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European Commission

Annual Activity Report 2020

DG BUDGET

Contents

Foreword

Dear reader,

2020 was an extraordinary year in EU policy making. The EU was hit by an unprecedented crisis. Politicians and policy-makers across the EU and the world had to react in a quick and comprehensive manner to alleviate the tough situation and give hope to their citizens. Existing and innovative tools were put in place in search of the best way forward.

This was a challenge and an opportunity for the European Commission and even more so for the Directorate-General for Budget. In 2020, the EU budget was instrumental to the European Union's comprehensive response to the coronavirus crisis and its consequences. What is more, thanks to the action taken in 2020, the EU budget will be the driving engine of Europe's recovery in the years to come, in a spirit of solidarity, responsibility and strength.

DG BUDG was at the forefront of the EU response to the crisis since Day 1. Between March and April, our team mobilised every cent from the EU budget to ensure a robust response to the pandemic. Thanks to the **Coronavirus Response Investment Initiative**, Member States received a liquidity injection and could focus their cohesion policy funds on support for health, businesses and workers. **The Emergency Support Instrument** helped finance the EU vaccine strategy, including the contracts with pharmaceutical companies for the EU-wide procurement of vaccines. The funds for the EU's **rescEU** instrument made it possible to repatriate EU nationals stranded abroad and to create the first pan-European reserve of medical equipment.

In parallel, DG BUDG played a key role in the Commission proposal (May 2020) and negotiations of the revamped long-term **EU budget 2021-2027** and **NextGenerationEU**, the €750 billion recovery instrument. Taken together, the two form the biggest stimulus package ever funded through the EU budget, of €1.8 trillion, to help rebuild a greener, more digital and more resilient post-Covid-19 Europe. On 10 November 2020, the European Parliament and the Council, with the support of the European Commission, agreed on the final details of the package and adopted it in December 2020, thus bringing it to life.

To finance NextGenerationEU, the Commission will borrow on the markets. The volumes it will seek to borrow will make it one of the largest issuers in the euro market. In the autumn of 2020, the Commission already went to the markets for its first large-scale issuances, carried out to finance short-term employment schemes under SURE programme. The three issuances were largely oversubscribed, placed under very attractive pricing conditions and enabled the Commission to distribute nearly €40 billion to 15 EU countries.

In parallel to the support to Europe's recovery, work on many other projects continued. The BUDG team prepared and negotiated the 2021 budget proposal – even though the seven-year framework was not finalised until very late in this process, successfully completed the discharge of the 2018 budget and started the discharge of the 2019 budget. Discussions with long-time partners were also completed successfully, setting the way forward towards a future cooperation. These included the United Kingdom, where DG BUDG took care of the budgetary aspects of the EU-UK Trade and Cooperation Agreement, and the World Bank, where BUDG negotiated a partnership agreement that will ensure the correct implementation of EU-funded projects on the ground. DG BUDG also actively participated in the definition of innovative sectoral and special instruments such as the Just Transition Mechanism and the Brexit Adjustment Reserve.

All of this took place under very challenging circumstances of teleworking and the difficulties it brings along, home schooling for children and personal concerns.

In 2021, the challenges continue. The European Commission will have to deliver on the existing commitments and demonstrate that the solutions identified in 2020 will indeed make a tangible difference for the lives of citizens in Europe and beyond. DG BUDG and its team will continue to contribute as much as possible by ensuring the necessary means for the recovery and making sure these are well spent – in line with the rules but also in a way that creates an EU added value.

In the meantime, I invite you to read the detailed overview of our achievements in the past year, and to stay informed about the accomplishments yet to come.

Gert Jan Koopman, Director-General of DG Budget

THE DG IN BRIEF

DG Budget (to be referred to as BUDG from now on) is a central European Commission department. Its mission is to manage the EU own resources and budget throughout the multiannual and annual cycles: from the preparation and proposal of the seven-year long-term budget – also known as the Multiannual Financial Framework (MFF), through the negotiations of the annual budgets for each of the years within the period, to the budget implementation in line with the rules and the final discharge by the European Parliament, based on solid financial reporting.

BUDG also makes sure that other actors who work with the EU budget – inside the Commission and across the EU institutions, Member States and beyond, apply the rules correctly and strive to make sure that every euro goes to where the needs are, creating added value for citizens.

The Accounting Officer of the Commission sits in BUDG, as a Deputy Director General, and is responsible for the management of the central treasury and the preparation of the accounts of the Commission and of a number of other EU bodies. The annual financial statements are certified by the European Court of Auditors. The Accounting Officer is also responsible for the recovery of funds, including fines.

The EU budget is the fuel in the EU policy engine and, as such, in 2020 BUDG played a key role in the EU response to the coronavirus pandemic and its consequences. Most notably, BUDG worked with services across the Commission to put together a €1.8 trillion package to speed up the recovery. It consists of the revamped long-term budget and NextGenerationEU, the recovery instrument. To finance NextGenerationEU, the Commission will rely on market funding; BUDG is currently putting in place the underlying borrowing and lending machinery in order to implement this.

Although BUDG oversees the EU's entire budget, its own spending is rather limited. BUDG expenditure is mostly used for administrative purposes, so as to ensure the day-to-day running of the DG, and to maintain and improve the Commission's corporate financial and accounting system. Indeed, BUDG, as a domain leader for financial management is investing heavily in the transition from the long standing ABAC[1] system to the new SUMMA system.

All things considered, and from an operational perspective, BUDG activities are organised around three general objectives of the von der Leyen Commission: (i) an economy that works for people; (ii) promoting our European way of life; and (iii) a modern, high performing, sustainable Commission.

BUDG has 530 staff members and is structured around six Directorates based in Brussels and Luxembourg and three horizontal units with a coordination role. They (i) design, negotiate and manage EU budget expenditure and revenue; (ii) develop policy-relevant knowledge, performance and financial intelligence; (iii) enhance agility of the budget; (iv) ensure that the amounts allocated from the EU budget are invested for the intended purpose paving the way to the discharge; (v) strengthen the EU budget accounting; (vi) promote a strong enforcement culture to protect the EU budget; and (vii) act as a centre of excellence and trustful partner.

[1] ABAC (Accrual Based Accounting System) is the central accounting, budgetary and treasury system set up by the Commission to implement its budget and prepare its annual accounts.

On 1 January 2020, following a decision taken by the new College in December 2019, the former Directorate ECFIN "Treasury and financial operations" was transferred to DG BUDG forming the new Directorate "Asset and Financial Risk Management"[2]. This transfer strengthened the corporate management of financial instruments and budgetary guarantees and the related asset management function. Directorate E includes the borrowing and lending team and is set to increase in size in the coming years, in order to manage the borrowing to finance NextGenerationEU, which is anchored in the EU budget. The integration of this Directorate in DG BUDG has proven to be a precious step in this regard.

Moreover, on 1 November 2020 BUDG went through a second re-organisation in order to be better able to respond to new needs regarding responsibilities, workflows and accountability.

[2] https://ec.europa.eu/commission/commissioners/sites/comm-cwt2019/files/team_attachments/allocation-portfolios-supporting-services_en_0.pdf

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG BUDG 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 the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[3].

A. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

2020 was a historic year for the Union. It was marked in particular by the agreement on a package of **€1.8 trillion - the largest ever financed through the EU budget –** for the 2021-2027 Multiannual Financial Framework and the EU Recovery Instrument – NextGenerationEU. With the combined firepower of NextGenerationEU and the long-term budget, the EU will support citizens, companies and regions most affected by the unprecedented Corona crisis. The package will also help rebuild a post-COVID-19 Europe, which will be greener, more digital, more resilient and better fit for the current and forthcoming challenges. Important novel features of the package include the requirement that 30% of the MFF and the NGEU is allocated to programmes and projects with a positive impact on climate change and the introduction of a conditionality regime to protect the Union's budget.

"The unprecedented financial firepower of MFF/NGEU with a volume of €1.8 trillion will provide the necessary means for a sustainable recovery and Europe's green and digital transition." (Johannes Hahn, 17 December 2020)

In March 2020, BUDG drafted and ensured swift adoption of the first Coronavirus Response Investment Initiative Regulation, which concentrated on the immediate mobilisation of cohesion policy funding, to allow Member States to support the most exposed sectors, such as healthcare, small businesses and labour markets. BUDG also actively contributed to the swift mobilisation of the Emergency Support Instrument ("ESI") to help Member States secure the production and supply of safe and efficient Covid-19 vaccines, through a series of Advance Purchase Agreements entered into by the Commission on behalf of Member States with vaccine manufacturers.

[3] Article 17(1) of the Treaty on European Union.


BUDG and SG team supporting MFF and NGEU negotiations under the lead of Commissioner Hahn. Picture taken in December 2020, the day of the final deal.

Throughout 2020, BUDG contributed actively to **the progress in negotiations of the Multiannual Financial Framework**, providing maximum transparency, technical information and explanatory material. BUDG also engaged actively with the European Parliament, the Member States, the rotating Presidencies of the Council and other stakeholders, advocating for an ambitious agreement. The package was agreed by Member States, with minor modifications, at a special European Council in July. The subsequent trilateral inter-institutional negotiations with the Council and the European Parliament resulted in political agreement between the institutions on 10 November and formal adoption of the next MFF and NextGenerationEU took place in mid-December 2020.

BUDG drafted and contributed substantially to the timely adoption of the **Regulation on a general regime of conditionality for the protection of the Union budget** together with the MFF package. This new mechanism to protect the EU budget against rule of law breaches in the Member States complements the existing budgetary protection instruments and will also be preventive.

In parallel, BUDG was heavily involved in the revision and the drafting of various sectoral pieces of legislation and was also instrumental in proposing two draft budgets for the financial year 2021 which reflected the status of the negotiations.

In addition, BUDG was heavily involved in the drafting and negotiation of the **Recovery and Resilience Facility**, the key instrument financed from NextGenerationEU. DG BUDG drafted the Facility's control strategy and was involved in clarifying multiple operational issues, including the establishment of milestones and targets, financing issues not linked to costs, the application of the Financial Regulation, and climate and digital targets. BUDG is also involved in the assessment of national recovery and resilience plans, with a particular focus on all aspects related to control and audit, as well as performance-related issues.

On the revenue side, the Council reached an **agreement on a new Own Resources Decision** based on its proposals of May 2018 and the amendments proposed in May 2020 to address the Covid-crisis. The new Own Resources Decision simplifies the own resource based on value added tax and introduces a new own resource based on the quantity of non-recycled plastic packaging waste. Furthermore, it gives the Commission a temporary, exceptional and one-off empowerment to borrow funds to finance the economic recovery. This is the foundation of NextGenerationEU. The European Parliament, the Council, and the European Commission have agreed on a binding **roadmap towards the introduction of new own resources** in the framework of an inter-institutional agreement. As a first step, own resources based on a digital levy, the carbon border adjustment mechanism, and the Emissions Trading System will be proposed in June 2021, with a view to their entry into force in 2023. As a second step, the Commission will endeavour to make a proposal by June 2024 on additional new own resources, which could include a Financial Transaction Tax and a financial contribution linked to the corporate sector or a new common corporate tax base, which are envisaged to enter into force by 2026.

Another unique action involving BUDG in 2020 was the proposal and launch of the (temporary) **SURE (Support mitigating Unemployment Risks in Emergency) instrument**, the aim of which is to preserve jobs and support families affected by the Covid-19 pandemic. All funding operations were administered by BUDG. Moreover, BUDG developed a Social Bond Framework to provide investors in these bonds with confidence that the funds mobilised will serve a truly social objective. In May 2020 Member States adopted a Regulation establishing the SURE programme under which the EU Commission provides loans to Member States to help them to fund national temporary employment assistance schemes.

Between early October and the year-end, three significant borrowing operations on capital markets took place and allowed the EU to raise a total amount of €39.5 billion which was distributed to 15 beneficiary Member States. Thanks to the high credit rating of the EU and extensive communication on the SURE programme towards international investors, these bond issuances have been extremely successful and enabled the EU to obtain very favourable financial conditions for the beneficiary Member States. These 3 transactions have established the EU as a major new player in international bond markets, and provide a visible Union-level benchmark yield curve for investors. The bulk of the remaining SURE issuance programme will be conducted in the first half of 2021.

First EU SURE social bond of €17 billion was 13 times oversubscribed (order volume of €233 billion), breaking all the records.

Throughout the year BUDG ensured the correct implementation of the **financial provisions of the Agreement on the United Kingdom's withdrawal from the Union**, which entered into force on 1 February 2020. BUDG coordinated with other Commission services (e.g. PMO, ESTAT, HR) and with the other institutions, the set-up of appropriate financial working methods with the UK authorities and with financial institutions (in particular the European Investment Bank) and prepared the administrative arrangements on cooperation with UK auditors to promote a consistent approach. BUDG calculated the UK financial contribution, followed up closely on contingent liabilities, and prepared the reporting on UK pension liabilities and financial instruments. The amounts are included in the 2020 financial statements. Legal advice to other DGs and institutions was also provided on issues such as the control of customs duties and VAT-based own resources.

Furthermore, BUDG actively participated in the negotiations on the United Kingdom's participation in Union programmes post-withdrawal and provided support on customs-related issues as part of the Trade and Cooperation Agreement (TCA) successfully concluded on 30 December 2020. BUDG notably supported the work of the UK Task Force by providing budgetary and legal expertise. The TCA provides for cooperation in areas of shared interest, such as science, research and innovation, nuclear research and space. It ensures fair conditions of participation and robust protection of the Union's financial interest.

In 2020 DG BUDG contributed to the negotiations of the ambitious agreement, based on close cooperation, to protect the EU interests and avoid big disruptions.

Following the conclusions of the European Council of 21 July 2020, BUDG led - together with REGIO - the work on drafting the proposal for the **Brexit Adjustment Reserve** (BAR), adopted on 25 December 2020. The BAR will help Member States counter the immediate adverse economic and social consequences of the end of the Brexit transition period. This flexible instrument is designed to provide support quickly where needed, while ensuring the protection of the Union's financial interests.

Despite the exceptional year during which many BUDG staff were mobilised to work on crucially important initiatives to deal with the unexpected events, BUDG continued to deliver on its objectives related to the budgetary cycle in a timely fashion. **The annual budget for 2021** was adopted by a large majority in the European Parliament on 18 December 2020, following the successful but delayed adoption of the new MFF. This is the first budget of the new financial framework. It focuses on the priorities of the new Commission, in particular those related to climate change, but also on helping the recovery of the Union from the impact of the COVID 19 pandemic. For example, as soon as the Own Resources Decision is ratified by Member States, the NextGenerationEU funds will become available for use. **At the time of adopting the 2021 budget, the 2020 Budget was almost fully implemented** (€169.4 billion representing 99.9 % of commitment appropriations and €159.8 billion representing a 99.9 % implementation rate of payment appropriations). The successful adoption of a record number of 9 amending budgets facilitated the quasi-full implementation as described above. The amending budgets also helped to make available substantial additional funding for the COVID-19 response, by providing necessary liquidity to Member States and reactivating the Emergency Support Instrument, in particular for the vaccines strategy.

BUDG teams facilitated conciliation process for the adoption of 2021 annual budget of €164 billion in commitments that will enable the EU to start investing in the future to achieve a greener, more digital and more resilient Europe

In 2020, BUDG also strengthened the **focus on performance** in the annual reporting by introducing dedicated performance assessment sections in all reports. We also reinforced the link between the budget and discharge procedures, in particular by integrating the Programme Performance Overviews of the spending programmes into a streamlined Annual Management and Performance Report (AMPR) for 2019, adopted on the same day as the Draft Budget 2021.

The **integrated reporting package** supports the Commission's objective with regard to transparency and accountability. In addition to providing detailed information on the annual accounts, with core financial data on budget implementation and general accounting, the Annual Management and Performance Report it provides an assessment on value for money from an operational viewpoint. The report covers points identified for improvement by internal and external audit and discharge capacities and provides a view on sound financial management. Beyond the annual timeline, the long-term financial forecasts give an outlook on future financing needs.

In March 2020 the ECA[4] gave its positive opinion on the 2018 accounts.

In March 2020, the European Parliament, based on a recommendation by the Council, **granted a discharge to the Commission for the 2018 financial year**. Issues such as rule of law and fundamental rights, smoother implementation and distribution of EU funds, information on beneficiaries of EU funding, instruments managed by the EIB Group, and Traditional Own Resources featured high in the discharge authority's political priorities.

The 2019 ECA's annual report, published in November 2020, continued to provide a clean opinion on the EU accounts. While revenue, another area for which BUDG is directly responsible, also continues free from material error, the ECA provided an adverse opinion on legality and regularity of 2019 expenditure.

[4] Source: European Court of Auditors @European Union, 2021.
Architects of the ECA's buildings: Paul Noël (K1 building, 1988) and Jim Clemes (K2 building, 2004, & K3 building, 2013).

B. Performance Indicators (KPIs)

<table>
<tr><th>Indicator</th><th>Baseline</th><th>Target 2024</th><th>Milestones achieved in 2020</th></tr>
<tr><td>Conclusion of negotiations on the post-2020 MFF, implementation and mid-term revision

New Own Resources developed</td><td>Negotiations for post-2020 MFF in 2020

Negotiations on Own Resources</td><td>Mid-term revision

New business taxation-based and/or ‘green’ own resources enter into force</td><td>The Commission presented a revised proposal on 27 May 2020, and negotiations were concluded successfully in mid-December 2020.

The Council adopted the Own Resources Decision on 14 December 2020.</td></tr>
<tr><td>Facilitate the adoption and implementation of annual budget within the deadlines set in the Treaty respecting the political priorities and taking account of programme’s performance</td><td>Budget 2020 adopted on 27 November 2019</td><td>Adoption of annual Budget in December at the latest

100% implementation</td><td>Budget 2021 adopted on time (18/12/2020)

Almost 100% budget implementation, including all transfers and 9 amending budgets.</td></tr>
<tr><td>Develop a performance culture in the Commission, which puts a strong focus on budgetary performance in the annual reporting and integrates performance concepts in the annual and multiannual budget cycles with a view to deliver a budgetary policy based on evidence</td><td>Performance information presented in the AMPR 2018, as well as in the programme statements and Programmes’ Performance Overview accompanying the draft budget 2020</td><td>Integrated online presentation of performance information embedded in the annual draft budget and performance reporting cycle. Implementation of residual error methodology

Reinforcing performance framework for evaluation, reporting, budgeting and programming</td><td>Integrated Financial and Accountability Reporting 2019 demonstrates how every euro was managed and spent in 2018.

Improved 2019 Annual Management and Performance Report (AMPR) for the EU Budget.

Publication of Programmes’ Performance Overview as an annex to the Annual Management and Performance Report 2019, published together with the Draft Budget 2021.

Delegation package for Executive Agencies prepared and presented to the budgetary authority and the Committee for Executive Agencies in December 2020; the establishment act merges six separate acts into a single act and contains an innovative provision on synergies to combine funding from different sources.

Estimated level of error for expenditure further reduced (from 3.1% for 2016 to 2.4% for 2017 and to 2.6% for 2018 (ECA 2016 & 2017 &2018 Annual Report)

“Risk at closure" concept further enhanced and below 2% [(0.6% for 2017; Commission 2017 AMPR)]/ [(0.8% for 2018; Commission 2018 AMPR)]</td></tr>
<tr><td colspan="2">Confirmation by ECA of the reliability of the annual accounts and discharge resolution by EP with no postponement or reservations

Confirmation by ECA of the effectiveness of the Commission's Own Resources control systems</td><td colspan="2"><table>
<tr><td>Indicator and its result per discharge year</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td><td>2018 (last known result)</td></tr>
<tr><td>ECA’s clean opinion on the accounts</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Discharge granted</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>ECA’s clean opinion on own resources</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
</table></td></tr>
<tr><td>Degree of implementation of the new corporate financial platform (SUMMA)</td><td>Phase II and I successfully implemented –detecting high-level needs. GAPS and specific needs being identified during
2022: Pilot agencies rollout
2024: Commission rollout</td><td>SUMMA successful implementation for all the Commission services</td><td>The design and build of the SUMMA pilot solution for agencies progressed towards going live at the end of 2021.</td></tr>
</table>

C. Key conclusions on financial management and internal control

In accordance with the governance arrangements of the European Commission, BUDG 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.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. BUDG has assessed its internal control systems during the reporting year and has concluded that the Internal Control Framework is effective and the components and principles are present and functioning well overall, albeit with a major deficiency in principle 10 (control strategy), identified by the IAS in a non-material part of the DG's activities, and moderate deficiencies noted in principles 3, 4, 7, 12 and 13. Please refer to AAR section 2.2 for further details.

In addition, DG BUDG has systematically examined the available control results and indicators, as well as the observations and recommendations issued by the Internal Auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 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, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget. As described in the corresponding section and in the reservation details (cf. section 2.2), BUDG, in cooperation with the relevant services is following-up very closely on this matter**.**

D. Provision of information to the Commissioner(s)

In the context of the regular meetings during the year between the DG and the Commissioner(s) on management matters, the main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of Commissioner Johannes Hahn, responsible for Budget and Human Resources.

E. Specific actions on COVID-19

In 2020, Europe was strongly impacted by the Covid-19 pandemic. The Commission proposed a strong and coordinated response to the health crisis as well as to the impact on Europe's economy and society. The Covid-19 outbreak also posed challenges as regards performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the EU budget ensuring that appropriate mitigating measures were put in place.

BUDG was actively involved in the **response to the COVID-19 crisis**. It coordinated and supported the following initiatives: (i) the Coronavirus Response Investment Initiatives (CRII, CRII+); (ii) proposals to redirect all the remaining budget for the year into an Emergency Support Instrument; (iii) the provision of guidance to authorising officers to implement EU budget under unforeseen circumstances and extreme urgency due to the COVID-19 outbreak, (iv) negotiation of Advanced Purchasing Agreements with vaccine producers; (v) the SURE regulation (Support to mitigate Unemployment Risks in an Emergency following the COVID-19 outbreak) and related borrowing and lending; (vi) the design and negotiation of the temporary recovery instrument NextGenerationEU of €750 billion; (vii) the revision and negotiation of the Multiannual Financial Framework 2021-2027 of €1.074 trillion; and (viii) the assistance in drafting and negotiation of sectorial legislation, in particular the Recovery and Resilience Facility.

BUDG was at the forefront of the EU response to the crisis from the beginning. In early March 2020, BUDG provided guidance to the authorising officers to deal with the unexpected circumstances created by the COVID outbreak and, in particular, support to DG SANTE to help speed up the procurement procedures for the delivery of protective equipment and medical devices to Member States.

In April 2020, BUDG took the lead in the swift mobilisation of the Emergency Support Instrument (ESI) to help Member States mitigate the immediate consequences of the pandemic. The deployment of the ESI (€2.7 billion in 2020) aimed to respond to pressing needs expressed by Member States that would best be addressed in a strategic, coordinated manner, at European level. A significant part of this budget was used to secure the production and supply of safe and efficient Covid-19 vaccines, through a series of Advance Purchase Agreements entered into by the Commission on behalf of Member States with vaccine manufacturers. To date, the EU has secured 2.3 billion vaccine doses, based on agreements with six companies and discussions continue with several other companies. The ESI funds were also used to finance protective equipment, COVID treatments, the transport of patients, the payment of cross-border medical teams and healthcare material, increased testing capacity, support for tracing apps and the distribution of disinfection robots to hospitals. Throughout all phases of the mobilisation and deployment of the ESI, BUDG played a key role in facilitating the smooth disbursement of funds so that operations on the ground could take place as fast as possible to alleviate the burden on citizens and the healthcare systems. In this context, BUDG was also an active member of the Commission's ESI Task Force providing strategic guidance and technical support.

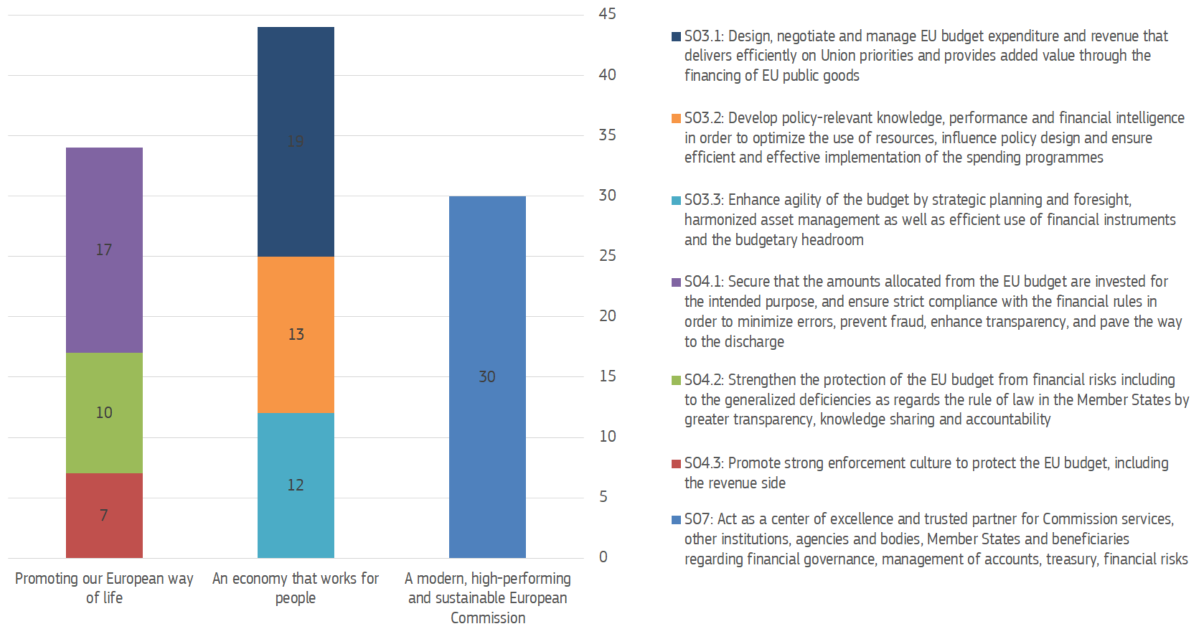
On 10 July 2020, the Commission took the decision[5] to amend its internal provisions for the recovery of amounts receivable in order to alleviate the impact of the COVID-19 pandemic on the Commission debtors. The decision temporarily extended the deadlines for payments for new debts and provided for the possibility to grant additional time for payment for those debts that were pending at the time.

As regards its own administrative expenditure, BUDG did not use any exceptional measures, and thus there is no negative impact on assurance. However, the confinement and teleworking mode created delays in the completion of some inspection plans for own resources and slowed down the progress of some of the developed projects.

[5] C(2020)4584

1. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

Section 1 of the AAR provides information on the key results and progress towards the achievement of the general and specific objectives set in the 2020-2024 strategic plans and towards the achievements of the outputs set in the 2020 Management Plan. It tells the performance story of BUDG as regards the policy dimension (*What have we delivered?*). This description of achievement or non-achievement of results is made against a description of the main challenges that affected the DG's ability to deliver. The chart below presents the types and structure of the objectives in BUDG; the results of the output indicators are in Annex 2.



Number of outputs per three general objectives and seven specific objectives to which BUDG contributed in 2020.

General Objective 3: AN ECONOMY THAT WORKS FOR PEOPLE

Design, negotiate and manage EU budget expenditure and revenue that delivers efficiently on Union priorities and provides added value through the financing of EU public goods (3.1)

In May 2020, the Commission put forward a revised proposal for the future **Multiannual Financial Framework (MFF) 2021-2027** and in parallel a proposal for establishing an EU Recovery Instrument - NextGenerationEU to sustain the Union's recovery from the COVID-19 pandemic. The inter-institutional negotiations on the comprehensive package of legislative and policy proposals led to an agreement in the European Council in July 2020, an agreement with the Council and the European Parliament in November 2020 and the final adoption of the package in mid-December 2020. With this agreement, all the conditions were fulfilled for the Multiannual Financial Framework 2021-2027 to be in place as of 1 January 2021, unlocking €1.074 trillion (2018 prices) of EU funding during the next seven years to support the Union's political objectives, such as the green and digital transition, as well as its sustainable recovery from the COVID-19 crisis.

The **focus on maximising the European added value** of the budget is at the centre of the new generation of programmes. Considerable efforts have been made to strengthen performance orientation and to improve communication on the achievements of the EU Budget. These efforts include **improving transparency and accountability** by streamlining the performance information of the EU Budget and **aligning the budget to political priorities** and spending where the highest EU added value can be achieved. In preparing the 2021 draft budget and the 2019 Annual Management and Performance Report, DGs were requested to provide an assessment of the performance of EU spending programmes, identifying positive results or areas requiring further attention, in the latter case combined with proposed remedial actions. The publication dates of the draft budget and the Annual Management and Performance Report were aligned, essentially providing a performance package to all stakeholders. The Programme Performance Overview – the short form of the Programme Statements – was for the first time attached to the Annual Management and Performance Report as an annex, further raising the publication's profile and streamlining the reporting landscape. In the context of the next MFF, the new generation of programmes will contain a **limited number of indicators** for communicating and reporting in a coherent way on the results achieved for the entire EU budget.

Ensuring that the revenue side of the EU budget fully supports EU policy priorities was the key element for the Commission's proposals on the **reform of the own resources system**. BUDG facilitated discussions, which led to the adoption of the new Own Resources Decision by the Council on 14 December 2020. The new Own Resources Decision simplifies the own resource based on value added tax (VAT) and introduces a new own resource based on the quantity of non-recycled plastic packaging waste. In particular, the latter contribution will support reaching the EU binding targets on plastic recycling and contribute to the diversification of revenue sources. The Own Resources Decision also gives the Commission a temporary, exceptional and one-off empowerment to borrow funds to finance the economic recovery. The implementing regulations – amended Regulation 1553/89 (VAT based Own Resource regulation), Implementing Regulation on the system of own resources (IMSOR) as well as the Making Available Regulation for the plastic based own resource (MAR2) - have been discussed and finalised in the Working Party on Own Resources. They will need to be agreed by the Council and sent to the European Parliament.

As part of the inter-institutional negotiations, BUDG contributed to the agreement of a binding roadmap towards the introduction of new own resources. As a first step, own resources based on a digital levy, a carbon border adjustment mechanism and the Emissions Trading System will be proposed in June 2021, with a view to their entry into force in 2023. As a second step, the Commission will furthermore endeavour to make a proposal by June 2024 on additional new own resources, which could include a Financial Transaction Tax and a financial contribution linked to the corporate sector or a new common corporate tax base, which are envisaged to enter into force by 2026. The three sectoral proposals will need to be developed in full support of EU policy priorities.

During 2020 BUDG established the **annual budget 2021** in close collaboration with other services and facilitated its timely adoption. BUDG provided continued support to other services in **implementing the 2020 budget**, via the efficient execution of payments and revenues and the correct management of ABAC, and also by validating the local systems put in place by the authorising officers to supply or justify accounting information.

BUDG ensured the correct implementation of the financial provisions of **the Withdrawal Agreement with the United Kingdom** and participated in the successful negotiations on the UK's participation in Union programmes under the Trade and Cooperation Agreement.

Develop policy-relevant knowledge, performance and financial intelligence in order to optimize the use of resources, influence policy design and ensure efficient and effective implementation of the spending programmes (3.2)

BUDG reviewed the DGs' draft AARs for 2019, paying particular attention to the estimations of the risk at payment, future financial corrections and resulting risk at closure. It worked closely with services where the methodology for determining the error rate had been put in question by the Court of Auditors and agreed on solutions to be applied as from 2020. BUDG also initiated working groups to decrease the level of risk at payment in areas where it is still above 2%.

On this basis, the Commission produced the Annual Management and Performance Report. Alongside information on **the results achieved with the EU Budget**, this report contains an assessment of the Commission's financial management of the EU budget. It presents the Commission's risk at payment and risk at closure, i.e. the remaining risk, at the end of the MFF after all corrective mechanisms have been activated. In so doing, the Commission demonstrates that it manages the risks related to the legality and regularity of expenditure in a multiannual perspective.

In order to raise awareness and share best practices about **budgetary performance and internal control**, and identify weaknesses at the earliest possible stage, BUDG set up a high-level network (**the "Better Spending Network"**) at the end of 2019. The first high-level conference to kick off the work of this network was supposed to take place in May 2020 and then in November, however in both cases it had to be postponed due to Covid-related restrictions. It is now provisionally scheduled for June 2021. In parallel, BUDG started developing **country-specific knowledge** with the setting up of a country knowledge platform that will in the future serve as a platform to share knowledge and information related to issues relevant to public spending in all EU Member States. Moreover, BUDG participated in the country teams led by JUST in the context of the Rule of Law mechanism.

BUDG identified the most effective ways to provide Member States with **adequate financing to respond to the health and economic crisis**, by proposing to relinquish the recovery of the 2019 unspent pre-financing under cohesion policy (**Corona Response Investment Initiative**), then providing unprecedented flexibility in the programming of resources and the possibility to temporarily increase the EU co-financing to 100% under the cohesion policy funds (**Corona Response Investment Initiative PLUS**) and the **REACT-EU** proposal which extends the 2014-2020 programmes by a further 2 years and provides additional funding of €50 billion for the most important sectors that will be crucial to lay the basis for a sound recovery (investment to support: job maintenance, including through short-time work schemes and support for the self-employed; job creation and youth employment measures; health care systems; the provision of working capital and investment support for small and medium-sized enterprises). This additional support will also serve to help invest in the European Green Deal and digital transition, as an enhancement to the significant investment in those areas that is already taking place through EU cohesion policy.

Despite the crisis situation, BUDG managed to provide its community of finance – through remote sessions - with advice on the application of financial rules, corporate financial trainings and workshops on the application of financial rules in order to ensure appropriate control but also efficiency in the implementation of the EU budget. Moreover, in order to be in line with its learning strategy and to wider its learning offer, BUDG started to develop a new eLearning module for grants and procurements. As domain leader for financial management, BUDG cooperated closely with its counterparts in the Commission and disseminated relevant communication material via BUDGWEB and the RUF ("Réseau des unites financières") network.

Enhance agility of the budget by strategic planning and foresight, harmonized asset management as well as efficient use of financial instruments and the budgetary headroom (3.3)

In 2020 the Commission continued to monitor **the long-term forecast of EU expenditure** and the sustainability of the ceilings of the financial framework. The forecast report on the EU budget inflows and outflows 2021-2025, prepared by BUDG and adopted by the Commission in June 2020, and its autumn technical update confirmed that all planned spending under the Commission's MFF proposal of May 2020 and later on – that stemming from the MFF agreement reached by the European Council in July 2020 – is in conformity with the foreseen MFF ceilings and there would be no risk of payment shortages.

Sound management of the EU budget let the EC maintain the confidence of markets in the EU budget. The **excellent EU issuer ratings** were confirmed by the major rating agencies. With stable outlooks, this reflects their positive views of the Commission's financial management of revenue and own resources in particular, as sound and prudent. These ratings allow the EU to obtain very favourable conditions on credit markets, which the Commission passes on to the Member States under the loan and guarantee programmes.

Given the ambitious character of the EU response in the context of the COVID-19 crisis, **the borrowing and lending capacity** has been greatly strengthened in 2020. In order to be able to manage in an effective manner the large debt issuance foreseen under NGEU, a number of specialists in different financial markets areas have been recruited to help develop the necessary operational infrastructure and manage the various funding tools.

As far as the **SURE programme** is concerned, an ambitious communication strategy has been put in place to present the SURE programme to international investors and carefully explain how it would be implemented through a well-defined bond issuance plan. Considering the nature of the financial assistance provided to Member States through the SURE programme, and in order to take into account the growing interest of investors for Ethical, Social, Governance (ESG) bonds, a Social Bond Framework has been established for the bond issuance under SURE. Between early October and year-end, three significant borrowing operations on capital markets took place that allowed the EU to raise a total amount of €39.5bn which was distributed to 15 beneficiary Member States.

Following the adoption of the decision to grant dedicated **financial assistance in response to the impact of the COVID-19 crisis to countries in the enlargement and neighbourhood regions**, several borrowing operations under the macro-financial assistance instrument took place in 2020, for a total amount of €885 million. The proceeds of these borrowings have financed disbursements in favour of 6 beneficiary countries.

In 2020, BUDG made significant advances towards the objective of establishing **a corporate risk reporting and management framework for budgetary guarantee programmes**. The development of this framework for contingent liabilities, which was dependent on the final amounts agreed in the MFF (including the unified credit risk model), was on track in 2020 and will continue in 2021. The key coordination vehicle for this work is the newly established Steering Committee at the level of Directors-General under the chair of BUDG. In light of new reporting requirements for budgetary guarantees in the Financial Regulation, a set of new reporting templates have been agreed with authorising services and the details of a reporting process defined. In parallel, a unified credit model has been defined and is in the process of being procured together with other services. BUDG also delivered on the Commission's reporting obligation with regard to financial instruments.

Following the Council-Parliament agreement on the 2021-2027 Multi-Financial Framework in December 2020, the **Common Provisioning Fund[6] (CPF)** commenced operations on 1 January 2021. As the CPF is set to become a central pillar[7] of the EU budgetary architecture, supporting a wide range of Union policies, the effective management of these Union assets becomes critical for anchoring the investment support that the Union provides through its budgetary guarantees and financial assistance programmes inside and outside the EU.

Throughout 2020, BUDG undertook extensive preparatory work to ensure that the CPF entered into operation in January 2021 with an established technical and accounting framework in place, clear delineation of responsibilities for all actors and strong governance. This work started with the adoption of the Communication of 25 March on the identity of the **CPF asset manager** and the Asset Management Guidelines, defining the objectives, structure and operations of the CPF and establishing a **prudent investment policy** in order to achieve the CPF objectives.

As required by the Financial Regulation, after consultations with Member State experts, the Commission adopted[8] the Delegated Decision establishing the methodology for the calculation of the Effective Provisioning Rate (EPR) of the CPF, which under specific circumstances could lead to **efficiency gains in the use of budgetary guarantees and financial assistance**, as pooling the individual provisions allows to optimise the level of provisioning.

Intensive work was carried out to prepare the IT and accounting framework for the CPF to facilitate the transfer/receipt of assets and the build-up of the systems needed to ensure the smooth functioning of the CPF, including the construction of a centralised capacity to honour guarantee calls within 20 business days, via a liquidity buffer in the Commission Treasury.

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[6] The Financial Regulation requires establishing a Common Provisioning Fund (CPF) – a sophisticated structure to hold and manage the safety buffers (provisions) for budgetary guarantees and financial assistance programmes underpinned by the Union budget in one common portfolio.

[7] Throughout 2021 1H the CPF assets will grow gradually when the legislative acts governing other CPF compartments will enter into force. The budgetary programmes that will contribute provisions include EFSI and the future InvestEU for intra-EU investment support, EFSD+, new MFA and Euratom loans under the External Action Guarantee and the existing EFSD, ELM, MFA and Euratom loans for investment support in neighbourhood and developing countries.

[8] Following the adoption in November 2020, the Delegated Decision was transmitted to the European Parliament and the Council for scrutiny.

Finally, a set of decisions critical from the perspective of sound financial management of the Union budget was prepared in 2020, such as the **new governance framework**, **Strategic Asset Allocation** and the **CPF benchmark**, which will guide the investments over medium term and against which the performance of the CPF can be assessed. The output of various preparatory workflows was codified in a manual of procedures that, upon approval by the Commission Accounting Officer should become a universal reference point for all involved in the management and administration of the CPF.

In December 2020 the Council adopted the EU Recovery Instrument Regulation[9] and the new Own Resources decision[10] as part of NextGenerationEU and of the 2021-2027 Multiannual Financial Framework agreement. The financing of the EU Recovery Instrument will be made possible thanks to the authorisation for the Commission **to borrow** €750 billion on the markets on behalf of the Union and **the increase of the budgetary headroom**, ensured by the higher ceilings of the new Own Resources Decision currently under ratification. With the EU budget headroom as a guarantee, the EU will be able to issue debt on more advantageous market terms compared to many individual Member States.

In 2020, BUDG continued to monitor carefully the available headroom in view of the limitations imposed by the Own Resources ceiling still in force. The Commission has been able to demonstrate its solid fiscal capacity to investors despite the withdrawal of the UK and the worsening economic conditions due to COVID-19, through a prudent budgeting approach and the agreement to increase the EU own resources ceiling.

General Objective 5: PROMOTING OUR EUROPEAN WAY OF LIFE

Secure that the amounts allocated from the EU budget are invested for the intended purpose, and ensure strict compliance with the financial rules in order to minimize errors, prevent fraud, enhance transparency, and pave the way to the discharge (5.1)

Following the entry into force in August 2018 of the **revised Financial Regulation**, and as domain leader in financial management, further steps were taken in 2020 to harmonise, standardise and simplify financial management across the Commission, focussing on: (i) putting in place more interoperable and flexible post-2020 funding programmes; (ii) drafting the first corporate model grant agreement; (iii) preparing corporate digital procurement contracts models; (iv) developing IT solutions for the management of grants and procurements underpinned by corporate systems leading to a high level of standardisation in the field of eGrants and of eProcurement; (v) ensuring consistency in relations with partners implementing EU funds under indirect management.

Preparations to align the Financial Regulation to the new Multiannual Financial Framework (MFF) started but the proposal can only be finalised in 2021, once negotiations of the basic acts implementing the MFF have ended.

In March 2020, the European Parliament **granted a discharge to the Commission for the 2018 financial year**. During the discharge procedure, the key stakeholders - the European Parliament, the

[9] Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis, OJ L 433I , 22.12.2020.

[10] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom. OJ L 424, 15.12.2020.

Council and the European Court of Auditors (ECA) – focused on how to improve the results delivered by the EU budget and how to further reduce the level of error. The debate also touched upon issues of relevance to the next Multiannual Financial Framework such as the rule of law and fundamental rights, smoother implementation of EU programmes, distribution of EU funds, information on beneficiaries of EU funds, financial instruments managed by the EIB Group, and Traditional Own Resources.

In the European Court of Auditors' 2019 Annual report, the EU accounts **received a clean opinion** for the 13th time in a row. While the revenue side of the EU Budget also continued to receive a clean opinion, the Court issued **an adverse opinion** on the legality and regularity of expenditure, instead of a qualified opinion as in the last three years. The ECA estimated that the **overall level of error for the EU budget (2.7%)** was relatively stable compared to the last two years, and significantly lower than in the years before 2017. The main driver for the ECA's adverse opinion was the increase in both the share and the level of error in the specific part of the EU Budget which the ECA considers to be high-risk expenditure. In parallel, in November 2020 the European Court of Auditors published a new report on the performance of the EU Budget, in which the ECA looked in detail at the Commission's high-level performance reports (the Annual Management and Performance Report, the Programme Statements and the Programme Performance Overviews), as well as at nine spending programmes across the budget.

Strengthen the protection of the EU budget from financial risks including to the generalized deficiencies as regards the rule of law in the Member States by greater transparency, knowledge sharing and accountability achieved by regular dialogue between all concerned stakeholders (5.2)

In order to fulfil its mission of protecting the EU budget, BUDG has taken a series of initiatives in cooperation with DGs, Member States and other bodies.

BUDG drafted and contributed decisively to the timely adoption of the Regulation on a **general regime of conditionality for the protection of the Union budget**. This new mechanism to protect the EU budget against rule of law breaches in the Member States is a key part of the overall agreement on the MFF 2021-2027. It complements the existing budgetary protection instruments and will also be preventive.

BUDG promoted the effective implementation of conflict of interest rules in the Member States, in particular by drafting a Guidance Note on the avoidance and management of **conflict of interest** (publication foreseen in the first quarter of 2021). BUDG also led a working group with shared management DGs that resulted in a proposal to enhance the **quality and interoperability of the data on beneficiaries of EU funds** that will be put forward in the trilogues for the relevant basic acts (i.e. CPR and CAP). A similar initiative was taken in the context of the trilogue on the Recovery and Resilience Facility (RRF) regulation.

In the context of MFF and NextGenerationEU, BUDG coordinated a working group with the shared management DGs, leading to proposals to **enhance the quality and interoperability of the data on EU funds' beneficiaries**. This initiative was brought to the trilogues of the CPR, CAP and RRF. As a consequence, the co-legislators agreed to enhance the categories of data to be collected and stored by Member States for audit and control purposes, including on beneficial owners of the beneficiaries/recipients. However, the compulsory use of a single data-mining tool was not accepted by the Council, although it remained in the final legal text as an aspirational objective.

In 2020, BUDG co-ordinated the follow-up of investigations into alleged conflicts of interests in order to protect the EU budget.

Another initiative — delegation package for Executive Agencies — was adopted on 12 February 2021. The package merges six establishment acts into a single act and facilitates "synergies" through combining funding from various programmes or transfers from shared management funds. In parallel, the financial rules applicable to other bodies will be aligned (contribution to the single act for Joint Undertakings where an innovative solution for a common back office was developed, framework agreements with international institutions, in particular with the signature of the Framework Financial partnership agreement with the World Bank Group, and support to other DGs negotiating with UN, OECD and others, a tripartite agreement between the Commission, the EIB and the ECA on access to documents), ensuring the application to all these bodies of a **common set of rules on governance** including **avoidance of conflicts of interest**, a **common performance framework** and **harmonised reporting requirements**.

Promote strong enforcement culture to protect the EU budget, including the revenue side (5.3.)

BUDG further promoted the effective implementation of the Commission's internal control framework, which has become even more important for the achievement of the Commission's objectives in the context of the COVID-19 crisis. In particular, an additional ad-hoc risk assessment was organised during the summer to anticipate potential effects of the crisis on the performance and compliance of the EU budget.

On the revenue side, undervaluation remained high on the agenda as well as the measures necessary to improve customs controls, the monitoring of the functioning of the Customs Union and how to deal with new challenges such as e-commerce. The key internal Traditional Own Resources (TOR) controls assessed by the ECA in the Commission and in certain Member States, were deemed only partially effective for 2019. A **reservation** with regard to the **collection of Traditional Own Resources** due to detected undervaluation of textiles and footwear imported into the UK since 2011 has been maintained for 2020 (for more detailed information see sections 2.1.1.A and 2.2.2)

BUDG will continue to effectively manage and control the Own Resources of the EU with a view to protect the EU budget and secure a positive Declaration of Assurance from the ECA, as it was the case in the previous years. The DG will continue to follow up on the ongoing infringement cases involving a loss of Traditional and VAT Own Resources, taking appropriate actions to recover the losses to the EU budget and applying late interest when appropriate. BUDG finalised its enforcement strategy to compensate losses of Traditional own Resources incurred through undervaluation across the EU. This strategy will be rolled out in 2021 to ensure fair and equal treatment of Member States and will contribute to a level playing field in the EU.

In 2020 BUDG carried out 12 out of 23 planned on-the-spot inspections. Nine inspections were postponed and included in the 2021 Action Programme, while two inspections had to be cancelled. Due to the COVID crisis in 2020 the inspection team developed experience in remote controls.

Cooperation with OLAF and TAXUD remained intense throughout 2020. **The High Level Steering Group (at Directors' level) BUDG-OLAF-TAXUD, established in 2017**, met regularly to discuss strategic policy issues for the protection of the revenue and expenditure side of the Budget including the issues connected with the COVID-19 crisis and its influence on trade and customs administrations.

On the expenditure side, BUDG liaised closely with the SG and OLAF in strengthening the monitoring of the financial recommendations issued by OLAF in order to obtain a comprehensive picture of the situation and to identify the systemic reasons for the under-implementation of recommendations.

Turning to the protection of the EU budget against unreliable economic operators, BUDG undertook a broad awareness-raising exercise with the Commission's services and EU agencies throughout 2020, focused on the proper and compulsory use of the **Early Detection and Exclusion System (EDES).** The increase in the number of unreliable economic operators which were detected early, thanks to EDES, and the increase in the number of requests to the EDES panel to register unreliable economic operators for exclusion, appear to indicate that the campaign was effective. In the context of the same exercise, BUDG also encouraged the Member States to make full use of the EDES database. Awareness was also raised about the new competence of the EDES panel in relation to the adoption of opinions on whether a financial irregularity by staff members has occurred. In 2020, the EDES panel handled 20 cases while 28 are in the pipeline to exclude unreliable operators from accessing EU budget credits.

General Objective 7: A MODERN, HIGH PERFORMING, SUSTAINABLE COMMISSION

The Commission demonstrated its accountability by providing high quality financial and other information to its stakeholders, both internal and external, in a timely fashion.

Working in close and productive cooperation with the DGs and all EU bodies during 2020, BUDG produced the 2019 **annual accounts** of the EU, the Commission and many other EU entities and obtained for the 13th consecutive time a **positive ("clean") opinion on the EU annual accounts from the ECA.** There were no significant audit findings identified during the audit on the reliability of the 2019 EU accounts. This reflects the work done by BUDG accounting services together with the DGs, including reinforcing the need for greater attention to their financial data quality. These accounts were also delivered **before the end of June** to the discharge authority, 5 weeks in advance of the legal deadline. All other entities' accounts also received clean opinions.

The central treasury ensured the **speedy and proper execution of payments** in the Commission. This is key to good budget implementation and to the achievement of the Commission's policy goals. **Treasury management,** involving the regular monitoring of payments needs and cash flows, was particularly challenging in the course of 2020 due to the Commission's rapid response to COVID-19 and the need to mobilise additional cash resources at the outbreak of the pandemic. The persistence of the negative interest rate environment and the uncertainty over the various Brexit scenarios remained challenging factors for the treasury management.

An important development during 2020 was the updating of the EU Accounting Rule (EAR) 11 covering the accounting for financial instruments. The adoption of this rule by the Accounting Officer of the Commission, after having consulted the Advisory group on accounting rules, and its coming into force on 1 January 2021, two years ahead of the mandatory application date for the underlying IPSAS 41, brings the Commission **fully up to date with the most recent international standards** and aligns with those rules followed by external financial institutions. This is critically important for reporting under the new MFF where the necessary financial information will be received from entrusted entities.

Also in the area of the accounting framework, BUDG worked closely with the IPSAS Board, liaising with other public sector accountants in the UN, African Union and the French Government, to provide important inputs to the proposed new standards on accounting for transfer expenses. BUDG will remain actively involved in the development process for these, and other new international accounting standards such as for leases, that will ultimately define how the core EU operations are accounted for.

As required under the Financial Regulation, in 2020 the Commission published, for the second time, a set of reports as part of its **'Integrated Financial and Accountability Reporting'**. The information presented in these reports provides a comprehensive overview of how the EU budget supports the Union's political priorities, while being spent in line with EU rules. This set of five reports is focused on performance, thus taking a big step forward in transparency and accountability and in achieving one of the concrete outcomes of this Commission's 'Budget Focused on Results' initiative.

During 2020, BUDG continued expanding the information contained in the regular customised 'flash reports on budget implementation' to each Director General. These reports now also contain late payment information in addition to information related to the implementation of commitments and payments compared to their forecasts. As a next step, a "**Financial Scorecard**", a set of indicators for five financial pillars (Implementation; Absorption, Timeliness, Risk, Data Quality) has been partially developed and agreed with the DGs and added to the Annual Activity Report 2020 as Annex 4.

The Commission continued throughout 2020 to **recover all amounts due** as efficiently and effectively as possible, using all the mechanisms available to avoid unnecessary losses and applying an appropriate **risk management strategy for provisional fines and bank guarantees**. The extraordinary circumstances caused by the **COVID-19 global pandemic** severely and suddenly impacted the Commission's debtors. To alleviate these effects, the Commission temporarily extended the deadlines for payments and has processed a total of 63 requests **seeking additional flexibility** for the reimbursement of the debt due to the impact of the pandemic.

Changes made in **ABAC** during 2020 were primarily introduced through two major releases and concerned new functionalities (mainly related to the new MFF, the NGEU, CPF and EPF), enhancements and bug fixes. NGEU modified profoundly the way of making funds available, and the sheer size of funding required re-building a **new forecast application** which will be built on **SUMMA** technology. This application harvests the needs for disbursements by the financial units in a very granular (by country, by fund) and timely manner (weekly) to allow BUDG.E to correctly calibrate the calls for funds on the financial markets. The tool fully replaces the former forecast application. Development started in October and the application will go live by mid-March 2021.

In 2020 the work of designing and building SUMMA, the new corporate financial platform, which will replace ABAC, progressed in line with the objective of rolling out the new system to the pilot agencies at the end of 2021.

The high security standards of BUDG's IT systems were maintained through sustained actions such as the renewal of the SWIFT annual self-attestation and security awareness campaigns for BUDG's staff. Additional critical technological updates have been performed in the context of ABAC (SAP and SAM upgrades) and SWIFT to ensure the highest security standards.

Communication efforts were intensified to further raise awareness on the Commission's internal control framework, in the Commission but also towards the European Parliament and the Council, and to promote a sound internal control culture in all services. Examples of good practices, shared within the internal control network, show that these efforts are paying off.

Following the outbreak of the COVID-19 pandemic, BUDG and the SG launched an ad-hoc risk assessment exercise in June 2020 focused on the crisis. It showed that the related risks with regard to the performance and assurance building of the EU budget were mostly not critical and are taken into account and addressed by the services concerned. This result was confirmed in the annual review of critical and potential crosscutting risks carried out at year-end, under the strengthened oversight of the central services, which is now, after three years, a well-established and appreciated exercise.

To support its role as domain leader in finance and internal control, BUDG started developing a modern knowledge management system. In 2019 and 2020, to prepare for the implementation of this project, a Knowledge Management working group mapped all existing procedures and knowledge/information management processes, and also the supporting IT tools and applications in use in BUDG. The roll out of this new knowledge management platform – BUDGPEDIA - started in November 2020 with the assignment of responsibility for this project to unit D5 and the renaming of this unit to "Knowledge Management", strengthening its former mandate. BUDGPEDIA is expected to be available for use within BUDG by summer 2021.

The overriding **internal communication** objectives in 2020 were to inform and assist staff in coping with the pandemic-related stress, to provide reassurance and to foster employees' engagement in their new remote work mode. A "Corona virus updates" page was created to provide the latest news and guidance at corporate and Directorate-General level. In parallel, a series of engagement initiatives was carried out both locally and at corporate level. BUDG's local intranet, BUDGnet, remained instrumental for ensuring the availability of timely information, while BUDG's corporate website, BUDGweb, continued to provide the financial community with guidance and regular updates. In 2020, BUDG's internal newsletter, BUDG TIMES, firmly established itself as the leading local communication channel offering news. Three virtual interactive all-staff meetings organised in 2020 offered all employees a platform to express views, share experiences and ask questions. Communication initiatives on a number of other flagship events that also proved to be effective for staff engagement were those related to EMAS, Fit@work (Fit@home), Volunteering Week, Career Days, Research and Innovation Days, Green Week and VeloMai.

In such an eventful year for the Commission and for the EU budget in particular, informing staff and the financial community on all activities around the new MFF and the Recovery Plan was a priority. This was done primarily through the Financial Units Network (RUF), which holds monthly virtual meetings, as well as bi-annual seminars, while content from the monthly Finance Community Newsletter was frequently promoted at DG and corporate level through BUDG's other internal communication channels.

Throughout 2020 **external communication** was key to support BUDG's main policy initiatives and processes. These included the proposal and negotiations on the revamped long-term budget and NextGenerationEU recovery instrument; the budgetary dimension of the EU response to the Corona virus crisis and its consequences; and the launch of the EU borrowing and lending work in relation to SURE, the instrument providing support to short-term employment schemes. External communication was also instrumental to support the annual budget cycle, and to promote the effective use of the budget – through communicating on sound management, protection of the budget, renewed focus on results, and key partnerships.

The main external communication objectives showed that the EU budget generates added value for all and is essential for a successful EU response to overarching challenges. To achieve this, BUDG's communication team used a wide range of tools, from press material and content for social media for outreach to wider audiences, through documents and visuals for direct engagement with stakeholders, to events and face-to-face meetings with key multipliers and partners.

The results speak for themselves – BUDG succeeded with all its initiatives in 2020, not least thanks to the excellent communication support that accompanied the policy work and through working as a team with colleagues across the DG and also with the Spokesperson's Service and the Cabinet of Commissioner Johannes Hahn.

2. Modern and efficient administration and internal control

The first subsection reports on the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives[11]. It includes the information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the DG.

The second subsection deals with the other aspects of a modern and efficient administration: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General. The following reports have been considered:

- the reports from BUDG's AOSDs;
- the contribution by the Director(s) in charge of Risk Management and Internal Control, including the results of internal control monitoring at DG level and the assessment of the effectiveness of its internal control framework;
- the reports on audit results;
- the limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. Such an 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 Director-General of BUDG.

This section covers the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

2.1.1 Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives[12]. The DG's assurance building and materiality

[11] 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

[12] 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.

criteria are outlined in AAR Annex 5. Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

The resources managed by BUDG are mainly the **EU's own resources** on the revenue side and on the expenditure side the **administrative appropriations of BUDG** of €31.4 m (direct management) and €240.1 m of **provisioning** of the Guarantee Fund for external actions (indirect management)**.** The responsibility for the provisioning of the Guarantee Fund was taken over from DG ECFIN when the ECFIN Directorate "Treasury and financial Organisational management of the DG operations" was transferred to BUDG in January 2020. In addition, BUDG manages the financial assets of a total value of €24 bn (as explained in the section on safeguarding of assets). The value of €5 m of the earmarked revenue for the use of financial information systems by external entities (charge-back) is insignificant for the assurance[13]. The table below is a graphical presentation of various assurance elements in BUDG:

Overall conclusion table

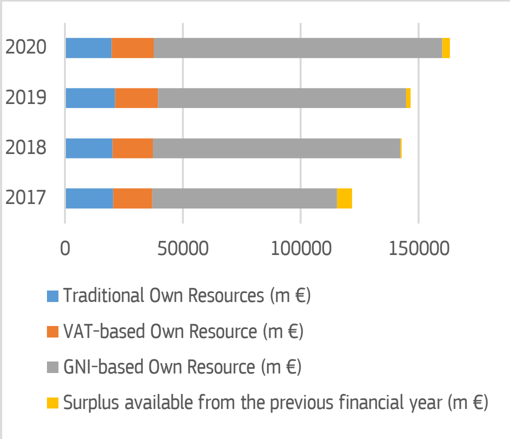
Activity	Value	Specific indicators
Revenue	€163 308 m	Residual error rate<1%
Administrative expenditure (direct management)	€31.4 m	Residual error rate<2%
Provisioning of the Guarantee Fund (indirect management)[14]	€240.1 m	Residual error rate<2%
Treasury (assets) and recoveries management (at corporate level)	Positive conclusion	
Financial assets[15]	24 bn (direct 15 bn, indirect 9 bn)	Positive conclusion
Internal control objectives	Residual Error Rate=OK, Sound financial management=OK, Antifraud Strategy=partially OK (is under review), Safeguarding of assets=OK, Reliability of reporting=OK	
Availability of information from auditors (IAS, ECA)	No overdue critical or very important recommendations=OK	
Reservations	Yes (1 reservation on Traditional Own Resources)	

[1] Annex 3 table 2 (payments made)

[13] If we compare the amount charged-back with expenditure, it stands for about 2% of BUDG's expenditure.
[14] New activity, transferred to BUDG from ECFIN in 2020.
[15] New activity, transferred to BUDG from ECFIN in 2020.

a) Revenue

Three main streams of EU revenue are known as own resources. They are: 1) Traditional Own Resources (primarily customs duties); 2) the VAT-based own resource; and 3) the GNI-based own resource. The distribution in the budget is reflected in the graphic.



In 2020, BUDG's revenue amounted to €163 308 m. The EU's own resources managed by BUDG do not fall in the scope of the average recovery and the error rate estimate due to its particular nature. Reasonable assurance on the adequate functioning of systems and controls in this area is built on other elements as explained in the Annex 5.

BUDG conservatively fixed the materiality criteria related to the management and processing of the revenues at 1%, which are stricter than the materiality level (of 2%) for expenditure (details in Annex 5).

Effectiveness: the control results and benefits

- **Legality and regularity of the transactions**

BUDG uses internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

Indicators of control performance for own resources at each stage are described in the corresponding part of Annex 6. Control results in terms of legality and regularity have allowed to obtain assurance and are described in annex 7.2, despite some delays and cancellations in inspections due to the COVID-19 crisis. The inspection plan for traditional own resources in 2020 was 52%[16] completed (with most of the remaining inspections postponed to 2021) and for the VAT-based own resources 80%[17]. Although this means that the contribution to the assurance provided by inspections was lower than in normal years, in combination with the other controls and the inspections postponed to 2021, the overall level of assurance was still considered to be sufficient. The benefits of these controls have also been identified and, where possible, they have been quantified.

The estimated detected error rate is close to 1%. Related recoveries and improvements of control procedures will continue in 2021.

The main non-quantifiable benefits resulting from controls carried out are improvements to Member States Control systems; more transparency and compliance with rules; correct and compliant distribution of the GNI share; VAT and GNI data used not becoming time barred. Further details of benefits are

[16] 9 inspections were delayed (included in the 2021 inspection plan) and 2 cancelled due to exceptional COVID-19 circumstances..

[17] 5 inspections were delayed.

provided in Annex 7.2. These controls are necessary, even if benefits cannot be quantified, since the own resources area would be at risk in case they would not be in place.

Globally, for all own resources, the most recent ECA's opinion (the annual report for financial year 2019) concluded that revenue collected is not affected by a material level of error and that control systems are effective for VAT and GNI and overall effective for TOR. Nevertheless, in view of the BUDG investigations and the OLAF report on the undervaluation of textiles and footwear imported in the UK on the inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011, this AAR is qualified by a qualitative reservation (see section 2.2.2).

- **Efficiency: Time indicators and other efficiency indicators**

The principle of efficiency concerns the best relationship between resources employed and results achieved. Results show that controls performed have ensured the timely and due collection of Own Resources throughout the year. In addition, the results of controls show the efficiency of those since they have served to mitigate the risks to which they are addressed.
In 2020, 3 Member States[18] experienced a very short delay in making available their own resources monthly contributions, the bulk of the monthly contributions for VAT and GNI having been made available on time and in full by Member States. These delays do not affect the overall result as they represent only 0.02 % of the total budget.

- **Economy: the cost of controls**

The principle of economy requires that the resources used by the institution in the pursuit of its activities will be made available in due time, in appropriate quantity and quality and at the best price.

The total cost of controls performed in all the control stages described in Annex 7 amounts to €4.5 m and represents 0.003 %[19] of Own Resources collected in 2020. See table in Annex 7.1.

Conclusion on the cost-effectiveness of controls related to revenue

Based on the most relevant key indicators and control results, BUDG has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls for which it is responsible. The control strategy is considered adequate, as with a reasonable cost of controls the main objectives have been achieved on time as described above. Due to the restrictions related to COVID-19 pandemics, some inspections had to be postponed or cancelled, but the overall combination of controls was still sufficient to draw a conclusion.

For the most part, they provide a reasonable assurance for 2020 that the Own Resources contributions made by Member States comply with the requirements of the Union's own resources legislation and control systems on own resources are effective, albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011.

[18] France, Cyprus and Malta.
[19] This percentage does not include figures of costs of controls by Member States, as these are not part of the relevant internal control system.

b) Procurement and administrative expenditure (direct management)

- **Legality and regularity of the transactions**

BUDG manages administrative expenditure of a value over €31.4 million. BUDG has not received any cross sub-delegation from other Directorates-General or Services in 2020 but has given one cross sub-delegation to DG DEVCO for the transfer of credits related to the Central Register for Internal Control Systems (CENTRICS) project.

In 2020 there were no cases described in Art. 92.3 of the Financial Regulation (receiving binding instructions in writing considered by the Authorising Officer irregular or contrary to the principle of sound financial management). In addition, since BUDG does not manage operational expenditure, there were:

- No cases of financing not linked to costs (FR Art. 125.3);
- No cases of Financial Framework Partnerships >4 years (FR Art. 130.4);
- No cases of flat rates >7% for indirect costs (FR Art. 181.6); as decided by reasoned Commission Decisions;
- No cases of "Derogations from the principle of non-retroactivity [of grants] pursuant to Art. 193 FR" (FR Art 193.2); the acceptance of costs incurred before the project grant application was submitted.

The main objective of the controls on BUDG's expenditure is to ensure that the value of the detected errors in transactions does not exceed the materiality criteria as described in Annex 5. BUDG uses a **fully centralised financial circuit** for its administrative expenditure. The risk level in the expenditure managed by BUDG is low. Annex 6 demonstrates how the control systems in place address the related risks which are mainly ex-ante controls covering 100 % of transactions.

The legality and regularity of transactions related to expenditure in 2020 was assessed against the results of the ex-ante and ex-post controls. BUDG did not use the crisis-related simplified financial circuits and the negotiated procedures, so that there is no need to analyse their potential impact on assurance.

The ex-ante controls are mandatory according to the Financial Regulation. Ex-ante controls on procurement processes aim at ensuring that the budget is adequately used according to the needs and that the tender specifications are drafted to meet these needs. These qualitative benefits are complemented by additional qualitative benefits like the prevention of future errors, absence of complaints from tenderers or calls for tenders not awarded. They also ensure that contractors deliver the services requested as planned. Among the benefits of the ex-ante controls on financial transactions there is the prevention of fraud, of lack of payment appropriations and of reputational risk in relation to inadequate administrative practices.

BUDG suspended 27 payments to ask for clarifications or enhance the quality of the reports provided. The most frequent reasons for suspensions were the submission of invoices before the completion of the deliverables agreed under the contractual terms, the lack of supporting documents or errors in supporting documents.

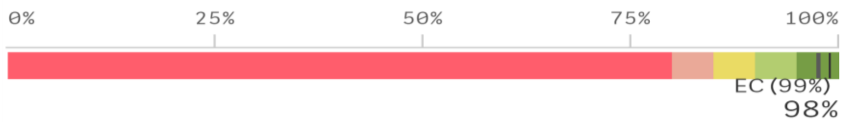
Ex-post supervisory targeted controls were carried out on a risk-based sample of transactions.

The checks detected some financial and underlying procedural errors, with a detected error rate of 0.5%. Related recovery orders will be issued and the control procedures will be improved through changes to the relevant checklists in the second quarter of 2021.

- **Efficiency: Time indicators and other efficiency indicators**

During 2020, BUDG launched 5 calls for tenders and signed 3 contracts below the threshold of €139 000. There were no cases of cancellations of calls nor delays in the procedures. Despite strong promotion of the use of the PPMT (Public Procurement Management Tool), only 90% of procedures were encoded using this tool. The goal is to have 100% of procedures validated via PPMT in the future as it helps to monitor the time of the processing of the financial files. Other efficiency indicators related to the contractual management are listed in annex 4.

The payment efficiency indicators are monitored on a monthly basis to detect and solve possible bottlenecks in the workflows. The aim of such a monitoring is to operate the financial transactions without delays and to avoid the payment of late interest. The time-to-pay indicator for the whole of BUDG's transactions, measuring the % of payment value being transferred within the regulatory time limits in 2020, was 98%. The average payment took 30 days to process. These overall indicators are very good.

Timely Payments	DG Score	EC Score
	**98%**	**99%**

However, this BUDG average covers both direct and indirect management (the value of the denominator is €271.5 m). Under indirect management, there was only one payment made, of €240.1 m, which was on time. From the remaining value of €31.4 m, related to the administrative expenditure, only 83% was paid on time.

BUDG started working on improving this indicator during the second half of 2020. To simplify and harmonise financial management within the DG and as a direct result of the COVID crisis, the financial circuits became fully paperless in 2020. The speeding up of the processing of invoices is under analysis and will be implemented in 2021.

- **Economy: Cost of controls**

The principle of economy requires that the resources used by the institution in the pursuit of its activities are made available in due time, in appropriate quantity and quality and at the best price. The total cost of controls related to BUDG's procurement and administrative expenditure amounts to €1.1 million and represents 3.1% of the payments made in 2020 (cf. Annex 7.1-Table Y). This is still considered to be a reasonable percentage, despite the fact that this cost is almost three times higher than the cost estimated in 2019. The two main reasons for the increase are the recruitment of two colleagues in the financial team to cover additional activities of BUDG in 2020 and the more precise, revised estimate of the time spent by operational agents on control tasks.

c) Guarantee Fund for external actions (indirect management)[20].

- **Legality and regularity of the transactions**

In January 2020, BUDG took over from ECFIN the Guarantee Fund for external actions. In February 2020 an amount of €240.15 m was transferred from the budget (provisioning amount) to the fund to adjust it to its target amount of 9% of the total outstanding liabilities. According to the guarantee fund's balance sheet provided by the European Investment Bank (EIB), the fund totalled €2 853.98 m on 31 December 2020.

BUDG uses **a fully centralised circuit** to execute the related commitments and payments. The risk level for the provisioning of this fund by BUDG is low. Annex 6 demonstrates how the control systems in place in BUDG address the related risks for the part of the expenditure in BUDG, which are mainly ex-ante controls covering 100% of transactions.

As regards spending the money from the fund by the entrusted entity (EIB), BUDG, after verification of the accompanying documents, is authorising each guarantee call issued by the bank. In 2020 there were 14 guarantee calls, in which BUDG did not detect any issues. The control system for the entrusted entity, relies primarily on third party assurance (controls exercised over the outflows from and inflows to the fund) and the external audit certificates issued in accordance with the contractual arrangements in place. By monitoring and supervision work including reviews of the periodic reporting throughout the year by the European Investment Bank, regular contacts/representation or desk reviews of relevant management reports or audit reports, BUDG faced no material control issue. The annual audited financial reporting package was provided by the EIB on 15 March 2021 and did not include any findings. The audited version of the Guarantee Fund Financial Statements arrived on 26 March 2021. In the auditor's opinion, the accompanying financial statements for the year ended 31 December 2020 were prepared in all material respects, in accordance with the accounting rules set out in note 2 to the financial statements.

Benefits of the controls are that the financial management and financial regulation procedures were respected: no material breach of the investment guidelines happened, no erroneous financial operations were registered, and budget payments to the Guarantee Fund for external actions conformed to the regulation. The reporting, compliance reviews, internal and external controls and audits identified no possible or confirmed fraud cases.

Ex post control of the payment and related commitment did not detect any error. However, BUDG decided to use an estimated error rate for the Commission's administrative expenditure of 0.5% as a conservative estimate.

- **Efficiency: Time indicators and other efficiency indicators**

In 2020 the fund was provisioned with one payment of €240.1 m. The payment was not late, thus 100% of payments from the Commission to the EIB, related to the guarantee fund, were on time.

[20] New activity, transferred to BUDG from ECFIN in 2020

- **Economy: Cost of controls**

With a single commitment and payment of a very high value per year, the annual ex-ante cost of controls related to the provisioning of this fund in BUDG, is low. Only 0.35 full-time equivalent (FTE) is spent per year for the checks related to forecasting, calculation of the provisioning amount, authorisation of the guarantee calls and revision of the information from the various reports received from the EIB. In addition, in 2020 BUDG paid the bank four different types of fees linked to the management of the fund: management, audit, bank and recovery fees for a total value of €1.2 m. The overall cost of control indicator for the guarantee fund amounted to 0.01%.

Exceptions and non-compliance events

In 2020 DG BUDG encoded four exception requests, one of which related to funds for which BUDG was the authorising officer and three related to the funds managed by BUDG, for which DG NEAR is the authorising officer. One non-compliance event concerning the BUDG's administrative expenditure of 2020 was recorded at the beginning of 2021.

The exception related to procurement concerned a commitment signed in 2020. The commitment request for the IT licences and its validation was not launched in due time to have it signed before the date of the automatic legal commitment renewal. (Article 111§2 of the Financial Regulation). To avoid that this might happen again, the recurrent renewal date for this subscription was included in the monitoring table, followed up monthly by the operational and financial unit.

The non-compliance event related to procurement concerned the extension of the use of a bank for the execution of payments in GBP currency for the Commission and the EEAS after the expiration date of the contract with that bank. Due to the delay of the new award procedure, Brexit-related uncertainty, technical problems and COVID-19-related delays, the existing contract with the bank was extended until end of November 2020 using the existing provisions of the contract to ensure continuity of services. The amount spent under the extended contract was very low. As a corrective measure it was decided that for future procedures, any delays to standard procurement procedures due to external events such as Brexit or the COVID-19 crisis should trigger a closer follow-up of each step in the procedure (signature of the contract, opening of the account, technical setup, etc.) to avoid that additional delays could lead finally to non-compliance with procurement rules.

In 2020, DG BUDG recorded three exception reports in relation to the EU Trust Fund in Response to the Syrian crisis. One report concerned a discrepancy between revenues and commitment appropriations corresponding to a double inscription of revenue from a European Neighbourhood Instrument Decision to the Trust Fund. Immediate action was taken to cancel the double inscription from the Trust Fund's revenue. This double inscription did not lead to any legal commitments which were not covered by funds. Lessons have been learnt and the systems have been adjusted to avoid a repetition. The other two reports concerned the modification of the late payment interest clause of the Trust Fund's Contribution Certificate. Potentially, this modification could have created legal uncertainty. However, as the Trust Fund received all payments from the concerned Member States, no risk was identified and there was no possibility of late payment interest becoming due. The Contribution Certificate template was modified by the Commission Decision C(2020)8645 to ensure legal certainty and coherence among the four existing EU Trust Funds.

Conclusion on legality and regularity

BUDG's portfolio consists of segments with a relatively low error rate, being revenue, administrative expenditure and provisioning of the guarantee fund under indirect mode.

In procurement, the value of detected financial errors amounted to 0.5%, which is lower than the 2% threshold, set in the materiality criteria (annex 5). Concerning revenue, the estimated detected error rate is about 1%. The recovery orders covering the related amounts have been or will be created in 2021.

As regards the indirect management, BUDG decided to use the error rate for the Commission's administrative expenditure of 0.5% as a conservative estimate. The same conservative rate is used for the expenditure linked to the provisioning of the guarantee fund.

This leads to the conclusion that BUDG set up the adequate controls giving a reasonable assurance as regards the legality and regularity of transactions.

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level in the AMPR. BUDG's relevant expenditure, estimated overall risk at payment, estimated future corrections and risk at closure are disclosed in Table X.

The estimated overall risk at payment for 2020 expenditure amounts to €1.4 million. This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year estimated not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. The conservatively estimated future corrections for 2020 administrative expenditure amount to €0.1 m. This is the value of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in subsequent years.

The difference between those two amounts results in the estimated overall risk at closure. For BUDG, the estimated overall amount at risk at closure of €0.1 m.

Table X - Estimated risk at closure

DG BUDG Programme, Budget Line(s), or other relevant level	"payments made" (FY; m€) as per AAR annex 3, table 2	*minus* new prefinancing [*plus* retentions made*] (in FY; m€) as per ABAC DWH BO report on prefinancing	*plus* cleared prefinancing [*minus* retentions released* and deductions of expenditure made by MS] (in FY; m€) as per ABAC DWH BO report on prefinancing	**"relevant expenditure"** (for the FY; m€) = (2) -/+ (3) +/- (4)	Average Error Rate (*weighted* **AER**; %) Detected error rates, or equivalent estimates	**estimated risk *at payment*** (FY; m€) = (5) x (6)	Average Recoveries and Corrections *H-ARC* (as per ABAC DWH BO report on corrective capacity), but ***adjusted***	estimated future corrections [and deductions] (for FY; m€) = (5) x (8)	**estimated risk *at closure*** (FY; m€) = (7) - (9)
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Administrative expenditure	31.4	0	0	31.4	0.5%	0.2	0.3%	0.1	0.1
Provisioning of the guarantee fund	240.1	0	0	240.1	0.5%	1.2	0%	0	1.2
DG total	**271.5**	**0**	**0**	**271.5**	**0.5%**	**1.4**	**0.03%**	**0.1**	**1.3**

(8) The average recoveries and corrections: 0.3% is the historical average from last 7 years, which has been applied to the 2020 administrative expenditure.

- **Fraud prevention, detection and correction**

BUDG has developed and implemented its own Anti-fraud Strategy since 2013, on the basis of the methodology provided by OLAF. It is updated every two years or whenever necessary. It was last updated in 2019. Its implementation is being monitored and reported to management twice a year. All necessary actions have been implemented.

The current BUDG anti-fraud strategy covers the inherent risks, which have been rather stable since 2015, derived from the main activities of BUDG: collection and control of Own Resources and management of administrative expenditure and the mitigating measures currently in place.

In 2020 the update of the anti-fraud strategy was slightly delayed due to the COVID-19 crisis, but it will be finalised during the first half of 2021. The review will integrate the new approach and objectives of the revised Commission Anti-Fraud Strategy and the corporate role DG BUDG has in the fight against fraud.

The update will underline BUDG's corporate role through: (i) defining the areas where BUDG is an actor in the Commission Anti-Fraud Action Plan; (ii) reinforcing the description of the actions that are necessary to go further in the fight against fraud in the area of revenue collection; and (iii) emphasising the need for reinforced cooperation with other services.

DG BUDG cooperated with OLAF to finalise the Commission's corporate Anti-Fraud Action Plan as BUDG is in the lead of a number of actions, mainly related to legal aspects, data analysis and collection of Own Resources. There were no OLAF financial recommendations to be followed in 2020 by BUDG.

Cooperation with OLAF, TAXUD and JRC continues especially for cases of undervaluation, but also to deal with risk management and other fraud related issues.

In spite of the COVID-19 pandemic circumstances, in 2020 considerable efforts were invested in order to raise awareness about fraud prevention and detection amongst BUDG staff with two information and training sessions organised open to all BUDG staff which also covered ethics in general. The Commission-wide conference on anti-fraud, organised in the end of 2020, was also largely promoted among staff by BUDG managers with 45 staff members participating.

Regarding sensitive functions, an analysis was completed in 2020 in order to identify and assess posts that need to be flagged as sensitive. This analysis will form the basis for a report to management during the first part of 2021. BUDG also carried out a survey on its fraud risks in the second half of 2020.

Based on the information available, BUDG has reasonable assurance that the anti-fraud measures in place are overall effective. The residual risks of fraud in BUDG are quite low, except for the one related to the fraud detected in the area of Own Resources and in particular the issues related to the undervaluation of imported goods. This is the reason for which this reservation has been retained in BUDG's AAR for 2020. Details are explained in the section 2.1.5

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

As described in Section 1, among BUDG's objectives are: (i) the production of the annual accounts of the EU, the Commission and many other entities; and (ii) the support to other DGs in the implementation of the annual budget via treasury services and the recoveries of funds (including the receipt of fines, contingent liabilities and the collection of Own Resources) and (iii) harmonized asset management as well as efficient use of financial instruments and the budgetary headroom. The activities (i) and (ii) are under the direct responsibility of the Commission's Accounting Officer. Given the importance of these activities for BUDG and for the financial management of the Commission services, the main controls giving assurance to the Accounting Officer are listed in Annex 7.4. In addition to the controls in the area of accountancy and treasury, other controls are described as the validation of local systems and the controls ensuring the good functioning of the ABAC system.

BUDG is the business owner of the ABAC IT system, a corporate financial and accounting IT tool, which will be replaced by SUMMA in the future. ABAC is made up of various modules and about a 100 local and corporate system interfaces, which together with regular revisions of the Financial Regulation, have rendered ABAC complex and costly. For 2020, the BUDG's conclusion on ABAC and transition to SUMMA is positive. The details are in Annex 7.4.

On 31 December 2020, BUDG managed €24 bn of assets (mainly fixed income bonds), directly (€15 bn) or indirectly (€9 bn) through the European Investment Bank (EIB). The assets are managed according to Asset Management Guidelines agreed between the mandators and BUDG, and according to further investment rules and restrictions set by BUDG internally. The Asset Management Guidelines and internal investment restrictions provide a solid internal control framework to ensure the safeguarding of assets. BUDG has put in place the appropriate governance to monitor the respect of the control framework on a continuous basis. An exhaustive set of performance and risk metrics for the assets under management is reported periodically to the relevant stakeholders. During 2020 the EIB provided BUDG with the reports on the management of the concerned assets. More details are presented in Annex 7.4.

The controls in place in these areas have been working as intended and provided sufficient assurance to the Authorising Officer and Accounting Officer on the effective functioning of the internal control systems.

- **Conclusion on the cost-effectiveness of controls**

Based on the most relevant key indicators and control results, BUDG has assessed the effectiveness, efficiency and economy of its control system and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

BUDG operates in the management mode, which is considered low risk. It analysed its effectiveness and efficiency indicators and concluded that its control strategy is adequately adjusted to the risks, guaranteeing an adequate balance between low error rates, fast payments and low costs of controls.

2.1.2 Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

The Internal Audit Service (IAS)

In 2020, the IAS carried out three multi-DG audits that included DG BUDG as an auditee: (i) audit on the management of the EFSI Guarantee Fund, (ii) audit on pillar assessment in the external actions family, and (iii) audit on the Commission's strategy for data, information and knowledge management.

The multi-DG audit on pillar assessment in the external actions family resulted in five very important recommendations for BUDG. They concerned (further) developing the corporate coordination and coherence of the pillar assessment process, the related guidance for the DGs, the central repository/automated workflow tool, the mechanism of reporting the substantial changes and the conditions for making a presumption of conformity.

The audit on the management of the EFSI Guarantee Fund issued six important recommendations for BUDG. No recommendation was addressed to BUDG following the audit on the Commission's strategy for data, information and knowledge management.

The final reports for the 2020 IAS audits were issued in January 2021. The action plans for the recommendations addressed to DG BUDG were prepared in early 2021 and will be implemented according to the agreed target dates.

The IAS issued two very important recommendations in the 2019 audit on the recovery orders and bank guarantees for fines (part 2). One recommendation, implemented by the update of internal procedures on the ELC ("Entité légale de compensation") database and on the implementation of FR Article 102(1) following the opinion received from the legal service, was closed by the IAS in February 2021, while the other very important recommendation from this audit, on the regular review of insolvencies and bankruptcies, is due to be implemented by 30 June 2021. A few related actions (issued instructions) have already been implemented. Four recommendations from the audit on the recovery orders and bank guarantees for fines, rated "important", were partially implemented at the end of 2020.

The details about the implementation of actions related to these very important recommendations are provided in Annex 7.3.

Conclusion on the state of internal control by IAS at DG BUDG

The **conclusion of the Internal Audit Service** on the state of control of BUDG took into account that:

- Management has accepted all the recommendations issued in 2018-2020;
- Management has adopted action plans to implement all the accepted recommendations. The IAS considers that these action plans are adequate to address the residual risks identified by the

auditors, except for the audits on management of the EFSI Guarantee Fund and pillar assessment in the external actions family, where management has not yet adopted an action plan;

- The implementation of these action plans is monitored through reports by management and follow-up audits by the IAS;
- Management has assessed an action plan as implemented which has not yet been followed up by the IAS.

The Internal Audit Service concluded that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations on the audit on recovery orders and bank guarantees for fines and the audit on pillar assessment in the external actions family.

The European Court of Auditors (ECA)

The European Court of Auditors (ECA) in its Annual Report 2019 concluded that the annual accounts of the European Union were reliable for the 13th consecutive year and were not affected by material misstatement. It also concluded that the revenue of the EU was free from material error.

The European Court of Auditors stated that the 2019 Annual Activity Reports of BUDG and EUROSTAT provide a fair assessment of financial management in relation to the legality and regularity of underlying transactions concerning own resources and other revenue and that the information provided corroborates the Court's observations and conclusions. The Court also noted that the annual report shows the progress in addressing recommendations made in previous annual reports. Annex 7.3 provides details on open audits and recommendations of both the Internal Audit Service and the European Court of Auditors. This also includes details on the actions already taken to address the ECA's recommendations.

2.1.3 Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

BUDG uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

Methodology

The internal control coordination team monitors and assesses the functioning of the internal control principles in BUDG. The assessment is done in line with the corporate guidance[21], taking on board the review of the indicators from various sources, and discussing their results with the responsible desk officer in BUDG. To document the process, BUDG uses the assessment tables, which is a non-mandatory tool annexed to the corporate guidance. For the 2020 internal control assessment, evidence from the following sources was analysed:

- state of the internal control monitoring criteria from the 2020 Management Plan;
- result of the assessment of the deficiencies from the previous year;
- follow-up of the BUDG's reservation;
- analysis of exceptions and non-compliance events; in 2020, there were four exceptions recorded;
- the audit recommendations of the Internal Audit Service and European Court of Auditors and the state of implementation of the action plans;
- the state of implementation of the action plans from various strategic documents;
- the results of the risk assessments, carried out in BUDG twice a year;
- the results from the bi-annual Staff Survey of DG HR, covering human resources-related aspects and the Internal Control Survey of BUDG, which was organised in November 2020 and covered all seventeen internal control principles (overall effectiveness: 82%);
- internal control deficiencies reported by staff members.

Results of the assessment

The result of the assessment is the list of deficiencies. At the end of 2020, on the list of deficiencies there was one major weakness, in principle 10: control strategy, related to the very important IAS recommendations from the audit on the recovery of fines (due on 30 June) and deficiencies covered by five very important recommendations not overdue yet, from the audit on pillar assessment in the external actions family. These very important recommendations are listed in section 2.1.2 above and detailed in Annex 7.3. A few moderate deficiencies affecting in limited ways the aspects of principles 3 (decision taking mechanism; organisation of work), 4 (attracting and retaining competent staff), 7 (risk assessment before decision taking; risk models for certain operations), 12 (procedures), 13 (data

[21] "Implementation Guide of the Internal Control Framework of the Commission"

protection: old records) have been registered[22]. The deficiency in principle 12: procedures was recorded only as an effect of the existence of the major deficiency in principle 10: control strategy.

The monitoring of the deficiencies and related actions (detailed in Annex 8) will continue to further reduce the levels of related risks.

Conclusion

BUDG has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, except for component III: control activities, where the IAS detected in two audits, covering a non-material part of the DG's activities, some major deficiencies regarding principle 10: design of controls to mitigate risks. Some minor improvements are needed in certain other areas.

BUDG management takes these deficiencies seriously and will support the teams responsible in defining and redesigning their operations. Although there are several very important recommendations open, affecting principle 10 (control activities) in a major and 12 (procedures) in a moderate way, their scope is limited to activities, which do not have a significant impact on the overall assurance. In addition, the review of BUDG's Anti-Fraud Strategy planned for 2021 and the review of the financial circuits will strengthen the fraud prevention and detection and the general control strategy and more particularly it will also include the action plan for the reinforcement of the inspection strategy. The creation of the network of the internal control correspondents inside BUDG will raise awareness and enhance monitoring in the Directorates. A report on the progress of the actions carried out in the area of the reservation is sent to the Commissioner twice a year.

2.1.4 Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

The information provided in the earlier parts of this report covers the budget delegated to the Authorising Officer by delegation (AOD) of BUDG as well as the EU's own resources. The information reported is complete and reliable, as confirmed by the statement of the Director in charge of the Risk Management and Internal Control, in annex 1.

In the area of Own Resources, the key indicators presented in section 2.1.1. A. "Own Resources" support the reasonable assurance drawn, that Member States comply with the relevant regulations for own resources. Nevertheless, given the issue on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011, the authorising officer decided to maintain a reservation covering this activity in the 2020 AAR. BUDG, in cooperation with OLAF and TAXUD is following-up on this matter very closely. It is important to note that according to Article 8 of Council Decision of 26 May 2014 on the system of own resources of the European Union, the responsibility for

[22] Principles number 3, 4 and 13 have moderate deficiencies recorded since three years, however, while last year's weaknesses in principles 3 and 13 (3: structural problems which were solved by reorganisations and 13: document management which improved) have been remedied in 2020 some other problems concerning different aspects were detected which will be addressed in 2021.

collecting and making available TOR falls on Member States; in light of this the responsibility of the Commission to mitigate the risk is limited. Other improvements are planned as regards the risk assessment for the TOR inspections and to include topics suggested by ECA in their reports.

Despite the sanitary restrictions which did not allow to fully complete the inspection plans, BUDG assesses that the 52% completion of the TOR inspection plan and 80% completion of VAT/GNI inspection plan for 2020, together with the other controls and the inspections postponed to 2021, provides a sufficient level of assurance.

The risk for administrative expenditure managed by BUDG, including procurement, is relatively low due to the relatively low budget and the centralised mode of budget implementation. The risks are effectively mitigated by means of controls put in place. The AOD's conservative estimation of the risk or error related to the administrative expenditure and the provisioning of the guarantee fund, authorised during 2020 is below 0.5% (well below the materiality threshold of 2%), which implies an estimated amount at risk of about €1.4 million. Further assurance is obtained from the risk management process put in place, reports received from the European Investment Bank for the funds managed indirectly and from the limited number of encoded exceptions.

The very important and important IAS recommendations currently open will be implemented at the earliest convenience, in line with the action plans. BUDG management takes the underlying deficiencies seriously and will support the responsible teams in restructuring their operations. Given that the scope of the very important recommendations is limited to two non-critical areas of its activity, and actions are being implemented, BUDG assessed that its internal control system is overall present and functioning thus the detected weaknesses do not have a negative impact on the overall assurance. The areas of further improvements, identified during the internal control assessment, will be addressed through an action plan endorsed by BUDG Senior Management (see Annex 8).

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and effective except for two limited areas: recovery orders and bank guarantees for fines and pillar assessments where they are partially effective; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented, also following the recommendations by the Internal Audit Service and the European Court of Auditors. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget.

2.1.5 Declaration of Assurance and reservation

Declaration of Assurance

I, the undersigned,

Director-General of BUDG

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[23]*.*

State that I 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 give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However, the following reservation should be noted: Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget.

Brussels, 31 March 2021

(e-signed)

Gert Jan KOOPMAN

[23]True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

Reservation 1

DG	BUDG
Title of the reservation, including its scope	**Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget** Losses of traditional own resources (TOR) due to the undervaluation of textile and shoes imported from China between November 2011 and October 2017 estimated at €2 679 637 088.86 (gross) for UK and additional unquantified potential TOR losses in other Member States and the UK continuing to occur after 2017.
Domain	**Direct centralized management** According to Article 8 of Council Decision of 26 May 2014 on the system of own resources of the European Union, the responsibility for collecting and making available TOR falls on Member States. On behalf of the Commission, to seek reasonable assurance that TOR are collected and made available to the EU budget in conformity with EU law. It does so by carrying out on-the-spot TOR inspections and documentary checks, targeted desk audits and by following up on findings from OLAF investigations and European Court of Auditors (ECA) audits, namely when the actions taken autonomously by Member States do not protect satisfactorily the EU financial interests.
Programme in which the reservation is made and total (annual) amount of this programme	**The revenue part of the budget is concerned** Directly, the scope is limited to the TOR. Chapter 12, article 1.2.0 Customs duties and other duties referred to in Article 2(1)(a) of Decision 2014/335/EU, Euratom. Indirectly, the VAT-basis in the destination Member States is also affected (e.g. the fraudsters often also abuse the customs procedure code 42[24]). Similarly, the correctness of the GNI-related resources is also affected (in particular since the TOR losses have to be compensated by GNI-based contributions to balance the budget). The amounts of TOR affected by the losses are the following:

Year	Traditional Own Resources €m (net)
2011	16 777.7
2012	16 453.4
2013	15 365.3
2014	16 429.5
2015	18 730.4
2016	20 094.1
2017	20 459.1
2018	20 231.6
2019	21 364.5
2020	19 866.5
Total 2011-2020	185 772.1

[24] Customs procedure 42 is a mechanism an EU importer can use in order to obtain a VAT exemption when goods imported into one Member State will be transported to another Member State. Under CP42, the VAT is due in the Member State of destination. However, goods can "disappear" on route and VAT is eventually never paid at the destination. For more information, please refer to the Study and Reports on the VAT Gap in the EU-28 Member States , 2020 Final Report and the ECA Special Report N°13 Does the control of customs procedure 42 prevent and detect VAT evasion?

Reason for the reservation	The OLAF investigation report on the undervaluation of textiles and footwear imported in the UK concluded that the UK had failed, even after repeated warnings and requests to that effect by the Commission services and OLAF, to apply the appropriate measures to prevent systematically undervalued imports of textiles and footwear from the People's Republic of China from entering the EU through the UK. As from October 2017, the UK gradually implemented the measures requested by the Commission and the estimated TOR losses for the UK are below the materiality threshold since 2018. The Commission referred the case to the Court of Justice of the European Union (CJEU) and **since the case is ongoing, the corresponding quantified reservation for the period 2011-2017 is maintained.** Over 30 additional inspections in all Member States confirmed **that undervaluation fraud concerns every Member State** and continued in 2020 across the EU for amounts that cannot be quantified yet but will be estimated in the course of 2021.
Materiality criterion/criteria	**The seriousness of the weakness**: the ineffective or inexistent controls to detect and stop the undervaluation fraud, confirmed by OLAF and by BUDG TOR inspections. **Regarding the quantified reservation:** The period concerned by the quantified reservation on the UK is of around six years, from November 2011 to October 2017. This explains the need for a qualification of the assurance in 2017, 2018, and 2019 and the immediate actions undertaken by BUDG for the protection of the EU budget. As of October 2017, the UK started implementing the measures recommended by the Commission, including checking the imports of textile and shoes declared at extremely low values at clearance, and taking guarantees for the customs duties due. This led to a dramatic reduction of TOR losses (error rate below 1% for TOR related to losses in the UK). For that reason, **the materiality for the quantified reservation regarding the UK does not persist since 2018**. Therefore, the figures since 2018 are not included in the quantified reservation. As the UK refused to make available to the EU budget the TOR amounts lost during the period 2011 – 2017, the Commission decided to refer the case to the Court of Justice of the European Union (CJEU) on 19 December 2018. Since the case is ongoing, the quantified reservation for the period 2011-2017 is maintained for 2020. **Regarding the unquantified reservation:** The Commission services consider that after the UK gradually implemented measures, the undervaluation fraud partly moved to other Member States, affecting the collection TOR, the extent of which is pending final quantification. For this reason, an unquantified reservation is maintained for 2020. Regarding the EU27 and the UK TOR losses, **the estimated total losses do not surpass 1% of own resources, but are likely to be above 1% of the TOR.**

Quantification of the impact (= actual "exposure")	According to OLAF and BUDG, between November 2011 and October 2017, the UK should have made available an estimated amount of additional TOR of €2,679,637,088.86 (gross). As from October 2017, the UK gradually implemented the measures requested by the Commission and the estimated TOR losses for the UK have been dramatically reduced. The process for the recovery of the 2011-2017 TOR losses is pending as the case has been referred to the CJEU. However, while **the undervaluation fraud mostly affected the UK, it also concerns other Member States** (and continues in the UK at a much lower level compared with 2011-2017) for amounts that are in the process of being quantified. **Inspections on undervaluation have now been carried out in all Member States** and the respective inspection reports finalised. During its inspections, the Commission checked how Member States are organised to address undervaluation, in particular concerning textiles and shoes from China. In general, BUDG considered the national control strategies for customs value to have serious shortcomings. The results of inspections are followed up according to regulations and procedures in place and, where appropriate, Member States will be held financially responsible for TOR losses incurred. Therefore, BUDG is finalising its enforcement strategy to compensate losses of TOR incurred through undervaluation across the EU. This strategy, that includes the quantification aspects, will be rolled out in 2021 to ensure fair and equal treatment of Member States and contribute to a level playing field in the EU. **The quantification process is ongoing but provisional calculations indicate that the TOR losses would be more than 1% of TOR, which justifies a reservation by the Authorising Officer by Delegation**[25]. Accordingly, BUDG reports an unquantified reservation for the TOR for the 2020 revenue.
Impact on the assurance	As a result of the fraud and the serious control and management weaknesses regarding the importation of undervalued textiles and footwear from the People's Republic of China through the UK, confirmed by the OLAF report and by BUDG inspection activities, it is estimated that €2 679 637 088.86 (gross) of TOR have not been made available to the EU budget between November 2011 and October 2017. Although the responsibility for collecting and making available TOR falls on Member States, the management of the system of own resources is a direct competence of the Commission. Even if the UK's customs controls further improved in 2018, the UK still refuses to make available the TOR lost due to its lack of effective action on the period 2011-2017 to the EU budget. Therefore, and in view of the financial impact, a reservation was considered necessary since 2017. Finally, the undervaluation of textile and shoes imported from China also affects other Member States, for amounts of TOR that cannot yet be quantified but is likely to be above 1% of TOR. However, the enforcement strategy designed to compensate for losses of TOR due to undervaluation will be rolled out in 2021.

[25] In compliance with Article 12 of Regulation No 609/2014, interest for late payment is also due and will be calculated and requested when the relevant data are known.

Responsibility for the weakness	**Regarding the quantified reservation:** OLAF and BUDG had repeatedly informed the UK about the extent of the fraud and requested the UK to take measures to tackle it, in particular through the implementation of value thresholds as risk profiles, physical checks of targeted consignments at clearance, and taking securities payments for additional duties likely to be due before releasing the goods for free circulation in the EU. The TOR losses reduced after October 2017 when UK started to implement the requested measures. In accordance with Article 8 of the Council Decision of 26 May 2014 on the system of own resources of the European Union and with Article 2(2) of Regulation No 608/2014, Member States are responsible for collecting the Union's own resources and for taking all measures that are necessary to ensure that the own resources are made available to the Commission. Consequently, the UK is considered responsible for the TOR lost and is requested to make them available to the EU budget. **Regarding the unquantified reservation:** The undervaluation fraud also concerns other Member States for amounts that are in the process of being quantified**. Inspections on undervaluation have now been carried out in all Member States and the respective inspection reports finalised**. During its inspections, the Commission checked how Member States are organised to address undervaluation, in particular concerning textiles and shoes from China. In general, BUDG considered the control strategy for customs value to have serious shortcomings. **Member States' financial responsibility for losses of TOR has been explicitly addressed during these inspections and the corresponding reports**. The results of inspections are followed-up according to regulations and procedures in place and, where appropriate, Member States will be held financially responsible for TOR losses incurred.
Responsibility for the corrective action	**Corrective actions to be taken by Member States**: Member States are responsible for collecting and making available timely and in full the TOR to the EU. They are also required to put in place effective management and risk-based control systems to that effect. **Regarding the quantified reservation:** The UK had to take the necessary action to overcome the failures identified and make available to the EU budget any TOR lost, including interest due for belated payment if applicable. To that effect, OLAF has sent the UK several recommendations. The UK was responsible for giving them an appropriate follow-up. As to UK's obligations towards the EU budget, it had to take action to reassure the Commission that all amounts due to the EU budget were made available without delay. Since the UK failed to take appropriate and timely action to make available all amounts due to the EU budget, **the Commission referred the case to the CJEU on 7 March 2019.** **Regarding the unquantified reservation:** BUDG TOR inspections found that the national control strategies for customs value have serious shortcomings in other Member States as well. Their financial responsibility for these losses has been explicitly addressed during these inspections and the corresponding reports. **Pending the final assessment and communication of the TOR losses, the reservation concerning Member States remains unquantified.** **Follow-up action by the Commission:** BUDG performed four TOR inspections in the UK in 2018 and 2019. The findings obtained confirmed that the measures taken by the UK, although limited in scope, had a positive impact on the undervaluation fraud.

	The Commission decided on 8 March 2018 to start a formal infringement procedure by sending to the UK a Letter of Formal Notice under Article 258 TFEU concerning this case. On 7 March 2019, the Commission referred the case to the CJEU. On 29 August 2019, the Commission lodged its reply to the UK's Defence of 24 June 2019 at the CJEU, maintaining its position. The Commission received the UK's rejoinder on 20 December 2019 and interventions of six Member States on behalf of the UK on 21 January 2021. The Court hearing was held on 8 December 2020. **Inspections on undervaluation have now been carried out in all Member States and the respective inspection reports finalised**. During its inspections, the Commission checked how Member States are organised to address undervaluation, in particular concerning textiles and shoes from China. **Member States' financial responsibility for losses of TOR has been explicitly addressed during these inspections and the corresponding reports**. The results of inspections are followed-up according to regulations and procedures in place and the quantification process is ongoing.

2.2 Modern and efficient administration – other aspects

2.2.1 Human resource management

In line with the objectives outlined in the Management Plan 2020, DG BUDG's main achievements in the area of human resource management were the following:

Equal opportunities

Reaching the target set by the Commission on gender balance in management has remained a priority for the DG. Whilst women currently account for 46% of DG BUDGET's middle management population, BUDG's objective is to reach parity by 2024. With regard to filling future senior management positions, in line with the College decision on measures for reinforcement of gender equality policy at management level, three women Heads of Unit were appointed as "Deputy to the Director", which represents 50% of those appointed to this position.

Gender balance in all management posts remained a priority for BUDG throughout 2020 through paying special attention to women applicants in general, extending publications as necessary, and proactively encouraging female candidates with potential to apply for middle management and senior management positions. In 2020 the percentage of first female appointments to vacant middle management positions has been 67%.

In addition, women with management potential were offered a dedicated talent management programme alongside specific coaching and mentoring. This programme aims to increase their confidence in their abilities to lead, and to encourage them to take on additional responsibilities over time to prepare them for management.

Well-being

BUDG continued to invest in the well-being of its staff in 2020 and to promote and encourage staff to participate in leisure activities offered under the Commission's fit@work programme (pilates, basketball, safe cycling, running, Vélomai etc.) and also those offered by other Institutions, albeit many of these activities were curtailed in 2020 due to COVID-related restrictions. Linked with the current health crisis and the increase in staff teleworking, BUDG has drawn attention to the Commission's fit@home programme through various messages to staff and through BUDG's primary internal communication vehicle BUDG TIMES. As an example, many DG BUDG colleagues participated enthusiastically in the December 2020 Walking Challenge launched as part of the Boost your Wellbeing programme put in place by the fit@work team together with EASME. As a result, BUDG ranked 8^{th} in the total number of steps taken.

Communication has a positive impact on health, in particular at times of 'social distancing'. In this context, DG BUDG has continuously encouraged staff to stay in touch with each other via internal social media tools and the organisation of virtual coffee meetings and through participating in surveys and polls.

Mobility & career development

With regard to its current and future workforce, focused training has been organised to ensure staff are ready and able to rise to the challenges of BUDG's vision to act as a Ministry of Finance. In addition to targeted training actions, BUDG continued to invest in transforming the way we work, moving towards automated processing and focusing on value-added tasks. Succession planning and targeted recruitments, both in-house and through specialist competitions ensure that the new profiles needed are acquired.

In addition, BUDG adheres to the principle that there should be a Deputy Head of Unit in every unit and has been adapting unit structures accordingly when opportune. It has long been recognised that this is an important early pre-management posting, which provides both experience and exposure to middle management functions. There is currently just one unit whose structure has yet to be adapted.

In 2020 BUDG also initiated for the first time an all-inclusive talent management programme open to all colleagues irrespective of grade and gender interested and motivated in developing further their skills and competences and who wished to enhance their career development.

Finally, BUDG invested in improving the attractiveness of the DG through rewording its vacancy notices emphasizing possible career paths and learning and development opportunities. With regard to the latter, in August 2020 DG BUDG and the European Committee of the Regions agreed to put in place an inter-institutional job shadowing pilot initiative; the launching of the latter was postponed due to the COVID crisis.

HR Strategy

BUDG has started developing its local HR strategy which should be finalised in 2021 after the adoption of the Commission's corporate HR strategy.

2.2.2 Digital transformation and information management

BUDG's Action Plan identified knowledge sharing, efficient data management, dissemination and exchange of information as one of the five pillars aiming at offering a supportive, encouraging and challenging working environment at BUDG. The Knowledge Management working group performed a mapping of existing procedures, existing knowledge/information management processes and of the supporting IT tools and applications in use in BUDG at all levels. Following the reorganisation of the DG in November 2020, increased focus has been placed on the implementation of a new BUDG Knowledge Management System in support of BUDG´s role as Domain Leader for the core functions of financial management and the internal control. This new knowledge management system will be an integrated portal solution based on a structure reflecting all BUDG processes. It will be a new centre of excellence on financial and budgetary matters supporting the sharing of knowledge, information and data in the DG and towards the financial community. In December 2020, the newly appointed project team launched the first steps to set up its governance system composed of a Steering Board and a network of "gardeners".

In the area of data protection, BUDG has been working to ensure that the relevant processing operations involving personal data are documented and updated in the corresponding records. BUDG continued to be in the lead as regards the corporate records in relation to new clauses in framework contract and specific contract models. In the second half of 2020 BUDG organised two data protection training sessions open to all staff, which also allowed for an exchange of best practices. In parallel, the DPC team organised several awareness-raising campaigns among management and staff, including an update regarding the new implementing rules and a revamping of the My BUDGnet Data Protection page. The DPC will continue working in close cooperation with the DPO towards ensuring the compliance of the processing operations with the Schrems II decision.

2.2.3 Sound environmental management

BUDG takes full account of its environmental impact in all its actions and actively promotes measures to reduce the related day-to-day impact of the administration and its work.

The Corona virus crisis led and will lead to permanent changes in the way the Commission and BUDG operates, reducing its environmental footprint further. The electricity consumption in the building was reduced with the new teleworking arrangements.

In addition, thanks to increased tele-conferencing, a decrease in missions across the Institution, the re-thinking of the Commission's office space and its modernisation, together with the roll-out of new state-of-the-art IT equipment, there has been a very positive effect on the Commission's environmental footprint.

In 2020 the EMAS team started a new cycle of communication activities around the 4 pillars of BUDG's EMAS action plan. This contributed to the "greening" of our daily operations and working methods and towards achieving the outputs set out in the Strategic Plan. The activities focussed to a large extent on communication actions structured around: (i) Plastics; (ii) Energy; (iii) Commuting/Transport; and (iv) Paper.

The communication actions planned under each of these pillars raised the collective awareness of BUDG staff about what needs to be done in order for BUDG to become an even greener DG and were designed to motivate BUDG staff to modify their habits even further. By repeating a number of key messages in combination with initiating new activities taking into account current developments, a lasting change to "greener" behaviour has been achieved by BUDG staff. A best practice example would be the installation of waste sorting stations at the end of 2020 which was carried out in close collaboration with the OIB. They are a success and DG BUDG staff will continue to reduce its waste extensively.

At BUDG level, the organisation of a virtual lunchtime workshop and a virtual art exhibition, proved to be vehicles to boost messages (and which are also important for staff morale and well-being) had a knock-on effect on BUDG's EMAS ambitions.

Art has also proven, yet again, to be an excellent way to get messages across and to raise awareness about topics that colleagues might otherwise fail to pay attention to when communicated through other mediums. In parallel to the aforementioned actions, BUDG's Art@work team kept on supporting the push towards encouraging more eco-friendly behaviour through the organisation of several exhibitions which are now planned in 2021. e.g. an exhibition already foreseen in 2020 which had to be postponed and others related to Sustainable Development Goal (SDG) 13 of the UN Agenda 2030, i.e. take urgent action to combat climate change and its impacts.

The installation of additional bicycle and motorcycle parking facilities and the mutualisation of car parking places planned for 2020 in an effort to encourage more colleagues to change over to soft mobility had to be postponed.

All of the above have and will be accompanied by the regular updating of BUDG's EMAS webpage and the inclusion of eco-tips in BUDG's weekly newsletter "BUDG Times".