



2015

Annual Activity Report

DG TAXUD



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INTRODUCTION

The DG in brief

The Directorate General Taxation and Customs Union's (TAXUD) mission is **twofold**: to develop and implement tax policy across the EU and to develop and manage the Customs Union.

EU Taxation Policy

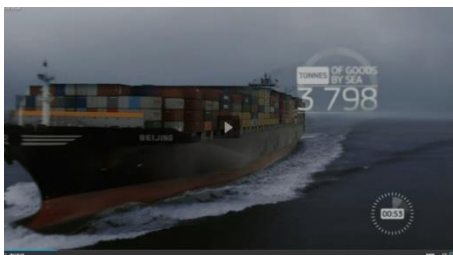
The EU has a **complementary role** when it comes to taxation. Taxation is at the core of national sovereignty. The power to introduce or remove taxes, of increasing and reducing them but also of making sure they are actually collected and paid to the state budget is in the hands of Member States. But there is **added value** in having EU-wide intervention when it comes to further improve the **internal market, make taxes fairer** or helping Member States in **tackling** cross-border **tax fraud, tax evasion and avoidance**. Often an **EU-wide approach** is the **only way** to avoid a series of individual national approaches which rather than closing loopholes open up new ones because of their uncoordinated nature.

National governments are broadly free to design their tax laws according to their national preferences, provided they respect certain fundamental principles, such as non-discrimination and respect for free movement in the internal market. **EU tax policy** aims at establishing a **common legal framework** in the areas of **indirect and direct taxes**, to minimize the risk of tax-induced relocation of economic activities while providing the **tools for administrative cooperation** in order to **support revenue collection** for the EU and Member States' budgets and fight against tax fraud. EU tax policy is a key element to **strengthen the internal market** in which the co-existence of 28 national tax systems may result in double taxation, but also double non-taxation and distortions of competition.

The European Commission presents **proposals for tax legislation** where it considers EU-wide action is needed for the internal market to work better. It can also make **recommendations** and issue **policy guidance** in specific areas. Any European Union tax legislation and subsequent changes thereto must be **unanimously agreed** by all EU countries before entering into force, a factor conditioning the pace of progress and frequently leading to a kind of "frozen" tax legislation no longer fit for purpose. **Infringement policy** aims to enforce a proper application of European tax legislation in all Member States as well as to remove illegal distortions with negative impact on EU citizens and business and to support efforts to eliminate tax obstacles to the proper functioning of the internal market.

The **Fiscalis 2020 funding programme** has a key role by enhancing





cooperation between participating countries, their tax authorities and their officials to improve the functioning of the taxation systems in the internal market.

In the framework of the **European Semester**, TAXUD has responsibility for the economic analysis of national tax policies and preparing the **country-specific recommendations** in the field of tax policy and supporting a tax shift away from taxing labour and taxing e.g. consumption or pollution instead.

EU Customs Policy

The Treaty on the Functioning of the EU (TFEU) provides that the Customs Union is an **exclusive competence** of the European Union built on the principles of **free movement of goods** within the Union and a **common external tariff** towards third countries. The treaty also emphasises the importance of the promotion of trade in this context.

These elements of the Treaty have given rise to the establishment of detailed **secondary legislation** in the form of directly applicable Council and Parliament Regulations. These were adopted under the ordinary legislative procedure under co-decision by qualified majority vote. The current legislative framework, the Community Customs Code and its implementing regulations, is being replaced by a new text, the **Union Customs Code** and which will be **applicable from 1 May 2016**.

As customs policy is implemented by customs administrations in the 28 Member States, implementing the Customs Union relies on a **close partnership with Member States**. In many cases the Commission acts as an active participant supporting Member States for instance managing on a day by day basis most of the EU import quotas and updating all the tariff related information. The Commission also ensures that the Customs Union is equipped with modern automated **electronic tools** and customs administrations are interconnected. The **Customs 2020 funding programme** underpins this partnership.



For the EU as a whole, external demand is a major source of growth, with an expected 90% generated outside Europe in the next decade. In a period of slow economic recovery and rebuilding of government finances, customs must therefore ensure the **protection of revenue** sources, secure international supply chains and **support legitimate EU business** so that these can be competitive on the world markets. The OECD has estimated that a comprehensive trade facilitation reform could cut trade costs by up to 10% for OECD countries. On the global level, reducing trade costs by even 1% would increase worldwide income by € 30 billion. This represents a massive potential to tap into and where the **efficiency of customs** is pivotal.

DG TAXUD represents EU customs policy **internationally** to promote good EU practice, facilitate legitimate trade and secure the international supply chain by negotiating and implementing **agreements and arrangements with trading partners** and through international standard-setting in **multilateral fora**.

Because of their presence at the EU external border, customs are also called upon to **implement** more than **60 pieces of non-customs EU legislation** related for example to dual use, fire arms, intellectual property, public health, consumer protection, the environment and agriculture.

With the current focus on security and migration Customs has a key role supporting action at borders to ensure coherent policy action in relation to the movement of people.

Cooperation with external partners

DG TAXUD works closely together with several stakeholders, especially other services of the European Commission, the ECOFIN Council and increasingly the European Parliament.

We engage regularly with international organisations like as the World Customs Organisation (WCO), Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), and external partners such as the European External Action Service (EEAS), Europol, Eurojust or the European network of judicial authorities.

We interact regularly with businesses and civil society representatives through various expert groups such as the VAT Expert Group, the VAT Forum, the Joint Transfer Pricing Forum, the Platform for Good Tax Governance and the Trade Contact Group.

DG TAXUD reports to Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs and to Valdis Dombrovskis, Vice President for the Euro and Social Dialogue.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG TAXUD to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

a) Policy highlights of the year

Taxation Policy

In 2015, DG TAXUD focused on supporting Member States to effectively **reduce tax fraud, evasion and avoidance**. One of our key objectives is to ensure that companies are taxed where profits are generated and where consumption occurs. Our work will have an impact on the Member States, on businesses and taxpayers but will also affect civil society in a larger sense. The Commission presented on 18 March 2015 a package of tax transparency measures including as key element the proposal introducing the automatic exchange of information on tax rulings. This proposal was adopted by Council on 8 December. Additionally, the Commission presented on 7 June, its plan to fundamentally reform corporate taxation in the EU including amongst others the re-launch of the Common Consolidated Corporate Tax Base (CCCTB). At that date, the Commission also published a first pan-EU list of third country jurisdictions listed by Member States for tax purposes. Finally DG TAXUD prepared the January 2016 anti-avoidance (ATAP) package implementing amongst others certain OECD Base Erosion and Profit Shifting (BEPS) measures.

The **administrative burden** arising from different VAT regimes representing a real obstacle for companies trying to trade cross-border in the EU, DG TAXUD prepared the Action Plan on a **Single EU VAT Area** aiming delivering a simple, efficient but also fraud-proof VAT regime. Addressing VAT fraud remained an important objective as VAT losses continue to run in EUR billions and the 2015 VAT Gap study published by the Commission estimated the EU-26 VAT gap to nearly EUR 170 billion. The change in the place of supply rules for the supplies of telecommunications, television and radio broadcasting and electronic services combined with the **Mini-One Stop Shop** (MOSS) system came into operation on 1 January 2015 and supported the collection of an estimated amount of EUR 3 billion of VAT that now accrue to the member State of consumption and no longer to the Member State of supply.

DG TAXUD closely worked with Member States' tax experts to prepare future policy initiatives for the EU fight against VAT fraud, notably enhancing tax-customs cooperation, developing joint audits and e-audit, improving EUROFISC transaction analysis or better controlling VAT collection in e-commerce.

The Commission's proposal to revise the Energy Taxation Directive was withdrawn by the Commission in March 2015, as the Member States were not

able to find a meaningful compromise in the Council. The Commission reflects on the way forward for energy taxation.

In the context of the fight against energy tax fraud, the Commission is looking for a substance which could replace the current Euromarker (Solvent Yellow 124) as a fiscal marker in gas oil and kerosene.

The Commission submitted an evaluation report to the Council on the structure and rates of excise duty applied to manufactured tobacco. TAXUD has also continued its work on improving arrangements for the export of excise goods and for improvements to arrangements for SMEs involved in cross border trading of excise goods.

The EU and Switzerland, Liechtenstein and San Marino signed historic new tax transparency agreements which will prevent tax evaders from hiding undeclared income in financial accounts in these countries. The Commission launched the negotiations with Norway for an agreement on administrative cooperation in the field of indirect taxes.

Customs Policy

In the coming years, the implementation of the **Union Customs Code** (UCC) is a key task for DG TAXUD. The UCC legal package is an enabler for harmonized rules in the Customs Union, without which no level playing field for European trade is possible. In 2015, TAXUD continued working on the **Union Customs Code** (UCC) delegated, transitional delegated and implementing acts, adopting them respectively in July and December 2015, in time for the UCC to enter into application on 1 May 2016.

DG TAXUD continued to manage and run the IT systems which are connecting the customs administrations of all Member states and which are critical to support the import and export of goods into the EU.

As gatekeeper of the flow of goods at the EU border, EU customs play a crucial role in **protecting the EU and its residents** as well as international supply chains from criminal activities and attacks. DG TAXUD developed in 2015 the Roadmap for the implementation of the 2014 EU Strategy and **Action Plan for customs risk management** providing a tool to monitor and guide the tactical and practical steps for the implementation of this strategy until 2020. DG TAXUD continued to **facilitate legitimate trade**, hence contributing to economic growth. In this context DG TAXUD finalized the second monitoring of the uniform implementation of the Authorised Economic Operator (AEO) concept and AEO rules.

Customs are increasingly called upon to ensure that goods harmful for health, safety and the environment do not cross the EU external borders. DG TAXUD therefore continued to focus on **strengthening** coordination and uniform **implementation by customs of non-customs legislation** and supporting interagency cooperation.

The uniform application of the **Common Customs Tariff** is ensured by several

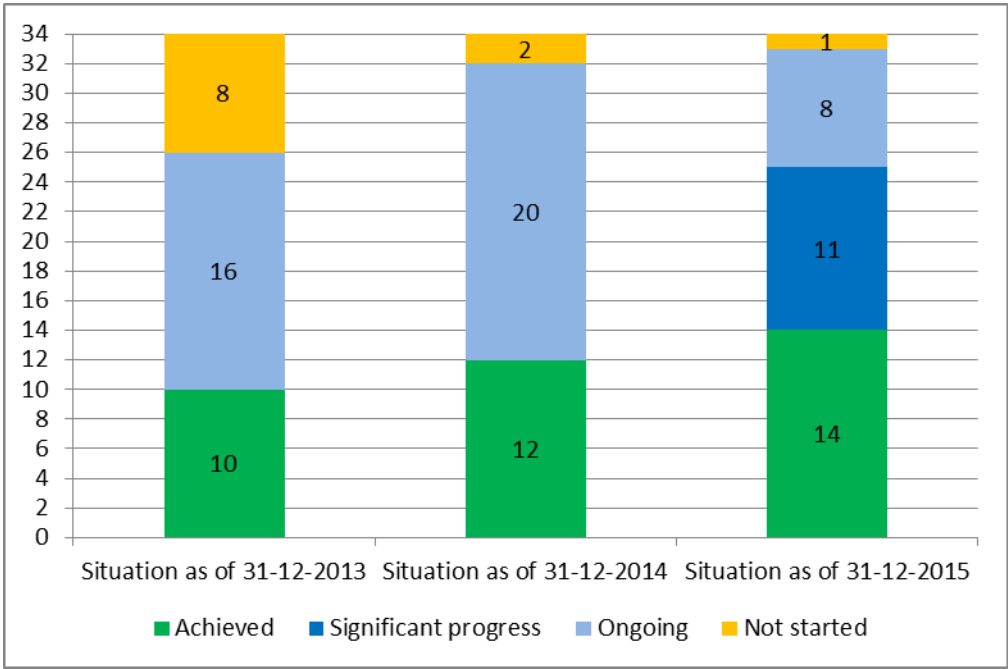
tariff databases managed by TAXUD and the adoption of legal measures. Updates of the most important database, TARIC are made available daily to the Member States and to economic society. Its uninterrupted functioning is of huge importance for the economy as TARIC is crucial to the proper **processing of around 150 million import declarations** that the **EU customs** treat every year. In 2015 two more countries, the former Yugoslav republic of Macedonia, and Serbia, joined the computerised transit system (NCTS) system.

The implementation of the EU customs Action Plan to combat **IPR infringements** for the years 2013/2017 continued, notably with the organization of support visits to Member States on IPR and the connection of the anti-Counterfeit and anti-Piracy System (COPIS) to the Office for Harmonization in the Internal Market (OHIM) enforcement database.

TAXUD negotiated and implemented customs-specific agreements and arrangements with trading partners, customs aspects (amongst others on rules of origin and customs and trade facilitation) in preferential trade and other agreements. TAXUD also worked on international standard-setting, in particular in the World Customs Organization (WCO) and the World Trade Organization (WTO). TAXUD intensified its monitoring activities to ensure the proper implementation of preferential trade arrangements.

b) Key Performance Indicators (5 KPIs)

KPI 1 – Tax Actions Plans Implementation Indicator



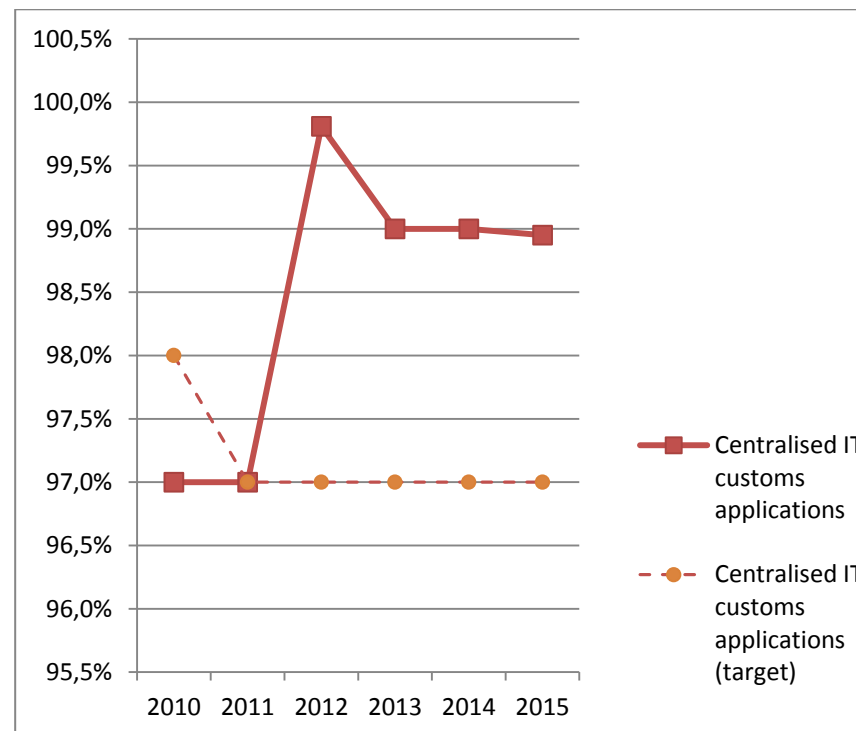
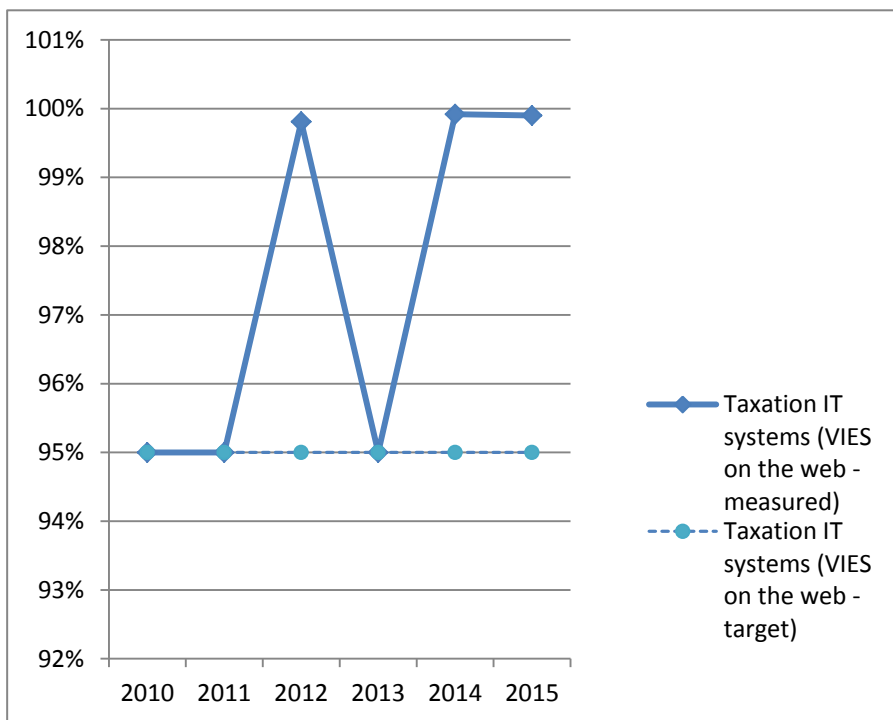
For the details of the state of play of the 34 actions of the Action Plan, please refer to section "Result indicator 3 and the narratives below.

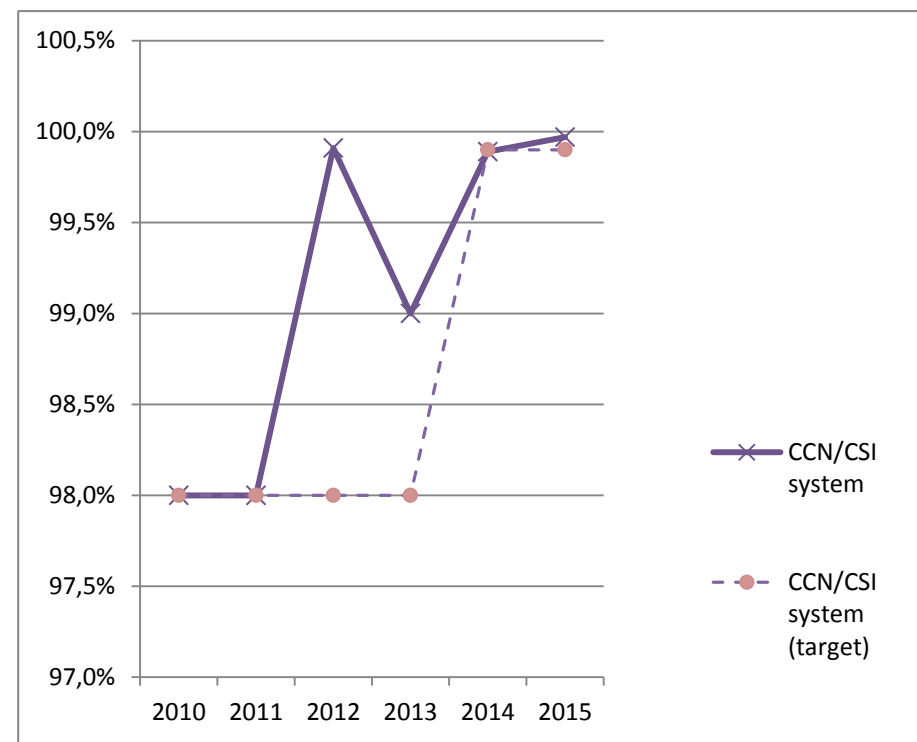
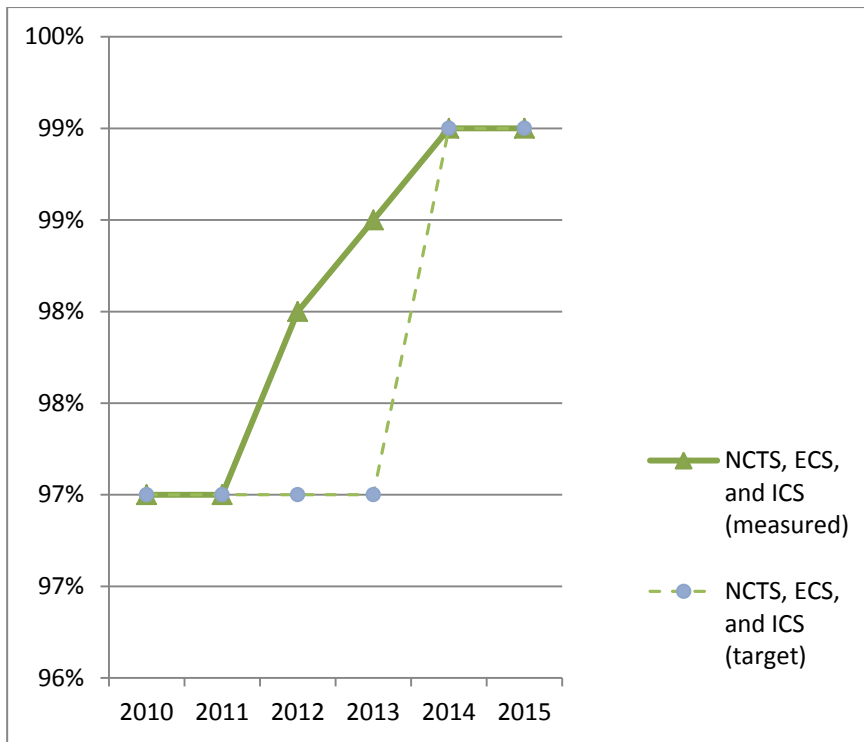
KPI 2 – Modernisation and simplification of the Union Customs legislation Indicator

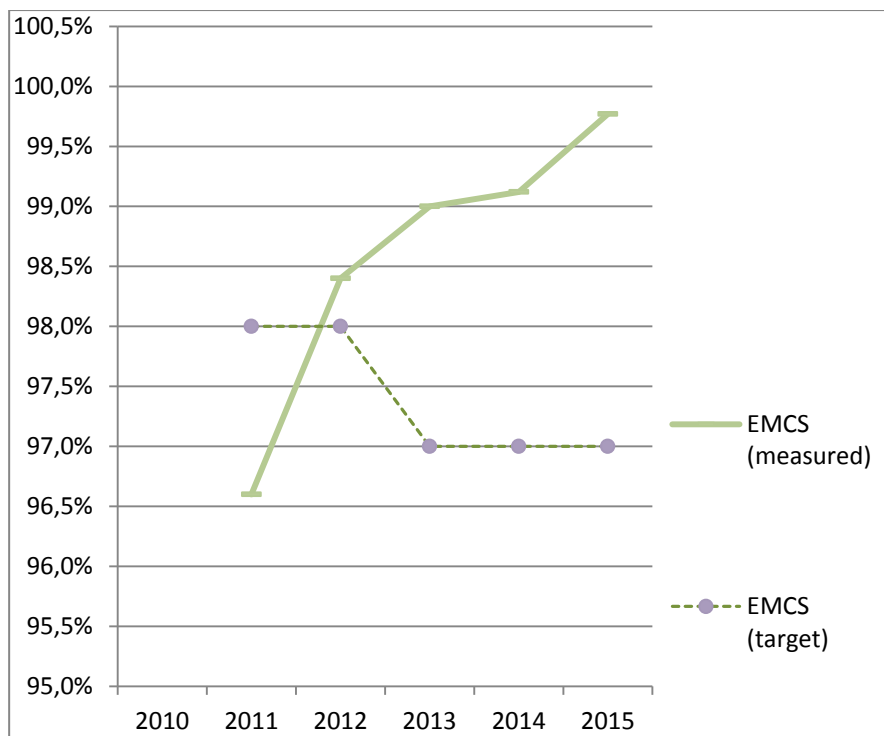
A work programme has been adopted and is reviewed at set intervals. The monitoring of the Commission's performance will happen on the basis of this work programme. An overview of the main milestones will be completed after adoption of the UCC work programme, planned for 23/03/2016.

KPI 3 - Availability of Taxation and Customs IT systems

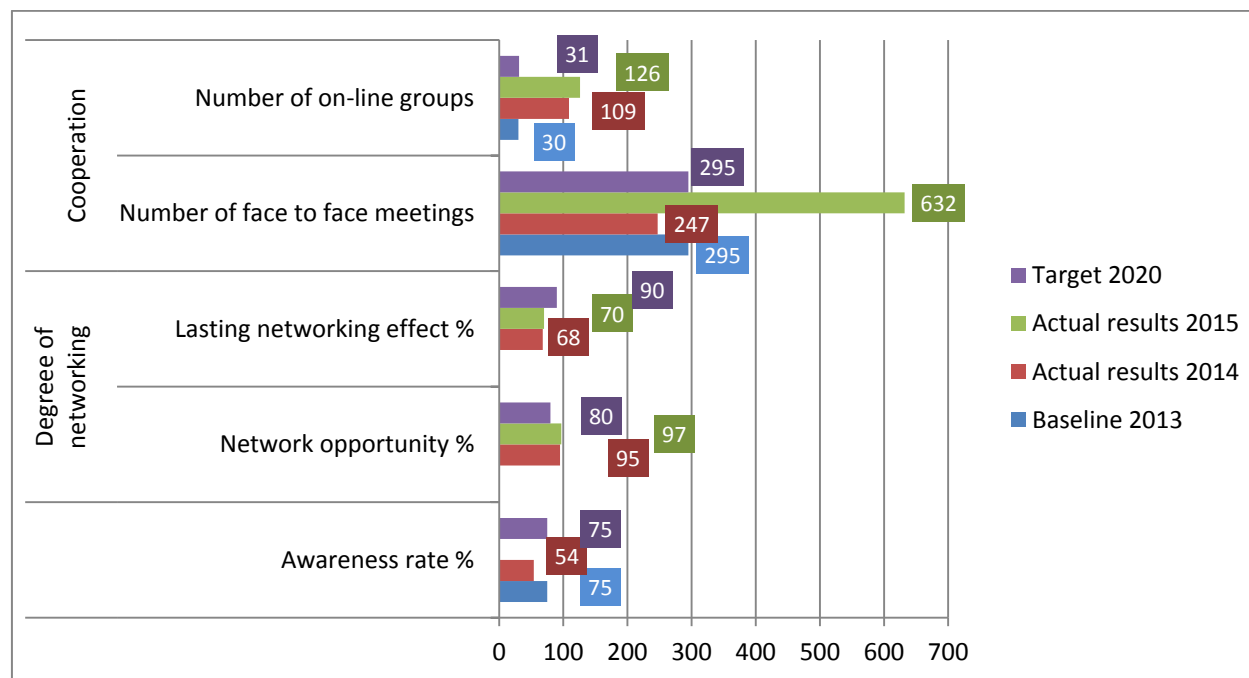
Availability measured during working hours and targets







KPI 4 – Collaboration Robustness Indicator Fiscalis 2020 Programme

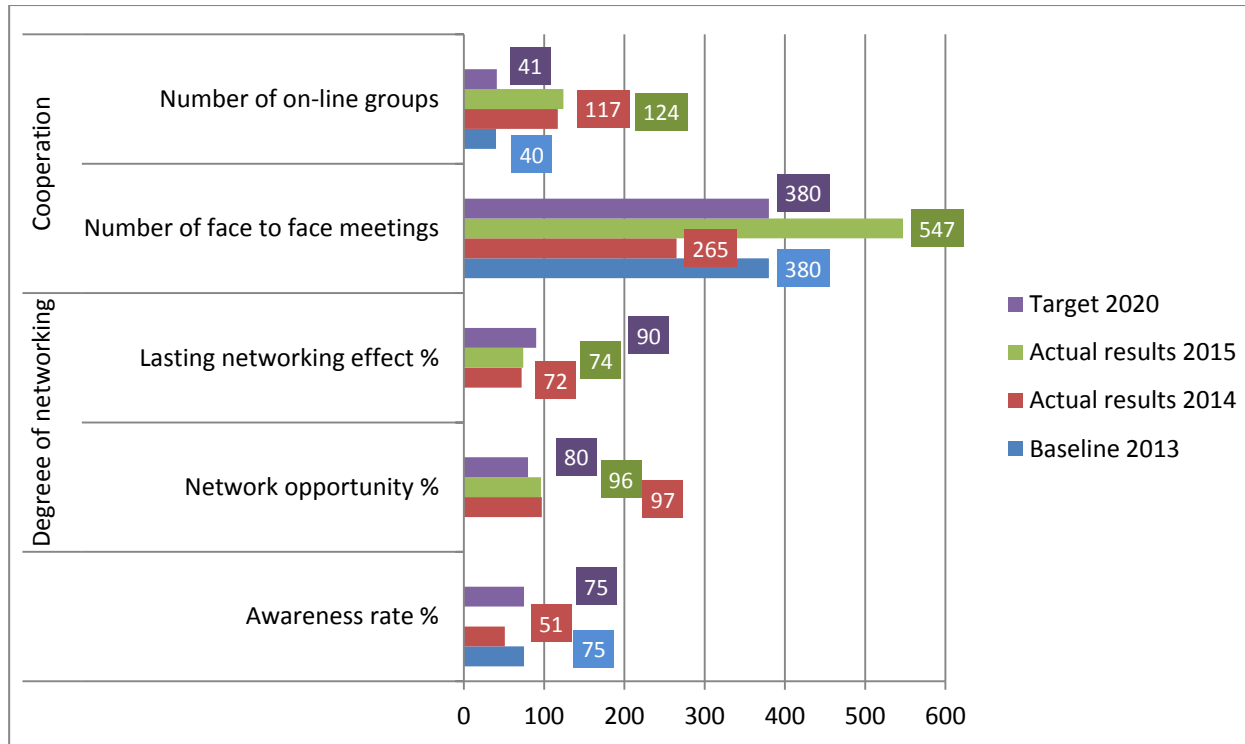


* No data are available for the awareness rate 2015 as measured bi-annually

** Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.

*** Actual results 2015 are the data available in February 2016

Customs 2020 Programme



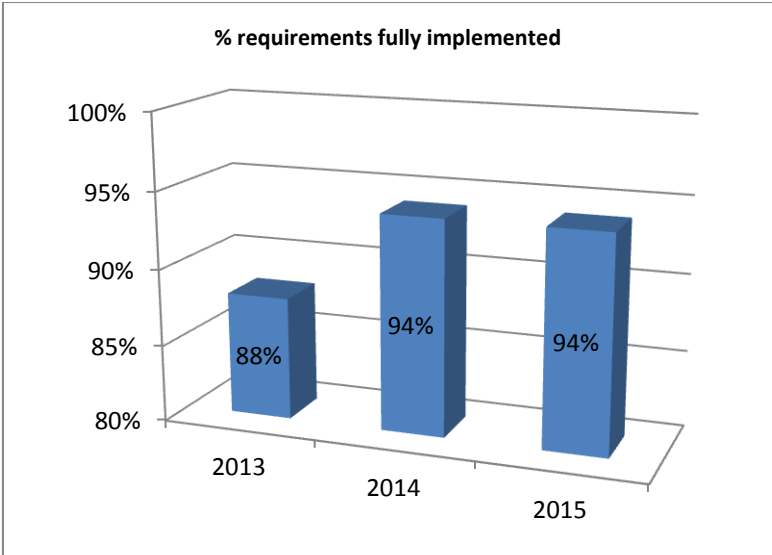
* No data are available for the awareness rate 2015 as measured bi-annually

** Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.

*** Actual results 2015 are the data available in February 2016

KPI 5 – Internal Control Standards implemented

Target: >90% (each year)



c) Key conclusions on Management and Internal control

In accordance with the governance statement of the European Commission, (the staff of) DG TAXUD conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG TAXUD has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. Please refer to AAR section 2.3 for further details.

In addition, DG TAXUD has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2 for further details

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

d) Information to the Commissioner

The main elements of this report and assurance declaration, have been brought to the attention of Commissioner Moscovici, responsible for Economic and Financial Affairs, Taxation and Customs.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

GENERAL OBJECTIVE 1

A simpler, more efficient and fair tax environment in order to fully exploit the economic potential of the internal market and foster growth

EU tax policy plays a crucial role in delivering on the Commission objective related to creating a deeper and fairer internal market. The construction of a deeper and fairer internal market requires more and not less Europe, also in taxation. The **added value of EU action** is clear: direct taxes should be paid where economic activity takes place while indirect taxes should be paid where consumption takes place – wherever that may be within Europe and globally. When businesses operate cross-border in the internal market, we need tax provisions that on the one hand are simpler to comply with and on the other hand harder to exploit or avoid than the current patchwork of 28 different tax rules. Also, we need EU wide intervention to remove tax obstacles preventing cross-border investment and job creation. Finally, it is by adopting an EU-wide perspective that we can design tax reforms beneficial for the whole Union exploiting mutual learning and the adoption of best practices.

SPECIFIC OBJECTIVE 1.1

Reduced tax fraud, tax evasion, harmful tax practices and aggressive tax planning within the EU

DG TAXUD continued **working to reduce tax fraud, evasion and avoidance.**



Businesses which currently abuse loopholes in the system will need to readapt their tax policy strategies to make them sustainable and fit to the new context where aggressive planning is no longer tolerated. Effective taxation will ensure businesses, irrespective of size and location, will compete fairly against each other. Tax burden sharing will become more equitable. This will give an answer to the call for more fairness, transparency and information voiced by citizens. Finally, our work will make a difference outside the Union too. We will push third countries which currently do not do so to embrace tax good governance criteria. In turn, this will help developing countries to get a fairer share of global tax.



A. Tax Transparency Package

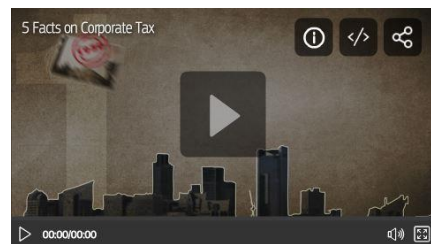
The European Commission presented on 18 March 2015 a package of tax transparency measures as part of its agenda to tackle corporate tax avoidance and harmful tax competition in the EU. A key **objective** is to ensure that companies are **taxed where** their economic activities **generating the profits** are performed and cannot avoid paying their fair share through aggressive tax planning. A key element of this package was a **proposal** to introduce the automatic exchange of information between Member States on their **tax rulings as** from 1 January 2017 which was **adopted on 8 December**¹ by the Council. The package also included the repeal of the savings directive which has been agreed by the Council.

In the same context DG TAXUD closely followed and contributed to the work of the Parliament's temporary **Special Committee on Tax Rulings** (TAXE) set up in response to LuxLeaks in February 2015.



B. Fair and efficient corporate taxation package

On 17 June 2015, the Commission presented the **Action Plan** to fundamentally reform **corporate taxation** in the EU. The Action Plan aims to tackle tax avoidance, secure sustainable revenues and strengthen the internal market for businesses. Collectively, these measures will significantly improve the corporate tax environment in the EU, making it fairer, more efficient and more growth-friendly. This package includes amongst others the re-launch the Common Consolidated Corporate Tax Base (**CCCTB**) and definition of a framework to ensure effective taxation where profits are generated.



In this context, the Commission also published a first pan-EU list of **third-country jurisdictions** listed by Member States for tax purposes and launched a public consultation to assess whether companies should have to publicly disclose certain tax information. This **second package** of measures dealing with fair and efficient corporate taxation takes into account current initiatives by the **G20 and OECD** to tackle tax avoidance combatting base erosion and profit shifting (BEPS) at EU level.

¹ Directive 2011/16/EU on administrative cooperation in the field of taxation



The **January 2016 anti-tax avoidance package** is a direct follow up of the June package and will implement certain OECD BEPS measures and other anti-avoidance provisions in a coherent way in the EU.

C. Administrative cooperation

The Commission supported the **electronic exchange of information for administrative cooperation purposes** through the common network CCN/CSI² which had in 2015, an availability of 99,97% and supported the exchange of over 3,2 billion messages for both customs and taxation purposes, including administrative cooperation. An amount of EUR 5.800.000 was invested in its development for taxation (23% of the Fiscalis 2020 budget in 2015).

In 2015, the first steps have been made for the implementation of **automatic exchange of information**

obligations stemming from Council Directive 2011/16/EU and amended in 2014. Thanks to the Excise Movement and Control System (EMCS), during 2015, Member States exchanged monthly around 500 000 movement control messages and more than 2000 control reports for physical controls of excise goods, double the figure of last year.

In 2015, 800 persons participated in 143 events under the programme specific objective to support administrative cooperation, costing a total amount of EUR 625.000 or EUR 780 per participant.

In 2015, for the first time a **workshop** was organised for the national heads of CLO of both direct taxation and VAT administrative cooperation. These officials ensure contacts with other Member States in the field of administrative cooperation.

Almost 80% of the responding participants declared they used the outcomes of the workshop in their work and 100% considered the workshop as a great opportunity to expand their network..

² Common Communication Network/Common Systems Interface

SPECIFIC OBJECTIVE 1.2

An EU tax framework which is fit for purpose

DG TAXUD worked to ensure that the EU tax framework is fit for purpose, growth-friendly and as simple as possible for businesses to ensure that tax does not prevent the internal market from delivering its full value. Starting from the assumption that the large majority of taxpayers is honest, DG TAXUD aims to make tax rules easier to comply with and harder to get wrong. As we know that not all taxes affect taxpayers' incentives in the same way, we continued to reflect upon and propose tax reforms supporting growth, jobs and investment, including reforms aiming at shifting the tax burden away from labour to tax bases less detrimental to growth.



A. Indirect taxation – Value Added tax (VAT)

The **administrative burden** arising from different VAT regimes represents a real obstacle for companies trying to trade cross-border both on and offline. An EU business wishing to make cross-border sales faces under existing rules a VAT compliance cost of at least €8 000 annually for each targeted Member State. Businesses – especially small businesses – refer to this administrative burden as one of the major obstacles to buy and sell in other EU countries. The Commission is working to minimize these burdens and to simplify the system. For years, discussions with Member States have been ongoing regarding the features of the definitive VAT regime for intra-EU trade.

Throughout 2015 DG TAXUD prepared an action plan for a **Single EU VAT Area** setting out the possible major principles of the **definitive VAT regime** for intra-EU trade, in particular the alternative between the effective taxation of intra-EU supplies and the application of the reverse charge mechanism to such transactions and domestic ones. It will also contain a series of options for reforming the rules on VAT rates and show the way ahead on a proposal on VAT for electronic commerce and on a comprehensive simplification package for SMEs. As VAT losses continue to be a major source of fraud running into EUR billions, the action plan will also address VAT fraud issues.

Thanks to the tool "**VIES-on-the-web**", economic operators no longer have to use the intermediary national administration, to validate the VAT numbers of their trading partners, directly reducing the lead-time,

In 2015, 872 million validations took place with the tool, taking generally less than a second each. The final evaluation of Fiscalis 2013 assumed that each of them had to be dealt with by a 5 minutes phone call. Extrapolating this estimate, VIES-on-the-web reduced compliance costs by an estimated EUR 888 million on the side of national administrations and a similar amount for economic operators.

In 2015, the Council discontinued discussions on the **VAT Standard declaration**

due to its inability to reach a compromise bringing effective simplifications for European businesses. The Commission consequently announced the withdrawal of this proposal in the 2016 Commission Work Programme.

The **Mini-One Stop Shop** (MOSS) tool came into operation on 1 January 2015 and allows businesses (EU and non-EU) that sell digital services to customers in more than one EU country to declare and pay all their VAT in a single Member State. It is expected that VAT collected through the MOSS will have amounted to about EUR 3 billion in 2015, representing a trade volume of about EUR 18 billion. Throughout 2015, TAXUD services also worked on a proposal for a Council Directive further modernising VAT for **Cross-Border Business to Consumer (B2C) E-Commerce**. This initiative would extend the Mini-One Stop Shop to B2C supplies of goods and remove the VAT exemption for the importation of small consignments with accompanying simplification arrangements. The proposal would also introduce a common pan-EU turnover threshold for the smallest e-commerce businesses.

B. Indirect taxation – Excise Duties

The great variation in excise duty levels between Member States continues to provide a strong incentive for tax evasion. Europol recently estimated losses due to excise duty fraud to be of the order of €10 billion per year. The variation in duty levels and other weaknesses in the design of these taxes necessitate the use of extremely burdensome administrative procedures, which restrict the participation of small and medium enterprises in intra-EU trade in excise goods

In the context of the evaluation of the **structures of alcohol and alcoholic beverages**³, the European Commission has launched a public consultation to assess whether some of the rules on excise duty on beer, wine and other alcoholic beverages should be changed to fight tax fraud and reduce the sale of counterfeit alcohol. The Commission also wants to look into whether small and home producers of alcohol could benefit from simpler rules and lower excise duties.

The Fiscalis and Customs programme support since 2014 a **project group, coordinating excise and customs procedures and IT applications**. Officials from Member States tackle amongst others practical consequences of the introduction of the Union Customs Code on the Automatic Export System and EMCS. The group also takes up issues concerning the good coordination of excise and customs procedures.

All the participants welcome the interaction between customs and excise advisors learning how problems are resolved in other Member States. 75% of the responding participants confirmed that they have used the outcomes of the project group in their national administration.

³ Directive 1992/83/EEC

Research revealed an increase in fraudulent activities involving the illegal removal of the **fiscal marker in gas oil and kerosene** in a limited number of Member States and therefore the Commission started the call for expression of interest for a suitable replacement marker.

Early 2016, a report will be published on the functioning of arrangements for the holding and movement of excise goods⁴ addressing in particular the coordination between import and export procedures and excise procedures and arrangements for small and medium enterprises and for distance selling.

C. Financial transaction tax

In February 2013, the Commission tabled a proposal for a Council Directive implementing enhanced cooperation in the area of Financial Transaction Tax (FTT). Since then, discussions in the Working Party Tax Questions – Indirect Taxation (FTT) remained limited to discussing technical issues and different options with respect to the core design features of the framework. On 8 December 2015, 10 Member States (AT, BE, ES, FR, DE, EL, IT, PT, SK, SI) reached agreement on the core elements of the FTT. Further analysis with regard to the real economy and pension schemes is required as well as a decision on the adequate tax rates. The Commission has and will continue to offer technical support to facilitate a meaningful agreement.

D. Infringements

In 2015 in the context of the economic crisis, priority has been given in the area of indirect taxation to infringements with a positive impact on the functioning of the internal market. Further, emphasis was put on the horizontal application of judgements of the EU Court of Justice, where in scope of a preliminary ruling the Court provides a general interpretation of the VAT Directive and the Excise Duty Directives.

The direct taxation sector continued the follow-up to the three EU-law compliance initiatives launched between 2011 and 2014 and designed to benefit EU citizens. The first examines if Member States give equal tax treatment to persons when inheriting across EU borders⁵. The second checks if persons living in one Member State, and working in another (cross-border workers) receive equal tax treatment⁶ while the third initiative complements and completes the previous ones examining the tax treatment of persons who actually move from one EU Member State to another (mobile persons)⁷.

Once completed, the above package of actions should allow EU citizens to benefit to the fullest possible extent from their rights under EU law in the area of taxation, promoting consequently growth, mobility and a better functioning of

⁴ Horizontal excise directive (2008/118/EC)

⁵ [IP/11/1551](#)

⁶ [IP/12/340](#)

⁷ [IP/14/31](#)

the Internal Market.

SPECIFIC OBJECTIVE 1.3

Modernised tax systems in Member States (including European Semester)

DG TAXUD contributed to the European Semester process and most specifically to the preparation of the Country Specific Recommendations for the 2015 European Semester exercise in Spring 2015 and to the launch of the 2016 exercise recently, notably through its contribution to the Annual Growth Survey (AGS) and country specific reports.

For tax research, DG TAXUD collaborates closely with JRC prolonging in 2015 an administrative arrangement for economic research and modelling in taxation and with ESTAT formalizing the relationship in a MOU planned to be signed at the beginning of 2016.

DG TAXUD also runs databases on taxation such as the Taxes in Europe Database and carries out ad hoc economic analysis of tax policy. These tools are used in support of EU tax policies.

SPECIFIC OBJECTIVE 1.4

Improved protection of EU interests in the development of international tax standards and in relations with non-EU jurisdictions

A. Switzerland, Liechtenstein and San Marino sign agreements for tax information exchange with the EU

The EU and Switzerland, Liechtenstein and San Marino signed historic new tax transparency agreements to automatically exchange information on the financial accounts of each other's residents. This spells an end to banking secrecy for EU residents and will prevent tax evaders from hiding undeclared income in financial accounts in these countries.

B. International Organisations

DG TAXUD participated in 2015 in the OECD work on Base Erosion and Profit Shifting (BEPS) ensuring that the EU positions were coordinated and that solutions are in line with the EU acquis and finally that the interests of Member States who are not in the OECD, are protected. BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid.

C. VAT Fraud and third countries

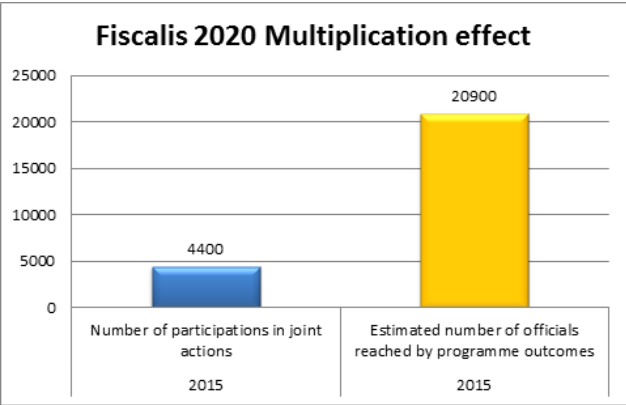
Experience in Member States has shown that VAT fraud schemes often exploit weaknesses in the way chain transactions are controlled as a result of the inclusion of counterparts located in third countries. In order to address specific VAT related fraud problems such as carousel fraud, and address fraud in e-

commerce, it would be necessary that the tools for administrative cooperation available to Member States are also made available for cooperation with certain third countries. Following the mandate received from the Council in December 2014, negotiations were opened with Norway for the conclusion of a bilateral agreement on administrative cooperation in the field of indirect taxes. Other mandates may follow.

SPECIFIC OBJECTIVE 1.5
Efficient implementation of the Fiscalis 2020 programme to support the achievement of the tax policy objectives

The Fiscalis 2015 Annual Work Programme, adopted in January 2015, was the basis for all the activities (Joint actions, Training and European information Systems) undertaken during this year.

The Fiscalis 2020 programme offers Member States a European framework to cooperate amongst national tax officials or through European Information systems (EIS). This set-up is more cost-effective than if each Member State were to set up individual cooperation frameworks on a bilateral or multilateral basis. The tax officials exchange views and best practices when participating in the programme actions. The networking effect builds to a common approach to main tax issues of the tax officials across the EU. Around 95% of the responding participating tax officials shared in their administrations the outcomes from their participation in programme actions. Considering that participation has at least a multiplication factor of 5, the 2015 activities reached some 20.000 officials.



The programme also supports eLearning course development for a more consistent application of EU tax legislation: 12 VAT eLearning modules were finalized and released end 2015 (on EU VAT Directive/VAT Refund Directive; including a module on VAT on Digital Services and MOSS). According to the present monitoring data, approximately 2700 officials were trained in 2015 using common training material of the Union.

GENERAL OBJECTIVE 2

Customs which protects society and EU financial interests, facilitates legitimate trade and supports the competitiveness of the European economy

The role of EU customs policy is multi-dimensional. The EU customs union is both a key element of the internal market and a facilitator of legitimate trade and the competitiveness of economic operators and therefore economic growth. Besides, customs has a key role in protecting citizens from unsafe products or trafficking in illegal goods. Customs is also an important collector of revenue. On top of that the single customs policy designed at EU level is implemented by customs administrations in the 28 Member States. Throughout 2015 DG TAXUD continued to look for the right balance between these interests, ensuring that the **Customs Union** works effectively and efficiently and representing EU customs internationally. The added value of EU action is as such incontestable.

SPECIFIC OBJECTIVE 2.1

Modernised Customs Union through simplifying its legislation and reforming its governance

The implementation of the Union Customs Code (UCC) is a key task for DG TAXUD in the coming years. The UCC legal package is an enabler for harmonized rules in the Customs Union, without which no level playing field for European trade is possible. These rules are applied through a wide ranging set of procedures applying to all goods entering or leaving the Union. The UCC and electronic customs imply the development of an ambitious set of electronic customs systems by 2020, whose dates of deployment are referred to in the UCC Work Programme.



A. The Union Customs Code (UCC)

In 2015, TAXUD continued working on the **Union Customs Code (UCC)** delegated and implementing acts adopting all in time, respectively July and December 2015, for the UCC to enter into application on 1 May 2016⁸.

DG TAXUD also worked on a **Transitional Delegated Act (TDA)** adopted in December 2015 which lays down measures to enable application of the UCC in the absence of the final IT systems. The adoption of the **UCC Work Programme** in the first quarter of 2016 has been prepared and from then on will contain, in addition to the current EU customs projects also the national projects required for the implementation of the UCC.

⁸ Subject to no objection being raised by EP and Council on the Transitional Delegated Act

DG TAXUD, jointly with Member States, trade representatives and other Commission services continued to work on simplified procedures with concepts like "Entry into the Declarant's Records" and "Centralized Clearance". These concepts strike a balance between providing tangible smoother trading conditions and allowing for appropriate controls based on risk management techniques. DG TAXUD continued, together with stakeholders, to provide guidance on how best practices in the area of special procedures (like inward and outward processing) were aligned to the new legal framework. The procedures will allow using third country materials for the production of goods within the European Union without having to pay full duties and as such improving competitiveness. Similarly, work continued on how new concepts like movement of goods in temporary storage could bring advantages for reliable traders without negatively impacting on revenue collection and fraud prevention.

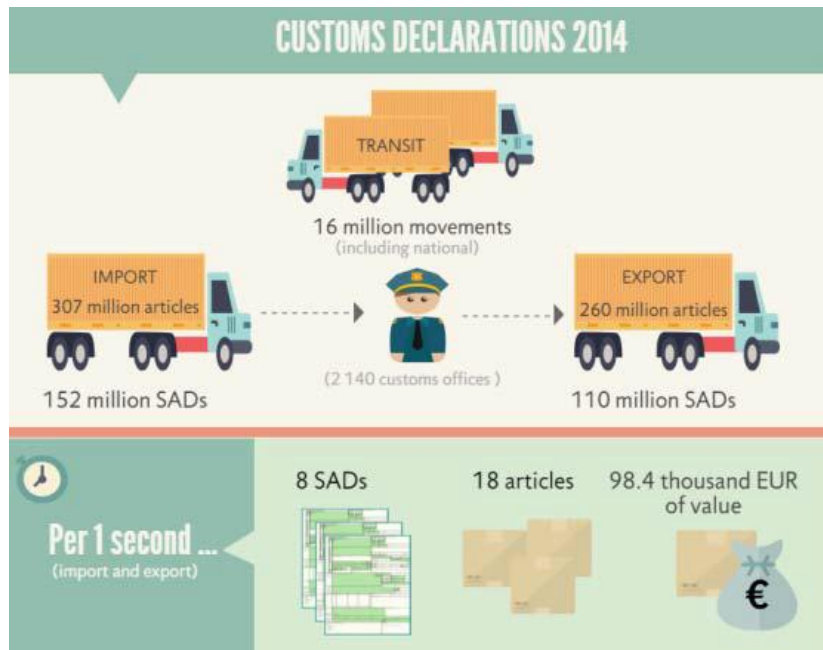
B. EU Customs Union Governance Reform

To deliver on the growing set of expectations the Customs Union needs to continue its modernization and development towards enhanced performance. It needs to implement sustainable structures that can evolve, being fit-for purpose today but also in years to come. DG TAXUD therefore prepared a proposal of communication developing the EU Customs Union and its governance planned to be adopted by the Commission in the first half of 2016. The communication will establish a strategy for the ongoing improvement of the EU Customs Union governance which involves strengthening of existing processes and reflection on more long-term developments. It will be discussed in Council and EP level and form the basis for actions to be carried out in parallel with the introduction of the Union Customs Code provisions and the related IT systems.

C. Electronic Customs

The electronic customs project initiated by the European Commission replaces paper format customs procedures with EU wide harmonised and interconnected electronic customs systems, thus creating a coherent Customs union and a more efficient and modern customs environment. The project's dual objective is to find a balance between on the one hand enhanced controls for the collection of duties and taxes as well as the security at the EU's external borders and on the other hand to facilitate legitimate trade. It is therefore beneficial for both businesses and citizens. The establishment of an electronic customs is a major reform process for the EU's Customs Union. The annual eCustoms progress [report](#) covering actions of 2014, was published in July 2015.

In 2015 about 10 million customs **transit** movements took place using the computerised transit system (NCTS) system. This system covers all EU Member States, Switzerland, Norway, Iceland, Turkey, the former Yugoslav republic of Macedonia, and Serbia, the last two joining in 2015.



9

Throughout 2015, DG TAXUD continued to manage and run the IT systems which are connecting the customs administrations of all Member states and which are critical to support the import and export of goods into the EU.

SPECIFIC OBJECTIVE 2.2

Strengthened security and protection of citizens from risks posed by international trade



A. EU Strategy for customs risk management

As gatekeeper of EU borders for the flow of goods, EU customs play a crucial role in protecting the EU and its residents as well as international supply chains from criminal activities and attacks. By implementing the EU Strategy and Action Plan for customs risk management, TAXUD contributes to the implementation of the 2015 European Agenda on Security, a central component of the general objective to create an area of justice and fundamental rights. The recent surge of terrorism acts is a stark reminder of the very real security threats facing our societies and of the responsibility of authorities, including customs, to address

In 2015, DG TAXUD, JRC and DG TRADE organised together with customs and licensing experts of 11 Member States a **simulation exercise on export control of dual-use goods**. This exercise was co-financed by the JRC and the Customs 2020 Programme. Concrete next steps in this area could include the formulation of Guidelines on International Compliance Programme (ICP) standards.

⁹ The 2014 data are the latest available figures.

The Common Risk Management Framework encompasses all types of risks. Up till now, at EU level the activities focused on addressing security and safety risks. However, a more systematic approach to financial risks is also required. A Customs 2020 project group was set up by DG TAXUD with experts from the Member States to identify the precise actions to develop and address financial customs risk management in a systematic way. This includes: the definition of EU financial risk profiles, the improvement of the exchange of risk information with a view to define common risk criteria and standards where appropriate.

risks in an effective way.

TAXUD developed in 2015 the Roadmap for the implementation of the 2014 EU Strategy and Action Plan for customs risk management which provides a detailed overview of, and appropriate tool to monitor and guide the tactical and practical steps for the implementation of the EU Strategy until 2020.

DG TAXUD finalized the second monitoring of the uniform implementation of the Authorised Economic Operator (AEO) concept and AEO rules. The final monitoring report, with recommendations, was endorsed by the AEO Network in September 2015. The recommendations will be implemented partially through the UCC rules but

mainly through the updated guidelines both to be applied as of 1 May 2016.

B. Other security related initiatives

TAXUD will also ensure the legal framework to fight terrorism, money laundering and other serious crime is strengthened and its implementation by customs is supported. Cooperation between Customs and Border Guards was discussed with Member States in Narva in March 2015. The first on the spot visits of Customs together with border guards took place in Finland in November 2015 and should continue in 2016 to evaluate the Guidelines on the Customs-Border Guards (C-BG) cooperation. Contacts with Frontex have been established at senior management level regarding possible practical initiatives to be taken in the current security/migration context.

DG TAXUD initiated in 2015 the revision of the cash control regulation, including an evaluation, to strengthen the prevention of money laundering and terrorism financing by broadening the scope of application of the cash control regulation and by increasing the exchange of information between Member States.

The Commission also adopted a report¹⁰ on the implementation of the regulation on the export of cultural goods.

¹⁰ (COM (2015) 144 of 1 April 2015)

C. Protecting citizens

Customs are increasingly called upon to ensure that goods harmful for health, safety and the environment do not cross the EU external borders. DG TAXUD therefore focuses on strengthening coordination and uniform implementation by customs of non-customs legislation and supporting interagency cooperation.

In this context, the Commission adopted a Commission Delegated¹¹ and Implementing¹² Regulation on drug precursors in 2015.

In 2015, a first annual report on the unsafe or non-compliant goods found by Customs at the external border was issued. DG TAXUD also issued an EU report on the situation of the trade in waste between the EU and China and, together with the customs of China, recommendations for the future.

The emergence of “designer drugs” has seen a dramatic increase over the past few years. Customs and forensic laboratories are faced with a challenge in identifying these compounds because reference standards for many of the compounds do not exist especially with the increasing number (nearly 100) of new substances discovered every year. To ensure prompt, efficient and professional response to these threats, TAXUD collaborates with the JRC, HOME and CLEN within the SAND project.

D. Intellectual Property Rights (IPR)

Customs are also responsible for tackling, through border enforcement, the increasing volume of trade in goods infringing Intellectual Property Rights (IPR) that threatens jobs, growth, innovation and competitiveness. This is of key importance as an estimated 39% of the total economic activity and 26% of all employment in the EU is directly generated by IPR intensive industries.

The implementation of the EU customs Action Plan to combat IPR infringements for the years 2013/2017 continued, e.g. with the support visits to Member States and the connection of the anti-Counterfeit and anti-Piracy Information System (COPIS) to the Office of harmonization in the Internal Market (OHIM) enforcement database. The EU-Hong Kong IPR Action Plan was signed in April 2015 and within its framework a pilot on risk analysis and information exchange related to detention cases was launched. Within the framework of the EU-China IPR Action Plan, two pilots on risk analysis and exchange of information on detention cases were launched.

¹¹ COM (2015) 1011 of 24 April 2015

¹² COM (2015) 1013 of 25 June 2015

SPECIFIC OBJECTIVE 2.3

An efficient Customs Union through the effective prevention of fraud on customs duties and taxes, implementation of customs legislation EU-wide

A. Common Customs Tariff (CCT)

The uniform application of the Common Customs Tariff is ensured by adopting legal measures and several tariff databases managed by TAXUD. The daily updates and uninterrupted functioning of TARIC, the most important database is of huge importance as it is crucial to the proper processing of around 150 million import declarations that the EU customs treat every year. TAXUD ensured throughout 2015 that 110.000 measures and descriptions in TARIC were added or updated for instance with the daily allocation of tariff quotas. As such national customs authorities can answer electronically daily requests to benefit from a tariff quota from traders.

The customs declaration and the control of traded chemicals can only be done by experts. Moreover it implies that customs officers handle regularly dangerous and harmful substances. To support customs officers and economic operators, DG TAXUD keeps through the Customs 2020 programme the ECICS database up to date. This is the sole database in the world providing an approved and uniform tariff classification of chemicals. It provides to customs officers also useful information for a precise and safe control of the chemicals.

ECICS 2015

- 43.000 approved substances.
- 2.800.000 consultations by economic operators.

TAXUD also ensured the adoption of the 2016 Combined Nomenclature a method for designating goods and merchandise which determines which rate of customs duty applies when importing a product.

In 2015, TAXUD launched a project with Member States designing and implementing a series of concrete measures aimed at improving the performance of Member States in the tariff classification and binding tariff information (BTI) processes, the "Future BTI Project". Most of these actions put emphasis on discipline and compliance.

TAXUD and the Customs Laboratories European Network (CLEN) published in 2015 its first sampling manual for customs and taxation authorities (SAMANCTA), in all EU languages.

SPECIFIC OBJECTIVE 2.4

Facilitation of legitimate international trade



A. World Customs Organization

In the **World Customs Organization** (WCO), DG TAXUD organized as Vice-Chair of the WCO Europe Region several regional events and contributed actively as EU representative to the activities of WCO bodies. The review of the SAFE Framework to ensure that WCO standards reflect modern security challenges and address the relevant action by customs, taking into account EU interests, was finalized in June 2015. TAXUD was also very active in 2015 on the WCO/International Civil Aviation Organization (ICAO) initiatives concerning the joint advance cargo information discussions at the JWAGI.

B. Russia



TAXUD continued to deal with the various measures implemented by **Russian customs** and other border control authorities restricting trade flows between the EU and Russia, and in particular with the long-standing non-compliance of the Russian Federation with the TIR Convention. Against the background of sanctions and retaliatory measures between the EU and Russia, TAXUD contributed to securing and facilitating, as far as possible, fast and safe trade lanes on the EU-Russia border.

C. Bilateral agreements



DG TAXUD played an active role in ensuring the proper functioning of the **EU-Turkey** customs union, in particular in the successful resolution of the problem created by the unlawful suspension by Turkey of the common tariff for unwrought aluminium

The negotiation on the **EU-New Zealand** agreement on customs co-operation and mutual administrative assistance in customs matters was finalized and the negotiated text was initialed at the end of 2015. As a next step, the agreement will be proposed to Council for signing and conclusion

DG TAXUD also participated in the negotiations of the EU-Kazakhstan Enhanced Partnership and Cooperation Agreement (EPCA), signed on 21 December 2015 and whose provisional application depends on the ratification of the agreement by Kazakhstan.

C. Free Trade Agreements

DG TAXUD contributed in 2015 to complete **Free Trade Agreement** (FTA) negotiations with **Vietnam** and Economic and Partnership Agreements with **three African regions** (West Africa, Eastern African Community and South African Development Community) in the areas falling under TAXUD competence, i.e. the chapters on Customs and Trade Facilitation, Rules of Origin and Border Enforcement of Intellectual Property Rights. Substantial progress was also made in the FTA negotiations with **Japan** and TAXUD established the grounds for an ambitious customs agenda with the US in the context of both **T-TIP negotiations** and EU-US customs cooperation.

Progress was made in the implementation of the new Association Agreements, including the Deep and Comprehensive Free Trade Areas (DCFTAs) with Ukraine, the Republic of Moldova and Georgia. The EU-Georgia Strategic Framework for Customs Cooperation was signed on 18 March 2015.

D. Preferential Rules of Origin

By the end of 2015 the Pan-Euro-Mediterranean (PEM) Convention on **Preferential Rules of Origin** had been ratified by almost all the participating countries. The accession of the Republic of Moldova, and Georgia's request for accession to the Convention (both in 2015), constitute important steps towards the integration of the Eastern Partners in the PEM cumulation zone. The revision of the Convention is expected to be finalized in 2016.

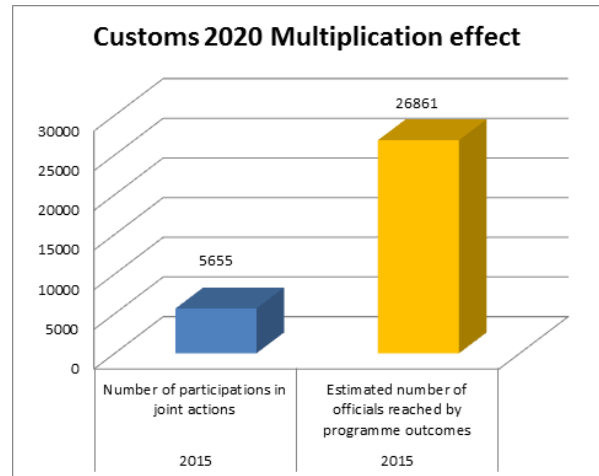
In 2015 the activities related to monitoring of the implementation of preferential trade arrangements have been intensified, in accordance with the Action Plan laid down in the 2014 Commission Communication. A number of beneficiary and partner countries and Member States have received detailed questionnaires and depending on their answers follow-up measures have been/will be carried out, including monitoring visits in the third countries concerned. These visits have targeted Papua New Guinea and Cambodia so far and will be extended to other third countries in 2016. The visits comprise the provision of tailor-made explanations and advice to the customs authority in the beneficiary country. In addition to questionnaires and monitoring visits, a number of Notices to Importers and Risk Profiles have been published.

SPECIFIC OBJECTIVE 2.5

Efficient implementation of the Customs 2020 programme to support the achievement of the customs policy objectives

The Customs 2015 Annual Work Programme was adopted in January 2015 and was the basis for all the activities (Joint actions, Training and European information Systems) that were undertaken during this year.

Like the Fiscalis 2020 programme, the Customs 2020 programme offers Member States a European framework to cooperate, but amongst national customs officials and through European Information systems (EIS) set up for customs. The programme is a key instrument for the implementation of the UCC and electronic customs. The networking effect is also a key element and equally around 95% of the responding participating customs officials shared the outcomes from their participation in their administrations. Considering the multiplication effect, the 2015 activities reached therefore some 26.000 European customs officials.



A particularity for customs is the European Human Competency Framework for customs developed in 2014 while its roll-out in the national training programmes started in 2015. Its objective is to improve customs performance standards by providing tools to adapt and enhance the agreed EU Customs competencies in national administrations and at the businesses level. Also in 2015, the development of a modular e-learning course for the Union customs code was launched to support the understanding of the new EU customs legislation as of 1/05/2016. In 2015, around 3.100 officials were trained using common training material according to the currently available data.

2. MANAGEMENT AND INTERNAL CONTROL

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

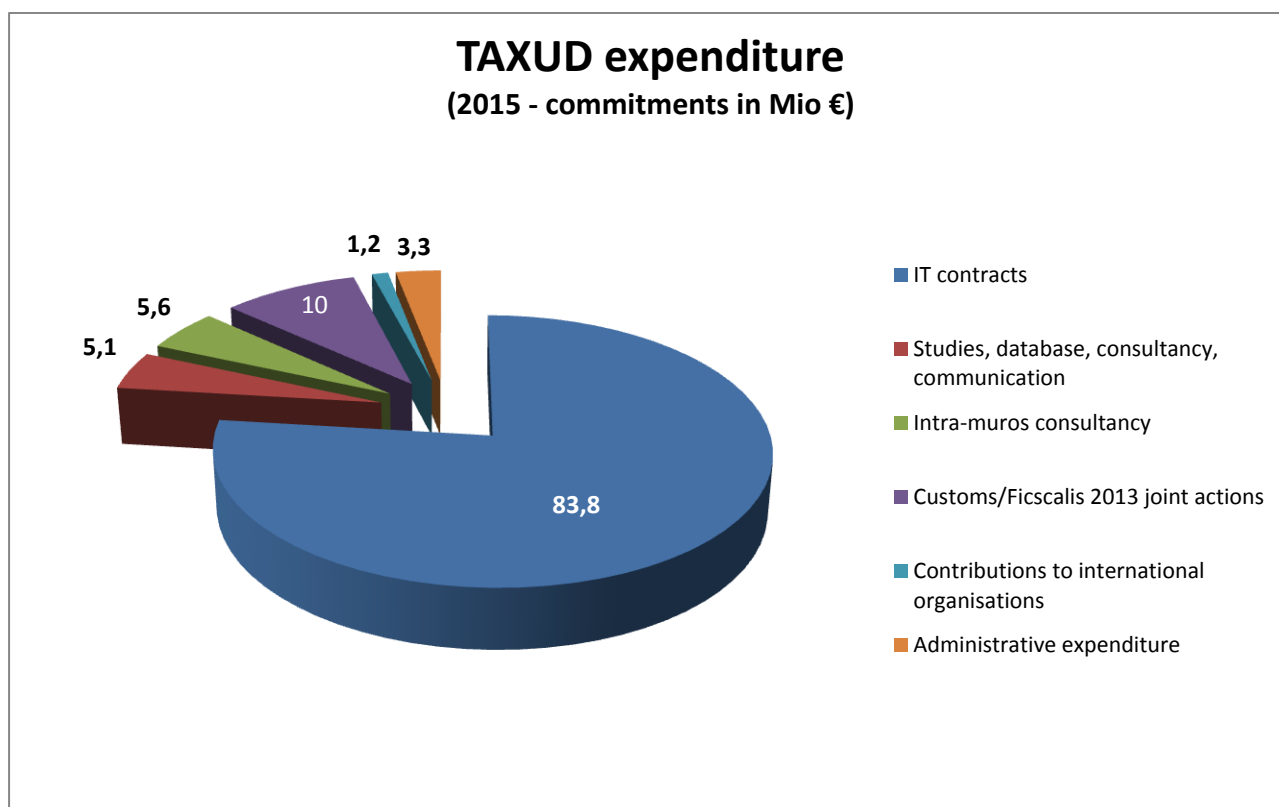
- the reports by the DG TAXUD Authorising Officers by Sub-Delegation;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the draft reports of the ex-post audits;
- the opinion of the internal auditor on the state of control, , and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).
- These reports analyse systematically the evidence available and provide a complete coverage of the budget delegated to the Director-General of DG TAXUD.

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

2.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives¹³. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

DG TAXUD is a policy DG with a relatively small budget (EUR 109.000.000 committed and EUR 100.750.000¹⁴ paid in 2015). The budget is implemented on a centralised basis.



The expenditure managed by DG TAXUD falls into the following categories:

- **Contracts (IT procurement, intra-muros and miscellaneous)**

Overall, the value of signed contracts represents about 86,7% of the total committed budget in 2015.

The greater part of DG TAXUD's operational budget is dedicated to IT expenses (EUR 83.800.000 committed in 2015) through several framework contracts concluded between the Commission and IT suppliers. These ensure the on-going

¹³ Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

¹⁴ EUR 96.614.404,23 paid by DG TAXUD, the rest being paid by PMO, DIGIT, etc.

work on the trans-European systems, networks and related databases, as well as the IT training tools, in line with the Fiscalis 2020 and Customs 2020 programmes.

Other contracts relate to procurement of different tools or services such as studies, databases, consultations (EUR 5.100.000 committed in 2015) or intra-muros technical assistance (5.600.000 committed in 2015).

- **Joint Actions under Customs and Fiscalis 2020 programmes**

Overall, the expenditure related to the Joint Actions represents about 9,2% of the total committed budget in 2015.

The Joint Actions (EUR 10.000.000 committed in total in 2015) represent the second major category of the expenditure under the programmes and within TAXUD. They are managed through two multi-beneficiary grant agreements (one for each programme).

The Joint Actions aim at developing better coordination between the national administrations in the tax and customs areas. The expenditure in the framework of the Joint Actions consists of grants awarded to the participating national administrations and reimbursement of costs incurred by experts. The beneficiaries of these grants are the public administrations of the 28 Members States and of 6 applicant countries (Albania, Bosnia and Hercegovina, fYRoM, Montenegro, Serbia and Turkey).

A small part (EUR 300.000 of the committed amount) is devoted to reimbursement of the travel and subsistence expenses of external experts.

- **Contributions to international organisations**

This type of expenses relates to the membership in international organisations: the World Customs Organisation and the International Tax Dialogue (OECD, IMF and World Bank), and represents about 1.1% of the total committed budget (EUR 1.200.000).

- **Administrative expenditure**

The administrative expenditure managed by DG TAXUD (mission's expenses, meetings of committees and expert groups, training, conferences and other miscellanea expenditure) represents about 2.8 % of the total committed budget (EUR 3.100.000).

Besides the above described expenditure, DG TAXUD received the following **sub-delegations** during the reporting period:

- a cross-sub-delegation from DG NEAR¹⁵ for the implementation of the "travel, accommodation and conference facility (TAC) 2015 for a seminar for the Western Balkan Countries and Turkey" under the Instrument for Pre-accession Assistance (IPA) Transition and Institution Building component. DG TAXUD committed EUR 22.000 and paid EUR 4.829,64. DG TAXUD's AOD issued a report without reservation on the use of

¹⁵ DG ELARG before 01/01/2015

these appropriations on 2 February 2016¹⁶.

- a cross-sub-delegation from ESTAT for the use of the Common Communication Network/Common System Interface (CCN/CSI) by application SIMSTAT. DG TAXUD committed EUR 250.000,00 and paid EUR 63.788,40. DG TAXUD's AOD issued a report without reservation on the use of these appropriations on 02 February 2016¹⁷.

As in previous years, DG TAXUD has **delegated appropriations to** DG DEVCO, DIGIT and DG EMPL. Being Commission services themselves, their AOD is required to implement the appropriations subject to same rules, responsibilities and accountability arrangements. The cross-subdelegation agreement requires the AOD of DG EMPL and DEVCO to report on the use of these appropriations.

- To be noted that DG DEVCO did not commit appropriations in 2015 while all cross-sub-delegations given to DIGIT during the previous year became co-delegations in 2015.
- A cross-sub-delegation was given to DG EMPL in the scope of the contribution to the AGM / AGORA meeting project. DG EMPL committed EUR 88.034,79 from the EUR 89.034,79 sub-delegated appropriations, i.e. 99,86% (from the administrative envelope¹⁸) and paid EUR 32.371,50 from the EUR 89.034,79 sub-delegated payment appropriations, i.e. 36,36% (from the same budget line). The DG EMPL AOD issued a report without reservation on the use of these appropriations on 5 February 2016¹⁹.
- Another cross-sub-delegation was given to DG EMPL in the scope of the proposal from OECD concerning the action "tax burden, benefit adequacy and work incentive" (DI 150030) under the PA Grant Agreement EC/OECD. DG EMPL did not commit the EUR 200.000 sub-delegated appropriations (from the operational internal market budget line²⁰). No payment appropriations were made available from the same budget line. The DG EMPL AOD issued a report explaining the non-use of these appropriations on 23 February 2016²¹.
- A former cross-sub-delegation was given to DG DEVCO in the scope of the "Good Governance in the Tax Area" in line with the recommendations of the "Tax and Development" Communication (on the former Fiscalis 2013 budget line²²). No commitments and no payment appropriations were made available to DG DEVCO in 2015. Indeed, all the funds were committed before the end of 2012 and the operations finished in 2013. The last two contracts are in the process of being closed. Consequently the remaining committed amount is to be decommitted by DG DEVCO in 2016. The DG DEVCO AOD issued a brief report for 2015 without any critical weakness or shortfall²³.

¹⁶ Ref. Ares(2016)583251 – 02/02/2016

¹⁷ Ref. Ares(2016)583123 – 02/02/2016

¹⁸ [BGUE-B2015-14.010201.00.02.20-C1-TAXUD/EMPL](#)

¹⁹ Ref. Ares(2016)640536 – 05/02/2016

²⁰ [BGUE-B2015-14.0401-C1-TAXUD/EMPL](#)

²¹ Ref. Ares(2016)927643 – 23/02/2016

²² [BGUE-B2015-14.035100-C1-TAXUD/DEVCO](#)

²³ Ref. Ares(2016)1302993 – 15/03/2016

As reported above, the AODs did not communicate any events, control results or issues which could have a material impact on assurance for the committed and paid amounts.

These reports have been submitted to a desk review, which did not result in any observations.

For the 2015 reporting year, the cross-delegated AODs have themselves reported reasonable assurance on the delegated budget managed by them on our behalf. They have signalled no serious control issues. For the amounts that have not been spent by the cross-delegated AODs, no report has been received.

Considering the relatively small amount entrusted to these other DGs, and bearing in mind the reports without reservation from the Authorising Officers in those DGs, DG TAXUD does not make additional controls as regards legality, regularity and error rates.

Risk-types / Activities	Grants (M€ committed)	Procurement (M€ committed)	Cross-delegations to other DGs (other AOXDs) – M€ committed	NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities) – M€	ICO indicators available at this level ? (cf. L&R, SFM, AFS, SAI, TFV)	Independent info from auditors (IAS, ECA) on assurance or on new/overdue critical recommendations available?	Any reservation?
IT	0	83,8	0,088	21,617	N	N	
Joint Actions	10	0		-6,263	N	N	
Studies, consultancy, communication	0	5,1			N	N	
Intra-muros	0	5,6			N	N	
International organisations	0	1,2			N	N	
Administration	0	3,3			N	N	
<i>Totals (coverage)</i>	<i>10</i>	<i>99</i>	<i>0,088</i>	<i>15,354</i>	<i>['overall' RER not meaningful; see overall AER & ARC]</i>	<i>Y</i>	<i>N</i>
ICO-related indicators available at this level ? (cf. L&R, SFM, AFS, SAI, TFV)	Y <i>RER : 0,58%</i> <i>CEC : yes</i> <i>SFM, AFS, SAI,</i> <i>TFV: OK</i>	Y <i>RER : 0,50%</i> <i>CEC : yes</i> <i>SFM, AFS, SIA,</i> <i>TFV: OK</i>	Y <i>L&R, SFM, TFV : OK</i>	Clean Mngt Decl. <i>SAI = OK</i> <i>TFV = yes</i>	['overall' RER not meaningful; see overall AER & ARC]	<i>n/a</i>	Y (L&R, AFS, use of resources, reliable reporting)
Links to AAR Annex 3	Overall total = 100,75M€; see Table 2 payments made			Table 4 – assets	n/a		

Coverage of the Internal Control Objectives and their related main indicators

- ***Control effectiveness as regards legality and regularity***

DG TAXUD has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

Procurement

For procurements, the control objective is to ensure that the DG has reasonable assurance that the amount of financial operations authorised during the reporting year and which would **not** be in conformity with the applicable contractual or regulatory provisions, does not exceed 2% of the total expenditure for the reporting year.

DG TAXUD calculates this number on the basis of the reported exceptions and non-compliance events, defined as control overrides or deviations from policies and procedures.

- During the reporting year, 9 exceptions and 3 non-compliance instances were recorded as control failure. None of these had an impact on the legality and regularity of the transactions. All concerned instances relate to formal compliance issues which do not have a negative impact on the budget.
- The correction of the detected erroneous invoicing which involved an amount unduly invoiced, resulted in 47 credit notes for a total amount of EUR 593.186,42. Please refer to table 8 in annex 3 for details. All errors and irregularities have been discovered before the actual payment, which is why no recovery order for unduly paid amount has been issued in 2015. Considering that all corrections take place before the actual payment is made (ex-ante), there are no errors left at the moment of payment. Nonetheless, to calculate the error rate for procurement, DG TAXUD has taken a most conservative approach and estimates the error rate for procurement at 0,50% (see also annex 4).

In conclusion, the analysis of the available control results, the assessment of the weaknesses identified and that of their relative impact on legality regularity has not unveiled any significant weakness which could have a material impact as regards the legality and regularity of the financial operations. It is therefore possible to conclude that the control objective as regards legality and regularity has been achieved.

Grants

The principle of effectiveness set out by the Financial Regulation concerns the attainment of the specific objectives set and the achievement of the intended results. In terms of financial management and control, the main objective (among the five ICOs) remains ensuring that transactions are legal and regular.

DG TAXUD has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

The control objective for the legality and regularity of the underlying transactions is to

ensure that the best estimate of the error rate by management is below 2%.

In order to better comply with payment deadlines, DG TAXUD modified in 2015 its methodology of verification of the final financial reports from the Member States' administrations. All payment requests and recovery orders are firstly verified by ex-ante controls embedded in the financial circuits. Furthermore, basic and high level checks (on top of the built-in controls within the IT system, ART2) are performed. After this first verification step the financial reports are provisionally closed and the settlement (either via a payment or a recovery order) with the beneficiaries is done. Only then the detailed desk reviews (ex-post controls), are performed. This ex-post verification may lead to additional recoveries from the Member States' administrations.

The ex-ante controls detected EUR 1.000 of ineligibly declared costs would result in an error rate of 0,01% in terms of payments made. Considering that the ex-post controls have not been finalised in 2015, the final results can only be reported in the 2016 annual activity report.

In 2015, DG TAXUD organised 3 ex-post on-the-spot audits, auditing 6 Member State administrations. These audits discovered certain errors. However, as the audits will only be formally finalised in 2016, the errors can only be reported in the 2016 annual activity report.

In the absence of the final results of the detailed ex-post desk reviews and considering that the results from the 6 audited administrations will only be known during 2016, the error rate from 2014, i.e **0,58% of payments made under the grants** has been used instead as DG TAXUD's best possible estimate for 2015 error rate.

The control strategy of DG TAXUD takes into account the specificities of the grants, where the beneficiaries are clearly defined by the programmes. More concretely, the beneficiaries of the grants are Member States' customs and tax administrations and Candidate and potential Candidate Countries' customs and tax administrations. Furthermore, ART2 (the obligatory IT system for managing joint actions) embeds several controlling measures. Last but not least, it must be noted that there are numerous individual actions with relatively small amounts involved for each action (reimbursement of travel and subsistence expenditures).

The assessment by the management is based on the results of key controls performed in 2015, notably ex-ante controls, monitoring of projects, and desk reviews. The desk-reviews are controls performed before the final payment/recovery. This better reflects the specificities of the grants and enables distinction with other controls. The desk reviews mainly focus on the more risky transactions and on the higher value transactions. Ex-post audits are only performed when indicated by the risk analysis or resulting from the desk reviews.

As the beneficiaries of the grants are clearly defined by the programmes and all projects and actions are ex-ante approved by DG TAXUD, the controls related to the selection and contracting phases ensure the legality and regularity of the grants commitments.

The analysis of the main causes and types of errors that were most commonly detected during the 2015 ex-ante control confirmed that it was not necessary to call into question the assurance.

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG TAXUD, the estimated overall amount at risk²⁴ for the 2015 payments made is EUR 490.616,75. This is the AOD's best, conservative estimation of the amount of expenditure²⁵ authorised during the year (EUR 100.745.504,48) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections²⁶ for those 2015 payments made are EUR 30.223,65. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

DG TAXUD	Payments made (FY ²⁷ ; EUR)	Error Rate (%)	Amount at risk (FY; EUR)	Estimated future corrections (FY; EUR) ²⁸
Procurement	87.183.497,86	0,50	435.917,49	
Grants	9.430.906,37	0,58	54.699,26	
Other ²⁹	4.131.100,25	0	0	
Overall	100.745.504,48	0,49	490.616,75	30.223,65

²⁴ In order to calculate the weighted average error rate (AER) for the total annual expenditure in the reporting year, detected, estimated or proxy error rates have been used (not the RER).

²⁵ For executive agencies, the weighted average error rate is based only on the operational expenditure without the subsidy from the parent DGs.

²⁶ This estimate is based on past performance, namely on the average recoveries and financial corrections (ARC) implemented since 2009 and applied to the payments of the year. The DG has adjusted this in view of the specificities of the DG's control system, [reason/argument: e.g. data includes ex-ante control elements, data includes exceptional corrections, past years data less relevant for current MMF, etc], with a view to maintaining the conservative character of the estimation.

²⁷ Financial Year

²⁸ Average of 0,03% since 2009, applied to the payments made during the financial year (the 0,6% corrective capacity (recovery context 2009-2015) includes ex-ante corrections which have been neutralised to better reflect the estimated future corrections)

²⁹ Payments made by other DGs such as PMO, DIGIT, etc. under co-delegation and/or cross-sub-delegation agreements

- **Efficiency and Cost-effectiveness**

Based on an assessment of the most relevant key indicators and control results, DG TAXUD has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

The principle of efficiency requires to ensure an optimal ratio between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section, together with the internal control templates in annex 5, outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

See also internal control templates in [Annex 5](#).

Procurement

DG TAXUD has produced an estimation of the costs of the three main control processes. A quantitative estimation of the volume of errors prevented and detected is not available though, since it is not possible to quantify the related benefits, other than by the amounts recovered or discovered as wrongly invoiced as a result of these controls (see previous section). By consequence, it is not possible to determine the cost-effectiveness of controls by comparing costs with benefits and it is therefore necessary to consider only the efficiency indicators. To do so, DG TAXUD has defined efficiency measures for the controls associated with the three core processes:

- For **procurements**, an estimated EUR 295.000³⁰ were invested in controlling 6 procurement procedures for contracts which had a total value of EUR 22.020.000. Each procurement procedure has an estimated handling cost of EUR 222.285³¹. Thus, 1,34% of the total contract value was dedicated to control. The average time to procure³² was 139 days in 2015.

The procurement procedures are to a large extent a regulatory requirement which cannot be reduced. These controls are undoubtedly a necessity to eliminate the risks outlined in annex 5.

- One planned 2015 procurement procedure was postponed to 2016. Overall, no 2015 procurement procedures needed to be retendered due to leakages. There were no procedures where no offers were received. All tendering procedures were accepted by the financial unit and there were no complaints from unsuccessful tenderers. The Committee on Public Procurement did not reject any procurement procedure.

³⁰ 2,24 FTE, representing the efforts of all actors involved in the control of the public procurement procedures (i.e. the actors in the financial unit, the committee on public procurement, the Authorising Officers by (sub-) Delegation, etc.).

³¹ 1,65 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure

³² Elapsed time between the publication of the procurement procedure in the Official Journal and the signature of the award decision.

For **payments**, an estimated EUR 500.000³³ were invested in preparing and controlling 1,201 payments worth EUR 96.610.000. On average a financial transaction costs an estimated EUR 416 for processing. Thus about 0,52% of the total payment amount was dedicated to control. The average time to pay in 2015 was 20 days³⁴.

DG TAXUD considers these controls necessary to be in compliance with regulatory requirements.

- For **contracts**, an estimated EUR 500.000³⁵ were invested in preparing and controlling about 250 contracts (or the amendments of the contracts) worth about EUR 94.500.000. Thus about 0,53% of the total amount contracted was dedicated to control. In average preparation and controlling of each contract costs an estimated EUR 2.000. DG TAXUD considers these controls are necessary to ensure compliance with regulatory requirements.
- There were no specific ex-post supervisory measures on procurement in 2015. The first upcoming lessons learned exercises will be conducted in Q1 2016.

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1.295.000³⁶ and are considered cost effective (in particular as the cost of these controls represents only 1,34% of the total payments made).

Cost efficiency indicator	Result 2015
Procurement - overall cost of control (% over payments made)	1,34%
Procurement - cost of controls of the evaluation and selection procedure/ value contracted (%)	1,33%
Procurement - related cost of control of payments/ amount paid (%)	0,52%
Procurement - related cost of control of the supervisory measures/ value of transactions checked (%)	0,069%
Time to pay (days)	20 days
Time to procure (days)	139 days
Average cost of a payment	EUR 416
Average cost of establishing and managing a contract	EUR 2.000
Average cost of a procurement procedure	EUR 222.285

³³ 3,8 FTE, representing the combined efforts of actors in the financial and operational units involved in invoicing process and in the payments preparation, verification and execution

³⁴ The average time to pay comprises all payments executed by DG TAXUD.

³⁵ 3,8 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

³⁶ A total of 9,67 FTE

Grants

Cost efficiency indicator	Result 2014
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	11.7%
Grants - cost of control ex post audits/ value of grants audited	NA ³⁷

The applied ex-ante controls ensure that the errors detected during the desk reviews are very limited. As the control strategy primarily aims to ensure compliance with the regulatory framework, its benefits are not quantifiable.

During the reporting year the controls carried out by DG TAXUD for the management and control of the grant programme cost about 1.099.520€, representing 11,66% of the total grant payments and are considered cost effective. Whilst this cost of control may seem relatively high, it must be noted that this covers, apart from the cost of controls (ex-ante and ex-post) in the financial unit, the costs related to the entire Customs2020/Fiscalis2020 programme management team in charge of the programming, monitoring and execution of the grants which is considered to be an integral part of control and represents about 67% of the total costs of controls for the grants.

These controls are essential to ensure compliance with regulatory requirements.

Overall control results (all stages combined³⁸)

DG TAXUD quantifies the costs for carrying out the controls described in annex 5 on the basis of the resources and inputs required for these controls and estimates their benefits, in so far as possible, in terms of the amount of errors and irregularities prevented, detected and corrected by these controls (as per Annex 3, table 8). Most benefits however are non-quantifiable covering non-financial gains like: better value for money, deterrent effects, efficiency gains, system improvements, protection from reputational damage and, above all, compliance with regulatory provisions.

In 2015, the controls cost in total EUR 1.295.000 for procurement related controls, and EUR 1.099.000 for grants related controls, representing 2,48% of all payments made under procurement and grants) and are therefore considered cost-effective. These controls are essential to ensure compliance with regulatory requirements.

DG TAXUD does not intend to use the possibility in art 66.2 to differentiate the frequency and/or the intensity of the DG's controls: No revisions were considered needed or cost-effective.

³⁷ 3 audits, auditing 6 MS administrations started in 2015 and are being finalised in 2016.

³⁸ Procurement and grants

- **Fraud prevention and detection**

DG TAXUD has developed and implemented its own anti-fraud strategy since December 2013, elaborated on the basis of the methodology provided by OLAF. It has been updated in December 2015.

The DG TAXUD Anti-Fraud Strategy (AFS) expired at the end of 2015. Its renewal was postponed to allow the new Director-General to take position.

The strategy defines the overall anti-fraud objectives and included a detailed action plan for the 2014-2015 period. The objectives and actions were defined on the basis of OLAF's specific guidance, the risk assessment exercises, the ethics surveys, the audit recommendations and the internal control reports.

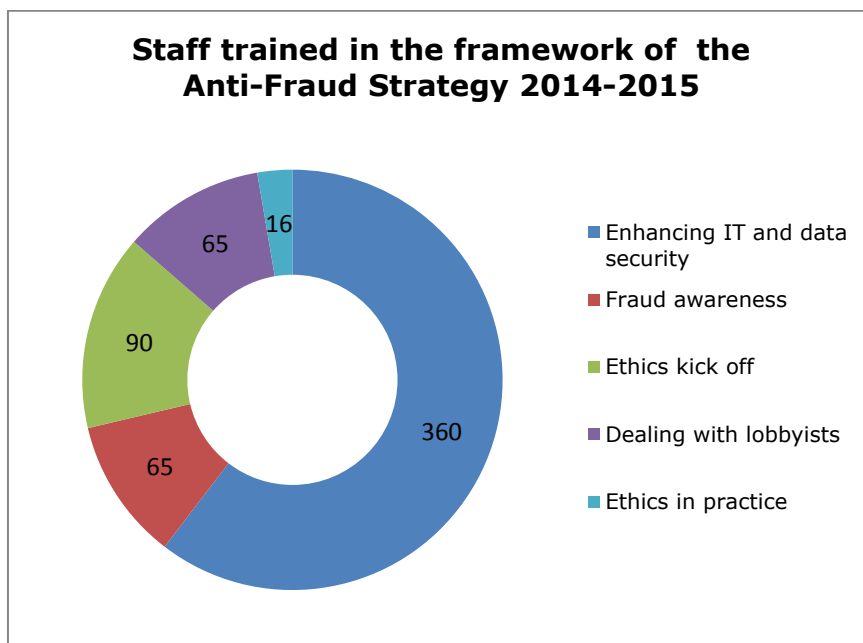
During 2015, specific anti-fraud related actions were carried out in DG TAXUD:

- Anti-fraud awareness rising among staff.
- Awareness rising among staff on IT data and document security.
- Raising awareness on possible conflict of interest in dealing with external stakeholders such as lobbyists, tenderers, contractors.

Significant progress has been achieved in implementing the 2014-2015 action plan: 15 out of the 16 actions are fully implemented. The only outstanding action concerns the definition of DG TAXUD's "red flags", which was planned to be developed in close cooperation with the Internal Audit Capability (IAC). Due to the abolishment of the IAC and following some internal staff changes, this action could not yet be completed. It is planned to be dealt with in 2016.

The AFS is monitored regularly and proved to be a reliable tool to follow up anti-fraud controls in an effective and efficient manner. The state of implementation of the anti-fraud strategy is reported to the senior management at least once per year.

The various training sessions, workshops and the communication to staff through updated information on the intranet resulted in a significant increase of awareness in the area of anti-fraud and ethics across the DG. Over 35 training sessions aimed at the prevention, detection and reparation of fraud were organised, reaching up to 90% of staff in DG TAXUD.



Training sessions organised in the framework of the Anti-fraud Strategy 2014-2015

- **Other control objectives: safeguarding of assets and information, reliability of reporting (if applicable)**

Not applicable for DG TAXUD.

2.2 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

DG TAXUD was audited by both, internal and external independent auditors: the former Internal Audit Capability (IAC), the Commission Internal Audit Service (IAS), DG Budget and the European Court of Auditors (ECA).

The DG centrally monitors the implementation of all accepted audit recommendations; this involves:

- liaising with the operational units responsible for the implementation of the recommendations so as to ensure that the agreed deadlines are met;
- recording and reporting progress to DG BUDG, ECA and IAS on the actions taken.

IAS conclusion on the state of internal control

IAS concluded that the internal control systems audited are overall working satisfactorily although a number of very important findings remain to be addressed in line with the agreed action plans as outlined below.

Particular attention should be given to the impact of the delay observed in implementing last very important recommendation on performance measurement of customs activities and remaining five very important recommendations on external communication process.

At the time of writing this report, progress has been achieved and the auditees took further actions towards the implementation of the outstanding issues (as outlined below) by the agreed deadline.

AUDIT ENGAGEMENTS in 2015

As of March 2015, the internal audit function was centralised and the Internal Audit Service (IAS) took over the IAC's responsibilities. In 2015, the following audits, follow up audits and implementation of action plans took place in DG TAXUD:

PERFORMANCE OF ANTI-FRAUD ACTIVITIES IN THE OWN RESOURCES, CUSTOMS AND TAXATION (new IAS audit in 2015)

The IAS announced the audit in mid-2015 (expected completion by Q1 2016). The audit work is in progress.

PERFORMANCE MEASUREMENT OF DG TAXUD CUSTOMS ACTIVITIES (2014 IAS audit)

The main objective of the audit was to assess the extent to which DG TAXUD had an adequate performance measurement framework in place for customs activities both in terms of its day-to-day operational and administrative activities (internal) and in terms of

the delivery of policy objectives (external). The audit resulted in 2 very important and 1 important recommendations.

The only not fully implemented very important recommendation required DG TAXUD to develop its planning, measurement and monitoring processes so that these become an effective tool to manage, supervise and improve operational activities at all levels. This recommendation was translated into 14 actions with the majority of these actions being implemented by TAXUD.

The outstanding actions concern:

- the definition of a limited set of key performance indicators and reporting which is done in the context of the SPP documents (Strategic Plan 2016-2020, Management Plan 2016, Annual Activity Report 2015) to be approved by Q1/2016;
- the approval of a PICS collaboration strategy by the management in Q1 2016.

The original due date was 31/03/2015 but revised to 31/03/2016. As the above unresolved issue do not relate to controls concerning the implementation of the Commission's budget, it does not contribute to the expression of the Internal Auditor's overall opinion on the year 2015. An IAS follow-up audit is tentatively planned for Q2 2016.

AUDIT ON THE EXTERNAL COMMUNICATION (Feb 2015, ex-IAC audit)

The objective of this audit was to give a reasonable assurance that the sector responsible for Information and Communication and other TAXUD units in charge of external communication put in place adequate measures to ensure that communication processes are effectively and efficiently implemented in order to provide reliable, relevant and up-to-date external communication. The audit resulted in 7 very important (two downgraded by IAS to important), 6 important (one downgraded by IAS to desirable) and 1 desirable recommendation. The outstanding main actions concern the need to develop an external communication strategy and to strengthen collaboration with the policy units in the framework of external communication activities. An action plan implementation is in progress and remaining actions are to be completed in Q2 2016).

At the time of writing, the progress on the remaining very important recommendations can be summarised as follows:

- The strategic importance of communication in the taxation and customs area is recognised by management at all levels. Communication is now a fixed agenda item at the weekly TAXUD management meeting. TAXUD strategy for external communication has been revised to reflect the priorities in the TAXUD strategic plan for 2016 -2020 and will be endorsed by the Management meeting. This new strategy includes, amongst others, the communication objectives, indicators, target audience, communication tools and channels, resources, governance and planning. The role of the website and the use of social media has also been reconsidered within this new strategy. With regard to the Europa Website, a new homepage and navigation structure was implemented in June 2015. The main communication actions for 2016 were included in the annual management plan and specific communication plans are being developed with particular reference to performance measurement.

AUDIT ON PROCUREMENT AND MANAGEMENT OF STUDIES (Feb 2015, ex-IAC audit)

The objective of the audit was to provide the Director-General with a reasonable assurance that the systems in place for planning, procurement, contractual management

and use of external studies undertaken at the level of the DG are effective and efficient to support the achievement of the DG's objectives, and implemented in compliance with the relevant rules. The audit resulted in 2 very important (both downgraded by IAS to important) and 6 important recommendations (one downgraded by IAS to desirable), which required improved annual planning and management overview. All of the recommendations are considered implemented. The Internal Audit Service has started a follow-up audit in February 2016.

All of the above recommendations were accepted by the Directorate General. The table below depicts the state of implementation according to auditees' assessment (status at the time of writing).

AUDIT	ISSUED RECCOMENDATIONS	RECCOMENDATIONS IMPLEMENTED	PENDING RECCOMENDATIONS
<i>Performance Measurement of Customs Activities</i>	3	2	1
<i>External Communication Strategy</i>	14	3	11
<i>Procurement and Management of Studies</i>	8	7	1
TOTAL	25	12	13

FOLLOW-UP AUDITS

During the referenced period, three follow-up audits of the IAC's audits took place in DG TAXUD: Follow-up audit on the intra-muros (Jan 2015), Follow-up audit on the capitalisation of intangible assets (Nov 2015), Follow-up audit on ethics (Oct 2015).

Based on the results of the follow-up audits, the auditors concluded that all recommendations had been adequately and effectively implemented and the audits could be closed.

Additionally, in 2015 DG BUDG has performed the follow-up of the remaining four open recommendations resulting from the validation of local systems in DG TAXUD. It concluded that DG TAXUD has taken the necessary actions in relation to the issues reported and all the recommendations had been closed.

European Court of Auditors (ECA)

DG TAXUD has systematically examined the observations and recommendations issued by the European Court of Auditors.

With regard to the ECA's Annual Report concerning the financial year 2014, there is one new recommendation for DG TAXUD issued in 2015, which was accepted by the management: to improve guidance on post clearance audits. The Commission will address the Court's observations within the current framework of the Common Risk Management Strategy and its Action plan, particularly in the ongoing work on financial risk criteria.

Following a performance audit launched by the Court of Auditors on intra-Community VAT fraud in 2014, a Special Report on tackling intra-Community VAT fraud is expected to be released by ECA in March 2016 with new recommendations.

ECA's Annual Report concerning the financial year 2013:

One very important recommendation required the establishment of minimum risk analysis standards for the customs post-clearance audits, including building upon the information in the existing database of imports, in order to allow Member States to better target risky importers. The new version of the Customs Audit Guide (2014) sets out risk indicators for the post-clearance audits. Changes to the existing database are planned to be fully operational by 2018.

ECA's Special Report 1/2010 on simplified customs procedures for imports:

One important recommendation required further simplifications by May 2016.

One important recommendation required computerisation by end 2015 but will only be fully implemented by end 2020, with the full implementation of the Union Customs Code provisions on simplified procedures.

ECA's Special Report 02/2014 on preferential trade arrangements:

One important recommendation required to promote the replacement of origin and movement certificates with exporters' self-certification by end 2017.

CONCLUSION

As a result of the assessment of the risks underlying the auditors' observations together with the management measures taken in response, the management of DG TAXUD believes that the recommendations issued do not raise any assurance implications and that they are being implemented as part of the on-going continuous improvements efforts.

2.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG TAXUD has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG TAXUD annually assesses the effectiveness of its key internal control systems. The assessment relies on a number of monitoring measures and sources of information:

The annual review of the internal control system (ICS- 15) was based on desk review, followed by a screening exercise of the 16 internal control standards involving the relevant horizontal units responsible for the implementation of the ICSs. In conclusion, the internal control standards are effectively implemented, although some improvements could be achieved for the quality of exceptions and

non-compliance reporting (ICS 8), in the area of business continuity system (ICS 10), and external communication strategy (ICS 12) where the DG will take measures to further improve their efficiency in 2016.

The Internal Audit Service, in its report to the Director-General of DG TAXUD³⁹, observed delays in implementing the very important recommendation on performance measurement of customs activities (see also above). This, however, has no impact neither on assurance nor on the overall conclusion of the state of the DG TAXUD internal control.

For the prioritised ICSs in 2015 (ICS5: Objective and Performance Indicators; ICS10: Business Continuity), special attention was given throughout the year.

- As a result, unit level management plans (UMP) are designed for defining operational objectives and related indicators, for prioritising unit's activities and resources and for managing potential risks linked to the delivery of their outputs (ICS5).
- As regards Business Continuity (ICS10), the relevant documentation is safeguarded and easily accessible for the concerned staff but will continue to require constant follow up of the quality of information. Furthermore, organisational and operational changes in the DG require a global review of the business continuity, crisis management and duty officer functions and systems in DG TAXUD. This standard will therefore continue to be prioritised in 2016.

The register of exceptions and non-compliance events was analysed in order to identify the underlying causes behind these events. When necessary, corrective and alternative mitigating controls have been implemented. However, for better quality and efficiency of the reporting, the responsible unit will further monitor this standard in 2016.

The outcome of the yearly risk assessment exercise, the reports to the management, the audit reports and recommendations were analysed and the IAS opinion has been taken into account.

As reported in Section 2.2, the respective recommendations are monitored and in progress and follow-up audits performed by the Internal Audit Service were considered adequately and effectively implemented and could be closed.

The declarations of the Authorising Officers by sub-Delegation and the auditors' opinion on the state of the internal control system do not raise any assurance implications.

In conclusion, the internal control standards are effectively implemented and functioning. In addition, DG TAXUD has taken measures to further improve the effectiveness of its internal control systems in the area of objective and Performance Indicators and business continuity.

³⁹ Ares(2016)767353 dated 12/02/2016

2.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.2 and 2.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in sections 2.1, 2.2 and 2.3 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG TAXUD.

Concerning the DG's assessment of the management of its own resources, in Part 2 the control results and other relevant elements on the achievement of the internal control objectives were reported. The brief description of the expenditure areas managed by the DG showed that its main expenditures fall into the two main categories of procurement contracts and multi-beneficiary grants.

In part 2.1 these two expenditure areas were analysed. It was demonstrated that the combination of substantial ex-ante controls (both technical and financial) performed during the tendering procedures together with the extensive ex-ante controls of financial transactions ensures that the assigned resources have been used for their intended purpose and in accordance with the principles of sound financial management. The total control cost of EUR 1.295.000 for procurement and EUR 1.099.000 for grants, is considered cost-effective. The control strategy for grants is fit for purpose and in line with the specificities of the grant agreements (beneficiaries directly identified in the legal base (no calls for proposal), mostly reimbursement of pre-agreed projects and actions, relatively small amounts). The overall procurement and grant control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions and also aim to prevent and detect fraud.

DG TAXUD has cross- sub-delegated a relatively limited amount to other Commission DGs. Information received from other Authorising Officers gives reasonable assurance that the resources allocated to the activities covered by the crossed sub-delegations were used in accordance with the purposes and the principle of the sound financial management.

Concerning the overall state of the DG's control system, the DG generally complies with the ICSs. The chosen prioritised standards and requirements for further monitoring (exceptions and non-compliance reporting, business continuity, external communication) and derived actions clearly reflect and respond to the current risk environment of the DG. There is a continuous effort to improve the effectiveness of the internal control system.

Furthermore, it was demonstrated that the results from the audits performed in the past years, their recommendations and follow-ups support the above mentioned reasonable assurance about the correct use of the resources. Any on-going issues do not relate to controls concerning the implementation of the Commission's budget, and do not affect the expression of the Internal Auditor's overall opinion on the year 2015.

The Antifraud Strategy is monitored regularly and proved to be a reliable tool to follow up anti-fraud controls in an effective and efficient manner.

In summary, the information reported in part 2 covers the entire budget delegated to DG TAXUD in 2015. It represents a true and reliable view of the resources used for the intended purposes and in accordance with the principle of the sound financial management. The information reported in sections 2.1, 2.2 and 2.3 does not result in

any major issues deserving a reservation:

- The amount at risk for the total expenditure managed by DG TAXUD is below the materiality level.
- No critical issues were highlighted by internal or external auditors;
- No issues were pointed out by the Authorizing Officers by Sub -delegations;
- Full compliance with the Internal Control Standards; weaknesses (if any) are known and addressed

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of DG Taxation and Customs Union

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁴⁰.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the opinion of the Internal Auditor on the state of control.

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

Brussels, 23/03/2016

(signed)

Stephen QUEST

⁴⁰ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG