REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Annual report on internal audits carried out in 2015
(Article 99(5) of the Financial Regulation)

{SWD(2016) 322 final}

1. INTRODUCTION

This report is to inform the European Parliament and Council of the work carried out by the Commission's Internal Audit Service (IAS), as required by Article 99(5) of the Financial Regulation. It is based on the report drawn up by the Commission's Internal Auditor under Article 99(3) of that Regulation, regarding IAS audit- and consulting reports completed in 2015 on Commission Directorates-General, Services and Executive Agencies[1]. In line with its legal base it contains a summary of the number and type of internal audits carried out, the recommendations and the action taken on those recommendations[2]. The audit reports finalised in the period 1 February 2015 - 31 January 2016 are included in this report. Recommendations implemented after the cut-off date of 31 January 2016 are not considered.

2. THE IAS MISSION: INDEPENDENCE, OBJECTIVITY AND ACCOUNTABILITY OBJECTIVES AND SCOPE OF THE REPORT

The mission of the Internal Audit Service is to provide to the Commission independent, objective assurance and consulting services designed to add value and improve the operations of the Commission. The IAS helps the Commission accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and make recommendations for improving the effectiveness of risk management, control and governance processes. Its tasks include assessing and making appropriate recommendations for improving the governance process in its accomplishment of the following objectives: promoting appropriate ethics and values within the organisation, ensuring effective organisational performance management and accountability and effectively communicating risk and control information to appropriate areas of the organisation. Thereby it promotes a culture of efficient and effective management within the Commission and its departments. The IAS's independence is enshrined in the Financial Regulation[3] and its Mission Charter[4] as adopted by the Commission. The IAS reports on all of its audits to the Audit Progress Committee (APC). The Audit Progress Committee assists the College of Commissioners by ensuring that the work of the IAS, the former Internal Audit Capabilities (IACs) and of the ECA is properly taken into account by the Commission services and receives appropriate follow-up.

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

[2] Required by Performance Standard 2060 of the International Standards for the Professional Practice of Internal Auditing *(Standards)* promulgated by the Institute of Internal Auditors (IIA).

[3] Article 100 of the FR.

[4] C(2015)2541 (20 April 2015), Communication to the Commission, Mission Charter of the Internal Audit Service of the European Commission.

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

The IAS does not audit Member States' systems of control over the Commission's funds. Such audits, which reach down to the level of individual beneficiaries, are carried out by Member States' internal auditors, national Audit Authorities, other individual Commission DGs and the European Court of Auditors (ECA). The IAS does, however, audit measures taken by the Commission services to supervise and audit bodies in Member States, and other bodies which are responsible for disbursing EU funds, such as the United Nations. As provided for in the Financial Regulation, the IAS can carry out these duties on the spot, including in the Member States.

3. **OVERVIEW OF AUDIT WORK**

3.1. Implementation of the 2015 audit plan

By the cut-off date of 31 January 2016, the implementation of the 2015 audit plan reached its target of 100% of planned engagements for audits in the Commission, Services and Executive Agencies[5].

139 engagements (including audits, follow-ups, limited reviews, risk assessments and one management letter) were finalised, broken down as indicated in the following table.

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[5]   The SWD provides an overview of all completed audit and follow-up audit engagements.

	2015		2014		2013	
	Engagements	Reports	Engagements	Reports	Engagements	Reports
Audit	38	52[6]	25[7]	31	22[8]	23
Follow-up	96	-[9]	53	-	48	-
(Limited) Review	2	2	5	5	4	4
Management Letter	1	1	1	1	1	1
IT Risk Assessment	0	0	1	1	0	0
JSIS[10] Risk Assessment	1	1	0	0	0	0
Consulting	1	1	0	0	0	0
Total	**139**	**57**	**85**	**38**	**75**	**28**

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

In accordance with its Charter and the International Standards and in order to ensure an efficient and effective implementation of the audit plan, the IAS plans its audit work on the basis of a risk assessment and a capacity analysis. The implementation is then regularly monitored and adjustments are made as necessary.

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[6] Some audits, in particular multi-DG audits, may give rise to more than one audit report.

[7] The "Gap analysis of new legislation/design of 2014-20 programming period of European Structural and Investment Funds – Part 2" addressed to DG REGIO and DG EMPL is counted as two engagements.

[8] The "Audit on Control Strategy - Implementation in DG AGRI" is counted as two engagements conducted by two different audit teams resulting in a single audit report.

[9] Following the centralisation of the internal audit function at the beginning of 2015, the IAS took over 908 recommendations of former IACs to be followed-up. When launching the follow-ups in 2015, the IAS grouped recommendations stemming from a number of audits performed previously by an IAC. The results were reported in a single report or closing note. Given that separate reports or closing notes were not produced for every audit followed-up, no figures on the number of reports are shown in the table.

[10] Joint Sickness Insurance Scheme (JSIS)

3.2. Statistical data on IAS recommendations

The number of recommendations issued by the IAS (including their acceptance rate) in 2015 was as follows:

	New recommendations	Accepted recommendations		Non-accepted recommendations	
Priority			%		%
Critical	1	1	100%	0	N.A.
Very Important	80	80	100%	0	N.A
Important	128	128	100%	0	N.A
Desirable	7	7	100%.	0	N.A.
Total	**216**	**216**	**100%**	**0**	**N.A**

For all accepted recommendations, the auditees drafted action plans, which were submitted to and assessed as satisfactory by the IAS.

The implementation of the accepted recommendations made during the period 2011-2015, as assessed by auditees[11], as at 31 January 2016[12] is presented in the following table. Recommendations implemented after the cut-off date of 31 January 2016 are not considered.

Year	Priority	Total	Implemented		In progress (by number of months overdue)					
			#	%	#	%	No delay	0 - 6	6 - 12	12+
2011	Critical	0	0	0%	0	0%	0	0	0	0
	Very Important	47	47	100%	0	0%	0	0	0	0
	Important	101	99	98%	2	2%	0	0	0	2
	Desirable	10	10	100%	0	0%	0	0	0	0
	2011 Total	**158**	**156**	**99%**	**2**	**1%**	**0**	**0**	**0**	**2**
2012	Critical	0	0	0%	0	0%	0	0	0	0
	Very Important	68	62	91%	6	9%	0	0	3	3
	Important	123	113	92%	10	8%	2	2	0	6
	Desirable	0	0	0%	0	0%	0	0	0	0
	2012 Total	**191**	**175**	**92%**	**16**	**8%**	**2**	**2**	**3**	**9**
2013	Critical	0	0	0%	0	0%	0	0	0	0
	Very Important	48	40	83%	8	17%	5	0	0	3
	Important	73	60	82%	13	18%	1	1	1	10
	Desirable	6	6	100%	0	0%	0	0	0	0
	2013 Total	**127**	**106**	**83%**	**21**	**17%**	**6**	**1**	**1**	**13**
2014	Critical	0	0	0%	0	0%	0	0	0	0
	Very Important	45	19	42%	26	58%	5	14	7	0
	Important	77	53	69%	24	31%	6	8	9	1
	Desirable	3	3	100%	0	0%	0	0	0	0

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[11] This table shows the latest rating of the recommendations. This may differ from the rating in the original report if actions subsequently taken by the auditee are deemed sufficient to partly mitigate the risks identified and therefore to a downgrading of the recommendation.

[12] Recommendations implemented after the cut-off date of 31 January 2016 are not considered.

Year	Priority	Total	Implemented		In progress (by number of months overdue)					
			#	%	#	%	No delay	0 - 6	6 - 12	12+
	2014 Total	**125**	**75**	**60%**	**50**	**40%**	**11**	**22**	**16**	**1**
IACs recs taken over	Critical	0	0	0%	0	0%	0	0	0	0
	Very Important	281	233	83%	48	17%	10	23	5	10
	Important	583	466	80%	117	20%	20	40	23	34
	Desirable	44	44	100%	0	0%	0	0	0	0
	IACs Total	**908**	**743**	**82%**	**165**	**18%**	**30**	**63**	**28**	**44**
2015	Critical	1	0	0%	1	100%	1	0	0	0
	Very Important	80	6	8%	74	92%	69	5	0	0
	Important	128	9	7%	119	93%	109	10	0	0
	Desirable	7	0	0%	7	100%	7	0	0	0
	2015 Total	**216**	**15**	**7%**	**201**	**93%**	**186**	**15**	**0**	**0**
TOTAL 2011-2015		**1725**	**1270**	**74%**	**455**	**26%**	**235**	**103**	**48**	**69**
Thereof Critical or Very Important		**570**	**407**	**72%**	**163**	**28%**	**90**	**42**	**15**	**16**

The large increase in the total number of open recommendations is mainly explained by the fact that with the centralisation of the internal audit function, former IAC recommendations have been taken over by the IAS.

Overall, 1270 or 74% of the total number of accepted recommendations made over the period 2011-2015 are considered by the auditees as implemented, leaving a total of 455 recommendations (or 26%) still in progress. Of this total of 455 recommendations in progress, one is critical, however, not delayed, and 162 recommendations are very important.

Of the total of 455 recommendations in progress, 220 are overdue, representing 13% of the total number of accepted recommendations, of which 31 very important recommendations are long overdue (for more than 6 months compared to the original due date). To this figure, one further long overdue very important recommendation should be added from an audit report issued prior to this reporting period (2011-2015). Overall, these represent only 1.9% of the total number of accepted recommendations in the period 2011-2015.

Overall, the IAS judges this to be a good situation, comparable to previous reports and an indication that Commission services are diligent in implementing the very important recommendations, hence mitigating the risks identified. Nevertheless, attention has to be paid to recommendations rated 'very important' which are long overdue, i.e. overdue by more than six months. The APC was regularly informed of the state of play on the implementation of the IAS recommendations (assessment by management and results of the follow-up engagements conducted by the IAS). Specific attention was drawn to the very important recommendations overdue by more than six months. The APC decided to take specific action by reminding services of their responsibility to implement the IAS recommendations, where necessary.

The total number of recommendations issued during the period 2011-2015 for which a follow-up audit has been conducted amounts to 1004 compared to 1270 reported as 'ready for review' by the auditees.

Of the total number of recommendations issued and followed up during that period (1004), 911 (91%) have been closed by the auditor. This means that on average, the IAS assessed that 9% of recommendations could not be considered as effectively implemented yet, and therefore not closed following the completion of the follow-up audit. This represents an increase compared to the previous year (5%). This is explained by the fact that the IAS performed several follow-up audits in the second half of 2015 which also included a review of the state of implementation of recommendations which had not yet been assessed as "ready for review" by the auditee. Most of these recommendations were IAC recommendations for which the IAS took the opportunity to assess their state of play at the same time when assessing other recommendations of the same audit that were considered as 'ready for review' by the auditee. Furthermore, the IAS assessed progress made on selected recommendations directly related to the assurance building process in the context of the Annual Activity Reports (AAR) process in order to provide DGs with the latest state of play for reporting in the AAR. This was a new approach in comparison to previous years.

When neutralising this effect (i.e. by considering only recommendations reported 'ready for review' by management), the overall percentage of recommendations assessed as 'in progress' after a follow up audit drops to 4% which is in line with previous reports.

4. SUMMARY OF THE AUDIT WORK

4.1. Conclusions on performance audits

In response to the Commission's move towards an enhanced performance-based culture and greater focus on value for money, the IAS continued to carry out performance audits[13] and audits which include important performance elements (comprehensive audits) in 2015 as part of its 2013-2015 strategic audit plan.

These audits addressed a number of aspects related to performance:

– DGs and Services are faced with a growing pressure on financial and human resources while at the same time they need to demonstrate that they are delivering on their objectives and achieving value for money. The IAS focused on (1) how DGs and Services manage, monitor and report on the specific objectives which are under their control and can be achieved through their outputs and actions, (2) the use of their internal resources and (3) how they evaluate the benefits of their internal processes and controls.

– The 2014-2020 Multi-annual Financial Framework places more emphasis on the achievement of results and new provisions in the legal bases introduced mechanisms which aim at strengthening the performance frameworks of the 2014-2020 spending programmes.

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[13] In total, the IAS carried out 35 performance and comprehensive audits. For more details see the SWD.

The IAS focused on how the DGs and Services manage, monitor and report on the performance of EU policies. It is applicable to both spending programmes and non-spending activities. Policy objectives are in general defined via general objectives to which the DGs and Services contribute to a certain extent. The achievement of the general objectives is however also influenced by other external factors and by third parties.

In line with its methodology and best practice, the IAS approached performance in an indirect way, i.e. an assessment of whether and how management has set up systems intended to measure the performance (efficiency and effectiveness) of its activities. Through this approach, the IAS aims at ensuring that, in the first instance, DGs and Services have established performance frameworks including performance measurement tools, (i.e. key indicators) and monitoring systems[14]. This results in part from the fact that a large number of legal bases for the spending programmes set out objectives that are of a wider scope than what the Commission can really achieve on its own. This means that objectives and SMART benchmarks have first to be established at Commission level, in order to dissociate, to the extent possible, the Commission's specific objectives and performance from those of the spending programmes, the achievement of which also depends on other major key players, particularly when EU programmes are implemented under shared and indirect management (Member States, Regions, etc.).

The following sections set out the conclusions of the IAS on the various performance aspects of its audits carried out in 2015.

4.1.1. *Performance of Commission DGs, Services and Executive Agencies: horizontal processes (HR, IT, anti-fraud, etc.)*

4.1.1.1. Strategic planning and programming

In the area of strategic planning and programming, the Commission is implementing a robust performance framework based on (1) the ex-ante setting of general and specific objectives, which are derived from the Commission political orientations, by the DGs and Services in their management plans, (2) regular measurement and monitoring of performance indicators and (3) reporting on achievements in their annual activity reports. These decentralised responsibilities are counterbalanced at corporate level by SG and DG BUDG who provide the overall framework, coordinate the work and provide guidance and support. The IAS found that further efforts are necessary, at both corporate and decentralised level, to further improve the quality of the indicators. Post-audit event: the central services have in the meantime carried out a comprehensive overhaul of the strategic planning and programming cycle, which resulted notably in new

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[14] See European Parliament resolution of 28 April 2016 with observations forming an integral part of the decisions on discharge in respect of the implementation of the general budget of the European Union for the financial year 2014, Section III – Commission and executive agencies (2015/2154(DEC)) (ref. P8_TA-PROV(2016)0147), par. 18: "*the move to an increased level of performance auditing cannot be done in a single step, as it is only once the basic legal acts and the budget are drafted with the intention to align policy objectives with qualitative indicators or to produce measurable results that performance audits can move forward;*".

instructions for the planning documents in November 2015. The IAS has not yet carried out a follow-up audit. (See SWD, Part 1, section 1.2).

In this context, the IAS also performed a consulting engagement at the request of DG FISMA's management which resulted in a number of recommendations and suggestions for the DG's strategic and annual management plans and more generally, in the move towards a performance based culture. (See SWD 1, Part 1, section 7.5).

4.1.1.2.Anti-fraud

In the Anti-Fraud area, the IAS found that all audited DGs and Services have designed and effectively implemented an Anti-Fraud Strategy, in line with the guidance provided by OLAF in this area. However further improvements are necessary at the corporate and operational levels to increase the effectiveness of the Anti-Fraud Strategy. The IAS recommended to strengthen the corporate Anti-Fraud framework and guidance and to evolve from stand-alone, high-level assessments to a coordinated exercise embedded in the strategic planning and programming cycle whereby Anti-Fraud actions are effectively integrated in the internal control systems of the DGs and Services. Furthermore, the IAS considered that ad hoc actions are necessary to address the status of forensic audits in DG DEVCO and to strengthen the controls of COFUND projects in REA. (See SWD, Part 1, section 1.3).

4.1.1.3.IT security

In the IT area, effective IT security represents a major challenge in the face of continually evolving threats which can harm the confidentiality, integrity and availability of the information retained and processed by the Commission. Previous audits undertaken by the IAS in recent years identified a series of systemic and recurrent weaknesses in this area which have been summarised in a management letter addressed to the corporate services in charge of IT security. Despite the availability of a highly committed and technically competent workforce at operational level, the IAS found that the Commission needs to strengthen the effective oversight of information security issues. (See SWD, Part 1, section 9.2).

At local level, an audit on the management of local IT in DG COMP confirmed some of the IT security issues and identified also other issues with regard to the funding of IT, business-IT alignment and project and quality management. (See SWD, Part 1, section 9.1).

4.1.1.4.Common Support Centre in the Research family (business process, IT tools, governance)

In the research family of DGs and Services, the Common Support Centre provides common business processes and IT, legal, audit, information and data services. In addition, the centralisation of support services was expected to result in efficiency gains from cost reduction, job savings and rationalisation of processes and procedures. The IAS audit, performed at an early stage of the Centre's operations, recognised the significant achievements in terms of harmonisation and simplification of the business process and IT tools resulting in a positive outcome for EU fund beneficiaries (limited time to grant, reduced administrative burden)

even though some weaknesses remain, in particular in the governance set-up. (See SWD, Part 1, section 4.7).

4.1.1.5. HR

In the HR area, the IAS found that the sickness absence rate in the Commission is stable but that the average rate is significantly higher in the Offices (OIB, OIL, PMO). The responsibility for managing sickness absences lies at both the operational and corporate level (DG HR). At both levels, managers are well aware of sickness absences and fully committed to managing it within their areas of responsibility. Further steps are nevertheless necessary at both levels in order to improve the measurement, monitoring and reporting on the sickness absence level, the identification of reference sickness absence rates and the verification of sickness absences by the medical service. (See SWD, Part 1, section 1.1).

Another HR topic covered in 2015 was the knowledge management process in DG COMP where the IAS found that the knowledge collection, storing and sharing systems in place are overall efficient and effective and adequately support DG COMP staff in ensuring high quality and consistent competition case handling. (See SWD, Part 1, section 7.4).

4.1.2. *Performance in implementing budget operational appropriations*

4.1.2.1. Direct management

In the area of directly managed funds, several audits assessed the preparedness of the DGs' and Services' management and control systems to implement the budget of the spending programmes for which they are responsible (Horizon 2020, Consumer and Health programmes, LIFE programme, SME Instrument, Connecting Europe Facility). Some of these audits focused in particular on the adequacy of the design of the grant management process while others assessed the efficiency and effectiveness of the systems put in place for the management and control of specific programmes. In general, the IAS audits found that the audited DGs and Services (DG CONNECT, DG RTD, CHAFEA, and ERCEA) have set-up efficient and effective processes for grant management. In CHAFEA and EASME, significant weaknesses have nevertheless been identified concerning the grant management procedures which need to be addressed. Some Executive Agencies, in particular EASME and INEA, face significant challenges in adequately managing the implementation of the various spending programmes delegated to them. The weaknesses observed in the control strategy and assurance building processes for various programmes managed by EASME and INEA are a specific area of concern. (See SWD, Part 1, sections 2.5 (CHAFEA), 4.1 (DG CONNECT), 4.8 (DG RTD), 4.10 (EASME), 4.11 (ERCEA), 4.12 (INEA)).

4.1.2.2. Indirect management

(a) External action family (EU Trust Funds)

In the external action family of DGs, an audit was performed in DG DEVCO and DG NEAR on the design and implementation of EU trust funds. It concluded that although the first trust funds have achieved some success in attracting a limited number of donors and enhancing the visibility of their operations, further efforts

are required to benefit fully from this funding mechanism to address the complex operational and financial challenges posed by implementing projects in crisis and fragile environments. In particular, the governance processes and the trust funds' operational performance management should be strengthened. (See SWD, Part 1, section 5.1).

(b) Combination of different management modes: Erasmus+ (EAC and EACEA) and ENI/IPA (NEAR)

Some funding programmes are implemented via a combination of different management modes. This is the case for the Erasmus+ programme managed by DG EAC and EACEA and the European Neighbourhood Instrument and Instrument for Pre-Accession managed by DG NEAR.

For Erasmus+, both DG EAC and EACEA have implemented effective internal control systems capable of providing reasonable assurance to the Authorising Officers by (Sub)Delegation. (See SWD, Part 1, sections 6.2 (DG EAC) and 6.3 (EACEA)).

In DG NEAR however, the IAS identified significant weaknesses in the control strategy of the Instrument for Pre-Accession, in particular for obtaining assurance on the ability of beneficiary countries to implement the budget. (See SWD, Part 1, section 5.3).

For the new Instrument of Pre-Accession under the 2014-2020 programme, DG NEAR is not sufficiently prepared for implementing a performance assessment framework for beneficiary countries. (See SWD, Part 1, section 5.2).

(c) Indirect management: supervision arrangements in place (DG DEVCO, DG ENER, DG GROW, DG MOVE)

In the area of indirectly managed funds, several audits focused on the supervision arrangements in place in the DGs and Services (DG DEVCO, DG ENER, DG GROW, DG MOVE) for the management of specific programmes (African Peace Facility, Connecting Europe Facility, Nuclear decommissioning assistance programme, and Galileo). In this area, several very significant weaknesses were identified in the DGs' control and supervision strategies, which may endanger the achievement of the policy objectives, giving rise to critical and very important recommendations calling for urgent action. (See SWD, Part 1, sections 5.4 (DG DEVCO), 4.4 (DG ENER), 7.1 (DG GROWTH), 4.6 (DG MOVE)).

4.1.2.3. Shared management

(a) Gap analysis: preparedness to manage the new legal requirements and performance focus of the spending programmes, design of the management and control systems

In 2014, the IAS focused in a number of audits on how DGs and Services have responded to the new legislative requirements of the funding of programmes in the 2014-2020 programming period. These gap analysis reviews were finalised in 2015 (DG MARE and DG HOME) and identified a number of risks the Commission is facing as a result of the co-legislative process that need to be mitigated in the

design and implementation of the DGs' and Services' management and control systems. (See SWD, Part 1, sections 2.4 (DG MARE), 6.1 (DG HOME)).

(b)   Shared management: supervision of the Member States' management and control systems, result orientation and performance framework, Ex-ante conditionalities

In the area of shared management, significant weaknesses were identified in the supervision of the Member States' management and control systems put in place for certain policy domains (DG AGRI – Greening) which may endanger the achievement of the policy objectives. (See Annex 1, Part 1, section 2.1).

Furthermore, the assessment of performance related elements, the result orientation and performance framework and the assessment, monitoring and reporting of Ex-Ante conditionalities need to be reinforced in several policy domains (DGs REGIO and EMPL) to ensure that results are achieved and that the desired policy outcomes are met. (See SWD, Part 1, section 3.1).

4.1.3. *Performance in non-spending policy areas*

For the non-spending policy areas, an audit in DG TRADE concluded that the DG has ensured an efficient and effective management of trade defence instruments to defend the European Union against trade distortions. (See SWD, Part 1, section 7.3).

Another audit focused on the support provided by EUROSTAT in the production of indicators used to monitor progress towards the achievement of the EU's strategic objectives. The IAS observed that EUROSTAT's operational processes for the production of "European statistics" and key indicators are satisfactory overall but that concerning the use of "other statistics", these data do not offer the same degree of independence, robustness and reliability as the "European Statistics". In particular, the IAS found no evidence that "other statistics" used by the DGs to demonstrate progress made in achieving Europe 2020 targets are subject to a quality assurance review equivalent to the process implemented by EUROSTAT for "European Statistics" (See SWD, Part 1, section 8.1).

4.2.   IAS limited conclusions on the state of internal control of each DG

Following the centralisation of the internal audit function, the IAS issued for the first time a conclusion on the state of internal control[15] to every DG and Service in February 2016. These conclusions were intended to contribute to the 2015 Annual Activity Reports of the DGs and Services concerned and replaced the former IAC opinion on the state of control. The conclusions on the state of internal control draw on the audit work carried out in the last three years and cover all open recommendations issued by the IAS and IACs (insofar as the IAS has taken them

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[15]   Further information on the IAS limited conclusions on the state of internal control is included in section 2.3 of the Report from the Commission to the European Parliament, the Council and the European Court of Auditors on the 2015 Annual Management and Performance Report for the EU Budget (COM(2016)446).

over). In addition, the conclusions draw particular attention to all open recommendations rated 'critical' or the combined effect of a number of recommendations rated 'very important' as they may require the issuance of a reservation in the Annual Activity Report of the DG/Service concerned. The IAS conclusion on the state of internal control is limited to the management and control systems which were subject to an audit and does not cover those which had not been audited by the IAS or the IAC in the past three years.

4.3. Overall opinion on the Commission's financial management

As required by its Mission Charter, the IAS also issues an annual overall opinion[16] on the on the state of financial management in the Commission. It is based on the audit work in the area of financial management in the Commission carried out by both the IAS and the former Internal Audit Capabilities (IACs) during the previous three years (2013-2015). It also takes into account information from other sources, namely the reports from the European Court of Auditors (ECA). The overall opinion is issued in parallel to this report and covers the same financial year.

As in the previous editions, the 2015 Overall Opinion is qualified with regard to the reservations made in the Authorising Officers' by Delegation Declarations of Assurance. In arriving at this opinion, the IAS considered the combined impact of amounts estimated to be at risk as disclosed in the AARs in the light of the corrective capacity as evidenced by financial corrections and recoveries of the past. Given the magnitude of financial corrections and recoveries of the past and assuming that corrections on 2015 payments will be made at a comparable level, the EU Budget is adequately protected as a whole (not necessarily individual policy areas) and over time (sometimes several years later).

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

– control strategies in the Research area for the 2014-2020 programmes,

– supervision strategies regarding third parties implementing policies and programmes, and

– Nuclear Decommissioning and Waste Management Programme in JRC.

5. CONSULTATION WITH THE COMMISSION'S FINANCIAL IRREGULARITIES PANEL

No systemic problems were reported in 2015 by the Financial Irregularities Panel under Article 73(6) of the Financial Regulation applicable to the general budget of the European Communities.

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[16] Further information on the 2015 Overall Opinion is included in annex 3 to the Report from the Commission to the European Parliament, the Council and the European Court of Auditors on the 2015 Annual Management and Performance Report for the EU Budget (COM(2016)446).

6. CONCLUSIONS

The IAS considers that the implementation of action plans drawn up in response to its audits this year and in the past contributes to the steady improvement of the Commission's internal control framework.

The IAS will conduct follow-up audits on the execution of action plans that will be examined by the Audit Progress Committee, which will inform the College as appropriate.

The IAS will continue to focus on financial, compliance and performance audits.

7. LIST OF ACRONYMS

Acronym	Description
AAR	Annual Activity Report
AOD	Authorising Officer by Delegation
APC	Audit Progress Committee
CAP	Common Agricultural Policy
CF	Cohesion Fund
CONT	Budgetary Control
CSC	Common Support Centre
DGs	Directorates-General
ECA	European Court of Auditors
ESIF	European Structural and Investment Funds
FP7	Seventh Framework Programme for Research and Technological Development
FR	Financial Regulation
HRM	Human Resources Management
IAS	Internal Audit Service
ITSC	IT Steering Committee
JTI	Joint Technology Initiatives
JUs	Joint Undertakings
KPI	Key Performance Indicator
MS	Member States
RER	Residual Error Rate
SG	Secretariat General
SWD	Staff Working Document
TFEU	Treaty on the Functioning of the European Union