



EUROPEAN COMMISSION
INTERNAL AUDIT SERVICE

Internal Audit Service

IAS Audits

What you should expect from the IAS

What the IAS expects from you

16.04.2018

Table of Contents

1. INTRODUCTION.....	3
2. IAS AUDIT RISK ASSESSMENT & ANNUAL AUDIT PLAN (STRATEGIC PLANNING) ...	4
3. AUDIT ENGAGEMENT.....	4
3.1. INITIAL PLANNING AND ADMINISTRATION	5
3.1.1. <i>Announcement letter</i>	5
3.1.2. <i>Opening meeting</i>	6
3.2. KEY STEPS IN THE AUDIT PROCESS	6
3.2.1. <i>Preliminary Survey</i>	6
3.2.2. <i>Kick-off meeting</i>	6
3.2.3. <i>Findings/Observations and recommendations</i>	6
3.2.4. <i>Draft Report</i>	8
3.2.5. <i>Exit meeting and Final Report</i>	8
3.2.6. <i>Action Plan and review by IAS</i>	10
3.3. QUALITY SATISFACTION SURVEY	10
3.4. FOLLOW-UP	10
3.4.1. <i>Management follow-up</i>	10
3.4.2. <i>IAS follow-up</i>	11
4. ANNUAL REPORTING	12
4.1. OPINION/CONCLUSION ON THE STATE OF INTERNAL CONTROL IN INDIVIDUAL DGs/SERVICES ...	12
4.2. ANNUAL REPORTING ADDRESSED TO THE COLLEGE	12
5. GENERAL RIGHTS AND OBLIGATIONS OF THE IAS	12
5.1. RIGHTS	12
5.2. OBLIGATIONS	13
6. GENERAL RIGHTS AND OBLIGATIONS OF THE AUDITEE.....	14
6.1. RIGHTS	14
6.2. OBLIGATIONS	14
7. CONFLICT RESOLUTION	15
ANNEX: CLASSIFICATION OF AUDIT OBSERVATIONS AND RECOMMENDATIONS:	16

1. INTRODUCTION

The Internal Auditor of the European Commission¹ advises the institution on dealing with risks by issuing:

- independent opinions on the quality of management and control systems,
- recommendations for improving the conditions of implementation of operations and promoting sound financial management.

He/She shall be responsible, in particular, for assessing:

- (a) the suitability and effectiveness of internal management systems and the performance of departments in implementing policies, programmes and actions by reference to the risks associated with them;
- (b) the efficiency and effectiveness of the internal control systems applicable to every budgetary implementation operation.

Assurance audit engagements conducted by the IAS have two main purposes. Firstly they intend to support the auditee by assessing the adequacy of its internal control system and identifying areas that may need additional management attention. Secondly, they provide the information required to support the Internal Auditor in order to fulfil his role to provide independent assurance to the Commission. Certain principles for the conduct of assurance audit engagements follow from these two main purposes. This paper describes the relationship between the IAS and auditee and aims to clarify responsibilities and align respective expectations so that audits are smooth, efficient and effective.

The procedures outlined in the following sections are only applicable to assurance audit engagements. The procedures can be simplified and adapted to suit other audit and audit related activities such as limited reviews, desk reviews, audit risk assessments, advisory engagements and follow-up engagements.

The IAS is committed to providing internal audit services in compliance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (the IIA)². This paper is based on both relevant professional standards and regulations set out by the Commission³, acquired experience and best practices identified from various sources. It does not replace these source documents and is intended only as a guide and an explanatory document.

¹ See Art. 99.1 of the Financial Regulation (EC, Euratom) n° 966/2012 of 25 October 2012

² See Art. 98 of the Financial Regulation (EC, Euratom) n° 966/2012 of 25 October 2012 and Chapter 6 of the Mission Charter of the Internal Audit Service (C(2017)4435 final)

³ Sources include:

- relevant articles of the Financial Regulation and its implementing rules (EC, Euratom 966/2012);
- the Mission Charter of the Internal Audit Service (C(2007)6278, C(2008)215, C(2013)3317, C(2017)4435 final);
- the Charter of the Audit Progress Committee (C (2004)342, C(2017)2225 final);
- International Standards and Code of Ethics and guidance of the IIA (www.theiia.org).

A code of rules sufficiently detailed to cover all situations and circumstances would not be practicable. The IAS and audited service will therefore have to cooperate on each audit engagement and the auditors will use their professional experience and judgement in determining the adequate procedures required under the specific circumstances. Exceptions should be discussed between the IAS and auditee and recorded at the beginning of an engagement.

2. IAS AUDIT RISK ASSESSMENT & ANNUAL AUDIT PLAN (STRATEGIC PLANNING)

IAS work is based on the preparation of a three-year audit plan which is then used to draw up an annual plan of internal audit activities. The plan is based on an annual audit risk assessment carried out by the IAS and takes account of:

- Commission-wide and DG risk assessments,
- Work already completed or planned by the European Court of Auditors (ECA) in order to avoid duplication of efforts and maximise the use of resources, provided this fits within the IAS's own timing constraints,
- Investigations carried out by the European Anti-Fraud Office (OLAF),
- Discussion, requests and advice from the Audit Progress Committee (APC) and the Commissioner responsible for the IAS,
- Information from and discussion with middle and senior management of the audited services,
- Management requests regarding specific issues, subject to timing implications for the IAS and the nature of the request.

The risk assessment is a crucial step in the business model of the IAS as it serves as the basis for the audit planning. The IAS is committed to deepening its understanding of the activities of the DGs and services and to respond to considerations of management of the DGs and services in order to direct scarce audit resources to those areas where it can add most value. Management requests will be considered to the extent which still allows the IAS to complete its risk-based programme necessary to ensure sufficient overall coverage of the Commission's activities. As a rule, all risks assessed by the IAS to be significant to the individual DG, Service or Executive Agency are addressed by way of an audit engagement at least once during a period of three years.

The Internal Auditor adopts the annual work programme of the IAS and submits it to the Institution (Art. 116 (1) of the Rules of Application to the Financial Regulation). On behalf of the College, the APC may ask the IAS to carry out audits not included in its work programme. The IAS may change its annual plan in the course of the year, for example to deal with new, emerging risks, after having informed the APC.

3. AUDIT ENGAGEMENT

The chart below summarises the deliverables expected from each party during the main phases of the audit process flow.

Process	Actors			Deliverables		Timescale
	IAS	DG	APC	IAS	Auditee	
Risk assessment & annual audit plan				<div></div> 3-year plan <div></div> Annual plan		
Planning - Administration						
Planning of engagement				<div></div> Announcement letter		1 month prior to start of engagement
Opening meeting						
Preliminary survey, fieldwork & validation						
Preliminary survey				<div></div> Preliminary survey		Send EVT 2 wks and receive auditee's comments 3 working days before meeting
Kick-off meeting						
Fieldwork				<div></div> Observations	<div></div> Validation	
Formal validation meeting				<div></div> Findings validation table	<div></div> Comments	
Reporting						
Draft report				<div></div> Draft Report	<div></div> Comments	Draft report 1 wk after validation meeting Auditee's comments 2 wks after draft report
Final report				<div></div> Final Report	<div></div> Acceptance of recommendations	
Action plan					<div></div> Detailed action plan	Action plan within 2 wks of the final report
Quality satisfaction				<div></div> Auditee satisfaction survey questionnaire	<div></div> Complete Satisfaction Survey Questionnaire	
Follow-up				<div></div> Closing note after every Follow-up engagement	<div></div> Updated Action Plan <div></div> Progress status & supporting evidence in TeamCentral	

3.1. Initial Planning and Administration

3.1.1. Announcement letter

At least one month prior to the start of an engagement, the Director-General of the IAS will send an announcement letter to the Director(s)-General of the DG(s), Head(s) of Service or Director of the Executive Agency concerned giving details concerning the planned scope, the start date and duration of the engagement and the names of the Head of Unit, Audit Team Leader and staff members of the team.

The DG(s), Service(s) or Executive Agency concerned will be invited by the IAS to designate a contact person who will act as an entry point and facilitator. The contact person is expected to help make the audit activities go smoothly and does not have to be directly involved in the areas/processes to be audited, but should have the necessary authority to discuss issues with the IAS and be available to solve practical and logistical day-to-day issues encountered by the IAS in conducting the engagement. The contact point could be, for example, the contact person nominated as the main entry point for the IAS, or the DG Assistant, the Internal Control Coordinator or someone within the Strategic Planning Unit of the DG or Service concerned. The contact person should not interfere in any way with the audit activities and should not place any restrictions on information to be provided.

The IAS will also ask management to send to all staff concerned a notification of the possible use of "personal data" during the audit, as described in Council Regulation No 45/2001. This notification is provided in a standard note which is attached to the announcement letter.

3.1.2. Opening meeting

An opening meeting will be held by the IAS with the contact person and other representatives of the Director-General, Head of Service or Director of the Executive Agency to discuss logistical and practical arrangements, notably in terms of office space and equipment needed at the DG's, Service's or Executive Agency's premises during the engagement. It will also be used as an opportunity to introduce staff and build/strengthen the IAS/auditee relationship.

3.2. Key Steps in the Audit Process

3.2.1. Preliminary Survey

The purpose of the preliminary survey is to gain a better understanding of the business process/activity/unit included in the scope of the audit and the related risks in order to better define the objectives and scope of the engagement. The results of this scoping exercise will be presented to the auditee management during the kick-off meeting.

3.2.2. Kick-off meeting

In order to establish an open and constructive dialogue with the management team of the DG(s), Service(s) or Executive Agency, a kick-off meeting will be held by the IAS to provide more details about the audit objectives and planned scope, the audit methodology to be followed and to have an exchange of views on the audit and the issues of interest to the auditee. The objectives and scope of the audit will be set out in a scoping memo that will be sent by the IAS in advance of the meeting. Changes to the scoping memo will be discussed and agreed during the meeting but will not require to be the subject of a formal validation. The IAS will be represented by the Head of Unit and normally the responsible Audit Director. If appropriate, the Director-General of the IAS will also attend.

Furthermore, the IAS will indicate during the kick-off meeting which Commission services and other parties involved will be audited. Also, any special security measures which might be necessary will be raised, e.g. encrypted emails, special protection rules, etc. It should be stressed that the IAS will aim to minimise the auditee's workload and disruption to their day to day activities.

3.2.3. Findings/Observations and recommendations

In line with Article 99(1) of the Financial Regulation and international auditing standards, the majority of the fieldwork consists of testing using a systems audit approach which involves an assessment of the internal control system followed by a strength/weakness analysis (tests of procedures). Where the operation of the systems and controls are assessed to be satisfactory, tests of transactions (tests of detail) are carried out to ensure they are effectively applied in practice. The IAS will seek to obtain relevant and reliable evidence sufficient to enable it to draw reasonable conclusions there from. The nature and extent of the tests, audit methodology adopted and choice of interviewees will vary according to the IAS' assessment of the

area being audited and, where it wishes to place reliance on it, the system of internal control.

Regular meetings with the Resource Director(s)/Internal Control Co-ordinator(s), the contact person(s) and other appropriate members of (senior) management will be arranged during the fieldwork to discuss the progress of the audit. The IAS will immediately report to management any significant weaknesses in their DG(s)'s or Service(s)'s systems which come to the attention of the IAS.

Finding/Observation forms are created for any issues identified by either the tests of procedures or tests of transactions. All engagements by the IAS will involve a continuous validation process with the auditees during the fieldwork at the operational level. The IAS will organise a formal validation meeting with the auditee (normally at Director level for the process being audited) following the end of the fieldwork. A "findings validation table"⁴ (FVT), consisting of findings and also indicating risks and draft recommendations, will be issued by the IAS 10 working days prior to the meeting.

The aim of the formal validation meeting is to reach substantive agreement, at the appropriate hierarchical level, on the facts so as to avoid them being reopened or questioned again in the final stages of the audit. The DG(s), Service(s) and Executive Agency should ensure that they have made all reasonable efforts (including, when necessary, escalation to the appropriate management level) to ensure that the facts/observations reported by the audit team have been discussed and validated internally before the formal validation meeting with the IAS. To facilitate the discussion at the formal validation meeting, the audited service should send its written comments on the FVT to the IAS at least 2 working days before the meeting. The outcome of the discussion on the individual facts/observations and the draft recommendations should be recorded in writing after the meeting.

The FVT will normally contain one or more recommendations for each finding/observation. However, these will not be so detailed that they effectively constitute an action plan since this is a management responsibility of the audited DG(s)/Service(s)/Executive Agency. In certain cases, the IAS may suggest a lead service for their implementation (especially when the lead service has to coordinate the implementation of a recommendation with other stakeholders both within and outside his/her DG/Service/Executive Agency and to report on its implementation), but in practice the DG/service/Executive Agency will decide this at the action plan stage. It is therefore not the intention of the IAS to impose the choice of a lead service on auditees. During the discussions on the FVT, the auditees should raise any concerns they have about possible legal constraints, the

⁴ The findings validation table (FVT) can also take the form of a "findings document" (FD) or "advanced/pre-draft audit report" (ADAR). It has an "IAS OPERATIONS" security marking and, when sent via e-mail, it must be encrypted. A SECEM certificate is needed to receive/send encrypted e-mails.

feasibility, the relevance, their cost-effectiveness, the impact on accountability and resources.

3.2.4. Draft Report

The reporting process consists of the issuance of a draft report and a final report. All audit reports have an "IAS OPERATIONS" security marking.

The validation process will be as follows:

Within 5 working days of the formal validation meeting (as described in point 3.2.3 above), the IAS will aim to send the draft report to the Director(s)-General/Head(s) of service/Director of the Executive Agency, auditee(s), the contact person(s) designated by the Director(s)-General for the audit and the contact person. If certain issues or recommendations concern one or more DGs or Services other than those audited, a copy of the draft report is also sent to these DGs or Services. The DGs and Services that have received the draft report are free to share it with their Commissioners and Cabinets.

Comments on the draft report, including the acceptance or non-acceptance of the recommendations should reach the IAS no later than 10 working days after the draft report has been issued, or earlier if agreed by the two parties. If no comments are received within the agreed deadline, the validation process regarding the draft report will be considered as closed with no comments. If possible, the deadline for implementing the recommendations and the responsible officer concerned should be included, but this can also be left to the action plan stage.

3.2.5. Exit meeting and Final Report

If necessary there can be further discussions with the auditee on the draft report to resolve any remaining differences, which will culminate in the IAS sending an advance copy of the final report which clearly sets out the changes made to the draft report.

Where there remain unresolved differences, including non-acceptance of recommendations and/or non-acceptance of the IAS' ratings of those recommendations, the Director-General of the audited service will be requested to formally communicate these in writing to the IAS. These comments will be annexed to the final report and summarised in the Executive Summary, together with a further brief IAS analysis/commentary, in particular where the IAS believes that the level of risk is unacceptable.

If requested by the auditee, there will be an exit meeting with the Director(s)-General, Head(s) of Service or Director of the Executive Agency concerned, within 10 working days of the comments to the draft report being received by the IAS, at which the IAS will present the audit conclusions and final report. The exit meeting, if requested by the auditee, is the occasion for discussion of issues raised during the audit and next steps, and not for further revision of the already finalised audit report.

The IAS will be represented by the Director-General and/or the responsible Director Audit in the Commission and Executive Agencies. In addition to the Director(s)-General, Head(s) of Service or Director of the Executive Agency concerned, the Resource Director(s)/Internal Control Co-ordinator(s), the contact person(s) and the proposed co-ordinator/lead service of the DG(s), Service(s) or Executive Agency concerned should also be present.

The final report will be issued within 5 working days of the receipt of the comments to the draft report or directly after the exit meeting, if held.

The recipients of the final report will be:

- The Director(s)-General of the DGs, Head(s) of Service or Director of the Executive Agency concerned with copies to the contact person(s), Resource Director(s)/Internal Control Coordinator(s) and other services responsible for the implementation of the recommendations,
- The Head of the Cabinet(s) responsible for the IAS and the DG(s) concerned, including that of the Vice-President in charge of coordination of the relevant audited process/subject matter,
- The APC,
- The ECA⁵,
- The Secretary General of the Commission, the Central Financial Service, the Director-General of DG BUDG, the Accounting Officer of the Commission and other Central Services concerned,
- OLAF, in exceptional cases where there is a suspicion of fraud or indications or findings related to systemic weaknesses or individual situations that show a potential vulnerability of EU legislation, contracts, agreements, administrative guides or practices as regards fraud, corruption or other illegal activities, in line with the administrative arrangements between the IAS and OLAF,
- DG HR/DS where there are critical and/or very important findings and recommendations on IT security, in compliance with the Implementing Rules for Commission Decision C(2006) 3602 of 18.8.2006 concerning the security of information systems used by the European Commission (point 3.1),
- The Director(s)-General of the parent DG(s) of the Executive Agency concerned.

⁵ All audit reports are sent to the ECA and other reports or documents are sent on request.

3.2.6. Action Plan and review by IAS

The Director(s)-General of the DG(s), Head(s) of Service or Director of the Executive Agency concerned will submit an action plan⁶ for those recommendations that have been accepted within 10 working days after receipt of the final report, or up to 15 working days in case of multi-DG audits or where more coordination is required between different directorates of a service. This should give the IAS sufficient time to analyse the action plan before the APC meeting. The IAS will inform the audited services if it considers the submitted action plan to be satisfactory or not. It will explain the reasons for the latter case and request the auditee to prepare a revised action plan. This will be done before the APC meeting but is dependent upon the IAS receiving a satisfactory action plan sufficiently in advance of the APC meeting. It is the responsibility of senior management of the DG, Service or Executive Agency concerned to ensure that accepted recommendations are effectively implemented.

Both the IAS and auditee will use their best efforts to ensure that this timetable is respected and that, in the interests of the Commission, there are no delays in the validation process.

3.3. Quality Satisfaction Survey

At the end of the audit, as part of its quality control procedures, the IAS will send an auditee satisfaction survey questionnaire to a limited number of key participants involved with the audit with a view to continual improvement of the audit process. Respondents can reply anonymously, if they prefer this approach. A summary of the results will be communicated to the auditee.

3.4. Follow-up

3.4.1. Management follow-up

It is the responsibility of the management of the DG/Service to develop and implement an action plan and thereafter, to organise and monitor the follow-up of the formulated and agreed-upon actions to ensure that accepted recommendations are effectively implemented. If accepted recommendations are not effectively implemented within a reasonable time frame, it is the responsibility of management to decide whether or not it accepts the risk of not taking action and to communicate this decision to the IAS.

IAS recommendations and the related action plans are stored in an IAS IT tracking tool. DGs/Services should designate a person who is responsible for the coordination of the implementation of the IAS recommendations in his/her DG/Service. This person should ensure that the relevant data in the IAS tracking system, including the evidence that supports the effective

⁶ The action plan should be integrated in the Annual Management Plan(s) of the DG(s) or Service(s) concerned and the Annual Activity Report(s) should also report on its implementation of material recommendations. There is a requirement for the Directors-General to inform the Commissioner at least twice a year on remedial actions arising from the work of the IAS.

implementation of the recommendations, are regularly uploaded and updated.

3.4.2. IAS follow-up

The IAS has a reporting obligation to the APC on the follow-up of its recommendations. It periodically provides the APC with a comprehensive picture on the state of play regarding the implementation of its audit recommendations, including statistical information, information on the long outstanding recommendations (i.e. recommendations for which the original target date for implementation has lapsed by more than six months) rated 'critical' or 'very important' and information on the recommendations rated 'critical' or 'very important' for which the DG/Service has (de facto) accepted the risk of not taking action.

The IAS will assess the implementation of all the recommendations, taking into account the target dates for the implementation of the recommendations as stated in the action plan and the implementation status of the recommendations communicated to the IAS. The IAS plans to perform a follow-up of recommendations within six months of being reported as implemented by the auditee.

The IAS may plan a follow-up engagement within one year from the date of issuance of the original audit report. However, the IAS reserves the right to conduct an earlier follow-up to assess progress if it considers it appropriate to do so, particularly when management reports that one or more, but not all very important or critical recommendations have been (or only partially) implemented.

The IAS may also perform a follow-up per recommendation or regroup recommendations stemming from different audit reports on which to perform a follow-up.

Furthermore, where there are several parts to a recommendation but which have been only partially implemented, the IAS will re-assess the associated residual risk and either confirm the previous residual risk/rating or revise the assessment and re-rate (upgrade or downgrade) the priority rating of the recommendations, in accordance with the IAS standard classification for the rating of audit recommendations which is available in annex to this note.

The follow-up engagement can be performed through a desk review or on-the-spot in the premises of the DG/Service, depending on the criticality and nature of the recommendations subject to follow-up. All follow-up engagements for which an on-the-spot audit is planned will be formally announced via an announcement letter.

The results of a follow-up engagement will be systematically communicated to the recipients of final reports as specified under section 3.2.5 above, via a follow-up note or, exceptionally, via a follow-up report.

4. ANNUAL REPORTING

4.1. Opinion/conclusion on the state of internal control in individual DGs/services

As one of the building block for the Annual Activity Report (AAR) by the Authorising Officer by Delegation, the IAS will draw up an annual opinion/conclusion on the 'state of internal control' addressed to each DG/service and building on the audits of the past three years. The opinion/conclusion will be delivered to the DGs/services by 15 February of year n+1, therefore in good time for the preparation of their AARs.

The IAS will ensure that every DG/service is audited once every three years, in particular with regard to financial management.

4.2. Annual reporting addressed to the College

The IAS reports annually to the College on its engagements, findings and recommendations and on actions taken by the audited DG(s)/Service(s)/Executive Agency on those recommendations⁷. Summaries of the individual audit reports will be attached to this report.

In addition, the IAS prepares an Overall Opinion/Conclusion on the state of financial management in the Commission which also builds on the audits carried out in the preceding three years.

This annual reporting to the College (Overall Opinion/Conclusion, the Annual Internal Audit Report according to Art. 99(3) FR) is based on audits performed by the IAS which are known to the DG/Service concerned and which were duly validated. This includes the IAS' work in the context of reviewing outstanding recommendations and their possible consequences.

The IAS annual reporting to the College reflects the IAS' view and is not to be subject to a Commission Decision. This should be distinguished from the report on Internal Audit Activity as per Art. 99(5) FR, which is adopted by the Commission and sent to the Budget/Discharge Authority and which is subject to an inter-service consultation.

5. GENERAL RIGHTS AND OBLIGATIONS OF THE IAS

5.1. Rights

In line with the Financial Regulation⁸, the IIA standards⁹ and the IAS Mission Charter¹⁰, the Internal Auditor:

- is independent of all other Directorates-General and Services,

⁷ According to Art. 99(3) of the Financial Regulation.

⁸ Art. 99(2) of the Financial Regulation (EC, Euratom) n° 966/2012

⁹ www.theiaa.org

¹⁰ Communication of the Commission C(2017) 4435 final of 30 June 2017.

- has no operational or management responsibilities or authority over any Commission activities,
- is not subject to any authority that may attempt to interfere in the conduct of IAS engagements or ask the IAS to make any alterations to the content of audit reports which do not correspond to the findings and proposals made during the audits and after the validation procedure with the auditee,
- has full and unlimited access to all persons and information required for the proper performance of his/her duties (i.e. what the IAS requires and not what management of the DG or Service concerned thinks the IAS should have). This includes access to documents, IT systems, the intranet of the DG, Service or Executive Agency concerned and staff. In conducting their audits, the IAS may collect personal data, as described in Council Regulation 45/2001, and will inform the DG or Service of this before the start of every audit.

5.2. Obligations

In line with the IIA standards and Code of Ethics¹¹, the Internal Auditor and the staff working for him/her will:

- adequately plan, control and record their work,
- at all times perform their work objectively and impartially and free from influence or any consideration which might appear to be in conflict with this requirement. They will always have regard to any factors that might reflect adversely upon his/her integrity and objectivity in relation to an assignment,
- carry out their work by having a proper regard for the technical and professional standards expected of them,
- conduct themselves with courtesy and consideration towards all with whom they come into contact in the course of their professional work,
- not disclose information acquired in the course of their work except where there is a legal duty to disclose,
- not use information acquired in the course of their work for their own personal benefit or for the advantage of any third party,
- depending on the working arrangements agreed with the contact person(s) and the respective Heads of Unit, provide advance notice as regards persons to be interviewed. It will be up to the IAS to arrange the appointments at a time suitable to both parties,

¹¹ www.theiia.org

- unless not possible, ensure that meetings are not postponed due to unavailability of staff by providing a suitable representative,
- inform the auditee about the findings and observations during the course of the engagement without delay.

6. GENERAL RIGHTS AND OBLIGATIONS OF THE AUDITEE

6.1. Rights

The auditee:

- will be kept fully informed of the progress of the assignment at all times,
- will have regular validation meetings with the IAS at the operational level during the audit fieldwork and one formal validation meeting at management level upon completion of the audit fieldwork,
- can expect the IAS to provide the reasoning and evidence to support audit findings included in the FVT where these are not already clear,
- will be able to contact the Head of Unit supervising the audit team to discuss issues of concern to him/her and if necessary, the responsible Director Audit in the Commission and Executive Agencies or the Director-General,
- will always be invited to attend APC meetings if a report addressed to his service is on the agenda for discussion.

6.2. Obligations

The auditee:

- will give the Internal Auditor and the staff working for him/her the necessary freedom with which to exercise his/her independence of mind when collecting and assessing audit evidence. The auditee should therefore ensure that there are no attempts to restrict the rights and duties of the IAS. Independence also means that the IAS should be free to operate without being subject to pressure and intimidation from management,
- will conduct himself/herself with courtesy and consideration towards the members of the audit team,
- should ensure that the IAS is not knowingly misled or have facts misrepresented to him/her and should use due professional care to avoid doing so unintentionally,
- should ensure that any observers attending meetings are made known to the IAS and do not hinder their work,
- will, unless not possible, ensure that meetings are not postponed due to unavailability of staff by providing a suitable representative,

- will satisfy requests for existing documents within three working days,
- will ensure that any minutes of meetings or interviews sent to participants for approval are not distributed to third parties (meaning those outside the DG/Service/Executive Agency being audited) without the prior consent of the IAS unless there is a legal duty to disclose.

7. CONFLICT RESOLUTION

Any conflict between the IAS and auditee should in the first instance be resolved by the Audit Team Leader and the contact person. If no solution can be found at this level, it should then be escalated to the level of Heads of Unit (DG concerned and IAS) or above. Serious problems may be referred to the APC.

ANNEX: CLASSIFICATION OF AUDIT OBSERVATIONS AND RECOMMENDATIONS:

Compliance audits:

LEVELS OF SIGNIFICANCE				
OBSERVATIONS		1 – CRITICAL	2 – VERY IMPORTANT	3 – IMPORTANT
	TYPOLGY	Fundamental weakness that is detrimental to the whole or a significant part of the audited process for the DG/audited entity as a whole	Very important weakness that is detrimental to the whole or a significant part of the audited process	Important weakness that is detrimental to a significant part of the audited process
	DISCLOSURE IN THE (C)AAR ¹²	Could lead to a reservation in the (C)AAR. To be disclosed in the (C)AAR	To be disclosed in the (C)AAR	No disclosure in the (C)AAR necessary.
	WAY OF REPORTING	Must be included in the Executive Summary	Must be included in the Executive Summary	Can be included in the Executive Summary.
RECOMMENDATIONS	TIMING	Implementation of the Recommendation: immediate action required	Implementation of the Recommendation: prompt action required	Implementation of the Recommendation: action is required as soon as possible
	WAY OF REPORTING	Must be included in the Executive Summary	Must be included in the Executive Summary	Can be included in the Executive Summary.

Note: In addition to the critical, very important and important recommendations, the IAS report may also include issues for consideration which may be useful for the auditee, but which will not be formally followed up.

¹² AAR – Annual Activity Report for Commission DGs/Services; CAAR – Consolidated Annual Activity Report for EU Agencies and other autonomous bodies.

Performance audits

LEVELS OF SIGNIFICANCE										
		1 - CRITICAL			2 - VERY IMPORTANT			3 - IMPORTANT		
General description		Fundamental weakness that is detrimental to the whole or a significant part of the audited process			Very important weakness that is detrimental to the whole or a significant part of the audited process			Important weakness that is detrimental to a significant part of the audited process		
		Impact	Scope	Materiality	Impact	Scope	Materiality	Impact	Scope	Materiality
Effectiveness	<p><i>The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.</i> (FR Art. 30, FFR Art. 29 and MFR Art.11)</p> <p>Most frequent observations</p> <ul style="list-style-type: none"> – faulty policy design (inadequate assessment of needs, unclear or incoherent objectives, inadequate means of intervention or impracticability of implementation); – management failures (objectives not being met, management not prioritizing the achievement of objectives). 	Objectives not attained or intended results not achieved.	Whole or significant part of the process for the DG/audited entity as a whole	Fundamental deficiency	Objectives not attained or intended results not achieved.	Whole or significant part of the audited process	Very important deficiency	Objectives not attained or intended results not achieved.	Significant part of the audited process	Important deficiency
	<p><i>The principle of efficiency is concerned with the best relationship between resources employed and results achieved.</i> (FR Art. 30, FFR Art. 29 and MFR Art.11)</p> <p>Most frequent observations</p> <ul style="list-style-type: none"> – leakages (resources used do not lead to the desired outputs); – non-optimal input/ output ratios (low labour efficiency ratios); – slow implementation of the intervention; – failure to identify and control externalities. 	Detrimental imbalance between the resources employed and outputs delivered in terms of quantity, quality and/or timing.			Detrimental imbalance between the resources employed and outputs delivered in terms of quantity, quality and/or timing.			Significant imbalance between the resources employed and outputs delivered in terms of quantity, quality and/or timing.		

LEVELS OF SIGNIFICANCE										
		1 - CRITICAL			2 - VERY IMPORTANT			3 - IMPORTANT		
General description		Fundamental weakness that is detrimental to the whole or a significant part of the audited process			Very important weakness that is detrimental to the whole or a significant part of the audited process			Important weakness that is detrimental to a significant part of the audited process		
		Impact	Scope	Materiality	Impact	Scope	Materiality	Impact	Scope	Materiality
Economy	<p><i>The principle of economy requires that the resources used by the institution/EU bodies for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. (FR Art. 30, FFR Art. 29 and MFR Art.11)</i></p> <p>Most frequent observations</p> <ul style="list-style-type: none">– waste (i.e. using resources which are not necessary for the achievement of the desired outputs or results);– overpaying (i.e. obtaining resources which could have been obtained at a lower cost);– gold-plating (i.e. paying for a higher quality of input than that required to achieve the desired outputs or results).	Resources used by the DG/agency/autonomous body: i) not available in due time; and/or ii) not in and of appropriate quantity and quality; and/or iii) not at the best price.			Resources used by the DG/agency/autonomous body: i) not available in due time; and/or ii) not in and of appropriate quantity and quality; and/or iii) not at the best price.			Resources used by the DG/agency/autonomous body: i) not available in due time; and/or ii) not in and of appropriate quantity and quality; and/or iii) not at the best price.		
Compliance	<p><i>Conformance with internal requirements (policies, procedures, contracts, codes of conduct, etc.) or external requirements (laws, regulations, industry standards, social norms, etc.).</i></p>				Non-compliance with internal and/or external requirements.			Non-compliance with internal and/or external requirements.		
Likelihood: <i>Estimated probability that the (residual) risk will materialise (after taking account of the mitigating measures put in place)</i>		Highly likely OR Likely			Highly likely OR Likely OR Unlikely			Likely OR Unlikely OR Highly unlikely		
Way of reporting		Must be included in the Executive Summary and in the body of the Audit Report			Must be included in the Executive Summary and in the body of the Audit Report			Can be included in the Executive Summary and must be included in the body of the Audit Report		
Recommendation		Recommendation that mitigates the risk of a critical observation so that it is not detrimental at the audited DG/Agency/autonomous body level anymore.			Recommendation that mitigates the risk of a very important observation so that it is not detrimental to the whole audited process anymore.			Recommendation in response to an important observation so that, whether: - A significant deficiency to the whole audited process; or - A fundamental deficiency to a significant part of the audited process is mitigated.		

LEVELS OF SIGNIFICANCE									
	1 - CRITICAL			2 - VERY IMPORTANT			3 - IMPORTANT		
General description	Fundamental weakness that is detrimental to the whole or a significant part of the audited process			Very important weakness that is detrimental to the whole or a significant part of the audited process			Important weakness that is detrimental to a significant part of the audited process		
	Impact	Scope	Materiality	Impact	Scope	Materiality	Impact	Scope	Materiality
Impact on auditee	Could lead to a reservation in the (C)AAR. To be disclosed in the (C)AAR.			Does not necessarily lead to a reservation in the (C)AAR if only one recommendation. Several very important recommendations related to the same process could lead to a reservation in the (C)AAR. To be disclosed in the (C)AAR.			Does not lead to a reservation in the AAR. No disclosure in the (C)AAR necessary.		
Timeframe of action	Immediate and decisive action is required			Prompt action is required			Action is required as soon as possible.		

Note: In addition to the critical, very important and important recommendations, the IAS report may also include issues for consideration which may be useful for the auditee, but which will not be formally followed up.