



2013

Annual Activity Report

Internal Audit Service

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



Table of Contents

| | |
|---|-----------|
| INTRODUCTION | 4 |
| THE INTERNAL AUDIT SERVICE IN BRIEF | 4 |
| THE YEAR IN BRIEF | 5 |
| EXECUTIVE SUMMARY..... | 6 |
| KEY PERFORMANCE INDICATORS | 6 |
| POLICY HIGHLIGHTS OF THE YEAR (EXECUTIVE SUMMARY OF PART I) | 7 |
| KEY CONCLUSIONS ON RESOURCE MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS (EXECUTIVE SUMMARY ON PART 2 AND 3) | 8 |
| INFORMATION TO THE COMMISSIONER | 8 |
| 1. POLICY ACHIEVEMENTS | 9 |
| 1.1 ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES..... | 9 |
| 1.1.1 INTERNAL AUDIT OF THE COMMISSION: DELIVERY OF HIGH QUALITY ASSURANCE AND CONSULTING SERVICES BASED ON THE RISK-BASED AUDIT PLAN FOR 2013 IS BEING IMPLEMENTED ACCORDING TO PLAN | 9 |
| INTERNAL AUDIT OF THE COMMISSION – APC SECRETARIAT..... | 10 |
| 1.1.2 INTERNAL AUDIT OF THE EU AUTONOMOUS BODIES: DELIVERY OF HIGH QUALITY ASSURANCE AND CONSULTING SERVICES BASED ON THE RISK-BASED AUDIT PLAN FOR 2013 IS BEING IMPLEMENTED ACCORDING TO PLAN..... | 11 |
| 1.1.3 POLICY STRATEGY AND COORDINATION OF THE IAS: INCREASE UNDERSTANDING ON THE IAS ROLE IN CONTRIBUTING TO GOOD GOVERNANCE AND SOUND FINANCIAL MANAGEMENT THROUGH DISSEMINATING INFORMATION WITHIN THE COMMISSION AND THE EU AUTONOMOUS BODIES IS BEING IMPLEMENTED ACCORDING TO PLAN. | 12 |
| 1.2 SPECIFIC EFFORTS TO IMPROVE 'ECONOMY' AND 'EFFICIENCY' OF SPENDING AND NON-SPENDING ACTIVITIES..... | 13 |
| 1.2.1 REALLOCATION OF RESOURCES TO OUR CORE ACTIVITY | 13 |
| 1.2.2 MORE ADEQUATE TIME ALLOCATION TO OUR CORE ACTIVITY | 14 |
| 2. MANAGEMENT OF RESOURCES | 15 |
| 2.1 MANAGEMENT OF HUMAN AND FINANCIAL RESOURCES BY DG IAS..... | 15 |
| 2.2 BUDGET IMPLEMENTATION TASKS ENTRUSTED TO OTHER SERVICES AND ENTITIES. | 15 |
| 2.3 ASSESSMENT OF AUDIT RESULTS AND FOLLOW UP OF RECOMMENDATIONS AND REVIEWS | 16 |
| 3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS | 18 |
| 4. MANAGEMENT ASSURANCE | 20 |
| 4.1 REVIEW OF THE ELEMENTS SUPPORTING ASSURANCE | 20 |
| DECLARATION OF ASSURANCE | 21 |
| ANNEXES | |
| ANNEX 1A: STATEMENT OF THE RESOURCES DIRECTOR | |
| ANNEX 1B: STATEMENT OF THE "SHARED RESOURCES SERVICES" DIRECTOR OF DG HUMAN RESOURCES | |
| ANNEX 2: HUMAN AND FINANCIAL RESOURCES | |
| ANNEX 3: DRAFT ANNUAL ACCOUNTS AND FINANCIAL REPORTS | |
| ANNEX 4: MATERIALITY CRITERIA | |
| ANNEX 5: INTERNAL CONTROL TEMPLATE(S) FOR BUDGET IMPLEMENTATION (ICTS) | |

INTRODUCTION

The Internal Audit Service in brief

The Internal Audit Service (IAS) is a Directorate-General modest in size with less than 100 professional staff, headed by the Internal Auditor of the European Commission.

Through its reports and recommendations, the IAS is contributing to effective and efficient implementation of policies, programmes and actions and to efficient and economical management of resources by the European Commission and the EU Agencies and autonomous bodies. The IAS audits the management and control systems that exist within the Commission (Directorate B) and the EU Agencies and autonomous bodies (Directorate A) and provides independent and objective assurance on their adequacy and effectiveness. On request of management, it also offers consulting activities. The IAS does not audit the EU Member States' systems of controls over the Commission's funds. These types of audits, reaching the level of individual beneficiaries, are undertaken by the EU Member States' internal auditors, national Audit Authorities, other individual Commission DGs and services as part of their ex-post control activities and by the European Court of Auditors (ECA).

The IAS contributes to the promotion of performance within the Commission with a view to bringing about continuous improvement. The IAS's work helps to guard against operational, financial or reputational risks, and to safeguard assets.

In this way, the IAS contributes ultimately to providing value for money for European citizens and to increasing public confidence in the European Union.

The Internal Audit Service carries out its mission in accordance with the Financial Regulation of the European Commission (FR) and the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors (IIA).

Its independence is guaranteed by the FR and our Mission Charter, which forbids any other authority to interfere in the conduct of our audits or ask the IAS to make any alteration to the contents of our audits.

For its activities in the Commission, the IAS reports to the Audit Progress Committee (APC) of the European Commission, chaired by the Commissioner responsible for the IAS. The APC is composed of seven Commissioners and two external experts. Meetings are attended also by Central Services of the Commission (DG Budget and the Secretariat-General). The APC further guarantees IAS's independence, and ensures that IAS's recommendations are appropriately followed up.

As regards IAS's audit work in EU Agencies and autonomous bodies, the IAS reports to the respective Boards and the Directors of these entities.

IAS's audit work is coordinated with the Internal Audit Capabilities (IACs) which are under the authority of each Director General and with the European Court of Auditors, the Commission's external auditor.

The IAS 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.

The year in brief

2013 was an important year for the European Commission as regards preparing the implementation of the new programmes under the Multi-annual Financial Framework (MFF) 2014-2020 and its response to the financial crisis. In this context, all the Commission DGs and Services focused on assessing efficiency with a view to implement the negotiated austerity measures while preserving the ability to fulfil their mission.

Against this backdrop, throughout 2013, the assessment of the performance, including the assessment of the procedures to monitor and evaluate performance of the Commission's and the EU autonomous bodies' departments, was one of the priority areas for the IAS. Additionally, a performance audit dimension was included in other types of audits carried out in 2013.

The new Strategic Audit Plan for the audit work in the Commission covering the years 2013-2015 (IAS Directorate B), developed in 2013, reflects the above mentioned developments, starting with audits assessing the performance measurement frameworks. In addition to the continuation of audits on financial management, the new Strategic Audit Plan focuses on performance audits, addressing the effectiveness, efficiency and economy of use of EU resources.

In terms of HR management, the IAS's challenge was to ensure an efficient and effective allocation of internal resources in view of the impact that the changing external environment has on the audit universe (such as the new tasks in the area of economic governance, MFF), as well as to take account of planned reduction/reallocation of staff over the coming years. The audit portfolios in both Directorates were re-shuffled as a consequence. This also led to a redeployment of posts at a rate of 10%.

The implementation of the audit plans in 2013 reached 100% for audits in the Commission and 97,5% for audits in the EU autonomous bodies.

More forward looking and anticipating the entry into force of the revised Framework Financial Regulation on 1 January 2014, the IAS developed a new approach to risk-driven planning of audits in EU autonomous bodies. This new approach allows handling the EU autonomous bodies as a portfolio of entities rather than as separate bodies. The use of risk criteria allows for a better focus on the entities having the highest risk profile and the selection of audit engagements. It will be implemented as from 2014 and further refined throughout the years.

The annual conference of the IAS has become a tradition in the European public sector audit calendar. The 2013 edition took place on 1 October 2013 and was entitled: "Internal Audit – Meeting Stakeholders' Expectations: Assurance and Consulting Services". In 2013, our objective was to reflect further on the two types of engagements and, to this end, discuss the right conditions for both types of engagements, the balance between them, the most suited domains and the respective skills necessary for undertaking them.

The 2013 theme turned out to be pertinent for the wider internal audit community with almost 90% of the participants expressing their overall appreciation for the conference. The conference served as an opportunity to learn from key internal audit practitioners about the best approaches to providing such services. To this end, the speakers included Chief Audit Executives from UK and Polish public sector, the EU Institutions and from the private sector.

Executive Summary

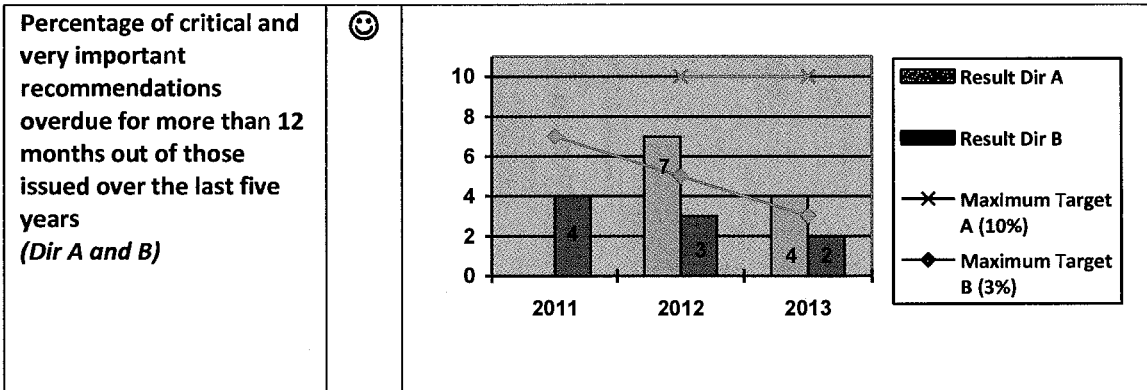
The Annual Activity Report is a management report of the Director-General of DG IAS to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources and the achievement of objectives.

In 2013, most planned objectives were reached or exceeded.

Key Performance Indicators¹

| <p>Percentage audit reports finalised (audits in EU Agencies and autonomous bodies (Dir A) and audits the Commission (Dir B))</p> | <p>☺</p> | <table border="1"> <thead> <tr> <th>Year</th> <th>Result Dir A</th> <th>Result Dir B</th> <th>Minimum Target</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>91.3</td> <td>98</td> <td>100%</td> </tr> <tr> <td>2012</td> <td>100</td> <td>100</td> <td>100%</td> </tr> <tr> <td>2013</td> <td>97.5</td> <td>100</td> <td>100%</td> </tr> </tbody> </table> | Year | Result Dir A | Result Dir B | Minimum Target | 2011 | 91.3 | 98 | 100% | 2012 | 100 | 100 | 100% | 2013 | 97.5 | 100 | 100% |
|---|--------------|--|----------------|--------------|--------------|----------------|------|------|----|------|------|-----|------|------|------|------|-----|------|
| Year | Result Dir A | Result Dir B | Minimum Target | | | | | | | | | | | | | | | |
| 2011 | 91.3 | 98 | 100% | | | | | | | | | | | | | | | |
| 2012 | 100 | 100 | 100% | | | | | | | | | | | | | | | |
| 2013 | 97.5 | 100 | 100% | | | | | | | | | | | | | | | |
| <p>Acceptance rate of critical and very important recommendations (Dir A and B)</p> | <p>☺</p> | <table border="1"> <thead> <tr> <th>Year</th> <th>Result Dir A</th> <th>Result Dir B</th> <th>Minimum Target</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>100</td> <td>98</td> <td>95%</td> </tr> <tr> <td>2012</td> <td>100</td> <td>99.5</td> <td>95%</td> </tr> <tr> <td>2013</td> <td>100</td> <td>97</td> <td>95%</td> </tr> </tbody> </table> | Year | Result Dir A | Result Dir B | Minimum Target | 2011 | 100 | 98 | 95% | 2012 | 100 | 99.5 | 95% | 2013 | 100 | 97 | 95% |
| Year | Result Dir A | Result Dir B | Minimum Target | | | | | | | | | | | | | | | |
| 2011 | 100 | 98 | 95% | | | | | | | | | | | | | | | |
| 2012 | 100 | 99.5 | 95% | | | | | | | | | | | | | | | |
| 2013 | 100 | 97 | 95% | | | | | | | | | | | | | | | |

¹ Detailed explanation on the implementation provided in the subsequent section of the report.



Policy highlights of the year (executive summary of part I)

By the cut-off date, the IAS delivered all of its priority audits in the Commission whereas in the EU autonomous bodies 97,5% of the priority audits were delivered. Additional fieldwork was needed for one engagement in order to clarify concerns raised by the auditee.

The results of 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)² and forwarded to the European Parliament and the Council by the Institution. To this end, the report, in particular, lists the key audit findings and recommendations and the actions taken upon them.

The audit work provided value to the audit clients and other stakeholders, as shown by the results of the surveys. The Commission services and the EU autonomous bodies accepted 97% and 100% of the critical and very important recommendations made in 2013 respectively. The overall majority of audit clients and stakeholders expressed in the surveys that the IAS performs its audits reports with honesty, objectivity and fairness (92% for Commission and 88% for the EU autonomous bodies); that the IAS work contributes to the quality of management and control systems (84% and 81%) and that the IAS covers the main risks (80% and 87%). The average rating of the auditee satisfaction for individual Commission audits was at 1,64³.

A detailed analysis of the Key Performance Indicators is provided in section 1.

² The "99.5" Report does not cover the decentralised European Agencies, the European External Action Service, or other bodies audited by the IAS, which receive separate annual reports.

³ 1 highest, 4 lowest rating

Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

In accordance with the governance statement of the European Commission, (the staff of) DG 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, based on international good practice, aimed 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 standards and having due regard to the risks associated with the environment in which it operates.

DG IAS has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented, with the exception of standard 16 which does not apply to DG IAS.

Furthermore, DG IAS has taken measures to further improve the efficiency of its internal control systems in the area of the management supervision and fraud detection and prevention (as reported in detail in Part 3).

A service level agreement (SLA) with DG HR and DG DIGIT provide support services to the IAS in the area of human resources, financial management and IT services. DG IAS has systematically examined the available control results and indicators. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to 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 A, in her capacity as Authorising Officer by Delegation have co-signed the Declaration of Assurance. As the Director General of the IAS may not be an authorising officer (FR Art 89), the powers of authorising officer are delegated by Commission Decision to the Director A.

Information to the Commissioner

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Algirdas Šemeta, responsible for Taxation and Customs Union, Audit and Anti-Fraud.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives⁴

1.1.1 Internal Audit of the Commission: delivery of high quality assurance and consulting services based on the risk-based audit plan for 2013 is being implemented according to plan

| ABB activity: Internal Audit of the Commission | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending | |
|--|---|---|---|
| | Result indicators (description + source) | Target by end 2013 | Current situation |
| Specific objective 1: Delivery of high quality assurance and consulting services based on the risk-based audit plan for 2013 | Acceptance rate of critical and very important recommendations Source: GRC | At least 95% | 97% in 2013 99,5% in 2012 98% in 2011 |
| | Stakeholders satisfaction on usefulness of IAS recommendations Source: Stakeholders' survey | At least 85% | 76% in 2013 90% in 2012 94% in 2011 |
| <i>Main policy outputs in 2013: Audit and consulting reports as planned for 2013, comprising opinion, conclusions & recommendations (list of reports in appendix to this report)</i> | | | |
| Specific objective 2: Assure a permanent and effective follow-up of audit recommendations | % of critical and very important recommendations overdue for more than 12 months out of those issued over the last 5 years Source: GRC | At most 5% Achievement of the objective depends <i>in fine</i> on action taken by DGs / services | 2% in 2013 3% in 2012 4% in 2011 |
| <i>Main policy outputs in 2013: APC regularly informed and submitted bi-annual follow-up reports to the Audit Progress Committee</i> | | | |
| Main policy outputs in 2013: The Overall Opinion on the financial management in the Commission | | | |

⁴ 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.

Concerning the indicator on the usefulness of the IAS's recommendations, while in previous years the stakeholders were asked to assess to what extent they were satisfied on the usefulness of IAS recommendations, the indicator was further refined in 2013 with a view to better reflect the Commission's administrative context of reducing resources without adapting the target. To this end, in 2013 our stakeholders were asked to assess specifically the cost-effectiveness and feasibility of IAS's recommendations. 76% of the Commission's respondents thought that the IAS's recommendations are cost-effective and feasible to implement while 24% disagreed. This result reflects the preoccupation of the Commission's management with the implementation of the 5% staff cut. Against this backdrop, assessment of the cost-effectiveness of IAS recommendations in terms of workload becomes even more crucial both for the auditors and auditees. Consequently, after having analysed the quantitative and qualitative results of the 2013 stakeholders' survey, the IAS decided to introduce the assessment of the cost-effectiveness of its recommendation as a standard audit step in every audit engagement.

Internal Audit of the Commission – APC Secretariat

| Internal Audit of the Commission – APC Secretariat | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending | |
|--|--|---|--|
| | Result indicators (description + source) | Target by end 2013 | Current situation |
| Specific objective 3: 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 85% | 100% in 2013 100% in 2012 100% in 2011 |
| Main policy outputs in 2013: Adopted annual work programme, Minutes APC meetings, Information notes reporting matters deserving the attention of the College, APC annual report | | | |

1.1.2 Internal Audit of the EU autonomous bodies: delivery of high quality assurance and consulting services based on the risk-based audit plan for 2013 is being implemented according to plan

| Internal Audit of the EU autonomous bodies | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending | |
|--|---|--|---|
| | Result indicators (description + source) | Target by end 2013 | Current situation |
| Specific objective 1: Delivery of high quality assurance and consulting services to EU autonomous bodies, based on the risk-based audit plan for 2013 | Acceptance rate of critical and very important recommendations Source: GRC | At least 95% | 100% in 2013 |
| | Satisfaction of stakeholders in the agencies and other entities on usefulness of IAS recommendations Source: Stakeholders' survey | At least 85% | 64% in 2013 88% in 2012 92% in 2011 |
| <i>Main policy outputs in 2013: Audit and consulting reports as planned for 2013, comprising opinion, conclusions and recommendations (list of reports in appendix to this report)</i> | | | |
| Specific objective 2: Assure a permanent and effective follow-up of audit recommendations | % of critical and very important recommendations overdue for more than 12 months out of those issued over the last 5 years Source: GRC | At most 10% Achievement of the objective depends <i>in fine</i> on action taken by the agencies | 4% in 2013 7% in 2012 |
| <i>Main policy outputs in 2013: Annual reports to EU autonomous bodies listing status of recommendations</i> | | | |

Concerning the indicator on the usefulness of the IAS's recommendations, while in previous years the stakeholders were asked to assess to what extent they were satisfied on the usefulness of IAS recommendations, the indicator was further refined in 2013 with a view to better reflect the EU Institutions administrative context of reducing resources. Similarly to the Commission's stakeholders, in 2013 the EU autonomous bodies' stakeholders were asked to assess specifically the cost-effectiveness and feasibility of IAS's recommendations. 64% of the respondents thought that the IAS's recommendations are cost-effective and feasible to implement while 36% disagreed. As in the case of the Commission, this result reflects the preoccupation of the EU autonomous bodies' management with the implementation of the on-going and planned 5% staff reduction. The EU bodies are small entities operating under specific circumstances and legal/regulatory constraints which might not always be fully relevant for the individual entity. Through the 2013 stakeholders' survey, they reiterated that this should be taken into consideration while issuing recommendations.

The IAS has already addressed this issue through introducing assessment of the cost-effectiveness of its recommendations as a standard audit step in each audit engagement.

1.1.3 Policy Strategy and Coordination of the IAS: increase understanding on the IAS role in contributing to good governance and sound financial management through disseminating information within the Commission and the EU autonomous bodies is being implemented according to plan.

| ABB activity: Policy strategy and coordination for the IAS | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending | |
|--|--|---|---|
| | Result indicators (description + source) | Target by end 2013 | Current situation |
| Specific objective 1: Increase understanding on the IAS role in contributing to good governance and sound financial management through disseminating information within the Commission and the EU autonomous bodies and within the internal audit community | Percentage of stakeholders acknowledging the IAS contribution to improving the efficiency and effectiveness of operations, the quality of management and control systems and its contribution to ensuring value added in the use of resources in the Commission and the EU autonomous bodies. Source: Stakeholders' survey ⁵ | At least 85% | 79% in 2013 90% in 2012 83% in 2011 |
| | Percentage of stakeholders recognising IAS contribution in providing guidance and disseminating good practices. Source: Commission Stakeholders' survey ⁶ | At least 70% | 96% in 2013 77% in 2012 45% in 2011 |
| <i>Main policy outputs in 2013: International internal audit conference for the public sector internal auditors</i> | | | |

Similarly to above described results, the decrease from 90% to 79% for the first indicator reflects the preoccupation of the Commission's management with the implementation of the 5% staff cut. Improving efficiency has increasingly become one of the main preoccupations of the EU Institutions' management. As a result, the IAS's stakeholders expect more audit work dedicated to assessing efficiency, effectiveness and economy. These expectations sometimes also go beyond what an audit can actually deliver.

⁵ This indicator has been assessed through 2 questions: 1) to what extent does the IAS provide added value, improving performance through addressing efficiency, effectiveness and economy and 2) to what extent does the IAS work contribute to the quality of management and control systems.

⁶ The indicator on the IAS's role in providing guidance and disseminating good practices has been further refined in 2013 in order to better reflect IAS's objective to be recognized as the Commission's central service focusing on corporate issues and risks.

The decrease in the appreciation for the IAS's role in improving the efficiency and effectiveness of operations seems to reflect these factors.

In our efforts to add value to the organisation, assessing performance is particularly pertinent. To this end, it has been decided that at least 35% of audit time in 2014 will be dedicated to such engagements (including comprehensive audits with performance audit dimension) and the part that an audit can play will be better explained.

1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.

According to the financial regulation (Art 30), the principle of economy required 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.

Firstly, administrative and coordination functions were slimmed to the benefit of audit capacity. Overall, the IAS carried out 12 internal redeployments in 2013 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 both Directorates.

Secondly, while posts for supporting staff were used for the staff reduction effort in 2013 (one post returned on 1 May 2013 for the redeployment tax and a second post returned on 1 July 2013 for the first instalment of the 5% staff cut), the IAS could strengthen its audit capacity with an additional auditor post from the Croatian enlargement quota.

Thirdly, the rotation of the audit portfolio of Directorate B's audit units in 2013 played a key role in this realignment of the audit capacity, which was further enhanced by a reassignment of agencies between the audit units of Directorate A.

1.2.2 More adequate time allocation to our core activity

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

Efforts were made in both Directorates to make the capacity planning for the 2013 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.

In addition, time allocated to meetings has been significantly reduced: the annual IAS Conference was reduced from 1,5 to 1 day (which in addition led to budgetary savings); the number of Auditors' Forum seminars was reduced from 11 to 6; and the number of Auditnet meetings was reduced to 4.

Moreover, 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

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 objectives⁷. It is structured in three separate sections: (1) the IAS's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by DG HR and DIGIT to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits and reviews (EQA), including the implementation of audit recommendations.

The administrative expenditure of the IAS totalled 11,9 M in 2013, of which 0,1 M was returned to the central budget in the context of the clearing in April 2013. As provided by the Internal Rules, 94,5% of the IAS's budget was directly delegated to PMO, DG DIGIT and DG HR. IAS is therefore accountable for the remaining 5,5 % which were, however, cross-sub-delegated to DG HR (4 %) and DG DIGIT (1,5 %).

As the Director General of IAS may not be an authorising officer (FR Art 98), the powers of authorising officer are delegated by Commission Decision to the Director A.

The resource management is coordinated by the Coordination Cell (CoCell), reporting directly to the Director-General. The CoCell monitors the budget execution.

2.1 Management of human and financial resources by DG IAS.

As abovementioned the IAS has cross-sub-delegated its budget to DG HR and DG DIGIT (see section 2.2). Therefore this part is not applicable to the IAS.

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.

⁷ 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).

Cross-sub-delegations to DG HR and DG DIGIT

As in previous years, the IAS has cross-sub-delegated 0,48 M EUR to DG HR for the purpose of the provision of services in the area of human resources⁸ and financial management. In addition, 0,16 M EUR has been cross-sub-delegated to DG DIGIT for the purpose of the provision of IT-related services⁹, including services by DIGIT as 'system supplier' for the GRC¹⁰.

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 DGs¹¹, 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 2013, 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.”

Additionally, DG 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. The ex-post control activity revealed no 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.

2.3 Assessment of audit results and follow up of recommendations and reviews

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.

⁸ 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 - 28.010211.00.02.20

⁹ The corresponding budget line cross-sub-delegated to DG DIGIT is: 28.010211.00.05

¹⁰ Governance Risk & Compliance IT tool.

¹¹ The declaration of the Resource Director of DG HR is attached to this AAR, see annex 1b. The report for 2013 and the assurance declaration by the Director General of DG DIGIT were received on 04/02/2013.

The IAS is required by the IIA professional standards¹² to undergo at least every 5 years an external quality assessment. In 2013 an External Quality Assessment was conducted for Directorate B. The results of these exercises confirm that the IAS is generally compliant with the Standards¹³, the highest rating. Such an exercise was conducted in 2011 for Directorate A with the same result.

¹² 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.

¹³ 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 standards is a compulsory requirement.

DG 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 standards 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 an initial desk review by the internal control coordinator (ICC), with respect to both the ICS compliance and the effectiveness of the control arrangements in place.

The functioning of the internal control systems has been monitored throughout the year by the registration of internal control weaknesses (ICS 12). No exception occurred (under ICS 8). The AOD executes ex post controls additional to those by DG HR and DG DIGIT.

Corrective and alternative mitigating controls have been implemented when necessary.

In Q1 2014 the IAS carried out an ex-post control on the missions executed by its staff in 2013, which confirmed that management and administration of missions was implemented according to the Guidelines in the IAS. Further enhancement of the follow-up of missions (statement of expenses and ticket refunds) were recommended.

Based on the results of the annual risk assessment exercise and already selected in 2012, ICS 9 "Management supervision" has been prioritised in the Management Plan 2013 as required by the internal control framework.

ISC 9: Management Supervision

The major risks in the IAS lie with the quality of its service, i.e. deliverables of audit and other engagements. For that reason the (staff competence and) management supervision are key success factors, and the mitigating controls are embedded in the audit process as well as a specific training programme.

The following actions were continued with regard to their effectiveness during 2013:

- *Following the external quality assessment of the audit work in EU agencies and autonomous bodies in 2011, the role of respective actors (audit managers, quality reviewer, audit director) were clearly defined in the new audit manual for Directorate A. The introduction of this manual in practice was monitored and showed that it is used systematically, in particular with the view to ensure the adequate supervision.*
- *The Director-General meets audit teams for all sensitive audits at key stages of the engagements (engagement planning memorandum, findings validation table, draft audit report, final audit report).*
- *The quality assurance functions continued to assist the directors in identifying issues in the audit work that require corrective action or escalation of decision. The weekly audit process meetings in both directorates served the purpose of monitoring the audit progress and quality of audit work. The senior management meetings have a standing point on execution of audit and follow up of the action list.*

Based on all available information and the above analysis, the internal control standards are 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, DG HR and DG DIGIT 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.

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 her 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

Agnieszka Kazmierczak, Director IAS/A, in my capacity as authorising officer by delegation,

Declare that the information contained in this report gives a true and fair view¹⁴.

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, 27 March 2014

[Signed]

Philippe Taverne

[Signed]

Agnieszka Kazmierczak

¹⁴ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.