

# 2015 discharge: EU general budget, European Commission and executive agencies

2016/2151(DEC) - 30/09/2016 - Document attached to the procedure

**PURPOSE:** presentation of a report on the internal audits carried out in 2015 in the framework of the discharge procedure.

**CONTENT:** this report is to inform the European Parliament and Council of the work carried out by the Commission's Internal Audit Service (IAS), as required by Article 99(5) of the Financial Regulation. It is based on the report drawn up by the Commission's Internal Auditor under Article 99(3) of that Regulation, regarding IAS audit- and consulting reports completed in 2015 on Commission Directorates-General, Services and Executive Agencies.

In line with its legal base it contains a summary of the number and type of internal audits carried out, the recommendations and the action taken on those recommendations. The audit reports finalised in the period 1 February 2015 - 31 January 2016 are included in this report. Recommendations implemented after the cut-off date of 31 January 2016 are not considered.

**Scope of the report:** the mission of the Internal Audit Service is to provide to the Commission independent, objective assurance and consulting services designed to add value and improve the operations of the Commission. Its tasks include assessing and making appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;
- effectively communicating risk and control information to appropriate areas of the organisation.

The IAS performs its work in accordance with the Financial Regulation and the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors.

**The IAS does not audit Member States' systems of control** over the Commission's funds. Such audits, which reach down to the level of individual beneficiaries, are carried out by Member States' internal auditors, national Audit Authorities, other individual Commission DGs and the European Court of Auditors (ECA).

**Implementation of the 2015 audit plan:** by the cut-off date of 31 January 2016, the implementation of the 2015 audit plan reached its target of 100% of planned engagements for audits in the Commission, Services and Executive Agencies.

139 engagements (including audits, follow-ups, limited reviews, risk assessments and one management letter) were finalised.

The increase in number of engagements finalised by the IAS in 2015 compared to previous years is mainly due to the **centralisation of the internal audit function**. In 2015, the IAS received 60 new posts which it has gradually been filling. As a result, the audit plan included new engagements in line with the increased availability of capacity. The 2016 final audit plan contains 101 audit engagements (excl. follow-up engagements), of which 67 are planned to be finalised in 2016.

**Methodology:** in response to the Commission's move towards an enhanced performance-based culture and greater focus on value for money, the IAS continued to carry out performance audits and audits which include important performance elements (comprehensive audits) in 2015 as part of its 2013-2015 strategic audit plan.

These audits addressed a number of aspects related to performance:

- DGs and Services are faced with a growing pressure on financial and human resources while at the same time they need to demonstrate that they are delivering on their objectives and achieving value for money. The IAS focused on (1) how DGs and Services manage, monitor and report on the specific objectives which are under their control and can be achieved through their outputs and actions, (2) the use of their internal resources and (3) how they evaluate the benefits of their internal processes and controls;
- the 2014-2020 Multi-annual Financial Framework places more emphasis on the achievement of results and new provisions in the legal bases introduced mechanisms which aim at strengthening the performance frameworks of the 2014-2020 spending programmes.

In line with its methodology and best practice, the IAS approached performance in an **indirect way**, i.e. an assessment of whether and how management has set up systems intended to **measure the performance** (efficiency and effectiveness) of its activities. Through this approach, the IAS aims at ensuring that, in the first instance, DGs and Services have established performance frameworks including performance measurement tools, (i.e. key indicators) and monitoring systems which means that objectives and **SMART benchmarks** have first to be established at Commission level, in order to dissociate, to the extent possible, the Commission's specific objectives and performance from those of the spending programmes, the achievement of which also depends on other **major key players**, particularly when EU programmes are implemented under shared and indirect management (Member States, Regions, etc.).

**Overall opinion:** the IAS considered that the implementation of action plans drawn up in response to its audits this year and in the past **contributes to the steady improvement of the Commission's internal control framework:**

- on internal controls, the IAS conclusion on the state of internal control is **limited to the management and control systems** which were subject to an audit and does not cover those which had not been audited by the IAS or the IAC in the past three years;
- as regards the budgetary management of the Commission, the overall opinion is qualified with regard to the reservations made in the Authorising Officers' by Delegation Declarations of Assurance. In arriving at this opinion, the IAS considered the combined impact of amounts estimated to be at risk as disclosed in the Annual Activity Reports of the DG/Service concerned in the light of the corrective capacity as evidenced by financial corrections and recoveries of the past. Given the magnitude of financial corrections and recoveries of the past and assuming that corrections on 2015 payments will be made at a comparable level, the **EU Budget is adequately protected as a whole** (not necessarily individual policy areas) and **over time** (sometimes several years later).

Without further qualifying the opinion, the internal auditor added three 'emphases of matter' which relate to:

- control strategies in the research area for the 2014-2020 programmes,
- supervision strategies regarding third parties implementing policies and programmes,
- nuclear decommissioning and waste management programme in JRC.