ANNEXES

ANNEX 1: Statement of the Resources Director

I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission[1], I have reported my advice and recommendations to the Director-General on the overall state of internal control in the DG.

I hereby certify that the information provided in Parts 2 and 3 of the present AAR and in its annexes is, to the best of my knowledge, accurate and exhaustive.

Brussels, 20th March 2015

"Signed"

José Leandro

[1] Communication to the Commission: Clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission; SEC(2003)59 of 21.01.2003.

ANNEX 2: Human and Financial resources

Human Resources by ABB activity				
Code ABB Activity	**ABB Activity**	**Establishment Plan posts**	**External Personnel**	**Total**
01 02	Economic and monetary union	397	56	**453**
01 03	International economic and financial affairs	52	12	**64**
01 04	Financial operations and instruments	75	6	**81**
01 AWBL-01	Administrative support for the Directorate-General for Economic and Financial affairs	78	7	**85**
01 AWBL-02	Policy strategy and coordination for the Directorate-General for Economic and Financial affairs	89	23	**112**
01 AWBL-02	*Policy strategy and coordination for 'Economic and Financial Affairs' Directorate-General - TFGR*	*8*	*21*	***29***[2]
01 AWBL-02	*Policy strategy and coordination for 'Economic and Financial Affairs' Directorate-General- SGCY*	6	4	**10**[3]
	Total	**705**	**130**	834[4]

[2] Staff placed at disposal to the TFGR and the SGCY from other DGs is not included
[3] Staff placed at disposal to the TFGR and the SGCY from other DGs is not included
[4] Staff placed at disposal to the TFGR and the SGCY from other DGs is not included

Commission Staff Arrangements[5] for Greece					
	At Headquarters		In Athens		Total
TFGR					
	AD equivalent	AST equivalent	AD equivalent	AST equivalent	AD & AST equivalent
Posts:					
Posts (seconded from other DGs)	13	6	12	3	34
Temporary agents (recruited by TFGR)	3	-	3	2	8
External personnel:					
Special Advisers (paid by the Commission)	3	-	-	-	3
Special Advisers (unpaid by the Commission)					
Contract Agents	1	4	2	4	11
Agency Staff *(intérimaires)*					
Seconded National Experts	5	-	6	-	11
Technical Assistance (service providers)					
Total Staff TFGR	**25**	**10**	**23**	**9**	**67**

Commission Staff Arrangements[6] for Cyprus					
	At Headquarters		In Nicosia		Total
SGCY					
	AD equivalent	AST/FGIII	AD equivalent	AST/FG III	AD & AST equivalent
Posts:					
Officials (incl. Adviser) at disposal of SG from Com	3	1			4
Temporary Agents (recruited by SGCY)	1		3		4
External personnel:					
Contract Agents	1 (FG IV)	1			2
Agency Staff *(intérimaires)*					
Seconded National Experts	2				2
Technical Assistance (service providers)					
Special Advisers (paid by the Commission)					
Total Staff SGCY	7	2	3		12

[5] Arrangements do not show whether post were filled or not by 31 December 2014.

[6] Arrangements do not show whether post were filled or not by 31 December 2014.

Decentralised administrative authorised operations of the 2013 and 2014 Global envelopes as at 31 December 2014 budget lines: XX 01 02 11 00 01 to XX 01 02 11 00 06)

		MONTANTS DEGAGES	LIGNE MERE	MISSIONS	REPRESENTATION	REUNIONS	CONFERENCES	COMITES	ETUDES	INFORMATIQUE	FORMATION	Total		Perte en crédits	% perte	% exécution	% d'annulation
C1	CREDIT		29.936,00	3.731.000,00	50.000,00	80.000,00	194.000,00	2.355.000,00	499.676,00	623.816,00	474.162,00	8.037.590,00					
C1	EXECUTION			3.726.543,43	50.000,00	80.000,00	194.000,00	2.355.000,00	499.676,00	623.200,28	474.162,00	8.002.581,71	C1	**35.008,29**	**0,44%**	**99,56%**	
C8	ENGAGEMENT	4.000,01		815.983,42	10.295,69	19.327,97	93.629,55	1.051.843,24	474.543,50	360.075,47	367.232,02	3.196.930,87					
C8	PAIEMENT			492.370,75	192,00	19.284,99	37.673,29	716.661,31	442.533,00	360.075,47	327.325,90	2.396.116,71	C8	**800.814,16**	**25,05%**	**74,95%**	
	PERTE C8/Poste			323.612,67	10.103,69	42,98	55.956,26	335.181,93	32.010,50	0,00	39.906,12			**835.822,45**			**10,40%**

		FMC	Crédits	Engagement	Paiement	% EXECUTION
01	01.010211.00	ECFIN	3.000			
01	01.010211.00.01.10	ECFIN:PMO	3.342.867	3.342.867	2.711.943	
01	01.010211.00.01.30	ECFIN	70.000	70.000	53.385	
01	01.010211.00.02.20	ECFIN:PMO	187.472	187.472	174.761	
01	01.010211.00.02.40	ECFIN	150.000	150.000	125.925	
01	01.010211.00.03	ECFIN:PMO	2.255.000	2.255.000	1.364.134	
01	01.010211.00.04	ECFIN	732.650	732.650	129.048	
01	01.010211.00.05	ECFIN	327.772	325.879	39.054	
01	01.010211.00.06	ECFIN	329.066	329.066	88.568	
01 Total			7.397.827	7.392.934	4.686.819	**99,93%**

ANNEX 3: Draft annual accounts and financial reports

Annex 3 Financial Reports - DG ECFIN - Financial Year 2014

Table 1 : Commitments

Table 2 : Payments

Table 3 : Commitments to be settled

Table 4 : Balance Sheet

Table 5 : Statement of Financial Performance

Table 5 bis : Off Balance Sheet Disclosures

Table 6 : Average Payment Times

Table 7 : Income

Table 8 : Recovery of undue Payments

Table 9 : Ageing Balance of Recovery Orders

Table 10 : Waivers of Recovery Orders

Table 11 : Negotiated Procedures (excluding Building Contracts)

Table 12 : Summary of Procedures (excluding Building Contracts)

Table 13 : Building Contracts

Table 14 : Contracts declared Secret

Additional comments

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2014 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
Title 01 Economic and financial affairs					
01	01 01	Administrative expenditure of the `Economic and financial affairs- policy area	8,09505652	7,99796462	98,80 %
	01 02	Economic and monetary union	14,32078943	11,03095871	77,03 %
	01 03	International economic and financial affairs	206,732294	96,614168	46,73 %
	01 04	Financial operations and instruments	42,517446	42,51744555	100,00 %
Total Title 01			271,665586	158,1605369	58,22%
Title 22 Enlargement					
22	22 02	Enlargement process and strategy	0,05637747	0,05637745	100,00 %
Total Title 22			0,05637747	0,05637745	100,00%
Total DG ECFIN			271,7219634	158,2169143	58,23 %

** Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).*

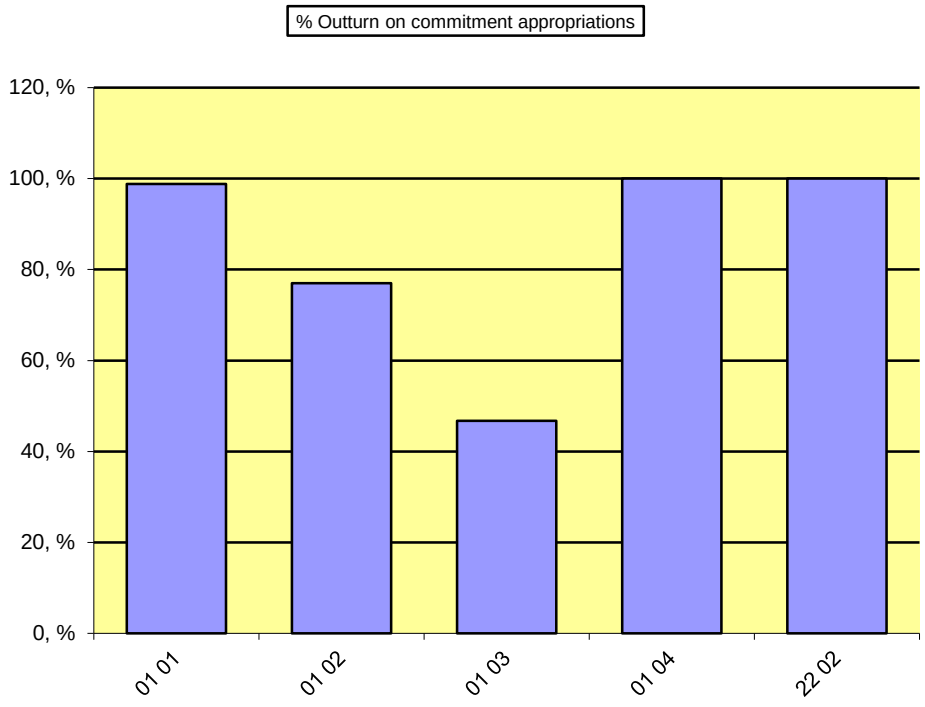

TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2014 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
Title 01 Economic and financial affairs					
01	01 01	Administrative expenditure of the `Economic and financial affairs- policy area	11,55411886	7,5107912	65,01 %
	01 02	Economic and monetary union	14,28351542	11,20653265	78,46 %
	01 03	International economic and financial affairs	168,625305	58,61210015	34,76 %
	01 04	Financial operations and instruments	150,117823	150,1148226	100,00 %
Total Title 01			344,5807623	227,4442466	66,01%
Title 22 Enlargement					
22	22 02	Enlargement process and strategy	6,93125736	6,93125734	100,00 %
Total Title 22			6,93125736	6,93125734	100,00%
	Total DG ECFIN		351,5120196	234,3755039	66,68 %

** Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).*

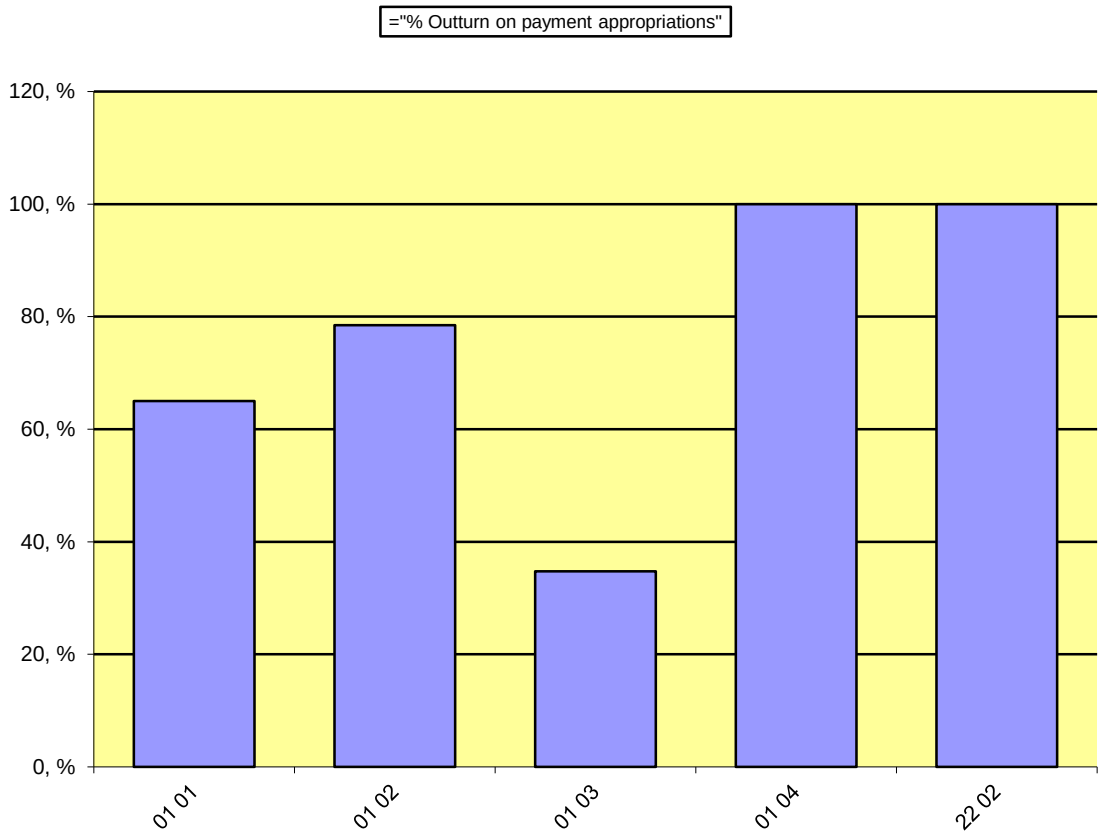

TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2014 (in Mio €)									
Chapter			2014 Commitments to be settled				Commitments to be settled from financial years previous to 2014	Total of commitments to be settled at end of financial year 2014(incl corrections)	Total of commitments to be settled at end of financial year 2013(incl. corrections)
			Commitments 2014	Payments 2014	RAL 2014	% to be settled			
			1	2	3=1-2	4=1-2/1	5	6=3+5	7
Title 01 : Economic and financial affairs									
01	01 01	Administrative expenditure of the `Economic and financial affairs- policy area	7,99796462	4,92	3,07315453	38,42 %	0,00	3,07	3,46
	01 02	Economic and monetary union	11,03095871	4,18	6,85037723	62,10 %	3,03	9,88	11,51
	01 03	International economic and financial affairs	96,614168	58,57	38,04310085	39,38 %	10,00	48,04	10,17
	01 04	Financial operations and instruments	42,51744555	42,52	0	0,00 %	601,65	601,65	709,25
Total Title 01			158,1605369	110,19	47,96663261	30,33%	614,680696	662,6473286	734,3857043
Title 22 : Enlargement									
22	22 02	Enlargement process and strategy	0,05637745	0,06	0	0,00 %	24,30	24,30	31,18
Total Title 22			0,05637745	0,06	0	0,00%	24,30347555	24,30347555	31,17835544
	Total DG ECFIN		158,2169143	110,25	47,96663261	30,32 %	638,9841716	686,9508042	765,5640598

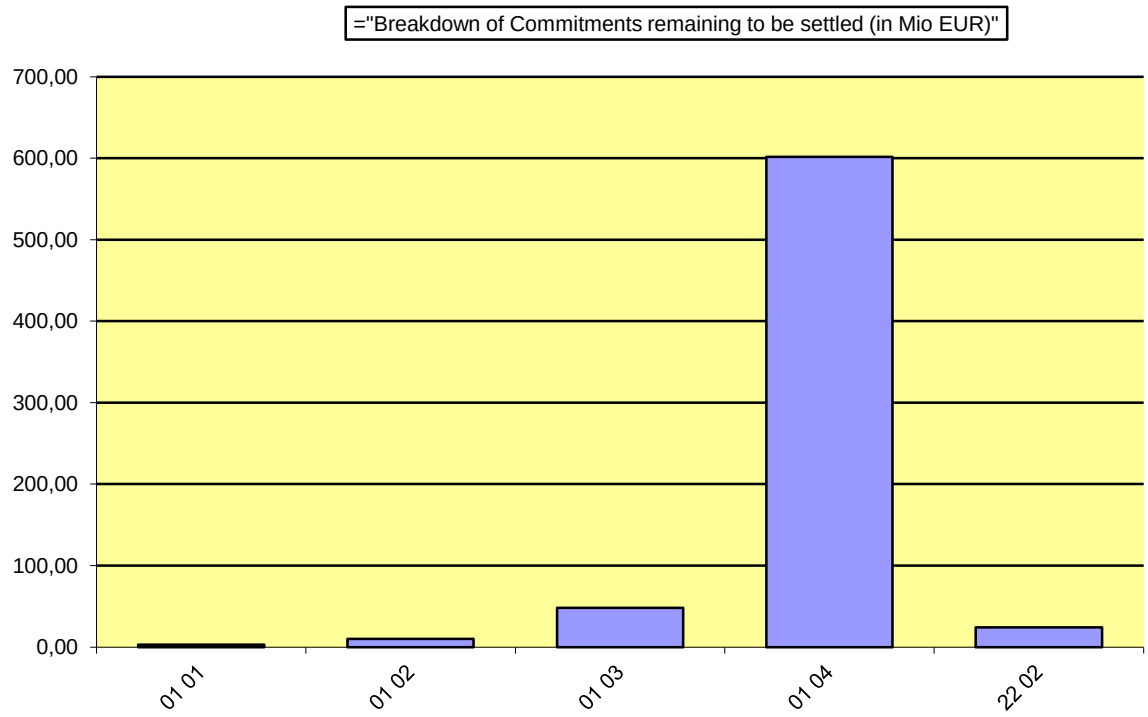
="Breakdown of Commitments remaining to be settled (in Mio EUR)"
700,00
600,00
500,00
400,00
300,00
200,00
100,00
0,00
01 01
01 02
01 03
01 04
22 02

TABLE 4 : BALANCE SHEET

BALANCE SHEET	2014	2013
A.I. NON CURRENT ASSETS	54945155708	58734271935
A.I.1. Intangible Assets	625 523,08	861 962,68
A.I.2. Property, plant and equipment	0,00	
A.I.3. Investments Accounted For Using Equity Meth	387 162 142,95	349 342 697,40
A.I.4. Non-Current Financial Assets	54 553 833 506,27	58 379 550 724,62
A.I.5. LT Receivables	3 534 535,93	4 516 550,07
A.II. CURRENT ASSETS	12456761613	6455417976
A.II.2. Current Pre-Financing	7 277 834,61	7 134 196,62
A.II.3. Current Financial Assets	11 253 800 782,15	4 913 060 519,96
A.II.4. Exchange Receivables	108 925 508,10	86 939 704,14
A.II.5. Non-Exchange Receivables	234 545,97	7 854,85
A.II.7. Cash and Cash Equivalents	1 086 522 942,02	1 448 275 700,43
ASSETS	**67401917321**	**65189689911**
P.I. NET ASSETS/LIABILITIES	-3776044670	-3781369893
P.I.1. Reserves	-3 776 044 669,74	-3 781 369 892,90
P.II. NON CURRENT LIABILITIES	-53088712186	-56137427268
P.II.2. Long-term provisions	-108 192 214,13	-108 192 214,13
P.II.3. Long-term financial liabilities	-52 980 519	-56 029 235

	971,61	054,14
P.III. CURRENT LIABILITIES	-9222650213	-4171733777
P.III.2. Short-term provisions	-166 438 732,73	-166 438 732,73
P.III.3. Short-term financial liabilities	-8 786 705 177,33	-3 064 613 805,63
P.III.4. Accounts Payable	-235 700 042,02	-937 904 155,40
P.III.5. Accrued charges and deferred income	-33 806 261,09	-2 777 083,46
LIABILITIES	**-66087407069**	**-64090530938**
NET ASSETS (ASSETS less LIABILITIES)	**1314510252**	**1 099 158 972,38**

P.I.2. Accumulated Surplus / Deficit	358820222,1	43906472,76

Non-allocated central (surplus)/deficit*	-1673330475	-1143065445

TOTAL	**0,00**	**0,00**

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 : STATEMENT OF FINANCIAL PERFORMANCE

STATEMENT OF FINANCIAL PERFORMANCE	2014	2013
II.1 REVENUES	-1809394677	-1843524654
II.1.1. NON-EXCHANGE REVENUES	-1,99	-5041809,2
II.1.1.5. RECOVERY OF EXPENSES	-1,99	-79 395,20
II.1.1.6. OTHER NON-EXCHANGE REVENUES	0,00	-4 962 414,00
II.1.2. EXCHANGE REVENUES	-1809394675	-1838482845
II.1.2.1. FINANCIAL INCOME	-1 803 139 749,11	-1 792 774 515,37
II.1.2.2. OTHER EXCHANGE REVENUE	-6 254 926,12	-45 708 329,29
II.2. EXPENSES	1809532441	1909676243
II.2. EXPENSES	1809532441	1909676243
11.2.10.OTHER EXPENSES	4 492 471,51	108 029 178,27
II.2.2. EXP IMPLEM BY COMMISS&EX.AGENC. (DM)	9 148 216,28	10 028 097,33
II.2.4. EXP IMPL BY 3RD CNTR & INT ORG (IM)	150 000,00	243 575,76
II.2.6. STAFF AND PENSION COSTS	1 312,00	-309 089,41
II.2.8. FINANCE COSTS	1 795 740 441,41	1 800 484 843,19
II.2.9. SHARE NET DEFICIT JOINT VENT & ASSOC		-8 800 362,30
STATEMENT OF FINANCIAL PERFORMANCE	**137 763,98**	**66 151 588,98**

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 bis : OFF BALANCE SHEET DISCLOSURES

OFF BALANCE	2014	2013
OB.1. Contingent Assets	349218411,3	387441056,3
GR for Financial Instruments	349 218 411,26	387 441 056,28
GR for performance	0,00	
OB.2. Contingent Liabilities	-21156471945	-23050806581
OB.2.1. CL Guarantees given	-21 156 471 945,07	-21 156 471 945,07
OB.2.3. CL Fines	0,00	-1 894 334 635,63
OB.3. Other Significant Disclosures	-3174946227	-7324946227
OB.3.1. Undrawn commitments	-820 232 760,19	-4 970 232 760,19
OB.3.2. Comm against app. not yet consumed	-922 083 467,00	-922 083 467,00
OB.3.4. Contributions to rel. organisations	-1 432 630 000,00	-1 432 630 000,00
OB.4. Balancing Accounts	23982199761	29988311752
OB.4. Balancing Accounts	23 982 199 761,00	29 988 311 751,61
OFF BALANCE	**0,00**	**0,00**

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 6: AVERAGE PAYMENT TIMES FOR 2014 - DG ECFIN

Legal Times

Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
15	1	1	100,00 %	8			
30	570	557	97,72 %	12,57989228	13	2,28 %	42
45	15	15	100,00 %	18,53333333			
50	1	1	100,00 %	23			
60	9	9	100,00 %	23,77777778			
90	59	59	100,00 %	44,61016949			

Total Number of Payments	**655**	**642**	**98,02 %**		**13**	**1,98 %**	
Average Payment Time	**16,3480916**			**15,82866044**			**42**

Target Times

Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target Time	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
15	1	1	100,00 %	8			
20	53	52	98,11 %	11,67307692	1	1,89 %	80

30	179	171	95,53 %	14,41520468	8	4,47 %	35,5
50	1	1	100,00 %	23			
75	54	45	83,33 %	38,64444444	9	16,67 %	80,66666667

Total Number of Payments	**288**	**270**	**93,75 %**		**18**	**6,25 %**	
Average Payment Time	**20,59722222**			**17,93333333**			**60,55555556**

Suspensions							
Average Report Approval Suspension Days	**Average Payment Suspension Days**	**Number of Suspended Payments**	**% of Total Number**	**Total Number of Payments**	**Amount of Suspended Payments**	**% of Total Amount**	**Total Paid Amount**
0	27	54	8,24 %	655	2 397 766,75	0,99 %	242 125 821,95

Late Interest paid in 2014			
DG	**GL Account**	**Description**	**Amount (Eur)**

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2014								
Chapter		Revenue and income recognized			Revenue and income cashed from			Outstanding balance
		Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total	
		1	2	3=1+2	4	5	6=4+5	7=3-6
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	15159224,81	0	15159224,81	15159224,81	0	15159224,81	0
55	REVENUE FROM THE PROCEEDS OF SERVICES SUPPLIED AND WORK CARRIED OUT	3270929,37	0	3270929,37	3270929,37	0	3270929,37	0
57	OTHER CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH THE ADMINISTRATIVE OPERATION OF THE INSTITUTION	50938	321558	372496	50938	0	50938	321558
66	OTHER CONTRIBUTIONS AND REFUNDS	-7588,63	59739,27	52150,64	-18966,49	52913,76	33947,27	18203,37
85	REVENUE FROM CONTRIBUTIONS BY GUARANTEE BODIES	4698000	0	4698000	4698000	0	4698000	0
90	MISCELLANEOUS REVENUE	171639,61	0	171639,61	171639,61	0	171639,61	0
Total DG ECFIN		**23343143,16**	**381297,27**	**23724440,43**	**23331765,3**	**52913,76**	**23384679,06**	**339761,37**

TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2014			TOTAL Qualified		TOTAL RC(incl. non-qualified)		% Qualified/Total RC	
Year of Origin (commitment)	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
Sub-Total					**8**	**3 533 498,63**		

EXPENSES BUDGET	Error		Irregularity		OLAF Notified		TOTAL Qualified		TOTAL RC(incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
INCOME LINES IN INVOICES												
NON ELIGIBLE IN COST CLAIMS	5	5030,97	6	3336,79			**11**	**8367,76**	11	8 367,76	100,00%	100,00%
CREDIT NOTES	15	311080,96	4	6170,15			**19**	**317251,11**	21	323 192,67	90,48%	98,16%
Sub-Total	**20**	**316111,93**	**10**	**9506,94**			**30**	**325618,87**	**32**	**331560,43**	**93,75%**	**98,21%**
GRAND TOTAL	**20**	**316111,93**	**10**	**9506,94**			**30**	**325618,87**	**40**	**3865059,06**	**75,00%**	**8,42%**

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2014 FOR ECFIN						
	Number at 01/01/2014	**Number at 31/12/2014**	**Evolution**	**Open Amount (Eur) at 01/01/2014**	**Open Amount (Eur) at 31/12/2014**	**Evolution**
2000	1		-100,00 %	3 338,00		-100,00 %
2012	4	2	-50,00 %	339 759,38	328 383,51	-3,35 %
2013	4		-100,00 %	2 077 097,22		-100,00 %
2014		2			3 642 121,86	
	9	4	-55,56 %	2 420 194,60	3 970 505,37	64,06 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2014 >= EUR 100.000						
	Waiver Central Key	**Linked RO Central Key**	**RO Accepted Amount (Eur)**	**LE Account Group**	**Commission Decision**	**Comments**

Total DG	

Number of RO waivers	

.

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG ECFIN - 2014

Procurement > EUR 60,000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 134.1(b)	4	1 325 538,90
Total	**4,**	**1 325 538,90**

TABLE 12 : SUMMARY OF PROCEDURES OF DG ECFIN EXCLUDING BUILDING CONTRACTS

Internal Procedures > € 60,000		
Procedure Type	**Count**	**Amount (€)**
Exceptional Negotiated Procedure without publication of a contract notice (Art. 134 RAP)	4	1 325 538,90
Open Procedure (Art. 127.2 RAP)	3	2 098 613,10
TOTAL	**7**	**3 424 152,00**

Additional comments

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)

No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)

No data to be reported

ANNEX 4: Materiality criteria

This annex provides detailed explanation on how the AOD defined the materiality thresholds as a basis for determining significant weaknesses that should be subject to a formal reservation to his/her declaration and complements information showing under Chapter 2 of the AAR.

Materiality criteria have been defined for each significant budget area of DG ECFIN.

We apply the qualitative and quantitative materiality criteria set out in the standing instructions for the AAR 2014 in order to assess whether any error or weakness would be material.

1. Qualitative criteria

Significant repetitive errors

Systematic errors caused by weaknesses in key controls and intentional misstatements are likely to entail a greater exposure to potential financial loss than random errors and faulty judgements.

Significant deficiencies in one of the control systems

Identified weaknesses in the design or operation of internal controls at our level and at the level of implementing partners could significantly influence the appreciation of the Director-General's Declaration.

This could be the case notably,

- if significant conflicts of interest existed;
- if personnel were unqualified;
- if the systems failed to provide complete and accurate information due to design flaws or misapplication of procedures;
- if appropriate verifications, approvals, reviews and audits of transactions and procedures were absent or largely insufficient or inadequate;
- if duties were not separated; or
- if controls were intentionally overridden and/or wilfully circumvented.

Issues outlined by the European Court of Auditors (ECA) or the Internal Audit Service (IAS) or OLAF

A critical observation made by the ECA, the IAS or OLAF could lead to a reservation,

- if the observation is made in an area covered by the Director-General's Declaration, and
- if the issue is not solved immediately during the reporting period, and
- if the impact is deemed material.

Significant reputational events/issues

Besides a possible quantitative aspect of the issue, the impact of a reputational event on the declaration of assurance is assessed mainly on the basis of qualitative criteria, such as sensitivity of the policy area concerned, high public interest or serious legislative concerns.

2. Quantitative criteria

As regards the quantitative materiality threshold, the general rule is to apply 2% as a threshold per control system with details in that respect provided under Part 2 of the Annual Activity Report. Where applicable, the multi-annual nature of the programmes concerned by the error is taken into account by considering the cumulative budgetary impact. Furthermore, the threshold impact is assessed taking into account the analysis of the amounts at risk and not simply mechanically.

The type of error determines the concept that is used: if the identified weakness relates to payments, the materiality calculations are based on the budget for payments while the commitments are the reference to determine the materiality if the weakness relates to the way a given action is conducted.

We consider that identified erroneous transactions which expose the DG to an actual financial loss could lead to a reservation to the Director-General's declaration under the following conditions:

- A significant weakness has been identified that affects at least one the following areas: (i) control systems, (ii) sound financial management, or (iii) legality and regularity of transactions , and
- An actual financial loss or reputational issue has already occurred or is very likely to materialise, and
- The amounts at risk are significant in case of a (residual) financial loss that has actually exceeded or is very likely to exceed the threshold of the relevant control system.

Due to the large variety of programmes/actions and the complexity of implementation, involving a large number of external implementing partners at several levels, it is impossible with current control resources to draw and examine a representative sample of transactions which would be necessary for estimating the residual error rate.

2.1 Direct management mode

As regards the centralised direct management mode the indicators currently used when determining whether the implementation has actually been carried out respecting the 2 % materiality threshold are generally the results of the ex-ante verifications combined with results from ex-post controls on a sample of budgetary transactions. Other findings resulting from audits by the IAC, IAS, ECA or any other entity may also be used in this context.

The indicators concerning the Joint harmonised EU programme of Business and Consumer Surveys are the result of more in-depth ex-ante analysis of budgets presented at the beginning of a programming period (the statistical cycle runs from May-April) and of the financial statements presented at the end of a programming

period combined with targeted ex-post controls covering selected grant beneficiaries. In the context of grant management applying the eligible cost model, the grant agreements foresee the reimbursement of the beneficiaries' actual incurred costs. Thus, the exposure to potential financial loss is highest with regard to errors in final payments. For errors in pre-financing payments, the risk is much lower because firstly, these funds remain the property of the Union and secondly, errors in beneficiaries' cost claims can still be corrected at the final payment stage.

2.2 Indirect management mode

In the absence of an extrapolated residual error rate covering the overall budget implementation we are currently using indicators such as error rates from ex-ante control and detected errors rates resulting from targeted ex-post controls at the level of implementing partners and final beneficiaries when determining whether the materiality threshold of 2 % is respected. Other findings resulting from audits by the IAC, IAS, ECA or any other entity may also be used in this context.

With regard to the Financial instruments managed via International Financial Institutions (IFI's) additional input on the quality of the implementation is obtained from extensive monitoring activities performed by the operational units responsible for these instruments. This information is complemented by audit/control results received from the IFI's.

In this context the IFI's also provide information assuring the safeguard of our assets in the form of audit certificates concerning the trust account balances.

ANNEX 5: Internal Control Templates for budget implementation (ICTs)

ICT 1: Non-expenditure items: Treasury and Asset Management, and Borrowing and Lending operations

Background and purpose

Please see under part "2.1 Management of human and financial resources by DG ECFIN", point "Non-expenditure items"

Stage 1 a: Selection of counterparties and investment instruments for the Treasury and Asset Management

Main control objectives: Ensuring that the legal framework for the management of the relevant funds complied and sound financial management and principals are coherent.

Main risks **It may happen (again) that…**	**Mitigating controls**	**How to determine coverage, frequency and depth**	**How to estimate the costs and benefits of controls[7]**	**Control indicators[8]**
Risk of decision making latitude in the initiation of the treasury transactions (the so-called 'front-office' function of the treasury). By their nature, i.e need for quick decisions by the 'front office', these operations are initiated and authorised in a tight time-frame and, for reasons of timing, they cannot be subject to independent centralised ex-ante verifications as in the case of the budgetary transactions. The activity is also highly dependent on a sophisticated software platform (SAP shared with DG BUDG).	• There are comprehensive rules concerning the type of investments that can be made and the limits of financial risk (e.g. credit risk) that can be assumed in the portfolios under management. • The implementation of the investment policy is supervised by the Treasury Management Committee (TMC) chaired by the Head of the responsible Directorate. • There is a transparent method for selecting and renewing the list of possible counterparties for deposit placements. • Operations are carried out in	• The TMC regularly monitors the implementation of the investment policy and any deviations from it. • A dedicated financial risk management function is placed in a unit independent from the treasury unit. It monitors compliance with internal rules (e.g. manuals of procedures, respect of credit limits with counterparties, limits concerning the credit quality of securities purchased, etc.) and regularly performs sample-based ex-post checks of transactions. Risk management produces a quarterly risk report	Costs: Estimation of cost of staff FTE involved in the controls. Benefits: The absence of material errors	**Effectiveness**: Number of incidents. Number of material audit findings. **Cost-Effectiveness** / Efficiency: **Cost/benefit ratio**. Relationship costs / assets concerned.

[7] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".
[8] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[7]	Control indicators[8]
	line with good banking practice, in particular there is segregation of duties, four-eye principle, daily cash account reconciliation, monthly securities account reconciliation etc. • Exceptions from the procedures are documented, followed and signed off at senior level (usually Director). • It is required to have documented competing bids for the treasury transactions to the extent possible under market circumstances. • There are detailed manuals of procedure which are regularly updated. • Establishment of IT and information security 'culture' and rules.	to senior management.		

Stage 1 b: Selection of counterparties for the Borrowing and Lending operations

Main control objectives: Ensuring that the Commission establishes its assets ownership and liabilities correctly and sets up its management reporting and information security. Ensuring that the legal framework for the management of the relevant funds is fully compliant and regular (legality & regularity), delegated to an appropriate entity (best value for public money, economy, efficiency), without any conflicts of interests (anti-fraud strategy).

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[9]	Control indicators[10]

[9] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".
[10] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[9]	Control indicators[10]
• Counterparty risk of the beneficiary country. • Risk of decision making latitude in the initiation of the borrowings for funding the lending operations. By their nature, i.e need for quick decisions by the borrowing officers, these operations are initiated and authorised in a tight time-frame and, for reasons of timing, they cannot be, subject to independent centralised ex-ante verifications as in the case of the budgetary transactions. The activity is also highly dependent on a sophisticated software platform (SAP shared with DG BUDG).	• The loans are political loans; the beneficiaries are decided by a Council Decision. • The loan agreements are subject to multiple consultations and scrutiny before their conclusion. • There is a transparent method for selecting the counterparties which provide the funding for on-lending. • Operations are carried out in line with good banking practice, in particular there is segregation of duties, four-eye principle, daily cash account reconciliation, monthly securities account reconciliation etc. • Exceptions from the procedures are documented, followed and signed off at senior level (usually Director). • It is required to have documented competing bids for the borrowing transactions to the extent possible under market circumstances. • There are detailed manuals of procedure which are regularly updated. • Establishment of IT and information security 'culture' and rules.	The dedicated Directorates manage the regular on-site review missions to the beneficiary country. Once a year an impairment analysis is established by the Directorate in charge of the debt sustainability follow-up concerning the respective beneficiary country. A dedicated back-office unit is placed in a unit independent from the borrowing unit (front-office) for monitoring the debt service of the outstanding EU and Euratom debt. Application of IT Security Governance rules, via Local Information Security Officer.	**Costs**: Estimation of cost of staff FTE & missions involved in the controls. Cost of contracted (legal, IT, finance) services, if any. **Benefits**: The (average annual) total value of the significant errors detected/avoided - and thus prevented in terms of borrowing and lending operations.	**Effectiveness**: Number of findings in the checks on compliance with rules and procedures **Cost-Effectiveness/Efficiency**: Cost/benefit ratio: Internal control through the 4-eyes-principal (the back office) which monitors the adherence of the debt service of the EU and Euratom debt with internal rules.

Stage 2 – Protection: recording, follow-up and accounting of the Commission's rights in terms of Treasury and Asset Management, and Borrowing and Lending operations

Main control objectives: Ensuring that the Commission registers and protects its revenue entitlements, assets ownership and liabilities correctly, reports transparently and protects its information security.

Main risks **It may happen (again) that…**	**Mitigating controls**	**How to determine coverage frequency and depth**	**How to estimate the costs and benefits of controls**[11]	**Control indicators**[12]
A/ The implementation of the legal bases or equivalent rules and legal documents entails weaknesses, which lead to the Commission's legal rights in terms of revenue entitlements, assets ownerships, liabilities or information security not being duly protected and/or registered and/or reliably reported. B/ EU accounting rules are not respected.	A/ A dedicated risk management team reports on financial risks and ensures compliance with the principles and limits as defined in the individual investment guidelines and the Risk Management policy and Manual In addition the asset management is supported by accountants, back-office and specialised lawyers B/ a) EU Accounting rules are properly followed. Updates to the EU Accounting rules and accounting instructions are timely communicated by BUDG. Changes are analysed and information is shared among officials concerned. b) Closure accounting instructions are provided by BUDG. Information is shared	A/ Risk Management maintains and monitors counterparty limits and provides regular risk and performance reporting – monthly to the TMC, quarterly to senior management B/ a) Updates on irregular basis depending on the evolution of the accounting environment. The accounting team produces a monthly balance sheet report and a yearly audited set of financial statements on the outstanding net assets and liabilities to senior management. b) Yearly (October-December) c) Yearly review for accuracy and completeness (May) d) Yearly (May) Revision programme followed throughout the year, update sent to the Director General once a year (May)	**Costs**: Estimation of cost of staff FTE & missions involved. Cost of the contracted (legal, IT, advisory) services. **Benefits**: The value of errors prevented or detected within the treasury activities and borrowing and lending operations.	**Effectiveness**: Number of control failures. Number of litigation settlement and court cases lost (e.g due to lack of evidencing documents); amounts of the items concerned. Number of internal and external auditors findings about incorrect registration of items. Number of exceptions (bank reconciliation incidents) **Cost-Effectiveness / Efficiency**: Cost/benefit ratio. Relationship costs / assets concerned.

[11] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".
[12] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage frequency and depth	How to estimate the costs and benefits of controls[11]	Control indicators[12]
	among the officials concerned, internal and external preparatory meetings take place. Accounting procedures manual is available and regularly updated. c) Accounting quality overview of the previous year is prepared and sent to the Director General for info. d) Accounting revision programme is regularly updated in view of the results of the Accounting quality overview and of the evolution in the accounting environment. e) Segregation of duties and four eyes principle are systematically applied. Formalised supervision and review procedures are in place for all accounting activities. f) Documentation of legal rights of COM reflected in Loan Facility Agreements	e) Continuous f) Regular debt service carried out by dedicated back-office team		

Stage 3: Assurance building on the process and systems of DG ECFIN in terms of Treasury and Asset Management, and Borrowing and Lending operations

Main control objectives: Verification that processes are working as designed / Feedback on adequacy of the system

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators[13]
Processes might be weak or not working as designed. The system might provide poor adequacy.	• Supervision by responsible Heads of Unit and senior management. • Oversight by the TMC. • Financial risk management verification includes ex post transactional controls. • Annual financial audits are performed by external audit firm on the financial statements of ECSC i.L., EFSM, BoP, MFA, Euratom, BUFI, H2020. • Other controls are performed by central ex-post control function. • Audit and consultancy work is performed by the Commission's Internal Audit Service (IAS), the European Court of Auditors, DG BUDG and in the discharge procedure. Past recommendations made by these bodies have been followed up systematically. Overview of recent audits: • 2011, IAC: Audit on the management of the Budgetary Fines (BUFI). • 2012, IAS: Report on Off Budget Operations: EFSM-DG ECFIN. • 2012, IAC: follow-up audit on	• In the framework of the regular quarterly checks on compliance with rules and procedures, the financial risk manager verified samples. • According to the annual work plans of the IAC, IAS, BUDG C3 and the ECA. • Annual ECA audits • Reports are made to the Treasury Management Committee (meetings every month and ad-hoc). • Quarterly risk reports to senior management are produced by the risk manager. • Annual external audits on BOP, EFSM, MFA and Euratom Annual external audits on BUFI and H2020	Costs: Estimation of cost of staff FTE & other costs (audit fees, evaluation costs) involved. Cost of the contracted audit services. Benefits: The benefits of controls are not quantifiable other than through the low number of incidents caused in ECFIN and the existing full compliance with internal rules and procedures. Given that the non-expenditure activity is not following the budgetary ex-ante validation circuit, it is important to have the existing internal control environment in place. The absence of material errors.	**Effectiveness:** Percentage of sampled non-expenditure operations checked by the financial risk management which are in compliance with internal procedures (e.g. reconciliation items, bank accounts, etc.). Number of recommendations from the audit bodies (see under Mitigating controls) which have been followed up systematically. **Cost-Effectiveness** / Efficiency: **Cost/benefit ratio**. Relationship costs / assets concerned.

[13] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators[13]
	the Balance of Payments Borrowing and Lending operations. • 2014, European Court of Auditors: Performance audit on BOP/EFSM. The report is to be issued in 2015. • In 2014, an evaluation of the local financial management systems in DG ECFIN was carried out by the Accounting Officer of the Commission (FR 68(1)(e)). The report was issued in Dec 2014.			

Stage 4: Sound financial management in terms of Treasury and Asset Management, and Borrowing and Lending operations

Main control objectives: Avoiding errors that may occur during the financial process

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[14]	Control indicators[15]
Undue or erroneous financial operations or payments Default of payment from a beneficiary	• There is a variety of legal frameworks (ECSC, EU, Euratom) and contractual arrangements (different mandates, etc.). • Specific procedures are in place creating a clear framework of controls to be performed by the Financial Unit. The various documents to	• All non-expenditure/off-budget financial operations are controlled by a dedicated team possessing the required specialized competences (back office and account reconciliation). • Complementary a posteriori controls are carried out by external auditors in the context	Costs: Estimation of cost of staff FTE dedicated to control-related tasks and external costs (audit fees, evaluation costs). Benefits : The benefits of controls are not quantifiable other than through the low number of incidents caused in ECFIN and the	Effectiveness: Number of errors caused by a counterparty financial institution and detected during the reconciliation of bank accounts. Cost-Effectiveness / Efficiency: Error rate of off-budget operations caused by a counterparty financial institution.

[14] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".
[15] Figures and results are provided in the tables under Part 2.1 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[14]	Control indicators[15]
	be provided as well as the controls performed by the financial and the verifying agents are detailed in these procedures. • The financial complexity of the instruments used (bonds, short-term deposits, borrowings and loans) is moderate. • Whilst being off-budget, these non-expenditure financial operations can generate budgetary operations, which have to be treated according to the requirements of the Financial Regulation. • In order to ensure the prompt payment to the creditors of the EU/Euratom, if a loan beneficiary fails to reimburse in due time, there is recourse to call on DG BUDG cash resources for temporary cover of the shortfall[16]. A set of procedures, set by DG ECFIN and DG BUDG, further operationalises this temporary budgetary cover. • Although the repayment of all borrowings is ensured in fine by the EU budget, in the case of	of their audit of the financial statements for the off-budget activities having been prepared by a dedicated team of accountants in DG ECFIN.	existing full compliance with internal rules and procedures. Given that the non-expenditure activity is not following the budgetary ex-ante validation circuit, it is important for reputational reasons to have the existing internal control environment in place.	

[16] Under Article 12 of Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, Euratom on the system of the Communities' own resources.

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[14]	Control indicators[15]
	lending to third countries the Guarantee Fund for external actions acts as liquidity buffer protecting the EU budget against the risk of calls resulting from payment defaults.			

ICT 2: Financial Instruments managed via international financial institutions (period 2007-2013) / indirect entrusted management

Stage 1 (Front-Office) : identification & selection of International Financial Intermediaries (IFIs) and Financial Intermediaries (FIs) & projects, negotiation of contractual terms, tendering procedures and payments carried out by the IFI (for CIP : EIF, for IFI-Facilities and ELENA: EBRD, EIB, KfW /CEB).

These tasks are outlined in the respective Delegation Agreements or Financial and Management Agreements for the different financial instruments and in Contribution Agreements for grant/TA facilities managed by IFIs (altogether defined as Cooperation Agreements). Selection at the level of IFIs: the eligible IFIs are determined in the legal bases. The Cooperation Agreements between the EC and the IFIs contain provisions for the implementation of the tasks entrusted to the IFI, including the control and reporting arrangements foreseen. The individual projects/financial intermediaries are proposed by the IFIs utilising their business network and due diligence process. They have to comply with the criteria defined in the guidelines foreseen in the Cooperation Agreements and be approved by the competent governing bodies/services of the IFIs. The selection is subsequently approved by the Commission.

Main control objectives: Ensuring eligibility, contractual compliance and process compliance of implementation actors including sound financial management of the IFIs

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[17]	Control indicators[18]
IFIs may not be eligible FIs may not be eligible Final Beneficiaries (FBs) may not be eligible Agreements with IFI/FIs do not cover the set of required provisions (eligibility of FBs, of operations,	Detective and corrective measures include: 1**) Ex-ante controls**: in addition to the detailed appraisal made by the IFIs, individual analysis and approval of each FI proposal by our Front-Offices	1**) Ex-ante controls :** for CIP and IFI / ELENA Facilities, all proposals for operations to be signed by the EIF or other IFIs (IFI in charge as 'operating body') undergo a preliminary formal approval by us, which is based on a formal	**1) + 2)** Estimate of cost of staff involved in : - systematic analysis of each file submitted to DG ECFIN for approval (approval request analysis), with 20 working days processing deadline	**1 + 2)** **Effectiveness:** - Correct filling-in of the standard check-list - Timeliness and quality of the drafting of approval selection notes & briefing

[17] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[18] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[17]	Control indicators[18]
financial parameters, and so on). For TA facilities, consultants may not be selected according to international standards (open tenders, publications, exclusion, selections award criteria, value for money) or contracted according to the rules of the relevant facility.	2) **Due diligence**: The IFI has to check the fulfilment of the eligibility conditions of potential FIs based on agreed procedures and/or the IFI's own procedures. Certain IFIs perform their own on-site verification **3) IFI reporting**: the IFIs draw up regular programme implementation and financial reports and a final report at the end of the facility. The IFIs have to provide annually a financial audit certificate concerning the trust account balances. **4) ECFIN reporting framework** **5) ex-ante assessment of IFI and follow up of their Internal Control System (ICS)**	template and analysis, as foreseen in our internal procedures (DG ECFIN manual of procedures). 2) **set-up of a standard framework and underlying contractual documents** to be used by the IFI : - FMA with EIF - SLA with EIF - standard Agreement EIF-FI template - sample check by ECFIN-L on agreements between the IFI and the FI/consultant. **3) reporting framework from IFI to us**: quarterly reports, annual reports, monitoring reports, employment survey report. All of which are checked/analysed by our staff **4) ECFIN reporting framework** ;reporting tools include: * the yearly AOSD reports to the Director-General)the mid-term assessment of the AMP *the six-monthly report on the follow up of audit recommendations * the regular risk management exercise * the AAR yearly report * the yearly Programme Statement * the yearly EIP and CIP implementation reports	- standard check-list for approval requests analysis - our approval request briefing note & proposal for approval - approval by our Director - our consultation with relevant DG followed by approval of Head of Unit **Benefits**: - adequate selection of IFI/FIs - compliance of the FI agreements with the provisions foreseen in the Fiduciary Management Agreements (FMA) with the IFI (DG ECFIN) (CIP: FMA signed with EIF 20/9/200077; EPMF: FMA signed with EIF 1/7/2010) and Contribution Agreements (CA) (DG ECFIN) - full compliance achievement; avoidance of discrepancies in the Agreements. - spot check sample compliance verification of Financing Agreements on Monitoring Visits. **3) Reporting framework from IFI to us** **Costs :** covered by IFI remuneration (CIP, EPMF : EIF (DG ECFIN) and SMEFF, MFF, EEFF, ELENA (DG ECFIN) **Benefits** : - follow-up of implementation of the Facility (operational,	- Quality of the selection work, analysis, approval notes, reports, etc. (Implementation status). - Exhaustiveness of approval request coverage **Efficiency:** a) cost/benefit ratio. b) very low man-months/managed budget cost ratio (see previous column) c) number of missing check-lists NONE d) late or incomplete approval notes & briefings: e) approval requests coverage f) number of discrepancies (Agreements' compliance default towards FMA, Programmes' Legal Basis) in agreements (DG ECFIN) g) number of approvals/signed agreements **3) Reporting framework from IFI to us** **Effectiveness:** a) timely follow-up of reports received as regards their exhaustiveness (all reports shall be received), content and format (shall be the same as defined in FMA/SLA with IFI) b) compliance of the reports with FMA provisions (deadline, content, coverage) and SLA signed with the IFI (EIF)

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[17]	Control indicators[18]
		* the yearly EIP Performance Report * the yearly "article 49 report" of the Interinstitutional Agreement **5) Ex-ante assessments** For the EIF, the ex-ante assessment has been carried out before implementation with respect to the conformity of its procedures in the field of accounting, audit, internal control and procurement with international standards (as prescribed by Article 53d(1) of the Financial Regulation). This has been made on the basis of a methodology and corresponding questionnaire developed by an international audit firm. For the grant/TA facilities managed by IFIs, a monitoring visit to each IFIs checking inter alia the evolution in their internal control systems is carried out almost in an yearly basis. 6) Meetings and related reports discussed at bilateral meetings.	compliance, financial) - soundness of the implementation (operational, compliance, financial) **4) ECFIN reporting framework** **Costs :** Estimate of cost of staff involved **Benefits:** **-** increased visibility of FIs at Commission, Parliament, Budgetary Authority levels - sound financial management **5) Ex-ante assessments** **Costs :** Estimate of cost of staff involved **Benefits:** - ensure the adequacy of EU Programmes to the market needs - enhance the efficiency of EU Programmes - ensure the compliance of the Programmes with EU rules	**Efficiency:** a) Number of reports not received or incomplete or not in line with template foreseen in the FMA/ SLA/CA b) Number of discrepancies in content c) Number of discrepancies in format d) Number of discrepancies in timeliness **4) ECFIN reporting framework:** **Effectiveness** **-**timelines, quality of content, coverage of the reports - on-time delivery of the reports under 'FR reporting package' to the Budget Authority - adequate and satisfactory (in line with provisions foreseen in the FR) content of the reports under 'FR reporting package' to the Budget Authority **Efficiency:** timelines, quality of content, coverage of the reports: reports Art 38.5 + 49.1 delivered to BUDG according to the defined content and defined deadline on 16/4/2014; report article 140.8 adopted 30/10/2014 ; AAR + AMP + Activity Statements : delivery in time and with requested content as demanded by L6/BUDG

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[17]	Control indicators[18]
				- on-time delivery of the reports under 'FR reporting package' to the Budget Authority : reports Art 38.5 + 49.1 delivered to BUDG according to the deadline on 16/4/2014; report article 140.8 adopted 30/10/2014 - adequate and satisfactory (in line with provisions foreseen in the FR) content of the reports under 'FR reporting package' to the Budget Authority : reports Art 38.5 + 49.1 delivered to BUDG according to the defined content on 16/4/2014; report article 140.8 was adopted 30/10/2014. **5) Ex-ante assessments & evaluations** **Effectiveness:** - conduct of the ex-ante assessment for the SME Initiative (2013): last exercise in 2013 – no update in 2014): DONE. **Efficiency:** - conclusion of the assessment: The latest evaluation of the CIP reiterated that the financial instruments appeared to be on track to achieve the targets set and confirmed that the effectiveness of the financial instruments has increased over time.

Stage 2 (Back-Office): Monitoring of the implementation

Main control objectives: Ensuring appropriate information on the implementation of the Facility by the IFIs and the FIs. Ensuring eligibility, contractual compliance and process compliance of the implementation.

Main risks It may happen (again) that…	**Mitigating controls**	**How to determine coverage, frequency and depth**	**How to estimate the costs and benefits of controls[19]**	**Control indicators[20]**
Financial Intermediaries may not be eligible. Agreements with FIs do not cover the set of required provisions (eligibility of Final Recipients of operations, financial parameters, and so on). Guarantee calls/investments/Grant allocations are not in line with contractual provisions. Final Recipients might not be eligible.	1) **Preventive measures:** Each agreement between the Commission and the IFIs and between the IFIs and FIs contains control (e.g. audit rights of the EC) and reporting obligations. In some programmes, there are certain risk-sharing arrangements built into the design of the programmes as well as financial incentives to ensure alignment of interest at the IFI level. 2) **Monitoring policy of the Commission services**: The designated operational Commission services assess the implementation of the action and the corresponding expenditure on the basis of a Monitoring Policy that has been defined by the Monitoring Policy Group associating DG ECFIN, DG ELARG, and DG ENTR. In addition, the Policy DGs have been closely associated to the FMAs negotiation, including the relevant monitoring provisions. Monitoring instruments include a Steering Committee, checks prior to approval of project	1) **Preventive measures :** for CIP, all agreements signed by the EIF (IFI in charge as 'operating body') undergo a preliminary formal approval by us, which is based on a formal template and analysis, as foreseen in our internal procedures (DG ECFIN manual of procedures). 2) **Monitoring policy by the Commission services: the** monitoring is based on the provisions foreseen in the our Monitoring Manuals complemented by the yearly Monitoring Plan, validated by our Director. This defines the types and numbers of monitoring visits and tasks to be performed, and covers the rules for selecting the FIs, the operations samples, aso. **3) Reporting framework from IFI to us**: our quarterly reports, annual and semi-annual reports, monitoring reports, employment survey report	**Costs:** **1) Preventive measures** : Estimate of cost of staff involved **2) Monitoring policy by the Commission services**: Estimate of cost of staff involved **Benefits:** - assuring the compliance of the implementation of the agreements with the provisions foreseen in the Agreement//CA/FMA/Legal Basis, namely with regard to the eligibility criteria of Final Beneficiaries and operations, EU visibility and promotion, policy objectives of the Facility, financial rules, - ensuring legality and regularity of the operations - ensuring sound operational and financial management of the Facility - monitoring the timely use of budget available within the availability period	**Effectiveness:** **-** number of analysis check-lists/set of sample-check-lists/ monitoring reports/letter to the IFIs **Efficiency:** - number of findings and/or minor observations reported to the IFIs - key indicators (number of Final Recipients; number of jobs created or maintained; total investment/loan volume leveraged) of achievement - Cost/benefit ratio

[19] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[20] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[19]	Control indicators[20]
	proposals, documentary checks, reporting, monitoring visits, audit reports and management letters. Monitoring visits take place at different levels (at IFI level, at FI level and at FB level) and are carried out by the operating unit as well as by the ex-post control department in ECFIN. The findings and results are followed by the operating unit in different ways, e.g. technical meetings with the IFIs, communications setting out weaknesses to be addressed, etc.			

Stage 3 (overall assurance building process): Assurance building on the process and systems of DG ECFIN

Main control objectives: Verification that processes are working as designed / Feedback on adequacy of the system

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[21]	Control indicators[22]
1) processes are weak or not working as designed 2) poor adequacy of the system	1) The verification that processes are working as designed is ensured through several information channels: -management's knowledge about the state of the DG's internal control systems, gathered through the day-to-day work and experiences; -the DG's formal supervision, follow-up and monitoring	1) According to the annual work-plan of the IAC, the IAS DG ECFIN ex-post control and the ECA. 2) During 2014, the Designated Service continued to follow-up the implementation of OLAF's recommendations in two cases (see more in tables under Part 2.2). In August 2012 an ex-post control of the EIF guarantee calls paid under CIP was launched (see more in tables under Part 2.2.).	**Costs** Our Cost (our internal control tasks and follow-up of ex posts controls) **Benefits**: - to get reasonable assurance in the implementation of the Programmes - to ensure legality and regularity of the operations - financially speaking, this	**Effectiveness:** **-** Number of controls and quality; results of the controls listed in column 2 → see ECA/IAC/OLAF/ex-post controls. - Action plans established following ECA, IAS, IAC or ex-post control recommendations; number of recommendations agreed in the Action Plan, implemented or addressed.

[21] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[22] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[21]	Control indicators[22]
	arrangements; - the results from the annual ICS review ('full compliance with baseline requirements'); - the results of the Risk Assessment exercise; - the ex-ante and ex-post controls, including reports of exceptions and/or internal control weaknesses; - the results from the DG's external financial audits; - the audit and consultancy work performed by the DG's Internal Audit Capability; - evaluations of the programmes carried out by external evaluators. The audited financial statements received from IFIs - The Statements of Assurance received from EIF. [nota:: the SoA are not audited] - Contractual monitoring obligations for the IFI 2) All activities of the DG are audited by the IAC, the IAS and the ECA.	We also accompanied the ECA to an audit visit to Slovenia, within the framework of the ECA's controls for the DAS 2014 (see more in tables under Part 2.2). Finally it should be mentioned that the following ex-post controls were finalised during 2014, An ex-post control on SMEFF in Cyprus: The control concluded that the facility had been implemented in an efficient and regular way. However, there was a minor recovery of 640,13 Euro that will be enforced in 2015. An ex-post control on the Energy Efficiency Finance Facility (EEFF) in Croatia. This control established that the facility had been implemented in an efficient and regular way. An ex-post control on the EEFF in Bulgaria. The Control established that the facility generally had been implemented in a regular way. An ex-post control on the ELENA facility in Denmark. The Control concluded that the facility generally had been implemented in a regular way. However, there was a minor adjustment of 3.693,91 Euro which the beneficiary agreed to pay back. In addition, as a consequence of two ex-post controls performed in Portugal and Italy, corrections of 6.848,54 Euros and 691,91 Euros, respectively were made by the final beneficiaries.	covers the (average annual) total budget amount entrusted to the entity, possibly at 100% (significant errors would otherwise be detected).	**Efficiency:** - Number of closed findings - Number of OLAF inquiries - Number of IAC inquiries - Number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations - Cost/benefit ratio

Stage 4 (Programme financial management): Budget commitments and payments

Main control objectives: to avoid errors that may occur during the financial process (commitments, payments, recoveries, de-commitments, repayments)

Main risks It may happen (again) that…	**Mitigating controls**	**How to determine coverage, frequency and depth**	**How to estimate the costs and benefits of controls[23]**	**Control indicators[24]**
Undue or erroneous payments (amount, eligible beneficiaries)) Undue or erroneous recoveries/re-payments	1) **Ex-ante controls**: The payments from DG ECFIN to the trust accounts and recovery from the trust accounts of the IFIs are subject to the normal financial circuit of the DG, including independent ex-ante verification. 2**) Due diligence:** The IFI has to check the project implementation and the fulfilment of the conditions triggering payments out of (or recoveries to) the trust account based on agreed procedures and/or the IFI's own procedures. 3**) IFI reporting**: the IFIs draw up regular programme implementation and financial reports and a final report at the end of the facility. The IFIs have to provide annually a financial audit certificate concerning the trust account balances. 4) approval of management fees and eligible expenses of the IFI	Ex-ante verification of commitments 100% / Ex-ante verification of payments 100%. Ex-post control reports (recommendations "taken on board") Verification IFI transactions 100% (for our sample checks). All fees and eligible expenses are verified before payment against contractual conditions and supporting documentation required under the Delegation Agreement. Reports to DG BUDG on Trust accounts for every financial year, final balance year n-1 equals starting balance year n.	**Costs**: Estimate of cost of staff involved. **Benefits**: - reduce or avoid errors on payments/recoveries/repayments - sound financial management - financially speaking, the (average annual) total budget amount entrusted to the entity, possibly at 100% (significant errors would otherwise be detected).	**Effectiveness:** - improvement on procedures - compliance with budget procedures and financial management procedures & Financial Regulation **Efficiency:** - number of operations outside official procedures - number of erroneous operations - return to Trust Account linked to errors - results on the checks on the balance of the Trust Account - Cost/benefit ratio

[23] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[24] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

Stage 5 (Programme financial management): Audit and evaluations

Main control objectives: Ensuring that assurance building information on the entrusted entity's activities is being provided through independent sources as well, which may confirm or contradict the management reporting received from the entrusted entity itself.

Main risks It may happen (again) that…	**Mitigating controls**	**How to determine coverage, frequency and depth**	**How to estimate the costs and benefits of controls[25]**	**Control indicators[26]**
1) processes are weak or not working as designed 2) poor adequacy of the System 3) errors in the implementation of the programmes as compared to the provisions foreseen in the legal basis, FMAs and/or financial operations	1) The verification that processes are working as designed is ensured through several information channels: -management's knowledge about the state of the DG's internal control systems, gathered through the day-to-day work and experiences; -the DG's formal supervision, follow-up and monitoring arrangements; - the results from the annual ICS review ('full compliance with baseline requirements'); - the results of the Risk Assessment exercise; - the ex-ante and ex-post controls, including reports of exceptions and/or internal control weaknesses; - the results from the DG's external financial audits; - the audit and consultancy work performed by the DG's	See above Stage 3	**Costs**: Estimate of cost of IAC, ECA, etc. … staff involved Estimate of cost of ECFIN our staff involved in our internal control tasks and follow-up of ex-post controls. **Benefits**: - to get reasonable assurance in the implementation of the Programmes - to ensure legality and regularity of the operations - financially speaking, this covers the (average annual) total budget amount entrusted to the entity, possibly at 100% (significant errors would otherwise be detected).	**Effectiveness:** - Number of controls and quality**;** results of the controls listed in column 2 (see also stage 3 for the our part) Action plans established following ECA, IAS, IAC or ex-post control recommendations; number of recommendations agreed in the Action Plan, implemented or addressed. **Efficiency:** - Positive DAS for the exercise - Cost/benefit ratio

[25] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[26] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

	Internal Audit Capability; - evaluations of the programmes carried out by external evaluators. 2) All activities of the DG are audited by the IAC, the IAS and the ECA.			

ICT 3: Guarantee Fund for external actions

Background and purpose: Please see under part "2.2 Budget implementation tasks entrusted to other DGs and entities." point 2. "Guarantee Fund for external actions"
Management of the Fund's assets
Roles: The EIB manages the Fund's portfolio. The Commission services oversee the investment policy, its implementation and agree with the EIB on the main investment guidelines.
The **features of the activity** are the following:

- There is a clear legal framework and contractual relationship with the EIB.
- The GF balance sheet is consolidated into the Commission financial statements at year-end.
- The level of financial risk (credit risk, market risk, etc.) that can be accepted is low (rules are similar to those applicable to ECSC in liquidation set out in Council Decision 2003/77/EC, as amended). A key reference document in this respect is the Convention with the EIB approved by the Commission which sets out the investment guidelines for managing the assets of the GF.

Stage 1: Management of the Guarantee Fund ("GF") and the payments from/into the GF

Main control objectives:
Management of the GF portfolio: ensuring that the management of the GF is compliant with the investment guidelines and the investment policy. Payments from/into the GF: calls on the GF require specific procedures in place so that the claim can be established, amounts verified, recovery activities of the EIB followed up. A specific control environment has been defined and put in place within DG ECFIN so as to mitigate the afore-mentioned risks and ensure that the residual risk is low.

Main risks **It may happen (again) that…**	**Mitigating controls**	**How to determine coverage, frequency and depth**	**How to estimate the costs and benefits of controls[27]**	**Control indicators[28]**
The management modes foreseen in the Financial Regulation for the use of budget	As regards the management of the Guarantee Fund's assets by	DG ECFIN performs internal control activities based on, and	Costs: Estimation of cost of staff involved in the process	**Effectiveness**: Compliance with budget procedures and

[27] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[28] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[27]	Control indicators[28]
funds are not directly applicable in the context of the management of the GF portfolio. The legal basis of 1994 determines that the assets of the Fund shall be managed by the EIB. The main risks are: - Risks commonly associated to the treasury management operations, including delegation of asset management to an external entity (EIB). - Operational risk: risk of errors during the ascertaining and calculation of amounts due or the payment operations from/into the GF following calls on defaulting loans.	the EIB, the Convention signed between the EIB and the Commission defines the eligible assets and other prudential rules. The annual investment strategy is proposed by the EIB to the Commission for approval. Management of the Guarantee Fund's assets by the EIB : There is a policy concerning the type of investments that can be made and the limits of financial risk (e.g. credit risk) that can be assumed in the portfolios under management. The compliance with these rules is ensured by several control mechanisms: - *reporting:* the EIB submits monthly, quarterly and annual data and reports on the management of the portfolio to the Commission; - *compliance reviews*: DG ECFIN's financial risk management, by using these data, verifies for the reporting dates the EIB's compliance with the investment guidelines and policy; - *audits:* the EIB provides an audit certificate issued by its external auditor. Operational risk: appropriate	complementing, the internal control systems of the EIB. The risk management of the EIB produces a quarterly report to DG ECFIN. Respect of limits is controlled on a sample basis by the financial risk management in DG ECFIN which is independent from the unit in charge of the GF. The implementation by the EIB of the investment policy is supervised by the operational unit in charge and the Treasury Management Committee chaired by the Director concerned, who receives the EIB reports Annual financial audit certificate by EIB's external auditors on the key figures such as guaranteed amounts outstanding, etc.	verification, estimation of the cost implied by the audit fees of the fund, estimation of the part of the management fees corresponding to the internal control of the EIB. Benefits: achievement of the control objectives, qualitative and quantitative estimations of the errors and irregularities prevented as a result of the control failures detected and reported in the course of the control procedure.	financial management procedures & Financial Regulation. **Efficiency**: Cost/benefit ratio.

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[27]	Control indicators[28]
	review and verification procedures are in place, including checklists.			

Stage 2: Assurance building on the process and systems of DG ECFIN

Main control objectives: Verification that processes are working as designed / Feedback on adequacy of the system

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[29]	Control indicators[30]
Processes might be weak or not working as designed. The system might provide poor adequacy.	DG ECFIN financial risk management performs sample checks on compliance with investment guidelines based on the reporting by EIB on their portfolio management activities. DG ECFIN receives quarterly reports from EIB. Supervision by responsible heads of unit and senior management. Payments in and out of the Guarantee Fund. Procedures documented in unit manuals of DG ECFIN units concerned. Other controls (e.g. DG ECFIN IAC, IAS). Feedback is provided by external auditors, DG ECFIN's	Annual financial audit certificate by EIB's external auditors on the Quarterly reporting by EIB. Annual financial audit certificate by EIB's external auditors on the financial statements of the Fund in compliance with the accounting rules adopted by the Commission's Accounting Officer. Annual audits by ECA of the GF related operations. Other controls (e.g. DG's Internal Audit, IAS). Annual financial audit certificate by EIB's external auditors on the key figures such as guaranteed amounts outstanding, etc.	Costs: Estimation of cost of staff involved in the process verification, estimation of the cost implied by the audit fees of the fund, estimation of the part of the management fees corresponding to the internal control of the EIB. Benefits: achievement of the control objectives, qualitative and quantitative estimations of the errors and irregularities prevented as a result of the control failures detected and reported in the course of the control procedure.	**Effectiveness**: Compliance with budget procedures and financial management procedures & Financial Regulation. **Efficiency: Cost/benefit ratio**

[29] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[30] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[29]	Control indicators[30]
	Internal Audit Capability, the Commission's Internal Audit Service (IAS) and the European Court of Auditors. Recommendations made by these bodies are followed up systematically.	Annual audits by ECA of the GF related operations.		

Stage 3: Sound financial management

Main control objectives: Avoiding errors that may occur during the financial process

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls[31]	Control indicators[32]
Undue or erroneous financial operations or payments Default of payment from a beneficiary	DG ECFIN receives quarterly reports from EIB, which contain i.a. reporting on limit breaches. Annual report adopted by the Commission and addressed to the budgetary authority on guarantees covered by the EU budget. Annual report adopted by the Commission and addressed to the budgetary authority on the GF and its management. Comprehensive report on the functioning of the GF Inclusion of data in the consolidated EU balance sheet.	Annual financial audit certificate by EIB's external auditors on the key figures such as guaranteed amounts outstanding, etc. Annual audits by ECA of the GF related operations.	Costs: Estimation of cost of staff involved in the process verification, estimation of the cost implied by the audit fees of the fund, estimation of the part of the management fees corresponding to the internal control of the EIB. Benefits: achievement of the control objectives, qualitative and quantitative estimations of the errors and irregularities prevented as a result of the control failures detected and reported in the course of the control procedure.	**Effectiveness**: Compliance with budget procedures and financial management procedures & Financial Regulation. **Efficiency: Cost/benefit ratio**

[31] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".
[32] Figures and results are provided in the tables under Part 2.2 "Management of human and financial resources by DG ECFIN".

ICT4: Macro-Financial Assistance

Macro-Financial Assistance represents support to partner third countries in the form of medium and long term loans and or grants, generally in the context of IMF reform programme, each time based on an ad hoc Legislative Decision (decision by the Council alone until the entry in force of the Lisbon Treaty, then co-decision the European Parliament and Council under the ordinary legislative procedure). The loan funds are borrowed on the capital markets and paid to the central bank of the beneficiary country, whereas the grants are financed from the EU budget. The funds are not allocated to specific projects or spending categories and their final destination, unless otherwise specified, is left to the national authorities to decide.

Key inherent risks in this environment: Although the funds are not allocated, there is a risk of misuse of funds because the financial circuits in the relevant institutions (central bank and Ministry of Finance) of the beneficiary country do not comply with the basic principles of sound financial management.

Stage 1 – **Ex-ante (re)assessment of the beneficiary country's financial and control framework**

Main control objectives: Ensuring that the beneficiary country is fully prepared to start/continue implementing the received funds with respect of all 5 Internal control Objectives (ICOs).

Main risks It may happen (again) that…	**Mitigating controls**	**How to determine coverage, frequency and depth**	**How to estimate the costs and benefits of controls**	**Possible control indicators**
The financial and control framework deployed by the beneficiary country is not fully mature to guarantee achieving all 5 ICOs (legality and regularity, sound financial management, true and fair view reporting, safeguarding assets and information, anti-fraud strategy).	Commission assessment of management and control systems in the beneficiary countries For each beneficiary country, an ex-ante operational assessment of the financial circuits and control environment is carried out by the Commission with technical support from consultants. An analysis of accounting procedures, segregation of duties and internal/external audit of the Central bank and the Ministry of Finance is carried out to ensure a reasonable level of assurance for sound financial management. Should weaknesses be identified, they are translated into conditions, which have to be implemented before the	Coverage: verification of information provided in the ex-ante operational assessments. Depth: desk checks and/or on-the-spot audits based on risk assessment.	Costs: - cost of external ex-ante operational assessments (outsourced to consultants) - estimation of cost of Commission staff involved in the assessment of management and control systems in beneficiary country, including analysis of operational assessment report, own audit work, and drafting of interruption letters Benefits: errors prevented [unquantifiable]	Effectiveness: - Number, amount and % (with respect to total commitment) of MFA operations stopped or suspended as a result of a negative operational assessment. Efficiency: - cost of operational assessments (% of proposed amounts of MFA operations)

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Possible control indicators
	disbursement of the assistance. Also, when needed, specific arrangements for payments (e.g. ring-fenced accounts) are put in place.			

Stage 2 – Adoption of the MFA Decision, negotiation and signature of MFA documents (MoU, Loan/Grant agreements):

Main control objectives: Ensuring that the legal documents include the actions (conditionalities) that contribute the most towards the achievement of the policy objectives (effectiveness).

Main risks	Mitigating controls	How to determine coverage frequency and depth	How to estimate the costs and benefits of controls	Possible control indicators
The macro-financial assistance does not adequately reflect the EU policy objectives or priorities. Delayed implementation of the MFA operation negatively impacts the effectiveness and efficiency of the assistance	Internal consultation, hierarchical validation at DG-level of each action. Given the complexity of the instrument, a comprehensive Vademecum has been put in place setting out the procedures and controls to be followed by the competent DG ECFIN services in the preparation of each operation. Inter-service consultation (including all relevant DGs) Inter-institutional agreement required Adoption by Legislative (Council and Parliament) Decision/Commission Decision, where foreseen by EU law.	Coverage / Frequency: 100%. Depth: checklist, guidelines and lists of requirements in the relevant regulatory provisions. (cf. Genval criteria)	Costs: estimation of cost of staff involved in the negotiation and adoption of the MFA proposals. Benefits: MFA operations have a clear intervention logic, allowing the Commission to evaluate their impact.	Effectiveness: - average time between the adoption of the Decision and the signature and ratification of MFA documents (Memorandum of Understanding (MoU), Loan and/or Grant Agreement) *(the shorter the time the more relevant the decision in relation to the country's needs and EU policy objectives)* Efficiency: - average cost of analysis and adoption/approval of an MFA operation - average time between a proposal by the Commission for a Decision to the adoption of the Decision by the co-legislators *(this measures the efficiency of the inter-institutional process)*

Stage 3 – Monitoring and supervision of the implementation of MFA, including ex-post control

Main control objectives: ensuring that the payments/disbursements are eligible and regular

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Possible control indicators
The management verifications and subsequent audits/controls have failed to detect non-implementation of conditionalities. The Commission services have failed to take appropriate measures to safeguard EU funds, based on the information it received.	Commission checks of periodic beneficiary country declarations. The payment is subject to (1) monitoring by DG ECFIN staff, in close coordination with the EU Delegations and with the external stakeholders, like the IMF, of the implementation of the agreed conditionalities, and (2) the normal control procedure provided for by the financial circuit (model 2) used in DG ECFIN, including the verification by the financial unit of the fulfilment of conditions attached to the disbursement of the assistance mentioned above. The disbursement relating to MFA operations may be subject to additional independent ex-post (documentary and/or on-the-spot) verifications by officials of the ex-post control team of the DG. Such verifications may also be initiated at the request of the responsible AOSD. Interruptions and suspensions of payments Financial corrections (implemented by Commission) Recoveries may be practiced where needed (it has not occurred so far), and are explicitly foreseen in the financing agreements with the beneficiary countries.	Coverage: verification of information provided in the periodic beneficiary country declarations. Depth: desk checks and/or on-the-spot audits based on risk assessment.	Costs: - cost of Commission staff checking conditionalities Benefits: errors prevented [unquantifiable]	Effectiveness: - % of MoU conditions successfully implemented - % of financial allocation disbursed* Efficiency: - Time-to-payment (time between adoption of decision on disbursement and actual disbursement)

* where relevant/if applicable, for 2014-2020

Stage 4 – Audit and evaluation

Main control objectives: Ensuring that assurance building information on the beneficiary country's activities is being provided through independent sources as well, which may confirm or contradict the management reporting received (on the 5 ICOs).

Main risks It may happen (again) that…	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Possible control indicators
The Commission has not sufficient information from independent sources on the beneficiary country's achievements, which may reflect negatively on the Commission's governance reputation and quality of reporting.	The verification that processes are working as designed is ensured through several information channels: the ex-ante and ex-post controls, including reports of exceptions and/or internal control weaknesses; the results from the DG's external financial audits; the audit and consultancy work performed by the DG's Internal Audit Capability. Ex-post evaluations of the MFA operations are carried out by external evaluators.	Coverage: verification of information provided in the ex-ante operational assessments. Depth: desk checks and/or on-the-spot audits based on risk assessment.	Costs: - cost of external ex-post evaluations (outsourced to consultants) - estimation of cost of Commission staff involved in the ex-post controls and audits. Benefits: confirmation of assurance and of attainment of policy objectives and priorities [unquantifiable]	Effectiveness: - Assurance being provided (via management/audit reporting); Efficiency: - total (average) annual cost of own audits and evaluations compared with MFA amounts being audited/evaluated (ratio).

ANNEX 9: Performance information included in evaluations

Title of the Evaluation:	**Ad-hoc audit of the pilot phase of the Europe 2020 Project Bond Initiative**
ABB activity:	Financial operations and instruments
Type of evaluation:	Other (O).
Summary of performance related findings and recommendations:	Conclusions The PBI has served as a catalyst to generate liquidity in debt capital markets for targeted infrastructure projects. This is demonstrated by the interest from a large pool of investors that has been attracted to the two PBI pilot phase projects that have reached financial close to date. The Project Bond Credit Enhancement (PBCE) is a unique financial instrument in Europe, in terms of its supranational scope, open structure and long tenor. It is largely filling the vacuum left by monoline insurers, whilst learning from some of the inherent risks that the latter were exposed to. The PBI is viewed positively by nearly all stakeholders. In particular, stakeholders largely believe that there has been a structural shift from bank financing to bond financing for infrastructure projects, and this is supported by the large increase in bond-financed infrastructure deals that occurred in 2013. The PBI addresses a market failure by matching the supply of infrastructure projects with the expectations of the large investor class of institutional investors. As has been demonstrated in the three bond issuances supported by the PBCE to date, the PBCE has been successful in both bringing debt investors to perceived risky projects as well as expanding the pool of capital for more solid projects. In either case, the obtained pricing and other terms on the debt has been improved versus the alternative financing options. According to stakeholders, the PBCE is well-structured, suits the market needs and has been well-executed in transactions. The EIB brings credibility and comfort to investors that cannot be matched by private financial institutions. The EU budget contribution to the PBCE is important to cover the EIB's risk from engaging in riskier-than-normal transactions, and stakeholders view the PBCE instrument as an excellent use of EU funds. The EU added value of the PBI is greatest on projects that are: – Large (i.e. greater than €300 million investment value) – Cross-border (i.e. involve two Member States or more) for public infrastructure projects – Non-investment grade (particularly where sovereign and/or industry risk is high) The pilot phase of the Initiative has two objectives: - to mobilize investment in priority infrastructure projects - to develop debt capital markets as an alternative sources of finance. Table 1 shows a summary of the PBI projects that reached financial close: **Table 1 PBI projects having reached financial close - status as of January 2015**

Date of pricing or FC	Policy	Sector	Project Name	Country	PBCE size	PBCE size (% of bond)	Bond size	Project Capital Cost	EIB bond investment	Project cost to PBCE size	Rating Uplift (notches)
30/07/2013	TEN-E	Offshore gas storage	Castor Gas Storage	Spain	200	14%	1,400	1,763	300	8.8x	2.0
26/11/2013	TEN-E	Offshore Transmission Network- Round 1	Greater Gabbard	UK	55	15%	365	420	-	7.7x	1.0
24/03/2014	TEN-T	Motorway	A11	Belgium	115	20%	578	670	144	5.8x	3.0
29/07/2014	ICT	Portfolio of broadband networks	Axione Infrastructure	France	38	20%	189	257	-	6.8x	1.5
27/08/2014	TEN-T	Motorway	Autobahn A-7 PPP Ten	Germany	86	20%	429	772	70	9x	1.5
TOTAL PBI Pilot Phase transactions					**494**	**17%**	**2,961**	**3,882**	**514**	**7.9x**	**-**
o/w using EC funds					294	19%	1,561	2,119	214	7.2x	
o/w financed fully on EIB balance sheet					200	14%	1,400	1,763	300	8.8x	

The operations concluded so far show that the instrument is raising the interest of institutional investors in infrastructure projects and is seen as a valuable complement to bank lending solutions. Both the conclusions of the Interim and the Ad-hoc Audit Report and the signing of three other Project Bond Credit Enhancement supported projects after the submission of the Interim Report add further evidence to the fact that the Initiative was successful in providing an alternative source of finance for trans-European projects and in catalysing debt capital markets for infrastructure projects.
Since the launch of the Pilot Phase, the market showed clear signs of evolution towards more competitive processes and pricing, and therefore towards investors willing to take up more risks. To increase the uptake of the initiative and building on the recommendation highlighted in the external Ad-hoc Audit report, a step change would be necessary to expand the application of PBI to new countries and sectors and to increase its focus on greenfield and brownfield operations away from refinancing.
The full stage of the initiative, which will be deployed under the CEF and EFSI, will take account of these market evolutions and deploy a product with improved design characteristics in order to maximize its scope and applicability.

Availability of the report on Europa:	http://ec.europa.eu/dgs/economy_finance/evaluation/completed/index_en.htm#pbi

Title of the Evaluation:	**Evaluation of the off-budget treasury and asset management activities managed by ECFIN and in particular its Directorate ECFIN-L ("treasury activities")**
ABB activity:	Financial operations and instruments
Type of evaluation:	Other (O)
Summary of performance related findings and recommendations:	**Overall assessment** The Treasury of ECFIN-L achieves its objectives in the management of the portfolios under its responsibility, coping well with the different and complex specificities it faces, including the fact that most of the portfolios are characterized by the uncertainty of outflows that follow the inflows, making Asset and Liabilities Management complex, and human and information technology resources' constraints. The peer review has been benchmarked against public financial institutions' practice (i.e. central banks, pension funds, international development banks) and the specificities of the Treasury's activities have been considered. The set of improvements described below should be considered as medium or low priority. They would need to be gradually implemented given the stretched human resources at ECFIN-L. Two main prerequisites, even for gradual implementation, are additional staff in particular in the Risk Management unit (at least one staff member) and an upgrade of IT tools to better support the development of the activity.

	Strategic Asset Allocation The processes used by ECFIN-L for the Strategic Asset Allocation has been reviewed in detail for the ECSC in liquidation and the BUFI portfolios and concluded that both portfolios are compliant with industry standards . Some alternative approaches could be considered for the future to enhance the performance significantly by changing the investment horizon which could be extended and by modifying the asset allocation with the introduction of new asset classes. A better Strategic Asset Allocation could be defined in cooperation with the owners of the assets of the respective funds who should be involved in the risk tolerance and investment horizon definition. Such improvement could be introduced gradually at the time of the yearly discussion of the investment strategies. **Portfolio Management** The portfolio management of both internally and externally managed portfolios by ECFIN-L can be characterized as a moderately active management performed in a prudent and controlled manner, framed by strict risk budget limits. Investment strategies are defined yearly, reviewed every 6 month and overseen by the Treasury Management Committee (TMC) during its monthly meetings. Processes and procedures are fully documented in the Front Office Manual. The historical excess performance resulting from the Treasury's active management were reviewed for the ECSC and BUFI portfolios. Results are good and consistent with the amount of risks that the portfolio managers are allowed to take. **Risk Management**: Risk management is duly framed in a Financial Risk Policy and Financial Risk Manual document which covers best practice. The Risk Management unit is producing a comprehensive set of reports for the different stakeholders (Director of ECFIN-L, TMC, Director General of ECFIN, and the Council for the ECSC portfolio), with the right frequency. As far as operational risk is concerned, a qualitative assessment is performed in conjunction with DG-BUDG and Secretariat General using industry standards of operational risk management. The risk management unit participates in that assessment, also conducting a regular additional review of incidents which occurred, drawing up action plans and ensuring their follow-up. The recommendations issued are targeted to further enhance the risk management function but are highly dependent on the availability of adequate human resources and IT tools. **Settlement, Accounting and IT systems**: Settlement processes, as reviewed are compliant with best practices in terms of messaging and payments processes, account's management, and escalation procedures in case of fails. Regarding the accounting procedures, the relevant reporting is performed and shared with the various stakeholders. IT systems need to be adapted to cope with the above recommendations. **Governance** The Governance structure complies with best practice with adequate delegation of authority. Some improvements could be considered to strengthen the governance structure.
Availability of the report on Europa:	http://ec.europa.eu/dgs/economy_finance/evaluation/completed/index_en.htm#off_budget