



Assurances provided by the Internal Audit Service

PEMPAL IACOP plenary meeting – 5 October 2022

Internal Audit in Transition: The Public Sector Perspective

Unit 01 Quality Assurance, IAS

Overview

- Role of the IAS and types of services
- Assurance requirements
- Limited conclusions
- Overall opinion – requirements
- Overall opinion in the IAS

The role of the European Commission's Internal Audit Service

- As per the EU Financial Regulation, the IAS audits the internal management and control systems in the:



Other autonomous
bodies



- IAS provides independent and objective assurance to the College of Commissioners/Boards and audited entities aiming at adding value and improving the operations
- Upon request from the College of Commissioners/Boards or senior management, IAS provides consultancy services

Types of services provided

Types of engagements

- Assurance engagements: financial audits, compliance audits, performance audits, IT audits, comprehensive audit including Multi-Entity engagements, limited reviews
- Consulting engagements
- Follow up audit
- Risk assessments

Scope: financial and non-financial activities

Assurance requirements

- The reporting and assurance requirements differ between the Commission and decentralised bodies

European Commission and Executive Agencies	EU decentralised agencies and other autonomous bodies
Limited conclusions	Ad-hoc reports
Overall opinion	
Annual report on internal audit	Annual report on internal audit for a few entities

- Different discharge procedures

Assurances given by the IAS

Reports as per EU Financial Regulations:

- Annual Report on internal audits for the European Commission (Art. 118.4)
- Annual Report on internal audits for the European Parliament and the Council (Art. 118.8)

Both reports include:

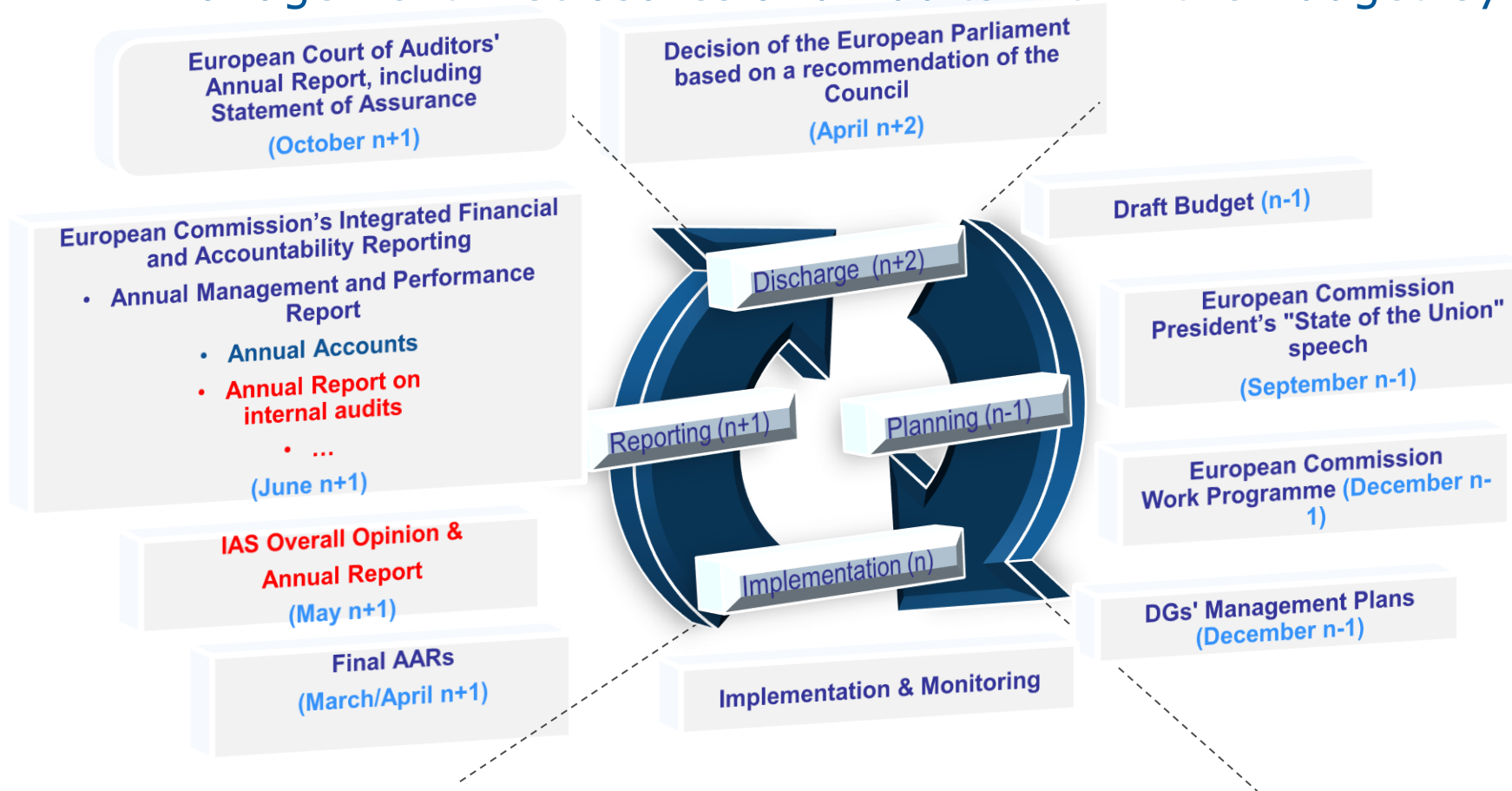
- Number and types of internal audits
- Overall opinion and conclusion on performance
- Summary of the recommendations
- Actions taken as regards these recommendations

- The IAS Charter for the Commission defines that **the internal auditor has responsibility to**
- provide a **limited conclusion** on the 'state of internal control' in each Directorate General or Service
- provide annually an **overall opinion** on the 'state of financial management in the Commission'



Discharge – Key Actors and Procedures

Management Disclosures and Audits within the Budget Cycle



Limited conclusions: IAS contribution to AARs

- Not a requirement from the Standards, but stemming from the Charter
- Internal Audit Service contribution to the Annual Activity Report process of each DG/Service
- Draws on the audit work of past three years
- Takes into account the implementation status of outstanding recommendations by management (residual risks are not mitigated)
- Input used by the DGs/Services for the overall assessment of the effectiveness of its internal control system in its Annual Activity Report and reflected in the Authorising Officer by Delegation's declaration of assurance



Assurance is **limited** to the management and control systems which were subject to an audit in a DG/Service

What is an Overall Opinion?

- Assurance – at a broad level – provided by the CAE on the organisation as a whole:
 - Overall Opinion is drawn from multiple engagements (macro level opinion)
 - Communicated separately from engagement communications
- Professional judgment based on results for specific time interval of:
 - A number of individual engagements; and/or
 - Other similar activities — such as reviews by other assurance providers
- Rating, conclusion, and/or other description of results on:
 - Governance
 - Risk management; and/or
 - Control processes of the organization

- IIA Standard 2450
- Implementation Guide
- PG Formulating and
Expressing Internal
Audit Opinion

IIA Standard 2450 on Overall Opinions

- IIA Definition

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

- IIA Performance Standard 2450 on Overall Opinions

"When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders."

- Overall Opinions are not obligatory: issuance at discretion of the organisation
- Requirements defined in Implementation Guide: may be communicated verbally or in writing

Source: Revised IPPF Standards, January 2017

Elements required in the Overall Opinion

Implementation Guide for Standard 2450 defines that communication needs to include

1. Scope, including the time period applicable
2. Any Scope limitations
3. Consideration of all related audits, including the reliance on other assurance providers
4. Summary of the information that supports the opinion
5. Risk or control framework or other criteria used as a basis for the Overall Opinion
6. Overall opinion, judgment, or conclusion reached
7. Reasons for an unfavourable Overall Opinion must be stated
 - ➔ necessary to have a **methodology and process** in place to evaluate the cumulative results of audit assignments and audit findings

IAS Overall Opinion scope

- Based on the IAS's assurance work on **financial management** in the Commission (financial audits, compliance audits, comprehensive audits covering financial/compliance aspects):
 - During previous three years
 - Presented annually
- Coverage assumptions used to reflect a **multiannual spending process**
- Focus on the European Commission's **internal control system** (excludes Member States, final beneficiaries)

IAS Overall Opinion building blocks

- Results from **IAS assurance work** taking into account the results of follow-up audits
- Takes into account the reports of the **European Court of Auditors** relevant for the Commission's financial management
- Review of **management assurances** provided by Authorising Officers by Delegation through Annual Activity Reports, containing management disclosures on:
 - Achievement of policy and operational objectives
 - Functioning of internal control system
 - AOD's reasonable assurance that the resources assigned to the activities have been used for their intended purpose and in accordance with the principles of sound financial management (Declaration of Assurance)
 - any reservations made (identification of material weaknesses)

IAS Overall Opinion methodological insights

- Multiannual perspective based on a comprehensive reference framework
- Materiality applied at the level of groups of DGs
- Professional judgement: in reaching the overall opinion, the IAS also takes into account the estimates in the AARs of the combined impact of:



- Amounts at risk at payment
- Corrective Capacity of multi-annual systems (Financial corrections to be carried by Member States, recoveries to be reimbursed by final beneficiaries)
- Amounts at risk at closure



re-assurance to the College of Commissioners whether governance, risk management and internal control procedures are adequate to give reasonable assurance over achievement of its financial objectives.

IAS overall opinion for 2021

“I consider that in 2021 the Commission put into place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance over the achievement of its financial objectives, with the exception of those areas of financial management over which Directors-General have expressed reservations in their declarations of assurance as listed in the annex”.

Source: Annual report to the Discharge Authority on internal audits carried out in 2021

Without further qualifying the opinion, the internal auditor raised three emphases of matter:

- the implementation of the EU budget in the context of the crisis related to the COVID-19 pandemic;
- supervision strategies regarding third parties implementing policies and programmes;
- reporting on the corrective capacity of the multiannual control systems.

The Overall Opinion is supported by an internal Staff Working Document which also includes information on required elements as per IIA Standards.

IAS overall opinion... where to find more

The Internal Auditor's opinion is included in the [Annual report to the Discharge Authority on internal audits carried out in 2021](#) (118.8 report)

The IAS 2021 Overall Opinion is also referred to in the [Commission's Annual management and performance report 2021](#), in particular

- Volume II – Annex 2 Internal control and financial management;
- Volume III - Annex 6 – Assurance provided by the Internal Audit Service:
 - Financial management: internal auditor's overall opinion
 - Performance: results of audits by the Internal Audit Service
 - Contribution of the IAS to the annual activity reporting of authorising officers by delegation
 - Follow-up of previous Internal Audit Service recommendations

