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Annual Internal Audit Report for 2017
BOARD OF GOVERNORS of the European Schools

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EUROPEAN COMMISSION
INTERNAL AUDIT SERVICE

Director-General
The Internal Auditor

IAS Operations*

Annual Internal Audit Report for 2017

Under Article 46(4) of the Financial Regulation applicable to the budget of the

European Schools (ES)

28 February 2018

This report is addressed to
Mr G. Marcheggiano, Secretary-General of the European Schools
Ms K. Mehine and Ms K. Piller, Chairpersons of the Board of Governors of the European Schools

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1. **INTRODUCTION**

The function of the Internal Auditor of the European Schools (ES) is entrusted to the Internal Audit Service (IAS) of the European Commission through a Service Level Agreement (SLA) signed between the Board of Governors of the European Schools (BOGES) and the IAS of the European Commission on 25 July 2007, and last renewed for a three-year period on 1 July 2017[1].

Article 46(4) of the Financial Regulation applicable to the budget of the ES[2] provides that "*An annual audit report shall be produced by the end of February of the year following the financial year concerned, indicating the number and type of audits carried out, the principal recommendations made and the action taken on those recommendations, and shall be forwarded to the Secretary-General and to the Board of Governors, which shall communicate it to the Court of Auditors.*"

This report provides an overview of the audit activities conducted by the IAS in 2017 in the ES, and highlights the key recommendations and the action taken on those recommendations. It also lists Critical, as well as Very Important and Important open recommendations from previous audits whose implementation is delayed by more than six months.

2. **PURPOSE, AUTHORITY AND RESPONSIBILITY[3]**

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.

3. **PROFESSIONAL FRAMEWORK[4]**

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.

4. **INDEPENDENCE AND OBJECTIVITY[5]**

The Internal Auditor confirms that in 2017:

- 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 the Office of the Secretary-General (OSG) and the individual ES (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.

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[1] Ref. Ares(2017)2833585 - 07/06/2017.
[2] Ref. 2017-12-D-21-en-1 – 05/09/2017.
[3] International Standard 1000 for the Professional Practice of Internal Auditing.
[4] International Standard 1010 for the Professional Practice of Internal Auditing.
[5] International Standards 1100 and 1110 for the Professional Practice of Internal Auditing.

5.   AUDIT PLAN AND RESOURCE MANAGEMENT[6]

During 2017, and in line with the IAS 2015-2017 Strategic Internal Audit Plan (SIAP) for the ES, the IAS finalised the audit on SAP controls over accounting and budget execution in the ES[7], and carried out follow-up audits of outstanding recommendations from past IAS audits[8].

In addition to the work outlined in the SIAP, following a request made by the Secretary-General of the ES and included in the 2017 IAS Audit Plan, the IAS performed the fieldwork for the consulting engagement on the management of extra-budgetary accounts in the ES[9].

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

The audit approach followed by the IAS is summarised in **Annex III – Basic internal audit planning principles**. Given the methodology's emphasis on "adding-value" those processes assessed by the IAS as being immature for audit, i.e. processes where management is unable to provide assurance that the controls in place are effective and/or efficient, are not immediately included as audit topics. In such cases, the added value of the Internal Auditor's work may be low as the audit would simply confirm the existence of risks already known by management. Management should address and mitigate risks facing these procedures before the Internal Auditor reviews them.

The table below lists those processes that were assessed as immature and that were reported in the 2015-2017 SIAP and includes the status of the implementation of action plans to mitigate the risks identified. The IAS has not reviewed the implementation of these action plans and accordingly is not in a position to confirm the effectiveness and efficiency of the procedures.

Ref. MARCI	Sub-process	Original Deadline	Status of the implementation according to ES / Revised Deadline
2	Risk management	Q4 2015	I
3	Budgeting	Q2 2015	I
4	Monitoring of activities	Q2 2015	I
5	Reporting / Building Blocks of Assurance	2015	End 2018
6	Procurement	1st half 2015	I
8	Accounting	January 2015	I
9	Budget Execution	January 2015	End 2018
11	Asset management / Inventory	2nd half of 2014	End 2018
12	Recruitment	End of 2014	I
14	Performance appraisal, Career development	1st half 2015	I

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[6] International Standards 2020 and 2030 for the Professional Practice of Internal Auditing.
[7] Final Audit Report – Ref. Ares(2017)2252036 – 02/05/2017.
[8] IAS note on audit conclusions - Ref. Ares(2017)4300535 - 04/09/2017; and in-depth follow-up audit – Final Report - Ref. Ares(2018)336776 – 19/01/2018.
[9] Announcement letter: Ref. Ares(2017)3153313 - 23/06/2017

Ref. MARCI	Sub-process	Original Deadline	Status of the implementation according to ES / Revised Deadline
18	Data protection	Not specified	I
23	Business continuity	Q3 2016	**
29	IT Governance	Q2 2015	I
30	IT Project management	Q4 2015	2018/2019
31	IT Security	Q4 2016	I
32	IT Services delivery	Q2 2016	**
34	Governance and decision making	Q3 2015	I
35	Fraud prevention	Q4 2015	2018
36	Data management	Q3 2015	**

I   The ES consider that mitigating actions have been implemented. These sub-processes have now become auditable.

**   These sub-processes are still under analysis, and the ES have not yet proposed revised target dates.

6.   INTERNAL AUDIT ACTIVITY IN 2017

6.1.   Audit on SAP controls over accounting and budget execution (finalised)

6.1.1.   Objective and scope

The overall objective of the audit was to assess the effective and efficient design and implementation of SAP controls over accounting and budget execution that were set up by the ES.

The scope of the audit covered: (i) the efficiency of SAP controls; (ii) the link between SAP ERP[10] and other IT tools, (iii) the appropriateness and effectiveness of controls regarding segregation of duties; (iv) the effectiveness of data input controls, data processing controls, and data outputs controls; (v) the compliance of SAP controls with the FR, its rules of application and the internal control standards; and (vi) the effectiveness of knowledge management and monitoring controls on the SAP ERP.

This audit did not include the design of the software used for the process. By this reason, the scope of the audit did not include an analysis of the IT general controls over information security, infrastructure, backup and recovery, system development and program changes. Moreover, this engagement did not cover an evaluation of the reliability of the financial statements and other reports on budget execution.

6.1.2.   Major findings and related recommendations

The findings and related recommendations stemming from this audit are set out in the table in **Annex I – Results of internal audit activity for the year**.

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[10] ERP = Enterprise Resource Planning

6.1.3. On-going developments

In December 2017, the OSG launched a SAP redesign project on automated workflows and authorisations, based on which the SAP ERP will be reconfigured.

6.1.4. Action plan

The ES accepted all the recommendations made in the context of this engagement. On 20 October 2017[11], the OSG provided the IAS with an action plan in response to the recommendations arising from the audit. The target dates for the implementation of these actions are included in the annex referred to under section 6.1.2. The IAS assessed the action plan as satisfactory on 25 October 2017[12].

6.2. Consulting engagement on the management of extra-budgetary accounts (ongoing)

6.2.1. Objective and scope

The overall objective of this consulting engagement is to review the efficiency and effectiveness of the control measures relating to the management of extra-budgetary accounts. The objective is to provide the OSG with advice on how to harmonise and improve such control measures in an efficient manner in compliance with the ES Financial Regulation, bearing in mind its minimum requirements and the staff-related time constraints within the schools.

The scope of this consulting engagement covers the following key elements: (i) workflows applied for extra-budgetary revenues and underlying systems used for invoicing; (ii) workflows applied to extra-budgetary expenses and underlying procurement procedures; (iii) procedures applied for the segregation of duties in managing extra-budgetary bank accounts and opening and closing of extra-budgetary bank-accounts; (iv) accounting procedures applied to posting extra-budgetary activities and their disclosure in the schools' financial statements; and (v) constraints stemming from staff allocation for managing extra-budgetary accounts at the schools.

In 2015, the OSG issued a draft memorandum with the purpose of establishing guidelines for the management of extra-budgetary accounts, such as on school trips. Since then, some schools have raised potential difficulties in implementing these guidelines, mainly due to the potential workload stemming from the SAP ERP requirements. The Secretary-General of the ES thus decided not to release the final memorandum until an agreement with all schools has been reached. It is not an objective of the engagement to draft a common framework for managing extra-budgetary accounts. However, this consulting engagement is expected to be an important input, supporting the establishment of the framework.

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[11] Revised action plan: Ref. Ares(2017)5158506 - 20/10/2017; the ES had proposed an action plan - Ref. Ares (2017)3222285 - 27/06/2017, which was not fully accepted by the IAS - Ref. Ares(2017)3514099 - 12/07/2017.
[12] Ref. Ares(2017)5212273 – 25/10/2017.

6.2.2. Status of the consulting engagement

The fieldwork of the consulting engagement took place in December 2017 and involved visits to the OSG and one school in Brussels (Brussels I) and the school in Varese. The Final Report is expected to be issued during the first semester of 2018.

6.3. In-depth follow-up audit on outstanding recommendations in the ES

6.3.1. Objective and scope

In line with its 2017 audit plan, the IAS has performed an in-depth follow-up of audit recommendations in the ES, which focused on all recommendations that were outstanding as at 16 October 2017. The objective of the engagement was to assess progress made in implementing open recommendations in the ES stemming from past audits. The follow-up audit did not result in an assessment of the adequacy of controls as a whole but focused on the specific recommendations in the original audit reports.

6.3.2. Conclusions of the in-depth follow-up

The results of the in-depth follow-up are summarised in the table below[13]:

Audit / Year	Rating	Total N° of Recs in original reports	Closed before the Follow-up	Down-graded before the Follow-up	Covered by the Follow-up	Not covered by the Follow-up	Closed under the Follow-up	Down-graded under the Follow-up	Remaining Open after the Follow-up
Governance of Security[14] / 2016	Critical	2	n-a	n-a	2	-	-	1	1
	Very important	1	n-a	n-a	-	1	-	(1)	2[15]
	Important	3	n-a	n-a	-	3	-	n-a	3
	Sub-total	**6**	**n-a**	**n-a**	**2**	**4**	**-**	**n-a**	**6**
Treasury and revenues management[16] / 2015	Critical	3	3	n-a	-	-	-	n-a	-
	Very important	5	3	n-a	2	-	1	n-a	1
	Important	2	1	n-a	1	-	1	n-a	-
	Sub-total	**10**	**7**	**n-a**	**3**	**-**	**2**	**n-a**	**1**
HR management and financial management[17] / 2014	Very important	11	2	1	8	-	7	n-a	1
	Important	18	7	(1)	12	-	7	n-a	5
	Sub-total	**29**	**9**	**n-a**	**20**	**-**	**14**	**n-a**	**6**
Total		**45**	**16**	**n-a**	**25**	**4**	**16**	**n-a**	**13**

[13] The recommendations stemming from the IAS audit on SAP controls over accounting and budget execution were not subject to this follow-up (9 in total, 2 Critical, 4 Very important, and 3 Important). As at the cut-off date of the follow-up (16/10/2017), the ES had not submitted an accepted action plan concerning that audit.

[14] Ares reference to the Final Report on the Limited Review: Ares(2016)4895924 of 31/08/2016.

[15] Subsequently the ES submitted one recommendation stemming from the Limited Review of Governance of Security (Very important) as "Ready for Review", which was closed by the IAS in the tracking system on 31/01/2018 - IAS note on audit conclusions is expected to be issued soon

[16] Ares reference to the Final Audit Report: Ares(2015)5451496 of 30/11/2015.

[17] Ares reference to the Audit Conclusions: Ares(2014)182080 of 27/01/2014.

The IAS assessed the state of implementation of 25 recommendations, of which 13 had been classified by the ES as "ready for review". Based on the results of the IAS follow-up audit, the IAS concluded that all recommendations submitted as "ready for review" have been adequately and effectively implemented. Although none of the remaining 12 recommendations were assessed as implemented, the IAS downgraded one recommendation from critical to very important, classified two important recommendations as obsolete, and merged two very important recommendations into one, leaving nine recommendations still open in addition to the four recommendations that were not yet due as at 16 October 2017.

7. **OPEN CRITICAL AND SIGNIFICANTLY DELAYED VERY IMPORTANT AND IMPORTANT RECOMMENDATIONS**

Situation of outstanding recommendations on 31January 2018[18]

Following on from the in-depth follow-up and also taking into account the recommendations stemming from the audit on SAP controls over accounting and budget execution, as at 31 January 2018 there were 21 outstanding recommendations. The age analysis of these recommendations as at that date is as follows:

Rating	Not overdue	Overdue			Total
		1-6 M	**6-24 M**	**24-38 M**	
Critical	2	-	1	-	**3**
Very important	3	2	1	1	**7**
Important	3	3	-	5	**11**
Total	**8**	**5**	**2**	**6**	**21**

The chart shows that, of the outstanding recommendations, there are three that are critical. One of these critical and seven very important or important recommendations are significantly delayed (by more than six months). These recommendations, with reference to the specific audit they relate to and the length of the delay are presented in **Annex II – Open critical and significantly delayed very important and important recommendations**.

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[18] For practical reasons entities may update the status of the implementation of recommendations in the "TeamCentral" tool during the month of January 2018. As a consequence the cut-off date for the implementation of recommendations is 31/01/2018, although this report concerns the year 2017.

8. NEXT STEPS

The IAS underlines the need to take firm and urgent actions aimed at addressing all outstanding recommendations. In the meantime, the related risks which have been identified by the IAS and reproduced in Annex II of this report remain unmitigated.

Attention should be given to:

- the three critical recommendations dealing with governance of security and SAP controls over accounting and budget execution;

- the impact of the delay noted in implementing the very important and important recommendations dealing with revenues and treasury management, and financial and human resource management.

The non-implementation of these recommendations, of which a considerable number are overdue for an excessively long period, exposes the ES to very significant financial and reputational risks and may result in irregular transactions or fraud. The Secretary-General of the ES should assess if reservations in the Annual Report 2017 are required at least for those processes affected by open critical recommendations.

IAS Audit on SAP Controls over Accounting and Budget Execution

Rec. No	Finding	Recommendation	Addressed Risk	Category (C/VI/I) [19]	Accepted (Y/N)	Target date - Action Plan
1 & 2	**Segregation of Duties within SAP** - The ES have not yet implemented effective segregation of duties in SAP which are compliant with the OSG's guidelines on financial circuits to ensure automated controls over the roles and tasks of financial initiators, financial verificators, authorising officers, and accounting officers. Currently, each SAP user in each school is assigned with multiple roles for different types of transactions, which can comprise, for the same transaction, tasks on initiation, verification and approval, while, from a control perspective, these are incompatible roles. Moreover, the OSG guidelines do not distinguish between operational and financial initiation and verification roles and tasks. The IAS identified highly inefficient workflows in place for verificators and authorising officers - in practice Bursars and Directors respectively. In the specific case of the SAP workflow for manual journal entries, such as depreciation, accruals and manual clearings, SAP transactions require Bursars and Directors' approvals, instead of being assigned to the accounting officer. In addition, for some processes, e.g. purchase orders and payments, the current configuration of the financial circuits in SAP only allows for a full delegation of	The ES must reconfigure the workflows in SAP ERP to fully align them with the financial circuits and the principle of segregation of duties, in accordance with the ES rules and guidelines and formal delegation acts. It must reconfigure the SAP transaction on manual entries in order not to trigger a workflow for its verification and authorisation by Bursars and Directors, respectively. The ES must reconfigure SAP ERP in such a way that it allows sub-delegations up to specific thresholds. Priority must be given to processes on purchase orders and payments.	The lack of automated controls on the segregation of duties in SAP dissuades the preventive and detective effect of the financial circuits and this situation may be abused for performing and dissimulating irregular and/or fraudulent transactions. Ultimately, this may cause significant financial and reputational damage to the ES. The extent of the tasks which are currently performed by Bursars and Directors in SAP is inefficient and may result in ineffective controls.	C	Y	30/06/2018

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[19] C – Critical; VI – Very important; I - Important.

Rec. No	Finding	Recommendation	Addressed Risk	Category (C/VI/I)[19]	Accepted (Y/N)	Target date - Action Plan
	powers to (sub)delegated authorising officers which is considered too much. A delegation limited to smaller (low risk) transactions would be more efficient.	The OSG must revise the guidelines on segregation of duties to detail the operational tasks – irrespective of whether or not these are performed within the SAP environment.	Insufficient guidelines on financial circuits may impact the effectiveness of the internal controls in place.	VI	Y	31/12/2017
3	**Outgoing payments** - The ES are not applying all the SAP functionalities of automatic payment transactions. Due dates are not reliable in SAP, mainly due to data input errors. The monitoring of pending invoices is performed manually with the help of paper-based files. In its sample of audited transactions, the IAS observed a significant proportion of delayed payments. The OSG and the schools of Munich and Brussels I (visited on a sample basis) are not performing monthly bank reconciliations and transactions are not systematically cleared on time. Moreover, no guidance and monitoring are in place over the periodicity of the clearing process in the schools. Authorised persons can perform payments through on-line banking systems for which no payment proposal was approved in SAP, while no procedures are in place to identify and review such payments. The interfaces between SAP and online banking systems are not working properly for foreign currencies. Moreover the exchange differences resulting from payments in foreign currencies are not automatically posted as revenue or expenditure.	The ES must reconfigure SAP and ensure complete and accurate recording of payment terms and of the clearing process within SAP. The ES should fully apply the facilities offered by the automatic payment transaction in SAP. The accounting officers should periodically provide the authorising officers with vendor aging reports extracted from SAP. The ES must ensure reliable and safe SAP interfaces for all payments. Exchange differences should be automatically posted in SAP. Exception reports should be developed to identify and review payments made outside the interfaces with on-line banking systems if these are exceptionally necessary. The ES must perform monthly bank reconciliations, thereby ensuring adequate segregation of duties – for this purpose the OSG should provide the schools with instructions and templates.	The absence of automated controls over payment terms increases the risk of payments made too early or after the due date. The lack of sufficient controls over payments managed outside the standard banking interfaces as well as the lack of monthly bank reconciliations and the periodic clearing of transactions increases the risk of errors, irregularities or fraud.	C	Y	31/12/2018

Rec. No	Finding	Recommendation	Addressed Risk	Category (C/VI/I)[19]	Accepted (Y/N)	Target date - Action Plan
4	**Presentation of the budgetary/extra-budgetary and general accounts** - The ES are not preparing monthly statements of revenue and expenditure as defined in Article 76 of the FR. The schools visited on a sample basis deem that the clearing process of invoices and payments is very time consuming, which in turn impacts negatively the closing activities in the SAP environment. SAP ERP does not provide the schools with an automated reconciliation between the budget execution and the statement of financial performance. The IAS has identified inconsistent accounting practices for similar transactions, with emphasis on extra-budgetary accounts. The schools have not been provided with detailed guidance on the SAP chart of accounts.	The ES should perform the month-end closing process in SAP. The OSG should monitor this process to avoid backlogs and solve pending issues that may delay the clearing process. The schools should configure SAP ERP in such a way that it is possible to generate a report that supports the reconciliation between the budget execution and the statement of financial performance. The OSG should develop a SAP accounting manual with detailed guidance on the accounting procedures for extra-budgetary accounts and provide adequate training to the accounting officers.	There is a risk on non-compliance with the FR and the Implementing Rules of the ES. Insufficient controls over the monthly closing process and accounts may lead to the non-detection of inaccurate entries and may negatively impact the timeliness and the reliability of financial reporting at year-end. The lack of guidelines for the SAP chart of accounts may have a negative impact on the consistency of accounting practices across schools, and may affect the reliability of the consolidated accounts.	VI	Y	01/01/2020
5	**Controls over the expense cycle** - SAP ERP allows to backdate pre-commitments and to create pre-commitments for a global amount contrary to the conditions stated in the ES' FR on provisional commitments for current expenditure (Article 33.1). The ES have not uploaded the supporting documents on procurement together with the pre-commitment in SAP. As a consequence the audit trail is not integrated in the system which weakens the controls. The purchase request process is not working as intended in SAP since the ES did not implement Adobe® Interactive Forms. Consequently, the ES have maintained a manual workflow to manage their purchase requests internally.	The ES should reconfigure the pre-commitment process and block the access to the 'date' field in SAP. The OSG should provide the schools with guidelines on the creation of pre-commitments. The ES should implement the Adobe® interactive forms for purchase request. Once this process has been implemented, the ES should withdraw the manual workflow for this process. The ES should reconfigure SAP ERP in order to enable carry-overs of commitments over different budget years and	The lack of controls over pre-commitments prevents the identification of cases of non-compliance with Articles 33 and 34 of the FR. In the absence of automated controls over the purchase request, the ES tend to rely on manual controls which may be less efficient and effective. The lack of automated controls over multiannual contracts may lead to non-compliance with	VI	Y	30/06/2018

Rec. No	Finding	Recommendation	Addressed Risk	Category (C/VI/I) [19]	Accepted (Y/N)	Target date - Action Plan
	The automated controls over procurement contracts do not allow the ES to monitor the execution of multiannual contracts, nor to reserve the pre-commitments for the years following the year of the contract's signature.	include automated controls which ensure that that the global multi-annual budget for a contract cannot exceed the contractually agreed maximum amount.	Article 7 of the FR, to improper budget planning, and to ineffective controls over contract management.			
6	**Asset accounting** - The school of Munich was not using the asset retirement process applicable for tangible fixed assets in SAP ERP. Furthermore, this process does not trigger a specific SAP workflow with proper automated controls for the safeguarding of assets. In addition, a new asset can be created in SAP without filling out the location field. The OSG has not issued guidance on the management of data from SAP FI-AA [SAP module on asset accounting], in order to ensure a consistent approach on permanent inventories.	The OSG should ensure that all schools are adequately informed, enabling asset accounting including retirements exclusively through SAP; the OSG should also create an authorisation workflow in this regard. The ES should reconfigure the localisation's field for assets and turn it into a mandatory field. The OSG should provide the schools with instructions on the management of SAP data in order to enable the establishment of permanent inventories of tangible fixed assets.	The absence of asset retirements posted through SAP negatively affects the reliability of the financial reporting on assets. In the absence of a workflow for asset retirements, there is a risk of fraud or misappropriation of physical assets. Insufficient or missing data on the assets' location and the lack of guidance on permanent inventories may result in ineffective controls over safeguard of assets and hampers periodic physical verifications.	VI	Y	31/12/2018
7	**Blocking of accounting transactions** - SAP ERP allows all SAP users to post manual journal entries in accounts via the SAP FI-GL module [SAP module on general ledger], more precisely in accounts that are automatically linked to other SAP modules. Despite the implementation of interfaces on salary calculations between SAP mini-HR and other HR software out	The OSG should analyse the accounts that need to be blocked for manual postings, and should activate this SAP automated control. The ES should prohibit manual postings and amendments of salary calculations performed directly	The lack of automated controls on manual journal entries in accounts via the SAP FI-GL module increases the risk of inaccurate journal entries. Manual postings in the accounts may raise	I	Y	31/12/2017

Rec. No	Finding	Recommendation	Addressed Risk	Category (C/VI/I) [19]	Accepted (Y/N)	Target date - Action Plan
	of SAP, SAP mini-HR allows authorised users to manually post salaries or amend salaries which were previously uploaded via the SAP mini-HR interface.	through the SAP mini-HR module. As long as such a solution is not implemented, the ES must develop monthly exception reporting.	differences that are not being detected or reconcilable. The SAP mini-HR module may be used by authorised persons to perform and/or amend salary payments without leaving a proper audit trail.			
8	**Functionalities for pupils' invoices -** The ES have not yet activated the SAP dunning functionality in order to automatically produce reminders to parents on invoices not paid on time. The functionality of direct debits on the parents' bank accounts is not working in SAP, even though this option is made available when an invoice is issued. Parents are thus required to pay their invoices by normal bank transfers.	The ES should reconfigure SAP in order to enable the functionalities on dunning and direct debiting.	The absence of automated controls over pupils' invoices increases the risks of errors. The lack of dunning and direct debit functionalities may delay the collection of revenues.	I	Y	31/12/2018
9	**Knowledge management and monitoring -** Based on the information available in the SAP Solution Manager, at the time of the fieldwork 87 issues (tickets) were waiting for a solution, out of which 17 had been issued in 2015. According to the visited schools, the response time is considered too lengthy. No target response times have been set by the OSG. The schools raised the inefficiency of the ticketing system for recurrent interventions requiring the involvement of the SAP Coordination Team. Tickets obtain a priority rating based on the SAP key users' judgement, and not on the nature of each request.	The OSG, jointly with the schools, should redefine a system for contacting the SAP Coordination Team for each type of operation or support. Target response times should be defined per type of operation or support. The OSG should define KPIs to measure and monitor the performance of SAP ERP, e.g. number of days lapsed in SAP for different types of	The efficiency weaknesses of the ticketing system may lead to work interruptions in SAP ERP and may require intermediate manual solutions outside of SAP. The absence of KPIs weakens the monitoring of the efficiency and effectiveness of SAP controls over accounting and	I	Y	31/12/2020

Rec. No	Finding	Recommendation	Addressed Risk	Category (C/VI/I)[19]	Accepted (Y/N)	Target date - Action Plan
	No RACER [Relevant, Accepted, Credible, Easy, and Robust] key performance indicators (KPIs) were available at the ES to measure and monitor the performance of accounting and budget execution in SAP ERP and the related controls.	transactions and on monthly closure. Those KPIs should cover the performance of transactions and controls in the different SAP components, the general controls over the system and the ticketing system.	budget execution.			

ANNEX II – OPEN CRITICAL AND SIGNIFICANTLY DELAYED VERY IMPORTANT AND IMPORTANT RECOMMENDATIONS

Audit Report Ref	Category (C/VI/I)	Recommendation No and Title	Unmitigated Risk	Original impl. date	Delay (mths)	Revised date of impl.
Governance of Security (2016)	C	Rec. No. 3 - Roles and responsibilities of the parents' associations on security	The lack of procedures on the division of roles and responsibilities between the parents' associations and the ES may result in unclear or neglected security tasks. Activities managed by parents' associations and carried out on the schools' premises, such as extra-curricular activities, canteens, or school transport, are subject to security risks. As an example, staff working for parents' associations on the schools' premises without appropriate training on security measures and unclear reporting lines in an emergency may take insufficient/inappropriate measures in response to security threats.	30/06/2017	7	31/03/2019
SAP controls over accounting and budget execution (2017)	C	Rec. No. 1 - Segregation of duties within SAP	The lack of automated controls on the segregation of duties in SAP dissuades the preventive and detective effect of the financial circuits and this situation may be abused for performing and dissimulating irregular and/or fraudulent transactions. Ultimately, this may cause significant financial and reputational damage to the ES. Insufficient guidelines on financial circuits may impact the effectiveness of the internal controls in place. The extent of the tasks which are currently performed by Bursars and Directors in SAP is inefficient and may result in ineffective controls.	30/06/2018	n-a	n-a
SAP controls over accounting and budget execution (2017)	C	Rec. No. 3 – Outgoing payments	The absence of automated controls over payment terms increases the risk of payments made too early or after the due date. The lack of sufficient controls over payments managed outside the standard banking interfaces as well as the lack of monthly bank reconciliations and the periodic clearing of transactions increases the risk of errors, irregularities or fraud.	31/12/2018	n-a	n-a

Audit Report Ref	Category (C/VI/I)	Recommendation No and Title	Unmitigated Risk	Original impl. date	Delay (mths)	Revised date of impl.
Treasury and Revenues Management (2015)	VI	Rec. No. 5 - Ensure the finalisation of the procedure for the management of extra-budgetary accounts as soon as possible and include all relevant bank accounts in the Financial Statements	Due the lack of a common framework for managing extra-budgetary accounts, the schools may apply ineffective controls over a part of schools' expenses and revenues. Ineffective controls over extra-budgetary accounts entail the risk of non-compliance with the ES' Financial Regulation.	30/06/2016	19	31/12/2018
HR management and financial management (2014)[20]	VI	Rec. No. 1 - Ex-ante and ex-post controls in the schools	Unclear instructions on check-lists for ex-ante controls and lack of ex-post controls in the schools may compromise the effectiveness of the internal control. It may weaken the schools' ability to detect irregularities and fraudulent transactions in a timely manner.	31/01/2015	36	31/12/2018
	I	Rec. No. 2 - Instructions for interpreting national salary slips of seconded staff	Insufficient instructions for the calculation of salaries for seconded staff may impact the accuracy and consistency of calculations across the schools, and therefore entail a risk of litigation with seconded staff.	30/06/2015	31	30/04/2019
	I	Rec. No. 3 - Procurement of translation services	There is a risk of non-compliance with procurement rules as defined in the ES Financial Regulation, and therefore a risk of irregularities.	31/12/2014	37	31/12/2018
	I	Rec. No. 4 - Internal repository of documents and underlying document management policy	The lack of a structured repository for documents may impact knowledge management and internal communication within the ES, and therefore its effectiveness and efficiency.	31/12/2014	37	31/12/2020
	I	Rec. No. 5 - Coherent training policy for AAS [administrative and ancillary staff]	Continuous professional development for AAS staff is not ensured in the ES. It entails the risk that AAS staff has not got adequate skills to perform their duties and responsibilities in	31/12/2014	37	30/06/2019

[20] Reformulated recommendations as a result of the in-depth follow-up audit carried out in 2017. On 8/02/2018 the ES submitted an action plan and revised target dates to address the remaining risks, Ref. Ares(2018)755111, which was accepted by the IAS on 9/02/2018, Ref. Ares(2018)773729. .

Audit Report Ref	Category (C/VI/I)	Recommendation No and Title	Unmitigated Risk	Original impl. date	Delay (mths)	Revised date of impl.
		staff	an efficient and effective manner.			
	I	Rec. No. 6 - Standard labour contracts	There is a risk of non-compliance with local labour laws and therefore a risk of litigation with staff.	31/12/2014	37	30/06/2018

Risk based planning methodology – Definition of the audit universe and audit risk assessment.

The IAS approach to the Strategic Plan contains three steps:

1. Clearly define what constitutes the different auditable systems, processes and units which make up the Undertaking's overall audit universe;

2. Make an assessment of the risks associated to the audit universe;

3. Identify the audit themes flowing from the risks identified and validated with the management.

The IAS methodology stressed on the 'value-added' of the planned audits when preparing its audit plan. The professional judgement of the auditor plays a critical role in determining where focus should be placed when auditing. In making this determination, the IAS will consider the IMPACT (inherent risk) of a risk if a control breakdown occurs and the VULNERABILITY (residual risk) of the controls. These two dimensions are shown in Figure 1 *Framework for Risk Profile (MARCI)*.
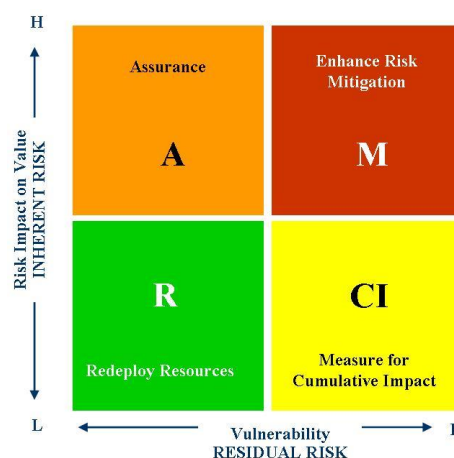

Figure 1: Framework for Risk Profile (MARCI)

The Management's own Risk Assessment is a key element taken into account by auditors in their Risk Assessment. Although the IAS will carry out its own Risk Assessment, the audit approach and focus is influenced by management's assessment of impact of risks and the vulnerability of its core processes. The MARCI methodology used is elaborated below.

Reassurance: When management provide reasonable assurance (Fig. 1: "A" quadrant) that controls to prevent, detect, correct, a risk are both effective and efficient, the role of the Internal Auditor is to provide reassurance that management's reports can be relied upon. When management can only provide "qualified" assurance — meaning that some controls are working while others are not — the Internal Auditor should audit the controls that are deemed to be effective and support improvement in other areas as required.

Enhance risk mitigation: When management is unable to provide any assurance (Fig. 1: "M" quadrant) that controls are either effective or efficient, it should address risks requiring mitigation. In this situation, the added value might be limited if the Internal Auditor work simply confirms the existence of risks already well known by management. However, the Internal Auditor could provide recommendations (consulting services) to help management to develop and design controls to reduce exposure and track progress on remediation plans.

Redeploy Resources: For the processes leading to risk with low impact on value, and low vulnerability, the Internal Auditor could test controls for effectiveness and develop recommendations helping management to improve efficiency (Fig. 1: "R" quadrant).

Measure for Cumulative Impact: Finally, in case of low impact on value associated with a high vulnerability, the Internal Auditor could assess cumulative impacts and

frequency to determine whether these risks may in aggregation have a more significant impact (Fig. 1: "CI" quadrant).

The definition of the audit universe involved the mapping of standard processes and sub-processes of the Joint Undertaking, in operations as well as in support functions and administration. During the risk assessment exercise, the IAS has − for each process and sub-process of the Joint Undertaking − performed the following steps:

- Determine and validate the **inherent risks** – IMPACT;
- Assess and validate the **expected minimum controls** implemented (mainly for administrative processes);
- Evaluate − based on interviews at the Joint Undertaking − the level of the **residual risks** (VULNERABILITY).
- **Validate the results** of this evaluation − MARCI assessment − with the Executive Director.