IAS audit on DGs' RTD and INFSO Control Strategy – On-the-spot controls and Fraud prevention and detection: Draft scoping document

Context

- Out of a total FP7 budget of some € 50 billion DGs RTD and INFSO manage some € 34 billion and € 10 billion respectively (including executive agencies and joint undertakings). In 2010, RTD payments on FP7 were €3.19billion and €0.75billion on FP6. INFSO payments were €1.23billion on FP7, €0.16billion on FP6 and €0.15billion on non-research programmes.
- Both DGs have made reservations in recent years on the rate of residual errors on the accuracy of cost claims in FP6, but none are proposed for 2010 in view of the decreasing error rate. The ECA assesses the most likely error rate for the Research, Transport and Energy policy areas to be between 2% and 5%, and considers the control systems concerning ex-post audits of the research framework programmes to be effective.
- On the spot controls constitute one of the main pillars of the DGs' control strategies for managing their programmes.
- In 2006 the IAS issued an adverse audit opinion on the ex-post controls systems in DG RTD and INFSO. Since then both DGs have invested heavily in strengthening the function, particularly through a common FP6 and FP7 audit strategy, increasing of the number of audits carried out and better coordination within the Research family. DGs RTD and INFSO have closed 365 and 180 audits respectively during 2010.
- Article 28a of the Financial Regulation states that for the purposes of the implementation of the budget, prevention and detection of fraud and irregularities is one of the internal control components and Article 60 clearly states that the overall responsibility for implementing internal control systems and for preventing fraud and irregularities lies with the authorising officers.
- Following the 2009 IAS audit on the design of FP7 controls, which recommended that both DGs develop fraud prevention and detection strategies and the Commission's increased focus on fraud prevention and detection, DGs RTD and INFSO have indeed developed such strategies
- Originally, the IAS planned as part of its 2010-2012 strategic audit plan to undertake separate audits on the on-the-spot controls systems and on fraud prevention and detection arrangements. However, as part of its annual updating of the strategic plan we are proposing to combine the two audits, given the related subject matter and in order to reduce the audit burden on the DGs in 2011 (avoiding back-to-back audits in both DGs). The audits will make a key contribution to the IAS' 2011 overall opinion on the Commission's internal control systems which will be delivered in 2012.

General audit objectives

Control strategy - on-the-spot controls: To assess the internal controls underpinning the DGs' on-the-spot controls processes, focussing particularly on;
- the on-the-spot audit strategy and planning processes for ex-ante, interim and ex-post audits;
- the methodology, guidelines and procedures and coordination with the other research DGs and executive agencies;
- implementation/execution of the audit plan by the ex-post audit units directly and by the external audit firms (outsourced audits);
- monitoring and reporting arrangements;

- monitoring the effectiveness of the independent assurance or agreed-upon-procedures
- measures to ensure the quality of the work undertaken;
- the follow-up given to audit results including the monitoring and implementation of corrective actions such as extrapolation of systemic errors, application of sanctions and implementation of adjustments.

Fraud prevention and detection: To assess the adequacy and effective application of the fraud governance, risk management and internal control processes for fraud prevention and detection, focussing particularly on;

- *Control environment*
  Codes of conduct, ethics policy and ethical guidelines; measures to address ethical/fraud issues or problems in the DG.
- *Risk assessment*
  Fraud risk assessments; Fraud response plan (retention, avoidance, reduction, transfer); Risk management action plans.
- *Control activities*
  Prevention and detection of conflict of interest in the grant management process; use of red flags/fraud indicators in the grant management process and financial circuit; segregation of duties; management supervision; ex-post control function; effective and appropriate follow-up of audit recommendations; coordination with OLAF.
- *Information and Communication*
  Management and staff appropriately informed; Encouragement of staff to communicate potential fraud risks; Training provided to staff to reinforce values, code of ethics and expectations; Management scoreboards (or equivalent tools);
- *Monitoring*
  Specific procedures and monitoring arrangements; Automated tools for data mining.

Audit approach

System analysis of the selected processes to identify the key controls and then detailed testing of their effective implementation. To include testing of samples of audit files, follow-up action given to audit findings/recommendations and files at different phase of the grant management process and financial circuit in order to test the use of fraud indicators, preventive/detective controls and the extent to which there is feed-back of on-the-spot controls into ex-ante controls, etc.

Scope

On-the-spot control systems to the extent they cover FP6, FP7, other programmes managed by RTD (Research Fund for Coal and Steel) and non-research programmes managed by DG INFSO
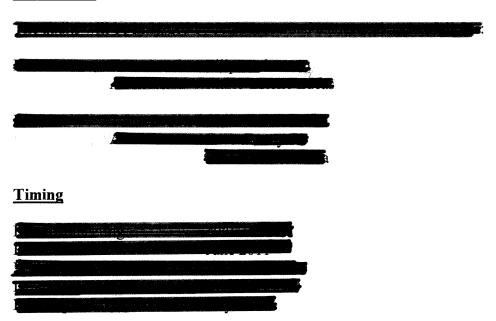
The REA, ERCEA and the Joint Undertakings are not included in the scope of the audit.

Cooperation with IACs and ECA

As foreseen in the joint IAS/IAC strategic planning exercise for the 2010-12 period, we have coordinated plans where possible and will take due account of the work done by the respective RTD and INFSO IACs. Coordination with the ECA will be ensured in order to minimise overlaps, in particular concerning the on-going ECA audits in the framework of

DAS 2010 on the ex-post audit function and on the ex-ante certification of costing methodologies.

Audit teams

Timing

7 March 2011