2011 discharge: EU general budget, Section III, Commission and executive agencies

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DISCHARGE 2011 – COMMISSION : ANNUAL REPORT ON INTERNAL AUDITS

PURPOSE: this report informs the discharge authority of the work undertaken by the Internal Audit Service (IAS) in 2011. It is based on the IAS's main audit observations and well as the audit and consultancy reports completed in 2011 relating to Commission departments and the executive agencies. It does not cover the results of audit work carried out by the IAS in the decentralised agencies, the European External Action Service or other agencies or bodies for which separate reports have been drawn up.

This report informs the Discharge Authority of the work undertaken by the Commission's IAS, in accordance with the provisions of Article 86(4) of the Financial Regulation (FR). It has as its base the IAS's report drawn up on the basis of Artcile 86 (3) of the FR, on the main recommendations of the audit as well as the important risks, monitoring and corporate governance.

The Commission's reactions to the observations and recommendations of the Internal Auditor were presented in the Synthesis Report of the Commission's management achievements in 2011 in which the Commission highlights its position in relation the horizontal questions raised by the IAS, by the Court of Auditors and by the Discharge Authority, as well as in relation to the aspects highlighted by the Audit Progress Committee (APC).

CONTENT: in 2011, the IAS celebrates its 10th anniversary. Its annual conference was the occasion to review the results achieved thanks to the efforts made in the context of the administrative reform of the Commission, in which the creation of the IAS and the internal audit structures have played an important role. According to one of its conclusions, the Commission's internal audit community is not only one of the largest public internal audit functions but it has also **reached an exceptionally high degree of maturity**.

According to the IAS stakeholder survey results, 87 % of participants are confident that the service delivers and communicates a strong vision in terms of governance and internal control; 87 % are also convinced that the recommendations issued by the IAS **lead to better risk control in the Commission and the Executive Agencies**.

Overall opinion on the Commission's financial management: the IAS issued, in 2011, an overall opinion on the state of financial management in the Commission in the previous year. **It is a positive assurance statement.** It is based on the work carried out by the IAS and IACs during the previous three-year period and provides reassurance to the Commission (the 'College') that the statements of assurance issued by the Directors-General are, seen as a whole, soundly based, and that there are no significant weaknesses other than those mentioned in the report made by the IAS.

IAS contribution to a more positive Statement of Assurance ('DAS'): the DAS represents the opinion of the European Court of Auditors (ECA) on the reliability of the EU accounts and on the legality and regularity of the underlying transactions. Although the accounts were found to be reliable in recent years, the ECA has issued an adverse opinion for some fields of activity. **Most errors occur outside the Commission and are found in particular in the structural funds, which have shared management,**

and in rural development (shared management), research (direct management) and external aid (decentralised management). Serious breaches of EU and national procurement rules accounted for much of the error found in the 'Cohesion' area.

The IAS audit plan has therefore prioritised audits to ensure that a consistent control strategy is being applied for every significant area of expenditure, including the Structural Funds DGs, as such control strategies aim at addressing the risk of error in the underlying transactions.

Implementation of the IAS audit plan: in 2011, the IAS implemented 88 % of its priority engagements (C1 engagements being those due to be completed in the year). Other engagements were well advanced, to the tune of 69 % of non-priority audit engagements (C2 engagements being those that may be completed in the following year due to scheduling considerations). 29 C1 and 36 C2 engagements (including audits, follow-ups and consultancy) were finalised, resulting in 77 reports. The total number of recommendations accepted by the audited services in 2007-2011, for which the IAS had conducted follow-up audits by the end of 2011, is 1 097. The IAS agreed that the recommendations had been implemented and closed 98 % of the recommendations followed-up during this period.

Main conclusions: in regard to the work carried out in 2011, the following conclusions may be drawn:

Performance audits: the IAS's first two performance audits sought to make processes more effective and efficient rather than to test their compliance with procedures and rules. This type of audit is particularly relevant at this present time: there are mature internal control systems to address the compliance issue, but the Commission must strive to do more with fewer resources, and to demonstrate increased efficiency, given the current economic climate. These first performance audits produced positive results, but highlighted the need for:

- better links between the activities of DGs,
- more relevant performance indicators for certain programmes,
- better performance measurement in evaluations.

In the 2014-2020 Multiannual Financial Framework, the Commission proposed **radical simplifications** and included in all sectoral programmes general and specific objectives and key performance indicators with a view to improved performance reporting. Moreover, a standard clause on evaluation requires a final evaluation report on whether each programme's objectives have been achieved.

Commission departments' control strategies: the IAS continued to work towards helping the Commission to achieve **a more positive DAS** by taking an effective but proportionate approach to the risk of error in the underlying transactions. With a view to strengthening the controls on the way EU research policy is run, the 2011 IAS audit in two Commission **research-related departments** underlined the need for a common audit strategy in the Research Area, with no fewer than eight Commission departments. The interconnected nature of research means that there are bound to be common beneficiaries, requiring a more coordinated audit approach.

In the **External Aid** area the IAS recommended stronger supervision and controls in the EDF grant management process, both at Commission headquarters and in the EU Delegations. The action plans were designed to improve supervision of devolved expenditure, notably by improving the Delegations' reporting, rationalising the control programmes and monitoring control activities. The measures were considered adequate but have yet to bear fruit. **The separation of tasks between the Commission and the EEAS presents new risks, which are being addressed**.

The IAS audited the control strategies of the **Structural Funds** DGs in 2010, concluding that they are on the right track. This work will be continued in 2012 in the Cohesion area, by way of audits covering the closure of the previous programming period for the ERDF, CF and ESF and the implementation of

controls over the 2007-13 programming period, to seek reasonable assurance that DGs are effectively **addressing the issue of the persistently high rate of error**.

Commission's management of major industrial programmes: following its audits on the Global Navigation Satellite Systems (GNSS) Programmes, the IAS concluded that the Commission should ensure it has the capacity to run such complex programmes, as they require large-project management skills which are not readily found internally. They also require management responsibility to be assigned at an appropriately high level and a stable governance structure. The Commission took immediate action to address the above issues and adopted a proposal for a new Regulation on the implementation and exploitation of European Satellite Navigation Systems. This provides a new framework for the financing and governance of the EGNOS and Galileo programmes for 2014-2020.

Commission's financial management processes: the follow-up audits on financial management processes have shown much improvement over recent years, so the IAS's conclusions in this area are positive. Work is still needed to ensure that the **control framework remains robust** despite pressure on resources.

Commission's IT governance: following the IAS's recommendations in the IT area, the Commission has taken a number of initiatives, all of which have improved IT governance. In 2010/2011, the IT rationalisation process was initiated. To this end, many Commission IT systems were reviewed and assessed in 2011, with a view to limiting the number of local IT systems and IT staff and to streamlining existing systems. This work is ongoing. It is essential that any rationalisation decisions be based on a thorough and objective analysis of the costs and benefits of each option under consideration.