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COMMUNICATION FROM THE COMMISSION

Report to the discharge Authority summarising the number and types of internal audits carried out in 2002, the main recommendations made and the action taken on those recommendations

(Article 86, 4 of the Council Regulation N° 1605/2002)

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1. INTRODUCTION

This summary report is communicated to the discharge Authority in accordance with Article 86, 4 of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

Its purpose is to present the number and type of internal audit carried out, the main recommendations made and the action taken on those recommendations.

2. OVERVIEW OF THE INTERNAL AUDITS AND FOLLOW-UP CARRIED OUT

In 2002, according to its work programme, the Internal Auditor has carried out the following audits:

- Process Review on the Annual Activity Reports and Declarations of Authorising officers by delegation relating to 2001,
- Audit of Training in the Commission,
- Audit of follow-up to the discharge procedure,
- Audit of DG REGIO (In-depth audit),
- Audit of Recoveries of Overpaid Funds,
- Implementation of the Structural Funds in the Candidate Countries (Management Letter),

2.1. - Follow-up of previous audits

- Reform progress Review,
- Building Infrastructure Management,
- Procurement of Studies and Services,
- Governance Review of Programme Management in the External Relations Field,
- EDF Counterpart and Budgetary Support,
- Berlaymont Refurbishment.

3. SUMMARY OF EACH AUDIT

3.1. Process Review on the Annual Activity Reports and Declarations of Authorising officers by delegation relating to 2001

This process audit has been carried out at the same time as the Synthesis of the Annual Activity Reports on 2001 was prepared and its recommendations have been taken into account in the Synthesis. The aim was to establish a view on the strengths and weaknesses of the reports and declarations and to draw lessons for the future.

Recommendations

The recommendations focus on an increased attention of the services to better report on results and outcome, to give a more detailed description of the internal control systems in place and the necessity to clarify methodology and the role of the actors involved.

Actions taken

The methodology and guidance have been improved in particular with two Commission decisions of 21 January (COM(2003)28 and SEC(2003)59).

3.2. Audit of training in the Commission

The training audit looked at the organisation and provision of training in Brussels and Luxembourg sites, providing examples of best practices outside the Commission.

Recommendations

IAS recommended improving the overall training ownership and strategy to better meet the Institution's needs and priorities and enhancing control over out-sourced training provision to be achieved by developing centralised financial records and supplier reporting.

Actions taken

The Commission has adopted a post-Reform training strategy that should enable the priority needs defined through the Activity Based Management approach to be taken into account.

3.3. Audit of Follow-up to the discharge procedure

The aim of the audit was to recommend improvement in the follow-up to the Discharge procedure by the Commission.

Recommendations

The audit report recommends setting up an interinstitutional strategy for the Discharge procedure, a method of measuring effectiveness of controls, an understanding of reputational risk for the Union, a system of reporting on action taken and the improvement of the central ownership on the process within the Commission.

Action taken

The technical issues have been further developed and the responsibility of the actors concerned in the Commission has been clarified in a Commission decision of January 2003.

3.4. In-depth audit in DG REGIO

The audit's objective was to better identify the risk and control profile of the DG within the context of the Commission as a whole. The audit focused on the three following areas: the implementation of the financial control provisions for the European Regional Development Fund, the process of interpreting Regulations and the reporting systems.

Recommendations

IAS recommended focusing audits on the preventive checks, and to introduce Member States disclosure statements, while enhancing the co-operation with the Member States on control issues. It also proposes to build further on the improved regulatory framework regarding management and control and finally to increase the advisory role of the desk officer.

Action taken

DG REGIO has already developed an audit strategy, re-organised the audit and control units and prepared proposals to improve co-operation with Member States in the perspective of the single audit concept (“contract of confidence”).

3.5. Audit on recovery of Overpaid Funds

The aim of this audit was to gain better understanding of the particular mechanisms of interdepartmental processes and support the ongoing reform process in the area. It concentrated on recovery of unduly paid funds in the field of direct management and in the European Development Fund.

Recommendations

IAS recommends to develop an oversight and leadership role for the recovery systems, a harmonised approach for the treatment of recovery orders, central monitoring and guidance and improvement of the IT-tools concerned.

Action taken

The regulatory framework has been changed and the Commission had already adopted some remedial management action as part of the Reform action plan. This is now being reviewed for completeness.

3.6. Implementation of the Structural Funds in the Candidate Countries (Management Letter)

Based on a study on structural aid management launched early in 2002, IAS issued a management letter to draw the attention of managing departments to the question of the administrative capacity of the candidate countries and the requirements in terms of human resources to carry out the tasks before and after enlargement.

Recommendation and action taken

The DGs concerned had already taken certain initiatives to address identified problems and mitigate risks, for instance by the careful planning of the programming process for the new Member States, close monitoring of the commitments, EDIS exercise and Structural Funds management simplification. Additional assistance has been decided to strengthen the administrative capacity of the future Member States (Transition Facility). Difficult trade-offs remain however in the allocation of resources within the Commission staff availabilities.

3.7. Follow-up of previous audits

Summary

IAS internal audit report highlights the necessity to further develop follow-up procedure and stresses the responsibility of management in the follow-up of the audit recommendations and corrective actions.

Action taken

The services sent from end January 2003 their action plan in response to the audits performed to date by IAS. The Commission adopted a decision in January 2003 on the role and responsibility of the actors in control and audit.

Within the available resource limits, IAS will schedule follow-up work in selected areas.

3.8. Reform Progress Review

This audit dealt with the way in which DGs were progressing with reform actions.

Recommendations

IAS highlighted the need for continuing impulsion from a steering group and the need for adequate resources.

Action taken

The ABM Steering Group mandate has been extended to integrate the whole scope of the administrative reform and the use of posts released by the early retirement scheme has been assigned in priority to reform-related needs.

3.9. Building Infrastructure Management

Summary

This audit aimed at making the state of play of the infrastructure management.

The Commission's proposal for recasting the Financial Regulation would have addressed some of the necessary remedial action but the Budgetary Authority has rejected the proposal to allow access to direct borrowing.

A specific Commission communication due in 2003 will introduce the idea to examine the buildings and logistic consequences before deciding on departments' restructuration.

Two new infrastructure offices have been created that will allow to clarify and rationalise activities and responsibilities.

3.10. Procurement of Studies and Services

Summary

The follow-up to the audit in question is still in progress and all DGs are currently communicating to the Secretarial General the actions they plan to improve and optimise the use of studies and services already delivered and better co-ordinate the programming to avoid duplication.

3.11. Governance Review of Programme Management in the External Relations field

Summary

IAS proposed in its report in particular to review the structure of Relex service and to use the country disclosure statements for the external aid.

Action taken

An interservices working group has been set up and has produced a report as follow-up to an action of the 2001 Annual Activity Reports synthesis addressing the same issue. The report has been sent in April to the Audit Progress Committee for further development.

3.12. European Development Funds Counterpart Funds and Budgetary Support

Summary

On the basis of the IAS report, a number of concrete measures have been implemented by DG AIDCO as development of guidelines, filing systems and monitoring tools and enhanced co-operation with other donors. The IAS recommendations will be reviewed together with the in-depth review of DG AIDCO.

3.13. Berlaymont Refurbishment

Summary

Based on the IAS recommendations presented in the report on the renovation and potential acquisition of the Berlaymont, a number of actions have been implemented as the elaboration of detailed scenarios as to costs for comparable projects and re-enforcement of the management structure for the remainder of the current project.

The new Office for infrastructure in Brussels is now responsible for the follow-up of the recommendations. A convention has been signed between the Commission and the Belgian State setting a price for the Berlaymont that takes the sound management of the renovation into account, stating a date of availability and defining the final product.

4. CONCLUSIONS

This report has been elaborated to present to the discharge Authority a summary of the number and types of internal audits carried out in 2002, the mains recommendations made and the action taken on those recommendations.