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Annual Report of the Internal Audit Service of the European Commission for the year 2014

BOARD OF GOVERNORS

Meeting on 15, 16 and 17 April 2015 – Prague (Czech Republic)



EUROPEAN COMMISSION
INTERNAL AUDIT SERVICE

Director-General
The Internal Auditor

Brussels,
IAS.A2/PT/RvdZ/RV/jd - Ares(2015)

NOTE FOR THE ATTENTION OF
MR K. KIVINEN, SECRETARY GENERAL OF THE EUROPEAN SCHOOLS
BOARD OF GOVERNORS OF THE EUROPEAN SCHOOLS
VIA ITS CHAIRPERSON MR L. TEPLY

Subject: Annual Internal Audit Report 2014

Please find enclosed the IAS Annual Internal Audit Report, under Article 22(4) of the Financial Regulation applicable to the budget of the European Schools (FR).

We draw your attention to the fact that three very important recommendations are open and overdue in relation to the implementation target set by the European Schools. These relate to "Standard structure of staff files", "Coherent staff evaluation procedures" and "Ex-post controls"¹.

Moreover, the section 3.3.4 of the report summarises the main residual risks and highlights that as at 31/12/2014 not all functional requirements (such as the automatic link between the accounting software and the payment system) of the newly developed accounting software were implemented, which may result in misuse of funds.

The IAS would like to take this opportunity to remind that, according to Article 22(3) of the FR, the Board shall ensure that action is taken on recommendations resulting from audits.

Philippe Taverne

Encl.: Annual Internal Audit Report 2014

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¹ For further details on these three recommendations, please see section 3.3.3 of the attached report



EUROPEAN COMMISSION
INTERNAL AUDIT SERVICE

Audit in EU decentralised agencies and autonomous bodies

*IAS Operations**

Annual Internal Audit Report for 2014

Under Article 22(4) of the Financial Regulation, applicable to the budget of the European Schools

European Schools (ES)



25 February 2015

This report is addressed to
Mr K. Kivinen, Secretary General of the European Schools
Mr L. Teply, Chairperson of the Board of Governors of the European Schools

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1. INTRODUCTION

Article 22(4) of the Financial Regulation applicable to the budget of the European Schools provides that *"An annual audit report shall be established by the end of February of the year following the financial year concerned, as specified in the implementing rules referred to in Article 105, and shall be addressed for the attention of the Board of Governors which shall communicate it to the Court of Auditors."*

The relevant implementing rules stipulate that *"The internal auditor shall submit to the Board of Governors the annual internal audit report provided for in Article 22(4) of the Financial Regulation, indicating the number and type of internal audits carried out, the principal recommendations made and the action taken on those recommendations."*

The function of the Internal Auditor of the ES is entrusted by a Service Level Agreement (SLA) signed between the Board of Governors of the European Schools (BOGES) and the Internal Audit Service (IAS) of the European Commission on 25/07/2007 and last renewed for a three-year period from 1 July 2014.

This report provides an overview of the audit activities conducted in 2014 in the European Schools (hereinafter referred to as "ES") by the IAS and highlights the key recommendations.

2. PROFESSIONAL ENVIRONMENT

2.1. Purpose, authority and responsibility¹

The purpose, authority and responsibility of the internal audit activity in the ES are formally defined in the SLA signed between the BOGES and the IAS.

2.2. Professional Framework²

The IAS recognises the mandatory nature of the definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (the Standards) promulgated by the Institute of Internal Auditors, which together form the International Professional Practice Framework.

The internal audit activity in the ES performed by the IAS is in conformance with the International Professional Practice Framework, as certified by the 2011 external quality assessment.

2.3. Independence and objectivity³

The Internal Auditor confirms that in 2014:

- He preserved the full organisational independence necessary to effectively carry out the responsibilities of the internal audit activity, in particular through the dual reporting relationship to the BOGES and the Secretary-General of the ES and through the direct and unrestricted access he has to

¹ International Standard 1000 for the Professional Practice of Internal Auditing

² International Standard 1010 for the Professional Practice of Internal Auditing

³ International Standards 1100 and 1110 for the Professional Practice of Internal Auditing

the Office of the Secretary-General (OSG) and the individual European Schools (type I);

- The internal audit work in the ES was free from interference in determining the scope of internal auditing, performing work and communicating results; and
- There was no impairment to individual objectivity, in particular through conflict of interest, scope limitations, restrictions on access to records, personnel and properties, or resource limitations.

2.4. Audit plan and resource management⁴

According to the SLA concluded between the BOGES and the IAS, the BOGES provides the necessary appropriations at the disposal of the IAS for one Contract Agent FGIV from 01/08/2007 until the end of the mandate.

In line with its Strategic Internal Audit Plan (SIAP) 2013-2015⁵, the IAS carried out the following engagements in 2014:

- Finalisation of the Consulting Engagement on the Management and Monitoring of Working Groups in the European Schools
- Consulting Engagement on the Management of the Project on the Implementation of a Financial Management and Accounting Software in the European Schools
- Finalisation of the follow-up of all open recommendations from prior audit engagements
- Update of the SIAP, which resulted in a new SIAP covering the period 2015 – 2017⁶

In addition, the IAS participated in several meetings and provided advice on the update of the Financial Regulation applicable to the budget of the ES.

3. THE INTERNAL AUDIT ACTIVITY IN 2014

3.1. Finalisation of the Consulting Engagement on the Management and Monitoring of Working Groups in the European Schools

3.1.1. Objectives

The objective of this consulting engagement was to identify ways of improvement of the process of management and monitoring of the Working Groups (WGs) to ensure that they effectively achieve their annual/multi-annual objectives and plan their resources in an efficient way.

3.1.2. Scope

The engagement considered the following sub-processes:

- The creation of WGs;
- The planning and budgeting of WGs - as regards the budget, the engagement took into consideration only the budget share managed by the OSG;

⁴ International Standards 2020 and 2030 for the Professional Practice of Internal Auditing

⁵ Ares(2013)508205

⁶ Ares(2014)3948612

- The monitoring and reporting of WGs;
- The evaluation of WGs.

The analysis of the WGs focused exclusively on processes rather than on the content of the deliverables produced by the WGs.

3.1.3. Conclusions

Although most WGs reach or partly reach their objectives as set out in their mandate and generally organise their work in an effective way, there is neither a common and clear framework for the management of all WGs, nor a strong project management culture. In practice, the WGs' working methods are very heterogeneous.

For some WGs, there are no work plans with tasks and resources allocation, deadlines or assignment of responsibilities. In addition, there are no pre-established progress/performance indicators that would allow proper monitoring.

Nevertheless, the IAS recognises the commitment and on-going efforts of the Pedagogical Development Unit (PDU) staff to keep track effectively of the status of pedagogical WGs. Planning and budgeting documents and reports have been issued, including statistics on costs evolution and on the number of meetings. Good monitoring instruments are used for certain WGs (e.g. the “Fiche signalétique”).

3.1.4. Next steps

This consulting engagement identified five principal areas for improvement, which in line with IAS' practices will not be formally followed-up by the IAS. Nevertheless, the OSG and the BOGES are strongly encouraged to take into account the areas for improvement suggested by the IAS.

3.2. Consulting Engagement on the Management of the Project on the Implementation of a Financial Management and Accounting Software in the European Schools

3.2.1. Objectives

The objective of this consulting engagement was to assess the adequacy of the internal control systems, risk management and governance processes related to the management of the project on the implementation of the new accounting software in the ES and the OSG. More specifically, the objective was to identify gaps between the current project management process and best practice, where relevant to the OSG.

3.2.2. Scope

The scope of this engagement focused mainly on the project management process and its sub-processes, such as:

- **Initiation** - project charter, identification of stakeholders.
- **Planning** - collecting requirements, developing the project work plan, scope definition, activities and milestones definition, developing schedules, planning procurement, risks identification, allocation of human and financial resources.
- **Execution** – monitoring of contractors, management of stakeholders' expectations, performing quality assurance, managing the project execution and deploying the solution in the ES.

- **Monitoring and control** - quality control, monitoring and control of project work, cost, schedule, risks, procurement, and performance reporting.
- **Closure** - project closure, finalisation of procurement.

The following points were out of scope:

- Choice and cost of the solution: due to the lack of a documented business case and cost/benefit analysis, the IAS was not able to include this point in the scope of the audit.
- Procurement procedure, including the choice of the supplier, and underlying contracts concluded between the OSG and the external contractor: the Court of Auditors is examining the procurement process.

3.2.3. Conclusions

The engagement showed that although the ES do not have a formal Project Management Framework in place, the current⁷ progress of the IT Project is in line with the initial Project Charter prepared by the external contractor. Nevertheless, the IAS identified a number of emerging risks which require mitigation to ensure the successful finalisation of the project. This includes a number of tasks and/or deliverables which still need to be finalised.

The IAS believes that the most important critical success factor for the current project is the preparation of a detailed, formalised and personalised planning of outstanding tasks for the project team of the ES. This will also help to assess the current capacity of the ES and to provide the basis for informed decisions by the management.

The ES should also consider the implementation of a formal Project Management Framework for complex projects in order to increase the likelihood of success and to become more efficient.

Finally, the IAS identified room for improvement in the following project management areas which the ES should take into consideration in future projects:

- Project Governance
- Justification of needs, initiation and planning
- Project execution
- Project monitoring.

3.2.4. Additional information and next steps

It should be noted that between the date of the final report and this report, the new software has been deployed in all European Schools (Type I) as well as in the OSG. Nevertheless, not all functional requirements, such as the automatic link between the accounting software and the payment system, are fully implemented yet.

This consulting engagement resulted in six "points for consideration" (two Very Important, two Important and two Desirable) to increase the likelihood of success of the current IT project and contributing to a better management of IT future projects.

The points for consideration were classified to draw the attention of the BOGES to their relative importance.

⁷ "Current" should be understood as "as at the date of the final consulting report" (i.e. 21/11/2014)

No follow-up is foreseen for this consulting engagement. As the accounts are audited annually by the European Court of Auditors, any major problems in the implemented accounting system will be detected by their financial audit.

3.3. Finalisation of the follow-up of all open recommendations from prior audit engagements

3.3.1. Introduction

At the beginning of 2013, the ES had 140 open recommendations, resulting from audits performed during the period 2008-2011.

The table below gives an overview of the situation beginning of 2013:

Audit Title	Open recommendations (beginning of 2013)			
	Very important	Important	Desirable	Total
HRM – Brussels I	11	5	19	35
HRM – Luxembourg I	12	4	19	35
HRM – OSG	9	3	12	24
HRM – Varese	2	5	10	17
FM	15	14	-	29
Total	49	31	60	140

HRM – Audit on Human Resources Management; **FM** – Audit on Financial Management.

Given the particularly high number of open recommendations, as well as the time elapsed since the audits were conducted, the IAS decided in 2013 a) not to follow-up recommendations that had become obsolete in the meantime and those rated as desirable, b) to merge some duplicate recommendations, c) to simplify the wording and d) to re-assess the rating of certain recommendations taking into account the residual risks.

This revision of the open recommendations performed resulted in a decrease of the total number of outstanding recommendations from 140 to 32.

The table below shows the criticality and status of the outstanding recommendations after revision.

Audit Title	Open recommendations (after optimization in 2013)											
	Very important			Important			Desirable			Total		
	R	N	Total	R	N	Total	R	N	Total	R	N	Total
HRM	2	3	5	5	4	9	-	-	-	7	7	14
FM	-	6	6	2	10	12	-	-	-	2	16	18
Total	2	9	11	7	14	21	-	-	-	9	23	32

HRM – Audit on Human Resources Management; **FM** – Audit on Financial Management; **R** – Number of "Ready for Review" recommendations; **N** – Number of "Not Ready for Review" recommendations.

3.3.2. Results of the follow-up engagement performed in 2014

In 2014 the IAS performed a follow-up of open recommendations for the ES that resulted in three individual notes and a consolidated note addressed to the Secretary-General and the BOGES⁸. The table below gives an overview of the situation after the follow-up engagement:

Audit (Year)	Recommendations (after the follow-up in 2014)				
	TOTAL	not ready for review after desk review	reviewed on the spot by the IAS	implemented and closed after review	TOTAL REMAINING OPEN REC.
FM (2011)	18	16	2	2	16
HRM (2008)	14	7	7	1	13
Total	32	23	9	3	29

3.3.3. Situation of implementation of recommendations as at 31 December 2014

No critical recommendations were open as at 31/12/2014.

The following table gives an overview of the status of open recommendations at 31/12/2014:

Status and importance	Not overdue	Overdue	Overdue	Grand Total
		1-6 M	6-12 M	
Not ready for review	16	5	-	21
Important	11	2	-	13
Very Important	5	3 ^(*)	-	18
Ready for review⁹	3	3	2	8
Important	-	3	1	4
Very Important	3	-	1	4
Grand Total	19	8	2	29

(*) Summary of the three very important overdue recommendations, not ready for review at 31/12/2014:

A. Standard structure of staff files

OSG should consider issuing a standard table of content for all categories of staff files in compliance with the legal requirements, and ensuring its uniform application across all Schools. The table of content for all staff files should include a section on disciplinary issues. OSG should consider issuing a template for job description for AAS staff and make sure it is applied across all Schools. The job description should refer to job profile, tasks, job requirements (qualification, diplomas, knowledge of foreign languages, IT literacy, etc.), level of sensitivity (if any) and back-up arrangements. The Schools' Directors should make sure that all staff files have a standard contents and structure (meeting the

⁸ Ares(2014)923752

⁹ Ready for review recommendations will be followed-up in 2015.

OSG format once it is issued). The Schools' Directors should make sure a description of their pedagogical (e.g. timetable) and non-pedagogical (e.g. coordination) functions is issued for seconded and replacement teachers and is attached to their contract/appointment letter.

B. Coherent staff evaluation procedures

The Office should develop and ensure implementation of coherent evaluation/appraisal procedures for all categories of staff (AAS, PTT, ST) to be used by the Schools. The procedures should include documentation requirements, timeframe, evaluation criteria and rating/scale, appeal procedure, as well as areas for improvement. The procedures should cover also the assessment of probationary staff. The procedures could get inspiration from Commission's appraisal system. They should be made available to all Schools and posted on the Learning Gateway.

C. Ex-post controls

ES should develop and implement procedures (both for OSG and individual Schools) for ex-post controls and ensure that it contains:

- A check-list for ex-post controls, which would prevent from insufficient verification;
- A methodology on identification of risks, sampling, frequency of ex-post controls.

3.3.4. Main residual risks

Most of the open recommendations in the field of Financial Management are linked to the adoption of the new Financial Regulation and the implementation of new financial management and accounting software.

As the new Financial Regulation was adopted by the BOGES in December 2014 and entered into force on 01/01/2015, the IAS is not currently in a position to draw conclusions on its effective implementation. Some recommendations will be tested during the audit on SAP controls over Accounting and Budget execution planned to be performed in 2016 (see point 3.4.3). More specifically, the scope of the audit will include the following:

- Assessment of the design and effectiveness of controls over
 - Financial circuits (including proper assigning roles of financial actors).
 - Application of 4-eyes principle in transactions.
 - Application of segregation of duties.
 - Trainings for the accounting staff.
 - Year-end consolidation process.
 - Ex-ante and ex-post verification (including the assessment of verification methodology).
- User access management controls

Regarding implementation of the new financial management and accounting software, not all functional requirements, such as the automatic link between the accounting software and the payment system, had been implemented by 31/12/2014 which may result in the risk of misuse of ES funds.

In conclusion, the main risk in the Financial Management area is the risk of misuse of ES funds. In the field of HR Management, one main residual risk is the risk of non-compliance with legal provisions (e.g. lack of selection committees'

minutes, insufficient transparency of recruitment processes, having different contracts for same type of personnel) which could ultimately lead to court cases.

3.4. Update of the Strategic Internal Audit Plan

3.4.1. Background information

Due to the obsolescence of the audit topics included in the SIAP 2013-2015 the IAS performed a new risk assessment, which resulted in the SIAP 2015-2017.

3.4.2. Summary of high risk areas identified during the updated risk assessment

In the course of the risk analysis, the IAS identified certain processes of high inherent risk which could not be considered as auditable within the audit plan, as the controls were assessed as insufficient.

The management of the ES submitted an action plan aimed at addressing these weaknesses. The actions undertaken by the ES for addressing these high risk areas will be followed up by the IAS.

The following table provides an overview of the high risk processes identified in the SIAP 2015-2017.

Ref. MARCI	Sub-process	Deadline for implementing the mitigating actions
2	Risk management	Q4 2015
3	Budgeting	Q2 2015
4	Monitoring of activities	Q2 2015
5	Reporting / Building Blocks of Assurance	2015
6	Procurement	1 st half 2015
8	Accounting	January 2015
9	Budget Execution	January 2015
11	Asset management / Inventory	2 nd half of 2014
12	Recruitment	End of 2014
14	Performance appraisal, Career development	1 st half 2015
18	Data protection	Not specified
23	Business continuity	Q3 2016
29	IT Governance	Q2 2015
30	IT Project management	Q4 2015
31	IT Security	Q4 2016
32	IT Services delivery	Q2 2016
34	Governance and decision making	Q3 2015
35	Fraud prevention	Q4 2015
36	Data management	Q3 2015

3.4.3. List of prospective topics for the IAS engagements on the ES during the coming three years (2015-2017)

- Revenues and Treasury Management
- SAP controls over Accounting and Budget execution
- Audit of External Communication and Stakeholder relations management
- Audit of the Timetabling process
- Follow-up of open recommendations

In line with the IAS practices, the SIAP will be revised annually and if necessary adjusted to changing circumstances. At the BOGES meeting of 4/12/2014, the question was raised whether the IAS could audit the ES security arrangements. At the time of the review of the audit plan the possibility of covering this topic in future will be analysed.