



2018

Annual Activity Report

**Internal Audit Service
(DG IAS)**



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THE INTERNAL AUDIT SERVICE IN BRIEF

The Internal Audit Service (IAS) is a central service of the European Commission, led by the Commission's Internal Auditor. It is responsible for auditing the management and control systems of the 48 other European Commission services and executive agencies, and the 42 EU agencies and other autonomous bodies, receiving contributions from the EU budget (audited entities).

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Definition of internal auditing by the Institute of Internal Auditors (IIA)

Our mission and contribution to the Institution's objectives

The mission of the IAS is to provide risk-based and objective assurance, advice and insight, designed to protect and enhance organisational values.

Through its audit work, the IAS and its professional corps of internal auditors contribute to the effective implementation of policies, programmes and actions, to the efficient and economical management of resources, and to the compliance with the legal framework by the audited entities. We contribute to the identification of critical risks that may adversely affect the achievement of the audited entities' objectives and to the definition of mitigating actions. We also contribute to the promotion of a performance culture (economy, efficiency and effectiveness) with a view to bringing about continuous improvement.

In this way, the IAS contributes to providing value for money for European citizens and also helps the European Commission in its objective to protect the EU budget from irregular expenditure and thus to increase public trust and confidence in the European Union.

International professional standards

The IAS conducts its internal audit activities in accordance with the Financial Regulation (FR)¹, the International Standards for the Professional Practice of Internal Auditing (Standards) and the Code of Ethics of the Institute of Internal Auditors (IIA)².

¹ Articles 117 to 123 of Regulation (EU, Euratom) 2018/1046

² The Institute of Internal Auditors (Global) at <https://global.theiia.org>

Independence of the IAS

The independence of the Internal Auditor is defined in Article 120 of the Financial Regulation and is guaranteed in its Mission Charters³.

In the Commission, according to its Charter, the IAS falls under the authority of the First Vice-President of the European Commission. The IAS reports and is functionally accountable to the Audit Progress Committee (APC) as regards its audit activities.

Similarly, for its work in EU agencies and other autonomous bodies, the IAS reports functionally to the Board and the Director of each respective entity.

The IAS coordinates its work with the European Court of Auditors (ECA), the Commission's external auditor, and, where applicable, with the Internal Audit Capabilities (IACs) of the EU Agencies and other autonomous bodies.



³ Communication to the Commission, C(2017) 4435 final of 30 June 2017, "Mission Charter of the Internal Audit Service of the European Commission" and individual mission charters for the decentralised EU Agencies and other autonomous bodies.

EXECUTIVE SUMMARY

The Annual Activity Report (AAR) is a management report of the Director-General of DG IAS to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for its decisions as well as for coordinating executive and management functions it exercises, as laid down in the Treaties⁴.

a) Key results and progress towards the achievement of general and specific objectives of the IAS

Through its audit work, the IAS contributes to the Commission's general objective of effectively and efficiently managing resources and **promoting a performance culture** (economy, efficiency and effectiveness) by providing re-assurance to the audited entities and the College of Commissioners.

Risk-based audit process

The IAS has a well-defined and structured audit process, starting with a detailed audit risk assessment to obtain a thorough understanding of the audited entities, their objectives and the key risks they face in achieving them.



Early identification of Commission-wide and DG-specific key risks/themes, taking into account the strategic objectives of the Commission and the EU autonomous bodies, ensures that all their risks judged to be high or very high are covered by way of an audit engagement during a three-year period. Strategic audit plans are then developed (covering a 3-year period) and are implemented through the annual audit plans.

In 2018, the IAS performed a wide range of audits, covering governance aspects, and operational, financial and risk management processes. The IAS audited very complex and sensitive topics in order to provide reassurance to the Commission Services that the controls in place are effective in mitigating those risks that may impair the achievement of their objectives.

Particular attention was devoted, as in the past, to auditing the riskier implementation modes such as indirect and shared management, innovative funding methods (financial instruments and blending), the Commission's corrective capacity and to IT, notably in the areas of security, project management and governance. The IAS also assessed the state of play as regards the Commission-wide effort to introduce increased synergies and efficiencies.

⁴ Article 17(1) of the Treaty on the European Union.

Where weaknesses were identified in the course of the various audit engagements, recommendations were issued. These recommendations aim at mitigating the related risks in a cost-effective manner, thereby adding value to the audited entity. The recommendations issued will contribute, once fully implemented, to improve the functioning of the Commission.

At the request of its auditees, the IAS also provided a small number of consulting services.

Oversight

The Strategic Audit Plan (SAP) for the Commission and Executive agencies is considered by the Audit Progress Committee (APC) and adopted by the Internal Auditor (IA). For the work in the Commission, the APC ensures oversight over the acceptance and proper implementation of the IAS recommendations by the audited services, which has a considerable persuasive effect on the services concerned.

In most EU Agencies and other autonomous bodies, the oversight role is assigned to the respective Management Board, in which the Member States and the Commission are represented.

Audit plan and resources

The main operational challenge of the IAS was to complete all engagements included in its audit plans and make an effective use of its resources.

Continuous monitoring enabled the Internal Auditor to review regularly the auditing activities and the internal audit process, fully supported by an audit management software. Several performance indicators are used to monitor progress made in conducting the audit engagements. The implementation of the accepted recommendations is verified through dedicated follow-up audit engagements.



The completion of the annual audit plans was monitored in the course of the year. The annual audit plans were reviewed mid-year to reflect new and emerging risks faced by the audited entities. The IAS successfully completed 87 audit, consulting and risk assessment reports, i.e. all the engagements planned in 2018.

It continued to make an efficient use of its resources, with audit staff spending on average 85%⁵ of their time on direct audit and audit support work.

⁵ 2018 average % of all IAS audit staff (Commission and EU bodies)

In this way, the IAS and its corps of 121 professional internal auditors (of which more than 70% are certified auditors), contributed to the effective implementation of policies, programmes and actions, to the efficient and economical management of resources and to compliance with the legal framework by the audited entities in the European Commission, Executive agencies, and the EU Agencies and other autonomous bodies.

Contributing to the Commission's Annual Management and Performance Report for the EU budget (AMPR)

Through the Annual Report of the Internal Auditor (Article 99(3) of the previous Financial Regulation)⁶, the IAS reported to the Commission on its audit and consulting work in Commission Directorates-General, Services and Executive Agencies⁷ for the year 2017. This report was then summarised by the Secretariat-General of the European Commission in the annual report in accordance with Article 99(5) of the previous FR. The latter report contains a summary of the number and type of internal audits carried out, the recommendations made and the action taken on those recommendations and is forwarded by the Commission to the European Parliament and the Council.

To fulfil its objectives as outlined in its mission charter, the IAS issues each year in May its "Overall opinion" on the state of financial management in the Commission. The overall opinion considers whether the Commission has put in place governance, risk management and internal control procedures, which, as a whole, are adequate to give reasonable assurance over the achievement of its financial objectives.

Both the Article 99(5) Report and the Overall Opinion of the IAS were delivered on time and contributed to the preparation of the Commission's Annual Management and Performance Report for the EU budget (AMPR⁸). Through this document, the Commission reports on the implementation of the EU budget and the Commission's performance. By adopting the AMPR, the Commission takes overall political responsibility for the management of the EU budget.

Other reports produced during the year

The IAS issued in 2018 conclusions on the state of internal control (limited type assurance⁹) to 48 individual DGs/Services of the Commission and Executive Agencies as a contribution to the preparation of their 2017 Annual Activity Reports. These limited conclusions have been issued on an annual basis since 2016.

6 Regulation (EU, Euratom) 2018/1046 on the financial rules applicable to the general budget of the Union is applicable from 2 August 2018. It repealed Regulation (EU, Euratom) No 966/2012 (2012 Financial Regulation). The Article 99(3) Report is now the **Article 118(4) Report** and the Article 99(5) Report became the **Article 118 (8) Report**

7 The former "99(3) Report" does not cover the EU autonomous bodies and the European External Action Service. Separate reports are addressed to some of these bodies.

8 The Commission's Annual Management and Performance Report for the EU budget (AMPR) combines the former Article 318 Evaluation Report required by the Treaty on the Functioning of the European Union (TFEU) and the former Synthesis Report summarising the Annual Activity Reports produced by the Commission services as required by the Financial Regulation and the former Communication on the protection of the EU budget. The reported elements in this section of the AAR of the IAS will also be a source of information for the Annual Management and Performance Report (AMPR).

9 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 in the past three years (hence "limited" rather than "reasonable" assurance).

Other reports issued: (1) four quarterly overview reports (or information notes) transmitted to Commission's Audit Progress Committee on the follow-up of IAS recommendations concerning Commission's Directorates-General, Services and Executive Agencies and, and (2) nine annual reports on the status of open critical and significantly delayed very important IAS recommendations, to EU Agencies and other autonomous bodies.

Data Protection

The new Data Protection rules for the EU institutions¹⁰ entered into force in December 2018. The IAS reviewed its processing operations to ensure they are exhaustive, took measures to strengthen its technical and internal organisational measures, appointed a member of the management team as Data Protection Coordinator and an assistant Data Protection Coordinator, organised training sessions for management and staff and published updated privacy statements for its processing activities.

In addition, and in order to avoid jeopardising the lawfulness of internal audit activities, the Commission adopted internal rules¹¹ concerning the provision of information to data subjects and the restriction of certain rights in the context of the processing of personal data for the purpose of internal audit activities (further details on the purpose and necessity of these rules are provided on page 35).

Quality and excellence

The IAS continues to be a mature internal audit service committed to quality and excellence.



In line with international standards and best practice of the profession, it underwent an external quality assessment¹² in 2016, which concluded that the IAS generally conforms with the Standards, that it operates efficiently and effectively, and adds value to the

overall risk management and internal control framework of the European Commission, Executive and EU agencies and other autonomous bodies. In addition, each year, as required by international auditing standards, i.e. IIA Standard 1311, the IAS undertakes an internal quality assessment (IQA). The latest IQA conducted at the beginning of 2019 (on audits performed in 2018) concluded that the IAS generally conforms¹³ to the standards selected for the purpose of the exercise.

¹⁰ Regulation 2018/1725 of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC.

¹¹ COMMISSION DECISION (EU) 2018/1961 of 11 December 2018 laying down internal rules concerning the provision of information to data subjects and the restriction of certain of their rights in the context of the processing of personal data for the purpose of internal audit activities.

¹² IIA Standard 1312: External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

¹³ Highest possible rating according to the rating scale of the Institute of Internal Auditors.

Professionally trained and motivated staff

Established in 2001, the IAS is a mature internal audit service committed to quality and excellence by building on its quality certification and a culture of career-long learning. The IAS has a dedicated and regularly updated internal audit training programme in place for its staff and encourages them to obtain a professional audit certification.



The IAS followed up on specific actions, identified since the 2016 staff satisfaction survey, which in 2018 included the creation of a Staff Engagement Committee (SEC) and the re-activation of the IAS middle management network.

To retain its experienced and qualified auditors, several actions are being implemented to develop a career path for IAS auditors, ensure work life balance, and provide flexible working arrangements and social/fitness related activities. Actions further increasing the mobility of staff within the DG and breaking the silos are being developed (increase the internal communication of job vacancies, job shadowing / swap initiatives between units and Directorates, etc.).

The most recent staff engagement index (2018), which represents a composite scoring of seven statements, probing whether staff members understand their role, and management values, cares, praises, recognises and informs adequately its staff, shows that 75% of the IAS staff is satisfied, which is higher than the Commission average of 69%.

Female representation in Middle Management

One of the key challenges identified in the IAS Human Resource Plan 2016-2020 was to contribute to the achievement of the Commission objective of a 40% female representation rate at management level for the Commission as a whole. The specific quantitative target¹⁴ set to the IAS (i.e. first female appointment by 1 November 2019) was already reached with the appointment of a third female Head of Unit as of 1 October 2017. The percentage of female middle managers in the IAS now stands at 27%.

The organisational size of the IAS limits the number of new management appointments. However, the IAS has continued its initiatives to increase the pool of female candidates for middle management positions, in particular through the selection and support of interested colleagues to participate in the Commission's corporate Female Talent Development Programme, organising an information session to familiarise female administrators with the role and tasks of an IAS middle manager, monitoring gender balance for Team Leader and DG Correspondent roles, and encouraging female officials to attend management courses.

¹⁴ SEC(2015)336 and SEC(2017)359. It repealed the indicative sub-targets per Directorate-General for female representation in middle management and adopted quantitative targets of first female appointments to be made per DG at middle management level.

Stakeholders' feedback

In order to capture the perception of the quality of its work, the IAS periodically conducts satisfaction surveys with its key stakeholders, i.e. the members of the Audit Progress Committee (APC), chairs of the boards of the EU agencies and other autonomous bodies and senior management (Commission DGs, directors of the executive agencies, directors of the EU agencies and other autonomous bodies).

With satisfaction rates over 90% (exceeding the set targets), both for the level of audit coverage of the auditees' main risks and processes, and for the added value of IAS recommendations, the work of the IAS was also in 2018 well perceived by its key stakeholders.

Nevertheless, the IAS continues to implement actions to improve the cost-effectiveness of audit recommendations and expand the IAS' auditors knowledge of the auditees' business.

Capacity building and networking

The IAS is one of the largest public sector internal audit services in the world. Through its annual audit conferences and organisation of and/or participation in other ad hoc events, the IAS is active in networking with peers and audit professionals in the public sector in Europe, and benefits from the expertise of highly-skilled professionals (including those from academia) to share thoughts and best practices with this community.

The 2018 edition of the annual IAS conference on "Internal audit: Embracing the challenges of the future" was held in Brussels on 6 November. The satisfaction rate of the participants was 96%. Around 450 participants benefited from the expertise of highly-skilled professionals to share thoughts and best practices and the conference was considered by them as an excellent opportunity to network with peers and audit professionals.



The annual meeting for the "Heads of Internal Audit in International Organisations" (HOIA) was hosted for the first time by the IAS on 19 and 20 April 2018 and provided an informal forum (35 organisations being present) to discuss best practices in governance, audit, control, and risk management, exchange practical experiences of common interest, provide contacts of persons in similar functions and of external service providers, and benchmark (as deemed appropriate) against other organisations.

b) Key Performance Indicators (KPIs)

Most targets set out in the IAS 2016-2020 Strategic Plan and 2018 Management Plan were reached or exceeded.

To ensure that its strategic audit plan delivers the desired results, the IAS uses a range of key performance indicators (KPIs) for the internal audit activity, which are inspired by those proposed by the International Institute of Internal Auditors (IIA). Due to the nature of the internal audit activity, all indicators and targets are set on an annual basis. During the year, all KPIs¹⁵ were closely monitored by the IAS. The results for 2018 are overall highly satisfactory.

The three KPIs that represent the most critical aspects of the performance of the IAS are as follows:



Full **delivery of the annual audit plan** to ensure timely coverage of high risk areas. The 2018 audit plans of both the Commission and EU Autonomous Bodies were implemented in full.



Timely delivery of the **Annual Report of the Internal Auditor** Article 99(3) of the previous Financial Regulation (summarised by the Secretariat-General of the European Commission in the annual report in accordance with Article 99(5) of the FR), as well as the **overall opinion on financial management** in the Commission. Both reports contribute to the Commission's Annual Performance and Management Report. As required by the standing instructions, the IAS delivered the **limited conclusions on the state of internal control** to each DG/Service in the Commission as a contribution to the preparation of their Annual Activity Reports.



Compliance with internal methodology and guidance and international auditing standards to demonstrate that the work of the IAS is carried out to a **high professional standard**. According to the internal quality assessment conducted for the year 2018, the IAS "Generally Conforms" to the International Standards for the Professional Practice of Internal Auditing", which is the highest possible rating.

A more detailed analysis of these and other KPIs, including a breakdown between the audit activities (i) in the Commission and (ii) in the EU Agencies and other autonomous bodies, is provided in section 1.

¹⁵ The KPIs mirror those in the IAS 2016-2020 Strategic Plan

c) Key conclusions on financial management and internal control

In 2017, the Commission adopted a new Internal Control Framework (ICF) consisting of a set of internal control principles and components, based on international good practice, aimed at ensuring the achievement of policy and operational objectives. The new principles replaced the previous internal control standards and were applicable as from January 2018. The FR requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these principles.

The IAS assessed its internal control systems during the reporting year and concluded that the internal control principles are implemented and function as intended (see section 2.1.3 for further details).

In addition, the IAS systematically examined the available control results and indicators, including those aimed at supervising entities to which it has entrusted budget implementation tasks. These elements were assessed to determine their impact on the management's assurance as regards the achievement of control objectives (see section 2.1 for further details).

In accordance with the governance arrangements of the European Commission, the Financial Regulation and its Mission Charter, 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.

Delegated administrative budget

For a number of years now, 97% of the administrative expenditure of the IAS is directly delegated to the PMO in accordance with the Commission's Internal Rules.

The IAS is therefore accountable for the remaining 3%, which is however co-delegated to DGs HR (based on a Service Level Agreement with DG HR for the provision of support services to the IAS in the area of human resources and financial management) and DG DIGIT (supported by a Memorandum of Understanding). In both cases, the IAS remained responsible for the planning-related aspects. As the budget is managed under the same Commission rules, the primary Authorising Officer by Delegation (AOD) (i.e. the IAS) can in principle rely on the legality and regularity, efficiency and cost-effectiveness of the controls in place in DGs HR and DIGIT (as secondary AODs). This expenditure is therefore covered by the Declarations of assurance of DGs HR and DIGIT.

In 2018, the IAS executed (as every year) its own additional ex-ante and ex-post controls on its mission expenses and monitored the implementation of its Anti-Fraud Strategy.

As the IAS did not make payments in 2018 and DGs HR and DIGIT did not report any issues as regards the legality and regularity of the transactions they processed on behalf of the IAS, the IAS can conclude that the applied controls are effective and efficient (see section 2.1.3. for further details).

Effective Internal Controls

As part of the implementation of the new Internal Control Framework, the IAS compared the new framework and principles with its existing internal control system and then defined its internal monitoring criteria for 2018 for each of the internal control components. These criteria were monitored during 2018 and at the end of the year a self-assessment exercise was performed which was partially integrated in the annual management risk assessment survey. Overall, the level of compliance and effectiveness of the implementation of the ICF was assessed positively (see section 2.1.3 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 Delegation¹⁶, have co-signed the Declaration of Assurance.

d) Provision of information to the First Vice-President

In the context of the regular meetings during the year between the DG and the First Vice-President on management matters, the main elements of this report and assurance declaration were also brought to the attention of First Vice-President F. Timmermans, responsible for better regulation, inter-institutional relations, rule of law and charter of fundamental rights, and internal audit.



The IAS 2018 draft AAR was discussed by the Director-General of the IAS and IAS Senior Management with the First Vice-President during a meeting on 5 March 2019.

¹⁶ According to Art.117(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.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE IAS

This section provides information on the key results and progress made towards the achievement of general and specific objectives set in the 2016-2020 Strategic Plan (in terms of objectives and indicators) and in the 2018 Management Plan (in terms of outputs).

1.1 Internal Auditing

Through its audit work, the IAS contributes to the Commission's general objectives, whilst at the same time its main operational challenge is to complete all engagements included in its audit plans and make an effective use of its resources.

1.1.1 Contribution to the general objective of the Commission

The IAS, as a key horizontal service in the Commission, contributes to the following general objective of the Commission:

To help achieve the overall political objectives, the Commission will effectively and efficiently manage and safeguard assets and resources, and attract and develop the best talents.

The IAS contributes to this general objective, in particular to the protection and management of assets and resources, by performing audits and consulting services in an effective and efficient manner and by providing re-assurance to the audited entities.

As the audits of the IAS are risk based, they focus on areas where the audited services are exposed to the highest risks. The audits then provide assurance that the responsible managers have taken the adequate measures and installed the appropriate systems and controls to mitigate these risks and reach their objectives. If weaknesses are detected the recommendations of the IAS support the audited services to improve their processes and procedures.

The IAS also contributes to the promotion of a performance culture (economy, efficiency and effectiveness) with a view to bringing about continuous improvement. The IAS supports the accountability process of the DGs' by providing each of them with a limited conclusion on the state of internal control in their service which is one of the elements on which they can base their declaration of assurance in the AAR. The IAS verifies whether the DGs' AARs adequately reflect the limited conclusion of the Internal Auditor and the level of implementation of the recommendations resulting from the IAS audits for the DG concerned.

The IAS carries out its mission in accordance with the Financial Regulation and with the International Standards for the Professional Practice of Internal

Auditing¹⁷ and the Code of Ethics of the Institute of Internal Auditors (IIA Standards). However, while the IAS can control the quality of its outputs (audit and consultancy reports), it cannot control the results and impact of its work. For this, the IAS depends on (a) the acceptance by the audited entity of its recommendations/issues for consideration and (b) on the timely implementation of the actions by the (audited) entity resulting from an audit or a consultancy engagement.

The Audit Progress Committee (APC), to which the IAS reports its audit work in the Commission and the Executive Agencies, follows closely the acceptance and implementation of IAS's recommendations and takes action where necessary, which has a considerable persuasive effect on the audited entities concerned. In most EU Agencies and other autonomous bodies, this role is assigned to the respective Board in which the Member States and the Commission are represented.

In line with the other Commission services, the IAS aims at contributing to the positive evolution of the following two corporate indicators.

- Staff engagement index (source of the data: European Commission). This index represents a composite scoring of seven statements, which probes whether staff members understand their role and whether management values, cares, praises, recognises and informs staff. The response to the 2018 Commission's staff survey showed that 75% of the IAS staff is satisfied, which is higher than the Commission average of 69%.
- Level of trust in the European Commission, which reflects the public perception of the Institution as a whole. The results of the latest Standard Eurobarometer on Public Opinion in the European Union show that 43%¹⁸ of citizens in the Member States "tend to trust" the European Union (EU), which is above the baseline of 40% (Spring 2015).

Through its audit work, the IAS has a key role in contributing to the positive evolution in the confidence of European citizens in the Union, by enhancing the services' performance, and helping the Commission in its objective to protect the EU Budget from irregular expenditure.

For the IAS (auditing the Commission/Executive agencies and EU agencies and other autonomous bodies), this general objective can be broken down into three specific IAS objectives as follows:

1.1.2 To ensure that the work of the IAS adds value

To ensure that the work of the IAS adds value to the Commission services and the EU Agencies and other autonomous bodies and contributes to the improvement of their operations (external dimension)¹⁹.

¹⁷ IIA Standard 2000: "The CAE must effectively manage the IA activity to ensure its added value to the organisation."

¹⁸ Standard Eurobarometer (EB90) on Public Opinion in the European Union (Autumn 2018)

¹⁹ Specific objective 1.1 in the SP 2016-2020

Although the Internal Auditor is independent in the elaboration and adoption of his audit plan, his objective is to have a positive impact on the performance of the audited services. It is therefore important that the audited services, as well as the supervisory level (the APC or the Boards concerned), consider that the IAS implements an audit plan that is risk-based and consistent with the organisation's goals, and that satisfactory coverage of the audit universe over a multi-annual period is ensured.

Stakeholder satisfaction survey

The internal audit activity aims at adding value to its stakeholders by auditing processes which are high risk. The added value of the reports of the IAS lies in the re-assurance it provides to the auditees, the APC and the Boards that internal control systems are effective or, in case weaknesses are detected, in the provision of recommendations which support the auditees in improving their internal controls. In addition, performance audits are geared towards the identification of possibilities to improve the auditees' systems and procedures which lead to the achievement of their objectives in an economic, efficient and effective way.

The IAS covers the activities and processes of the 48 other Commission Directorates General and services, as well as 42 agencies and other autonomous bodies spread over the EU.



COMMISSION HEADQUARTERS

HEADQUARTERS OF DECENTRALISED AGENCIES



In order to capture the perception of the quality of its work, the IAS periodically conducts surveys on whether its audits and recommendations satisfactorily

covered the risks and processes in the audit universe, added value to the auditees' operations and contributed towards effective risk management.

The two main sources are:

- an annual stakeholder survey addressed to IAS' key stakeholders. This survey provides an indication of how the IAS and its work are perceived by its key stakeholders (Audit Progress Committee members (APC), chairs of the boards of the EU agencies and other autonomous bodies and senior management (Commission DGs, directors of the executive agencies, directors of the EU agencies and other autonomous bodies). In line with previous years, the results for 2018 are in general positive with satisfaction rates exceeding the set targets. The target of at least 90% of stakeholders that consider that the IAS work covers the main risks and processes and that its work adds value was overall reached (actual result: average of 97% for all stakeholders²⁰).
- a satisfaction survey after each engagement, asking auditees to rate their level of satisfaction with different aspects of the audit on a scale²¹ from 1 (highest) to 4 (lowest). (a) The survey addressed to the audited services in the Commission and the Executive Agencies shows an average score for all questions of 1.62, which means that the target level of 1.5 for auditee satisfaction was nearly reached. (b) The satisfaction survey addressed to the audited services in the decentralised EU Agencies and other autonomous bodies resulted in an average score of 1.59, which is close to the very ambitious target level of 1.5.

IAS contribution to the preparation of the AARs of Commission DGs/Services

Apart from its participation in the peer review process, the contribution of the IAS to the AAR process consists in providing a "limited conclusion on the state of internal control" to the other 48 DGs and Services of the Commission. These conclusions were delivered as required by the standing instructions and are based on all work undertaken by the IAS in the year and the two years preceding it.

IAS contribution to the Commission's AMPR

The Overall Opinion on the financial management of the Commission for the year 2017 was delivered on 25 May 2018. It contributed to the preparation of the AMPR.

The performance tables in annex 12 to this AAR provide an overview of the corporate indicators and IAS' targets applicable to this objective.

²⁰ The calculation is based on the average level of satisfaction of stakeholders in respect of the following two statements (a) IAS covering the main risks and processes and (b) IAS work adding value. The baseline set for 2015 was 80% and was raised in 2016 to 90%.

²¹ On a scale from 1 (strong agreement) to 4 (strong disagreement)

1.1.3 To ensure that the work of the IAS is of high quality

To ensure that the work of the IAS adds value by being conducted in accordance with the Financial Regulation and its Rules of Application, its internal methodology and guidelines and international auditing standards (internal dimension)²².



As its work can add value only if it is of high quality, the IAS aims at ensuring that it is conducted in accordance with international internal auditing standards and its internal methodology and guidelines.

On an ongoing basis, the IAS implements the IIA's Standards, in particular Standard 1300: "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity".

At the beginning of 2019, the IAS underwent an internal quality assessment²³ (on audits performed in

2018) as required by international auditing standards, i.e. IIA Standard 1311. This annual self-assessment, based on an in-depth review of a sample of audit files, and on a survey among auditors, concluded that the IAS "Generally Conforms" to a selection of the Standards of the Institute of Internal Auditors.

The performance tables in annex 12 to this AAR provide an overview of the corporate indicators and IAS's targets applicable to this objective.

1.1.4 To ensure that the IAS is efficient and effective in delivering its audit plans

To ensure efficiency and effectiveness in delivering the strategic audit plans through the annual audit plans.²⁴

To ensure the effective and efficient delivery of the audit plans, the IAS actively

²² Specific objective 1.2 in the SP 2016-2020

²³ In 2016, it underwent a full external quality assessment as required by international auditing standard 1312 of the Institute of Internal Auditors (IIA)' It states that "External assessment must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation". The reviewer concluded that the IAS "Generally Conforms" (highest possible rating) to the international standards for the professional practice of internal auditing.

²⁴ Specific objective 1.3 in the SP 2016-2020

continued to manage its operational performance through a detailed planning of audit tasks, allocation of staff to engagements, close monitoring of the respect of deadlines and milestones for all audits, detailed time recording for all staff and the regular analysis of the differences between budget and actual time spent on each audit.

The IAS uses five key performance indicators (KPIs) for the internal audit activity, which are inspired by those proposed by the International Institute of Internal Auditors (IIA):

- Delivery of the annual audit plans;
- Use of auditors' time;
- Timeliness of the delivery of audit reports;
- Use of actual time compared to budget for completing an engagement;
- Timely delivery of Annual Reports and Overview reports.

Due to the nature of the internal audit activity, these indicators and targets are set on an annual basis. During the year, all KPIs²⁵ were closely monitored by the IAS. The results for 2018 are overall highly satisfactory.

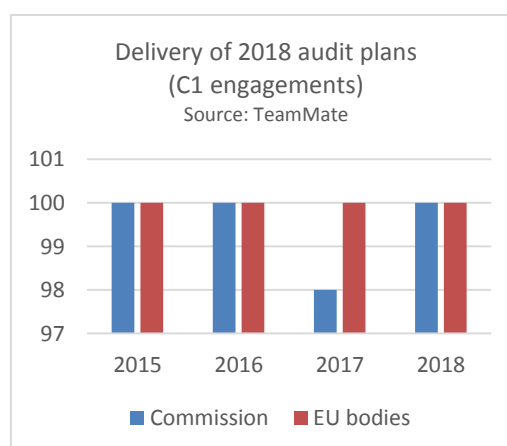
Delivery of the annual audit plan

The IAS's strategic audit plans are implemented through annual audit plans. The audit plans consist of a list of audit engagements classified as either "C1" or "C2". C1 engagements must be completed in year N. C2 engagements start in year N and are finalised in year N+1.

- The 2018 Audit Plan for the Commission was considered by the Audit Progress Committee (APC) at its meeting of 7 March 2018, and adopted by the Internal Auditor on 16 March 2018.
- The preparation of the Strategic Internal Audit Plans (SIAP) for 6 EU Agencies and other autonomous bodies, where the previous SIAP had been completed or became obsolete (target January 2018), was finalised in due time.

The completion of the annual audit plans is monitored in the course of the year. In line with international auditing standards, the audit plans are updated at mid-year to take into account new or emerging risks (e.g. new processes or procedures, organisational changes, etc.) and availability of resources.

The audit plans for both the Commission and EU agencies and other autonomous bodies were implemented in full²⁶.



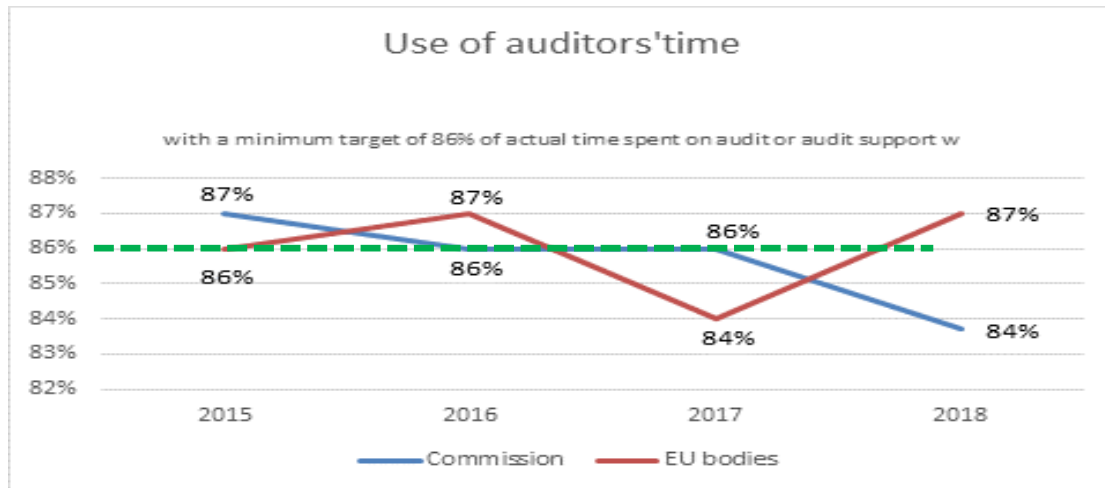
²⁵ The KPIs mirror those in the IAS 2016-2020 Strategic Plan

²⁶ The 98% completion rate for 2017 was already explained in the 2017 AAR (postponement to 2018 of the issuance of one management letter summarising the results of various audits).

Use of auditors' time

The results for the operational indicator on the use of auditors' time (with a minimum target of 86% of actual available time spent on audit or audit support work) was 85% overall (Commission: 84% and EU Agencies and autonomous bodies: 87%).

This is a key indicator for assessing the efficient use of resources. The remaining time was spent on training and administration.



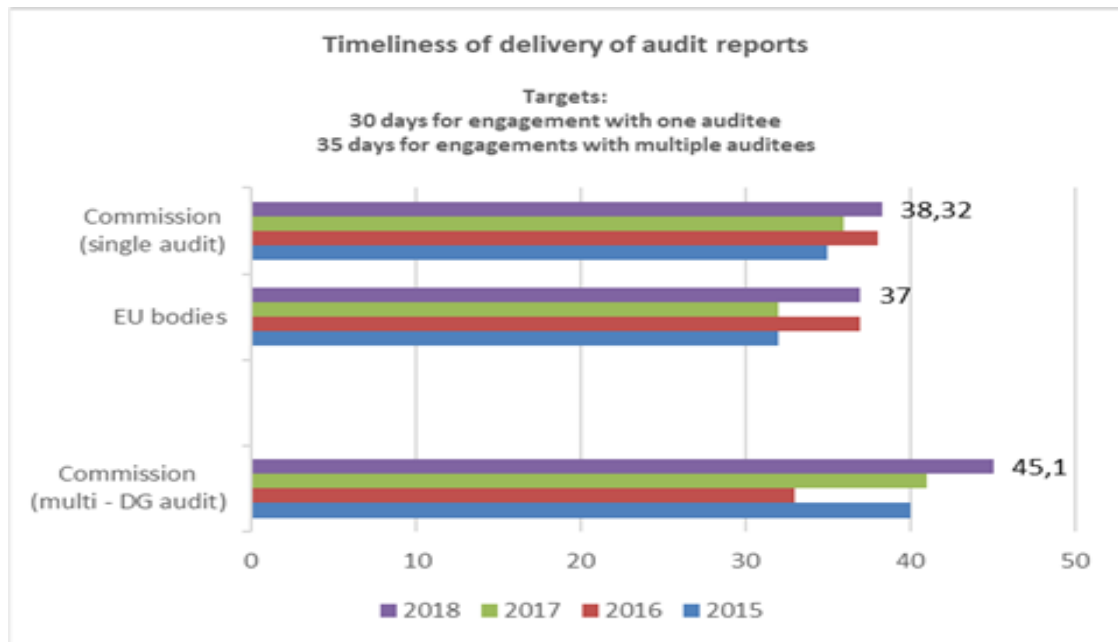
Source: TeamMate time-reporting

Timeliness of the delivery of audit reports

The efficiency (timeliness) of the reporting phase of the audit engagements is measured by the number of working days between the findings validation meeting and the delivery of the final report.

The target set for Commission audits is an average of ≤ 30 working days for single auditee engagements and ≤ 35 working days for multiple auditee engagements. Neither of the targets was met (actual results: 38 days for single auditee engagements and over 45 days for multiple auditee engagements). This was notably caused by a longer validation process due to a combination of various factors, including (i) the complexity and sensitivity of the issues raised, (ii) the non-availability of the auditees, (iii) the validation put on hold due to other more pressing commitments or (iv) in-depth exchanges with auditees, in certain cases, on the IAS findings and proposed recommendations, coupled with delays in receiving auditees' comments on draft reports. The ambitious targets set for previous years were however maintained for 2019.

The target of issuing a final report for audits in EU Agencies and other bodies within 30 days after the findings validation meeting was not reached this year (actual average 37 days in 2018). In addition to the explanations above given for the Commission audits, which also apply in this case, some of the Agencies' audits were delayed due to the fact that the auditees provided additional information after the validation meeting, which required further work and exchanges with the auditees before the finalisation of the audit report by the IAS.



Source: Internal monitoring data

Use of actual time compared to budget for completing an engagement

The monitoring of the variance between the actual and budgeted time for each audit engagement is important to assess the adequacy of the IAS's planning process, as well as the efficiency of the conduct of individual engagements.

In 2018, on average, the difference between the budgeted time and actual time spent per engagement was outside the tolerable range of $\pm 10\%$.

For the finalised audits in the Commission and Executive agencies, the actual time spent was on average +15%, exceeding the budget (overrun). This is explained by the combination of various factors, including (i) the complexity of some of the topics audited; (ii) the multi-DG nature of some engagements and (iii) the sensitivity of some findings, which required longer fieldwork, validation and reporting phases.

The IAS also experienced higher vacancy²⁷ rates (up to 10%) than in recent years, which meant that some audits already underway had to be re-assigned to other staff, which in turn needed an additional investment of time to take over and/or phase in the engagement and the audited process.

For the finalised audits of EU bodies the actual time spent was on average -11% below the budget (underrun). This was not only a sign of close and efficient budget management, but was also due to the fact that some identical or similar topics were audited in several agencies or other bodies which allowed the teams to re-use parts of audit programmes, which created major efficiency gains.

²⁷ See also point on vacancy rate (page 26-27)

Timely delivery of Annual Reports and Overview reports

The IAS issued several summary reports:

- The Annual Report of the Internal Auditor for the year 2017, in accordance with the former Art 99(3) of the FR, was issued on 25 May 2018 and contributed to the Commission's AMPR, which was issued on 6 June 2018.
- The IAS is also required to send out annual reports for three EU Agencies and other autonomous bodies. All of these reports were issued within the set deadlines, before the end of March 2018.
- Four quarterly overview reports (or information notes) on the follow-up of the IAS recommendations were sent to the APC on time (27 March, 6 June, 3 August and 20 December 2018).
- Reports on the status of open critical and significantly delayed very important IAS recommendations were addressed to the EU Agencies and other autonomous bodies that had such recommendations (6 entities in total) in March - April 2018. The IAS chose to perform a thorough follow-up of all recommendations issued to entities before drafting comprehensive ad-hoc reports, which explains the slight delay compared to the target in a few cases.

The performance tables in annex 12 to this AAR provide an overview of the corporate indicators and IAS' targets applicable to this objective.

1.2 IAS's own organisational management

According to Article 33(1) of the Financial Regulation, 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 at the best price. The principle of **efficiency** concerns the best relationship between the resources employed, the activities undertaken and the achievement of objectives. The principle of **effectiveness** concerns the extent to which the objectives pursued are achieved through the activities undertaken.

In the IAS, the compliance with 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 continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its human resource and financial management through, for example, the execution of annual budget, the right balance between stability/mobility of the IAS staff and the level of professional qualification of its auditors.

1.2.1 Human Resource Management

In accordance with the Communication on Synergies and Efficiencies, HR services for DGs are delivered by the Account Management Centres (AMCs).

The HR Business Correspondent in the IAS coordinates strategic HR matters and the priority actions for reaching the targets of the Strategic Plan 2016-2020 and ensures that the IAS gets the HR service it needs, in cooperation with the AMC²⁸ and in agreement with the management of the DG.

The IAS, as a key horizontal service in the Commission, contributes to the Commission's general objective:

"The DG deploys effectively its resources in support of the delivery of the Commission's priorities and core business, has a competent and engaged workforce, which is driven by an effective and gender-balanced management and which can deploy its full potential within supportive and healthy working conditions." (Commission-wide objective)

The IAS contributes in particular to the following three Commission-wide initiatives:

- female representation in middle management,
- staff well-being, and
- staff engagement.

Contributing to the achievement of the Commission-wide objectives regarding female representation in middle management, staff well-being, and staff engagement²⁹

1. Achieving the Commission objective of increasing the percentage of female representation at middle management level

Contributing to the achievement of the Commission objective of a 40% female representation rate at management level for the Commission as a whole was identified as one of the key challenges in the IAS Human Resource Plan 2016-2020. On 19 July 2017, the College adopted a new approach³⁰ to reach this objective and adopted quantitative targets of first female appointments to be made per DG at middle management level. The target set for the IAS was to make one first female appointment by 1 November 2019, which the IAS already reached with the appointment of a third female Head of Unit as of 1 October 2017. The percentage of female middle managers in the IAS now stands at 27%.

The organisational size of the IAS limits the number of new management appointments. However, the IAS continued its initiatives to increase the pool of female candidates for middle management positions, in particular through the selection and support of interested colleagues to participate in the Female Talent Development Programme, monitoring gender balance for Team Leader and DG Correspondent roles, and encouraging female officials to attend management courses.

²⁸ Account Management Centre, delivering HR services to a group of Directorates-General. The IAS is served by AMC5.

²⁹ Specific objective 2.1 in the SP 2016-2020

³⁰ SEC(2015)336 and SEC(2017)359. It repealed the indicative sub-targets per Directorate-General for female representation in middle management and adopted quantitative targets of first female appointments to be made per DG at middle management level.

2. Achieving the Commission objective of increased percentage of staff feeling that the Commission cares about their well-being at work

Since the 2016 Commission staff survey showed that only 32% of IAS staff felt that the Commission cares about their well-being (which was 3% below the Commission average of 35%), the IAS performed in 2017 a thorough analysis of the possible root causes of this low score. Staff were closely associated to this analysis and via focus groups (organised with DG HR) a number of specific actions were proposed and endorsed by the IAS senior management, which included the creation in 2018 of a staff engagement committee (SEC) and the re-activation of the middle management network.

- The SEC (and its sub-groups) explores ways to encourage the sharing of knowledge and best practices within the DG. The SEC involves staff in horizontal projects and acts as a sounding board between staff and management. It is composed of staff from all units, grades and functions, as well as from the HR BC team, and met bi-monthly in plenary to review its actions and to monitor progress in improving the quality of the working life in the IAS.
- The IAS middle management network has the objective to provide a platform for Heads of units where they can share best practices, exchange information on HR related topics and further develop leadership skills via tailor made workshops. A programme for the period 2018-2019 was created mid-2018 and three meetings took place in 2018.

The action plan established includes actions related to developing a career path for IAS auditors, work life balance, flexible working arrangements and social/fitness related activities. The IAS Senior management monitors the implementation of this plan.

For example, in order to improve the work-life balance of its staff, the IAS updated its policy on implementing flexible working arrangements by further developing telework practices throughout the DG. In 2018, especially the use of occasional telework increased compared to previous years. During 2018, 51.2% of IAS staff teleworked occasionally (compared to 37.3 % for the Commission).



The IAS also implements and supports corporate-wide and DG-specific well-being initiatives, such as Fit@work initiatives and the visit of DG HR's Medical service ergonomists (since the IAS moved from the CHAR building to the MADOU building in 2018, some initiatives are developed in collaboration with DG COMP, which is housed in the same building).

The IAS further improved its information on work/life balance (part-time, teleworking, time credits, recuperation, etc.) via the IAS intranet, and at unit and/or general staff meetings.

In the meantime, the 2018 survey results showed that 73% of IAS staff felt that the organisation cares about their well-being, 21 pts. above the Commission average of 52%.

3. Achieving the Commission objective of increasing staff engagement

The staff engagement index (as part of the Commission staff survey) represents a composite scoring of seven statements, which probes whether staff members understand their role and whether management values, cares, praises, recognises and informs staff. The IAS scored 68% in 2016 (Commission average of 64.3%) and 75% in 2018 (higher than the Commission average of 69%).

Several actions are being implemented in this field. For example, a 2018 survey of the SEC sub-group on career development, showed the interest of the IAS staff in temporary mobility initiatives.

The IAS Staff Engagement Committee has created opportunities for job shadowing in the Commission (launch of pilot in early 2019), and also exchange programmes with other international or national organisations/services. In 2018, internal auditors from the African Union Commission visited the IAS for a one-week programme and a first job-shadowing exchange with the same department of the African Union Commission will be planned in 2019. This offers staff the opportunity to familiarise themselves with the working methods of other units in the IAS, other DGs or even external organisations.

The knowledge-sharing sub-group worked in particular on developing and promoting IT collaborative working tools and developed an AudiTed-talks programme, planning periodic lunchtime presentations on audit related topics.

The IAS continued to actively involve its staff at all levels in the preparation of the audit plans, the scheduling of engagements and provided updates on their progress through unit meetings and staff meetings.

Human Resources 2018

DG IAS - 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	3	0	3
28 AWBL-02	Internal audit of the Commission	105	8	113
28 AWBL-03	Policy strategy and coordination for the Internal audit service	7	0.5	7.5
28 AWBL-04	Internal Audit of the Union agencies and other bodies	29	4	33
28 AWBL-05	Coordination with Audit Progress Committee (APC)	2	1.5	3.5
Total		146	14	160

General remark: the above data rely on the snapshot of Commission personnel actually employed in the IAS as of 31/12/2018. These data do not constitute full-time-equivalent units throughout the year. This overview does not include 2 establishment plan posts allocated to the Audit Progress Committee Secretariat with the 2019 Final Allocation of human resources SEC(2018) 520 dd 19.12.2018.

Over the period of the Strategic Plan 2016-2020, the IAS is pursuing two specific objectives contributing to the Commission's general objective: (i) recruit, support and maintain a high-performance work force, and (ii) ensure/maintain the excellence of technical knowledge and the professional certification of staff.

The key challenges for the IAS are identified and documented in the IAS Human Resource Plan 2016-2020. This document covers the internal HR strategy, which aims at ensuring that the service has sufficient adequately skilled and engaged staff and a competent, effective and balanced management team to enable it to fulfil its mandate and reach its objectives.

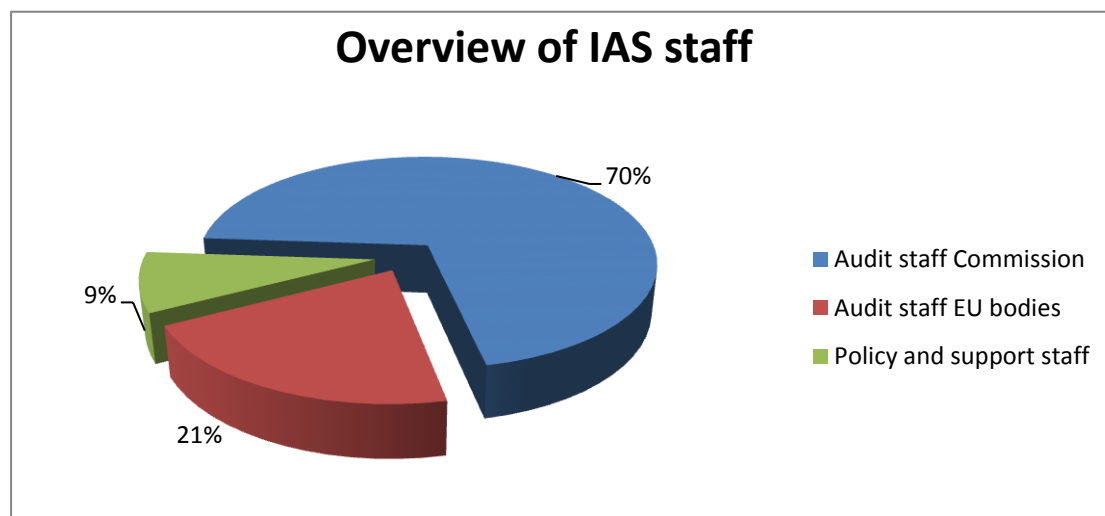
4. Providing effective HR services in order to recruit, to support and to maintain a high-performance work force in the IAS (IAS specific objective)

Provide effective HR services in order to recruit, to support and to maintain a high-performance work force in the IAS³¹

The main HR challenge for the IAS during 2016-2020 is to recruit, support and retain the required audit capacity for the implementation of its work programme.

Efficient use of resources

To enable the IAS to deliver on its priorities, working methods, audit plans and schedules are regularly reviewed to ensure that the IAS makes the most efficient use of the available human resources and expertise. The implementation of the audit plan is closely monitored and in exceptional cases, staff are reassigned on a temporary basis to high priority engagements in other units, where necessary.



Vacancy rate

After a challenging period of staff reduction³² between 2012 and 2017 and the centralisation of the Commission’s internal audit function in 2015, the IAS managed by the end of 2017 to keep the vacancy rate at 4.8%, lower than the Commission's average of 6%. The reserve list of the specialist competition for

³¹ Specific objective 2.3 in the SP 2016-2020

³² In the context of the 2014-2020 Multiannual Financial Framework, it was decided to reduce the Commission's staff by 5% over five years (1% linear taxation per year during 2013-2017) in order to lower administrative costs. The Commission also decided to apply a further internal taxation on posts in order to establish a central pool of resources for redeployment within the Institution.

auditors AD/322/16 proved to be successful in meeting the recruitment needs of the IAS in 2017, as evidenced by the recruitment of 13 laureates that year.

In 2018, although it managed to recruit four more laureates of that reserve list, the list stemming from the audit competition was nearly exhausted, which deprived the IAS of its main source of recruitment. In addition, the number of Commission officials applying for IAS vacancies decreased around the same time. This shortage in audit and/or financial management profiles was also experienced by other Commission DGs and services and by the internal audit profession in general in terms of scarcity of relevant profiles. Consequently, the average recruitment time for vacancies in the IAS (5 months) increased, leading to a vacancy rate of 10 % at the end of 2018, higher than the Commission's average of 6%.

In view of these challenges in terms of recruitment, the IAS started in 2018 the organisation of a new specialist competition for auditors which will be launched in 2019 in cooperation with DGs employing external auditors. It further prepared a Call for expression of interest to be launched in Q1 2019.

Staff retention

Even very early in their career (within three to four years), IAS auditors gain a very useful knowledge of other Commission DGs because of the nature of the job and hence become easily marketable. The war for talent between the Commission DGs has thus become a major challenge for the IAS.

Due to its small size compared to other Commission DGs and its mono-profession nature, the IAS is not in a position to offer career opportunities outside of the auditor profession. It strives however to develop further its strengths, for example in terms of professional training. It increased its training budget by 41% (from EUR 65 K in 2017 to EUR 92 K in 2018) and its training offer with specialist training from renowned training institutes (IT-audit, audit methodology).

The IAS further developed a career path for IAS auditors. The first concrete actions are planned for 2019: a job shadowing pilot programme with other DGs and a staff exchange programme with other international institutions.

The actions launched in 2018 to improve the work-life balance are expected to have a positive impact on the staff retention.

Ensuring/maintaining a high level of professional certification of auditors

The IAS set a medium term target of keeping 70% of its auditors corps fully certified. It reached this target already in 2017. By the end of 2018, 73% of IAS audit staff were certified auditors.

Develop the management potential of female staff (2016-2020)

The IAS continued to implement its talent management campaign to encourage female administrators, graded AD8 and above, to apply for management positions.

The Female Talent Development Programme (DG HR) targets specifically this group. One female administrator participated in the 2018 programme and a further two will participate in the 2019 programme.

As planned, half of the current 12 female administrators (including staff newly promoted to AD8 grade during 2018) followed a general management training course, which is below the target of 75% to be reached by 2019 (but in line with its Strategic Plan 2016 – 2020). This is due to the changes during the year in the focus groups (grades of AD8+), with the promotion of colleagues from lower grades (for which the training still needs to be planned), the recent arrival of new colleagues from other DGs (which have not followed the training in their DGs of origin), and the departure of two trained IAS colleagues to more senior positions in other DGs in 2018. Overall, this reduced the percentage of colleagues who followed the training, while at the same time, through the examples of colleagues who left the DG to other senior positions, illustrates the success of the initiative.

Enhancing the potential of support staff

Another specific IAS objective aims at ensuring the most effective use of AST staff, which can have either an audit or general support role in the service.

In 2018, the IAS AST-Network continued to maintain a good working relationship and collaboration. All IAS AST/secretarial/support staff was encouraged to participate in some basic audit training courses in order to increase their knowledge of the audit environment. At their request, some support staff were assigned audit-related tasks and received on-the-job training.

The Network is also involved in the initiatives of the IAS Staff Engagement Committee (SEC) in the areas of career, well-being and working environment. It also assisted in setting up the IAS career stand at the last Career Day, and played a key role in the organisation of IAS social and teambuilding events.

5. Increasing the capacity and the level of professionalism of internal auditors (IAS specific objective)

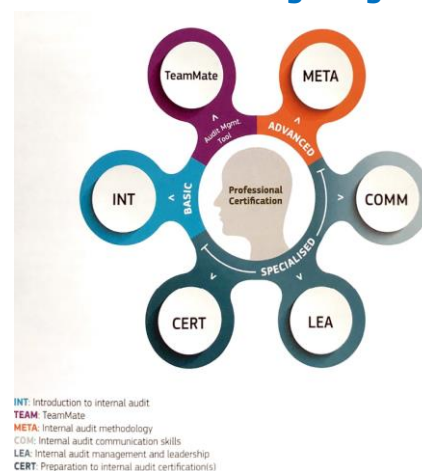
Increasing the capacity and the level of professionalism of internal auditors³³

As in previous years, the IAS successfully maintained the excellent level of staff's professional knowledge, skills and know-how, through training, encouragement to pass professional certification tests, capacity building and networking initiatives.

Continued development of auditors (Internal Audit Training Programme)

To ensure the continued professional development of its internal auditors, the IAS has since 2008 an Internal Audit Training Programme (IATP), which is delivered with the help of external contractors and internal trainers.

This comprehensive audit specific training programme, accessible to internal auditors of the EU institutions, covers 100% of all approved training needs³⁴ of this



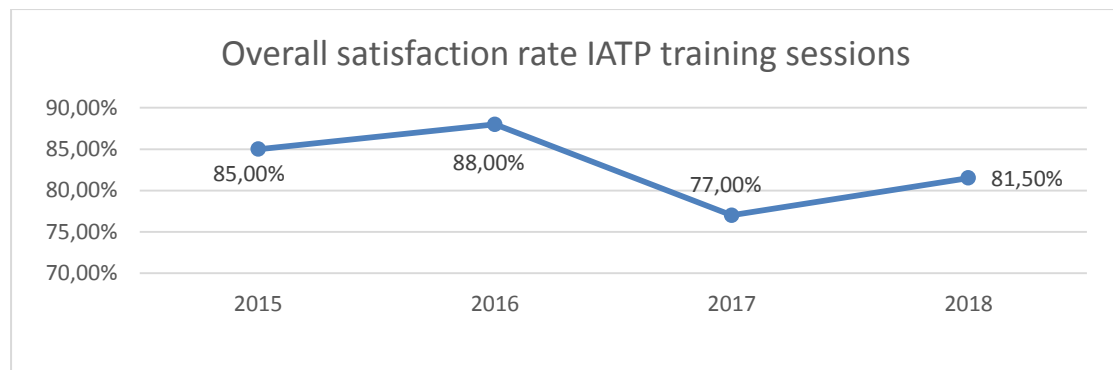
33 Specific objective 2.2 in the SP 2016-2020

34 as defined by the Internal Audit Training Steering Committee (IATP SC), chaired by the Head of Unit of IAS.01, with representatives of the IAS, HR, DDG.AMC5 and DG HR.B.3.

professional community and is regularly updated taking account of changing priorities for internal audit.

In parallel, dedicated audit training is also offered through more specialised training courses outside the Commission, in particular for IT auditors, and forums and seminars that address specific audit areas.

In 2018, 31 training sessions were organised, with an overall satisfaction rate of 81.5% (increase of 4.5% compared to last year).



This training programme supports newcomers in achieving the desired level of expertise for the implementation of the audit work programme and ensures their continued development. For the more experienced staff a series of advanced audit training courses was developed. An in-depth training needs assessment confirmed that the programme is still in line with the learning needs of the IAS auditors. Training courses on data analytics, auditing culture and root cause analysis are being developed.

Encouragement to strive for professional certification

To ensure a high professional standard amongst its staff, the IAS set a target of keeping minimum 70% of its auditors corps fully certified (status 2018: 73%). New recruits without a professional certification are therefore encouraged to strive for at least one certification.

This is also supported by the training programme, which allows auditors to prepare and pass a certification test for Certified Government Auditing Professional (CGAP®), Certified Internal Auditor (CIA®), Certified Information Systems Auditor (CISA®) and/or other professional certifications.



To assist and support its staff in achieving this objective, the IAS pays the membership fee for all IAS auditors or assistant auditors to be members of the Institute of Internal Auditors (IIA) and (partially) reimburses the membership fees for one further professional organisation.

Capacity building and networking

The IAS actively keeps its auditors and other staff abreast of recent developments in the internal audit profession as well as in the Commission and contributes to the capacity building of internal audit professionals in a wider context, via for example the IAS Annual Conference (see below) and regular Auditors' Forum seminars.

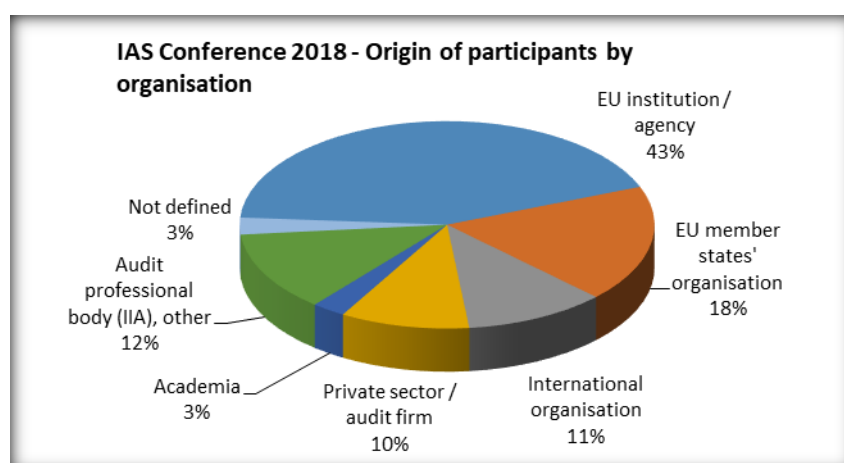
Annual IAS Conference

The IAS is one of the largest public sector internal audit services in the world.

Through its annual audit conferences and other ad hoc events, the IAS is active in networking with peers and audit professionals in the public sector in Europe, and benefits from the expertise of highly-skilled professionals (including those from academia) to share thoughts and best practices with this community.



The 2018 IAS Conference, held in Brussels on 6 November, was on "Internal audit: Embracing the challenges of the future" and welcomed highly regarded speakers in their field, who presented the views on the global challenges governments and organisations are facing, with an emphasis on what this means for our profession. Internal Audit will need to adapt its strategies, tools, skillsets and approach in order to remain most effective in the continuous delivery of value-added services and assurance.



The conference was attended by 417 participants (and web streaming viewers³⁵) and was considered as an excellent opportunity to network with peers and professionals in the IA profession on a European public sector scale.

The conference has added value to both the IAS and the participants which represent our stakeholders and peers.

A total of 96% of all respondents agreed that the main objectives of the conference had been achieved and that their expectations had been met. Many participants commented that the event had been even better than the previous year and 92% confirmed that they would recommend the IAS Conference to other professionals in their field of activity.

Auditors' forum

With an overall satisfaction rate of 82%, all of the six planned³⁶ Auditors' Forum seminars took place in 2018.

These covered a wide variety of relevant topics: (1) AAR standing instructions and the discharge process (SG and DG BUDG, 2 February); (2) towards a more united, stronger and more democratic Europe (First Vice-President Frans Timmermans, 26 April); (3) quality, ethics and integrity – the cornerstones of the audit profession (IAS and DG HR, 25 May); (4) the future Multiannual Financial Framework (DG BUDG and IAS, 14 June); (5) the Investment Plan for Europe - state of play (DG ECFIN, 21 September), and (6) validation of local systems - latest developments (DG BUDG, 9 November).

Auditnet for the decentralised EU agencies and other autonomous bodies

Two meetings were held on 8 June and 7 November 2018. As in 2017, the second Auditnet meeting of 2018 was restricted only to the agencies' Internal Audit Capabilities (IACs) and the IAS in order to focus the discussions on pure audit- and audit planning topics without the involvement of the auditees. The first Auditnet meeting was a plenary meeting attended by all IAS correspondents in the autonomous bodies, including IACs, ICCs and some Heads of Administration. This meeting combined the exchange of audit related information with updates on the implementation of the new internal control framework in agencies, the new framework financial regulation, validation of local systems, etc. Guest speakers from DG Budget, the SG, and DGs MOVE and ENER were invited to share their knowledge on these topics. Both meetings were considered useful and the IAS intends to continue organising these types of Auditnet meetings in the future.

Other initiatives in 2018

In response to the specific training needs identified within the IAS, 6 individual coaching sessions were organised, aiming at further improving the quality of written communication.

³⁵ In addition, web statistics showed that there were peaks of some 200 web streaming views during the live Conference (a view is defined as one log-on to the live session, terminated by a log-off).

³⁶ Only HR Synergies and Efficiencies review - Latest developments (with DG HR) was postponed.

Directorate A organised two meetings for its audit units to present and discuss the latest changes to the IAS methodology.

The performance tables in annex 2 to this AAR provide an overview of the corporate indicators and IAS' targets applicable to this section.

1.2.2 Financial Management (including risk management and internal control)

The IAS, as a key horizontal service in the Commission contributes to the Commission's general objective for all Authorising Officers by Delegation (AOD) in the Commission:

The Authorising Officer by Delegation should have reasonable assurance that resources have been used in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions including prevention, detection, correction and follow-up of fraud and irregularities.

The IAS contributes to this general objective, in particular, by (1) providing the other AODs throughout the year with assurance services relating to their systems(s) of internal control and especially (2) by providing the limited conclusion on the state of internal control in their DG before they sign the declaration of assurance in their annual activity reports.

However, the IAS is also involved in the (3) financial management of the resources relating to its own activities and continuously and pro-actively reviews its (4) risk management and internal control. Each year, it conducts an in-depth risk assessment exercise, combined with an internal assessment of its internal control framework. The criteria for the assessment of the implementation of all 17 principles of the Internal Control Framework were defined in 2017 and reviewed at the time of the 2018 assessment exercise.

In this framework the IAS focuses on the following priority actions over the period of its Strategic Plan:

Effective and reliable internal control system giving the necessary guarantees concerning the legality and the regularity of the underlying transactions

Title 28 of the budget 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 Agencies and other autonomous bodies") and three horizontal activities.

Delegation and co-delegation

In accordance with Art 117(1) of the Financial Regulation, the Internal Auditor cannot be authorizing officer and this ensures his independence. In the IAS, the AOD is Director A. The delegation and co-delegation to PMO, DG HR and DIGIT further increases the independence and these arrangements have also been introduced for efficiency reasons.

The administrative budget allocation for the IAS is included under the heading "Administrative expenditure of the Audit policy area" and totalled €19.08m in 2018. 96.58%³⁷ of this expenditure was directly delegated to the PMO in accordance with the Commission's Internal Rules.

The IAS was therefore accountable for the remaining 3.42%, which is however, co-delegated³⁸ to DGs HR and DIGIT.

The co-delegation with DG HR is supported by a Service Level Agreement, the co-delegation with DG DIGIT by a Memorandum of Understanding. As the budget is managed under the same Commission rules, the primary AOD (IAS) can rely on the legality and regularity, efficiency and cost-effectiveness of the controls in place in DG HR and DG DIGIT (secondary AODs). This expenditure is therefore covered by the Declaration of assurance of DGs HR and DIGIT.

Mission budget

The IAS is AOD for the mission budget (commitments), but this is co-delegated to DG HR. Therefore, DG HR performs the ex-post controls on mission expenditure in the framework of the service level agreements (SLA) with the IAS.

The PMO is AOD for the mission budget (payments), and performs its own ex-ante and ex-post controls.

Moreover, the IAS performs its own additional ex-ante controls to ensure compliance of its mission expenses with the Commission's Guide for missions and with the IAS specific guidance. In addition, a sample of reimbursements is controlled ex-post within the IAS at the beginning of the subsequent year. The ex-post verification by the IAS of 2018 mission costs (of a random sample of reimbursement declarations) did not identify any errors (error rate is 0%). The target was to keep the error rate below the 2% materiality threshold by the end of the year.

Effective and reliable internal control system in line with sound financial management

The explanation of the delegation arrangements under Objective n°1 above also covers the sound financial management aspects.

The IAS relies on the internal control systems of DG HR, DG DIGIT and the PMO to ensure that the principles of sound financial management are adhered to.

The IAS' own control on mission expenses and the involvement of its IT Unit as the business representative in the IT projects managed on its behalf by DIGIT contribute to its assurance.

Minimisation of the risk of fraud through application of effective anti-fraud measures, integrated in all activities of the DG, based on the DG's anti-fraud strategy (AFS) aimed at the prevention, detection and reparation of fraud.

37 PMO (salaries, 89.50%), HR (intérimaires, 0.51%) and DIGIT (ICT equipment, 6.57%)

38 Type II co-delegation, whereby the IAS is the primary AOD, while DGs HR and DIGIT are the secondary AODs. DG HR (missions, meetings and training, 2.76%) and DG DIGIT (IT development, 0.67%)

The IAS is a non-spending DG with a low fraud risk profile. Therefore, the IAS anti-fraud strategy (AFS) aims primarily at maintaining the high ethical awareness and stance of its staff and at keeping in place standard preventive and detective control measures (segregation of duties, ex-ante and ex-post controls, ethical values and principles, and collegiality of decisions).

As explained above, the services provided by DG HR, PMO and DIGIT are subject to their own anti-fraud measures.

The current IAS AFS is valid for 2017-2019 and contains various indicators that were measured at the end of the year, as part of the management risk and internal control assessment exercise:

- "80% of IAS staff to be well informed about how to act when facing ethical problems" (measured through a statement in the IC survey)
- "Annual review of effectiveness of the internal control system, including the anti-fraud controls"

84.38% of IAS staff is aware of the IAS Anti-Fraud Strategy (target 80%) and on 25 May 2018 staff participated in an Auditors' Forum on "Quality, Ethics and Integrity – The cornerstones of the audit profession"; as a consequence staff is well informed about how to act when facing ethical problems.

The IQA confirmed that IAS staff is fully aware of and completely conforms to both the Principles and the Rules of Conduct that form part of the Code of Ethics established by the IIA and has sufficient knowledge of fraud concepts to identify "red flags" in the context of its engagements.

1.2.3 Better Regulation

The Internal Audit Service is not directly involved in drafting legislation. However, it has identified "better regulation" as one of the key themes in its Strategic Audit Plan 2016-2018. Through its audits the IAS contributes to the improvement of the better regulation process.

1.2.4 Information management aspects

The corporate strategy for data, knowledge and information management (October 2016) establishes a corporate framework while leaving room for DGs to develop and implement their own approaches tailored to their unique needs.

The IAS, as a key horizontal service in the Commission contributes to the Commission's general objective:

Information and knowledge in your DG is shared and reusable by other DGs. Important documents are registered, filed and retrievable.

As the rest of the Commission, the IAS relies on information for every aspect of its work. Therefore, the IAS has adopted specific policies to ensure the effective corporate management of data, information and knowledge.

Data protection

At the end of 2018, the Commission adopted an action plan on data protection in the context of the implementation of the Regulation on data protection in the EU institutions³⁹. The IAS, together with all other Commission services, immediately took a series of major steps to ensure compliance with the new rules.

It reviewed its processing operations to ensure that they are exhaustive and properly reflected, where applicable, in the data protection notifications/records.

In line with the principle of accountability, the IAS strengthened its technical and internal organisational measures in order to ensure that the Service is able to demonstrate compliance with the principles related to the processing of personal data. The assessment of risk to the personal data is now an integral part of the decision-making process, whenever new or updated business processes have an impact on the protection of personal data.

In order to ensure clear ownership at management level, the IAS appointed a member of the management team as Data Protection Coordinator and an assistant Data Protection Coordinator, who have a direct reporting line to senior management on data protection issues.

In order to raise awareness among management and staff, the IAS organised training sessions for both management and staff with the participation of the Commission DPO. It also provided guidance to staff on the application of the new rules in the audit process.

The IAS took measures to improve the quality of the information provided to citizens about what the Service is doing with their personal data, for what purpose and which safeguards it employs to protect them. The IAS published privacy statements for its processing (audit and other) activities on its website and intranet. In addition, the privacy statement covering the IAS audit process is sent to auditees at the beginning of each engagement.

In order to avoid jeopardising the lawfulness of internal audit activities, the Commission adopted internal rules⁴⁰ concerning the provision of information to data subjects and the restriction of certain rights in the context of the processing of personal data for the purpose of internal audit activities. Such rules are necessary to protect the internal audit activities of the Commission, audits of public authorities of the Member States, the audit tools and methods and the rights of other persons related to internal audit activities, whenever the exercise of data subjects' rights may jeopardise the conduct of internal audit activities.

Continuous development of the audit management tool

In order to improve productivity of the internal audit process and facilitate quality control, the IAS has been using since 2017 a new electronic tool to document its audit work (TeamMate). The tool enables the use of standard checklists, provides an audit trail of the review and supervision of audit work and provides reports on

39 Regulation 2018/1725 of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC.

40 COMMISSION DECISION (EU) 2018/1961 of 11 December 2018 laying down internal rules concerning the provision of information to data subjects and the restriction of certain of their rights in the context of the processing of personal data for the purpose of internal audit activities.

the status of the implementation of audit recommendations. In addition, the tool also allows the IAS to better monitor the implementation of the audit plans.

Training on the use of TeamMate Electronic Work Papers (EWP) started in late 2016 and continued in 2017 and 2018. In addition to 127 internal audit and support staff trained in 2016-2017, another 36 newcomers were trained in 2018.

The IAS completed in 2018 the customisation of two modules, one for the documentation of the risk assessment exercise and audit planning (TeamRisk) and another one for the scheduling of the planned 2019 audit engagements (TeamSchedule). These modules enable the integration of the strategic audit planning process and subsequent allocation of audit resources into a single tool. Most IAS auditors were briefed on the use of TeamRisk in the context of the SAP 2019-21 exercise (November 2018).

The IAS uses standard and customised monitoring reports for its audits and for the follow-up of recommendations (TeamCentral). In 2018, further adjustments were made to the existing customised reports and the vendor of TeamMate delivered a number of new audit-process related reports.

Supporting knowledge management and knowledge retention by information systems

In 2017, the IAS launched a project to support its knowledge management and retention by adequate information systems. This initiative supports the work of IAS auditors by better documenting, searching, accessing and sharing existing information. Several solutions were identified which make use of available platforms (SharePoint⁴¹, Jive Connected).

In the course of 2018, some more solutions were put into practice, including the use of MyIntracomm collaborative sites for storing and sharing information about audited entities(permanent files), and collaborative workspaces in several audit units.

Staying abreast of the latest developments in data analytics

In line with the efforts made by other audit institutions, such as the ECA, the IAS is also committed to stay abreast of the latest developments in auditing tools and techniques, by actively considering the use of data analytics and the development of new skills, capacities, methods and tools.

In 2018, the data analytics tool, TeamMate Analytics, was made available to the IAS staff as a business application, downloadable from the Commission's EC Store. A first group of 10 persons was trained. Moreover, the IAS continued to use IDEA, another data analytics tool, for handling very large datasets.

Sharing of HAN files

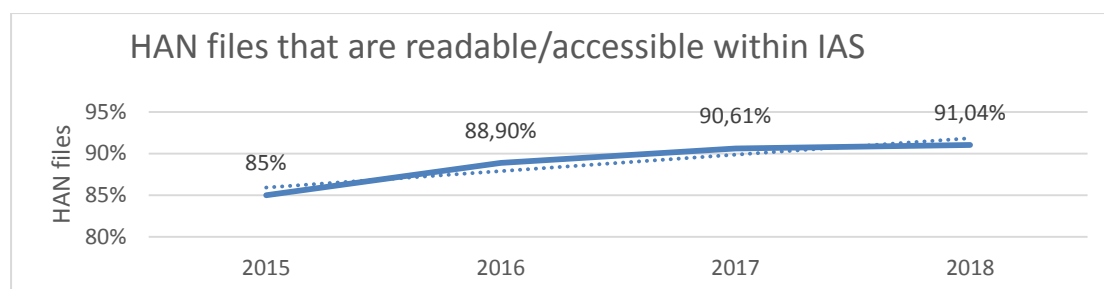
Hermes-Ares-NomCom (HAN) is a suite of IT tools, which allows staff to work in accordance with the e-Domec rules (within the Commission's Services, the EEAS, the executive agencies and the EU delegations). In summary, a HAN file contains documents registered in Ares, managed via the database NomCom and integrated

⁴¹ MyIntracomm collaborative sites is the common platform provided by DIGIT to other EC services at no charge.

in the general European Commission repository Hermes.

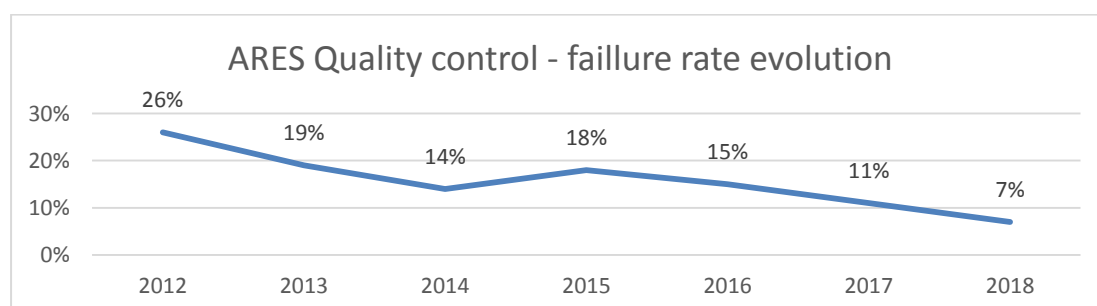
The number of documents registered in 2018 was 2327, again lower than the previous years (2017: 2785, 2016: 2970). The percentage of registered documents that were not filed in 2018 is 0.26%, below the Commission' average of 1.23% and below the IAS target set at <1%.

The IAS continues to have one of the highest rates (at least 85%) of sharing HAN files that are readable/accessible by all units within the IAS.



However, given the restrictive nature of its core-business, the IAS only very occasionally shares files with other DGs (0.04% which corresponds to one single file, compared to 16.41% at Commission level).

A quality control⁴² is performed every month. In 2018, the rate of errors detected in documentation and registration (7%) decreased compared to the previous years (see graph below). This could demonstrate that the IAS "Ares Correspondents network" is effective. The IAS intranet section on document management is also kept up-to-date.



1.2.5 External communication activities

The main stakeholders of the IAS are DGs and Services of the European Commission and its Executive Agencies, EU agencies and other autonomous bodies and the Audit Progress Committee. In addition, the IAS liaises with the European Court of Auditors during the preparation of its Strategic and Annual Audit Plans.

The IAS is not directly involved in any external communication activities with the

⁴² The most common mistakes are omissions, i.e. missing markings or external transmissions, tab not used for documents sent to external parties, incorrect filing of documents (e.g. title of the document not consistent with the document's title). These errors are corrected during the quality control process and do not compromise the reliability of the registration of Ares documents.

exception of the organisation of its annual audit conference and several ad-hoc events, which may involve external stakeholders and the broader internal audit community.

Conference

The main objective of the IAS Conference is to share and exchange knowledge on internal auditing at an international level with fellow internal auditors from all over Europe and the rest of the world. Therefore, the conference, which is described in more detail in section 1.2.1 above, is regarded as a capacity building and networking event.

Nevertheless, the fact that participants come from outside the EU institutions and include representatives from private sector audit firms, other private sector companies, academia and national and international public sector organisations means that the Conference is also an external communication activity. It allows the IAS to position itself as a leading Internal Audit entity, promote best practices in other organisations and maintain its image of an attractive employer for high-level, ambitious internal auditors.

HOIA

The annual meeting for the “Heads of Internal Audit in International Organisations” (HOIA) was hosted for the first time by the IAS on 19 and 20 April 2018, with 35 organisations being present.

The objective of HOIA is to provide an informal forum to discuss best practices in governance, audit, control, and risk management, exchange practical experiences of common interest, provide contacts of persons in similar functions and of external service providers, and benchmark (as deemed appropriate) against other organisations.

Professional organisations

In addition, the IAS has regular contacts and interactions with professional bodies in the field of auditing (IIA, ECIIA, etc.)

The performance tables in annex 2 to this AAR provide an overview of the corporate indicators and IAS' targets applicable to the previous sections.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains *how* the IAS delivered the achievements described in the previous section. It is divided into two subsections:

- The first subsection (2.1) reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives⁴³. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive, appropriately covering all activities, programmes and management modes relevant to the DG.
- The second subsection (2.2) deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

Delegation and co-delegation

Taking into account that the implementation of the whole budget of the IAS is (co-) delegated to the PMO and DGs HR and DIGIT, management assurance in the IAS on financial management fully depends on the assurance provided by the Authorising Officers by Delegation of these entities in their own Annual Activity Reports.

Overall Conclusion Table Activity: Internal Audit	Procurement		ICO indicators available at this level?	<i>Any reservation?</i>
Administrative expenditure (96.58% of €19.08m - direct delegation)	N/A	€18.42m	PMO, DGs DIGIT and HR No issues reported	NO
Provision of services (missions, meeting and training) (2.76% of €19.08m - co-delegation)	N/A	€0.53m	DG HR No issues reported	NO
Provision of IT-development services (GRC/TM) (0.67% of €19.08m -co-delegation)	N/A	€0.13m	DG DIGIT No issues reported	NO
Totals (coverage)		€19.08m		NO

⁴³ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

This includes all the information necessary to establish that the available evidence is reliable, complete and comprehensive, appropriately covering all activities covered by the administrative budget allocated to the IAS. The only control results, which go beyond what is reported in the AARs of DGs HR, DIGIT and PMO are the results of the ex-post controls on IAS mission expenses.

Internal control

As IAS' financial management is fully delegated to other entities. Internal control in the context of the AAR of the IAS mainly refers to the implementation of the Internal Control Framework and its 17 principles for all of its non-financial operations.

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives⁴⁴. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. 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 relevant control systems.

In 2017, the IAS' Director in charge of RMIC had defined, together with the IAS' Senior Management Team, the monitoring criteria against which the IAS' implementation of the IC principles would be assessed and monitored during 2018. Following an interim status report after the summer of 2018, several final actions were implemented before finishing a complete self-assessment at the end of the year. For the self-assessment, the actual situation (design and level of implementation) of the IAS' internal controls was compared with the pre-defined criteria. For some of the criteria specific questions were included in the annual IAS internal risk management and internal control survey. The feedback from IAS managers and staff, collected through the survey, allowed the Director in charge of RMIC to assess the effectiveness of the implementation of the key principles.

The results of the self-assessment were explicitly documented and reported to the IAS senior management team. The Director in charge of RMIC concluded that the IAS implemented an effective system of internal control.

The results of the IAS management risk assessment part of the survey were analysed and discussed by the IAS senior management and the conclusions were documented in the same note as the results of the IC self-assessment. No unmitigated critical risks were identified which could have a significant impact on the achievement of the internal control objectives and therefore on assurance.

In 2018, no exceptions and/or non-compliance events were reported to the Director in charge of RMIC. In addition the Authorising Officer by Delegation did not receive any binding instructions which he considered to be irregular or contrary to the principle of sound financial management, and therefore no cases of 'confirmation of instructions', in the sense of the new FR art 92.3, need to be reported.

⁴⁴ 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) 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 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

The results of the IAS' own ex-post verification on IAS 2018 mission expenses did not identify any errors or cases of non-compliance with the Commission mission rules in the verified sample of mission expense declarations.

Additional sources of assurance are the IAS' limited conclusions on the state of control, provided to DG HR, DG DIGIT and the PMO. For 2018, the limited conclusions were unqualified. These limited conclusions were elements supporting these services when drafting their positive declarations of assurance, which also covered the transactions executed on behalf of the IAS.

In 2018, there were no audit observations and recommendations relating to the work of the Internal Audit Service in the reports of the European Court of Auditors.

1. Effectiveness

- ***Legality and regularity of the transactions***

The IAS has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions.

The entire expenditure of the "Audit" activity⁴⁵ under title 28 of the EU Budget is either delegated to PMO or co-delegated to DGs HR and DIGIT. According to Article 3.4 of the Internal Rules of the Commission, DGs HR and DIGIT bear the responsibility for these co-delegated appropriations and report on them in their own AAR.

For the year 2018, no payments were made as disclosed in annex 3, table 2 "payments".

The ex-ante controls on 100% of the mission expenses identified transactions which required a correction or clarification before they could be approved. All of these mission orders and expense declarations were adjusted before they were sent to PMO for further processing.

As the IAS' own ex-post controls on mission expenses found no errors and no issues were reported by PMO, DG HR and DG DIGIT for any type of IAS expenditure, the IAS can conclude that the DGs' controls are effective and that the payments under title 28 were legal and regular.

- ***Fraud prevention, detection and correction***

Fraud risk assessment is part of the IAS' internal control framework.

DG IAS developed and implemented its own anti-fraud strategy, elaborated on the basis of the methodology provided by OLAF. It was updated at the end of 2016 for the period 2017-2019 and the action plan embedded in the AFS continues to be implemented.

During 2018, all standard preventive and detective control measures were in place in the IAS (segregation of duties, ex-ante and ex-post controls, and collegiality of decisions).

⁴⁵ Title 28 of the budget 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 Agencies and other autonomous bodies") and three horizontal activities.

The IAS (1) continued to strongly rely on the ethical awareness and the stance of the IAS staff. On 25 May 2018, a presentation on "Quality, ethics and integrity – the cornerstones of the audit profession" was made during an Auditors' Forum to remind the IAS staff about the principles and raise their awareness. (2) An information package on ethics is signed for receipt by all new IAS staff upon recruitment, and (3) the IAS carried out additional preventive and detective controls such as ex-ante and ex-post controls on missions and the follow-up of potential conflicts of interest if reported by recruitment panel members and/or candidates.

The services provided by PMO, DG HR and DG DIGIT are subject to their anti-fraud measures.

As for the audit activity, leaking of confidential information (especially conferred by the auditees and the results of audit work), conflicts of interest and lack of objectivity have been identified as risks with a low probability.

Based on the above, and taking into account that the IAS is a non-spending DG with a low fraud risk profile, we can conclude that its Anti-Fraud Strategy is complete and reliable. Its implementation is being monitored twice a year with reporting to the management.

In addition, the various indicators were measured as part of the Internal Quality Assessment (IQA) launched by the IAS at the beginning of 2019. The results of the IQA confirmed that IAS staff are well informed about how to act when faced with ethical issues and have sufficient knowledge of fraud concepts to identify "red flags" in the context of engagements⁴⁶.

- **Other control objectives: safeguarding of assets and information, reliability of reporting**

As the IAS manages sensitive information in the framework of its audits, it has put in place procedures to ensure that staff handle information with the necessary precautions to avoid the leak of confidential data or the violation of the data integrity. Specific guidance for IAS staff, in line with Commission rules and regulations, is published on the intranet of the IAS and newcomers are informed upon their arrival. In addition, IAS staff with an audit certification are required by their professional bodies to adhere to a strict code of ethics.

- **Data protection**

In line with the new Data Protection rules for the EU institutions⁴⁷, the IAS reinforced its technical and internal organisational measures, including a risk-based approach at the level of each engagement/ex ante controls, appointed a member of the management team as Data Protection Coordinator while ensuring an adequate segregation of duties, organised training sessions for management and staff and published updated privacy statements.

⁴⁶ See section 1.2.2

⁴⁷ Regulation 2018/1725 of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC

2. Efficiency

As the IAS has fully (co-)delegated its financial management, the efficiency mostly depends on the systems and controls of the entities to whom the management was delegated. In 2018, the IAS was satisfied with the timeliness of the services provided by the PMO, DG HR and DG DIGIT.

With regard to the mission expenses, for which the workflow is partially within the IAS, the set-up and implementation appears to be efficient in the sense that missions are encoded and declarations are prepared and approved on time, in accordance with the audit plan and in compliance with the mission rules.

The ex-post verification of 2018 mission costs (of a random sample of reimbursement declarations) did not identify any errors (error rate is 0%).

2018 total mission costs	€283,073.09
Amount of 2018 missions controlled ex-post	€18,078.84
Percentage of the budget covered by the ex-post control sample	6.39%

3. Economy

The cost of controls relating to the (co-)delegated budget is reported in the AARs of the entities to whom the budget was (co-)delegated.

The (co-)delegation of the financial management of the IAS budget is fully in line with the Commission's synergies and efficiencies initiative, which aims at an increase of efficiency through the centralisation of certain repetitive administrative tasks.

Within the IAS, the remaining costs consist of the ex-ante verification of the mission orders and mission expense declarations by the Assistant of the AOD together with the costs of the independent ex-post verification of a sample of mission expense declarations in the framework of the preparation of the AAR.

In the IAS, there is only one type of transaction (missions) with one risk profile. A differentiation of the level of control depending on the level of risk of different types of transactions is therefore not possible. The average number of visas per transaction processed is considered limited to the minimum necessary, as shown in Annex 5.

The total cost of the control amounts to 25% (24% ex-ante and 1% ex-post) of an FTE⁴⁸ (official average cost of €85.600/year) or €21.400/year. This represents 7.6% of the total mission budget of €283,073.09. The invested amount appears proportionate to the IAS mission budget, especially when taking into account the importance of the reputational risk, if the IAS would be found not to respect the Commission rules regarding the reimbursement of mission expenses.

48 25% FTE of an AST official, which combines this task with the position of assistant to the Director of Directorate A.

4. Conclusion on the cost-effectiveness of controls

Based on the information presented above, DG IAS has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls.

2.1.2 External and internal quality reviews and follow-up actions

This section reports and assesses the IAS' audit activity, its core operational processes.

The IAS is a mature internal audit service committed to quality and excellence. In 2016, it underwent a full external quality assessment as required by international auditing standards⁴⁹. The exercise involved an evaluation of compliance against international auditing standards, the use of successful practices, and the efficiency and effectiveness of the internal audit activity. The External assessor concluded that *"the Internal Audit service of the European Commission Generally Conforms with the International Standards for the Professional Practice of Internal Auditing"*. "Generally Conforms" is the highest rating that can be achieved. The assessor also concluded that the IAS *"operates efficiently and effectively and adds value to the overall Risk Management and Internal Control framework of the European Commission, Executive and Decentralised Agencies and other EU Bodies"*.

The areas for improvement identified in the external assessment and the related recommendations and action plan were implemented in the course of 2017. At the beginning of 2019, the IAS performed its annual internal quality assessment during which it also followed-up on the implementation of the previous recommendations. The IQA confirmed that the IAS "Generally conforms" to the Standards selected for the exercise.

Based on the above information, the IAS concludes that no significant control weakness which may have a significant impact on the assurance was identified.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework 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 internal control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

⁴⁹ Standard 1312 of the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing states that "External assessment must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation".

- ***Effectiveness of the internal controls***

For the assessment of the effectiveness of the internal control systems, the IAS management followed the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission".

As explained in detail in section 2.1.1, the management assessed the set-up and functioning of the IAS internal control systems against the criteria defined for all of the Commission's 17 internal control principles.

In order to detect possible control deficiencies the IAS used the following information sources:

- The anonymous survey in which the Director General asked all IAS staff for their opinion in order to assess the effectiveness of the principles;
- The mid-term review of the IAS 2018 Management Plan;
- Ongoing monitoring of the performance of the internal audit activity and a periodic self-assessment, in accordance with international standards;
- Weaknesses reported by staff;
- Exceptions and non-compliance events; and
- Actions from the IAS anti-fraud strategy.

Based on the analysis of the information sources mentioned above, the Director in charge of RMIC reported that during the reporting year no major deficiencies were identified and that all principles are present and functioning as intended.

- ***Follow-up to mitigating measures as regards potential conflict of interests (international internal auditing standards)***

The current Director-General of the IAS, Internal Auditor of the Commission, Mr Manfred Kraff, took office on 1 March 2017. Mr Kraff was previously Deputy Director-General (DDG) and Accounting Officer of the Commission in the Commission's Directorate General, DG Budget.

In line with IIA standards⁵⁰, on 7 March 2017, following his appointment as Director-General and Internal Auditor, Mr Kraff issued instructions on the arrangements to be put in place in order to mitigate and/or avoid any potential or only perceived conflict of interest as regards IAS audit work in relation to his former responsibilities. These arrangements were in 2018 (for the period 1 March 2018 to 1 March 2019) through an instruction note to all IAS staff issued by Mr Kraff on 1 March 2018. The arrangements foresaw that Mr Kraff would not be involved in the supervision of audit work relating to operations that he was responsible for before joining the IAS. The supervision of the audit work related

⁵⁰ The international audit standards, to which the Financial Regulation expressly refer to in Article 98 ("Appointment of the Internal Auditor"), state that: "If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment." (IIA-IPPF standard 1130). Moreover, the standards state that: "internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year" (IIA-IPPF standard 1130.A1).

to such cases ultimately fell under the responsibility of Mr Jeff Mason, former IAS Acting Director-General (September 2016-February 2017) and current Director in the IAS (IAS.B, Audit in Commission and Executive Agencies I). The arrangements also provided that the APC would be informed of these instructions and of their implementation and that Mr Mason would refer to the APC as regards the assessment of any situation that may be interpreted as impairing Mr Kraff's independence or objectivity. In those cases, Mr Kraff would refrain from any supervision of the related audit work.

The arrangements in place were discussed with the APC at its meeting of March 2018. The APC considered that the measures defined by the IAS adequately address the risk of conflict of interest in line with the international standards and best practice and noted with satisfaction that arrangements to ensure organisational independence have been implemented in practice in the relevant audits. The APC further took stock of the actual implementation in 2018 of these arrangements in its meetings of January (preparatory group) and March 2019. The APC noted with satisfaction that these arrangements had been implemented in practice in a number of audits and considered that this was leading practice in the internal audit profession.

On 4 December 2017, the European Ombudsman sent a letter to the European Commission informing that, following a complaint from a citizen, an inquiry would be opened in order to assess the appropriateness of the measures taken by the Commission to prevent any conflict of interest or a perception thereof as regards the appointment of the new Director-General of the IAS. The IAS and the Commission's central services replied to the various questions raised by the Ombudsman and provided all relevant supporting documents and information requested in that context. The IAS notes that on 17 December 2018, the Ombudsman indicated in a letter sent to the Commission that she had assessed the measures taken by the Commission to avoid any actual or potential conflict of interest as "largely reassuring" but asked for further information with regard to one specific issue relating to reporting lines for appraisals for 2017. The Commission prepared the relevant information for the Ombudsman following this request.

On 27 September 2018 and 7 January 2019, during the hearings as part of the 2017 reporting year discharge, Mr Kraff presented to the European Parliament's Budgetary Control Committee (CONT) the arrangements in place, which had been made public in IAS' 2017 AAR (issued in March 2018) and in the Commission's annual report on internal audits (former article 99(5) report, issued in September 2018). The CONT requested further information in the hearing to both Mr Kraff and Mr Mason, and provided a positive feedback concerning these arrangements.

2.1.4 Conclusions on the impact as regards assurance

This section reviews the assessment of the elements reported above (in sections 2.1, 2.1.1, 2.1.2 and 2.1.3), and draws the overall conclusion supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in this section stems from the results of management monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Authorising Officer by Delegation of DG IAS.

Firstly, the entire expenditure under title 28 is (co-)delegated to either PMO or to DGs HR and DIGIT. The AODs of these services bear the responsibility for their implementation and report in their AARs. As no issues are reported in this regard, the IAS can conclude that the DG's controls are effective, that the payments under title 28 were legal and regular and that the resources were used for their intended purpose in conformity with the principles of sound financial management. Secondly, the ex-post controls executed on mission expenditure confirmed that management and administration of missions was implemented according to the Commission mission rules and the Guidelines in the IAS. Finally, according to the results of the self-assessment exercise the internal control principles are present and functioning as intended in the IAS. This last element also covers specific internal control objectives, such as the safeguarding of assets and information and the prevention, detection and correction of fraud and irregularities.

The functioning of the internal control systems was monitored throughout the year by the IAS senior management and was reported on by the Director in charge of RMIC, and corrective and alternative mitigating controls were 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.

Overall Conclusion

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.

2.1.5 Declaration of Assurance

We, the undersigned,

*Manfred Kraff,
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 view⁵¹.

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 PMO and 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, 29 March 2019

[Signed]

Manfred Kraff

[Signed]

Reinder van der Zee

⁵¹ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

2.2 Other organisational management dimensions

In accordance with its key objectives, indicators and expected outputs, as presented in the Strategic and Management Plan, the IAS is continuously looking for ways to streamline its organisation and is regularly taking initiatives to improve the economy and efficiency of its internal processes.

This section contains examples of such actions in 2018 to illustrate how the IAS contributes to the Commission's objective of improving its functioning with a view to investing its resources not only towards the most relevant objectives but also in the most economical and efficient manner.

A complete reporting on all outputs identified in the 2018 Management Plan and on all objectives and indicators set up in the Strategic Management Plans is presented in Annex 2.

2.2.1 Human resource management

The IAS deploys its staff not only to achieve the most relevant objectives but also to achieve them in the most economical, effective and efficient manner. Its working methods are regularly reviewed to ensure that the internal audit planning process makes the most efficient use of the available human resources and expertise.

Despite a vacancy rate of 10% at the end of 2018, the IAS succeeded once more in ensuring the required audit capacity for the implementation of its audit programme and management plan.

In view of its challenges in terms of recruitment, the IAS started in Q4 2018 the organisation of a new specialist competition for auditors which will be launched in 2019 in cooperation with DGs employing external auditors. It further prepared a Call for expression of interest to be launched in Q1 2019.

Staff motivation and retention

To retain its experienced and qualified auditors, several actions in the field of (internal audit) career development, work life balance, flexible working arrangements and learning and development are being implemented. On top of reaching the recruitment target for female Heads of Unit, the IAS continued to implement its talent management campaign to encourage female AD staff to apply for management positions.

The IAS performed a thorough analysis of the possible root causes of issues identified in the 2016 staff survey, closely associating staff to the analysis and solutions proposed. Following the work done by the working groups "career development at the IAS" and "well-being/work-life balance", the IAS has created a staff engagement committee and re-activated the IAS middle management network.

Actions increasing the mobility of staff within the DG and stimulating cooperation across units and directorates are being developed (increase the internal communication of job vacancies, job shadowing / swap initiatives between units, etc.).

The most recent staff engagement index (2018), which represents a composite scoring of seven statements, probing whether staff members understand their role, and management values, cares, praises, recognises and informs adequately staff, showed that 75% of staff is satisfied, which is higher than the Commission average of 69%.

Capacity building and networking

Training and development needs (Internal Audit Training Programme (IATP), Auditors' Forum seminars, coaching sessions) were regularly reviewed and updated by taking account of changing priorities for internal audit.

The IAS continued successfully to organise its annual conference, making use of the expertise of highly-skilled professionals, which was considered as an excellent opportunity to network with peers and professionals in the IA profession on a European public sector scale.

2.2.2 Better regulation

While the IAS is not directly involved in drafting legislation and managing the regulatory acquis, it identified "Better regulation" as a key theme/risk in its Strategic Audit Plan for the period 2016-2018.

2.2.3 Information management aspects

In line with the Commission's IT Governance best practices, the IAS retains the ownership of its systems and leads the projects related to them. Currently, the IAS is the owner of the following applications: (1) Governance, Risk and Compliance (GRC), the audit management system in use until 2016, (2) TeamMate as the new audit management system. In addition, the IAS manages Intranet sites for the APC secretariat and for its own purposes.

The IAS is constantly improving its functioning with a view to investing its resources not only to achieve the most relevant objectives, but also to achieve them in the most economical and efficient manner. In this way, it ensures the functional helpdesk roles for its systems and for the local Intranet, but handed over to DG DIGIT the technical management and system supplier roles, including contract management with the external supplier for customised reports and extra services, the second level support and the hosting in the Data Centre.

In 2018, the IAS continued to maintain TeamMate as the audit management system, and effectively started to use the TeamRisk module to document risk assessments and to identify potential audits in the context of the Strategic Audit Plan 2019-2021 exercise. It decided to use Commission's available platforms for its knowledge management and documentation needs.

To improve the data analysis performed in the context of the audit engagements, the IAS further explored possibilities and options for the use of data analytics and promoted the use CAATs tools (Computer-Assisted Audit Techniques).

Main IT priorities per business objective⁵²

General/ specific objective	IT Investment	Predicted Business Impact	2018 Budget	GovIS2 identifier (Seq Num)
To maintain the TeamMate system	TeamMate maintenance (incl. licences and support)	Continued support of the audit process	€125.000	OP-1659
To obtain new CAATs licenses	Data analysis service	Continued support of the data analysis capabilities of IAS for audits with a large population of data	2.500	OP-1092

2.2.4 External communication activities

The IAS is not directly involved in any external communication activities except for its Annual Conference (See paragraph 1.2.5 above).

⁵² Compared to the 2017 AAR, for the Knowledge Management project (PRJ-557) and the APC Scoreboard maintenance (OP-530), no budget was allocated in 2018.