will be followed by a public consultation and an Impact Assessment as well. We have in place a roadmap for these activities, and we believe that with the results of the report, the risk is "behind us" by now.
2 ECP& NS-4 A	I	<p>UNAVAILABILITY OF .EU</p> <p>Unavailability of .eu in the DNS (domain name system) due to disruptions/discontinuity of registry operations</p>	12.07	<p>Dir A</p> <p>Coordinating official: A3: M. Pitala</p>	in progress	<p>(not specified)</p> <p>+ Preparation for the tasks at the end of the current contract (call, potential handover); + Evaluation of legal, procedural and technical issues related to hand-over; + Evaluation and preparation for potential emergency handover (breach of contract); + Evaluation of potential changes in regulation on the basis of lessons learned; + External resources (study, consultancy) may be necessary.</p>	<p><u>3 aspects are to be distinguished:</u></p> <p><u>(a) EURid contingency planning;</u> <u>(b) dot.eu contingency planning;</u> <u>(c) Registry contract renewal</u></p> <p>(a) EURid contingency planning</p> <p>The EURid contingency planning concerns mainly the verification by the Commission (through: request of data, technical verification or technical audit) of the implementation by EURid of the required safety measures, as stipulated in the Contract. Unit A3 has already asked EURid to provide the relevant information and documents concerning the implementation of the security measures (received on 04.06.07 – analysis ongoing, probably leading to request for further assurance on their Business Continuity Plan and Insurance</p>

Annex 1 – "INFSO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
							<p><i>Policy</i>). In case the safety measures shall not be implemented by EURid and such omission would create the risk for the "dot EU" registry, the Commission should decide whether to terminate the Contract with EURid and implement the contingency planning regarding "dot EU" (i.e. selection of default or new registry) – see under (b).</p> <p>(b) dot.eu contingency planning</p> <p>The contingency planning regarding "dot EU" concerns all possible risks such as (but not limited to): technical failure and bankruptcy or liquidation proceedings of the present Registry. The Commission has to determine and implement the procedures which will allow for the continuity of the registry activities, through e.g.: selection of a default registry or a new registry etc. The Commission should take into account all formal and organizational requirements on international (ICANN), Community (selection procedure) and Member States (implementation) level. For the purposes of the contingency planning regarding "dot EU" it is also important to ascertain the minimum requirements for the transitional phase when activities of EURid would be transferred to a default registry or to a new registry (time limits as well as the services available to EU citizens during transitional phase). <i>Unit A3 is preparing potential actions for approval of senior management.</i></p> <p>(c) Registry contract: renewal ?</p> <p>The present Contract with EURid has been concluded for the period of 5 years, it shall therefore terminate in October 2009 unless extended for another 5 years by both contracting parties. According to the Contract, the request for its extension shall be notified, by either party, between July and October 2008. Prior to this date the decision shall be made whether the</p>

Annex 1 – "INFISO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFISO's 2006 HLRA - mandates; note INFISO-S2/WS/GV D(2007) 800259 of 13.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
							Commission intends to extent or terminate the present Contract . In case of termination of the Contract the new call for expression of interest should be prepared in order to select a new registry. <i>Unit A3 is making the necessary preparations in order to be ready if/when needed.</i>
20 SUPP-6 S	I	FAILURE TO MEET REPORTING OBLIGATIONS Risk of failure in meeting certain reporting obligations vis-à-vis Parliament, Council and other institutions, and/or failure of timely delivery of policy results due to lack of sufficiently detailed or inadequate planning.	12.07	Dir S (input: all) Coordinating official: S3: Sofia Marinho de Bastos	in progress	S3-coordination + setting up of a central database containing all relevant follow-up measures + development of a dedicated planning instrument for (high) priority actions	Risk of failure in meeting deadlines set by the SecGen with regard to the processing of EP Questions due to delays at INFISO service level or due to delays in the inter-service consultation. <u>Possible solutions:</u> (1) increased monitoring by S3 so as to ensure that INFISO services meet deadlines, (2) raising potential delays in the production of EP Questions in INFISO's weekly Directors' meeting, (3) publication and distribution of weekly overview tables so as to remind INFISO services about deadlines, (4) increased monitoring by S3 so as to ensure that other DGs meet the deadlines in the inter-service consultation.
11 IST-7 (S)	I	OVERCONCENTRATION OF EU-FUNDING Concentration of EU-funding, from one or more (fragmented) sources within the DG and/or across DGs, (i) at some (relatively small) participants, which may conflict with their co-funding and research capacities, and which may lead to over-dependency; (ii) with a few (major) participants (being involved in tens of projects), which may be beneficial to create European captains of industry, but may appear to be in conflict	12.07 <i>cf. after end of Call 1.</i>	Dir C + IST Dirs + Dirs R & S Coordinating official: C5: Peter Diry - for all IST Dirs + R2: Lenie Tanis + S2: Yves Motteu	in progress	detective: MIS for ex-post monitoring + preventive: e.g. max. quota, if allowed + detective: MIS for ex-ante use during negotiation phase + corrective: stop negotiations	Action Plan Case (i): Implement the respective FP7 rules for call 1. Action all directorates under supervision of C5. Case (ii) Analyze the situation after Call 1. Action C5. <u>Target Date – cf. end of negotiations of Call 1.</u> <u>To assess the actual level of this risk, it is proposed to analyze after call 1 the distribution of funding to different types of organisation with special attention to the top "funding receivers".</u> Limitations As regards case (i) - the risk that funding conflicts

Annex 1 – "INFSO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
		with the political will to do more to reach SMEs.					<p>with the capacity of small participants:</p> <p>The FP7 "Rules on verification of legal status and financial viability" have been produced as FP7 wide measure to deal with this risk and have to be applied.</p> <p>These rules define that participants, which receive funding below 500.000 and are not coordinator do not have to provide financial information and are not checked on financial viability and co-financing capacity.</p> <p>For those participants checked on co-financing, there are four possible results: <insufficient>, <weak>, <acceptable> and <good>. In the case of <insufficient>, the participant is excluded from the project, in the case of <weak> he can participate, but under enforced monitoring during the lifetime of the project.</p> <p>Additional checks and procedures by DG INFSO would be in conflict with FP7 rules and perceived as discriminatory and against the spirit of simplification (especially for SMEs).</p> <p>As regards case (ii) – the risk that some major participants receive so much funding, that it may appear in conflict with the political will to do more to reach SMEs:</p> <p>There are no objective criteria for defining a possible funding limit for major players (i.e. what amount of funding may appear in conflict with the political will to do more to reach SMEs). Even more important there is no legal base whatsoever to stop negotiations or to reduce funding or to introduce quota on the basis of "over concentration of funding" for major players.</p>

Annex 1 – "INFSO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
14 i2010 – 1 + 2 + 5 (C1 + H)	I	<p>i2010 POLICY FAILURE</p> <p>(i) Insufficient i2010 impetus (innovation policy, ICT implementation, strategic objectives) partly due to insufficient active involvement (convincing/buy-in) with MS on the Lisbon Strategy (i.e. national/regional/local administrations, etc)</p> <p>(ii) "i2010 pillars" inter-dependency: delays in the take-up of new services due to (a) delays, and uncertainties caused by these delays, in the adoption of supportive regulatory environment by the Member States – and due to (b) the risk of not reaching and/or getting on board the 'right'</p>	12.07	<p>Dir C</p> <p>Coordinating official: C1: Anne Troye</p>	in progress	<p>Spring Report Lisbon strategy - NRPs Economic analysis</p> <p>Reporting mechanism is starting to be implemented between working groups and the i2010 HLG</p> <p>+ Improved access to the Lisbon strategy decision-making level (currently our link with the Lisbon strategy is through DG ENTR/Presidencies and messages going through are not necessarily identical)</p> <p>+ DG INFSO's own assessment of MS progress on ICT take-up (through the country analysis) could become a recognised policy/benchmarking instrument</p> <p>+ The i2010 HLG could address some of the interdependency issues at stake without affecting the institutional process (+ see respective clusters ECP & IST)</p> <p>+ Number of groups and meetings should be streamlined and better coordinated</p>	<p>(i) To support the analysis of the i2010 Annual Report, the country profile of each MS providing a summary of the latest information society statistics has been published as a Staff Working Paper in annex to the i2010 Annual communication.</p> <p>These country profiles, based on Eurostat surveys and additional studies, help to benchmark the adoption and implementation of ICT policy in the MS and could provide an incentive to improve take-up measures and their impact on Lisbon. But for the time being NRPs are significantly thinner than the national ICT strategies.</p> <p>How to measure impact of ICT policies at national level on the Lisbon strategy remains however a major challenge as well as an objective to pursue. <u>It can be addressed partly through the Mid-Term review of i2010. MS have accepted to address their ICT implementation and the link with the National Reform programmes through a Questionnaire the responses to which will contribute to the Mid-term review.</u></p> <p><u>A better link has been established with the SecGen to enable a more direct input and feedback to the Lisbon strategy from DG INFSO. More regular meetings have also been organised and allow to better reflect ICT in the Lisbon strategy.</u></p> <p>(ii) The i2010 Annual Report includes as annex the i2010 List of actions. This updated list can ensure the monitoring of the actions which are being delayed. The monitoring of the timely adoption of regulation by MS remains the responsibility of the unit in charge of the transposition. The analysis of the consequences of such delays on the i2010</p>

Annex 1 – "INFSO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
		<p>stakeholders and actors in the IST research and CIP programmes</p> <p>(iii) MS confusion on i2010 targeted achievements and multiple coverage due to limited inter-service co-ordination and consolidation of policy orientations (cf. proliferation of meetings and lack of appropriate reporting mechanisms)</p>					<p>implementation and results would require an improved feedback to unit C1.</p> <p><u>Reaching the right stakeholder constituency remains critical: the Mid-term review will be an opportunity to consult stakeholders directly but the priority given to pooling the results of consultations of stakeholders launched within the DG has in practice not worked because of lack of proper internal coordination.</u></p> <p>(iii) Streamlining and reporting mechanisms have been put in place. More systematic reporting to the i2010 HLG could be organised.</p> <p><u>Better coordination within DG INFSO and with other DGs to clarify i2010 achievements would rest on the involvement of higher management.</u></p>
Extra DMRs	?	<p>Extra risk as suggested in the DMRs NO LEGAL BASE TO STOP CONTRACT SIGNATURE FOR SUSPICIOUS ORGANISATIONS</p> <p>due to lack of sound evidence to motivate a refusal to sign a legitimately expected contract with an organisation flagged in the Early Warning System and subject to an OLAF inquiry.</p>	06.07 + 12.07	<p>Dir S</p> <p>Coordinating official: S4: Ingrid Marien-Dusak</p>	in progress	<p>Specific provisions foreseen in the FP7 "LFV Rules" to be adopted by the Commission :</p> <p>entities subject to a warning in the EWS will undergo a financial capacity check and will systematically be subject of a financial audit</p>	<p>The FP7 LFV Rules (adopted on 13.06.07) foresee that entities subject to a warning W2 or W3 or W4 in the EWS shall undergo a financial capacity check. They will systematically be subject of a financial audits.</p> <p><u>As from July, the Negotiation & LFV training sessions will include these provisions.</u></p> <p>However, the necessity of a <u>case by case</u> assessment will remain.</p>
Extra 17 SUPP-2 S + C + H (from	V I	<p>ERRORS IN FINANCIAL TRANSACTIONS</p> <p>Payment of non-eligible costs (linked to a high frequency of errors in cost claims by beneficiaries) and/or payment delays, due in particular to the complexity of the current reimbursement system based on actual costs, the limitations of the 'plausibility' checks</p>	06.07 + 12.07	<p>Dir S + all IST Dirs</p> <p>Coordinating official: S5: Roland Bührle</p>	in progress	<p>Guidelines for Beneficiaries and staff Audit Certificates External audits + (i) Improvement of the functioning of the control system based on audit certificates. (ii) Decision on the implementation of supplementary desk controls.</p>	<p><u>New common FP6 audit strategy developed</u></p> <p><u>Measures underway for strengthening the ex post controls functions (external financial audits) within the Research DGs</u></p> <p>Given the renewed focus on the "errors in cost claims" issue (cf. IAS audit of Research DGs' ex-post controls, Audit Progress Committee and ABM</p>

Annex 1 – "INFSO 2006 High-Level Risk Assessment": Detailed Action Plan for major risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. <i>INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07</i>)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Existing controls + Initial outline for potential further mitigating actions	Detailed Action Plan (DAP): action(s) [to be] taken
monito rting)		(compared to a full financial audit) and the limited assurance (to date) about the value of audit certificates in this context.				(iii) Continued targeted communication efforts to beneficiaries in order to enable better handling of the given complexity. (iv) Simplification measures pursued in the preparation of FP7 (in particular simplified cost reporting, greater use of flat rate and lump sum financing). (v) +DAS action 7a	Steering Group), the related "critical" risk has been moved from the risks to be monitored to this category of major risks to be further mitigated through a (joint) action plan. A dedicated reporting mechanism has been set up in this context.

Annex 2 – "INFSO 2006 High-Level Risk Assessment": Reinforced Monitoring of significant risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)		"Chef de file"/Associated Dirs & Units	Under control ?	Existing controls + outline for potential further mitigating actions (if any)	Reinforced Monitoring: Any points of attention ?
17 SUPP-2 S + C + H	V I	ERRORS IN FINANCIAL TRANSACTIONS Payment of non-eligible costs (linked to a high frequency of errors in cost claims by beneficiaries) and/or payment delays, due in particular to the complexity of the current reimbursement system based on actual costs, the limitations of the 'plausibility' checks (compared to a full financial audit) and the limited assurance (to date) about the value of audit certificates in this context.		Dir S + all IST Dirs Coordinating official: S5: Roland Bührle	under control; existing and new actions in progress as foreseen	Guidelines for Beneficiaries and staff Audit Certificates External audits + (i) Improvement of the functioning of the control system based on audit certificates. (ii) Decision on the implementation of supplementary desk controls. (iii) Continued targeted communication efforts to beneficiaries in order to enable better handling of the given complexity. (iv) Simplification measures pursued in the preparation of FP7 (in particular simplified cost reporting, greater use of flat rate and lump sum financing). (v) +DAS action 7a	New common FP6 audit strategy developed Measures underway for strengthening the ex post controls functions (external financial audits) within the Research DGs Given the renewed focus on the "errors in cost claims" issue (cf. IAS audit of Research DGs' ex-post controls, Audit Progress Committee and ABM Steering Group), the related "critical" risk <u>has been moved from the risks to be monitored to this category of major risks to be further mitigated through a (joint) action plan.</u> A dedicated reporting mechanism has been set up in this context.
19 SUPP-5 R + S	V I	EFFICIENCY LOSSES THROUGH OVERLAPS OF RESPONSIBILITIES FOLLOWING EXTERNALISATION Risk of efficiency losses and dilution of responsibilities and accountability caused by externalisation to (different) (executive) agencies under complex and inconsistent rules: - due to a lack of reliable or verifiable information from the agencies, we lack assurance that funding requested is correct. Therefore, there is a risk of over-funding; - For the same reason, we do not have reasonable assurance that all expenses incurred are legal and regular;		Dir S + R + A Coordinating official: S0: Federica Borella	stable; existing control measures regularly performed	Coordination work done by the assistants of Directorates R, S, A + (i) SG: Improve the overall governance framework for external agencies (DG's responsibility to supervise the control mechanisms within the agencies as well as the reporting abilities to the Commission). (ii) Review the allocation/recruitment of INFSO liaison staff. (iii) Develop a DG specific externalisation strategy (cf. more radical autonomy). (iv) Execute an audit on the spot under	<u>In the context of the EACEA, the cooperation and reporting modalities are working as intended.</u> In the context of IT externalisation, the INFSO IT Steering Committee represents DG INFSO in the ITPO partnership between RDGs and DIGIT. The IT Steering Committee should therefore be involved in the development of a DG-specific externalisation strategy.

Annex 2 – "INFSO 2006 High-Level Risk Assessment": Reinforced Monitoring of significant risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	"Chef de file"/Associated Dirs & Units	Under control ?	Existing controls + outline for potential further mitigating actions (if any)	Reinforced Monitoring: Any points of attention ?
		<p>- Furthermore, despite controls, there is a lack of assurance regarding the proper implementation of procedures requested in the context of "their autonomy vs. our scrutiny" of the agencies, in particular taking into account the potential growing number of agencies in the future.</p> <p>Consequently, paradoxically there is a need for the DG to supervise these 'independent' Agencies more thoroughly</p>			the responsibility of DG INFSO.	
6 Audiovisual Policy - 1	V I	<p>AUDIOVISUAL POLICY FAILURE</p> <p>Failure to modernise the TVWF policy (cf. non-linear services, liberalisation of advertising) due to the non-adoption of the legislative proposal on the revision of the TVWF.</p>	<p>Dir A</p> <p>Coordinating official: A1: H. Trettenbrein</p>	<u>risk reduced</u>	<p>Close cooperation with Presidency (cf. General Agreement) and European Parliament (cf. Rapporteur)</p> <p>+</p> <p>(...)</p>	<p>Close cooperation with the Presidency and the European Parliament is working very well. The Council unanimously reached a <u>political agreement</u> on this file on 24.05.07 on the basis of the compromise text already negotiated with the Parliament. The "negotiated common position" should be voted by the Parliament at second reading without amendments, thus concluding the file with an early second reading agreement in the autumn 2007.</p>
3 ECP&NS (added) Dir-Gen	V I	<p>ROAMING POLICY FAILURE</p> <p>Commission's initiatives being blocked by Council due to political pressure by certain MS and lobbying by telecom industry</p>	<p>Dir B</p> <p>Coordinating official: B0: Y. Domzalski</p>	<u>risk reduced</u>	<p>(...)</p> <p>+</p> <p>Allocation of additional human resources</p>	<p>Close cooperation with Presidency and European Parliament has worked very well. On 30 June 2007, the <u>EU Roaming Regulation will enter into force</u>.</p>
4 ECP&NS-6 + 8 B	V I	<p>REGULATORY REVIEW POLICY FAILURE</p> <p>- Commission's initiatives and decisions being jeopardized due to the development of the European Regulatory Group into an independent body. - Not delivering Commission Decisions in response to the notifications of the national</p>	<p>Dir B</p> <p>Coordinating official: B0: Y. Domzalski</p>	<u>risk exposure increased</u>	<p>Checking mechanism is in place and working well</p> <p>+</p> <p>Discussion with ERG Heads and shifting certain aspects to independent Regulators Group</p>	<p>- The creation of a permanent and enlarged ERG Secretariat in Brussels in September should improve cooperation with the Commission. Preparatory work for the Review is on track and should reasonably allow to produce proposals before the end of the year.</p> <p>- The risk pertaining to adequate implementation of Article 7 remains the same</p>

Annex 2 – "INFSO 2006 High-Level Risk Assessment": Reinforced Monitoring of significant risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)	"Chef de file"/Associated Dirs & Units	Under control ?	Existing controls + outline for potential further mitigating actions (if any)	Reinforced Monitoring: Any points of attention ?
		measures within the legal binding deadlines (in accordance with Article 7 of Directive 2002/21/EC) due to strain on resources			Allocation of additional human resources	<u>because of severe strains on human resources.</u> <u>Recently, Directorate B has been exempt of contributing to the INFSO central pool of vacant posts (note 818945 of 25.05.07); it might be a candidate for applying for additional resources for this strategic/political action?</u>
8 IST-4 (G + D + C + F + H)	I	COMPLEXITY OF RULES Poor quality (errors, inconsistency, delays and rigidity) in programme implementation and project management, due to the complexity and uncertainty (for beneficiaries, auditors and staff) of procedures. <i>Proliferation of overlapping reference documents (legal rules, guidelines, etc), inadequate or user-unfriendly documentation, excessive amount of information dispersed in different locations, delay or lack of training, heavy pressure and high workload.</i> <i>Not meeting contractual obligations (+ incurring interest payments) due to late payment processing. Cf. payment procedures have not been defined in good time, and are rather complex. The lack of experience of EC staff, contractors and auditors in processing statements has made the whole system error prone.</i>	Dir C + all IST Dirs Coordinating official: C5: Morten Moller	stable; existing and new actions in progress as foreseen	Cf. current organisation & management + (further IST-coordination)	<u>The risk is still under control:</u> The existing controls have worked as intended. The complexity of the FP7 rules is under review by the joint meetings between C5, R3, S4 and the AFUs. The impression is that for FP7 the rules are clearer and less complex than for FP6. Currently, there appears to be no need to introduce further controls.
18 SUPP-3 R + IST	I	DELAYED AVAILABILITY OF UPDATED IT SYSTEMS Potential delay in the deployment of efficient and user-friendly IT tools, due to the complexity of the IT architecture,	Dir R + ITSC Coordinating official: R3: (A. Burgueno -> ???)	stable; existing and new actions in progress as foreseen	IT Steering Committee + (i) Change management (ii) Model entire system life-cycle before	As approved by the INFSO IT Steering Committee of 18 April 2007: <u>- The risk is still "under control"; the existing controls are working as intended; the foreseen evolution and the new actions are indeed materialising as expected;</u>

Annex 2 – "INFSO 2006 High-Level Risk Assessment": Reinforced Monitoring of significant risks – version ICC Group 28.06.07

Risk N°	P	Risk + risk description (cf. INFSO's 2006 HLRA - mandates; note INFSO-S2/WS/GV D(2007) 800259 of 13.02.07)		"Chef de file"/Associated Dirs & Units	Under control ?	Existing controls + outline for potential further mitigating actions (if any)	Reinforced Monitoring: Any points of attention ?
		lifecycle and governance <i>cf. number of actors and systems involved (Research DGs, DIGIT, BUDG, SG, Agency, subcontractors) and the evolving scenario being planned (Quickstart + local tools followed by migrations to eFP7 tools, and management by an agency)</i>				launching major IT developments (iii) Compare proposed FP7 IT governance structure and technical solutions with similar services in Member States (iv) Extra actions as from Cobit-update	- Other points of attention regarding the potential further mitigation actions: ° Change management: INFSO/R3 has fully implemented the Configuration and Change management RUP discipline. ° Model entire system life-cycle before launching major IT developments. In the context of the BIR project, DIGIT is documenting the whole proposal life-cycle. ° Compare proposed FP7 IT governance structure and technical solutions with similar services in Member States. This mitigation action seems to be of limited practical use. ° Extra actions as from Cobit-update. In this respect, INFSO/R3 will tackle them in 2007.

Annex 3 - "Recommendations from the Internal Control Coordinator": follow-up of recommend. – version ICC Group 28.06.07

Year Rel. to ICS N°	P	Recommendation (cf. Annual recommendations from the Internal Control Co-ordinator; note INFSO-S2/WS/GV D(2007) 805795 of 16.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions	Detailed Action Plan (DAP): action(s) [to be] taken
2007 ICS 3, 5		Sensitive posts and staffing/mobility In terms of Human Resources Management, actions already launched in the contexts of staffing and of mobility in sensitive posts could be stepped up; e.g. measures to raise the relative attractiveness of DG INFSO as employer, review of the DG's policy related to sensitive posts by examining possible mitigating measures (especially for POs managing FP7 projects).	10.07	R1 Coordinating official: Rik Vooges/Marleen Hoebeke	in progress	1) Measures to raise the relative attractiveness of DG INFSO as employer. 2) Review of the DG's mobility policy related to sensitive posts by examining possible mitigating measures.	<u>1) A number of measures have been already taken:</u> - Pro-active career guidance for staff affected by compulsory mobility. - Two dedicated career guidance officers (one for AD, one for AST staff). - Increased activities with respect to Equal Opportunities within DG INFSO (see mid-term report for actions taken and planned). - Launch of well-being room and implementation of related action plan (see well-being action plan). <u>2) DG INFSO's compulsory mobility policy overhaul is currently in progress.</u> Analysis will be performed on job categories that exist in DG INFSO, whereby sufficient mitigating measures shall be proposed for job profiles that remain identified as sensitive ('de-sensitisation'). This would allow (AD) staff to stay longer than 5 years in a particular job (e.g. POs for the entire FP7 period). The recently issued (draft) GDR mobility report and the feedback from the Watson-Brown group (Nov. 2006) shall also serve as a basis to review the policy.
2007 ICS 11		Risk management In terms of risk management, it should be ensured that the results of DG INFSO's 2006 High-Level Risk Assessment (HLRA) exercise are followed up and implemented effectively: e.g. by including the progress check and monitoring of the related actions into the mandate of the Internal Control Coordination Group (ICCG) set up early 2007.	04.07	S2 Coordinating official: Geert Veldeman	implemented	HLRA follow-up to be included in the ICC Group's mandate (HLRA mandates + reinforced monitoring)	<u>Already included in the ICC Group's mandate (HLRA mandates + reinforced monitoring)</u>

Annex 3 - "Recommendations from the Internal Control Coordinator": follow-up of recommend. – version ICC Group 28.06.07

Year Rel. to ICS N°	P	Recommendation (cf. Annual recommendations from the Internal Control Co-ordinator; note INFSO-S2/WS/GV D(2007) 805795 of 16.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions	Detailed Action Plan (DAP): action(s) [to be] taken
2007 ICS 13		Document management In terms of document management, it should be ensured that the gradual uptake of electronic filing during 2006 (above 80% at DG level by end-2006) will increase further during 2007; e.g. by continuing to monitor and publish filing rates (per directorate) on a monthly basis.	01.07	S1 Coordinating official: Karl-Heinz Robrock	implemented	Monitoring and peer pressure	<u>Monthly reports are being published by SI:</u> peer pressure by continuing to monitor and publish filing rates (per directorate) on a monthly basis
2007 ICS 1,13,15		Protection of personal data In terms of protection of personal data, in 2006 the DG's dedicated internet-site has been elaborated to such extent that the Commission's Data Protection Officer recommends it as a good practice to other DGs. However, in order to ensure that INFSO staff effectively apply the rules, during 2007 awareness for the implementation of the Data Protection regulation should be increased, e.g. via a dedicated information campaign by the DG's Data Protection Coordinator.	12.07	S2 Coordinating official: Isabelle Van Beers	in progress	A dedicated information campaign by the DG's Data Protection Coordinator	<u>Action Plan:</u> - Training for INFSO staff - Video on data protection issues in collaboration with Unit C4 - Presentations to Directorates' meetings - Bilateral & regular meetings with Local data protection Correspondents - Presentation to Network of Comitology coordinators - Presentation to Network of web-publishers
2007 ICS 15,19		Business Continuity Plan By 31.03.07 the DG should have established, communicated/stored and tested an overall Business Continuity Plan as well.	03.07	R0 Coordinating official: Rich. Sonnenschein	implemented	Establishment, communication, testing and regular up-dating of an DG INFSO Business Continuity Plan	<u>Establishment and communication of the DG INFSO Business Continuity Plan has been done.</u> Testing and up-dating: to be continued on a regular basis.
2007 ICS 22		IAC Quality Review - recommendations Following the IAS' Quality Review of the DG's Internal Audit Capability, the "partial compliance" for some performance standards (risk assessment, planning of work, supervision, monitoring the implementation of recommendations) will be addressed by implementing the six recommendations in 2007.	03.07	01 Coordinating official: Christian Dewaleyne	implemented	Implementation of six IAS recommendations	<u>The six recommendations have been implemented.</u>

Annex 3 - "Recommendations from the Internal Control Coordinator": follow-up of recommend. – version ICC Group 28.06.07

Year Rel. to ICS N°	P	Recommendation <i>(cf. Annual recommendations from the Internal Control Co-ordinator; note INFSO-S2/WS/GV D(2007) 805795 of 16.02.07)</i>	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions	Detailed Action Plan (DAP): action(s) [to be] taken
from 2006 ICS 18 + open IAC- rec.		Exceptions recording and reporting Increase the effectiveness of DG INFSO's control arrangements in place, by (i) reviewing and clarifying the current procedures of recording and reporting of exceptions (taking into account the new "iFlow" tool for electronic workflow and file-tracking, which will embed an exception reporting feature), by (ii) stressing the need to maintain a registry at the level of the director of all exceptions (over-rulings and deviations) in the directorate plus their justifications, by (iii) strengthening the horizontal monitoring and follow-up of the reported exceptions.	12.07	S2 + R2 Coordinating official: Fabienne Stordeur	in progress	Review and clarification of the current procedures of recording and reporting of exceptions	<u>Action Plan:</u> (i) reviewing and clarifying the current procedures of recording and reporting of exceptions (ii) stressing the need to maintain a registry at the level of the director of all exceptions (over-rulings and deviations) in the directorate plus their justifications (iii) strengthening the horizontal monitoring and follow-up of the reported exceptions <i>Target date changed to 12.07 (cf. new instructions applicable as from 01.01.08, taking into account revised "ICS-2008").</i>
from 2006 ICS 20		Public Procurement process Increase the effectiveness of DG INFSO's control arrangements in place, by finding a way for a better tracking of Public Procurement files. Following a centrally reported [in 2006] internal control weakness concerning the need for a better tracking of public procurement files, the relevant units (R3, R2, S4) were gathered around the table consider S2's suggestion to extend the use of "iFlow" to administrative expenditure processes as well.	06.07 + 12. 07	R2 + S4 + R3 (+S2) Coordinating official: Matteo Fumerio	in progress	Use of "iFlow" to administrative expenditure processes as well	<u>Action Plan:</u> Implementation of iFlow/iKnow for PP – milestones 1. Events and Actors 2. Related attached documents 3. Links to existing DBs 4. Links to existing (or to be created) check-lists on MoP 5. Links to existing (or to be created) supporting docs for check-lists <u>Steps 1+2+3 = done</u> <i>Blueprint has been made available by R2 to R3. After programming, workflow should be tested, corrected (with possible added security features e.g. versioning of attached documents) and validated by R2/S4 and users.</i> <i>Links to check-lists and guidance = <u>planned for the second half of 2007.</u></i> <i>This recommendation (on the IT-aspects of the</i>

Annex 3 - "Recommendations from the Internal Control Coordinator": follow-up of recommend. – version ICC Group 28.06.07

Year Rel. to ICS N°	P	Recommendation (cf. Annual recommendations from the Internal Control Co-ordinator; note INFSO-S2/WS/GV D(2007) 805795 of 16.02.07)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions	Detailed Action Plan (DAP): action(s) [to be] taken
							<u>PP process) will be implemented within the mandate for a structural review of INFSO's public procurement procedures (operational units and horizontal support), which has been requested by R2 and S4 (cf. Autumn 2007) – see IWM-suggestion n°7 in annex 4).</u>
from 2006 ICS 21		Follow-up tool Increase the effectiveness of DG INFSO's control arrangements in place, by further developing an efficient and effective 'tracking system' for all audit and other recommendations involving DG INFSO.	12.07	S2 Coordinating official: Fabienne Stordeur	in progress	developing an efficient and effective 'tracking system' for all audit and other recommendations involving DG INFSO	<u>Action Plan:</u> <u>The IAS' "AMS - Issue Track" system has been made compulsory for the registration and follow-up of the implementation of the IAS' recommendations.</u> The IAS is now offering additional licences of his (soon web based) AMS audit management system. This would allow the DGs to track <i>any type of recommendations</i> . <u>S2 is investigating whether licences for the follow-up of recommendations issued from the Court of Auditors and from the risk assessment exercises should be asked.</u> As far as IAC is concerned, the IAC used to follow up its own recommendations "manually" (le seul cas existant concerne les audits de la Direction A, de 2005 et 2006, dont le suivi sera fait mi-2007). However, for new recommendations, the IAC now uses "AMS – Issue Track" as well. However, although the aim was to have a one-stop-shop system in which all INFSO-related recommendations and actions from whatever the source would be consolidated, it would be not practical to integrate the current ARPS system or its common RDGs successor (cf. links with contract management system and ABAC).

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N°	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
----	---	--	----------------------	--	----------------	--	--

1 a+b IWM		<p>Subscriptions to periodicals</p> <p>a) The current decentralised approach is not efficient way to manage subscriptions as all the directorates have to "learn the process", request same information from the publishers or service providers or DG EAC managing the framework contracts with main service providers. Each directorate shall also assign resources for it. It also leads multiple subscriptions of the periodicals which could be circulated between different directorates as done it the past.</p> <p>b) Subscriptions to periodicals have stopped and there is a lack of documentation in the Unit. Administrative and financial procedures are specific to the domain and cannot be implemented easily at Unit level.</p>	12.07	C4 Coordinating official: Anne Waniart	in progress	<p>OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS</p> <p>Achievement of economies of scale/scope or critical mass, the reduction of a bottleneck</p>	<p>Centralisation of subscriptions would allow for economies of scale through a systematic and professional approach.</p> <p>All the subscriptions shall be managed by the communications unit C4.</p> <p><u><i>INFSO's C4 Library is working to provide a centralised subscription and management of a limited number of periodicals for the Directorates: 2007 budget is 30,000 EUR for periodicals (3 subscriptions per Dir) + 12,000 EUR for newspapers.</i></u></p> <p>Steps already done/ongoing:</p> <ul style="list-style-type: none"> - Spontaneous requests from INFSO staff have been collected - Analysis of possibilities of free online access to ICT periodicals (initiated) - Collection of Web feeds in order to provide INFSO staff with updated & specialised information (ongoing) - Contacts established with ECFIN and ENV Libraries to avoid overlapping of periodicals collections in the Beaulieu site <p>Next steps:</p> <ul style="list-style-type: none"> - Survey within the INFSO directorates - Collecting best practises for periodicals management in EC libraries ECFIN, ENV, COMP - Work with the Central library for replacing the cumbersome procedure for purchase of periodicals by a lighter alternative using Aleph acquisition & circulation module (Library management software)
------------------	--	---	-------	--	-------------	--	--

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N° IWM or DMR	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
2 IWM		Expenses: drinks for meetings Meeting not involving expenses other than drinks should not be sent to Unit R2 (cf. lengthy circulation of signataires).	12.07	R2 Coordinating official: M. Fumerio	in progress	OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS Bringing in line the actual control over actions and the responsibility/accountability for them	Decentralisation: Webdor is an electronic tool that can be accessed by everybody. When a meeting has no financial implications (other than coffee or drinks) it should be treated only at Unit/Directorate level. <u><i>R2 is positive towards the request, but will check consequences for the follow-up of the commitments' consumption and/or the financial and operational verifications of the related invoices.</i></u>
3 a+b IWM		CIS - Internal deadlines a) CIS have usually 10 (sic: 5) days deadline. One day is lost in transmission between DG COMP to the horizontal Unit, and then, to the operational Unit. The assistants require 3 days for looking at the file. Therefore, it remains 6 (or 1) days for the operational Unit for preparing the reply and obtaining the approval of the Head of Unit and the Director. It would be more proportionate that the operational Unit, the HoU and the Director get 3 days, and that it reminds one day for the assistants for verifying the file. b) Unrealistic deadlines for issues of crucial and long-lasting importance (e.g. the specification and writing of the Challenges of the Workprogramme) compromise quality, reliability and service culture.		S1 Coordinating official: E. Galanis	rejected	OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS Re-balancing reaction time vs. co-ordination needs for decentralised systems Changes leading to increased quality of service and/or intrinsic motivation of staff involved This will significantly improve the quality of the delivered services/information at all levels.	Assigning a time for assistants to look at files proportionate to the deadline (1 day). Set a deadline for files to move from the Unit and Director (3 days) to the Assistants and Cabinet. Using electronic means would help. Planning of actions well in advance by giving enough time to all involved parties to prepare, check and deliver. Define in advance and clearly what exactly is expected, by whom and when. <u><i>The problem appears to be overstated, based on an exceptional case: normally, CIS have a 10 days deadline which leaves the operational unit 6 days</i></u>

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N°	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
4 a+b+c IWM		<p>Signataire for the signature of document by Director General</p> <p>a) On average, the number of actors on routing sheet have increased from 6 (in 2001) to 9 (in 2006), not taking into account the registration services</p> <p>b) There are some areas which create considerable frustration in particular: simple processes (e.g., a letter for the signature of the Director General) that take longer as more names have been added to the "fiche de circulation"</p> <p>c) Shorter circulation lists in general on all 'signataires' (after three visas the checking function seems to become a formality)</p>			closed without specific action	<p>CUTTING RED TAPE</p> <p>Changes leading to process time gains</p> <p>Changes leading to increased quality of service and/or intrinsic motivation of staff involved</p>	<p>Identify only key actors of process on "fiche de circulation"</p> <p>Streamlining should help to motivate "owner" drafting the document/letter to take more responsibility for the resulting product</p> <p><u><i>No specific measures appear needed or feasible to guarantee an optimal situation under all circumstances.</i></u></p>
5 IWM		<p>Signataire for non-strategic documents</p> <p>Time-consuming procedure (signataire) spent on non-strategic issues.</p> <p>Comments and suggestions cannot easily be taken into account.</p> <p>Manual corrections on printouts are sometimes difficult to understand.</p>			closed without specific action	<p>CUTTING RED TAPE</p> <p>Replacement of a cumbersome procedure (process steps) by a 'light' alternative</p> <p>Changes leading to process time gains</p> <p>Changes leading to increased quality of service and/or intrinsic motivation of staff involved</p>	<p>Approval of non-strategic documents via e-mail. Recipients can formulate comments/suggestions on the online document ("track changes" option)</p> <p><u><i>No specific measures appear needed or feasible to guarantee an optimal situation under all circumstances.</i></u></p>
7 a+b+c+d 6 8		<p>Public Procurement - CPP procedure</p> <p>a) Now a CPP file is checked by AFU/OS, S4 and CPP in different steps. The current multiple checks are time consuming, frustrating and de-motivating as the unit may have to correct the file several times first on the request of the AFU/OS, then by</p>	12.07	<p>R2+S4</p> <p>Coordinating official: M. Fumerio</p>	mandate to be approved	<p>CUTTING RED TAPE</p> <p>OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS</p> <p>Abolishment of obsolete or low added-value reports</p>	<p><u><i>A mandate for a structural review of INFSO's public procurement procedures (operational units and horizontal support) has been requested by R2 and S4 (cf. Autumn 2007). It is important to have a timely decision on such mandate in order to be able to finalise the review by end-2007.</i></u></p> <p>CPP procedure to be streamlined: the actual roles</p>

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N° IWM or DMR	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
IWM		<p>S4 and finally by CPP. Sometimes the change requests may even be contradictory as they are very often based on the different interpretations of the current rules and procedures.</p> <p>b) Les mêmes contrôles sont effectués par :</p> <ol style="list-style-type: none"> 1. l'OS de la direction (= 2 personnes pour notre direction) 2. l'unité légale (S4) 3. la fonction CPP de l'unité R2 4. les différents membres du CPP 5. les assistants du président du CPP <p>Ce qui fait un total de plus de 10 personnes, sans parler des personnes qui doivent effectivement signer les documents (ordonnateur, président du CPP, etc). De plus, ces 10 personnes font régulièrement des commentaires et des demandes de modifications qui sont contradictoires.</p> <p>c) There are some areas which create considerable frustration in particular: the CCP process in procurement procedures which is seen to add considerable delays</p> <p>d) Improve the Public Procurement processes (e.g. for studies)</p> <p>The report to the CPP and the Evaluation Report are very much copy and paste of the same information.</p> <p>Different persons in the different layers have different opinions or interpretations (financial assistant to director, different people in S4, CCP secretariat). As a</p>				<p>Removal of unnecessary verification levels</p> <p>Changes leading to process time gains</p> <p>Changes leading to increased quality of service and/or intrinsic motivation of staff involved</p> <p>Achievement of economies of scale/scope or critical mass, the reduction of a bottleneck</p> <p>L'application de règles strictes liées à la passation des marchés publics est entièrement justifiée. Par contre, elle ne nécessite pas forcément une mise en place de procédures de contrôles excessivement lourdes et complexes, nuisant gravement à l'efficacité de la procédure et étendant la période nécessaire à la conclusion d'un contrat à <u>presque 1 an</u>.</p> <p>At the moment, the time to contract of a CPP dossier is approx. 6-8 months and the required effort about 1-1.5 person-months</p>	<p>and tasks of different actors should be clearly defined. I.e. the role of AFU/OS could be restricted to check if all necessary information is in the file without checking the actual content which is checked by S4/CPP.</p> <p>Either improve the response time of the different checks at various steps of the process or redefine the checking steps (e.g. reduce the number of steps).</p> <p>Reports to CPP shall be streamlined:</p> <p>Remove the requirement to prepare a separate CPP report</p> <p>There should be ONE SINGLE POINT [at central/horizontal level] for providing advice on financial procedures from all points of view (legal, procedure, formalities, presentation, etc). The</p>

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N° IWM or DMR	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
		consequence, a file has to be redone several times, often due to small details, before it can get an approval from all the layers. The effort and time used is disproportionate to the result.					advice should also be provided EX ANTE, as this would save lots of time and useless work.
9 a+b IWM		Finance: subdelegation for final payments, iFlow (?) a) Taking into account a strong emphasis to shorten the payment delays, every additional step is not supporting to achieve this aim. <i>b) There are some areas which create considerable frustration in particular: financial systems (such as i-Flow) which, due to their newness, do not allow parallel tasks that would enable Project Officers to meet tight year end commitment deadlines.</i>		R2 Coordinating official: M. Fumerio	rejected	CUTTING RED TAPE Replacement of a cumbersome procedure (process steps) by a 'light' alternative Changes leading to process time gains	The Heads of AFU/OS should get a subdelegation also for the final payments <u><i>In agreement with the AFU/OS, this will be revisited later this year and will therefore NOT (yet) be implemented in 2007.</i></u>
10 IWM		Parliamentary questions, briefings, etc - double (paper+electronic) transmission of files Elaboration and transmission of electronic and paper files is time consuming and redundant.		S3 Coordinating official: H. van Wagenveld	rejected	CUTTING RED TAPE Replacement of a cumbersome procedure (process steps) by a 'light' alternative Changes leading to process time gains Other : save time and paper	<u><i>No specific measures appear needed.</i></u> In this case EP questions and Briefings have to be distinguished: 1. EP questions: there is no double transmission once the draft reply is out of the directorate (validated by the director). From S3 the processing is part electronic (attribution, ISC, modifications of the draft) and then paper (signature from S3 to hierarchy for final approval) then again through electronic means (BASIL databasis) for further processing outside the DG. 2. Briefings: as far as briefings are concerned - a question that does not concern solely S3 - the paper version is the practice for the Cabinet and for DG. Electronic version is used only to adapt the file while it is on its way to final recipient (eg new

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N°	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
							elements to introduce). It is not much the paper transmission which is a problem but rather the number of copies required (eg. a briefing for Cabinet = 11 copies, 6 for Cab, 5 for internal use); it is however true that limiting to electronic transmission would resolve the problem of the copies but paper transmission is important to keep the dossier "under control" NB. the case of EP? oral questions are an hybrid of 1 and 2, and suggestions to 2 should also apply.
11	IWM	Communication with Cabinet When urgent feedback/information at political level needs to be relayed, some kind of arrangement for enabling more rapid communication with Cabinet is advisable (e.g. liaising via e-mail, subject to hierarchical checks).	12.07	R1 + Assistants + Adviser Coordinating official: M Hoebeke + H. Dupuy + D. Eckert	in progress	CUTTING RED TAPE Replacement of a cumbersome procedure (process steps) by a 'light' alternative Changes leading to process time gains	<u>Part of conclusions and action plan related to the "better Cabinet briefings" campaign (cf. last year).</u> - Training will be continued on "speeches" as well (this year). - An IT tool facilitating the flow and stock of such documents (cf. DG TREN) is being analysed for implementation in DG INFSO.
12	IWM	Translation requests via WebPOETRY All translation requests coming from DG INFSO units are being coordinated at DG-level. In order to facilitate the sending from the source to the INFSO-coordinator for translations, the units send their translation requests to the INFSO-coordinator of translations, who transmits them to DGT. This leads to the risks of misunderstandings and of delays.		S1 Coordinating official: E. Galanis	rejected	OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS Bringing in line the actual control over actions and the responsibility/accountability for them Reinforcement or reduction of controls, to what is really needed Re-balancing reaction time vs. co-ordination needs for decentralised systems Re-balancing the advantages of proximity to operations vs. the disadvantages of fragmentation and discontinuity of service Removal of unnecessary verification levels	Allow translation requests via WebPOETRY and decentralise the process by letting the concerned units to be in charge. If translation requests were to be made directly from the service/Unit demanding, the correctness of the documents would increase and the risks of errors decrease. The WebPOETRY application is an easy tool to learn and it takes little time to make a request once you know the system. <u>It is DG INFSO's explicit aim to process the DG's translation requests in a centralised way, as a service to the units. On top of considerations in terms of critical mass and economies of scale, the main reason is to increase INFSO's bargaining</u>

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N°	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
						Replacement of a cumbersome procedure (process steps) by a 'light' alternative Changes leading to process time gains Changes leading to increased quality of service and/or intrinsic motivation of staff involved	<u><i>power (priorities); a de-centralised approach would leave individual units even less powerful in priorities (re)-negotiations.</i></u>
13 a+b IWM		Information flows - bottlenecks a) Make an effective analysis of what could be considered as "bottlenecks" or areas requiring improvements to existing information flows. b) Reduce the internal e-mail overflow			closed without specific action	OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS Achievement of economies of scale/scope or critical mass, the reduction of a bottleneck	It could be useful to have a small team set up within the DG to analyse, propose and assess the impact of improvements, in practical terms, to existing information flows. E-mails are to be sent only to those who are supposed to make an action and mark them as such. Put in copy only those, who absolutely need to be informed. <u><i>No specific measures appear needed or feasible to guarantee an optimal situation under all circumstances.</i></u>
14 IWM		Training – optimise duration Assess the duration of trainings organised by the EC (and sometimes by INFSO) as they seem to be often artificially 'inflated'.		R1 Coordinating official: M. Hoebeke	closed without specific action	Changes leading to time & productivity gains	It could be reduced by up to 50%, hence, saving costs for the Commission and improving the productivity of the staff. <u><i>This is already taken by the unit in charge as guiding principle.</i></u> At the level of DG INFSO, the training team can only influence the duration of the locally organised training sessions. In this respect, the training team has always paid a lot of attention to the duration of training due to the simple fact of our limited budgetary resources. Statistics on the duration of DG INFSO training show that from 78 courses organised locally, 58 have a duration of a half-day or less, and only 3 have a duration of more than 2

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N° IWM or DMR	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
							days. DG INFSO training has no impact whatsoever on training organised by the central 'learning & Development' Unit at DG ADMIN. However, Unit R1 will address the issue at RRH meetings and COFO meetings (network meetings of all Commission training managers).
15 IWM		<p>IST – coordination</p> <p>Endless exchange of e-mails, ad-hoc meetings and bilaterals compromise significantly the process.</p> <p>"Change" in DG INFSO is too much centralised on the so-called Horizontal Units. Project Officers are then instructed to use new tools developed by others and to apply new decisions/procedures taken elsewhere without their involvement. This creates a gap between "technical" and "horizontal" people that is widening to a dangerous level. Our management system is too much top-down.</p>		<p>C5</p> <p>Coordinating official: M. Moller</p>	closed without specific action	<p>OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS</p> <p>Changes leading to process time gains</p> <p>Changes leading to increased quality of service and/or intrinsic motivation of staff involved</p> <p>Bringing in line the actual control over actions and the responsibility/accountability for them</p>	<p>Improve the internal consultation process of the ICT-Programme(s) by clearly defining roles, responsibilities, deadlines, version of documents and number of iterations.</p> <p>We are not suggesting that bottom-up approaches are better. The point is to find a balance between both.</p> <p>Below we give two simple but representative examples:</p> <p><i>Example 1: R3 is developing a new software tool named Phoenix Project Management. This tool is to be used by all Project Officers to improve project monitoring. The most logical approach would be to assign an experienced team of Project Officers from all research directorates. Apparently, this is not the case. The tools are being developed with the minimum involvement of the intended users, i.e. the POs. As a result, IT tools do not match user requirements, users do not use them properly, productivity is not improving, return on investment on IT tools is very low.</i></p> <p><i>Example 2: DG RTD created a working group on NoEs. The objective is to share experiences and propose changes for FP7 to be implemented mainly in Annex III. It seems logical that DG INFSO's representative to this working group should be a Project Officer with experience in monitoring</i></p>

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N° IWM or DMR	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
							<p>NoEs. Well, this is not the case. As in the example before, DG INFSO representative has never monitored an NoE. Actually, he/she has not been an active PO the last ten years.</p> <p><u>This is already taken by the unit in charge as guiding principle.</u></p> <p>The INFSO decision process is indeed top-down; the IST Directors decide finally on the guidelines and procedures. This will probably not change.</p> <p>However, it will be clearly defined which documents are the final documents. Also the number of documents shall be limited.</p> <p><i>On example 1: All the tools have had user groups involved. For the PPM tool also a user group has been established which has given input (WVP as system owner).</i></p> <p><i>On example 2: DG RTD had established a task force to define the instruments for FP7. 3 INFSO representatives were selected, two from horizontal units and one from an operational unit. To our knowledge, no group was established on NoEs.</i></p>
15 bis a+b+c DMR		<p>INFSO coordination</p> <p>a) Further strengthening of the existing coordination across directorates, in order to facilitate the development of harmonised approaches and more effective and speedy decision making, in particular on matters pertaining to the life-cycle of IST projects (from evaluation, to project closure, to ex-post financial and impact auditing)</p> <p>b) The need for a comprehensive audit implementation strategy (i.e. a concerted and</p>		<p>C5</p> <p>Coordinating official: M. Moller</p>	closed without specific action	<p>OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS</p> <p>Bringing in line the actual control over actions and the responsibility/accountability for them</p> <p>Re-balancing reaction time vs. co-ordination needs for decentralised systems</p> <p>Changes leading to increased quality</p>	<p>development of harmonised approaches and more effective and speedy decision making</p> <p>concerted and coordinated audit implementation approach</p>

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N° IWM or DMR	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
		<p>coordinated approach by all directorates), in order to avoid undue differences in the individual approach, undue delay on payments and possibly mistakes (particularly difficult are the implementation of audit results for large organisations which participate in many contracts throughout the IST Programme and the FP).</p> <p>c) The need for a more adequate definition of responsibilities, in order to enhance the coherence of the management of some key domains (in particular in the domains related to the NESSI platform as well as the Future of the Internet)</p>				<p>of service and/or intrinsic motivation of staff involved</p>	<p>re-definition of responsibilities</p> <p><u>This is already taken by the unit in charge as guiding principle</u></p> <p>These recommendations have already been addressed in the form of a comprehensive training programme for gestionnaires and POs, and in the way the AFUs coordinate the procedures across the directorates, also concerning the implementation of audit results.</p> <p>The definition of responsibilities between units on the content must be resolved by the relevant HoUs and Directors.</p>
16 DMR		<p>Modern collaborative working tools</p> <p>Further gains in productivity are within reach on condition that modern collaborative working tools (e.g. Wiki-based - now in wide use by industry, but regrettably not yet deployed at Commission level) are made available to the staff.</p>			closed without specific action	<p>OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS</p> <p>Changes leading to process time and productivity gains</p> <p>Changes leading to increased quality of service and/or intrinsic motivation of staff involved</p>	<p>Deployment of modern collaborative working tools in the Commission or INFSO</p> <p><u>This is already taken by the unit in charge as guiding principle</u></p> <p>When new work-tools are being developed, such concerns are taken into account by R3 (e.g. design of iFlow-tool as a good example).</p>

Annex 4 - "Improvement of Working Methods in DG INFSO": follow-up of suggestions received – version ICC Group 28.06.07

N° IWM or DMR	P	Suggestion (cf. <i>Improvement of working methods in INFSO: call for your suggestions; note INFSO-S2/WS/GV D(2006) 739643 of 30.10.06</i>) + (2006 DMRs)	Target date mm.07	"Chef de file"/Associated Dirs & Units	Implem. Status	Initial outline for potential actions Optimisation advantages	Detailed Action Plan (DAP): action(s) [to be] taken Suggestions made; reactions received
17 DMR		<p>Other DMR suggestions, e.g. cost/benefit balance of controls</p> <p>Suggestions for further improvements include modifications to current procedures with a view to their simplification, looking for a better balance between the number/complexity of control measures in place and the amount of resources dedicated to such controls, in comparison with the resources dedicated to actual operations in “vertical” units.</p>	12.07	<p>S2</p> <p>Coordinating official: Y. Motteu</p>	in progress	<p>CUTTING RED TAPE + OPTIMISING THE CURRENT (DE)CENTRALISATION LEVELS</p> <p>Replacement of a cumbersome procedure (process steps) by a 'light' alternative</p> <p>Changes leading to process time gains</p> <p>Changes leading to increased quality of service and/or intrinsic motivation of staff involved</p> <p>Bringing in line the actual control over actions and the responsibility/accountability for them</p> <p>Reinforcement or reduction of controls, to what is really needed</p>	<p>Simplification of procedures</p> <p>reconsider the number/complexity of control measures in place</p> <p>rebalance the resources dedicated to controls, in comparison with the resources dedicated to actual operation</p> <p><u><i>The +DAS Action Plan includes a cost/benefit analysis of current control layers (INFSO part of project); any resulting measures will address a potential re-balancing between the number/complexity of control measures in place and the amount of resources dedicated to such controls, in comparison with the resources dedicated to actual operations.</i></u></p> <p>Some other suggestions are covered by individual entries mentioned above.</p>

Recovery Type	Balance 01.01.2007		New RO 2007		Cashed or compensated 2007 *	Waived 2007*	Cancelled 2007*	Balance 30.06.2007		Estimated amounts / nbr to be waived in the future	
	Nr	amount	Nr	amount				Nr	amount		
CoA Audit	4	600.517	0	0	0	0	0	4	586.098	3	240.801
Financial Audit	32	3.594.709	60	2.564.283	1.411.787	29.656	2.060	54	4.066.252	2	84.015
Final Payment	46	3.350.924	28	1.189.104	1.306.321	89.538	0	44	2.901.158	5	310.860
Liquidation/bankruptcy	28	4.144.901	3	30.063	138.756	1.080.962	0	22	2.877.235	19	2.685.035
Contract Termination	7	3.151.503	0	0	24.833	0	0	7	3.179.661	1	2.367.521
Other/divers	2	241.587	6	1.366.022	1.355.979	0	0	3	251.630		
Grand Total	119	15.084.143	97	5.149.472	4.237.676	1.200.157	2.060	134	13.862.034	30	5.688.233

* out of the 85 recoveries some recoveries were partially paid, waived or cancelled but not summed for an amount of 931K €

- 1 Procedure for forced recovery in progress
- 2 file to be followed-up with liquidator

Action Plan towards an integrated internal control framework – Overview of its implementation

Action 1: Simplification review of proposed 2007-2013 legislation – Keep under consideration simplification of the rules for the 2007- 2013 period concerning in particular the eligibility of expenditure in the structural funds and in the research programmes.

For the simplification actions concerning the eligibility of expenditure in the Commission's research programmes (cf. Rules for Participation related to FP7), DG RTD is representing the Research DGs family. This is a permanent action.

Action 3b: Establish and harmonise better the presentation of control strategies and evidence providing reasonable assurance – Demonstrate how DGs will gain assurance on the internal control structures for shared management and internal policies, taking the developed templates and control strategies at Commission-level into account.

For the establishment of a harmonised presentation of the control strategies, as a "concerned DG", DG INFSO is participating in the RTD-led working group for the Research DGs family. Based on a draft template provided by DG BUDG, the working group had already in 2006 submitted a proposal for a harmonised control presentation/demonstration template for use within the Research Policy (e.g. to be used in the AAR's Chapter 2). In the meantime, such a template has indeed appeared in SG's standing instructions for the drafting of the AAR 2006 (cf. 'new' chapter 2). However, further progress during the second half of 2007 would be needed, especially for establishing a consensus concerning which Research-family-related "key indicators" would have to be included as from the AAR 2007.

Action 7a: Promote best practices for increasing cost-benefit of audits at project level – Establish criteria for certification audits in research and internal policies, focusing on the use of “agreed upon procedures”.

DG INFSO was chef de file for this action, in strict collaboration with DG BUDG. The action was implemented by elaborating "Agreed Upon Procedures" (contractual arrangements between beneficiaries and certified auditors, in order to further improve the efficiency and reliability of financial statements certification) which have been incorporated in the FP7 model grant agreements. This should reduce significantly the risk of the most recurrent types of errors identified through audits in the past.

Action 9a.1New: Assess potential actions necessary for enhancing the sharing of audit and control results and recording of their follow-up in the area of internal policies, including research – To oversee the initial stages of data-sharing in ABAC, the Commission will, for the Sixth Framework Programme, monitor the use of data sharing and management reporting with a view to identifying key factors for success in better integrating the sharing of data in the overall control process.

This is a new measure relevant for the Research DGs family, which has been added at the occasion of the progress report on 07.03.2007. This measure is also part of the "Action plan to implement a new approach for ex-post audits of research programme activities" (see also chapter 7 section 1).

Action 10b: Make a first estimation on the costs of control incurred in direct centralised management expenditure.

In October 2006, DG INFSO was requested by DG BUDG to participate in action 10b as well. After a number of meetings in November and December 2006 (scope, methodology, etc), in January 2007 DG INFSO has transmitted a set of INFSO-related data on costs of control (staff, outsourced audits, audit certificates) to DG BUDG for further elaboration. This action is in progress.

Action 11New: To determine whether recovery and offsetting systems are working effectively, by identifying amounts recovered in 2005 and 2006 and their coherence with errors identified during controls. The Commission will, in direct management, develop a typology of error and the relationship with recoveries, financial corrections and adjustments to payments and for shared management it will examine the reliability of national monitoring and reporting systems.

This is a new measure relevant for the Research DGs family, which has been added to the action plan on 07.03.2007.

Action 12: Address the gaps identified by participating services – Put in place steps to close these gaps via the Annual Management Plans, with follow-up reporting on progress in the Annual Activity Reports.

As DG INFSO has no DG-specific gaps, DG INFSO is not among the "concerned DGs" of Action 12. The issues mentioned in our Gap Assessment will be addressed, at least in co-operation with RTD and/or BUDG, through other actions: co-financing system (cf. Action 1), audit certificates (cf. Action 7), cost/benefit of controls (cf. Action 10), 'tolerable' risk (cf. Action 4).

Action 12New: To ensure effective delivery of added assurance, the Commission will perform 300 audits for FP6 in 2007, compared with the 45 carried out in 2006. In addition, having developed a systematic approach to analysing and sampling the FP6 beneficiary population as part of action 16b, the Commission will proceed with the identification and correction of errors in beneficiaries receiving the most significant proportion of the budget. This will also provide, by the end of 2007, a representative picture of the level and nature of irregularities in the research budget as a whole.

This is a new measure relevant for the Research DGs family, which has been added at the occasion of the progress report on 07.03.2007. This measure is also part of the "Action plan to implement a new approach for ex-post audits of research programme activities" (see also chapter 7 section 1).

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
1	I	<p>Issue 1: Reporting of the nature, coverage and results of ex-post control activities in the AAR</p> <p>The AAR should include more complete information on the results of the ex-post audit activities, including the coverage achieved against the plan, the nature of the errors identified and any systemic issues. This should be related more explicitly to the analysis of the underlying system of internal control included in the AAR and the extent to which this supports the necessary assurances.</p>	04/07	External audit function/S1	implemen ted	<p>Recommendation 1: accepted subject to the following comments and limitations.</p> <p>The purpose of the AAR under section 2.2 is to provide key information as well as a true and fair view on the management and control systems in place in a synthetic format. The level of detail under this section therefore cannot be exhaustive.</p> <p>DG INFSO is engaged in continuous efforts to improve the nature and pertinence of information in the AAR in line with the provided central guidance and in co-ordination with the other DGs of the research family.</p> <p>DG INFSO will pursue this approach in the upcoming exercise for the AAR 2006.</p>	<p>This recommendation has already been taken on board in the context of the elaboration of the AAR 2006 and of the Directorate Management Report for Directorate S with the preparation of an extensive report called 'External Audit Synthesis Report 2006'. This report provides factual findings and figures on ex post activities as well as a quantitative and qualitative analysis on the overall results, the type of errors identified, the applied sampling techniques, the implementation of audit results together with conclusions and recommendations.</p> <p>Part 2 on "Management and Internal Control Systems" of the AAR 2006 will refer explicitly under 2.4.2 "Key indicators on legality and regularity and sound financial management" to this Synthesis Report.</p> <p>Part 3 on "Reservations and their impact on the declaration" of the AAR 2006 will also make a reference to this Synthesis Report in order to support the justification of the reservation concerning errors relating to the accuracy of cost claims.</p> <p>This Synthesis Report will be appended to the AAR. In this way, the information provided in the Synthesis Report contributes to support the analysis of the underlying systems of internal control included in the AAR.</p> <p>DG INFSO will continue to improve</p>

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
							this detailed annual report and to annex it to successive AARs.
2	I	Issue 2: Reporting of the ex-post audit activities in the AOSDs' contributions to the AAR The AOSDs should use the information available from all different sources, management as well as audits, to build their assurance on the legality and regularity of the transactions linked to the programmes for which they are responsible and report on important issues such as the implementation of the ex post audits conclusions.	01/08	External audit function /AOSDs	implemen ted	Recommendation 2: accepted subject to the following comments. DG INFSO has established an approach building on clear delegated responsibilities on the one hand, and centrally supported, well co-ordinated procedures for establishing relevant reports on the other hand. The information referred to under the section audit findings is compiled and analysed centrally (unit S2). The AOSDs are informed on each audit (summary sheet, audit report) and receive quarterly reports on audit activities (audits launched and closed), audit results (adjustment rates) and the implementing status of audit results. Under this approach it is ensured that all necessary information on the ex post audit work is provided to the AOSDs in a continuous and timely manner. The "Declaration group" set up on DG level further ensures that the results of the ex post audit work as reported by unit S2 are reflected in the AAR appropriately. Therefore, DG INFSO does not assess the risk in the same way as the IAS does. As mentioned in the IAS' finding, DG INFSO's annual instructions give a detailed guidance to the Directors on the basis on which they present their judgment "on the issues under their responsibility and related to the principles of legality, regularity, effectiveness, efficiency and economy	This recommendation has been already by large implemented on the basis of the current instructions provided to the AOSDs for the preparation of both the AAR 2006 and the Directorate Management Report 2006 (DMR). These instructions will be further elaborated for successive exercises, in particular as far as the implementation of ex post audit results by Directors is concerned. Therefore the recommendation will be fully implemented for the AAR and DMRs 2007. In support of this, Directors will in 2007 receive on a quarterly basis relevant statistics.

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
						(sound financial management) and/or related to risk management and internal control". Therefore, the recommendation is considered as by large already implemented. However, DG INFSO will include in the up-date for the 2007 reports more detailed and explicit provisions on the reporting on the implementation of the ex post audit results by Directorates (AOSDs).	
3	VI	<p>Issue 3: Reporting from Directorate S and/or by Unit S2 on the ex post audits activities</p> <p>The structure in charge of the ex post audits in DG INFSO should prepare a specific annual report on its activities during the year, detailing the audit coverage, the results, any systemic findings, main recommendations, resources used and conclusions reached based on the ex post audits carried out during the year.</p> <p>This report, signed by the Head of this structure, should be distributed to all the AOSDs in DG INFSO responsible for the Framework Research Programmes' implementation and should be used as a basis for their reporting on the results of the ex-post audits. This annual activity report could also serve as the contribution of the External Audits Unit to the AAR. The appendix to the AAR 2005 on the ex post controls constitutes a good start for this kind of reporting.</p>	04/07	External audit function	implemen ted	<p>Recommendation 3: accepted subject to the following comments and limitations.</p> <p>INFSO/S already provides periodic reports on the audit work. These reports are submitted to senior management. The contents of the reports form part of the bi-annual management report to the Commissioner and are fully taken into account by DG INFSO's internal procedure for the preparation of the AAR. In that respect a dedicated group ("Declaration Group") chaired by the General Affairs Director, is mandated by the Director General to receive all relevant information pertinent to the Declaration of the AOD and to prepare the draft of any reservation which might be necessary.</p> <p>Therefore, DG INFSO does not assess the risk in the same way as the IAS does.</p> <p>However, the relevant information will be complemented to the extent possible, in particular as far as analysis and conclusions are concerned. It will also be incorporated exhaustively in the DMR (Directorate Management Report) of the General Affairs Directorate.</p>	<p>This recommendation has already been implemented with the provision and distribution in February 2007 of the 'External Audit Synthesis Report 2006' to all AOSDs in DG INFSO responsible for the Framework Research Programmes' implementation.</p> <p>See also issue 1 for information on the purpose and content of this annual report.</p>

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
4	VI	Issue 4: Reporting the impact of ex post control activities in the AAR The AAR should explain clearly the impact of the risks arising from the insufficient audit coverage and weaknesses of the audit certificates system for FP6.	04/07	External audit function/S1	implemen ted	Recommendation 4: already implemented The impact of ex-post control activities are reflected in the AAR in accordance with the instructions and guidance obtained from central services in line with the harmonisation of approaches among the research DGs. DG INFSO therefore considers this recommendation as already implemented. Therefore, DG INFSO does not share the risk assessment of the IAS. However, with regard to further improvement of the quality and completeness of information disclosed in the AAR, DG INFSO will, as stated in its comments in rec. 1, pursue this continuous process of improvement in the upcoming AAR exercises.	This recommendation has been already implemented in line with the instructions received from the central services.
5	VI	Issue 5: Involvement of the Operational Units in the ex-post audits Where appropriate, the Operational Units should be actively involved in the audit process, particularly in helping to better inform the risk assessment and discussing the audit conclusions. Their expected role and responsibilities in this regard should be clearly set out in writing and be appropriately communicated. One could imagine that the External Audits Sector could ask for their project officers' input when needed and specifically on issues related to the scientific and technical justification of costs claimed.	06/07	External audit function/Operational Directorates	Impleme ntation foreseen for batch 42 which has been recently launched	Recommendation 5: accepted subject to the following comments and limitations: The operational units are involved in both the selection of projects for audits and in case of need during the audit, i.e. for the assessment of the eligibility of costs under technical considerations. Issues regarding the acceptance/rejection of costs by the Commission's services when processing the cost claim are documented in the files and are therefore available and fully visible for the implementation of the audit by the external auditors. Therefore, DG INFSO does not agree with the current risks as stated by the IAS. However, DG INFSO will explore the possibility to strengthen the involvement of Project Officers in charge in case of risk base selected audits.	DG INFSO will explore possible ways, beyond the current practice in the DG which is summarised in its comments, for further involvement of project officers in the audit process. It will do so in the following way: The approach will be differentiated according to the selection methods and the specific targets: - the involvement of Operational units will be systematic for the audits on the biggest contractors, where the impact is maximised by application of the audits' results to non-audited periods and projects with similar systemic issues; - the involvement will be even reinforced (participation on the spot, for example) for risk-based audits; - the involvement will continue to be

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
							<p>ensured in the same general way as currently for all other categories of audits; the exact level of involvement will however be assessed on a case by case basis.</p> <p>The assessment of the first results of this approach will enable DG INFSO to elaborate further actions including a document on mutual expectations between operational units and the external audit function.</p> <p>DG INFSO will also seek collaboration on this issue with the research DGs.</p>
6	C	<p>Issue 6: Audit coverage and audit sampling methods</p> <p>The audit strategy should be adapted to ensure a more appropriate coverage of the auditable programmes and beneficiaries and should include all types of audits foreseen in the relevant legislation¹.</p> <p>Planned coverage for FP5 should reflect the consequential impact of the delays already incurred in the performance of the outsourced external audits.</p> <p>Realistic and properly justified targets should be set for FP6 audits, in collaboration with other Research DGs.</p> <p>In this regard, as already mentioned in the recommendation n°16 of the in-depth audit "planning of the financial audits", the FP6 audit policy should be developed taking into account the interrelations existing between the different control mechanisms in place in</p>	<p>1) 12/08</p> <p>2) 04/07</p>	External audit function	Implementation ongoing by applying FP6 common audit policy	<p>Recommendation 6: accepted subject to the following comments:</p> <p>The principal elements stated in the recommendation have already been taken into account in the draft audit strategy for FP6 which will be applicable for the research DGs after adoption.</p> <p>As far as the audit findings are concerned, it should be noted that the 10% audit target for FP5 applies at Commission level and not at DG level. In view of that, a road map was developed among the involved DGs, which fixes target numbers for audits at DG level in order to attain the 10% audit target at Commission level by 2007.</p> <p>The targets of DG INFSO have been set accordingly and the current status of implementation is in line with the INFSO targets.</p>	<p>This recommendation is already currently under implementation. It includes the following actions which are also mentioned in the Action plan of the research DGs in the frame of the APS 2008 to implement a new approach for external auditing:</p> <p>1) the FP5 audit target defined in the road map for DG INFSO (430 audits for DG INFSO) will be attained by the end of 2008;</p> <p>2) the audit strategy for FP6 will be adopted for DG INFSO (April 2007) and implemented. This strategy already takes on board the main elements for both representative and risk based sampling. The sampling method has been agreed with DG BUDG within the Commission's Action Plan on an Integrated Internal Control Framework</p>

¹ Refer to annex II.29 "Controls and audits" of the Decision C(2003)3834 dated 23.10.2003.

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dires & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
		<p>order to ensure proper coverage and minimise duplication of efforts². The sampling method should be sufficiently representative overall in order to extrapolate across the overall population, but should also be complemented by a risk-based sample, which will allow DG INFSO to identify and then correct errors in specific cases.</p> <p><i>(Detailed recommendation on the sampling method)</i></p> <p>Overall sampling</p> <ul style="list-style-type: none"> Sampling should be made on a representative and random statistical basis in order to provide reasonable assurance that cost claims are correct and the underlying transactions are legal and regular. This random statistical sampling allows conclusions to be drawn from the audit conclusions of the sample on the overall expenditure from which the sample was taken. The methodologies used to draw these conclusions should respect internationally recognised audit standards in the field (e.g. International Standards on Auditing (ISA) 200, 320 and 530) and should be documented. <p>Risk based sampling</p> <ul style="list-style-type: none"> Risk based analysis, through a complementary sample should be used to detect and remedy irregularities. The objective would be to take into account 	<p>3) 06/07</p> <p>4) 12/07</p>			<p>It is important to underline that, despite the specific situation in 2005, the overall effort in terms of number of audits finalised has been sustained since 2001 (an average of 62 audits finalised per year).</p> <p>The temporary absence of a usable framework contract with external auditors did not as such have a negative influence on the overall number of FP5-related audits by DG INFSO.</p> <p>For the four coming years and according to the audit policy for the research family, this effort should be further amplified and targeted in order to improve both the efficiency of the audits done and the implementation of audit findings, in particular as regards the application of results to non-audited projects where appropriate.</p> <p>Concerning the improvement over years of the audit work, and in particular the detailed recommendation on the sampling method, it is to be noted that:</p> <ul style="list-style-type: none"> - a considerable step forward is being made by the FP6 common audit strategy for the research family as indicated by the IAS at the end of the audit finding; - for the establishment of the common audit data base, DG INFSO will collaborate with the involved DGs; - these efforts go beyond FP6 (cf. action 7a of the Action plan for an Integrated Internal 	<p>and is envisaged to be common to all research DGs.</p> <p>This approach will aim to maximise the coverage by intensified implementation procedures which include non-audited projects and systematic follow up audits.</p> <p>50 % of the audits concerning the biggest contractors will be launched before end of 2007. The remainder will be launched in 2008.</p> <p>As to the risk-based audits, 80 will be launched before end of 2010, half of them being launched before end of 2008.</p> <p>3) in order to further strengthen collaboration among the research DGs on systems audits and methodology certifications in FP7:</p> <ul style="list-style-type: none"> - a task force for the analysis and approval of the certificates; will be set up in the 2nd quarter of 2007 of - a specific informatic tool/database for the registration of the "accepted contractors and relating methodology" will be designed for common use of all research DGs. <p>4) the on-going work among the research DGs for the creation of a common tool based on ABAC in order to share audit information will be</p>

² This point refers to recommendation n°16 "Planning of the financial audits" of DG INFSO in-depth audit performed by IAS in 2004. Further to the follow-up performed by IAS in 2006, this recommendation is considered as still in progress. Therefore, it was decided to close it in AMS Issue-Track for the in-depth audit and to include it in the present engagement.

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
----	-----	--	----------------	--	-------------------	--	-----------------------

		<p>the results of the risk assessment and the weaknesses already detected and to ensure minimum percentage coverage for each programme and beneficiary type.</p> <ul style="list-style-type: none"> The risk analysis should be a cumulative exercise, covering the risks identified during the whole programming period and be updated at least once a year. The results of the checks made on the complementary sample should be analysed separately from those of the representative random sample. In particular, errors detected in the complementary sample should not be taken into account in the calculation of the error rate of the statistical random sample. <p>To support the sampling methods, DG INFSO should:</p> <ul style="list-style-type: none"> define an action plan to improve the Research programmes data quality and availability of the different IT applications (Phoenix, ARPS). urgently work in collaboration with the other Research DGs to establish a common audit database including the complete audit population with the useful financial and technical information. This database should allow sampling, reporting on the audit results and follow-up of the recommendations' implementation. For this purpose, certain functionalities of ARPS, the tool currently used by DG INFSO, could serve as a good example for the reporting and follow-up processes. 				control framework).	finalised.
--	--	--	--	--	--	---------------------	------------

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
7	VI	Issue 7: Audit scope Future audits, in particular for FP7, should include, where necessary, and taking into account the risks identified during the evaluation and ex-ante controls phases, procedures to verify the delivery of services co-financed and the reality of expenditure claimed. If necessary, specialists from the different areas of research activities should be involved in the audits. In DG RTD for example, Directorate M has developed its own ex post audits capacity following an audit approach, which includes both the financial and technical aspects of a project. However, it is not essential that this work is performed at exactly the same time as for the financial aspects.	06/07	O1	Implement ation ongoing by means of an audit engagement by DG INFSO's IAC	Recommendation 7: accepted subject to the following comments and limitations. As stated by the Commission in its answer to the Court of Auditors 2004 report under para. 6.22, "the achievement of (scientific/technical) objectives is monitored by the Commission's scientific officers who assess the periodic reports from the beneficiaries. Scientific reviews are also done by a panel of independent experts who check if the scientific deliverables comply with the contractual provision. Financial auditors have not the required expertise to assess the scientific deliverables so that their work is limited to verifying if the amounts are claimed in accordance with the financial provisions of the contract." The Commission assesses the progress and achievements of research projects by evaluating the reports and deliverables which are requested by the contract/grant agreement. Each project needs to submit: - periodic reports at the end of each reporting period, containing an overview of the activities of the project during the period plus the costs incurred during the period; - deliverables, following the timetable specified in the Technical annex to the grant agreement. Deliverables are often written reports but can also take the form of a prototype, demonstrator, conference, etc. In such cases, the deliverable should also be documented in a written record. These reports/deliverables are reviewed by the Commission normally at the end of a	Within the limitations indicated in DG INFSO's comments, DG INFSO will assess the procedures and methods in place in order to check their efficiency with a view to propose any useful complementary measure, on the basis of any concrete observed weakness. The results of this assessment will be shared among and discussed with the research DGs in order to reach a harmonised approach.

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
----	-----	--	----------------	--	-------------------	--	-----------------------

						<p>reporting period. The Commission may be assisted in such a technical review by external scientific or technological experts. The project review determines whether the project can continue without modifications or with modifications or should be terminated. Subsequently, reports and/or deliverables may be accepted or rejected and requested to be re-submitted. At any rate, interim or final payments to the project are only made if all reporting requirements for the period in question have been met by the project (all required reports were submitted) and if all reports and deliverables have been reviewed and approved.</p> <p>DG INFSO therefore does not agree with the risk as formulated by the IAS.</p> <p>As far as financial audits are concerned, they are not in a position to verify the scientific/technical achievements of the projects.</p> <p>These financial audits are indeed designed to verify the legality and regularity of the claimed costs. The core aim of these audits is to verify the reality of the costs and the proper allocation to the concerned project according to the usual accounting practices of the beneficiary as required by the contractual provisions.</p> <p>On the other hand, financial audits could check if all contractual reports/deliverables were submitted and approved by the Commission, by reviewing the outcome of the technical reviews. However, as these reports/deliverables are rarely the achievement of a single participant, these</p>	
--	--	--	--	--	--	--	--

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
						<p>verifications can only be made at consortium level and not at beneficiary level.</p> <p>As a direct answer to this recommendation, DG INFSO will assess the procedures and methods in place in order to check their efficiency with a view to propose any useful complementary measure, on the basis of any concrete observed weakness.</p> <p>[The last paragraph in the first column is not conclusive on the findings presented in the previous paragraphs and seems actually to refer to the assessment of current risks as presented in the 2nd column. Therefore, it should be deleted]</p>	
8	VI	<p>Issue 8: External audit activity by S2 staff</p> <p>The external audits sector should develop an improvement plan. Auditors should use the step-by-step audit checklist and document their work accordingly. Moreover, the supervision should be systematically evidenced (audit report review checklist, initialling of the working papers, review notes, minutes of review meetings, etc.).</p> <p>An audit manual, summarising the audit process, could easily complement the checklists already in place. It should be developed in coordination with the other Research DGs in order to have a common methodology.</p> <p>The review checklists and standardised forms for the important steps of the audit process, currently used by Unit S2 for the audits performed by the External Audit Firm, can be considered as a good practice. Their use could easily be extended to the</p>	12/07	External audit function	Under implementation	<p>Recommendation 8: accepted subject to the following comments and limitations.</p> <p>Since the launch of the reinforced FP5 audit approach the performance of financial audits with in-house resources typically happened only in specific cases. In future, the same audit report checklists will be applied as in the case of external audits. The supervision will be evidenced by signature in the same way as it is the case for external audits.</p> <p>For DG INFSO, the combination of the checklists which already exist for the audit field work with the checklists already existing to document the supervision of the audit work in the case of external audits adequately complies with the recommendation.</p>	<p>Review check lists and standardised forms for the audit process will be applied with immediate effect for all audits with internal resources.</p> <p>Further actions including the creation of additional internal guidance and manuals will depend on the scope and level of the restructuring of the external audit function which is envisaged in 2007.</p> <p>This restructuring might have the consequence that more audits are conducted on a systematic basis with own resources.</p> <p>DG INFSO's actions will be fine-tuned in line with the Action plan of the research DGs regarding the allocation of additional staff resources for audit and audit related functions in the frame</p>

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
----	-----	--	----------------	--	-------------------	--	-----------------------

		audits carried out in exceptional circumstances by Unit S2 staff.					of the APS 2008.
9	VI	<p>Issue 9: Management of the Audit Framework Contract</p> <p>1. To further support the quality assurance on the audit work performed, the external audit firm performance should be assessed. It should be duly justified, communicated to all parties involved (Operational people, other external audits services of the Research DGs) and discussed with the audit co-ordinator of the EAF during the MASR meetings.</p> <p>2. DG INFSO should take the appropriate measures to reduce the time elapsed between the start and the end of the audits and in particular the reporting phase.</p> <p>3. The preparation of the next framework contract for the FP7 audits should be started very early in the next programming period. The problems noted were caused by a failure from the external audit firm to fulfil its contractual obligations in terms of quality and deadlines but also a failure from DG INFSO's services to effectively manage the audit framework contract.</p> <p>4. In this context, DG INFSO should aim to reduce its level of dependence³ on the external audit firms by increasing the number of audits performed by the Commission's audit staff. Possibilities</p>	<p>1) 06/07</p> <p>2) 12/07</p> <p>3) 06/07</p> <p>4) 06/07</p>	External audit function	<p>Impleme nted</p> <p>Under implemen tation</p> <p>Under implemen tation implemen ted</p>	<p>Recommendation 9: accepted subject to the following comments and limitations.</p> <p>1. the audit performance of the external audit firm will be assessed systematically since the beginning of FP6 audits in line with the recommendation. As far as the audit findings regarding "poor quality of audit results" are concerned, it should be noted that the encountered problems are largely due to the change in audit firms (in line with the applicable procurement rules) and corresponding start-up problems. The encountered difficulties therefore cannot be attributed to deficiencies in the management of the framework contract.</p> <p>2. It is to be noted that the quantified completion time indicative in the audit finding is not representative. The audits closed in 2005 consisted essentially in difficult audits with high financial adjustments. The resolution of the contractual issues was time consuming. Furthermore, the overall number of audits finalised was particularly low in that year. The closure of these difficult audit files had therefore a disproportionate influence on this indicator in that particular year.</p>	<p>1) The rating of the performance of the external audit firms will be introduced for FP6 and systematically monitored. The results will be brought to the attention of and discussed with the audit co-ordinator of the external audits firms. The agenda of the MASR (Monthly Audit Status Report) meetings gathering all research DGs will explicitly include a point on the performance. This approach will be harmonised with the research DGs.</p> <p>2) Efforts concerning the reduction of the completion time will be reinforced in close cooperation with the research DGs and the EAFs concerned. The timely completion of batches will be closely monitored, however without diminishing the quality of the audits and infringing with the contractors' legitimate expectations about a fair and equitable handling of the audits.</p> <p>3) See DG INFSO's corresponding comments.</p> <p>4) A new unit specifically dedicated to ex post audits will be set up in the 2nd quarter of 2007 within DG INFSO/S. This unit (INFSO/S5) will result from the current "External audit" sector and will be further staffed in line with the planned redeployment of a significant</p>

³ The "dependency on external parties" and in particular on the External Audit Firms was pointed out by DG INFSO in its AAR 2005 as a specific risk to be managed.

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
		for increasing audit synergies between the different Research DGs will be further looked at in the overview report.				<p>It should be noticed that the overall average duration of the audits of the 3 batches considered by the IAS (batch n° 17, 19 and 20) was 439 days (14 months 19 days). These three batches comprised 70 audits covering 192 projects.</p> <p>Nevertheless, DG INFSO will reinforce, where necessary, its monitoring of the time spent during the successive phases of the audits.</p> <p>3. DG INFSO will collaborate with DG RTD and the other research DGs in the timely preparation of the next framework contract for FP7.</p> <p>4. DG INFSO will consider the recommendation for the implementation of its audit policies, in line with the planned redeployment of a significant number of staff to audit tasks. On the other hand, given the resource limitations for FP7 the services of external audit firms will remain an important option.</p>	<p>number of staff to audit and audit-related tasks.</p> <p>This reorganisation as well as the reinforced human resources will enable DG INFSO to increase significantly its capacity in terms of audits launched both on own resources and with external audit firms.</p> <p>10 and about 30 audits on own resources will be launched respectively in 2007 and 2008; their number will be further increased in 2009 and 2010 (up to 40 audits each year).</p> <p>The targets for non-research audits will be doubled in 2007 (from 5 to 10 audits) and again in 2008 (from 10 to 20 audits) compared to 2006.</p>
10	I	<p>Issue 10: Follow-up of the system based recommendations</p> <p>1. For systemic recommendations with potential financial impact DG INFSO should satisfy itself that the beneficiary has effectively implemented them. To this effect, the letter of conclusions, currently used in DG INFSO where the auditee is reminded that it "should ensure that any existing or future contracts with the Commission conform where applicable to the</p>	06/07	External audit function, Operational Directorates	Under implementation	<p>Recommendation 10: accepted subject to the following comments</p> <p>1 & 2. Recommendations expressed by external auditors which are related to systemic weaknesses and have a financial impact are followed up consistently and applied to non-audited projects and periods. For this purpose, extrapolation procedures have been elaborated and implemented for FP5. The amounts recovered are significant.</p> <p>The relevant information is recorded in the</p>	<p>1 & 2) The FP6 audit strategy foresees the systematic correction of errors of systemic nature also for non audited cost claims and appropriate follow up procedures (audits), as well as the consistent application of liquidated damages.</p> <p>3) See DG INFSO's corresponding comments and proposal.</p>

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
		<p>principles stemming from these audit results", <u>is a step towards the correct direction.</u></p> <p>2. Furthermore, the information on the important weaknesses detected should be stored in a database so that:</p> <ul style="list-style-type: none"> • it feeds the next risk assessment exercise, • it helps the Operational Directorates understand their beneficiaries' risk profile and mitigate the risks identified, • the other Research DGs use it to better monitor the open contracts with the same beneficiaries. <p>Longer term, DG INFSO might also consider the appropriateness of a "flat rate provisional correction" system in the next Research Framework Contract for serious deficiencies detected in the beneficiaries' system.</p>				<p>ARPS tool which is the IT basis for the implementation of audit results.</p> <p>The current methods are subject to further improvements and cross-DG harmonisation along the FP 6 audit strategy.</p> <p>However, the systematic follow-up of recommendations of general nature which are expressed by the external auditors as professional advice and do not relate to contractual infringements with corresponding financial adjustments would not be justified under cost-benefit considerations. Furthermore, in the absence of a relevant legal basis, such recommendations would be difficult to be enforced towards the contractor.</p> <p>3. DG INFSO is interested to discuss and further explore with the IAS the concrete meaning of "flat rate provisional correction" which is presented under 3.</p>	
11	VI	<p>Issue 11: Monitoring of the implementation of audit findings</p> <p>1. The Operational Units should respect the timeframe defined in the guidelines for the implementation of the audit results. The existence of the latter constitutes <u>a good practice</u> at DG INFSO to be shared with the other Research DGs.</p> <p>2. Unit S2 should reinforce its role in the follow-up of the ex post controls and support the implementation of audit findings by means of advice, monitoring and reporting:</p>	06/07	External audit function/R1, S4, OS/AFUs	Under implementation	<p>Recommendation 11: accepted and handled as a matter of priority.</p>	<p>The monitoring and reporting procedures will be intensified with immediate effect, notably on the basis of a closer collaboration between the external audit function and OS/AFUs. To that effect, the following actions will take place:</p> <ul style="list-style-type: none"> - a correspondent in charge of audit implementation will be appointed in each Directorate before end of 06/07; - a monthly reporting will be introduced before end of 06/07; - the staffing both within the external audit function and in the OS/AFUs will

N°	Pr.	IAS recommendations (cf. IAS Final Report; note IAS/WD D(2007) 405839 of 13.02.07)	Target date	"Chef de file"/Associated Dirs & Units	Implem. Status	Acceptance of the recommendations : initial INFSO comments and/or limitations (cf. auditee's position; note INFSO D(2007)806575 of 21.02.07)	Action(s) to be taken
		<ul style="list-style-type: none"> it should send reminders to the Operational services if the audit adjustments are not implemented according the timeframe defined in the guidelines, it should regularly report on key follow-up indicators such as the total amount to be recovered/paid and on the total amount already reimbursed/paid in comparison to the total amount of adjustments proposed by the auditors and on the average time needed to implement the audit conclusions. <p>3. ARPS should be connected to Phoenix system as soon as possible so that the follow-up functionalities are also made available for the FP6 audits⁴.</p>					<p>be significantly reinforced in line with the APS 2008;</p> <p>- a legal clarification will be made before end of 06/07 as to which extent results of audits closed prior to 2003 can still be implemented.</p> <p>The Internal Control Coordination Group (ICC Group), which DG INFSO has set up in the context of its 2006 High Level Risk Assessment exercise will also be used to enhance the implementation of financial audit results. The mandate of this Group is to assist Senior management in the effective preparation, coordination, monitoring and follow up of all important internal control issues in DG INFSO.</p>

⁴ This point refers to recommendation n°19 of DG INFSO in-depth audit which was still considered as in progress after the follow-up review performed by IAS in 2006



EUROPEAN COMMISSION
RESEARCH DIRECTORATE-GENERAL

Directorate A

Inter-institutional and legal matters – Framework Programme

External audits A4

Draft, August 2006

RDT – A4//TD D(2006)

REVISED VERSION

13 February 2007

Ex-post Audit Strategy of FP6

Period 2007-2010

TABLE OF CONTENTS

TABLE OF CONTENTS	2
1. INTRODUCTION - MISSION STATEMENT- OF EX POST AUDITING	3
2. OVERALL OBJECTIVES	3
3. SPECIFIC ACTIONS AND INSTRUMENTS	3
4. ORGANISATIONAL STRUCTURE AND RESOURCES	5
5. MONITORING, CO-ORDINATION AND REPORTING	6
6. ANNEX I. IMPLEMENTING GUIDELINES OF THE FP6 AUDIT STRATEGY	9
6.1. Complex three fold selection method for higher assurance	9
6.2. Contribute to the assessment of the effectiveness of the system of audit certificates	11
6.3. Raising awareness of contractors about the risk that they can be audited	11
6.4. Quantitative audit targets	11
7. MEANS AND RESOURCES TO ACHIEVE THE OBJECTIVES - TIMEFRAME	12
7.1. FP6 audit framework contracts for all research DGs	12
7.2. Own resources	12
7.3. Types and nature of audits to be carried out	13
7.4. Mid term review	14
7.5. Cost-benefit in auditing	14
8. AUDIT CO-ORDINATION	15
8.1. CAR	15
8.2. Common audit documentation / tools and templates	15
8.3. Sharing Audit results	16
8.4. Monitoring of External Audit firms	16
8.5. Calculation of the residual error rate	16

1. INTRODUCTION - MISSION STATEMENT- OF EX POST AUDITING

This overall strategy aims by means of ex-post financial audits to the highest professional standards, to provide an input on the level of reasonable assurance -to senior management and all interested parties including ultimately the discharging authorities- that contractors under the Sixth Framework Programme are in compliance with the financial terms of the contracts. It has been adopted in relation to the external audits carried out by DG RTD but reflects an agreed, common understanding among the research DG family. These DGs are adopting closely similar strategies incorporating audit targets consistent with their own audit population. By performing financial compliance audits, ex-post controls contribute to the assessment of the legality and regularity of the transactions. Furthermore, analysis and synthesis of the results obtained, provides feedback for corrective actions. By doing so, it contributes to the protection and safeguarding of the European Union's financial interests and research budgets.

2. OVERALL OBJECTIVES

The overall objectives of ex-post audit strategy for the period 2007-2010 are the following:

- (1) Assess the regularity and legality of transactions under FP6 and provide input to the annual declaration of assurance by obtaining information on the level of over/under claims and their financial impact on the budget. This objective will be met by through specific audit objectives described below
- (2) Contribute to the assessment of the effectiveness of the system of audit certificate
- (3) Formulate under a feedback process corrective actions to the relevant internal procedures
- (4) Raise general awareness within the population of potential auditees including of the ex-post control capabilities and results, thus helping to protect the EC financial interest. This will be undertaken together with the operational services concerned.

3. SPECIFIC ACTIONS AND INSTRUMENTS

The primary actions to meet the overall objectives will be:

- (1) Carry out and co-ordinate on a multi-annual basis ex-post DG RTD audits that will be selected and implemented through the following methods and instruments:
 - Selection Methods and specific targets:

FP6 Ex-post Audit Strategy

Method	Rationale	Audits
Representative	The use of a representative selection method (e.g. 'Monetary Unit Sampling' –MUS-) will allow the extrapolation of the audit results to the whole population with a preset level of confidence and precision.	
Individually significant contractors	Maximise the impact of the audits and the audit coverage, with an extensive use both follow-up and extrapolation procedures	
Risk-Based	Provide additional audit information supporting assurance to management based on the analysis of the risk profile of both the population as a whole and also for the individual contractors	

The methodology and relation for the selection of the above audits is set out in the "Annex-I on Implementing Guidelines".

- Main Audit Instruments

Instrument	Description
Batch audits:	Audits carried out through specific assignments drawn within a framework contract signed with an external audit company on a multi-annual basis. These audits represent the majority in numbers and can cover all three type of selections described.
Audits on Request	Audits carried out either with external or own resources and intended to provide additional assurance on issues raised by management and the services.
Accompanying audits	Audits carried out with own resources and intended to evaluate, better define and guide the work of the external auditors contracted.
Pilot Audits	Audits carried out with own resources designed for specific audit fields (e.g. on Audit Certificates) in order to have a reasonable feed-back on an area of action, risk or specific priority.
Joint Audits	carried out together with other DGs or the European Court of Auditors.
Fusion audits:	Audits carried out either with external or own resources and focused on the Contract of Association between EURATOM (represented by the Commission) and a number of national

FP6 Ex-post Audit Strategy

	bodies in the field of nuclear fusion.
Third countries audits:	Audits carried out either with external or own resources and intended to cover contractors who belong to non member states.
System audits:	Audits carried out either with external or own resources and conceived for big contractors. The audit will assess first the adequacy of methodology used by the beneficiary to determine the financial statements for the actions financed by the Grant Agreements and then verify its effectiveness with a limited number of substantive testing.

- (2) Analyse an appropriate number of audits in order to find out to what extent there are deviations between audited costs and certified costs. The main source of information will be gained through the instruments mentioned in the previous paragraph (notably batch and pilot audits).
- (3) Develop appropriate tools to support the overall analysis of the audit results in order to provide relevant feedback for assessment and decision making (e.g. effectiveness of certification system, systems improvement, risk-based selection and analysis, follow up of audit findings).
- (4) Support an active and effective communication towards the contractors in order to increase their general awareness on the ex-post control capabilities protecting the EC financial interest by extracting the audit conclusions and drawing them to the attention of the operational services. The overall development of an active communication culture aiming at ensuring that beneficiaries are clearly informed at an early ex-ante stage (e.g. in the contract negotiation phase done by the services) about 'what costs they may claim' (which presupposes that the rules at the basis thereof are both clear and simple) is very important to strengthen such deterrent and dissuasive effect to possible over claims.

4. ORGANISATIONAL STRUCTURE AND RESOURCES

4.1. Organisational Structure

The present strategy has been developed assuming that the current organisational structures in Research Family (e.g. separate audit capabilities in each DG) will remain stable during the period covered by this strategy. Within this framework, the following organisational changes will be implemented in order to better support the overall strategy:

- (1)

(2) At the RTD level

es:

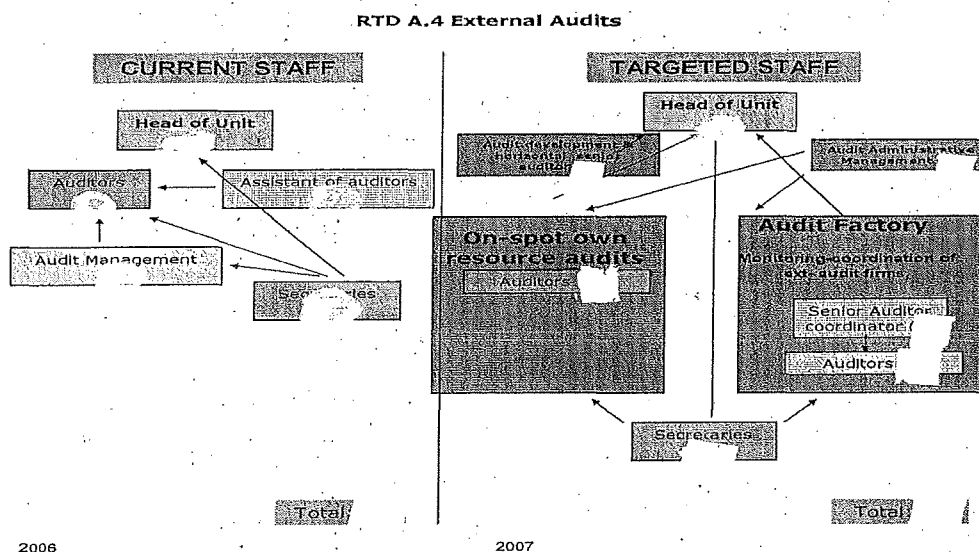
4.2. Resources

(1) External Resources

The

(2) Internal Resources

The internal human resources necessary to implement the strategy are the following:



5. MONITORING, CO-ORDINATION AND REPORTING

The present strategy will be supported with the following control elements:

5.1. Co-ordination Group (CAR)

FP6 Ex-post Audit Strategy

The implementation of the audit strategy will be co-ordinated and monitored by the "Co-ordination group for external Audit in the Research family (CAR)" in order to ensure the core coordination of their audit related strategy and policy matters. By the adoption of this strategy the mandate and scope of the CAR will be formally adopted by the DGs concerned.

5.2. Cost-benefit principle

The strategy will be implemented taking into consideration the general principle of maximising the benefit of controls and managing effectively the associated cost of those. Compliance with this principle will be evaluated and reported in the mid-term review of this strategy.

5.3. Common audit documentation, tools and templates

The Research DGs will harmonise their key audit documentation and data needs in order to ensure common audit approaches and facilitate the subsequent analysis.

5.4. Sharing Audit results

In line with the European Court of Auditors 'Single Audit' opinion¹; and the Commission's 'action plan towards an integrated internal control framework'², a single common system will be used by all Research Family for audits and results³ that will be fed by common tool, regular exchange of audit information and storage respecting the data protection rules.

5.5. Monitoring of External Audit firms

In order to control effectively the External Audit Firms, Research Family will use common quality control procedures and will regularly monitor their performance on the 'Monthly Audit Summary Report' meetings (MASR). The analysis will be supported with the audit instruments described in section 3 (i.e. joint missions).

¹ 02/2004 (2004/C 107/01) paragraph 46: "Control procedures should be implemented to an adequate common standard, and the work done and results documented in a common format and recorded in a database with access for others in the control chain as a basis for placing reliance

² SEC(2006) 49 action 9a." Assess potential actions necessary for enhancing the sharing of audit and control results and recording of their follow-up in the area of: Internal policies, including Research; Structural Funds 2007-2013; other policies.

³ ABAC input module for audits see also GAP assessment working group action 9a.

5.6. Mid term review

In the course of 2008, a mid term review will be carried out by the Research DGs to assess the present strategy. The results will be reported to the Director Generals.

6. ANNEX I. IMPLEMENTING GUIDELINES OF THE FP6 AUDIT STRATEGY

6.1. Complex three fold selection method for higher assurance

The aims are to assess the regularity and legality of transactions and provide input to the annual declaration of assurance, and to achieve these objectives via stratification of the population by maximising the audit coverage in order to clear a substantial part of the FP6 budget from material errors. To this end, the approach will be to :

- a) audit a number⁴ of individually **significant beneficiaries** (in the sense of 'EC contribution') in order to increase the effectiveness of the audit **coverage**.

Carry out at least one audit on those beneficiaries receiving the **highest combined contribution** from its participations. The total financial budget of those audited contractors (large beneficiaries) would represent a **considerable part** of the total FP6 budget of the relevant Research DG.

d. This implies that each beneficiary, once the audit procedure has been completed, will be requested if relevant to comply with the audit conclusions regarding the preparation of further financial statements under FP6 and to resubmit corrected financial statements where appropriate. This request applies to audited projects and non-audited projects alike. Beneficiaries are further reminded that compliance with this request may be subject to a **follow-up audit** and that the Commission may, according to the provisions of II.30 of Annex II to the contract, claim **liquidated damages** from contractors who are found to overstate expenditure claims.

- b) audit, by **representative sampling**, obtain data/information, representative for the whole population of beneficiaries, on the regularity and legality of transactions, on the level of actual over-claims, and on the financial impact of such over-claims on the EU research budget. The remainder of the population (excluding large beneficiaries) will be subject to monetary unit sampling (MUS), using the materiality/ expected error set for the **entire population** which result the sample size. By assuming a confidence level, a materiality

⁴ Further details on quantitative targets see in 6.4.

⁵ It is assumed that the top 200 RTD beneficiaries represent at least 40% of the total FP6 budget

- on the nature and level of actual over-claims and financial impact on the EU research budget.
- thus contribute to the annual declaration of assurance (assessment of regularity and legality of transactions) and to the formulation, after analysis, of corrective actions. These results have to be based on a reliable statistical model which subsequently gives the possibility of extrapolation to the whole population.

Using representative sampling, such as MUS (monetary unit sampling), we could obtain an indication of the global risk of error in the underlying transactions by extrapolating the results of the sample to the whole population of beneficiaries.

- c) contribute to the safeguarding of the financial interests of the Community by auditing, on the basis of **risk-based sampling**, an appropriate number of contractors.

As part of a risk based audit approach, high attention will be given to what the operational services consider as potentially 'risky contractors'. Risk assessment has to be performed involving the operational services in order to determine the risk profile of both the population as a whole and also for the individual contractors. The results of these assessments will be fed into the central audit database for further analysis.

6.2. Contribute to the assessment of the effectiveness of the system of audit certificates

Objectives:

- To produce evidence on the degree to which audit certificates effectively contribute to the objective of achieving the goal that contractors submit correct cost declarations.
- To re-perform an appropriate number of audits in order to find out to what extent deviations between audited costs as accepted after audit- and certified costs will/will not be found.
- To establish proper communication channels with certifying entities on audit related issues in order to give and receive feedback from external auditors/certifiers.

6.3. Raising awareness of contractors about the risk that they can be audited

Linked to the objective of safeguarding the financial interests of the Community - it can be reasonably assumed that the simple fact that audits are carried out, generates a (non-measurable) ripple effect in the population of beneficiaries, the nature of which dissuades them from over-claiming their costs. This effect is potentially reinforced by the application of sanctions such as e.g. liquidated damages as foreseen by the FP6 contracts for cases of over claiming. The more beneficiaries are aware of the risk of being controlled and of the possibility of liquidated damages being imposed, the greater the efforts they may make to ensure that claims are legal and regular.

Support an active and effective communication towards the contractors in order to increase their general awareness on the ex-post control capabilities protecting the EC financial interest by extracting the audit conclusions and drawing them to the attention of the operational services. The overall development of an active communication culture aiming at ensuring that beneficiaries are clearly informed at an early ex-ante stage (e.g. in the contract negotiation phase done by the services) about 'what costs they may claim' (which presupposes that the rules at the basis thereof are both clear and simple) is very important to strengthen such deterrent and dissuasive effect to possible over claims.

6.4. Quantitative audit targets

Define clear ex-post audit targets on a multi-annual basis and, by their nature, the results will progressively provide information which can be generalised to the total population.⁷

The qualitative selection method described above can be transformed into quantitative targets as follows.

A minimum audit target determined for RTD FP6 audits based on the methods described:

⁷ The European Court of Auditors' requested the research family to formulate a 'measurable' FP6 ex-post audit target (point 6.40; chapter 6, ECA annual report 2004).

FP6 Ex-post Audit Strategy

- biggest participants of the Framework programme in receipt of of the total FP6 budget coverage
- audits selected on the basis of statistically representative sampling
- audits based on risk-oriented selection criteria

The aggregate number equals audits to be implemented within the frame of a RTD multi-annual audit plan of 2007-2010.⁸ This target would give reasonable grounds for drawing conclusions based on the coverage and representativity and also on the risks associated providing input for the declaration of assurance. Based on the first results these targets and their relative weight can be reassessed as a result of the mid term review of the strategy.

7. MEANS AND RESOURCES TO ACHIEVE THE OBJECTIVES - TIMEFRAME

7.1. FP6 audit framework contracts for all research DGs

These contracts permit the outsourcing of financial audits for FP6 contracts to External Audit Firms (EAFs). Those have been signed in May 2006. It is estimated that that will give a possibility to carry out between by all research DGs over the lifetime (3 + 1 year) of these FP6 framework contracts). The distribution of those EAFs resources has to be agreed by the research DGs, taking into account their different respective 'weight' in FP6.

It is recalled that such audits (called 'batch audits') require internal resources as there is a lot of monitoring work for our auditors involved in this activity.

7.2. Own resources

An ex-post on spot auditor can carry out audits per year. A batch auditor could monitor of audits carried out by the external contractor and the increasing horizontal activities.

The internal resources will be used for specific audits like joint missions, audit on requests, pilot audits, accompanying missions, follow up audits, and other audits not carried out by the external contractor.

In general, DG RTD external audit unit in its new structure would be able to manage audits (external and internal) on a four years basis by the end of 2010.⁹ This number is sufficient to cover the FP6 minimum audit target and some additional own resource specific audit missions.

⁸ Each Research Family DG would establish such measurable targets adopting this strategy. The planning of new audit targets for the FP7 has to be harmonised in the new FP7 audit strategy.

FP6 Ex-post Audit Strategy

The balance of external and internal resources will be subject to reconsideration, especially in setting the audit strategy for FP7 projects.

7.3. Types and nature of audits to be carried out

To fulfil These objectives carrying out audits with its own human resources, or contracting professional audit companies.

1. Batch audits: this kind of audit can be considered the core business of the Unit, and is carried out through specific assignments drawn within a framework contract signed with an external audit company on a multi-annual basis based on the three-fold selection method described.
2. Accompanying audits: these are audits carried out with own resources and intended to evaluate and better define and guide the work of the external auditors contracted.
3. Joint audits: carried out together with other DGs or the European Court of Auditors.
4. Pilot Audits: designed for specific audit fields (e.g. on Audit Certificates) in order to have a reasonable feed back on an area of action, risk or specific priority.
5. Fusion audits: these audits are carried out both internally or by external auditors, and focus on the Contract of Association between EURATOM (represented by the Commission) and a number of national bodies in the field of nuclear fusion.
6. Third countries audits: this kind of audits carried out both internally or by external auditors, is intended to cover contractors who belong to non member states.
7. Audits on Request: these concern the contracts identified by the operational Directorates because of particular issues or specific risks over the cost claimed. They can also be carried out both internally or by external auditors.
8. System audits : this audit concept and application will be developed during the course of FP6 ex-post audit activity and for the latest, has to be fully effective under FP7 ex-post audit strategy.¹⁰ For beneficiaries with a high number of contracts, this type of audit approach could be applied whereby the audit procedures will focus on the system in place to produce the related financial statements. Under this approach, the systems in place will be described and their adequacy for the purposes of FP rules will be assessed. The effectiveness will be tested with a limited number of substantive procedures to confirm that the system works as intended. Based on the results, all the beneficiary's financial statements could be validated for the period under review or alternatively, adjusted using extrapolation procedures. This type of audits will mainly concentrate on the methodology used to calculate personnel costs and overhead rates which are the

¹⁰ In line with action 7a: "certification audits in research and internal policies" of the Commissions action plan towards an integrated internal control framework.

FP6 Ex-post Audit Strategy

areas of highest material errors. In this context performing certain specified audit procedures in order to confirm the factual basis of systems used by the Beneficiary. The objective is for the Auditor to assess the methodology used by the Beneficiary to claim costs in its Financial Statements for the actions financed by the Grant Agreements.

9. Other types: any other audit types not described above

7.4. Mid term review

In the course of 2008, a mid term review will be carried out to assess if changes/adjustments of any kind have to be made in the overall FP6 audit strategy as outlined in this document.

7.5. Cost-benefit in auditing

In general, audit selection has to take into consideration the general principle of maximising the benefit of controls and managing effectively the associated cost of those. This principle, however, must be applied considering all circumstances that in certain cases are difficult to measure .

8. AUDIT CO-ORDINATION

8.1. CAR

The Research DGs have founded a "Co-ordination group for external Audit in the Research family (CAR)" in order to ensure the core coordination of their audit related strategy and policy matters.

The mandate and scope of the Audit Coordination working group- CAR - can be summarised as follows:

FP6 Ex-post Audit Strategy

8.3. Sharing Audit results

In line with the European Court of Auditors 'Single Audit' opinion¹³ and the Commission's 'action plan towards and integrated internal control framework'¹⁴

8.4. Monitoring of External Audit firms

8.5. Calculation of the residual error rate

According to the FP6-ex post audit strategy, the impact of audit results and therefore the audit coverage can be significantly increased by applying reinforced implementation procedures. The objective of such procedures would be to clear all financial statements (including non-audited periods as well as financial statements related to non-audited projects) of the audited beneficiary from systematic errors. The approach envisaged in the audit strategy paper foresees further to advise all beneficiaries whose financial statements have been found to suffer from systematic errors (e.g. erroneously calculated rates of personnel and overheads) to remove those errors from all financial statements submitted to the Commission prior to the audit closure by resubmission of revised statements and to make sure that submissions of cost statements are free of such error. The beneficiary would be also informed, in that context, that if the same systematic errors were to be found in financial statements during follow-up audits, liquidated damages and/or financial penalties would be applied by the Commission (cf Art II.30 of Annex II of the contract).

¹³ 02/2004 (2004/C 107/01) paragraph 46: "Control procedures should be implemented to an adequate common standard, and the work done and results documented in a common format and recorded in a database with access for others in the control chain as a basis for placing reliance

¹⁴ SEC(2006) 49 action 9a: "Assess potential actions necessary for enhancing the sharing of audit and control results and recording of their follow-up in the area of: Internal policies, including Research; Structural Funds 2007-2013; other policies.

¹⁵

FP6 Ex-post Audit Strategy

The audit strategy paper envisages further that on the basis of such procedures, the audit coverage could be extended and a significant part of the FP6 budget could be, to a large extent, cleared from material errors by means of extended implementation of audit results. In the case of DG RTD:

The audit of these contractors in combination with intensified procedures regarding the implementation of audit results as out-lined in the audit strategy paper that budget could be considered free of material errors by the method of extrapolation of systemic findings. This approach will favourably impact the basis on which the DGs as AOD will issue their declaration in the annual report (AAR). The authorising officer might base him-/herself on a multi-annual audit plan which would eventually lead to a significant part of the budget being free of material errors and a residual error rate close to tolerable levels.

The residual error rate will be calculated for the whole FP as follows:

Step 1: The rate of error on the controlled sample (r%).

This is calculated by dividing the total of the reductions of grant payment resulting from the controls (funding accepted by the project Officer – funding eligible according to the audit results) by the total claimed grant amount controlled. The rate of error of the controlled sample will be calculated cumulative taking into account all results of all ex-post controls of FP contracts over time and not on a yearly basis. "r%" is expressed as "net rate of error", i.e. adjustments in favour of the EC and adjustments in favour of the beneficiary.

Step 2: The residual error rate for the FP

The error rate of the controlled sample is applied to the total grant amount that has not been controlled. The grant amount that has not been controlled is calculated as follows:

Total claimed grant amount

- Claimed grant amount resulting from controlled cost claims
- Claimed grant amount resulting from amounts in cost claims that have been subject to in-depth desk checks

The hypothesis behind this is that errors in cost claims that have been subject to ex-post controls have been corrected as have been errors in those part of cost claims that have been subject to in depth desk checks.

The residual error rate for the Framework Programme 6 can be determined as such:

$$r \% \times \frac{P - (A + E)}{P}$$

Where

FP6 Ex-post Audit Strategy

- P is the total population
- A+E is the addition of the actually audited population (A=total cost statements audited) and the population which is considered error free due to extrapolation of audit results (E=extrapolated audit results based on audits to non-audited participations)-e.g. large beneficiaries.
- r% is the rate of error found in the audited sample expressed as "net rate of error", i.e. adjustments in favour of the EC and adjustments in favour of the beneficiary.

This will give an indication of the remaining total error rate after the controls.

This percentage is expected to decrease year to year, when the controlled sample S will increase (unless the rate of error of the controlled sample increases severely).

The combination of the proposed selection method (biggest beneficiaries, risk and representative random based sampling) with the reinforced audit result implementation procedures as well as the amended formula regarding the quantification of the residual error rate in the FP6, leads to a situation in which substantial parts of the FP6 budget can be considered to be free of material errors and a residual error rate which eventually can be reduced to tolerable limits.

This can be illustrated-as an example- in quantitative terms as such:

- a first group of contractors selected for audit would consist of the biggest contractors who represent of the FP6 budget and who dispose of project participations each
- a second group of contractors would be selected for audit randomly. These beneficiaries account for approx. of the budget
- a third group of contractors would be selected for audit on the basis of risk criteria. Those as well as the audits conducted by the ECA might account for of the FP6 budgets

On aggregate this represents roughly of the FP6 budget and is the equivalent of approx. audits which could be implemented within the frame of a multi annual audit plan.

Under these quantitative circumstances, the residual error rate can be simulated as such:

of the budget is considered to be free of material errors due to the implementation of the audit results and extrapolation procedures. The remaining 50% are considered to suffer from the same error rate as noted in the audits selected representatively. For the sake of the exercise, of error rate is assumed, and this on reflects a residual error rate of applied to the

FP6 Ex-post Audit Strategy

whole FP6 budget of the DG (using above mentioned formula) which can be considered as being close to the accepted level of error of

ACTION PLAN TO IMPLEMENT A NEW APPROACH FOR EX-POST AUDITS OF RESEARCH PROGRAMME ACTIVITIES

1. EXECUTIVE SUMMARY

The objective of this action plan is to increase substantially the ex-post audit coverage of expenditure under the Research Framework Programmes and thereby to provide an element which could better underpin the research Director-General's declaration of assurance, at the same time responding to a certain number of criticisms which have been raised in recent months.

This action plan, which has been agreed by the research Directorates-General, has the following components:

First, the implementation of a common overall *ex-post audit strategy*. This strategy, which will be carried out on a multi-annual basis, will ensure comprehensive coverage of the audit population through a *statistically reliable selection methodology*, focusing respectively on:

- the contractors representing the largest share of the budget (individually significant beneficiaries);
- representative sampling from the whole population; and
- risk-based sampling focusing on potentially risky contractors.

This strategy is therefore based on clear principles which will be reflected in the detailed planning of each research DG and which will be rolled forward, with appropriate improvements, for future years.

Second, a greatly reinforced *integration of the ex-post audit activities* among the research Directorates-General, thus also helping to ensure improved coverage as well as greater overall coherence and consistency.

Fourth, a much *more systematic follow-up* through sharing information between the staff directly concerned with ex-post audits, but also through the provision of relevant information to the Commission staff concerned with the management and oversight of research projects, as well as to the research community at large. This follow-up should therefore be seen not only as an element of control, but also as one of sharing of “best practice”, thus leading to a greater reliability of financial management at the outset, rather than requiring excessive reliance on ex-post correction.

Fifth, the innovative approach in FP of system certification based on "Agreed upon Procedures" needs to be implemented as largely and effective as possible in order to resolve the most recurrent errors observed in the past from the outset.

Finally, the plan summarises the overall increase in ex-post audit activities, as well as the consequent requirements in terms of *increased staffing*, both via redeployments of existing staff within the research Directorates-General and by an increase in the overall staffing numbers.

2. CONTEXT

In 2006, IAS audited the ex-post audit activities of DG RTD and DG INFSO. Its final reports of December 2006 concluded that they did not provide sufficient information about the legality and regularity of the payments released programmes financed under the 6th Research Framework Programmes (FP6) that could serve as the basis for the decision whether or not the DG has reasonable assurance. Main deficiencies relate to the limited audit coverage in terms of number of audits and weaknesses in the sampling methodology which did not allow for the extrapolation of the results to the whole population of contractors.

Owing to the importance of this issue, the DGs concerned are expected to introduce a reservation in their Annual Activity Reports for 2006. Furthermore, the recurring problems¹ identified by the Court of Auditors in relation to the legality and regularity of the financial operations have been echoed by the Members of the EP Committee on Budgetary Control. Indeed, at the COCOBU hearing on 28 November 2006, Commissioner Potočník made a firm commitment to, *inter alia*, increase the number of ex-post audits.

The ex-post audits are the cornerstone of our financial control system. A sufficiently high audit coverage and an adequate sampling methodology therefore constitute necessary conditions to aim for a positive declaration of assurance.

APS reacted positively to this but requested that a detailed action plan be submitted jointly by the Research family DGs (RTD, INFSO, ENTR, TREN), setting out key actions that should be addressed in 2007 and 2008.

Although the underlying legal framework (Research Framework Programmes – EC and Euratom, Rules of Participation, Financial Regulation and RTD model contracts) and the population to be

¹ See Annual Report 2005 from the Court of Auditors, Official Journal of the EU, C 263 dd 31/10/2006, p 133 and following; Recurrent problems mentioned are errors in costs declared by beneficiaries, frequent absence of reliable time recording system etc. The Court further states that there was a significant reduction in the number of ex post audits completed (§ 7.19) and that there is a high frequency (in two thirds of the cases) of material errors in audit certificates (§ 7.17)..

audited are largely the same, the responsible ex-post control audit Units or sectors are embedded in each of the RDGs. While coordination already takes place amongst them, there is room for further harmonising the RDGs external audit processes, in order to bring about a true "**single audit**" approach in research.

The overriding objective is indeed to mitigate a certain number of risks (the relatively high error rates which have been identified by ex post audits in 2006 on FP5 contracts; the recurring problems identified by the Court of Auditors in relation to the legality and regularity of financial operations; the risk that ex-post controls are not effective enough because of insufficient audit coverage and deficient sampling methodology; the Court's contention stated in its report 2005, §7.17 and in its Opinion 1/2006, §74-77, that audit certificates provided on behalf of research contractors cannot yet provide adequate assurance of the costs claimed).

3. OVERVIEW OF THE KEY ACTIONS

3.1. Key action 1: Increase the audit coverage

The main pillars of this strategy are an increase (minimum 40 %) of the *percentage* of the research budget covered, by auditing contractors which receive significant contributions from the research budget (in the table below called "Big contractors"), and by the use of a representative sampling method², permitting extrapolation of the findings on errors to the total population of auditees. The latter will be achieved by using an advanced selection methodology described in the FP6 audit strategy.

The main features of this audit strategy can be resumed in the following table:

Method to determine the contracts to audit	Rationale
Representative sampling	The use of a representative sampling method allowing the extrapolation of the audit results to the whole population of contracts and to calculate thus a residual error rate.
Big contractors	Auditing several contracts of each contractor receiving a substantial amount of FP budget contribution will allow maximising the audit coverage.

² IAS report, recommendation 7.

Risk-Based	On the basis of a specific risk analysis, the audit of a significant number of individual contractors is intended to provide management with additional assurance on the legality and regularity of the underlying transactions.
------------	--

Ex-post financial audits are carried out with Commission internal staff as well as by external audit firms (EAFs). The purpose of audits carried out by internal staff and by EAFs and the audit methodology employed on the spot are the same. In the case of the outsourced audits, the ex-post audit Unit (or sector) of the relevant DG has the responsibility and the role of guidance, supervision and follow up of the work done by the audit company.

The current framework contract for the EAFs, concluded in May 2006 for a period of 3 years with an option to extend with maximum one year, permits the carrying out of around 1200 FP6 audits by all RDGs over its total lifetime. In order to reduce the current high dependence on external audit capacities RDGs intend to increase the number of audits carried out by their internal staff. Details are given in the following table.

³ Increase already realised with 2007 allocation

⁴ Discussions on the final distribution of these posts are still on-going between the Research DG's. the decision will be finalised after the ABM steering Committee

The main focus of the external audits for the period 2007-2009 will be the payment requests concerning FP6 projects. Payments under FP6 contracts will continue well into 2010.

As far as FP5 is concerned, it is recalled that the Council invited the Commission in its recommendation for the 2005 discharge to continue to audit FP5 contractors while at the same time increasing the number of audits of FP6 contractors. The RDGs will thus continue to carry out specific risk based audits on FP5 contractors, justified by requests from authorising services.

FP7 was launched on 01/01/2007 for 7 years, covering a very significantly increased financial volume of 53,2 billion EUR (representing a 40 % increase in real terms of the annual average compared to FP6). The new FP7 methodology certificates (explained at point 3.4.B below) will need intensive support and communication efforts in order to ensure its effective take-up. Reflections on rolling forward or appropriate ways to adapt the audit strategy for FP7 needs will be undertaken as of 2007. The first calls for proposals have been launched in December 2006, and it is expected the first ex-post audits to be started in 2009.

3.2. Key action 2: Reinforce the coherence of activities of the RDGs' ex-post audit structures

As the RDGs maintain their own ex-post audit structures/units, formal and detailed common

⁵ Including 2 more staff from 2007 allocation

working arrangements are necessary. This implies an intensification of the overall coordination and supervision activities of the existing working-level coordination group for ex-post audit in the research family (the so-called CAR group), backed-up by a clear mandate from senior management. The main objectives to achieve are:

- To implement a common audit strategy for FP6⁶ (selection mechanisms, coverage and risk criteria and coordinated multi-annual planning in terms of number of audits).

Specific:

All RDGs should now adopt an FP6 audit Strategy and a joint multi-annual audit plan (4 year period from 2007 to 2010) indicating their respective yearly audit numbers over the 3 audit.

Specific:

- Dissemination and valorisation of audit results within Commission services: To agree on a common approach concerning the feedback to be provided to the operational units and to the beneficiaries in relation with the errors found during our external audits. This would allow the technical and financial officers to take into account the findings of the external audits in their methods of verification of the cost statements, and thus allow the prevention of certain recurrent errors in an early stage. We should also inform our contractors/beneficiaries on the recurrent errors found, explain to them in more detail certain procedures that do not seem to have been understood properly, while indicating to them that we will use the clause on liquidated damages⁷ for contractors/beneficiaries in those cases where we see that they have not taken into account the information provided.

⁶ See document in annex.

⁷ **Article II.30 of the FP 6 model contract; see article 10, under 5 of the FP 6 Rules of Participation as well**

Specific:

3. Common position/basis of information vis-à-vis Budget Authorities and Court of Auditors

- Communication vis-à-vis grant beneficiaries: Implement common measures intended to raising awareness amongst beneficiaries that they can be audited.

Specific:

The Court of Auditors has pointed out in its Opinion 2/2004⁸ on the Single Audit model that beneficiaries of EU funds are not sufficiently aware of the risk of being audited or of its potential consequences. Therefore, the RDGs will develop a common website where such beneficiaries can find information on the scope of such audits, the documents to be submitted, the period within which an audit can take place etc.

Regular contacts and dissemination of audit information will be established to the National Contact Points (NCPs).

Further, awareness activities will be increased, and such awareness activities should start at an early stage: e.g. drawing the attention of the beneficiaries during the grant agreement negotiation phase to the fact that they can be audited. Each sending of a grant agreement for signature should be accompanied by a standard form drawing the attention to the possibility of being audited and to the nature of the documents to be produced when being audited. The final aim of this is to achieve a deterrent effect on the contractors, i.e. making them do efforts to ensure that they submit correct cost claims.

- Strengthening the sharing of audit results (databases, follow-up measures, extrapolation of systemic errors) and mutual reliance on audit findings within research DGs in the first place, and, later, vis-à-vis OLAF and Court of Auditors.

Specific:

1. Whilst sharing of audit results already takes place amongst RDGs and other services (OLAF), areas which need priority attention are: extrapolation of audit findings, i.e. to apply, whenever possible, the audit findings to other (non-audited) contracts including to those of other RDGs and ensure effective follow-up by the contractors and services; analyse audit findings in terms of 'what is the nature of the errors'⁹ found ' (e.g. overheads, personnel), 'in what type of contractors' (SMEs, universities etc) and what is the precise financial impact of the errors. The latter implies follow-up and collection of figures with the operational services (e.g. from recoveries made by them), and such figures have to be

⁸ JOCE C 107 dd 30/04/04 , point VI, § 30 and 49

⁹ More precise is to speak about 'cost adjustments'

collected with accuracy as they serve as an input for the AAR. For certain (shared) beneficiaries, joint follow-up audits will be scheduled, communicated to the related beneficiaries, and performed, the results of which will be linked to actions of the RDGs in terms of financial sanctions. As such, with relatively minor audit efforts, an important impact is generated.

2. Linked to 1. are other specific actions to be undertaken: define a common policy for follow-up audits or other actions to be undertaken in relation to the type of findings, especially in the field of sanctions (liquidated damages etc).

3.3. Key action 3: Implement a new centralized IT audit management information system and audit sharing tool in ABAC.

Because of the increasing number of audit files, there is a need for a more detailed reporting system and the sharing of information with other services involved. The RTD external audit unit initiated in 2006 a project for the development of a Central Audit Management System (CAM system) for DG RTD which would be extended to other RDGs.

While benefiting from and building upon comparable systems which already exist in the Commission (e.g. ASUR and other audit support systems in RTD; ARPS in DG INFSO), among other aims, the CAM system would be linked to other central management systems of the Research DG's in order to have access to the most up-to-date information on research contracts/grants, beneficiaries and cost statements as well as to the central management system for the follow-up of recommendations to assure efficient implementation of audit results such as recovery orders. The CAM system would facilitate the periodical reporting of the ex-post audit activities within the DGs as well as towards the Court of Auditors. the system will also allow a presentation of a monthly scoreboard. Furthermore, the gathering of statistical data and audit result indicators in the CAM system would contribute to setting up a risk-based assessment system and would provide an important background for other selection procedures.

ABAC has been extended in 2006 with an audit section, allowing DGs to flag the legal entities which they have been or will be auditing. This common tool for the sharing of audit information is still in a preliminary phase but it will be further developed with a view to strengthening the sharing of audit results with all other DGs.

3.4. Key action 4: Reinforce the certification processes

The RDGs will implement a harmonised approach with respect to FP6 audit certificates, the FP7 certificates on cost statements and the "certification of methodology".

Specific:

A) On FP6 audit certificates and FP7 certificates on cost statements:

1. This includes the setting-up of support activities¹⁰ in relation to audit certificates/certificate on cost statements issues which the RDGs operational services, the RTD beneficiaries and the certifying entities have at present. The existing materials on audit certificates such as the FP6 Guidelines will be updated and respective documents for FP7 will be developed.

2. RDGs will co-ordinate all matters related to audit certification with other DGs (mainly BUDG) and will, when applicable, liaise with national or international professional audit bodies.

3. RDGs will assess by the end of 2007 the functioning of the audit certificate system introduced for FP6 based on ex-post audits closed in 2006 and 2007.

4. RDGs will also put in place appropriate procedures which allow reporting on audit certificates/certificates on cost statements towards management, the budgetary authorities, the Court of Auditors.

B) New feature under FP7: ex-ante certification of costing methodology and labour rates:

Under FP7 ex-ante certification of costing methodology and labour rates of contractors will be introduced. The aim of these schemes is to ensure even before payments are authorised that beneficiaries' costing methodologies comply with FP7 contractual provisions in relation to the establishment of projects cost.

The RDGs expect a substantial number of requests from contractors for validation of their ex-ante certification of labour rates and cost methodology. There will not only be a need to explain to contractors this new feature, but the RDG's will need to put in place procedures for formal acceptance of these certificates.

While it is not the aim of the cost methodology certification that the Commission re-audits all the contractors concerned, bearing in mind that the methodology as such will already have been assessed by independent professional auditors, there will still be a need to do tests to ascertain the proper establishment of the certification, requiring some staff resources.

3.5. Key action 5: Joint approach in dealings with external audits firms (EAF) under contract with the Commission

- A common approach towards audit firms acting under a framework contract with the Commission in terms of maximising the efficiency and value for money of services purchased has to be developed.

Specific:

¹⁰ Such as the 'audit certificate clinic' established by DG INFSO. The purpose of "audit certificate clinics" is to ensure a consistent handling of audit certificates by DG INFSO services in line with the contractual provisions. For this purpose regular meetings were organised within DG INFSO involving horizontal and operational services. The working results of this group are made accessible to all services involved in the treatment of audit certificates by intranet.

The current framework contract foresees a workload scheme of a maximum of 3 FP6 contracts, covering 9 periods per beneficiary that can be audited. The present situation is that not all RDGs use this maximum. In the future, the RDGs will ensure a common approach, of which the basis will be that the framework contract will be optimally used by all.

- Starting the preparation of the public call for tenders for the FP7 auditing: The RDGs will agree on the basic principles of the tender specifications, based on the experience gained with the current framework contract for FP6.

4. ORGANISATIONAL AND RECRUITMENT ASPECTS:

4.1. General

The current CAR group (see point 3.2 above) should be formally mandated to steer the inter-DG audit coordination and report on a periodical basis the implementation of the action plan to the Research Directors-General.

¹¹ Minimum delays (based on experience) between having a vacant post available and an operational staff member occupying the post are given under 4.2).

5. MONITORING OF THIS ACTION PLAN

This Action Plan will be monitored in common by the Directors General of the DGs on a quarterly basis. A report will be made to the respective Commissioners on the progress made and any difficulties encountered. On this basis, any action or changes deemed necessary will be decided upon.

ANNEX 1.**Table 4. DGs share of the FP6 budget (EC and Euratom, excluding JRC budget)**

		RTD	INFSO	ENTR	TREN	Total
EC FP6	€ mln	11,486	4,209	430	857	17,048
	%	67%	25%	3%	5%	100%
Euratom FP6	€ mln	1,033	0	0	0	1,033
	%	100%	0%	0%	0%	100%
Total FP6	€ mln	12,519	4,209	430	857	18,081
	%	69%	23%	2%	5%	100%

Table 4 bis. RDGs share of the FP7 budget (EC and Euratom, excluding JRC budget)

		RTD	INFSO	ENTR	TREN	Total
EC FP7	€ mln	34,482	9,354	2,759	2,175	48,770
	%	71%	19%	6%	4%	100%
Euratom FP7	€ mln	3,311	0	0	0	3,311
	%	100%	0%	0%	0%	100%
Total FP7	€ mln	37,793	9,354	2,759	2,175	52,081
	%	73%	18%	5%	4%	100%

ANNEX II

"Ex-post Audit Strategy of FP6 common to the Research DGs"



EUROPEAN COMMISSION
Information Society and Media Directorate-General

The Director-General

Brussels, **07 MAI 2007**
INFSO/S2/AR/ic D(2007) 814173

**NOTE TO THE ATTENTION OF MR. R. STROHMEIER,
HEAD OF CABINET OF COMMISSIONER V. REDING**

Subject: Measures taken in relation with reserve on cost claims

Further to Mrs Reding's request, I would like to provide you with the status of the measures already taken or planned in the next few months, in order to improve the situation relating to the problem of errors in cost claims of beneficiaries.

The measures articulate mainly around two axes, one being the reinforcement of the "ex-post controls", the other one being the improvement and simplification of procedures for FP7. The first results of the reinforcement of audit activities should become visible before end of 2007, the procedural improvements and simplification measures will significantly impact on the project negotiations as of the first FP7 call for proposals. Both axes of measures will show their full effects gradually over time and respond to the concerns expressed by major stakeholders of the Research Policy Community.

A. Reinforcement of ex-post controls activities

Following the audit performed by the IAS on "ex-post controls", DG INFSO has prepared a detailed Action Plan for the implementation of the recommendations contained in the IAS' Final Audit Report. This Action Plan was presented to the Audit Programme Committee (APC) during its meeting on 30 March 2007. I attach in annex I the list of the detailed actions by target date in chronological order.

Building on the FP6 common audit strategy which has been prepared by the research family since the beginning of 2006

these

DGs have elaborated a joint Action plan. This "Action plan to implement a new approach

for ex-post audits of research programme activities" was presented to the ABM Steering Committee of 20/03/07. Its objectives are:

- to reinforce the coherence of activities of the research ex-post audit structures;
- to implement a new IT audit management information system and audit sharing tool;
- to reinforce the certification process regarding FP6 and FP7;
- to adopt a joint approach in dealings with the external audit firms under contract with the Commission;
- to adapt staffing and organisational structures to the objectives of substantially increasing the overall number of audits as the number of audits on own resources.

A summary of these actions and the Action plan itself are respectively attached in annexes II and III.

The elaboration of both Action plans have requested an important involvement of the DGs. These efforts, which depend on the resources to be allocated, will have to be sustained in order for the measures to be implemented in time, as the target dates are rather short.

I would like to draw your attention in particular on the following aspects:

- 2) Audit coverage and audit sampling methods: the audit strategy of FP6 for the period 2007-2010 which is common to the research DGs is part of the "Action plan to implement a new approach for ex-post audits of research programme activities" which was also presented by the research DGs to the ABM Steering Committee of 20/03/07.

The sampling method has been developed in cooperation between all RDGs and has been agreed with DG BUDG. This approach will aim to maximise the coverage of ex-post audits.

- 3) Reinforcement of the coherence of ex post activities among the research DGs: further to what has already been undertaken in the domain of the overall coordination and supervision activities, the research DGs will notably:
- intensify follow up procedures and apply audit results to non-audited projects as well as apply consistently the sanction policy (liquidated damages) in order to implement the common audit strategy for FP6;
 - implement common measures in order to raise awareness amongst beneficiaries and amongst Commission's services as well. For example, DG INFSO will continue to organise meetings with large contractors together with representatives of other research DGs in order to agree upon eligibility of personnel and overhead costs and to possibly, after confirmation by an audit, consider them as being cleared from errors.
 - organise audits jointly between DG INFSO and DG RTD in case of beneficiaries selected for audit by both DGs, in particular as regards the population of biggest participants.
- 4) Communication vis-à-vis grant beneficiaries: Actions will be implemented which are intended to raise awareness amongst beneficiaries that they can be audited and which therefore aim at achieving a deterrent effect on the contractors, i.e. making them do efforts to ensure that they submit correct cost claims. In particular, the research DGs will develop a common website where beneficiaries can find information on the scope of audits, the documents to be submitted, the period within an audit can take place etc. DG INFSO will be chef de file for this action.
- 5) Strengthening of the sharing of audit information, knowledge and results: while benefiting from and building upon systems which already exist in the Commission for the sharing of information with other services (such as the Audit Results Processing System –ARPS- developed by DG INFSO), the tool which is currently developed for DG RTD (Central Audit management System – CAM System) would be made available to other DGs. This will request the adequate involvement of DIGIT and the performance of an analysis of the impact with respect to the current situation. This new facility should result in a better and larger access to the most up-to-date information on research contracts/grants, beneficiaries and cost statements and a more efficient implementation of audit results.

I attach the utmost importance to the timely and adequate involvement of all concerned DG INFSO's Directorates on these matters. To that end, a new group, called Internal Control Coordination Group (ICCG) and chaired by the General Affairs Director, has been set up which held its first meeting on 26/04/2007. The overall purpose and mission of this group is to effectively prepare, coordinate, monitor and follow up all important internal control issues of DG INFSO¹.

Another example of the continuous efforts deployed by DG INFSO is the organisation of "audit clinics". This practice, which is quoted by the common "Action plan to implement a new approach for ex-post audits of research programme activities", aims at ensuring a consistent handling of audit certificates by the services in line with the contractual provisions. These meetings involve horizontal and operational services and their results are published on the intranet.

B. Improvement and Simplification of Procedures

Audit certificates remain a key management and control instrument in FP7. Based on the experience gained under FP6, this instrument has however been substantially improved and rationalised.

The possibility for the beneficiaries to benefit from a system certification now completes the system of audit certificates on cost claims. This was already announced as one of the three priorities of DG INFSO's efforts in my note 720740 on simplification in FP7 of 19/06/2006 and discussed in meetings with the Cabinet in June 2006.

This has also been acknowledged in the Report from the Commission of 7/03/2007 on the progress of the Commission Action Plan towards an Integrated Internal Control Framework under the action 7 "Promote best practices for increasing cost-benefit of audits at project level".

I would like to highlight some more details on the measures relating to audit certificates and the use of flat rate financing:

- 1) Certificates on financial statements: Their frequency has been significantly reduced in the Rules for participation as they are required only for cumulative amounts above € 375.000. The grant agreement imposes that they are to be based on "agreed upon procedures" in the format of a report on factual findings to be issued by an

¹ The mandate of this group, which is composed of permanent correspondents representing the Directorates, includes in particular the following aspects: compliance and effectiveness of the implementation of Internal Control Standards; follow up of internal audit recommendations implementation; follow up of risk management action plans; planning and follow up of financial audits results implementation; coordination of issues related to the ECA, OLAF, Ombudsman, DPO; any other important internal control issue needing coordination across the DG.

independent auditor. Based on lessons learnt from FP6, this new approach is expected to render audit certificates more effective than in the past.

2) System certification: The grant agreement introduces the possibility of an ex-ante certification of the methodology used by a beneficiary for the calculation of average personnel costs and overheads.

- The main advantages for those beneficiaries opting for this certification will be the following:
 - The beneficiary will have a sort of "ex-ante" feedback on the correctness and acceptability of the methodology used;
 - The beneficiary will not be obliged to provide certificates on financial statements for interim payments;
 - Average personnel costs are eligible subject to system certification. In case of an audit ex-post, the average costs claimed according to the declared and accepted methodology will be deemed not to significantly differ from actual costs.
- The system certification implements a major initiative of DG INFSO and should help to significantly reduce recurrent errors identified by audit in the past. This shall reduce the complexity of the management of projects when it comes to the submission and processing of cost claims. Together with the reduced number and scope of individual certificates this constitutes an important step of simplification, whilst at the same time increasing the legal certainty both for beneficiaries and the Commission.

3) Use of lump sums and flat-rate financing:

From the start of FP 7 flat rate financing will mainly be available to cover indirect cost of research projects, whilst leaving full flexibility to those participants who prefer the use of actual cost for the claim of their indirect cost. Thus, four methods are foreseen for the calculation of indirect costs:

- real indirect costs;
- 20% flat rate open to all beneficiaries;
- simplified method open for beneficiaries without analytical accounting or with cash-based accounting;
- 60% flat rate open to non-profit public bodies, education establishments, research organisations and SMEs unable to identify real indirect costs.

Whilst the Commission has welcomed to expand the use of simplified funding mechanisms whenever it is possible, it has also constantly underlined that any move towards systems based on extensive use of flat rates or lump sums needs to be carefully prepared.

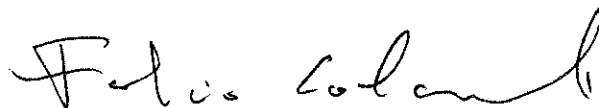
Indeed, the explanatory memorandum of the FP7 Rules for participation states that "For most funding schemes, reimbursement of eligible costs will be the preferred method, particularly at the beginning of FP7. The use of lump sum and flat rate

financing will be introduced gradually and, if successful, will be used more extensively".

The Commission has thus opened the door to the use of simplified funding mechanisms and will continue its efforts to do best use of this approach. A major difficulty for the introduction of generalised schemes of lump sums and flat rates, as approximations for actual costs incurred, is the high degree of variation of cost levels of different beneficiaries, in particular as regards different countries, regions or sectors. Against this background, the system certification for the use of average rates, as introduced in FP7, represents a second-best intermediary solution.

As foreseen in art 7 of the decision on the 7th Framework Programme, the Commission shall carry out, no later than 2010, an interim evaluation of this Framework Programme. This evaluation shall cover inter alia the quality of implementation and management. The conclusions shall be communicated to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. This interim evaluation shall be preceded by a progress report as soon as enough data becomes available, giving initial findings on the effectiveness of the new actions initiated under the 7th Framework Programme and on the efforts made with regard to simplification.

As far as the regular reporting on audit activities is concerned I suggest to build on the formats used in the bi-annual management reports and to complete this by a dedicated section on the particular action plans as presented to the ABM steering group on the one hand and to the Audit Progress Committee with regard to the IAS report on the other hand (see annexes 1 to 3). We will include in those reports additional information according to your requests.



Fabio Colasanti

Annexes:

1. IAS Audit report "Ex-post controls" of DG INFSO: List of detailed actions by target date
2. Summary of actions contained in the "Action plan to implement a new approach for ex-post audits of research programme activities" (ABM Steering Committee of 20/03/07)
3. Complete text of the "Action plan to implement a new approach for ex-post audits of research programme activities" (ABM Steering Committee of 20/03/07)

CC: P. Zangl, C. Dewaleyne, B. Libertalis, W. Schwarzenbrunner, A. Rauch, Assistants

**ACTION PLAN TO IMPLEMENT A NEW APPROACH FOR EX-POST AUDITS OF RESEARCH
PROGRAMME ACTIVITIES**

Progress Report towards ABM Steering Committee - 12 July 2007, 15:00, BERL

1. KEY OBJECTIVE AND ACTIONS

The Commission's action plan in the area of Research expenditure is to

better underpin the Director-Generals of DGs RTD, INFSO, ENTR and TREN's declaration of assurance, at the same time responding to criticisms which have been raised by the Internal Audit Service and the Court of Auditors. An action plan has therefore been agreed by all research Directorates-General (RDGs) and endorsed during the ABM Steering Group meeting of March 20th, 2007.

This action plan has the following key components:

- implementation of a ***common audit strategy***. This strategy, which will be carried out on a multi-annual basis, will be reflected in the audit planning of each RDG, and will ensure comprehensive coverage of the audit population through a *statistically reliable selection methodology*, focusing respectively on the contractors representing the largest share of the budget (individually significant beneficiaries); representative sampling from the remainder of the whole population; and risk-based sampling focusing on potentially risky contractors.
- a greatly reinforced ***integration of the ex-post audit activities*** among the research Directorates-General, thus also helping to ensure improved coverage as well as greater overall coherence and consistency.
- a much ***more systematic follow-up*** through sharing information between the staff directly concerned with ex-post audits, but also through the provision of relevant information to the Commission staff concerned with the management and oversight of research projects, as well as to the research community at large.
- implementation of ex ante ***cost methodology certification*** based on "agreed upon procedures" in order to resolve the most recurrent errors observed in the past from the outset.
- allocate ***increased staffing*** via redeployments within the research Directorates-General.

This progress report takes stock of the current state of implementation of the action plan within the different RDGs.

2. EXECUTIVE SUMMARY

In parallel, a number of substantial actions aiming to integrate further the RDGs ex post audit activities have been strengthened or initiated. All RDGs have formally endorsed the common FP6 audit strategy and a joint multi-annual planning is being adopted on this basis.

Integration of the ex-post audit activities among the RDGs is being developed at the level of the upstream and downstream processes through sharing of information, developing common tools and procedures, and systematic follow-up.

Awareness-raising for research funding beneficiaries is being done through the development of communication materials and leaflets which will be published in key media for research funding.

Significant advances have been realized on the level of the framework for the ex ante certification of cost methodologies for FP7 grant beneficiaries based on "agreed upon procedures". In this frame RDGs are jointly establishing guidance for prospective FP7 beneficiaries and implementation structures for handling this activity in the near future.

In conclusion, at this stage, globally speaking actions are going well.

3. RECRUITMENT OF ADDITIONAL AUDIT STAFF ON REDEPLOYMENT POSTS

In order to enhance the follow-up to ex post audits, DG RTD has initiated a working group involving the ex post audit unit, operational services, as well as relevant horizontal units. The aim of this working group is to design and implement a control procedure aimed to ensure that all detected systematic ex post audit issues are followed up. The implementation of this policy has a number of organisational and information technology implications which have to be duly addressed, in order to ensure proper follow-up of cross-cutting audit issues throughout the decentralised implementation structures within DG RTD and from/towards other RDGs. The results of this working group will be taken into account in due time in the frame of the action "sharing audit results".

DG INFSO

DG ENTR and TREN

No organisational changes were planned.

5. SUBSTANTIVE ACTIONS

As regards the outcome of the audit campaigns for the year, it is not useful to report at this stage financial results and error rates in view of the too limited number of audits and thus the limited representativity.

5.2. Reinforce the coherence of the RDGs

5.2.1. Common FP6 audit strategy and multi-annual audit plan

The implementation of the common FP6 audit strategy being key to the successful implementation of the ABM action plan, all RDGs have formally adopted the FP6 audit Strategy. Going from there common selection mechanisms, coverage and risk criteria and coordinated multi-annual planning must be ensured.

5.2.3. *Communication, audit web design*

- The aim of this action is to implement common measures intended to raise awareness amongst beneficiaries of EU funds of the risk of being audited and of its potential consequences. RDGs are developing a common website where such beneficiaries can find information on the scope of such audits, the documents to be submitted, the period within which an audit can take place etc. RDGs intend to set-up an EU research audit communication webpage on key information carriers for EU research funding (e.g. Cordis) in order to increase the awareness of FP participants. DG INFSO is chef de file on this action and has developed a draft set of communication documents.
- It is also foreseen that contacts and dissemination of information will be established vis-à-vis National Contact Points (NCPs). This can be done as soon as the above referred information documents are ready.
- The final deadline of the ABM action plan was initially set at the end of June 2007. The work on this action point is progressing well, however, the implementation will be slightly delayed due to additional quality cross checks with operational services. It should be possible however to post the first documents on Cordis by end July. The full webpage development will take some more time.

5.2.4. *Sharing of audit results*

- This action aims at strengthening the sharing of audit results (in terms of IT tools, follow-up measures, extrapolation of systemic errors) and mutual reliance on audit findings between research DGs and other control bodies. The state of play is as follows:
 - (1) The sharing of audit results amongst RDGs is being improved. A RDGs working group has been set-up aiming to establish common information systems and tools for implementing and sharing audit results (local IT systems, ABAC, audit datawarehouses,...). An inter-RDG working group has been set-up and business rule specifications are being drafted.
 - (2) Priority attention needs to be given to extrapolation of systemic audit findings to non-audited contracts including to those of other RDGs and effective follow-up by the contractors and services. DG RTD has set-up a working group involving other RDGs as well which will provide the basis for implementing a common procedure. Ultimately RDGs will share extrapolation cases and need to ensure jointly and consistently the required follow-up measures.

- (3) Linked to this is the need to define a common policy for the follow-up audits or other actions to be undertaken in relation to ex post audit findings, especially in the field of sanctions (liquidated damages etc).
- The final deadline of the ABM action plan is set at December 2007.

5.3. Implement a new centralized IT audit management information system and audit sharing tool in ABAC.

- Because of the increasing number of audit files, there is a need for a more detailed reporting system and the sharing of information with other services involved. Within DG RTD the development of a Central Audit Management System (CAM system) is well under way. It is envisaged to either extend this system to other RDGs and where applicable to allow for integration with IT-applications already existing. The CAM system will be linked to financial management systems of the RDG's for the follow-up of audit recommendations and also enable periodical reporting of the ex-post audit activities.
- ABAC audit allows DGs to flag the legal entities which have been or will be audited. This tool for the sharing of audit information is still in a preliminary phase but it will be further developed with a view to strengthening the sharing of audit results with all other DGs. RDGs are holding further contacts with DG BUDG services to contribute to future developments. Even if the available tool in ABAC is still in process of development, DG ENTR is already encoding all ex-post audits carried out in ABAC (DG ENTR has been designated as pilot DG for the implementation of the ABAC tool).
- The ABM action plan foresaw the development of procedures and methods allowing the use of the ABAC tool for research ex post audits by December 2007. The final deadline of the ABM action plan is set at December 2008 for the common audit management system for all RDGs.

5.4. Reinforcement of the ex ante audit certification process

- The RDGs need to implement a harmonised approach with respect to FP6 audit certificates, the FP7 certificates on financial statements and the "certification of methodology".
- Current actions of reinforcement of the ex ante audit certification process is focused on FP7. Formal "agreed upon procedures" have been established on the basis of international audit and accounting standards¹ and in close co-ordination with the relevant professional audit body². RDGs actions in this area seek to address one of the key sources of error in past programmes, the use of average costing by beneficiaries. To reduce these errors, the Commission has drawn-up these agreed upon procedures to analyse cost accounting systems and their underlying costing methodologies in advance to pick up systematic errors. This allows sensitising beneficiaries to the importance of establishing a methodology compliant with the contract, and can serve to 'fix the future' by preventing errors. The experience with past framework programmes has evidenced that the main sources of errors in the costs claimed by beneficiaries relate to the personnel costs and indirect costs, often calculated according to a methodology which does not conform to the grant agreement provisions. The objective of the certification on the methodology is to promote the use of correct methodologies by

¹ International Standard on Related Services ('ISRS') 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Moreover, the Commission requires that the auditors deliver this certificate in compliance with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) of IFAC.

² FEE: "European Federation of Accountants/Fédération Européenne des Experts Comptables"

beneficiaries when calculating personnel costs and indirect costs, in particular in those cases when average costs for personnel are claimed. This way, the expected error rate detected by Commission services after, for example, an ex-post audit should be limited. This should therefore reassure the beneficiaries that the methodology they use will not be contested in case of revision of the cost claims once payments have been received or during an audit ex-post, thus limiting the risk of being addressed recovery orders. With the view of simplifying and reducing administrative burden for beneficiaries, beneficiaries receiving approval from the Commission on their certified methodology for both personnel and indirect costs will not have to submit certificates on financial statements for interim payments. In addition, the final certificate on financial statements will be prepared by the auditors by verifying, only for personnel and indirect costs, the compliance with the declared methodology, thus adding simplification to the audit work performed (however, it should be noted that the final certificate on the financial statements will cover all the eligible costs including personnel and indirect costs). This should also contribute to the reduction of the cost of the certification process as a whole and in particular for beneficiaries participating in several grants agreements. The ideal target for the provision of this kind of certification is typically beneficiaries of multiple grants which have an established methodology for calculating their rates. As the certification of the methodology, once approved, is intended to be valid throughout the whole FP7, it is clear that beneficiaries participating in several grants will benefit from this exercise.

- An inter-service working group involving the RDGs as well as DG BUDG has developed guidance notes establishing the practical framework for implementation of the certification on the methodology. These guidance notes should be made available to prospective FP7 beneficiaries via Cordis by end July.
- In terms of organisation, firstly, a central FP7 ex ante audit certification support service is being created within DG RTD. Secondly, a Joint Assessment committee is being established by DG RTD and DG INFSO. This committee will decide on the acceptability or rejection of the certifications on methodology and its decision will be binding for each RDG. The secretariat of the Committee which will provide logistics and support services will be centralised in DG RTD. The RDGs will adopt the necessary implementing procedures by end October.
- Furthermore, technical guidance for the certifying auditors is being prepared and will be consulted with FEE. In this context, two, or possibly three pilot methodology certification review missions on representative public and private research funding beneficiaries are foreseen to take place.
- The final deadline of the ABM action plan is set at March 2008.

5.5. Coordination of external audit firms

5.5.1. Coordination

- RDGs co-ordinate themselves in their relations with the external audit firms (FP5 and FP6 audit services framework contracts).

- The final deadline of the ABM action plan is set at December 2007.

5.5.2. *FP7 framework contract*

- A public procurement procedure for a new framework contract for audit services for FP7 is being prepared by DG RTD for use by all RDGs.
- Starting from the experience with the current audit services framework contracts, RDGs assess together key issues that need to be improved or changed in order to anticipate the necessary changes in the terms of reference for the new open call for tenders. A first stock-taking of matters to improve has also been done together with the current FP6 audit services framework contract leading firm. On this basis the future tender specifications will be prepared. The aim is to have agreed terms of reference ready for publication by March 2008. (The final deadline of the ABM action plan was set at March 2008).
- The objective is to have a framework contract awarded by the time that FP7 will need to be audited, i.e. as of early 2009. RDGs will agree on a roll-out plan for the entire public procurement procedure allowing to award in due time the new framework contract.

5.6. Overview of status of key actions

1	Increase the audit coverage	2007-8	Ongoing
2	Reinforce the coherence of the RDGS		
	Endorse FP6 common Audit Strategy		Done
	Adopt joint multi-annual audit plan	avr-07	Pending
	Audit Summary sheets, other docs,	déc-07	Ongoing
	Communication, NCPs, audit WEB design	juin-07	Ongoing
	Common procedures and methods, EWS, Sharing of audit results	déc-07	Ongoing
3	Implement central IT-Audit Management		
	Procedures and methods, ABAC tool	déc-07	Ongoing
	Common IT system- CAM	déc-08	Ongoing
4	Reinforce the audit certificate process	mars-08	Ongoing
5	Coordination of external audits firms (EAF)		
	Coordination	déc-07	Ongoing
	FP7 Framework contract	mars-08	Ongoing



EUROPEAN COMMISSION
Information Society and Media Directorate-General

Internal audit

Limited^(*)

AUDIT OF THE FINANCIAL STATEMENT PROCESSING AND PAYMENT PROCESS IN THE FP6-IST PROGRAMME

EXECUTIVE SUMMARY

(REPORT N° IA/2006/REP/01)

08/05/2007

**This internal audit report
is addressed to**

Mr. F. Colasanti – Director General DG INFSO

with copies to

Mr. P. Zangl – Deputy Director General DG INFSO

Ms. S. Binns – Director INFSO-C

Mr. J. da Silva – Director INFSO-D

Mr. H. Forster – Director INFSO-E

Mr. U. Dahlsten – Director INFSO-F

Ms. R. Zobel – Director INFSO-G

Mr. F. de Bruine – Director INFSO-H

Mr. B. Libertalis – Director INFSO-R

Mr. W. Schwarzenbrunner – Director INFSO-S

() This report is marked 'limited' and may not be made available,
copied, distributed, disclosed or otherwise communicated to anyone else than the explicitly
mentioned recipients. Any exception to this provision must obtain the prior written
agreement of the Director General of DG INFSO.*

1. OBJECTIVES AND SCOPE

This audit was included in the work plan of the IAC as a result of its comprehensive risk assessment prepared in June 2006. DG INFSO's 2006 High-Level Risk Assessment (HLRA) mentioned the payments based on financial statements as a source of high risk. The audit of the financial statement processing and payment process in the IST programme covers the following specific audit objectives:

- to check compliance with applicable rules and regulations as well as to review the status of the internal control applicable to the management of these processes;
- to evaluate the effectiveness and efficiency of the processes, including the time to payment;
- to evaluate the capacity to provide reliable financial and operational information;
- to make recommendations to improve the current process in the 6th Framework Program (FP 6) with a view to make them applicable to the forthcoming FP 7.

The audit was limited to interim payments because the number of executed final payments was low at the time of the audit.

The procedures applied for the processing of financial statements and the payments in Directorates D, E, F, G and H were tested through compliance tests on a sample of 16 financial statement packages received from the coordinators in 2005 and 2006.

2. CONCLUSION AND MAJOR OBSERVATIONS

The financial statement process and the relating payment process have been under remarkable development in the past years. IT applications for FP6 have made it already possible to satisfy requirements such as common workflow references, translating the Financial Circuits into electronic workflows and electronic filing of documents per project.

The auditors note that generally the financial statement process and the relating payment process achieve the main objective of executing a high number of payments to the beneficiaries. There is, however, room for further improvement especially regarding the aspect of efficiency in the following domains:

- Current total payment elapsed times (average of 244 days) are too long and should be reduced, in order to limit the linked risks for reputation and inefficiency.
- The information currently available to management on the financial statement processing and payment process is limited and not reliable enough, with significant risk for inefficiency and weaknesses not identified and addressed.
- There are many different practices to calculate the baseline dates and use the stop-the-clock procedure.
- Weaknesses have been found as well as inefficiency in the IT systems (concerning among other the interfaces with other IT applications, the reporting, the paper workflow in parallel, the adequate usage of the IT application) that could be

remedied by introducing additional functionalities in the local IT applications and increasing their adequate usage.

- Assessment of necessity and economy of costs, which is a part of the eligibility check of the costs, is not sufficiently detailed in some project reviews.
- The financial verification methods are not harmonised.

3. CURRENT RISKS

The current risks mentioned hereafter only concern the observations and conclusions on the systems that are in the scope of this audit.

- Reputational risk due to excessive payments elapsed times
- Risk (limited but present) of paying ineligible costs due to an assessment of economy and necessity of costs not detailed enough in some project reviews
- Risk of inefficiency due to non-harmonisation of financial verification methods, lack of integration of IT applications and paper-flow in parallel and limited management information

4. RECOMMENDATIONS

In order to address the identified weaknesses and risks, this report contains 7 very important, 14 important and 1 desirable recommendations. Here are reported the recommendations classified as Very Important.

1) Ensure the efficient use of guidelines

- Ensure that the hierarchy of the regulations and guidelines is clear. Identify the obligatory procedures and have them approved at DG level. Redesign internal guidelines more user-friendly (see FAQ and decision-tree practices in Appendix II). Communicate the existing guidance material efficiently to the staff by using e.g. cascading channels.
- Redesign guidelines for the beneficiaries (see e.g FAQ and decision-tree practices in Appendix II, point I) and provide easy-to-use material to the coordinators for training purposes of the contractors. The Commission can additionally organize training on a project base e.g. during a kick-off meeting (as some Units do at the moment) with the consortium by giving practical guidance on the financial statements and introducing existing guidelines.
- Take these recommendations into account when producing guidelines for FP 7.

2) Organize mandatory training on financial statement processing

- Make financial statement training mandatory for the staff processing financial statements – especially gestionnaires in the operational units and project officers.
- Create a set of trainings (e.g. financial statements processing, project management, iFlow) to be followed by the "newcomers" working on this process.

3) Develop IT functionalities to further improve IT systems

Develop the following functionalities, in accordance with other IT development priorities at DG level:

- Make available electronic management scoreboards at Unit, Directorate and DG level;
- Prevent that the same person can validate in i-Flow as OIA and OVA;
- Automatic generation of initiation in ABAC/SI2 (Agate);
- Interface from Adonis to i-Flow to avoid double uploading of the same file;
- Validate and integrate existing detailed checklists into i-Flow;
- Extend the i-Flow workflow towards an end-to-end (i.e. full) coverage; make the workflow monitoring statistics reflect real status of dossiers.
- Further improve the control of changes that can be made in the production environment of IT systems.

4) Standardize the stop-the clock method and baseline date calculation

Standardize the stop-the-clock method and baseline date calculation by clarifying the guidelines and giving concrete examples on how to proceed in exceptional cases. Develop detailed checklists to help the staff to know which deficiencies in the financial statements cause a request for additional information and hence a stop-the clock.

5) Baseline date calculation introduced and checked in the IT application

- Instead of using an excel-sheet, integrate the baseline date calculation into the existing IT application. This automatic calculation should take into account the time passed by on the Commission's side during the processing of the additional information.
- The supporting documentation should be filed in iFlow and should be linked to the baseline date calculation. The dates for certified correct in paper documents (if used) and iFlow should be consistent. AFU should check systematically baseline date calculations.

6) Select and standardise good practices to improve payment delays

- Select among the already identified good practices (see Appendix II) the ones with estimated best cost/benefit ratio and possibility for short-term implementation. Implement them at the level of the DG, either by integrating them in the existing or planned IT tools (Phoenix, i-Flow, PPM, ...), so that they will be available as well in FP7, or by making the description of practices easily available and accessible to all concerned Units. A one-page self-assessment per Unit on the practices can be envisaged as first step.

7) Develop and use an appropriate reporting on payment process

- Develop an electronic scoreboard with an overall view on the performance of financial statement processing and payment process adapted for DG, Directorate and Unit level. Indicators and graphs will show among other the number of financial statements to be expected, being processed, being re-processed after rejection and cancellation, ended, etc. It should include as well real-time stop-the-clock statistics

and the net time used by PO to give the certified correct. An overview on rejection reasons is also advised, as indicator of the quality of files.

- The scoreboard should also take into account the good practices identified
- The reporting should be regularly presented to different management levels and an improvement action plan should be set and followed up.

5. OTHER RECOMMENDATIONS

The other recommendations classified as Important are summarized here after:

- Ensure the assessment of the necessity and economy of the costs in the reviews and more generally, improve the review process
- Improve the Phoenix payment reports and ensure that iFlow contains all necessary documents
- Give more detailed guidance on defining major costs and restructure the "Cost Budget Follow-up Table"
- Seek for solutions to improve the performance of the consortium in the financial statement processing
- Harmonise the financial verification throughout the DG and create the principle of materiality
- Strive towards a paperless workflow
- Consolidate the usage of delegation in IT applications
- Develop user-friendly instructions ("i-Know" concept)
- Use of template letters/e-mails in stop-the-clock procedure
- Develop a tool to manage the requests and receipts of additional information
- Improve communication between the Commission and the Consortium
- Set up a continuous improvement platform on payment delays
- Develop and use an indicative planning for payments

One recommendation is classified as Desirable:

- Improve the learning loop between AFU and operational units

6. COMMENTS FROM THE AUDITEE

All the replies to the draft audit report¹ received by Directorates C, D, E, G, H and R² have been examined carefully in the drafting of this final audit report. In most cases, they led to a reformulation of the recommendation or the addition of specific details. In other cases, a note is taken about the differing views of the auditors and the audited services. The issues concerned by these differences are the following:

- the importance to be given to the principle of the autonomy of the consortium as compared with the obligation to efficiently manage the Community budget;

¹ (D/811897)

² Directorate C (D/815725), Directorate D (D/816056), Directorate E (D/816558), Directorate G (D/816106), Directorate H (D/816129), Directorate R (D/814405)

- the central role of the coordinator in the communication between the Commission and the contractors, versus the principle of transparency and the need to protect the reputation of the Commission;
- the difficulty of planning the execution of interim and final payments.

Overview of INFSO's files in relation to the European ombudsman covering the period January to June 2007

Two new Complaints

Four New or follow-up of complaints in which DG INFSO is associated:

1.

Background:

The complainant alleges that the Commission failed to take a decision on his complaint (non-notification of an Italian legislation on the operating of its electronic network used to connect legal games submitted on 07.11.2005, and claims that the Commission should take a decision.

Steps taken:

Date of the Ombudsman's sending to the Commission: 01.02.2007

Attribution to Cabinet Verheugen (DG ENTR): 07.02.2007

DG ENTR asked for DG INFSO contribution: 09.03.2007

DG INFSO forwarded its contribution to DG ENTR: 13.03.2007

Comments of the Commission sent to the Ombudsman by DG ENTR: 07.05.2007

Next Steps:

European Ombudsman's closing decision: awaiting by DG ENTR

2.

Background:

This complaint concerns the Commission's handling of the complainant's application for public access to a number of documents (Report on Mobile access market competition, MVNO/access and bottlenecks, ERG (06)45 and Internal report on Mkt 18 analysis, ERG (06)47).

Steps taken:

Date of the Ombudsman's sending to the Commission: 05.02.2007

Attribution to Cabinet Barroso (SecGen): 06.02.2007

SecGen asked for DG INFSO contribution: 03.05.2007

DG INFSO forwarded its contribution to SG-E3 : 08.05.2007

SecGen made comments on INFSO contribution: 10.05.2007

DG INFSO gave its final approval to SG-E3: 10.05.2007

Comments of the Commission sent to the Ombudsman by SG-E3: 04.06.2007

Next Steps:

European Ombudsman's closing decision: awaiting by SG-E3

3.

Background:

The complainant alleges that the Commission failed to give valid and adequate grounds for its rejections of his confirmatory application for full access to the documents requested.

Steps taken:

Date of the Ombudsman's sending to the Commission: 24.05.2007

Attribution to Cabinet Barroso (SecGen): 31.05.2007

Next Step:

SecGen asking for DG INFSO contribution: request not yet received.

4.

Background:

Multiple complaints concerning "notices of competition in the Research area", which would be incomplete. In view of the general character of the issue raised by the Ombudsman, at the request of , all possibly concerned services have been associated (DG INFSO included). In its answer to the further remarks the Commission notably confirms that improvements in the practices for recruitment in the have been implemented resulting in better quality control of vacancy notices and the establishment of clear guidelines on their drafting

Steps taken:

Date of the Ombudsman's sending to the Commission: 28.04.2006

Attribution to Cabinet Potocnik (DG RESEARCH): 04.05.2006

JRC asked for DG INFSO contribution: 16.06.2006

DG INFSO's agreement on the position of JRC: 20.06.2006

European Ombudsman's closing decision (with further remarks): 19.12.2006

JRC asked for DG INFSO contribution to its reply to the further remarks:
15.05.2007

DG INFSO's agreement on final position of : 14.06.2007

Comments of the Commission (by) sent to the Ombudsman: 11.07.2007

Two Requests for further information:

1.

Background:

The complainant () contests the change from “additional cost” model to “full Cost Flat rate” model which was proposed by the EC services through a contract amendment in order to be in line with the FP5 rules for participation.

Following a first request for information from the European Ombudsman and the corresponding comments by the Commission on 02.12.2005, the complainant replied on 12.01.2006, maintaining his claim (loss of money due to change of cost model). As a follow up the Ombudsman sent to the Commission on 14.11.2006 a new request for further information notably on the contractual basis and exact reasons for the requested change of cost model

Steps taken:

Date of the Ombudsman’s sending to the Commission: 14.11.2006

Attribution to DG INFSO/Cabinet Reding: 14.11.2006

Comments of the Commission sent to the Ombudsman: 26.02.2007

Next step:

European Ombudsman's closing decision: awaiting

2.

Background:

The Ombudsman sent to the Commission on 14.06.2007 a new request for further information following a first request for information where the complainant maintained his earlier complaint related to the EC project (delay in interim payment, final payment outstanding and abuse of power by the EC services by auditing the conference income and expenditure) claiming for compensation.

Steps taken:

Date of the Ombudsman’s sending to the Commission: 14.06.2007

Attribution to DG INFSO/Cabinet Reding: 14.06.2007

Next steps:

Comments of the Commission sent to the Ombudsman: under preparation – due date end of September 2007.

One Closed complaint:

1.

Background:

For the initial complaint the context was the following:

- 1) the Commission's alleged failure to inform the complainant about the status of his complaint concerning several Member States' failure to comply with Community law in the field of the single emergency call number, 112 ; and
- 2) the Commission's alleged failure to reply to the complainant's proposal for an action programme for the year 2005 in the field of the single emergency call number, 112.

In his closing decision the European Ombudsman considered that the Commission's failure to inform the complainant about the status of his complaint constitutes an instance of maladministration. He encouraged the Commission to align the different linguistic versions of the communication setting out the applicable rules of procedure and in addition suggested that the Commission would be required to inform complainants on its own initiative whenever it finds itself unable to complete its examination of a complaint within the period of one year.

Steps taken:

Request by the Ombudsman for further information: 06.01.2006

Closing decision of the Ombudsman: 01.12.2006.

Next step:

Comments by the Commission: reply submitted to the Cabinet for signature.



CERTIFICATES CERTIFIED BY EXTERNAL AUDITORS GUIDANCE NOTES

GUIDANCE NOTES FOR BENEFICIARIES AND EXTERNAL AUDITORS

PART I: THE CERTIFICATE ON THE METHODOLOGY

**MATERIALS PREPARED BY
THE WORKING GROUP ON CERTIFICATE ON THE METHODOLOGY UNDER FP7:
DG RESEARCH
DG INFORMATION SOCIETY AND MEDIA
DG ENERGY AND TRANSPORT
DG ENTERPRISE AND INDUSTRY
DG BUDGET**

VERSION 12 JULY 2007



TABLE OF CONTENTS

INTRODUCTION	4
THIS DOCUMENT WILL BE COMPLETED WITH PART II, WHICH WILL COVER TECHNICAL ASPECTS RELATED TO THE TESTING PROCEDURES TO BE PERFORMED BY THE EXTERNAL AUDITORS.....	4
1. GENERAL PRINCIPLES	5
2. AUDITORS ELIGIBLE TO DELIVER THE CERTIFICATE ON THE FINANCIAL STATEMENTS AND ON THE METHODOLOGY (COM AND COMAV)	6
3. REIMBURSEMENT OF THE COSTS OF THE CERTIFICATES.....	7
4. PRACTICAL HINTS FOR BENEFICIARIES AND ESSENTIAL BACKGROUND DOCUMENTS	7
PART I: CERTIFICATES ON THE METHODOLOGY.....	9
1. REASONS FOR INTRODUCING THE CERTIFICATION ON THE METHODOLOGY	9
2. ADVANTAGES OF THE USE OF THE CERTIFICATION ON THE METHODOLOGY	10
3. SCOPE AND CONTENT OF THE CERTIFICATE ON THE METHODOLOGY	11
4. FORM OF THE CERTIFICATE ON THE METHODOLOGY - ANNEX VII.....	11
5. SUBMISSION OF THE CERTIFICATE ON THE METHODOLOGY	12
5.1 Steps to be followed.....	12
5.2 Specific provisions for the Certificate on the methodology for both personnel and indirect costs.....	13
5.2.1 Criteria for submission of the CoM	13
5.2.2 Consequences of the acceptance and use of the certificate on the methodology for both personnel and indirect costs:.....	14
5.2.3 Consequences of the rejection by the Commission:.....	14
5.3 Specific provisions for the Certificate on the methodology for average personnel rates	15
5.3.1 Consequences of the acceptance and use of the certificate on the average personnel costs:.....	15

5.3.2	Consequences of the rejection by the Commission:.....	15
ANNEX 1: FREQUENTLY ASKED QUESTIONS		16
1.	GENERAL ISSUES	16
2.	SPECIFIC ISSUES RELATED TO CERTIFICATES ON THE METHODOLOGY	18

INTRODUCTION

These guidance notes have been compiled to guide research beneficiaries and certifying entities in the preparation of certificates on the financial statements and on the methodology for calculating personnel costs/indirect costs under the European Community's 7th RTD Framework Programme (FP7).

In particular, the document considers the following topics and related issues:

- FP7 model grant agreement¹ (ECGA);
- Guide to Financial Issues Relating to FP7 Indirect Actions²;
- Frequently asked questions (FAQs) received by the European Commission from certifying entities, beneficiaries and the Commission's operational services (see Annex 1).

The objective of these guidance notes is to give an overview of the requirements and provisions which are of importance in claiming costs for reimbursement and hence in the certification of financial statements and on the methodology. These guidance notes do not reflect an official position of the Commission; only the provisions of the signed grant agreement are binding.

The text of this document is valid as of the present date however it may be updated if necessary to reflect developments in the certificate on the financial statements and on the methodology procedures as they occur (in particular, the FAQs contained in Annex 1).

This document will be completed with Part II, which will cover technical aspects related to the testing procedures to be performed by the external auditors.

¹ See in particular Articles II.4 and II.14-II.19 of Annex II (General Conditions, Part B) of the model grant agreement:
http://cordis.europa.eu/fp7/calls-grant-agreement_en.html

² See in particular Part 2.A, Section 2 of the FP7 Guide to Financial Issues:
ftp://ftp.cordis.europa.eu/pub/fp7/docs/financialguide_en.pdf

1. GENERAL PRINCIPLES

The certificates on the financial statements (CFS) and on the methodology for both personnel and indirect costs (CoM) and on the methodology on average personnel costs (CoMAv) are an independent report of factual findings produced by an external auditor (or in the case of a public body it may be provided by a competent public officer) according to the requirements of Article II.4 of the grant agreement.

The purpose of the report of factual findings is to give to the Commission relevant elements necessary to assess whether costs (and, if relevant, the receipts and interests generated by the pre-financing) charged under the project are claimed by the beneficiaries in accordance with the relevant legal and financial provisions of the FP7 model grant agreement.

N.B: The submission of a certificate on the financial statements or on the methodology does not waive the right of the Commission or the European Court of Auditors to carry out their own audits³.

Notwithstanding the procedures to be carried out, the beneficiary remains at all times responsible and accountable for the accuracy of the Financial Statement. A beneficiary that has been guilty of making false declarations or has been found to have seriously failed to meet its obligations under the grant agreement shall be liable to financial penalties according Article II. 25 of the grant agreement.

The auditor has a contractual relationship solely with the beneficiary. The auditor does not have a contractual relationship with the Commission and the Commission will not intervene in any dispute between the auditor and the beneficiary.

The Auditor shall undertake that his work has been carried out:

- in accordance with the International Standard on Related Services ('ISRS') 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as promulgated by the IFAC;
- in compliance with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) of IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the European Commission requires that the Auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

³ "The *Commission* may, at any time during the grant agreement and up to 5 five years after the end of the *project*, arrange for audits to be carried out [...]" (Article II.22 of the FP7 model grant agreement).

2. AUDITORS ELIGIBLE TO DELIVER THE CERTIFICATE ON THE FINANCIAL STATEMENTS AND ON THE METHODOLOGY (CoM AND CoMAV)

Each beneficiary is free to choose a qualified external auditor, including its usual external auditor, provided that the following cumulative requirements are met:

- the external auditor must be **independent** from the beneficiary;
- the external auditor must be **qualified** to carry out statutory audits of accounting documents in accordance with national legislation implementing the 8th Council Directive on statutory audits of annual accounts and consolidated accounts⁴ or any Community legislation replacing this Directive. Beneficiaries established in third countries must comply with national regulations in the same field and the certificate on the financial statement provided will consist of an independent report of factual findings based on procedures specified by the Community.

The services provided by the auditors to the beneficiaries are regarded as subcontracts in the framework of FP7 grant agreements and are therefore subject to the requirements of best value for money (Article II.7 of the FP7 model grant agreement). Beneficiaries shall ensure the rights of the Commission and the Court of Auditors to carry out audits are extended to the auditors.

Where the beneficiary uses its usual external auditor then it is presumed that the requirements for selection of the auditor required by Article II.7 of the FP7 model grant agreement are already fulfilled.

Public bodies, secondary and higher education establishments and research organisations⁵ have the choice between an external auditor and a competent public officer. Where a public body opts to use a competent public officer, the auditor's independence is usually defined as independence from the audited beneficiary "in fact and/or in appearance". A preliminary condition is that this competent public officer was not involved in any way in drawing up the Financial Statements (Form C). Relevant national authorities must establish the legal capacity of the competent public officer to carry out audits of that specific public body. Although it not compulsory, based on good practice, it is recommended this be notified by a letter to the relevant research Directorate General and subsequent letter of acknowledgement of receipt from that Directorate General. Reference should be made to this notification in the certificate.

⁴ Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

⁵ Research organisation means a legal entity established as a non-profit organisation which carries out research or technological development as one of its main objectives.

3. REIMBURSEMENT OF THE COSTS OF THE CERTIFICATES

The cost of the certificate on financial statements is an eligible cost in the grant agreement for which the certificate is submitted (Art. II.16).

The cost of the certificate on the methodology (CoM and CoMAV) is an eligible cost in the first financial statements or in any of the financial statements submitted after the acceptance of the certificate on the methodology by the Commission. The cost of the certificate on the methodology, even if it will be used for all FP7 grant agreements, can be claimed only once in the lifetime of FP7 unless, due to a change of the methodology, the submission of a new certificate is required.

If a competent public officer has provided the certificate, then the identifiable direct actual costs (gross remuneration and related charges) will be considered eligible. The total amount charged shall exclude any profit margin.

- The price charged for a certificate is subject to the general eligibility criteria of the grant agreement and should consider relevant market prices for similar services (see also question 1.4 in annex I). In order to be eligible, the price should in particular be consistent with the principles of economy, efficiency and effectiveness. Excessive or reckless expenditures will be rejected.
- The auditor invoices directly to the beneficiary giving a breakdown of the amount of fees charged and the VAT applied. The amount of VAT is not an eligible cost for reimbursement by the Community financial contribution.
- The Commission will not pay the cost of building up the methodology. The eligible cost is limited to the performance of the agreed upon procedure (Annex VII) with the exclusion of any costs relating to consultancy for improvement or refinement of the methodology.

4. PRACTICAL HINTS FOR BENEFICIARIES AND ESSENTIAL BACKGROUND DOCUMENTS

In order to avoid delays in the submission of the certificates beneficiaries should select and contract the auditor well in advance. The terms of reference attached as Annex VII of the grant agreement should be completed by the beneficiary and by the auditor. As a first step it is essential that the auditor fully understands the requirements of the certificates and that the auditor is provided with a complete set of the documents necessary for the audit certification.

In addition to the normal supporting documents needed to perform the required testing procedures, the following documents serve as a basis for certification. The list is not exhaustive.

- Grant agreement signed between the beneficiary and the Commission including eventual amendments and its Annexes i.e. Annex I 'Description of Work' and

Annex II ‘General Conditions’ (in particular, part B of Annex II sets out the financial provisions), Annex III (Integrated Projects, Networks of Excellence, Infrastructures, SMEs and Civil Society Organisations) and Annex VII – Forms D and E;

- ‘Guide to Financial Issues relating to Indirect Actions of the Seventh Framework Programmes’. As mentioned above these guidelines have been designed to help both beneficiaries and auditors to understand the financial provisions of the FP7 model grant agreement;
- The present guidance notes.

PART I: CERTIFICATES ON THE METHODOLOGY

1. REASONS FOR INTRODUCING THE CERTIFICATION ON THE METHODOLOGY

Experience with past framework programmes has evidenced that the main sources of errors in the costs claimed by beneficiaries relate to the personnel costs and indirect costs, often calculated according to a methodology which does not conform to the grant agreement provisions.

The objective of the certification on the methodology is to promote the use of correct methodologies by beneficiaries when calculating personnel costs and indirect costs, in particular in those cases when average costs for personnel are claimed. This way, the expected error rate detected by Commission services after, for example, an ex-post audit should be limited. This should therefore reassure the beneficiaries that the methodology they use will not be contested in case of revision of the cost claims once payments have been received or during an audit ex-post, thus limiting the risk of being addressed recovery orders.

With the view of simplifying and reducing administrative burden for beneficiaries, beneficiaries receiving approval from the Commission on their certified methodology for both personnel and indirect costs will not have to submit certificates on financial statements for interim payments. In addition, the final certificate on financial statements will be prepared by the auditors by verifying, for personnel and indirect costs, only the compliance with the declared methodology, and for the other costs (such as travel, equipment, etc) the actual costs, thus adding simplification to the audit work performed. This should also contribute to the reduction of the cost of the certification system as a whole and in particular for beneficiaries participating in several grants agreements.

The ideal target for the provision of this kind of certification is typically beneficiaries of multiple grants which have an established methodology for calculating their rates.

As the certification of the methodology, once approved, is intended to be valid throughout the whole FP7, it is clear that beneficiaries participating in several grants will benefit from this exercise.

It should be noted that those beneficiaries who intend to claim average costs for personnel must provide a certificate on the methodology used to calculate averages. The beneficiary will be permitted to claim average costs only if the certified methodology is approved by the Commission. Beneficiaries that do not have a sound control system in place which ensures that average costs are calculated in conformity with the contractual provisions should not opt to declare average costs but should claim individual actual costs.

2. ADVANTAGES OF THE USE OF THE CERTIFICATION ON THE METHODOLOGY

WITHOUT CoM/CoMAv	WITH CoM/CoMAv
No use of average costs for direct personnel costs	Use of average costs for direct personnel costs allowed: all beneficiaries who intend to declare average personnel costs must have a certified methodology approved by the EC (see Art. II.14 of the ECGA)
Individual calculation of actual costs for personnel audited	No recalculation of individual actual costs for personnel in the certificate on the financial statements for the final payment or during ex-post audit
Errors in costs claimed are detected when processing payments or during ex-post audits	Early detection and corrections of possible errors in personnel and indirect costs claimed
No certainty that the methodology used by the beneficiary to calculate their claims is conforming to the provisions of the GA	Early assessment of compliance to contractual provisions of methodology applied to calculate personnel and indirect costs
Without CoM, one CFS to be submitted for each interim payment exceeding 375000 € when cumulated with all previous payments for which a certificate on the financial payments has not been submitted (except if the project duration is less than two years; in that case, only at the end)	Waiving of interim CFS only with CoM
CFS valid only for the relevant costs claimed	CoM/CoMAv valid throughout all FP7 projects
	With CoM, reduced costs for the whole certification system
	With CoM, simplification of administrative burden both for beneficiaries and EC operational services (less number of certificates to provide/process)

3. SCOPE AND CONTENT OF THE CERTIFICATE ON THE METHODOLOGY

The certificate on the methodology is issued by the external auditor (or the competent public officer) to the attention of the beneficiary (not to the attention of the Commission).

The auditor undertakes this engagement in accordance with the terms and references of Form E - Annex VII (hereinafter "ToR") and:

- in accordance with the International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- in compliance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) of IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the European Commission requires that the Auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.

The auditor should plan the work so that an effective analysis of the methodology can be performed. For this purpose he performs the procedures specified in 1.9 of the ToR ('Scope of Work – Compulsory Report Format and Procedures to be performed') and he uses the evidence obtained from these procedures as the basis for the Report of factual findings.

The work which has to be performed by the auditor will be further detailed in Part II of these guidance notes.

4. FORM OF THE CERTIFICATE ON THE METHODOLOGY - ANNEX VII

Use of the reporting format attached as Annex VII (Form E) of the model grant agreement by the external auditor or competent public officer is compulsory.

The certificate must be signed (signature and stamp or seal) and dated by the external auditor (or competent public officer).

Annex VII has to be filled in by the beneficiary and by the auditor.

With respect to the language of the certificate on the methodology, Article 4 of the FP7 model grant agreement states that "Any report and deliverable, when appropriate, required by this grant agreement shall be in [*insert language*]". Therefore, the report of factual findings on the methodology should be written in the language indicated in Article 4 of the grant agreement.

5. SUBMISSION OF THE CERTIFICATE ON THE METHODOLOGY

5.1 Steps to be followed

STEPS	Certificate on the methodology for both personnel and indirect costs (CoM)	Certificate on the methodology for average personnel costs (CoMAv)
1. Request to the EC	Beneficiaries who consider to meet the below criteria (point 5.2) may send a request to the EC, only by electronic mail to XXXX (functional mailbox), containing the contract numbers (FP7 and/or FP6) in which they participate. WHEN: at any time during the lifetime of FP7	No request is required as the certificate is mandatory in case of use of average personnel costs
2. Acceptance/rejection of the request by the EC	Within 30 calendar days (possible extension of time-limit).	
3. Submission of the certificate	Possible only in case of acceptance (see steps 1 and 2) by EC. WHEN: at any time during the implementation of FP7 and at the earliest after the start date of the project of the first ECGA signed by the beneficiary under FP7. It should be noted that the auditors need a sound basis to carry out their procedures (e.g. a pro-forma statement of costs) and that the certified methodology must be the one which is used for FP7 projects. HOW: This certificate can be	WHEN: at any time during the implementation of FP7 and at the earliest after the start date of the project of the first ECGA signed by the beneficiary under FP7. It should be noted that the auditors need a sound basis to carry out their procedures (e.g. a pro-forma statement of costs) and that the certified methodology must be the one which is used for FP7 projects. As average personnel costs

	<p>introduced only by electronic mail to the following functional mailbox [XXXX]</p> <p>IN WHICH FORM: in the form of a report of factual findings as foreseen in the ECGA (Annex VII to ECGA, Form E).</p>	<p>can be used only if the methodology is approved by the Commission, it is recommended to submit the certification as soon as possible.</p> <p>HOW: This certificate can be introduced only by electronic mail to the following functional mailbox [XXXX]</p> <p>IN WHICH FORM: in the form of a report of factual findings as foreseen in the ECGA (Annex VII to ECGA, Relevant part of Form E).</p>
4. Acceptance/rejection of the certificate by the EC	Within 60 calendar days (possible extension of time-limit)	Within 60 calendar days (possible extension of time-limit)

5.2 Specific provisions for the Certificate on the methodology for both personnel and indirect costs

5.2.1 Criteria for submission of the CoM

The submission of this type of certificate is entirely optional. According to the provisions of the model grant agreement (Article II.4.4), the Commission may at its sole discretion accept this submission. In addition, this certificate is foreseen for beneficiaries with multiple participations according to the Implementing Rules to the Financial Regulation⁶.

Therefore, only **those beneficiaries having participated in multiple grant agreements under FP7** are entitled to submit a CoM. In view of the waiver to which the certification entitles beneficiaries (see point 5.2.2), the Commission will set up the threshold defining the number of participations in FP7 a beneficiary must have in order to be considered a multiple beneficiary after a first assessment based on historical criteria for FP6. This preliminary assessment is conducted in a way to help multiple beneficiaries take advantage of the certification on the

⁶ Commission Regulation N° 478/2007 of 23/04/2007 amending Regulation N° 2342/2002 laying down detailed rules for the implementation of Council Regulation N° 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities, OJ 28/04/2007, L 111/13.

methodology as soon as possible during their participation in FP7. Therefore, as a transitional measure, **beneficiaries who have participated in at least 8 contracts under FP6** with an EC financial contribution for each of them equal or above 375000 € can submit a request for certification of their methodologies for both personnel and indirect costs, as from their first participation under FP7.

These guidance notes will be updated with the threshold relating to FP7 participations in the course of 2008.

5.2.2 Consequences of the acceptance and use of the certificate on the methodology for both personnel and indirect costs:

- **Intermediate CFS for claims of interim payments:** the requirement shall be waived from the date of the notification to the beneficiary of the acceptance of the certificate by the Commission.
- **CFS for the final payment:** beneficiaries, if cumulatively with previous periods, their EC contribution is superior to EUR 375,000 will only have to submit a CFS for the final payment. This CFS will cover the eligible costs for the total EC contribution, including personnel and indirect costs. However, for personnel and indirect costs, the auditors will only have to focus on checking compliance with the certified methodology and systems, omitting individual calculations.
- **Validity of the certificate:** Once the certificate is accepted, it will be valid for all subsequent financial statements submitted by the same beneficiary under the FP7 unless the beneficiary's methodology changes or if an audit or other control performed by the Commission services or on its behalf demonstrates that the methodology certified can no longer be maintained in its present form. The beneficiary has to declare to the Commission any change in its methodology, including the date of the change. In case of change, a new certificate on the methodology has to be submitted, according to the same procedure as under point 5.1 above. Until the acceptance of this new certificate, the requirement to provide intermediate CFS will not be waived. A beneficiary that has been guilty of making false declarations or has been found to have seriously failed to meet its obligations under this grant agreement shall be liable to financial penalties according Article II. 25 of ECGA.

5.2.3 Consequences of the rejection by the Commission:

In case the certificate cannot (yet) be accepted a motivated decision will be communicated to the beneficiary. The beneficiary will be invited to submit another certificate on the methodology which is compliant with the requirements of the Commission. Until the acceptance of the certificate on the methodology, the requirement to provide intermediate certificates on the financial statements is not waived.

5.3 Specific provisions for the Certificate on the methodology for average personnel rates

5.3.1 *Consequences of the acceptance and use of the certificate on the average personnel costs:*

- **Costs claimed:** The beneficiary may declare average personnel costs. Average personnel costs charged by this beneficiary according to the certified and accepted methodology are deemed not to significantly differ from actual personnel costs.
- **Intermediate CFS for claims of interim payments:** the certification on the average personnel costs does not waive the obligation to provide an intermediate CFS (whenever the EUR 375,000 threshold is reached) unless a complete certificate on the methodology on both personnel and indirect costs has been submitted.
- **CFS:** Concerning personnel costs, the auditors will only have to focus on checking compliance with the certified methodology and systems omitting individual calculations. For the costs not covered by the certificate on the methodology the auditors will check the actual costs.
- **Validity of the certificate:** Once the certificate is accepted, it will be valid for all subsequent financial statements from the same beneficiary submitted under FP7 unless the beneficiary's methodology changes or if an audit or other control performed by the Commission services or on its behalf demonstrates that the certification can no longer be maintained in its present form. The beneficiary has to declare to the Commission any change in its methodology, including the date of the change. In case of change, a new certificate on the average personnel costs has to be submitted, according to the same procedure as under point 5.1 above. Until the acceptance of this new certificate, the beneficiary cannot charge average personnel costs. A beneficiary that has been guilty of making false declarations or has been found to have seriously failed to meet its obligations under this grant agreement shall be liable to financial penalties according Article II. 25 of ECGA.

5.3.2 *Consequences of the rejection by the Commission:*

In case the certificate cannot (yet) be accepted a motivated decision will be communicated to the beneficiary. The beneficiary will be invited to submit another certificate on the methodology which is compliant with the requirements of the Commission. Until the acceptance of the certificate on average personnel costs, the beneficiary cannot charge average personnel costs.

ANNEX 1: FREQUENTLY ASKED QUESTIONS

This annex is part of an evolving document and will be updated whenever necessary to reflect new issues and feedback from its users and the knowledge gained through practice.

1. GENERAL ISSUES

#	TOPIC:	QUESTION:	ANSWER:
1.	Competent public officer	How does a public body establish the legal capacity of the internal audit unit to act as competent public officer?	<ul style="list-style-type: none"> - Relevant national authorities establish the legal capacity of the internal audit unit (of a given public body) to act as competent public officer. - Although it not compulsory, based on good practice, it is recommended this be notified by a letter to (and subsequent letter of acknowledgement of receipt from) the relevant research DG.
		Can the competent public officer be a staff member of the auditee organisation, as long as they are not closely involved in the grant agreement activity?	<ul style="list-style-type: none"> - Yes, the competent public officer can be a member of staff but their independence has to be established by the relevant national authorities.
		<p>How do we demonstrate that the competent public officer is completely independent of the grant agreement activity - scientifically, administratively and financially?</p> <p>Do we have to name the competent public officer to the Commission in advance of a financial statement?</p> <p>Is an internal auditor of an International Organisation⁷ eligible to deliver certificate on the financial statements to that organisation?</p>	<ul style="list-style-type: none"> - An organigram and/or a job description of the organisation can show that the competent public officer is not involved in processing the financial claim. Internal audit officers usually have this independence. - No, the name of the competent public officer does not need to be given in advance. - International organisations are treated as public bodies for the purposes of FP7. Accordingly, such organisations can opt for an Internal Auditor. - N.B.: An internal auditor for a public body must meet the criteria described in the Guide to Financial Issues

⁷ 'International organisation' means an intergovernmental organisation, other than the Community, which has legal personality under international public law, as well as any specialised agency set up by such an international organisation.

		Would it be possible for the internal audit service to present an invoice for the service to the department which could be charged to the project? Would this cost be eligible?	<ul style="list-style-type: none"> - The principle of using a public competent officer within the same organisation to prepare the certificate on the financial statements means that the real costs of carrying out that work would be eligible. - It is not possible to charge a market price (profit) for work carried out by the same beneficiary within the ECGA
2.	Certificate on the financial statements and on the methodology template	Are the model certificates on the financial statements and on the methodology provided in the FP7 Model Grant agreement binding?	<ul style="list-style-type: none"> - YES, reference to annex VII, Forms D and E.
3.	Qualifications of auditors	Is it possible for an auditor (that is properly authorised to issue certificate on the financial statements in an EC country) to certify the costs of a beneficiary located in a different country?	<ul style="list-style-type: none"> - Yes. - Auditors that are qualified to provide a certificate on the financial statements in one member state are qualified to provide a certificate on the financial statements in all Member States.
4.	Cost	<p>How much should a certificate on the financial statements cost?</p> <p>Is there an upper limit to the cost of a certificate on the financial statements?</p>	<ul style="list-style-type: none"> - The cost of a certificate on the financial statements is determined by the professional judgment of the auditor, who must find the right balance between carrying out the procedures requested and on the other hand, the amount of work required (and the directly related price according to market prices). - The cost of a certificate on the financial statements depends on the auditor and the testing procedures to perform. - Generally there is no upper financial limit set for the certificate itself. As any other subcontract the costs have to reflect a reasonable market price and the general eligibility criteria of the grant agreement (Art II.14).
5.	Selection of audit firm	<p>To which activity should the cost of the certificate on the financial statements and/or on the methodology be charged?</p> <p>Should the statutory auditor provide the certificate on the financial statements and/or on the methodology?</p>	<ul style="list-style-type: none"> - The cost of the certificate(s) is to be charged to the management of the consortium activity, which is part of the "other activities". - The Commission will not pay the cost of building up the methodology. The eligible cost is limited to the performance of the agreed upon procedure (Annex VII) with the exclusion of any costs relating to consultancy for improvement or refinement of the methodology. - The advantage of using the statutory auditor (the same auditor of the beneficiary's annual financial statements) to provide the certificates is that they are familiar with the in-house

			procedures, which is one of the aspects reviewed.
6.	Language of certificates	<p>Is there a contradiction in using the statutory auditor? If the external auditor already audits the beneficiary's financial statements and/or provides other services such as tax, consulting etc. does this not restrict the auditor's independence, in as much as there is an "economic" link between the two parties?</p> <p>In what language should the certificates be provided</p>	<ul style="list-style-type: none"> - There is no contradiction. - Beneficiaries may use their statutory auditors, provided that they are independent. The fact that the beneficiary usually uses the same auditor need not affect the independence of the latter. - The certificates should be in the language indicated in Art.4 of the grant agreement.

2. SPECIFIC ISSUES RELATED TO CERTIFICATES ON THE METHODOLOGY

1.	Validity of a certificate	What happens when the beneficiary changes his methodology?	- Please see point 5.2.2 above.
2.	Final certificate	What happens at the level of the final certificate on financial statements when the certificate on the methodology has been accepted by the EC?	- This certificate on the financial statement has to cover all the eligible costs including personnel and indirect costs. However, for these costs (personnel & indirect costs) the auditors will only check compliance with the certified methodology. Individual recalculations and adjustments will not be performed.
3.	Scope of the CoM	Does the CoM have to cover both personnel costs and indirect costs, even if an institution does not use average personnel costs?	- YES, for complete certification and waiving of interim CFS