



2014

Annual Activity Report

Internal Audit Service

"Internal Audit Service: Improving the Commission's Performance"





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INTRODUCTION

The Internal Audit Service (IAS) in brief

The mission of the Internal Audit Service (IAS) is to promote a **culture of effectiveness, efficiency, economy and continuous improvement** through its auditing services, providing assurance on the management of finance and resources.

It helps the Commission in achieving its objective of protecting the European budget from irregular expenditure and thus to increasing public confidence in the European Union. In this way, it contributes to providing **value for money** for European citizens.

The IAS audits the management and control systems that exist within the Commission (DGs, Offices, Services and Executive Agencies) and the EU autonomous bodies (Agencies, Joint Undertakings, intergovernmental bodies¹ and EU institutions²) and provides **independent and objective assurance**³ on their adequacy and effectiveness. It contributes to the identification of critical risks that may have an impact on the achievement of objectives and to the definition of mitigating actions. On request of management, it also offers consulting activities.

The IAS carries out its mission in accordance with the Financial Regulation (FR)⁴ and the International Standards for the Professional Practice of Internal Auditing⁵ and the Code of Ethics of the Institute of Internal Auditors (IIA Standards). Its independence is guaranteed in the FR and the IAS Mission Charter.

The IAS falls, since 1 November 2014, under the responsibility of the First Vice-President of the European Commission and continues to report to the Audit Progress Committee (APC). For the work in EU autonomous bodies, the IAS reports functionally to the Management Board and the Directors of each respective entity. Its work is coordinated with the European Court of Auditors (ECA), the Commission's external auditor, and, where applicable, with the IACs of the EU autonomous bodies.

The IAS is a mature internal audit service committed to quality and excellence, and builds on its quality certification and on a culture of career-long learning. It has a well-defined and structured audit process, fully supported by audit management software (GRC). Performance indicators in relation to the audit process are generated and used to monitor the progress made with the audit engagements.

¹ European Schools

² European Data Protection Supervisor (EDPS) and the European External Action Service (EEAS)

³ Assurance consists of objective examination of evidence for the purpose of providing an independent assessment of effectiveness of risk management, control and governance. For its assurance services the IAS relies on risk-based planning and includes an opinion in each assurance audit report.

⁴ Articles 98, 208 and 209 of the Financial Regulation

⁵ IIA Standard 2000: "The Chief Audit Executive (CAE) must effectively manage the internal audit activity to ensure it adds value to the organisation".

The year in brief

2014 was a year of transition for the management and control systems in the Commission.

Several DGs have started establishing processes and procedures for the programmes authorised under the new Multi-annual Financial Framework (MFF 2014-2020), mainly affecting the Common Agricultural Policy, the Cohesion Policy and the Research Policy, whilst the bulk of payments still relate to the programmes under the old MFF, such as FP7 (DGs RTD, CNECT and the ERCEA) and programmes in the external aid area (DG DEVCO and FPI).

The Commission strengthened the EU's economic governance framework (European Semester, the EU's policy-making calendar) and supported the creation of three supervisory bodies on financial services (EBA – ESMA – EIOPA)⁶.

These changes exposed the Commission to new financial, legal, operational and reputational risks. Their impact on the audit universe needed to be reflected in the work of the IAS:

- A revision of the audit risk assessment and planning took place at the end of 2013 and in the course of 2014. The updated **IAS audit plan 2014 reflected the new and emerging risks.**
- The IAS further developed its practice of carrying out **performance audits**, focussing on the effectiveness, efficiency and economy of the use of EU resources. This is of special relevance in the light of the IAS' mission to provide added value for the European Commission and the EU autonomous bodies. In 2014, engagements in this area (including IT audits) accounted for around 48% of total audit time in the Commission and 70% in the EU autonomous bodies.
- In this context, the IAS ensured an **efficient and effective allocation of resources** available to the IAS through detailed planning, individual time recording and close monitoring of time spent per task.

During 2014, the IAS's audit work in the DGs, Offices, Services and Executive Agencies of the European Commission continued to be coordinated with the Internal Audit Capabilities (IACs), internal auditors which were under the authority of each Director-general. However, on 5 November 2014, the newly appointed Commission decided to **centralise its internal audit function** and to appoint the IAS as the sole internal audit service provider, now covering not only the risks that have been identified as significant for the Commission as a whole but also those that are significant for individual DGs.

These new responsibilities and the resulting disappearance of the IACs have already led to the preparation of several **changes at the organisational level of the IAS**, most of these to become fully effective in the course of the year 2015:

⁶ European Banking Authority, European Securities and Markets Authority and European Insurance and Occupational Pensions Authority.

- As from 2015 the newly created Directorate C, together with a revamped Directorate B, will cover the audit in the Commission and Executive Agencies. A new "Quality assurance, methodology, audit monitoring and resources" unit was created, which reports directly to the Director-General.

Directorate A, which is responsible for auditing the EU autonomous bodies as well as horizontal affairs of the IAS (strategic planning and programming, communication, document management, public access to documents and the hosting of the yearly audit conference, etc.) remains unchanged.

- The IAS is in the process of expanding its auditing and support staff. In November 2014, the IAS launched a Call for Expression of Interest, open to officials and temporary agents in function groups AD or AST, and of particular interest to staff working in IACs or in related areas, such as financial management and ex-post control. This call aimed to attract the right mix of professionals for audit units composed of balanced teams of IAS staff and newcomers. While a first wave of recruitments was launched in the last weeks of December, the recruitment process will continue during 2015.

EXECUTIVE SUMMARY

The **Annual Activity Report** is a **management report** of the Director-General of the IAS to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

The IAS's audit and consulting work completed in Commission Directorates-General, Services and Executive Agencies are summarised by the Secretariat-General in a **Report following Article 99(5) of the Financial Regulation (FR)**⁷ and forwarded to the European Parliament and the Council by the Institution. To this end, the "99(5) Report", in particular, lists the key audit findings and recommendations and the actions taken upon them.

Key Performance Indicators⁸

During 2014, the following key performance indicators (KPIs) were closely monitored by the Internal Audit Service:

- The efficient implementation of the 2014 audit plan. The target was to devote at least 80% of the available actual audit capacity (both for the activities "Audit in the Commission" as for "Audit of the EU autonomous bodies") to direct audit work and audit support work. By the end of 2014, the target result for this newly introduced KPI was exceeded in both Directorates, reaching 91% in the Commission and 82% in the audit of EU autonomous bodies.
- Of all audits finalised in 2014, at least 35% of audit time had to be devoted to performance audits (including the comprehensive audits with a strong performance audit dimension). The target result for this new KPI was exceeded in both Directorates reaching 48% in Directorate B and 70% in Directorate A.
- The adequate coverage of the main risks in the overall opinion. The target to issue the overall opinion without significant scope limitations was met in 2014 as was the case in previous years.
- The recognition of the role of the IAS as a central service was assessed on the basis of a survey among the Commission Directors General. 81% of the DG's agreed that the IAS has a recognised role as a central service.

A more detailed analysis of these Key Performance Indicators is provided in section 1 "Policy achievements".

⁷ The "99(5) Report" does not cover the EU autonomous bodies, the European External Action Service, or other bodies audited by the IAS. Separate reports cover the IAS work.

⁸ More detailed explanation on the implementation is provided in the subsequent section of the report.

Policy highlights of the year

(Executive summary of part 1)

In 2014, most planned objectives set in out the Management Plan were reached or exceeded.

- By the cut-off date of 31 January 2015, the **implementation of the updated audit plans for 2014** reached 100% for audits in the Commission and 97% for audits in the EU autonomous bodies. Compared to the original plan the number of audits in the EU autonomous bodies had to be reduced at the time of the mid-year review of the audit plan due to unexpected high staff turnover, which reduced the number of available auditor-hours by 11%. If this reduction is taken into account the overall result is still satisfactory.
- To maintain the recognition of the role of the IAS as a central service and its position as a leading internal audit service, the IAS hosts an annual high-level audit conference. Taking into account the general trend of cutting resources and focusing on increasing efficiency, the IAS dedicated its **2014 international internal audit conference** to brainstorming together with internal audit stakeholders on maximising the added value of internal audit. The theme turned out to be popular, with 433 participants representing the internal audit functions of the EU member states, the EU Institutions as well as several international organisations. Based on the satisfaction survey 87% of the respondents considered the conference useful.
- The results of the **annual satisfaction survey**, held among the IAS's key stakeholders and audit clients confirmed that the IAS is being perceived as:
 - Performing its audit work with honesty, objectivity and fairness (90%);
 - Providing added value, improving performance through addressing efficiency, effectiveness and economy of operations (83%);
 - Issuing recommendations addressing the issues and risks effectively (79%);
 - Issuing cost-effective recommendations (68%).

While the outcome for the first three bullets is deemed satisfactory, the 68% agreement with the fourth bullet shows that almost one third of the IAS stakeholders were not convinced about the cost effectiveness of the recommendations. In order to ensure that the IAS issues cost-effective recommendations which take into account the balance between the costs and benefits of controls, a new guideline on assessing cost-effectiveness of recommendations was developed in the course of 2014 which will allow the auditors to better assess the costs and benefits of recommendations in a structured way before including them in the audit reports. It is expected that the introduction will bear fruits as from 2015.

Key conclusions on resource management and internal control effectiveness

(Executive summary on parts 2 and 3)

In accordance with the governance statement of the European Commission, (the staff of) the IAS conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of Internal Control Standards (ICS), based on international good practice, aiming to ensure the achievement of policy and operational objectives. As required by the Financial Regulation (FR), the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the internal control standards and having due regard to the risks associated with the environment in which it operates.

The IAS has assessed the effectiveness of the implementation of the internal control standards via a self-assessment which was embedded in the DG's update of the management risk assessment. The conclusion was that the **ICS are effectively implemented**, with the exception of ICS 16 "Internal Audit Capability" which does not apply to the IAS.

Furthermore, the IAS has taken measures to further improve the efficiency of its internal control systems in the area of "Information and Communication" (ICS 12) and of "Processes and Procedures" (ICS 8) (as reported in detail in Part 3).

Service Level Agreements (SLA) with DG HR and DG DIGIT provide support services to the IAS in the area of human resources, financial management and IT services. The IAS has systematically examined the available control results and indicators.

All these elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives (see part 2 for further details). In conclusion, **management has reasonable assurance** that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General and the Director of IAS/A, in his capacity as Authorising Officer by Delegation have co-signed the Declaration of Assurance. According to Art.98(1) of the Financial Regulation, the Director-General of the IAS (the Commission's Internal Auditor) may not be the Authorising Officer by Delegation. This role is exercised by the Director of IAS/A.

Information to the First Vice-President

The main elements of this report and assurance declaration have been brought to the attention of the **First Vice-President Frans Timmermans**, responsible for Better regulation, inter-institutional relations, rule of law and charter of fundamental rights, and internal audit.

1. POLICY ACHIEVEMENTS

1.1 Achievement of objectives⁹

1.1.1 Internal Audit of the Commission

The aim of this ABB activity is to contribute to the effective and efficient performance of all Commission activities by providing independent and objective assurance and consultancy work.

This includes auditing the internal control systems in order to assess their effectiveness and, more generally, the performance of DGs, Offices, Services and Executive Agencies in implementing policies, programmes and actions with a view to bringing about continuous improvement. It will also seek to help, by means of its conclusions, opinions, advice and recommendations with regard to the controls of risks, the safeguarding of assets, the compliance with rules, accurate and reliable accounting and management information, the quality of internal control and, finally, the effectiveness, efficiency and economy of operations.

The audit plan was fully implemented. Some slight adjustments were made mid-year to take into account newly emerging risks. The target results for newly introduced indicators both on the use of auditors' time (min. of 80% of actual time spent on audit or audit support work) as on the share of audit work devoted to performance audits have been exceeded. This can be considered as a sign of an efficient and effective use of audit resources.

However, the target of on average ≤ 25 working days between findings validation meeting and final report delivery was not met (36 days). This can essentially be explained by protracted discussions with auditees on the sensitive nature of some of the auditor's findings and/or where the findings cover very technical issues which needed further time to resolve. It also reflects the extra coordination efforts to coordinate multi-DG audits, the resolution of issues regarding the interpretation of legal frameworks and the delays by auditees in providing comments. Constant efforts are being made to validate findings and recommendations as early as possible in the audit process (once the Findings Validations Table is issued), driving down subsequent time at the Draft Report stage. The target was adjusted to be more realistic but still ambitious for 2015 also distinguishing whether several services are involved which inevitably prolongs the validation process.

⁹ The IAS, as one of the Commission's central services, does not have direct long term benefits on society. Therefore, the reporting on "General objectives" and "Specific objectives" has been merged into one unique table. In addition, the IAS is not responsible for the management of spending programmes.

ABB activity: Internal Audit of the Commission		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
Objective 1	Result indicators (description + source)	Target by end 2014	Current situation
Delivery of high quality assurance and consulting services based on the risk-based audit plan for 2014 in order to help auditees in implementing the principles of sound financial management and improving the performance of their governance, risk management and control processes.	NEW The share of performance audits, including the comprehensive audits with performance audit dimensions <i>Source: monitoring of audit capacity planning (IAS/B monitoring tool) and GRC time reporting</i>	To devote at least 35% of total audit time to such audit engagements	48%
	Adequate coverage of the main risks in the Overall Opinion on financial management in the Commission Source: IAS/B monitoring tool	To issue the 2013 overall opinion without significant scope exclusion.	Target was met ¹⁰ .
	NEW The efficient use of internal audit capacity for the implementation of the 2014 audit plan. Source: GRC	The time devoted to direct audit work and audit support work to reach at least 80% of the available actual audit capacity.	91%
	Completion of the updated audit plan: percentage of planned engagements finalised Source: IAS/B monitoring tool	100% by January 2015	100%
	Average number of days between findings validation meeting and final report Source: GRC	=< 25 working days	36
	DGs and Services informed about the corporate dimension of audits through their dissemination to non-audited DG's Management Source: IAS/QAs	At least two management letters	Target was revised in July 2014 to one management letter, which was met at the end of the year.

¹⁰ No scope limitations were imposed by management and no material scope limitations arose from incomplete audit work during the period covered by the 2013 Overall Opinion.

	NEW The recognition of the role of the IAS as a central service Source: Stakeholders' survey	75% satisfaction rate	81%
Main policy outputs in 2014:			
<ul style="list-style-type: none"> Audit and consulting reports as planned for 2014, comprising opinion or conclusion & recommendations (list of reports in appendix to this report), 2013 Overall Opinion on the financial management of the European Commission, 2013 Annual Report of the Internal Auditor (99(3) of the FR) 			
Objective 2:	Result indicators (description + source)	Target by end 2014	Current situation
To ensure a permanent and effective follow-up of audit recommendations	APC is regularly informed about the status of implementation of recommendations overdue for more than 6 months issued to the Commission Directorates General and Executive Agencies Source: GRC	To inform APC on quarterly basis	1 st quarter 2014 on 04/03/2014; 2 nd quarter 2014 on 26/05/2014; 3 rd quarter 2014 on 24/09/2014; 4 th quarter 2014 on 19/12/2014
	APC informed on bi-annual basis about the recommendations overdue for more than 6 months issued by the IACs Source: Auditnet	1 st and 2 nd half of 2014	1 st and 2 nd half of 2014. The end-of-year report covered the full year 2014.
Main policy outputs in 2014:			
<ul style="list-style-type: none"> Reports to the Audit Progress Committee (4 reports on the follow-up of the IAS recommendations and 2 reports on the IAC audit work) 			

1.1.2 Internal Audit of the EU autonomous bodies

The aim of this ABB activity is to contribute to the effective and efficient performance of the bodies covered by article 208 and 209 of the Financial Regulation¹¹ by providing independent and objective assurance and consultancy work.

¹¹ EU autonomous bodies (Agencies, Joint Undertakings, intergovernmental bodies (European Schools) and EU institutions (EDPS and EEAS))

This includes auditing the internal control systems in order to assess their effectiveness and, more generally, their performance in implementing policies, programmes and actions with a view to bringing about continuous improvement. It will also seek to help, by means of its conclusions, opinions, advice and recommendations with regard to the controls of risks; the safeguarding of assets; compliance with rules; accurate and reliable accounting and management information; the quality of internal control and, finally, the effectiveness, efficiency and economy of operations.

During 2014 the work programme of Directorate A needed to be adjusted to account for a high number of vacancies which resulted in a reduction of the number of person-days available for audit activities by 11% compared to the original plan. At the cut-off date of 31 January 2015, 97% of the updated work programme had been implemented with one report finalised shortly after due to a prolonged validation process. In comparison to the original plan (before update at mid-year), execution of the plan was 88% which is still a satisfactory result.

For the audit of EU autonomous bodies the share of performance audits including comprehensive audits with performance aspects reached 70% which is far above the minimum target of 35% set for this indicator. This high percentage is due to the fact that the European Court of Auditors is sufficiently covering the financial management and legality, regularity aspects of the processes in these entities. As a consequence the IAS can focus on performance aspects of administrative and operational processes.

The target of issuing a final report within 25 days after the findings validation meeting was almost reached (actual average: 26 days) thanks to the considerable effort invested in the preparation of the advance draft reports (ADAR). In the few cases where the target of 25 days was not met this was usually related to the late arrival of the auditees' comments. Only in two very complex cases the internal review process took exceptionally long causing a delay.

ABB activity: Internal Audit of the EU autonomous bodies		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
Objective 1	Result indicators (description + source)	Target by end 2014	Current situation
Delivery of high quality assurance and consulting services based on the risk-based audit plan for 2014 in order to help auditees in implementing the principles of sound financial management and improving the performance of their governance, risk management and control processes.	NEW The share of performance audits, including the comprehensive audits with performance audit dimensions Source: monitoring of audit capacity planning (IAS/A monitoring tool) and GRC time reporting	At least 35% of total audit time devoted to such audit engagements	70%
	NEW The efficient use of internal audit capacity for the implementation of the 2014 audit plan. Source: GRC	The target is that the time devoted to direct audit work and audit support work reaches at least 80% of the available actual audit capacity.	82%
	Completion of the updated audit plan: percentage of planned engagements finalised Source: IAS/A monitoring tables	100% by January 2015	97%
	Average number of days between findings validation meeting and final report Source: IAS/A monitoring tables	Target: =< 25 working days	26
	Management of the EU autonomous bodies informed about the cross-cutting issues stemming from the audit work Source: IAS/QAs	At least one management letter	One horizontal note concerning the review of the autonomous bodies' AARs was issued.
Main policy outputs in 2014: <ul style="list-style-type: none"> • <i>Audit and consulting reports almost as planned for 2014, comprising opinion or conclusion & recommendations (list of reports in appendix to this report),</i> • <i>Report on cross-cutting issues in the EU autonomous bodies</i> 			

Objective 2:	Result indicators (description + source)	Target by end 2014	Current situation
To ensure a permanent and effective follow-up of audit recommendations	The boards of the EU autonomous bodies informed about the status of implementation of recommendations issued to the respective EU autonomous bodies, including critical and very important ones, overdue past the original deadline Source: GRC	On annual basis	Done via the Annual Reports on Internal Auditing
<p>Main policy outputs in 2014:</p> <ul style="list-style-type: none"> <i>Annual reports to the boards of the EU autonomous bodies</i> 			

1.1.3 Policy Strategy and Coordination of the IAS

This section includes all functions aimed at steering and coordinating the internal audit activity. These functions (such as strategy definition and coordination, strategic planning and programming, communication, document management, public access to documents and the hosting of the yearly audit conference) contribute directly to the success of the IAS.

The IAS has contributed significantly to the capacity building of the wider internal audit community¹², as well as to the exchange of good practices via the Auditnet meetings and the Auditor Forum seminars. The Internal Audit Training Programme covered 100% of all approved training needs of this professional community. In total, 39 training sessions have been organised, upholding an overall satisfaction rate of 82%. An in-depth training needs assessment confirmed that the programme is still in line with the learning needs of the IAS auditors.

¹² This community includes the Internal Audit Capabilities of the EU autonomous bodies (Agencies, Joint Undertakings), intergovernmental bodies and the other EU institutions. In 2014, it still encompassed the former Internal Audit Capabilities in the Commission DGs and Executive agencies.

ABB activity: Policy strategy and coordination for the IAS		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
Objective	Result indicators (description + source)	Target by end 2014	Current situation
Capacity building of the internal audit community of the Commission and the EU autonomous bodies	Hosting international high-level audit conference promoting topical discussions and exchange of good practices amongst the community of internal auditors and their stakeholders Source: Satisfaction Survey	Percentage of appreciation: at least 80%	87%
Main policy outputs in 2014: <ul style="list-style-type: none"> International internal audit conference for the public sector internal auditors 			

1.1.4 Coordination with the Audit Progress Committee (APC Secretariat)

Internal Audit of the Commission – APC Secretariat		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
Objective	Result indicators (description + source)	Target by end 2014	Current situation
Together with the Chair of the Preparatory Group, drive the planning and implementation, including all necessary administrative and logistical support, of the APC annual work programme to ensure effective fulfilment of the APC's responsibilities in line with its Charter.	APC members' satisfaction (e.g. invitations, agenda, briefings, minutes) with the APC Secretariat Source: Stakeholders' survey	At least 95%	100% in 2014 (as in 2013, 2012 and 2011)
Main policy outputs in 2014: <ul style="list-style-type: none"> Adopted annual work programme, Minutes APC meetings, Information notes reporting matters deserving the attention of the College, APC annual report 			

1.1.5 Administrative support of the IAS

This activity is common to all services and includes functions that are necessary for running the IAS, such as financial management, HR and ICT.

The IAS aims at ensuring an effective and efficient human resource and financial management through a complete execution of the 2014 budget, through maintaining the right balance between stability/mobility of the IAS staff and maintaining the level of professional qualification of its auditors. During 2014, however, the increased staff mobility made it difficult to keep the vacancy rate below 6,5% of the total number of posts. In November 2014, in the context of the centralisation of the internal audit function in the Commission, a major recruitment exercise was launched, which will continue in 2015. Taking into account the allocation of 60 additional posts at the end of 2014, the IAS will need some time before the vacancy rate will return to the target level.

With regards to the IAS IT strategy, the initial IAS priority in 2014 was to upgrade "GRC", the IT system supporting the audit process, to the latest version. Unfortunately this upgrade was not possible due to severe performance issues partially related to the technical constraints of the Commission's IT infrastructure. As a consequence a project to replace GRC with a tool corresponding better to the IAS' needs has been launched.

1.2 Economy and Efficiency of activities.

According to the Financial Regulation (FR Art 30), the principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units and directorates) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

The IAS is a **non-spending DG**. It is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations.

The following two initiatives show how these principles are implemented in DG IAS:

1.2.1 Reallocation of resources to our core activity

The IAS continued to ensure an efficient and effective allocation of internal resources to anticipate the changes in the audit universe, whilst taking into account the planned reduction/reallocation of Commission staff over the coming years.

Further to the 12 internal redeployments of last year, the IAS made another 5 internal transfers in 2014, so as to ensure that posts are allocated to areas in need of reinforcement, to better match the talent of its staff with the needs of the service and to promote cross-fertilization of audit expertise between Directorates. For staff belonging to the Directorate in charge of the internal audit of the Commission, the reorganisation of the service as of 01 January 2015 will be akin to an internal redeployment, as audit units and their portfolios will be spread over two directorates and eight units.

Continuing its efforts to slim down administrative and coordination functions, the posts returned in the context of the staff reductions were all posts for supporting staff: one post returned on 1 April 2014 for the "Levy on excessive overheads", a second one on 1 July 2014 for the third instalment of the "5 % staff cut" and a third post on 1 December 2014 for the "redeployment tax".

In preparation for the new organisational chart entering into force as of 01 January 2015 with two Directorates responsible for auditing the Commission, the IAS launched a Call for Expression of Interest, open to officials and temporary agents in function group AD or AST. Of particular interest to staff working in IACs or in related areas, such as financial management and ex-post control, this call aimed to attract the right mix of professionals for audit units composed of balanced teams of IAS staff and newcomers. While a first wave of recruitments was launched in the last weeks of December, the recruitment process will continue during Q1 2015.

1.2.2 Close monitoring allows more time to be spent on auditing

The IAS has put clear limits to the allocation of resources to non-audit activities.

Through detailed planning, individual time recording and close monitoring of time spent per task, efforts were made in both Directorates to make the capacity planning for the 2014 audit work more strict and to ensure a closer monitoring of the use of available audit capacity. At mid-year, an exhaustive analysis of the time spent was carried which resulted in necessary adjustments of the audit plans.

As explained under objective 1 in section 1.1.2, by the end of 2014, the new target to devote at least 80% of the available actual audit capacity to audit work was exceeded (91% for audit work in the Commission and 82% for audit work of the EU autonomous bodies).

Further efficiency of administration was achieved through a better use of information provided by the corporate networks. Another example is the improvement of the IAS web-based applications which decreased the need for maintenance. These changes resulted in a reduction of administration time that consequently was made available to our core activity.

2. MANAGEMENT OF RESOURCES (CROSS-SUB-DELEGATION TO DG HR AND DG DIGIT)

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis.

This section reports on the **control results and other relevant elements that support management assurance on the achievement of the internal control objectives**¹³. It covers: (1) the IAS' assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by DG HR and DG DIGIT to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of audits and reviews (EQA).

The 2014 budget, title 28, covers the activity of the policy area 'Audit'. It includes two internal audit activities ("Internal Audit of the Commission" and "Internal Audit of the EU autonomous bodies") and the three horizontal activities. The budget allocation for the IAS is not split between the five activities, but entirely included under the heading "Administrative expenditure of Audit policy area".

The administrative expenditure of the IAS totalled 11,6 m€ in 2014. As provided for by the Internal Rules, 96 % of the IAS's budget was directly delegated to PMO, DG DIGIT and DG HR. The IAS is therefore accountable for the remaining 4 % which were, however, cross-sub-delegated to DG HR (3 %) and DG DIGIT (1 %). As the budget has been managed under the same Commission rules, the sub-delegating AOD can in principle **rely on the legality and regularity, efficiency and cost-effectiveness of the controls in place in DG HR and DG DIGIT**.

According to Art.98(1) of the Financial Regulation, the Director-General of the IAS (the Commission's Internal Auditor) may not be the Authorising Officer by Delegation (AOD). This role is exercised by the Director of IAS/A. In May 2014, the former Director moved to a new position, leaving the task of AOD to the acting Director (the Head of Unit of IAS/A3) until the arrival of the new Director in July 2014. At each handover, the successor was informed (by note) about the status of the implementation of the budget and the absence of issues necessitating a reservation in the AAR.

2.1 Management of human and financial resources.

The IAS human resources and financial management, and IT support tasks, have been outsourced under **Service Level Agreements**. However, the IAS is retaining all planning aspects.

¹³ Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

The Coordination Cell (CoCell) coordinates the resource management and monitors the budget execution. As from 1 January 2015, the Cocell, previously reporting directly to the Director-General, has been integrated into Unit IAS/01.

In January 2014, the IAS adopted its **anti-fraud strategy for 2014-2016**¹⁴ as foreseen in the anti-fraud strategy of the Commission. Even though the IAS is classified as a non-spending DG with a low fraud risk profile, all standard preventive and detective control measures are in place in the IAS (segregation of duties, ex-post controls, collegiality of decisions). The services provided by DG HR and DG DIGIT are subject to their anti-fraud measures. As for the audit activity, leaking of confidential information, conflicts of interest and lack of objectivity have been identified as risks with a low probability. By the end of 2014, and in execution of its action plan, the IAS:

- Continued to strongly rely on the ethical awareness and the stance of the IAS staff and reminded its staff of the obligation to declare their spouse's current employment (on 4 March 2014). An information package on ethics – to be signed for receipt - was prepared for all new IAS staff (on 8 May 2014) and an ethics quiz on ethical dilemma's reminding staff of the main principles was organised (10 November 2014).
- Carried out additional preventive and detective controls such as ex-post controls on missions (see below) and the follow-up of potential conflicts of interest as reported by recruitment panel members and/or candidates.

During 2014, the IAS executed its **own controls to ensure compliance of the mission expenses** with the Commission's Guide to missions and IAS specific guidance. Therefore, all mission requests and cost-claims are ex-ante controlled by the verifying officer. In addition, a representative sample of reimbursements is controlled ex-post by the resource coordination-cell (CoCell). The ex-post control activity revealed no material errors thus indicating an effective ex ante control. (*Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems*).

The IAS needs to respect confidentiality with regard to the information gathered from the audit work performed. It has created and updated several controls ensuring the correct **handling of its sensitive information**:

- A unique marking "IAS operations" for all reports of both directorates was created, reducing the ambiguity on their use and distribution.
- All IAS data protection notifications have been updated.
- To enable the IAS for a more efficient and correct reply to requests from citizens for access to documents under Regulation (EC) N°1049/2001, the IAS – in collaboration with the SG and the LS - has clarified the circumstances in which the IAS may refuse the access to audit related documents (January 2014).

¹⁴ Ares(2014)154518 of 24 January 2014

2.2 Budget implementation tasks entrusted to other services and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

As in previous years, the IAS has cross-sub-delegated:

- 0,37 m€ to DG HR for the purpose of the provision of services in the area of human resources¹⁵ and financial management.
- 0,1 m€ to DG DIGIT for the purpose of the provision of IT-related services¹⁶, including services by DIGIT in its role of "system supplier" for the GRC¹⁷.

As both the DG HR Director General and the DG DIGIT Director General are Commission AOD themselves, subject to similar management governance modalities (including an AAR), **the IAS can rely on their control system** (subject to the IAS receiving a favourable AOSD report from the DGs¹⁸, to the DGs not having been issued any critical audit recommendations and to the DGs not issuing a reservation on their control system in their own AAR.

As this has been the case for 2014, the IAS can conclude that the DGs' controls can be considered as effective and that the administrative budget payments have been legal and regular.

Furthermore, as inter alia considerations about economies of scope and scale have been one of the reasons behind the Commission decision to set-up centralised support Offices on behalf of all DGs, the IAS assumes that control efficiency and cost-effectiveness purposes are served as well.

The cross-delegation agreement requires the AODs of DG HR and DG DIGIT to report on the use of these appropriations. In their reports, the AODs do not communicate any events, control results or issues which could have a material impact on assurance.

¹⁵ The corresponding budget lines cross-sub-delegated to DG HR are : 28.010211.00.01.10 - 28.010211.00.02.20 - 28.010211.00.02.40 - 28.010211.00.04 - 28.010211.00.06 - 28.010201.00.02.20

¹⁶ The corresponding budget line cross-sub-delegated to DG DIGIT is: 28.010211.00.05

¹⁷ Governance Risk & Compliance IT tool.

¹⁸ The declaration of the Resource Director of DG HR is attached to this AAR, see annex 1b. The report for 2014 and the assurance declaration by the Director General of DG DIGIT were received on 05/02/2015.

2.3 Assessment of audit results and follow up of recommendations and reviews (by an external assessor)

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

The IAS is required by the IIA professional standards¹⁹ to undergo at least every 5 years an external quality assessment. In 2013, such an assessment was conducted for Directorate B. The results confirmed that the IAS is "Generally Compliant with the Standards"²⁰, which is the highest rating. Such an exercise was conducted in 2011 for Directorate A with the same result. A new exercise is planned for 2016 and will cover the whole of the IAS in a single assignment.

¹⁹ International Standards for the Professional Practice of Internal Auditing – 1312, External Assessments: External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

²⁰ C(2013) 3317, Mission Charter of the IAS, p 6: *"The IAS will adhere to the mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing as drawn up by the Institute of Internal Auditors. ..."*

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of Internal Control Standards (ICS), based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these ICS is a compulsory requirement.

The IAS has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the ICS and having due regard to the risks associated with the environment in which it operates.

The IAS's annual review of its implementation of the Internal Control Standards was based on a self-assessment exercise which was integrated in the annual management risk assessment survey. Overall the level of implementation of ICS was assessed positively.

Based on the results of the annual risk assessment exercise and already selected in 2013, the IAS has prioritised the following internal control standards in the Management Plan 2014:

ICS 12: Information and Communication

The 2013 staff satisfaction survey and its follow-up actions indicated that there was room for improvement in internal communication, especially between different levels in the organisation and between the two Directorates which were found to be working too much in isolation from one another. Several initiatives were taken in 2014 to improve the communication across the organisation, such as:

- the organisation of thematic group meetings,
- the organisation of focus group meetings with IAS' units dedicated to improving internal communication,
- the presentation of an action plan as a follow up to the staff satisfaction survey to the senior management,
- the management meetings,
- the staff meetings, and
- the issuing of a communication action plan.

Thanks to these activities, which are not one-off events, the implementation of ICS 12 was rated as effective in 2014.

Nevertheless, due to the reorganisation which will only be fully implemented in 2015, continued attention needs to be given to internal communication, accompanying the creation of a third directorate and the resulting very important increase of the number of staff.

Therefore, ICS 12 has been prioritised again in the MP 2015.

ICS 8: Processes and Procedures

The main processes and procedures used for the audit work are readily available on the IAS's Intranet. They are frequently consulted by auditors. However, they were not always up-to-date and documented in a user-friendly fashion. The review of the audit manual and guidelines issued in notes is also an opportunity to create more synergies between the directorates. In 2014, a separate manual for performance audits was developed and issued on behalf of all IAS auditors.

Even though the implementation of ICS 8 is classified as effective in the IAS' self-assessment covering 2014, it has been prioritised again in the MP 2015 because the re-organisation and especially the creation of the central quality assurance activity in Unit 01 requires a thorough review and update of all audit related processes and procedures.

Based on all available information and the above analysis, the internal control standards are **considered to have been effectively implemented.**

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information reported in Parts 2 and 3 stems from three main building blocks of assurance.

Firstly, almost 100% of the administrative expenditure of the IAS is cross-delegated and sub-delegated to DG HR and DG DIGIT, which provided their declaration of assurance. No specific issues were raised in these reports.

Secondly, the ex-post controls executed on mission expenditures confirmed that management and administration of missions was implemented according to the Guidelines in the IAS.

And finally, the functioning of the internal control systems has been monitored throughout the year by the registration of internal control weaknesses by the Internal Control Coordinator. Corrective and alternative mitigating controls have been implemented when necessary.

This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the IAS.

4.2 Overall conclusion on assurance

DG IAS has cross- and sub-delegated almost all of its budget to DG HR and DG DIGIT since 2006. As the administrative expenditure of the IAS has been managed under the same Commission rules, the sub-delegating AOD can in principle rely on the Declaration(s) of Assurance received from the AODs of DG HR and DG DIGIT.

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the expenditure authorised during the reporting year is close to 0%.

Taking into account the conclusions of the review of the elements supporting assurance it is possible to conclude that the internal controls implemented by DG HR, DG DIGIT and DG IAS provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regards to the achievement of the other control objectives.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

The Director General and the Director IAS/A, in his capacity as authorising officer by delegation, have co-signed the Declaration of Assurance.

DECLARATION OF ASSURANCE

We, the undersigned,

*Philippe Taverne,
Director-General of the Internal Audit Service of the European Commission, and*

*Reinder van der Zee,
Director IAS/A, in my capacity as authorising officer by delegation,*

Declare that the information contained in this report gives a true and fair view²².

State that we have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place in DGs HR and DIGIT give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on our own judgement and on the information at our disposal, such as the results of the self-assessment and ex-post controls, for years prior to the year of this declaration.

Confirm that we are not aware of anything not reported here which could harm the interests of the institution.

Brussels, 26 March 2015

[Signed]

Philippe Taverne

[Signed]

Reinder van der Zee

²² True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

2014

Annual Activity Report

Annexes¹

Internal Audit Service

¹ *Annexes 6-11 are not applicable to the IAS*

ANNEXES

ANNEX 1a: Statement of the Resources Director

Following the Section 2.5 of the Service Level Agreement on the provision of support to the Internal Audit Service (IAS) by DG HR, revised on 27th May 2010,

I, the undersigned, Reinder van der Zee, Director (IAS/A), in my capacity as Authorising Officer by delegation of the IAS, declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission², I have reported my advice and recommendations to the Director-General on the overall state of internal control in the IAS.

I hereby certify that the information provided in Parts 2 and 3 of the present annual activity report (AAR) and its annexes is, to the best of my knowledge, accurate and exhaustive.

Brussels, 26 March 2015

[Signed]

Reinder van der Zee

² SEC(2003)59 of 21.01.2003.

ANNEX 1b: Statement of the "Shared resources services" Director of DG Human Resources and Security

PURSUANT TO THE SLA OF 27th MAY 2010

Following Section 2.5 of the Service Level Agreement on the provision of support to the Internal Audit Service (IAS) by DG HR revised on 27th May 2010,

I the undersigned, Matthias Will, Director (HR/R), in my capacity as Authorising Officer by crossed sub-delegation for the IAS administrative credits,

Declare that, in accordance with the Commission's communication³ on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission, I have reported my advice and recommendations to the Authorising Officer by delegation on the overall state of internal control in the IAS.

Certify, hereby, that the information provided in annexes 2 & 3 is, to the best of my knowledge, accurate and exhaustive.

Brussels, 17 March 2015

[Signed]⁴

Matthias Will

³ *Communication to the Commission: Clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission; SEC(2003)59 of 21.01.2003.*

⁴ *Ref. Ares(2015)1159312 of 17/03/2015*

ANNEX 2: Human and Financial resources

Human Resources (person years)*

Human Resources by ABB activity				
Code ABB Activity	ABB Activity	Establishment Plan posts	External Personnel	Total
28 AWBL-01	Administrative support for the Internal audit service	4	1	5
28 AWBL-02	Internal audit of the Commission	54	6	60
28 AWBL-03	Policy strategy and coordination for the Internal audit service	12	1	13
28 AWBL-04	Internal Audit of the Union agencies and other bodies	32	3	35
28 AWBL-05	Coordination with Audit Progress Committee (APC)	1	2	3
Total		103	13	116

General remark: the above data rely on the snapshot of Commission personnel actually employed in the IAS as of 31/12/2014. These data do not constitute full-time-equivalent units throughout the year.

Financial Resources

Financial Resources by ABB activity (EUR Million) implementation of Commitment Appropriations (CA)					
Code ABB Activity	ABB Activity	Operational expenditure	Administrative expenditure		Total
			(1)	(2)	
28 AWBL-01	Administrative support for the Internal audit service		0.5		0.5
28 AWBL-02	Internal audit of the Commission		6		6
28 AWBL-03	Policy strategy and coordination for the Internal audit service		1.3		1.3
28 AWBL-04	Internal Audit of the Union agencies and other bodies		3.5		3.5
28 AWBL-05	Coordination with Audit Progress Committee (APC)		0.3		0.3
Total			11.6		11.6

(1) Heading 5 appropriations managed by the DG (global envelope) XX 01 02

(2) BA lines (XX 01 04) and, when relevant XX 01 05 and XX 01 06.

Implementation of the global envelope

(IN EUROS)

BUDGET LINE	BUDGET LINE DESCRIPTION	APPROPRIATIONS 2014 (C1,C4 and C5)				APPROPRIATIONS carried over (C8)	
		AVAILABLE APPROPRIATIONS 2014	COMMITMENTS 2014	PAYMENTS 2014	RAL 2014	APPROPRIATIONS CARRIED OVER FROM 2013	% IMPLEMENTATION ON APPROPRIATIONS CARRIED OVER FROM 2013
28.010211.00	Non affecté	3.000	0,00	0,00	0,00	0,00	N/A
28.010201.00.02.20	Technical assistance	0,00	0,00	0,00	0,00	1.762,25	N/A
28.010211.00.01.10	Mission expenses	298.000,00	298.000,00	217.111,55	80.888,45	76.680,31	45%
28.010211.00.01.30	Representation expenses	0,00	0,00	0,00	0,00	250,00	N/A
28.010211.00.02.20	Meeting costs	1.000,00	1.000,00	0,00	1.000,00	250,00	N/A
28.010211.00.02.40	Conference costs	39.416,00	30.944,60	30.774,60	170,00	47,06	25%
28.010211.00.03	Meetings of committees	0,00	0,00	0,00	0,00	0,00	N/A
28.010211.00.04	Studies and consultations	0,00	0,00	0,00	0,00	0,00	N/A
28.010211.00.05	Development of management and information systems	71.400,00	54.528,20	42.739,50	11.788,70	31.370,08	100%
28.010211.00.06	Further training and management training	32.395,00	32.395,00	10.414,97	21.980,03	12.567,96	84%
	TOTAL	445.211,00	416.867,80	301.040,62	115.827,18	122.927,66	62%

(IN EUROS)

		APPROPRIATIONS 2013 (C1,C4 and C5)				APPROPRIATIONS carried over (C8)	
		AVAILABLE APPROPRIATIONS 2013	COMMITMENTS 2013	PAYMENTS 2013	RAL 2013	APPROPRIATIONS CARRIED OVER FROM 2012	% IMPLEMENTATION ON APPROPRIATIONS CARRIED OVER FROM 2012
BUDGET LINE	BUDGET LINE DESCRIPTION						
28.010211.00			0,00	0,00	0,00	0,00	N/A
28.010201.00.02.20	Technical assistance	32000	32.000,00	30.237,75	1.762,25		
28.010211.00.01.10	Mission expenses	340.806,00	340.806,00	264.125,69	76.680,31	50.954,89	46%
28.010211.00.01.30	Representation expenses	1.000,00	250,00	0,00	250,00	0,00	N/A
28.010211.00.02.20	Meeting costs	864,00	250,00	0,00	250,00	0,00	N/A
28.010211.00.02.40	Conference costs	47.931,00	30.047,66	30.000,60	47,06	0,00	N/A
28.010211.00.03	Meetings of committees	0,00	0,00	0,00	0,00	0,00	N/A
28.010211.00.04	Studies and consultations	0,00	0,00	0,00	0,00	0,00	N/A
28.010211.00.05	Development of management and information systems	163.381,00	44.814,40	13.444,32	31.370,08	73.474,80	100%
28.010211.00.06	Further training and management training	53.627,00	53.627,00	41.059,04	12.567,96	12.780,45	89%
	TOTAL	639.609,00	501.795,06	378.867,40	122.927,66	137.210,14	79%

Annex 3 Financial Reports - DG IAS - Financial Year 2014**Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Statement of Financial Performance****Table 6 : Average Payment Times****Table 7 : Income****Table 8 : Recovery of undue Payments****Table 9 : Ageing Balance of Recovery Orders****Table 10 : Waivers of Recovery Orders****Table 11 : Negotiated Procedures (excluding Building Contracts)****Table 12 : Summary of Procedures (excluding Building Contracts)****Table 13 : Building Contracts****Table 14 : Contracts declared Secret**

Additional comments

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2014 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
Title 28 Audit					
28	28 01	Administrative expenditure of the 'Audit-policy area	0.45	0.42	91.86 %
Total Title 28			0.45	0.42	91.86%
Total DG IAS			0.45	0.42	91.86 %

* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).

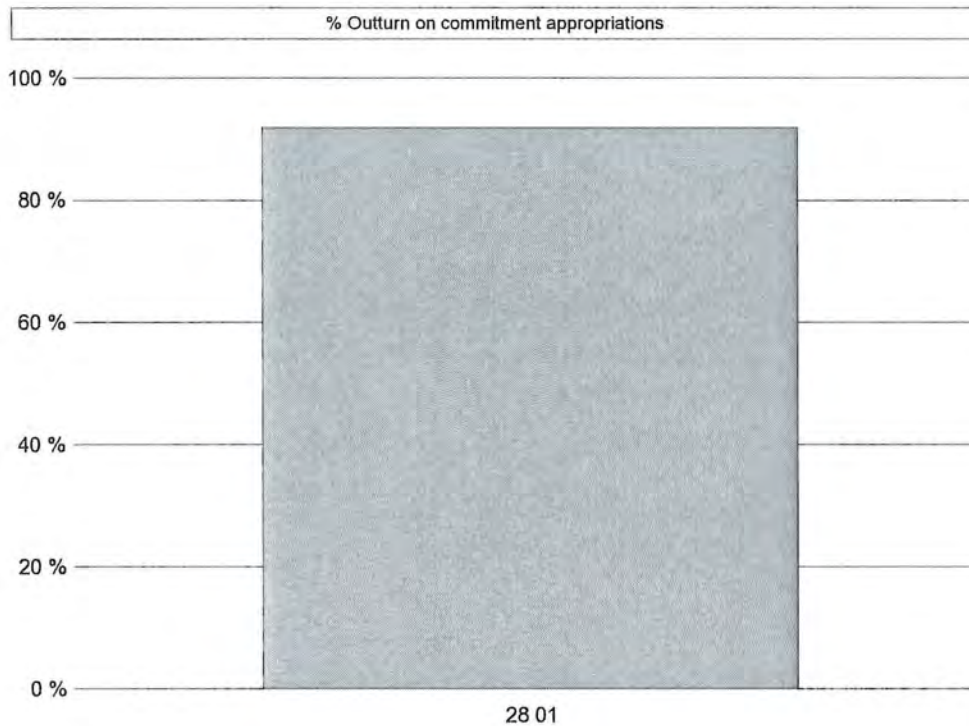


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2014 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
Title 28 Audit					
28	28 01	Administrative expenditure of the `Audit- policy area	0.58	0.38	65.48 %
Total Title 28			0.58	0.38	65.48%
Total DG IAS			0.58	0.38	65.48 %

* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).

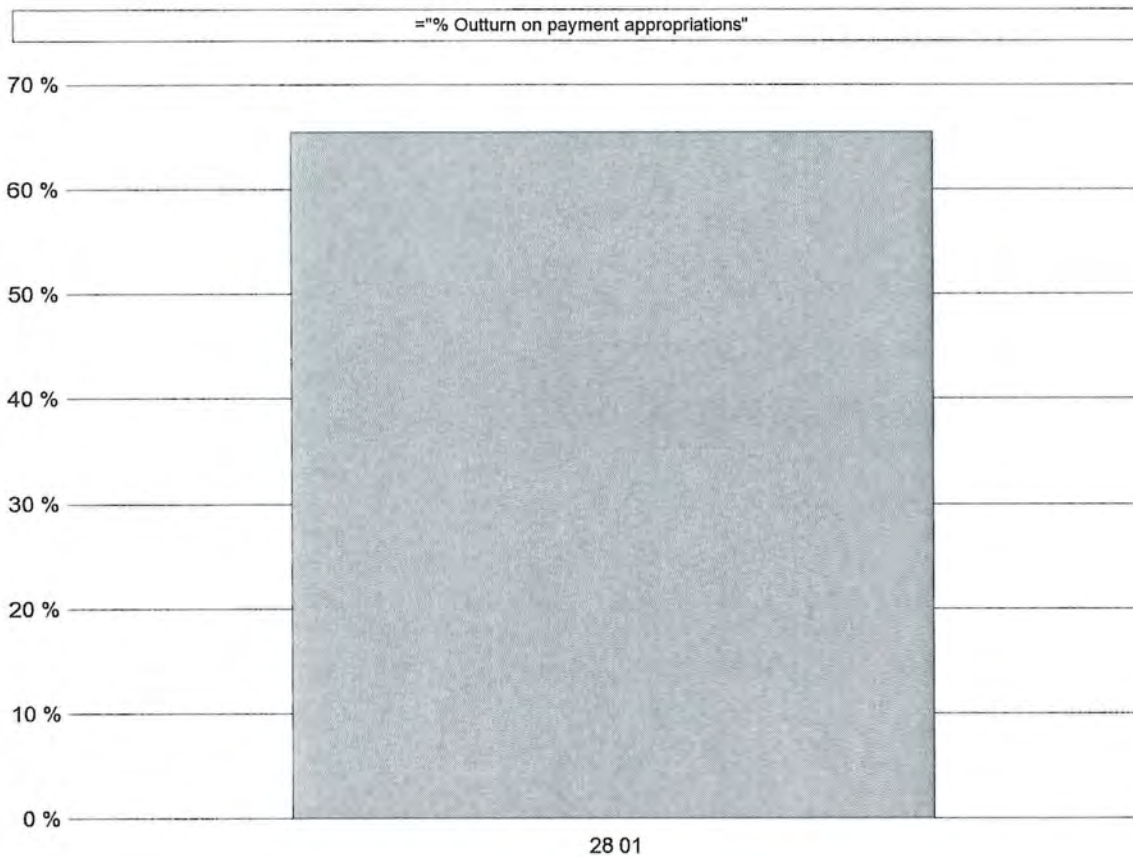
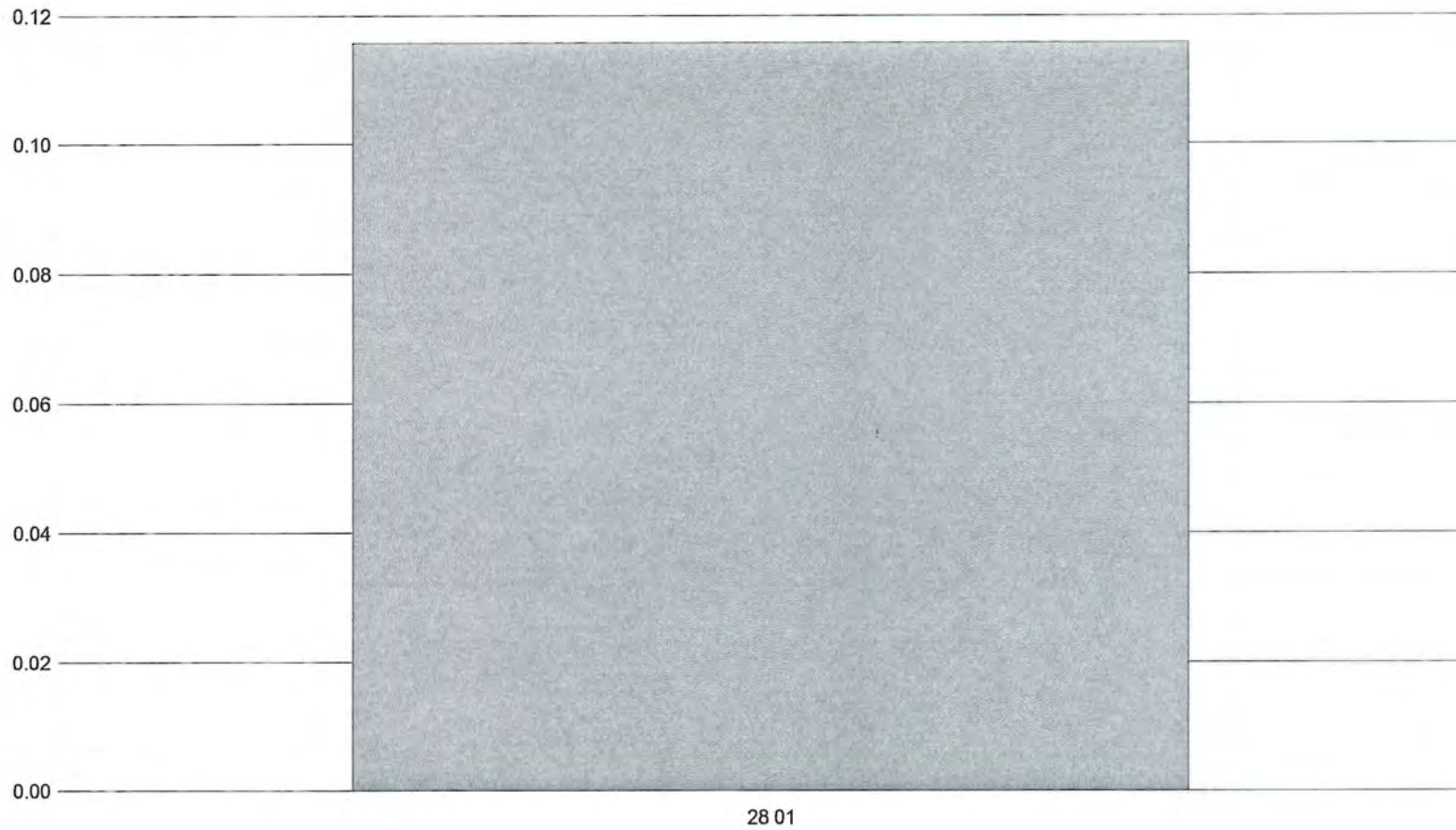


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2014 (in Mio €)

Chapter			2014 Commitments to be settled				Commitments to be settled from financial years previous to 2014	Total of commitments to be settled at end of financial year 2014 (incl corrections)	Total of commitments to be settled at end of financial year 2013 (incl. corrections)
			Commitments 2014	Payments 2014	RAL 2014	% to be settled			
			1	2	3=1-2	4=1-2/1	5	6=3+5	7
Title 28 : Audit									
28	28 01	Administrative expenditure of the `Audit-policy area	0.42	0.30	0.12	27.75 %	0.00	0.12	0.12
Total Title 28			0.42	0.30	0.12	27.75%	0	0.12	0.12
Total DG IAS			0.42	0.30	0.12	27.75 %	0	0.12	0.12

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors

= "Breakdown of Commitments remaining to be settled (in Mio EUR)"



Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors

TABLE 4 : BALANCE SHEET

BALANCE SHEET	2014	2013
P.III. CURRENT LIABILITIES	-2,933.64	-2,933.64
P.III.4. Accounts Payable	-538.43	-538.43
P.III.5. Accrued charges and deferred income	-2,395.21	-2,395.21
LIABILITIES	-2,933.64	-2,933.64
NET ASSETS (ASSETS less LIABILITIES)	-2,933.64	-2,933.64

P.I.2. Accumulated Surplus / Deficit	144,786.9	10,041.04
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Non-allocated central (surplus)/deficit*	-141,853.26	-7,107.4
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TOTAL	0.00	0.00
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It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 : STATEMENT OF FINANCIAL PERFORMANCE

STATEMENT OF FINANCIAL PERFORMANCE	2014	2013
II.1 REVENUES	1,254	1,056
II.1.2. EXCHANGE REVENUES	1,254	1,056
II.1.2.2. OTHER EXCHANGE REVENUE	1,254.00	1,056.00
II.2. EXPENSES	51,099.11	133,689.86
II.2. EXPENSES	51,099.11	133,689.86
11.2.10. OTHER EXPENSES	51,099.11	97,787.22
II.2.6. STAFF AND PENSION COSTS		35,902.64
STATEMENT OF FINANCIAL PERFORMANCE	52,353.11	134,745.86

In the frame of the 2014 accounting closure, the IAS applied the "light" cut-off procedure as proposed by DG BUDGET

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 6: AVERAGE PAYMENT TIMES FOR 2014 - DG IAS

Target Times				
Target Payment Time (Days)	Total Number of Payments		Percentage	Average Payment Times (Days)

Total Number of Payments				
Average Payment Time				

Suspensions							
Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount

Late Interest paid in 2014			
DG	GL Account	Description	Amount (Eur)

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2014

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total	
	1	2	3=1+2	4	5	6=4+5	7=3-6
Total DG							

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors

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Report printed on 11/03/2015

TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2014 Year of Origin (commitment)	TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
	Sub-Total					

EXPENSES BUDGET	Error		Irregularity		OLAF Notified		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
INCOME LINES IN INVOICES												
NON ELIGIBLE IN COST CLAIMS												
CREDIT NOTES												
Sub-Total												
GRAND TOTAL												

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors. The provisional closure will be based on the recovery context situation at 31/01/2015.

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2014 FOR IAS

	Number at 01/01/2014	Number at 31/12/2014	Evolution	Open Amount (Eur) at 01/01/2014	Open Amount (Eur) at 31/12/2014	Evolution

TABLE 10 : RECOVERY ORDER WAIVERS IN 2014 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments

Total DG	
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Number of RO waivers	
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Justifications:

Please enter the text directly (no copy/paste of formatted text which would then disappear when saving the document in pdf), use "ctrl+enter" to go to the next line and "enter" to validate your typing.

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG IAS - 2014

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Total		

No data to be reported

TABLE 12 : SUMMARY OF PROCEDURES OF DG IAS EXCLUDING BUILDING CONTRACTS

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Additional comments

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TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)

No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)

No data to be reported

ANNEX 4: Materiality criteria

Qualitative assessment

- Non achievement of an important objective/obligation

Quantitative assessment

- In order to be considered "material" in quantitative terms, failings must have a direct financial impact on the budget, affecting a significant proportion of total commitment appropriations or payments. In line with internal guidelines a weakness would have been considered 'material' only if there is a direct financial impact or risk of loss of more than 2% of the overall IAS budget (Title 28).

Assessment of reputational events

- A significant reputational risk for the IAS or the Commission: given the nature and sensitivity of IAS work, any impediment to the fulfilment of IAS obligations as foreseen under the Financial Regulation could have a significant impact on the reputation of the Commission and should be explicitly mentioned.

ANNEX 5: Internal Control Template(s) for budget implementation (ICTs)

Stage 1: Mission expenses

Main control objectives: To ensure compliance of the mission expenses with the Commission's Guide to missions and IAS specific guidance⁶.

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
The mission expenses will be not cost-effective.	Ex-ante validation of the opportunity of the mission (justification, location, number of staff, duration, ...)	100% ex-ante validation by the direct superior and AOD.	Cost = negligible (less than 1% FTE) Benefit = elimination of nonessential missions	<ul style="list-style-type: none"> - Missions are limited to the essential. - All ineligible amounts are identified by ex-ante control (as corroborated by ex-post) - All cases of irregularity or divergence from the best practice are listed and clarified. - Systemic conclusions are used to inform staff and improve the management system.
	Ex-ante verification of the travel orders and claims for reimbursement	100% ex-ante control by the verifying officer	Cost = 10% FTE Benefits = identification of ineligible amounts	
	Independent ex-post control	Ex-post control of representative sample of expenses (13%) by the resources coordination cell (CoCell)	Cost = approx. 2 working days Benefits = identification of ineligible amounts that were not identified ex ante, thus indication of the effectiveness of the ex-ante control	
	Exception reporting	See ex-ante verification and ex-post control.	Cost = negligible Benefits = transparent reporting of exceptions	

⁶ Payments are not included in the main control objectives as they are executed by the entrusted entity, PMO, subject to similar management governance modalities. The corresponding controls are reported by the PMO in their AAR.

APPENDIX

Engagements in the Commission and Executive Agencies finalised in 2014

No.	DG	AUDIT TITLE	Type
1	AGRI	IAS Audit on Management of Local IT in DG AGRI	AUDIT
2	BUDG	IAS Audit on IT Governance in DG BUDG	AUDIT
3	DIGIT	Management of logical access to systems (ECAS/LDAP/windows)	AUDIT
4	EAC	Management of the IT projects in DG EAC (E4ALink and EVE)	AUDIT
5	MARE	Management of local IT: joint audit IAC/IAS	AUDIT
6	Multi-DG	Audit of management and supervision of outsourced IT services (contract management)	AUDIT
7	Multi-DG (ex-EPPO)	The planning stage of the selection process	AUDIT
8	EMPL	Audit on Gap analysis phase II in DG EMPL	AUDIT
9	EMPL	Audit on preparations for use of Financial Instruments in DG EMPL	AUDIT
10	REGIO	Audit on Gap analysis phase II in DG REGIO	AUDIT
11	REGIO	Audit on preparations for use of Financial Instruments in DG REGIO	AUDIT
12	CNECT	Audit in DG CNECT on the Implementation of FP7 Control Systems	AUDIT
13	ERCEA	Implementation of FP7 control systems	AUDIT
14	JRC	Audit on procurement	AUDIT
15	RTD	Implementation of FP7 Control systems (including supervision of external bodies)	AUDIT
16	ECFIN	Risk management process and planning processes in the new economic governance context	AUDIT
17	MARKT	Audit on DG MARKT's Cooperation with the three Supervisory Bodies on Financial Services	AUDIT
18	TAXUD	Performance Measurement System in DG TAXUD Customs Activities	AUDIT
19	Y COMM	Are the administrative processes supporting the implementation of the European Semester effective and efficient across the Commission?	AUDIT
20	DEVCO	Contribution agreements with international organisations - DG DEVCO	AUDIT
21	DEVCO	DG DEVCO - Assurance Building Process in EU Delegation	AUDIT
22	DEVCO	IAS Audit on budget support in DG DEVCO	AUDIT
23	ECHO	Contribution agreements with international organisations - DG ECHO	AUDIT
24	ECHO	IAS Audit on effectiveness/impact of DG ECHO's Business Process Review	AUDIT
25	FPI	FPI - Control Strategy	AUDIT
26	REGIO	Limited Review on error rates in DG REGIO	Limited review
27	CNECT	Limited Review on residual error rate in DG CNECT	Limited Review
28	Multi-DG	IAS Audit on SF DGs Gap Assessment Phase I in DG AGRI, EMPL, MARE and REGIO	Review
29	Multi-DG (RTD, CNECT,	Gap analysis of legislation regarding Horizon 2020	Review

	JRC, ENER, MOVE)		
30	AGRI	IAS Review on GAP analysis of new legislation/design of 2014-20 Programming Period (Pillar 1 phase1)	Review
31	Y COMM	Management letter on common features of performance measurement systems	ML
32	ERCEA	IT risk assessment	RA
33	BUDG	IAS Follow-up audit on SAM in DG BUDG	F-UP
34	COMM	IAS Follow-up on Risk Management in DG COMM	F-UP
35	DEVCO	Follow up on Management of Local IT in DEVCO	F-UP
36	DEVCO	2nd Follow-up audit on Management of local IT in DG DEVCO	F-UP
37	DIGIT	IAS follow-up audit on long overdue recommendations (2nd FU Network) in DG DIGIT	F-UP
38	DIGIT	2nd Follow-up Audit on Business Continuity Management in DG DIGIT	F-UP
39	EAHC	Follow-up on IT governance and performance in EAHC	F-UP
40	EMPL	2nd Follow-up management of Local IT in DG EMPL	F-UP
41	ENER	3rd Follow-up audit on local IT systems supporting financial management in DG ENER	F-UP
42	HR	2nd follow-up on Security	F-UP
43	LS	Follow-up on Handling of sensitive information	F-UP
44	Multi-DG	AAR process in the Commission	F-UP
45	Multi-DG	Charge-back process in the Commission	F-UP
46	Multi-DG	2nd follow-up Payment deadlines	F-UP
47	Multi-DG	2nd follow-up Risk management	F-UP
48	Multi-DG (SG, BUDG, HR, AGRI, RTD, COMP, DGT)	Follow-up Audit on Staff allocation (SG/BUDG/HR/AGRI/RTD/COMP/DGT)	F-UP
49	OIB	IAS 2nd Follow-up Audit on Management of Procurement in OIB	F-UP
50	PMO	Joint Sickness Scheme	F-UP
51	SANCO	Follow-up on IT performance and quality in DG SANCO	F-UP
52	TRADE	IAS Follow-up audit on Local IT in DG TRADE	F-UP
53	AGRI	IAS follow-up audit of the Internal Control System for managing the IPARD in DG AGRI	F-UP
54	AGRI	IAS Follow-up audit on Implementation of Control Strategy (Pillar 1 and 2) in DG AGRI	F-UP
55	AGRI	Follow-up on DG AGRI Limited Review of residual error rate calculations (Pillar 1 & 2)	F-UP
56	AGRI	2nd Follow-up on DG AGRI Limited Review of residual error rate calculations (Pillar 1 & 2)	F-UP
57	EMPL	IAS Follow-up audit on Closure ESF 2000-06	F-UP
58	EMPL	Follow-up: Implementation of ESF 2007-13	F-UP
59	EMPL	IAS 2nd Follow-up audit on Control Strategy in DG EMPL	F-UP
60	HOME	Follow-up of audit on control strategy in shared management in DG HOME	F-UP
61	JUST	Follow-up of audit on monitoring EU law implementation	F-UP
62	REGIO	Follow-up of audit on closure of Cohesion Fund projects 2000-06	F-UP

63	REGIO	IAS Follow-up audit on DG REGIO implementation 2007-2013 programming period	F-UP
64	EACI	Follow-up of Control Strategy audit	F-UP
65	ENER	Follow-up of European Energy Programme for Recovery (EEPR) audit	F-UP
66	ENTR	Follow-up of Control Strategy audit in DG ENTR	F-UP
67	Multi-DG	Follow up of Overview Report on Executive Agencies	F-UP
68	Multi-DG	2nd Follow-up of Overview Report on Executive Agencies	F-UP
69	REA	Follow-up of audit on implementation of FP7 control systems	F-UP
70	RTD	Follow-up of limited review on residual error rate	F-UP
71	AGRI	Follow-up audit on the design and monitoring of DG AGRI Dir. J control strategy (Pillar 1 and 2)	F-UP
72	AGRI	Follow-up on Fraud Prevention and Detection in AGRI	F-UP
73	ECFIN	2nd FU of Joint audit (IAC-IAS) on Implementation by the EIF of the Competitiveness and Innovation framework programme	F-UP
74	ECFIN	Follow-up on Off-budget operations: EFSM - DG ECFIN	F-UP
75	ESTAT	1st FU of DG ESTAT's preparedness to fulfil its role in the Economic Governance Framework	F-UP
76	ESTAT	2nd FU of DG ESTAT's preparedness to fulfil its role in the economic governance framework	F-UP
77	OLAF	2nd Follow-up on Fraud Prevention and Detection in OLAF	F-UP
78	TAXUD	IAS/IAC joint Follow-up Monitoring the implementation of EU law in DG TAXUD	F-UP
79	DEVCO	IAS Follow-up audit on Residual error rate in DG DEVCO	F-UP
80	DEVCO	2nd Follow-up audit on financial management programme estimates and EDF grants in DG DEVCO	F-UP
81	EAC	IAS Follow-up audit on LLP in DG EAC	F-UP
82	ECHO	IAS Follow-up audit on Performance of operational activities in DG ECHO	F-UP
83	ELARG	IAS 2nd Follow-up on IPA procurement in DG ELARG	F-UP
84	ESTAT	1st Follow-up Commission-wide audit on strategy and coordination of statistical data production, development and dissemination in DG ESTAT	F-UP
85	SANCO	Follow-up control strategy in DG SANCO	F-UP

Engagements in the decentralised Agencies and other autonomous entities finalised in 2014

No.	DG	AUDIT TITLE	Type
1	ACER	Development of Framework guidelines and opinion on network codes	Audit
2	CEDEFOP	External Communication (incl. Publication & Content Management), Documentation & Information	Audit
3	CEPOL	HR Management (Carry-Over 2013)	Audit
4	CLEANSKY JU	Grant Management - Financial Implementation (Phase 2 - Additional Fieldwork)	Audit
5	EASO	Implementation of the Support Plans	Audit
6	EBA	IT Project Management	Audit
7	ECDC	Public Health Training	Audit
8	ECHA	Application for Authorisation under REACH	Audit
9	EEA	Data & Information (incl. IT component)	Audit

10	EEAS	Budgeting Process (Carry-Over 2013)	Audit
11	EEAS	Recruitment & Management of SNE (Carry-Over 2013)	Audit
12	EFSA	Reporting & Building Blocks of Assurance	Audit
13	EIOPA	Planning & Budgeting	Audit
14	EMA	Stakeholders Management & Communication	Audit
15	EMSA	Building Blocks of Assurance	Audit
16	ESMA	IT Project Management and related IT Governance Processes	Audit
17	ETF	Expert Management & Mission (Carry-Over 2013)	Audit
18	EU-OSHA	Reporting / Building Blocks of Assurance (Carry-Over 2013)	Audit
19	Eurofound	Customer & Relations Management (Carry-Over 2013)	Audit
20	EUROPOL	Recruitment & Selection	Audit
21	FCH JU	Use & Dissemination of Research Results (Carry-Over 2013)	Audit
22	FRA	Contract Management (Carry-Over 2013)	Audit
23	FRONTEX	Stakeholders Relations & External Communication in Management of Pooled Resources	Audit
24	GSA	Grants for Market Development	Audit
25	GSA	Human Resources Management (Carry-Over 2013)	Audit
26	SESAR JU	Risk Management	Audit
27	EMA	IT Project Management (Carry-Over 2013)	Consulting
28	EU-Schools	Management & Monitoring of Working Groups (Carry-Over 2013)	Consulting
29	EU-Schools	Management of the project on the implementation of an accounting software	Consulting
30	F4E	Contract Management : Implementation of Entity Wide Controls	Limited Review
31	BEREC	Follow-Up of Past Audits	FU
32	EBA	Follow-Up of Past Audits	FU
33	EIOPA	Follow-Up of Past Audits	FU
34	EIT	Follow-Up of Past Audits	FU
35	EIT	Second Follow-Up of Past Audits <i>(Fact Finding Mission)</i>	FU
36	ENISA	Follow-Up of Past Recommendations	FU
37	ERA	Follow-Up of Past Audits (Carry-Over 2013)	FU
38	ESMA	Follow-Up of Past Audits	FU
39	Eurofound	Follow-Up of Past Audits (Carry-Over 2013)	FU
40	EU- SCHOOLS	Follow-Up of Past audits - Desk Review (Engagement 2013)	FU
41	EU- SCHOOLS	Follow-Up of Past audits - Testing Phase (on the spot) / BXL III (Carry-Over 2013)	FU
42	EU- SCHOOLS	Follow-Up of Past audits - Testing Phase (on the spot) / BXL II (Carry-Over 2013)	FU
43	EU- SCHOOLS	Follow-Up of Past audits - Testing Phase (on the spot) / BXL IV (Carry-Over 2013)	FU
44	EU-Schools	Overview Report on the Follow-Up of Past Audits	FU
45	F4E	1st Follow-Up of Past Audits	FU

46	F4E	2nd Follow-Up of Past Audits (<i>Fact Finding Mission</i>)	FU
47	EASA	Risk Assessment incl. IT (Carry-Over 2013)	RA
48	EIGE	Strategic Risk Assessment incl. IT	RA
49	eu-LISA	Strategic Risk Assessment incl. IT	RA
50	Eurofound	Strategic Risk Assessment incl. IT	RA
51	EUROJUST	Strategic Risk Assessment incl. IT	RA
52	EUROPOL	Strategic Risk Assessment incl. IT (Carry-Over 2013)	RA
53	EU-Schools	Update of Strategic Audit Plan	RA
54	GSA	Operational Risk Assessment (Carry-Over 2013)	RA