



2014

Annual Activity Report

DG BUDGET



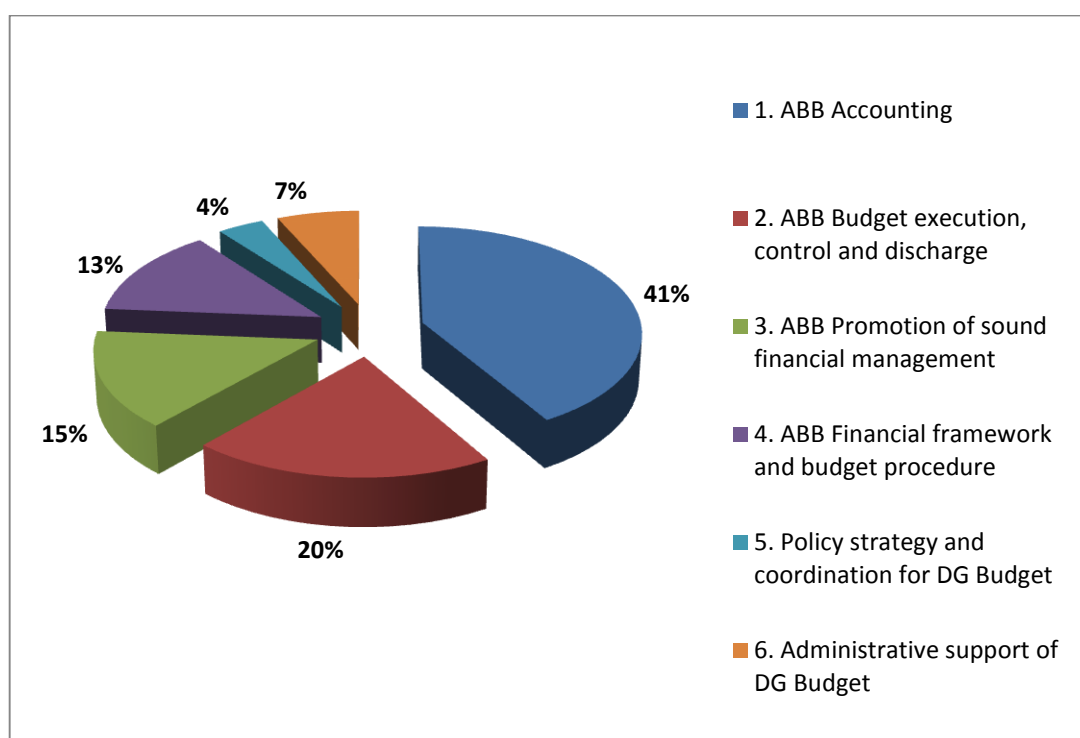
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INTRODUCTION:

The DG in brief

DG Budget (hereafter "BUDG") has around 490 staff members including contract agents¹. It is structured around five Directorates based in Brussels, which deliver results in four operational ABB activities: (i) Accounting, (ii) Budget execution, control and discharge, (iii) Financial framework and budget procedure, and (iv) Promotion of sound financial management. The Deputy Director General is the Accounting Officer of the Commission, responsible for the management of the central treasury and preparation of the accounts of the Commission, as well as some other bodies² and the consolidated accounts of the EU.



BUDG is the central service driving the execution of the full budgetary cycle, from the preparation of the draft budget to its implementation and the discharge by the European Parliament. Moreover, the DG is responsible for the legal framework applicable by the different institutions, agencies and member states, and it plays a key role in promoting sound financial management and a performance culture in order to maximize the results on the ground from the execution of the EU budget. Its operations can be summarized in eight key activities or outputs:

- ❖ Preparation of the draft budget and active contribution to the budgetary process in order to ensure that the Council and European Parliament allocate the resources needed for the European Union's policies, on the basis of an effective financial programming within the Multiannual Financial Framework (MFF);

¹ There are also 70 intra-muros IT consultants present in the premises

² EEAS, EDPS, CEPOL, FCH, JSIS, EDF; but not Trust Funds & Guarantee Fund

- ❖ Management of the system of Own Resources of the EU budget;
- ❖ Management of the budgetary regulatory framework, in particular the Financial Regulation (FR)³;
- ❖ Support to the Authorizing Officers by Delegation (AOD) to implement the budget in compliance with the regulatory framework;
- ❖ Promotion of sound financial management and a budget focused on results, both within the Commission and with other institutions responsible for expenditure;
- ❖ Reporting on the implementation of the budget;
- ❖ Preparation of the annual accounts of the Commission and other bodies, and the consolidated accounts of the EU; and management of the corporate IT system for financial management and accounting (ABAC)
- ❖ Management of the central treasury;
- ❖ Coordination inside the Commission and cooperation with the Court of Auditors, the European Parliament and the Council in the context of the discharge of implementation of the budget.

The Accounting Officer manages the central treasury and prepares both the Commission and EU consolidated accounts. To do this, the accounting services perform certain controls over the accounting data produced by the AODs⁴. The accounts are prepared via ABAC, the Commission's corporate financial/accounting system. BUDG is the system owner and provides supporting services to all of the Commission's DGs/Services, the European External Action Service and 46 other External Entities, resulting in a user community of over 11 500 users around the world.

BUDG is responsible for managing the Union's own resources, notably the three main categories: traditional own resources (TOR, i.e. custom duties and sugar levies) and the VAT and GNI resources⁵. As delegated authorising officer for own resources, BUDG manages financial flows with Member States and ensures that own resources are duly collected and made available timely.

Furthermore, BUDG has a formal role concerning the management of reserves, appropriations which may be unblocked under specific conditions by the Budgetary Authority. BUDG's role is to ensure that these conditions are met before making appropriations available.

Beyond its own operational responsibilities, BUDG is a horizontal department providing support, advice and tools to all other DGs within the Commission, to other institutions and to the Agencies.

Expenditure related to BUDG is exclusively administrative. The budget of EUR 13.65 million (commitment appropriations) is aimed at ensuring the functioning of the DG as well as maintaining and improving the Commission's corporate financial/accounting systems. To optimize the use of human resources, appropriations are managed centrally and a centralised financial circuit is in place.

³ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union – OJ L 298, 26.10.2012, p. 1.

⁴ According to the Financial Regulation, the AODs are responsible for the reliability of data and thus perform more detailed controls themselves.

⁵ BUDG cooperation with ESTAT on GNI calculation is further developed in the relevant sections throughout the AAR.

The year in brief

The activity of BUDG during 2014 was marked by **five main priorities or challenges in its core activities**: (i) ensuring the launch of the new Multiannual Financial Framework (MFF) and the new system of Own Resources, (ii) managing the very challenging implementation of the annual budget derived from the scarcity of payment appropriations in comparison to the commitments from the past MFF, (iii) achieving a successful outcome for the particularly complex negotiation of the budget for 2015, (iv) supporting the effective implementation of the new Financial Regulation, and (v) striving towards the successful completion of the discharge process for the 2013 budget. The DG also had to respond to the successive changes in the competent Commissioner and Director General.

The successful conclusion of the budget negotiation at the end of the year (including the budget for 2015 as well as a number of amending budgets for 2014), and the positive results in terms of discharge (particularly in the fields of direct responsibility of the DG of accounting and management of Own Resources) are two good examples of the positive performance of the DG in terms of protection and promotion of sound financial management of the EU budget.

Multiannual financial framework and Own Resources

Following the long-awaited agreement on the MFF 2014-2020 between the European Parliament and the Council, and its entry into force, BUDG made all efforts to ensure a smooth transition and facilitate the **finalisation of the legislative process** in the first months of 2014.

On 26 May, the **Own Resources legislative package** was formally adopted by Council, following the opinion and consent given by the European Parliament on 17 April 2014. The package comprises the Own Resources Decision (ORD), the implementing regulation and the so-called 'Making Available' Regulation⁶. Pursuant to Article 311 of the Treaty on the Functioning of the European Union the ORD needs to be ratified by the Member States in accordance with their respective constitutional requirements. The ratification procedure is not expected to be completed before the beginning of 2016, at which time the new ORD will enter into force with retroactive effect from 1 January 2014.

In parallel, BUDG continued to contribute to the legislative process for the finalisation of **sector-specific regulations** required to implement the policies and programmes under the MFF 2014-2020 which could not be completed in 2013. In particular, the DG played a key role to ensure coherence between the legislative texts negotiated and the overall MFF, concerning the financial aspects, the respect of the sound financial management principles and the commitments to simplification.

The late adoption of the sectorial regulations for the launch of the programmes for 2014-2020 led to delays in the adoption of a number of operational programmes for the European Structural Investment Funds. As a result, some 24% of the commitments authorised in the 2014 budget had to be either carried over to 2015 or reprogrammed in 2015 and following years according to article 19 of the MFF regulation.

The **absence of material errors in the management of Own Resources** certified by the Court of Auditors for one more year was a very positive indicator of the performance by BUDG of its responsibilities in this field. Amongst the main developments during 2014, it is worth highlighting the exceptional high result arising from the **GNI balances exercise** and its impact on the national budgets. In order to respond to this unusual development and to avoid the potentially negative impact on national budget stability at a very late stage of the year, the

⁶ Regulation (EC, Euratom) No 1150/2000 implementing Decision 2007/436/EC, Euratom on the system of the European Communities' own resources

Council adopted on 18 December 2014 Regulation No 1377/2014 amending the 'making available' Regulation. This amendment enabled Member States to defer the payment of the amounts corresponding to the balances until the first working day of September 2015. Eight member states have deferred the payment (NL, BG, SI, FR, CY, IT, MT, UK).

BUDG was also instrumental in the successful start-up of the **High Level group on Own Resources**, by providing the core element of its secretariat and feeding the work and discussions which led to the Group's first assessment report published on 17 December.

Budgets 2014 & 2015

In 2014, the close monitoring of budget implementation continued to be of utmost importance to ensure the adequacy of financial means to needs. In order to ensure an **efficient use of the scarce payment appropriations** in the budget for 2014, the Commission has put in place measures for the active management of payments. Those measures are aimed at maximising the implementation of programmes, minimising the impact of interest for late payments and other liabilities, and minimising the negative impact on third parties and the economy as a whole for programmes under shared, direct and indirect management, with priority given to fragile recipients, such as Member States under financial assistance, SMEs and NGOs.

BUDG regularly informed the European Parliament and Council on the state of budget implementation and on the difficulties posed by an insufficient level of payment appropriations authorised in the budget. Moreover, as early as May 2014 the Commission proposed a draft amending budget to increase the authorized payment appropriations in order to address the unprecedented level of payment claims received in the final weeks of 2013, without any need to call on additional contributions from Member States given the exceptional revenues accruing to the budget during 2014.

The agreement on the budget for 2015 on 17 december 2014 also brought agreement on the amending budget increasing the level of payment appropriations for 2014, which allowed the execution of a very large volume of payments in the last 4 working days of the year and the containment of the backlog of unpaid bills at year-end. The European Parliament and Council acknowledged the problem of relatively scarce payment appropriations in a joint statement accompanying the agreement on the budget for 2015 and showed their commitment to addressing it on the basis of a payments plan to be presented by the Commission.

Despite all the measures put in place and the additional payments agreed, the Commission could not avoid some delays in the payments of its legal and/or contractual obligations and failed to respect the agreed deadlines. Also operationally, this resulted in delays in the launching/contracting of new programmes.

BUDG considers that, taking into account the active management of the available payment appropriations during the reporting year, both the financial and the reputational impact of this situation was sufficiently mitigated. In other words, the impact of the shortage of payment appropriations did not result in a material impact on either the sound financial management or on the legality and regularity of the overall Commission expenditure in 2014.

Regarding the **Financial impact**, a number of Commission services have been facing major managerial and operational challenges; some DGs ran out of payment appropriations several months before the end of the year after having exhausted all possibilities for reallocation between budget lines and while waiting for additional payment appropriations requested in the amending budget. Interests for late payments increased almost five fold to some EUR 3 million in 2014. Despite the steep increase, the absolute amount of interests is relatively contained when compared to the level of unpaid bills at the end of 2014, which are to a very large extent concentrated in Cohesion policy (EUR 24.7 billion). For the latter, the reimbursement of claims to public entities in Member States is conditional to budgetary availability, and no interest is applied for late reimbursement, thus considerably limiting the financial impact on the EU

budget. There was no reported case of litigation resulting from late payment.

With regards to the **Reputational impact**, in line with the recommendations of BUDG and SG, Commission services endeavoured to actively manage the available appropriations in a number of ways: pro-actively recovering any undue amounts; limiting idle amounts on fiduciary accounts; reducing the pre-financing percentage; making best use of maximum payment deadlines allowed; postponing calls for proposals/tenders and related contracting. As a result, a number of payments due-dates were shifted into 2015. While these actions avoided larger negative financial impact for the EU budget, they had an impact on legitimate expectations from stakeholders who may have had to postpone the start of their project and/or to temporarily co-finance it to a higher degree. Nevertheless, so far the reputational damage has been contained. There are no compelling indications at this stage that the long term achievement of the overall policy objectives themselves will be materially affected.

During 2014 the Commission reduced its **staff levels** to meet the 5% reduction target over five years set for all EU institutions, bodies and agencies, as agreed in point 27 of the Interinstitutional Agreement on budgetary discipline, cooperation in budgetary matters and on sound financial management.

Treasury management accounts and discharge

The **treasury situation** has been constantly monitored and planned to ensure the orderly implementation of payments and optimal use of available cash resources, in a context of cash constraints and high payment needs. In particular during the first half of 2014 the size of monthly payment needs regularly exceeded the available cash resources. Approximately two million payments were executed in the year, for an overall amount of approximately EUR 140 billion.

Better cash forecasts were required from the Authorizing Officers, and close Risk management for provisional fines and bank guarantees handling were necessary, as well as specific measures for planning and coordination with spending services with a view to **orderly manage the monthly prioritisation of payments** and prevent authorisation of payments from exceeding available cash resources at any given time; such as the rationing of the payment appropriations made available to Rural Development and Cohesion in the first half of 2014.

Maintaining the **positive opinion on the accounts from the European Court of Auditors** for the seventh consecutive time was a major achievement in 2014.

BUDG continued to reinforce its international stance as a public sector accountant, contributing actively to activities and debates, and hosting a meeting of the International Public Sector Accounting Standards (IPSAS) Board in September 2014.

The Court of Auditors concluded its process of **declaration of assurance (DAS) for the 2013 budget** with a slight reduction of the overall error rate of 4.7 % in the expenditure of EU Funds. While no material error was found in the fields of accounting, own resources, and administrative expenditure, the Court considered errors for operational expenditures to remain above its materiality threshold in a number of areas.

Given the relevance of **shared management** for close to 80% of the EU budget implementation, the Court estimated the error rates which could have been achieved during 2013 if Member States authorities would have used the available information to prevent, detect and correct the errors before declaring the expenditure to the Commission. In some cases the error rates would have been reduced to a figure close to or below the materiality level. For the first time the Court accounted for the Commission and Member States' corrective measures before payment claims have been presented to the Commission.

BUDG substantially contributed to the coordination and effective implementation by the Commission of the recovery and correction instruments provided by the legal framework, which

amounted to an average of 2.2% of payments made. Moreover, in line with the stronger emphasis on transparency and effective communication of the EU budget, the DG made a special effort to explain and demonstrate to the discharge authorities and the general public the role of these corrections in terms of providing an appropriate protection of the EU budget within a multiannual framework, in particular via the annual Commission **Communication on the protection of the EU Budget**.

BUDG also continued to **contribute to strengthening the performance culture inside the Commission**, via its role in the management and reporting cycle (AAR, synthesis report and TFEU Article 318 report), and its contribution to programme statements in the Regulations guiding the spending programmes under the 2014-2020 Multiannual Financial Framework, to ensure we are better equipped to measure and report on the contribution of the spending programmes to the key EU policy objectives.

The DG also contributed to **improving the accountability framework outside the Commission**, through the adoption of the Recommendations for the establishment and the use of voluntary National Declarations in the framework of Article 59(5) FR as set by the interinstitutional working group on National Declarations, and the specific provisions included in the different Framework Agreements concluded with European and International Financial Institutions, such as the EIB.

Financial rules

Following the entry into force of the new financial regulation (FR) and its rules of application (RAP) on 1 January 2013, BUDG worked during 2014 to facilitate the conclusion of the necessary legal adjustments of specific financial regulations. Proposals were made regarding decentralized and executive agencies, PPPs, political parties and the foundations, EDF and alignment of FR on the new procurement directive, in order to allow all actors establishing and implementing the general budget of the Union to successfully apply the new rules.

Three first reading agreements were successfully concluded on the general and EDF FRs ,to align them to the results of the MFF and add a special title on the financing of EU Political Parties and Foundations.

In addition, the Commission proposed a further **alignment to the FR to the new directive on public** procurement, whose legislative process should be finalized during 2015. This proposal foresees the establishment of a single centralised system for the early detection and exclusion of unreliable economic operators. An independent panel will be set up to take exclusion decisions in full respect of the right of defence of economic operators. Pending the adoption by the legislative authority of this proposal, the Commission has simplified its current Early Warning System to facilitate the transition towards the future system.

2014 was also the **first year for the implementation of the new generation of financial instruments**. BUDG contributed to the establishment of a streamlined implementation framework of the provisions of the FR, in particular through the negotiation of Framework Administrative Agreements with the EIB⁷ and the EIF and the preparation of several guidance documents and model contractual clauses within the Financial Instruments Inter-service Expert Group (FIIEG). The position of the Commission in all these negotiations has been led by the need to ensure that the remuneration of entrusted entities is performance based and capped at a

⁷ The completion of the FAFA agreement with the EIB was an important step that should allow the Accounting Officer to obtain all the necessary accounting information to fulfill his legal reporting obligations. The improvement in accounting quality, in particular pre-financing and recording of invoices and cost claims in due time, the close monitoring of payment times, the in-depth work on ABAC architecture and the examination of the potential sources for simplification of accounting in agencies and bodies continued to be of central importance.

fixed percentage of the EU contribution, as well as to guarantee full transparency and accountability in the implementation of the instruments. 2014 was also characterized by the **shift from the old joint management mode towards the strengthened rules of indirect management**. This required extensive assistance to DGs through workshop, training session, elaboration of templates and close monitoring of delegation agreements and even direct involvement in the revision of Framework Agreements with our international main partners.

On top of the negotiation with the EIB and the EIF, BUDG co-led with DEVCO the **negotiations of the revised Framework Agreements with International Organisations and Development Banks** including the UN family, World Bank group, EBRD, OECD, Council of Europe, IMF and IOM. The application of new Framework Agreements will result in considerable savings for the EU budget (reduction of administration costs) and allow a stronger focus on results. A single set of contractual documents may now be used by both internal and external policies' DGs in their relations with International Organisations including the issues of cost eligibility conditions and remuneration.

In 2014, agreements have been signed with the EIB/EIF and the World Bank. Signature of the remaining agreements is expected in March 2015. Continuous and timely support in a particularly difficult context was also given to the work of the **Task Force Greece**, leading the Head of the Task Force to pay personally tribute to the high quality of the assistance provided by the Central Financial Service.

Other developments :

Change of AOD

Following the decision of 2/4/2014 the College appointed Mrs Nadia Calviño as Director General of BUDG on 1/5/2014. In accordance with the procedures for the change of Director General, foreseen in § 3.2.3 of the Commission Decision COM (2003)28, and further specified in § 3.3 of the Charter for Authorising Officers by Delegation, stipulating that :

In the event of a change of authorising officer by delegation (succession or transfer of some activities from one authorising officer by delegation to another), the outgoing authorising officer by delegation shall draw up for the successor or replacement a declaration setting out the state of ongoing cases.

The outgoing Director General , Mr Hervé Jouanjean, left a handover note signed on 28/4/2014. A dialogue between Mrs Calviño and Mr Jouanjean took place on 25 April 2014 and no formal observations were made. A copy of the document was sent to the Cabinet. The transfer of responsibilities was formalised in an official document as required by the Internal Rules. The handover note which forms a part of the transfer of responsibilities, took stock on the state of progress – as per 30 April 2014- on DG Budget's mission and objectives and its main ongoing files. It covered 3 sections : section 1 takes stock on the state of progress on BUDG's objectives, activities and risks and especially on developments since the last Annual Activity Report 2013 and expected issues in the coming months; section 2 covers open audit and discharge issues and the state of internal control; section 3 covers human and financial resources issues, including the activities as authorizing officer by delegation.

Furthermore it concluded that the outgoing Director General Mr Hervé Jouanjean had reasonable assurance that the resources assigned to the activities described in the 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** was based on his own judgement and on the information at his disposal which is contained in the handover note and in its annexes. He confirms furthermore that he is not aware of anything not reported in that note which could harm the interests of the institution.

Review of the strategy regarding ABAC Architecture

Following the alignment of ABAC, the corporate IT system for financial management and accounting to the new FR which entered into force in 2013, the priority was shifted to more specific adaptations which were required in the wake of the delegation of implementation by the Commission to its executive agencies, or for other bodies. One specific new challenge arising from the new FR was the need to ensure the proper accounting for new financial instruments managed by financial institutions, which were complex and numerous.

In parallel to the business imperatives, further investments were made in solidifying ABAC's functional and technical architecture. Particularly noteworthy are the Legal Entity and Bank Account process optimisation which builds upon a new, cross-system integration mechanism. This service oriented approach promotes tighter integration of IT in finance, procurement, grants and other domains.

As BUDG is on the eve of deploying key components of this new architecture as well as the services in 2015, external experts were requested to benchmark the approach, results achieved and planning against industry best practices. The valuable recommendations are guiding the development of a new roadmap fostering the regular delivery of added value to the business.

Also, the IAS audited BUDG's internal IT Governance, resulting in a mutually adopted action plan to bring BUDG's IT Governance to the next level of maturity through the streamlining of the organisation and the better alignment of the IT Supply side to the business demands.

BUDG Publications

BUDG produces a number of publications addressed to both general and specialised public. The following documents have been issued during 2014:

- For the general public
 - **2014 EU budget at a glance:** gives an overview of the EU Budget for 2014 with a brief description of the EU programmes and their impact on the daily lives of European citizens and those outside the EU (<http://bookshop.europa.eu/en/2014-eu-budget-at-a-glance-pbKV0113742/>).
 - **EU budget in my country:** showcases the EU budget & EU funded projects close to citizens in each of the 28 countries of the EU and debunks most common myths about the EU budget (<http://bookshop.europa.eu/en/the-eu-budget-in-my-country-pbKV0214305/> & website: <http://ec.europa.eu/budget/mycountry/>).
 - **On the road to victory:** a comic book which aims to raise awareness of the EU budget among young Europeans. (<http://bookshop.europa.eu/en/on-the-road-to-victory-pbKV0113560/>)
- Specialised publications
 - **EU budget 2013 Financial Report:** presents an overview of EU finances as well as information on the budget revenue and the expenditure from the EU budget in 2013 (<http://bookshop.europa.eu/en/eu-budget-2013-pbKVAI14001/> & website: http://ec.europa.eu/budget/financialreport/2013/foreword/index_en.html).
 - **Multiannual Financial Framework for 2014-2020 and EU Budget for 2014:** provides an overview of the key figures per budgetary headings and details on the planned expenditure of the new EU programmes for the year

(<http://bookshop.europa.eu/en/multiannual-financial-framework-2014-2020-and-eu-budget-2014-pbKV0413055/>).

- **European Union Public Finance:** provides a comprehensive overview on EU budgetary and financial development since 1953 (<http://bookshop.europa.eu/en/european-union-public-finance-pbKV0213825/>).
- **Financial Regulation Synoptic presentation:** is a compilation of recently updated EU financial rules. With the new Financial Regulation as its backbone, it also contains its detailed Rules of Application, which are presented synoptically, i.e. alongside the Financial Regulation articles they refer to (<http://bookshop.europa.eu/en/financial-regulation-applicable-to-the-general-budget-of-the-union-and-its-rules-of-application-pbKV0113881/>).
- **Consolidated annual accounts of the European Union Financial Year 2013:** provides information on the activities of the institutions, agencies and other bodies of the EU from a budgetary and accrual accounting perspective (<http://bookshop.europa.eu/en/consolidated-annual-accounts-of-the-european-union-2013-pbKVAf14001/>).
- **Protection of the EU budget to end 2013:** highlights how the Commission protects the EU budget from undue or irregular expenditure via two main methods: preventive actions and correction mechanisms (<http://bookshop.europa.eu/en/protection-of-the-eu-budget-to-end-2013-pbKV0514019/?CatalogCategoryID=Y.cKABstnJsAAAEjxZEY4e5L>).
- In cooperation with DG COMM
 - **Budget providing value for money:** This publication belongs to the series of web-based publications presenting the basic activities of the EU (<http://bookshop.europa.eu/en/budget-pbNA0414864/>).

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of BUDG 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.

Key Performance Indicators

| <u>Indicator</u> | <u>Trend</u> | <u>Target</u> | <u>Latest known result</u> |
|---|--------------|--|---|
| Obtain a positive DAS for EU consolidated accounts | Positive | Positive DAS on 2013 Accounts | The Court audit found that the 2013 consolidated accounts were free from material misstatements Positive DAS on 2013 Accounts (04/09/2014) |
| Difference between budget estimates and actual execution | Positive | Full (100%) budget implementation making use of transfers and carryovers | CA : 76 % before carryovers/reprogramming 100% after carryovers/reprogramming PA : 99 % before (100% after carryovers) |
| Positive discharge resolution with no postponement or reservations | Positive | Getting the discharge in the 2014 April EP plenary | The EP Resolution (P7_TA-PROV(2014)0287) granting the Discharge for Financial Year 2012 was voted on 03 April 2014 |
| Commission adopts Draft Budget 2015 within the deadlines set in the Treaty and Budget Authority adopts Budget 2015 according to schedule | Positive | Commission adopts Estimates of expenditure by 4 June 2014 and Draft Budget 2015 (all languages) by end June 2014 Budget Authority adopts Budget 2015 by mid-December 2014 | Commission Statement of estimates adopted by College on 11/6/2014 and official draft budget 2015 in all languages on 26/6/2014 Budget authority (BA) adopted Budget 2015 on 17/12/2014 |
| Feedback received on the quality of services rendered by Central Financial Service | Positive | Maintain 2013 score (Report December 2014) | Global score for all services: 4.2 out of 5 |

| <u>Indicator</u> | <u>Trend</u> | <u>Target</u> | <u>Latest known result</u> |
|--|--------------|--|---|
| Error rate detected on the legality and regularity of the underlying transactions is below the materiality criteria for administrative budget implementation and for Own resources collection | Positive | Error rate below 2% for 2014 administrative budget implementation and below 1% for OR collection | Error rate below 2 % for 2014 administrative budget implementation and below 1% for OR collection |
| | Positive | Positive DAS Opinion on Own resources for 2013 exercise | Positive DAS Opinion on Own resources for 2013 exercise(not affected by a material level of error) |

Policy highlights of the year

Budget Implementation

Virtually full budget implementation for payments appropriations authorised in the 2014 budget was achieved. Some EUR 31 billion in commitment appropriations of the European Structural Investment Funds authorised in the 2014 budget were either carried over to 2015 or reprogrammed according to article 19 of the MFF regulation. All the remaining commitment appropriations were implemented. Throughout the year the Commission regularly reported to Parliament and Council on the state of implementation, raising awareness in inter-institutional meetings on the implications of the persisting shortage of payment appropriations.

Adoption of the 2015 budget and 2014 amending budgets

On 17 December 2014, the European Parliament approved the 2015 budget, based on the second draft budget proposed by the Commission on 27 November, after the conciliation committee failed to reach an agreement within the 21 day period foreseen in the Treaty.

The agreement was part of a 'package' including a number of amending budgets for the year 2014 concerning both the expenditure and the revenue side

Draft amending budget (DAB) 1/2014 concerned some technical adjustments to the budget structure in line with latest legislative decisions and the proposed European Investment Fund (EIF) capital increase to facilitate SMEs access to financing.

DAB 2/2014 (then re-submitted as DAB 8/2015 because of failure to agree in the conciliation) concerned the surplus made available from the financial year 2013.

DAB 3/2014: a EUR 1.6 billion increase in the revenue stemming from fines and interests and from repayments and revenue paid back to the Facility for Euro-Mediterranean Investment and Partnership (FEMIP); a EUR 717 million redeployment of payment appropriations; an overall increase of payment appropriations of EUR 4.2 billion with the mobilisation of the Contingency Margin for payments in accordance with Article 13 of the multiannual financial framework.

DAB 4/2014: an update of own resources, an increase in the forecast of other revenue stemming from fines and interests; the budgeting of the UK corrections; and a EUR 75 million reduction of commitment appropriations.

DAB 5/2014: mobilisation of EUR 47 million for the EU Solidarity Fund related to floods in Italy, an earthquake in Greece, ice storms in Slovenia, followed by floods in Croatia.

DAB 6/2015: further update of own resources and the annual adjustment of bases of the VAT and GNI balances, which reached unprecedented levels.

DAB 6/2014: EUR 80 million mobilisation of the EU Solidarity Fund related to floods in Serbia, Croatia, and Bulgaria.

All amending budgets were eventually approved by the budget authority, some of which amended. Even if below the original Commission request in DAB 3, the EUR 3.5 billion increase in payment appropriations eventually authorised by Parliament and Council in an amending budget allowed a better alignment with obligations stemming from past commitments. Thanks to the exceptional revenue from fines stemming from the enforcement of competition policy, the additional payment appropriations did not entail any additional contributions from Member States. The amending budget on the GNI balances was eventually aligned to changes in the relevant legislation.

Own Resources Decision

On 26 May, the Own Resources legislative package was formally adopted by Council following the opinion and consent given by the European Parliament on 17 April 2014. Pursuant to Article 311 of the Treaty on the Functioning of the European Union the ORD needs to be ratified by the Member States in accordance with their respective constitutional requirements. The ratification procedure is not expected to be completed before the beginning of 2016, at which time the new ORD will enter into force with retroactive effect from 1 January 2014.

The own resources legislative package adopted comprises the following acts:

- ❖ The Own Resource Decision (ORD): Council Decision of 26 May 2014 on the system of own resources of the EU (2014/335/EU, Euratom).
- ❖ The Implementing Regulation: Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the EU.
- ❖ The Making Available Regulation: Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (Recast).

Entry into force of the new FR

The entry into force on 1.1.2014 of the new rules relating to indirect management – replacing the former joint management mode – as well as of the new rules relating to the Financial Instruments received high priority from the CFS. The entry into force on 1.1.2013 of all the other parts of the new FR has had a significant impact on financial management in the Commission. BUDG has worked actively throughout the year to ensure a consistent implementation of the various sectorial regulations for 2014-2020 among sectors and with the FR and to support DGs and services to revise their management to adapt to the new and amended provisions.

Sectorial legislation concerning multiannual programmes

Most of the sectorial legislation concerning multiannual programmes was adopted by the end of 2013, but a number of basic acts were only adopted later, notably for the European Maritime and Fisheries Fund (May 2014), the Asylum, Migration and Integration Fund and the Internal Security Fund (both May 2014), and the external policy instruments (March 2014) and the final legal bases should be agreed at the February I 2014 EP plenary. All the elements therefore have been put in place to allow for the timely and successful start of the new generation of multiannual programmes.

Maintaining the green light on the reliability of the Annual Accounts of the European Union from the Court for a seventh consecutive year

Maintaining the clean opinion on the accounts from the Court for the seventh consecutive time was a major achievement in 2014.

Cost savings for the other EU external entities (i.e. decentralised agencies and joint undertakings)

The project to provide Accounting Officer's services has completed its pilot period. Services have started to be provided to 3 entities, which will be followed by two more in 2015.

Communication on the Protection of the EU Budget

The first annual Communication adopted in September 2013 contributed very positively to the discharge discussions during 2014. The second such Communication (September 2014) is equally being used in the current discharge process to demonstrate to the discharge authority the positive work being done in this area.

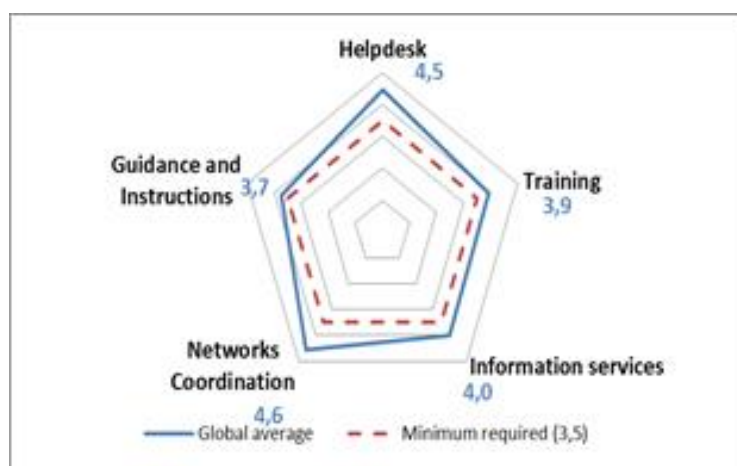
IPSAS Board meeting

BUDG had the honour to host a meeting of the International Public Sector Accounting Standards (IPSAS) Board in September 2014. The long awaited IPSAS Conceptual Framework was adopted

by the Board at this meeting.

Feedback received on the quality of services rendered by the Central Financial Service (CFS)

The overall level of satisfaction is at a very good level scoring 4.2 out of possible 5 points (5 points corresponds to 'excellent service'). The formal tribute paid by the Head of TFGR to the high quality of the assistance provided by Central Financial Service (CFS) during the last two years in a particularly complex and difficult situation is a good illustration of the degree of satisfaction not only of operational staff but also of Commission senior management. In 2014 CFS replied within the required deadlines to more than 3200 inter-service consultations, i.e. an increase of more than 1000 when compared to 2013. The very limited number of negative opinions delivered illustrates the cooperative and "service oriented" nature of the assistance provided by CFS and in particular its willingness to help services to find operational solutions rather than blocking the adoption of decisions. Concerning other forms of Guidance and Instructions, the result is better than the target set (3.5 out of 5) at the beginning of the year. The Network Coordination (4.6) and Helpdesk services (4.5) are the most appreciated services at very high levels of satisfaction. Guidance and Instructions and Training Services appear to be somewhat less appreciated, however the scores obtained from the customers on these services are still just below 4. Feedback related to information services remains too limited to provide meaningful results, although feedback on specific events is very satisfying. The centralisation within CFS of the advice to services on the revised Early Warning System (EWS) and in the future of the support to the independent panel competent to exclude unreliable economic operators points in the same direction.



Financial Management in BUDG

The total amount of the 2014 commitment appropriations represents 13 651 961 EUR including the contributions from Agencies and other Institutions.

The appropriations execution rate for 2014 is 89.85 %, which represents 12 265 883 EUR. The remaining appropriations will be executed in 2015. The authorized payment appropriations, including the amounts carried over from 2013, represent 18 896 848 EUR⁸.

The appropriations execution rate for 2014 is 89.85 %, which represents 12 265 883 EUR. The remaining appropriations will be executed in 2015. The authorized payment appropriations,

⁸ Budget line 27 01- Administrative expenditure of the `Budget policy area (See table 2 of Annex 3). Payments under Budget line 27.02 for a total of EUR 28, 6 Mio have not been included in this section due to their different nature - Article 32 of the Act on the conditions of accession of the Republic of Croatia (OJ L 112, 24.4.2012, p.21).

including the amounts carried over from 2013, represent 18 896 848 EUR.

Payments made during the financial year amount to EUR 11 417 717, which represents an execution rate of 60.42 %.

The error rate detected on the legality and regularity of the underlying transactions is below the materiality criteria, 2 % for administrative budget implementation for 2014.

Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

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

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. As required by the Financial Regulation, the Director-General 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.

BUDG has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented. Furthermore, BUDG has taken measures to further improve the efficiency of its internal control systems in the area of Risk Management (ICS-6) as reported in Part 3. Please see Part 3 for further details.

In addition, BUDG 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 Part 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.

Information to the Commissioner

The main elements of this report and assurance declaration, have been brought to the attention of Vice-President Georgieva responsible for Budget & Human Resources.

1. POLICY ACHIEVEMENTS

1.1 Achievement of specific objectives

1.1.1 ABB activity Accounting : 1. Ensure a true and fair view of entities under the responsibility of the EC Accounting Officer

| ABB ACCOUNTING | | | |
|--|--|---|--|
| Specific objective 1. : Ensure a true and fair view of entities under the responsibility of the EC accounting officer | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending | |
| Result indicator: Obtain a positive DAS [Source : Annual Report of European Court of Auditors 5/11/2013] | | | |
| <u>Baseline (2013)</u> | | <u>Target (end 2014)</u> | <u>Result (end 2014)</u> |
| Positive DAS on 2012 Accounts (5/09/2013) | | Positive DAS on 2013 Accounts in 2014 | Positive DAS on 2013 Accounts (04/09/2014) |

| <u>Description</u> | <u>Main outputs in 2014</u> | | |
|---|--|--|--|
| | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| 2013 Consolidated Annual accounts of EU | Timely delivery | Respect of the dates foreseen in the FR (31 March 2014 for provisional Accounts and 31 July 2014 for Final Accounts) | All accounts delivered on time |
| Annual Accounts of all entities for which the Accounting Officer of the Commission is the Accounting Officer | Timely delivery and positive DAS | Positive DAS and meeting Financial Regulation deadlines | All accounts delivered on time |
| Accounting Officer's Status report. FR Art 150(4) | Timely delivery of report | 30 September 2014 | Report delivered on time |
| Communication to the Council and EP on the protection of the EU Budget | Timely delivery of the Communication | 15 September 2014 | High quality and readable report delivered on time, in September, and with a positive impact on discharge discussions. |
| Quarterly reporting on financial corrections | Timely delivery of quarterly report to the EP on financial corrections | Quarterly | Repors delivered on time to the European Parliament. |

| Main outputs in 2014 | | | |
|------------------------------------|----------------------------|-------------------------------|--|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Validation of local systems | Timely delivery of reports | Respect of 2014 Workprogramme | Local systems in FPI, COMM (started in 2013), ECFIN, OIL, PMO and COMP have been validated in 2014. The evaluations of CLIMA, ENV, OIB and the second phase of EEAS are in different phases of completion. Due to reorganisation, HR was postponed and MARK was cancelled. Notified system changes have been duly validated (RDIS2, H2020/module1 and SFC2014 BO). |

European Union accounts

The Accounting Officer of the Commission prepares the EU consolidated accounts, as well as a number of other entities' accounts, including the Commission's. To do this, the accounting services perform certain controls over the accounting data produced by the AODs, noting that, according to the FR, the AODs are responsible for the reliability of this data and thus perform more detailed controls themselves.

A summary of the controls done by the accounting services (Directorate C) are:

- ❖ **Written Procedures:** these cover all the major elements of accounting work, including the closure exercise and the preparation of the financial statements, as well as for the opening, closing and general operations of the Commission's accounting system.
- ❖ **Regular reconciliations and year-end controls:** review of all the major year-end bookings of the Commission Services to ensure that there are no material misstatements, performing varying levels of controls on these, depending on the materiality of the amounts in question.
- ❖ **Documentation:** Closure files documenting the checks and bookings made are prepared, reviewed and signed-off for all material areas of the closure.
- ❖ **IT system controls:** The accounting IT environment is based around SAP, which is a standard software commonly used in many businesses – this means quality is assured and risks are minimised since there are inbuilt security functionalities and other safeguards. Moreover, the accounting system leaves a clear audit trail.
- ❖ **Validation of the local systems:** verification of procedures and data in the DGs, in order to provide assurance that the systems in the DGs, both IT and non-IT, provide complete and accurate information to the central accounting system.

The reporting of the Accounting Officer is separate from the reporting of the AOD of BUDG. In line with international accounting standards, key documents include a risk analysis and a "letter of representation" which are sent to the ECA together with the provisional accounts (sent by 31 March) and with the final accounts (sent by 31 July).

Accounting Officers status report

On the basis of Article 150(4) FR, BUDG prepared, for the second time, the "Accounting Officers status report" as at 30 June 2014. This status report was transmitted to the Parliament and the Council on 15 September 2014. The status report provides the reader with a high-level overview of the main issues and amounts concerning the EU accounting environment at 30 June of a given year. It includes, however, information and updates on major situations up to 15 September of the same year.

Provision of Accounting Officer's services to agencies and other EU bodies

The project launched at the beginning of 2013 has completed its pilot period and is now ready to be extended to a larger number of the external entities of the EU. In 2014, services started to be provided to 3 external entities (i.e. 2 agencies and 1 joint undertaking) and agreements have been made with 1 additional entity. The project proposes either that the EC Accounting Officer becomes the relevant body's Accounting Officer or that part of the Accounting Officer services (e.g. treasury) is provided centrally by BUDG. Savings in related costs are realised, in addition to other relevant advantages (i.e. respect of the Financial Regulation, treasury and accounting high level of expertise, and ensure business continuity). Despite the important benefits of the project, in particular for the smaller entities, rather limited enthusiasm with the project has been shown by the EU agencies and joint undertakings, which now are offered the possibility to request these services. The several information and communication actions undertaken have not managed to change this situation.

1.1.2 ABB activity Accounting : 2. Appropriate execution of Accountant's tasks

| ABB ACCOUNTING | | |
|---|--|---|
| Specific objective 2. : Appropriate execution of Accountant's tasks | | |
| | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending |
| Result indicator : Obtain positive opinions of the European Court of Auditors, Discharge Authority and IAS | | |
| <i>[Source : Reports of the European Court of Auditors, Discharge Authority and IAS]</i> | | |
| <u>Baseline (2013)</u> | <u>Target (end 2014)</u> | <u>Result (end 2014)</u> |
| Positive opinions issued by the European Court of Auditors, Discharge Authority and IAS in their Reports during 2013 | Maintain positive opinions in the Reports of the European Court of Auditors, Discharge Authority and IAS in 2014 | Positive opinions maintained |

| Main outputs in 2014 | | | |
|---|---|--|---|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Management of the EU accounting framework and system | Extent to which the framework & systems are kept up-to-date | Proper maintenance | Updates made to some accounting manuals on time The budgetary framework in terms of structures, appropriations and year change operations has been timely updated. The related procedures and IT systems (ABAC) have been adjusted to cope with relevant changes (e.g. Bridging Facility 11 th FED, Trust funds). |
| Follow-up of European Court of Auditors observations | Number of important accounting recommendations in 2013 | Maintain the low number of important recommendations in relation with previous years | 1 important new audit recommendation, not affecting the reliability of accounts, is under implementation |
| Efficient and effective management of fines | % of coverage of the fines and safeguard of the related financial assets in accordance with the applicable risk | 100% coverage | 96.5% |

| Main outputs in 2014 | | | |
|---|--|--|---|
| Description | Indicator | Target | Result (end 2014) |
| Efficient and effective Treasury Management : Monitoring of available cash resources and treasury planning to ensure continuity of payment execution within the applicable regulatory and budgetary framework. | management policy N° of payments authorized delayed due to lack of cash resources | none | Target reached, since no authorised payments were delayed in 2014. However, payment appropriations put at the disposal of spending DGs (REGIO, EMPL & AGRI) had to be limited during some months, see more details under "Major Events" |
| Efficient and effective Recovery Management | Number of recoveries in the backlog | < 1500 RO throughout the year (self-imposed) | 1553 open recovery orders at the end of year 2014 (general budget) |
| Proper implementation of the financial year change process | Timely implementation of the calendar | Delays of max. 5 days for any milestone date in the calendar | Despite the late adoption of the 2015 budget, the Commissions' reorganisation and the integration of CEPOL and FCH, all actions have been timely implemented |
| Accountant's services External Entities Centralisation of Accountant's services project definition and implementation | Offers and SLA prepared and sent to the candidate entities | For all other entities interested during 2014. | Offers and SLA have been sent to 4 entities (i.e. 2 agencies and 2 JU). 3 of the SLAs were accepted in 2014. |
| | Ensure timely and accurate implementation for the Agencies that have accepted | 2 pilot agencies in 2014 | Services have started to be provided to 2 agencies and 1 Joint Undertakings |

The management of treasury's shortage during the first part of 2014

The treasury situation has been constantly monitored to ensure the optimal use of available cash resources, in a context of cash constraints and high payment needs. Up until May 2014, the size of monthly payment needs identified by the authorising services exceeded the available cash resources; even if own resources have been called up in advance from Member States up to the maximum allowed. This has required specific measures for planning and coordination

with spending services to be put in place with a view to orderly managing the prioritisation of payments.

Spending possibilities for cohesion and rural development were limited from February to May. The situation returned to normal in June. The advance on own resources could start to be reduced as from June.

Potential risk of cash shortage at the end of the year was mitigated thanks to important amounts of fines definitively cashed during the year, and to other revenues that were returned to Member States only in 2015 (Amending Budgets adopted at the end of 2014). No other particular exceptions or issues related to treasury management were registered in 2014.

Negative interest on EU Funds

Following a decision of the European Central Bank in 2014, a negative remuneration is, amongst others, applied to EU funds on current accounts held by the Commission with national central banks in the Eurozone. A Commission request to exempt EU budgetary funds from the application of the negative interest rate was rejected by the European Central Bank. An action plan to address the consequences of this issue on legal, budgetary and cash management level is being prepared.

Communication from the Commission on the protection of the EU budget to end 2013

Following a priority request in the European Parliament's resolution of 17 April 2013 concerning the discharge of the 2011 budget, in collaboration with the shared management DGs, BUDG is required to prepare a Communication explaining the methods applied by the EU to protect its budget from undue expenditure and detailing the amounts concerned. This year's Communication provides more detailed information on the financial corrections and recoveries disclosures and on net financial corrections. Adopted by the Commission in September 2014, and transmitted to the Parliament, Council and ECA, it has been a key element in the ongoing 2013 discharge discussions.

Hosting of IPSAS Board meeting in September 2014

The EU accounting rules are based on International Public Sector Accounting Standards (IPSAS) and the Commission has an observer role on the IPSAS Board. In this context, BUDG had the privilege of hosting the September 2014 meeting of this Board in Brussels and the keynote speech was given by Director-General Nadia Calviño. It was a successful meeting in all aspects and in particular due to the adoption of the IPSAS conceptual framework, an important project which has been ongoing for many years.

Fines and Guarantees

Competition fines appealed before the Court of Justice of the European Union need to be covered either by a provisional payment or by a bank guarantee. The total amount covered by guarantees was about EUR 1.9 billion at 31.12.2014.

When provisionally paid, the amounts must be kept off-budget according to Art. 83 FR, which states that revenues received by way of fines, shall not be recorded as budgetary revenue as long as the decisions imposing them may be annulled by the Court of Justice.

Subject to the final judgement, which may take up to eight years, fines provisionally paid are either transferred to the Commission's income account and booked in the budget as miscellaneous revenue or reimbursed to the undertakings.

Fines adopted before 2010 and provisionally cashed are held with commercial banks selected by call for tender. On 31.12.2014, the global volume is about EUR 2.4 billion.

Further to the Commission decision C(2009) 4264 of 15.6.2009 concerning the reduction in the risks of management of fines provisionally cashed, fines adopted since 2010 and provisionally cashed are held with a special fund (BUFI) managed by ECFIN and composed of a portfolio of assets with an exposure limited to high quality sovereign credit risk. On 31.12.2014, the global volume invested in the BUFI is about EUR 3.3 billion from which fines for about EUR 0.07 billion are due in 2015.

In order to ensure the alignment of the BUFI Fund with the FR and in order to update the Fund's investment policy, the Service Level Agreement (SLA) between DG BUDG and DG ECFIN has been updated and signed on 19.12.2014.

Some of the fines imposed by the Commission are not fully covered at their deadline. At 31.12.2014 a payment has been received or a bank guarantee lodged in respect of 96.5% of the fines pending. This does not mean however that the Commission is not taking action in the recovery process but that it has to adapt the means of recovery to the economic reality. The Commission seeks to obtain coverage of fines by negotiating with the companies in order to safeguard the fine by regular down payments or guarantees.

In many Member States it has become very difficult to find banks with a very high credit quality ensuring the protection of the financial interests of the Commission at an acceptable level, which makes it difficult for a small or medium-sized company to obtain such a guarantee.

In this context, the Accounting Officer has to assess the risks related to guarantees offered and/or obtained, taking into account the lack of alternatives, the amount of the fines, the presumed length of the proceeding and the solvency of the main debtor, as well as the threats concerning loss of jobs in case of enforcement procedures.

1.1.3 ABB activity Accounting : 3. Provide central financial/accounting information system services

| | | |
|--|--|---|
| Specific objective 3. : Provide central financial/accounting information system services | | <input type="checkbox"/> Spending programme |
| | | <input checked="" type="checkbox"/> Non-spending |
| Result indicator : Roll-out of services and deliverables according to the Roadmap | | |
| <i>[Source : Roadmap adopted on 18/10/2013]</i> | | |
| <u>Baseline (2013)</u> | <u>Target (end 2014)</u> | <u>Result (end 2014)</u> |
| Roadmap adopted 18/10/2013 | Implementation of deliverables in 2014 as scheduled in the adopted roadmap | Deliverables 2014 of Roadmap delivered as scheduled |

| <u>Description</u> | <u>Main outputs in 2014</u> | | |
|--|--|----------------------------------|--|
| | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Continuous alignment of ABAC to business imperatives (maintenance, FR, MFF, ..) | Completion of the EC's Financial Regulation 2012 | 1 st Quarter 2014 | 01/01/2014 (ABAC release 6.9) |
| | Completion of the Multi-Annual Financial Framework | 1 st Quarter 2014 | 01/01/2014 (ABAC release 6.9) |
| | Completion of bridging facility for the 11 th European Development Fund | 1 st Semester 2014 | 01/01/2014 (ABAC release 6.9) & 14/06/2014 (ABAC release 7.0) |
| | Completion of the Revision of the Early Warning System | 1 st Semester 2014 | Rescheduled due to delays in adoption of the Revision. First phase implemented in ABAC early December 2014 |
| Implementation of Review ABAC Architecture Roadmap within the corporate IT-architecture | On-Time and On-Budget | On-Budget: 100%; On-Time: 90% | achieved |
| ABAC's secured operational continuity and efficient support to its user community ensured | Closure of incoming standard requests within 2 working days | 90% | 92.31% |
| | Number of intrusion attempts having an impact on the corporate financial/accounting system | None | None |

| Main outputs in 2014 | | | |
|---|---|---------------|--------------------------|
| Description | Indicator | Target | Result (end 2014) |
| ABAC alignment to the new External Entities and the legal decisions affecting the External Entities according to timetable | On-Time | 100% | achieved |
| Set-up of Trust Funds at DG's request. | Degree of implementation by BUDG after legal creation of Trust Fund | 100% | achieved |

IT environment

The accounts are prepared via ABAC, the Commission's corporate Financial/Accounting system. BUDG is the system owner and provides supporting services to all of the Commission's DGs/Services and 47 External Entities, resulting in a user community of over 11 500 users spread around the world.

ABAC is used for the execution and recording of all financial transactions relating to the Commission's budget and the European Development Fund (EDF). ABAC comprises "ABAC Accounting", based on a "commercial-off-the-shelf-system" SAP, the official source of financial information. ABAC Accounting is mainly used by the services of the Accounting Officer of the Commission and is connected to the SWIFT-network, managing inter-banking exchange of information. ABAC Accounting receives most information via front office applications, in particular "ABAC Workflow" developed by BUDG to create and validate financial transactions in line with the rules laid down in the FR and Rules of Application. ABAC also includes a contracts repository and reporting environment. The reporting capabilities of the ABAC Data Warehouse are further being developed, notably with statistics on the lack of payment appropriation and to prepare for the Commission's reorganisation. Finally, ABAC is the source of the information made available to the public via the Financial Transparency System.

From a business perspective, the highlights for 2014 relate to ABAC's gradually expanding perimeter in terms of external entities and Trust Funds: the merger of the Joint Undertakings ENIAC and ECSEL, the preparation for the Single Resolution Board, Bio Based Industries, Shift to Rail as well as the Bekou Trust Fund and Syria/Madad Trust Funds.

BUDG also started provisioning of central Accounting Officer services to external entities: CEPOL, FCH and eu.LISA, thus fostering financial data quality cost-reduction through economics of scale. The implementation of the new Commission's internal organisation required adequate preparation in order to ensure operational and well-secured business continuity. The Commission's reorganisation will run into 2015. From a legal perspective, the new Financial Regulation 2012 was implemented in ABAC on the 1st of January 2014. The Decision on the revision of the Early Warning System was delayed and adopted on the 13th of November 2014. Therefore the most important provisions, e.g. the involvement of OLAF in the process and the right to be heard (contradictory procedure) were implemented in December 2014; the remaining provisions are scheduled for the 1st of July 2015.

In parallel to the business imperatives, further investments were made in solidifying ABAC's functional and technical architecture. Particularly noteworthy are the Legal Entity and Bank Account process optimisation which builds upon a new, cross-system integration mechanism. This service oriented approach promotes tighter integration of IT in finance, procurement, grants and other domains.

As BUDG is on the eve of deploying key components of this new architecture as well as the services in 2015, external experts were requested to benchmark the approach, results achieved

and planning against industry best practices. The valuable recommendations are guiding the development of a new roadmap fostering the regular delivery of added value to the business. In parallel, the IAS audited BUDG's internal IT Governance, resulting in a mutually adopted action plan to bring BUDG's IT Governance to the next level of maturity through the streamlining of the organisation and the better alignment of the IT Supply side to the business demands.

Finally, progress was made in designing the Commission's IT-landscape spanning procurement, grants management, finance/accounting and customer/supplier relationship management. An inter-DG taskforce started the analysis of current and future business requirements and IT solutions. During 2015, workgroups will now further refine the strategy, requirements and planning.

1.1.4 ABB activity Budget execution, control and discharge : 1. Ensuring effective management of the relations with the Court of Auditors and the EP's Budgetary Control Committee (CONT)

ABB ACTIVITY: BUDGET EXECUTION, CONTROL AND DISCHARGE

Specific objective 1 : Ensuring effective management of the relations with the Court of Auditors and the EP's Budgetary Control Committee (CONT) Spending programme Non-spending

Result indicator: Delivery of the main outputs, respecting the legal and self-imposed deadlines, at a high level of quality, fulfilling the stakeholders' expectations.

[Source : Dates of Reports submitted & replies given]

| <u>Baseline (2013)</u> | <u>Target (end 2014)</u> | <u>Result (end 2014)</u> |
|---|---|--|
| Fulfilled 100% of the stakeholders expectations, delivered 100% of the main outputs in 2013 | Fulfill 100% of the stakeholders expectations, deliver 100% of the main outputs in 2014 | 90% delivered of the main outputs expected in 2014 As there was no stakeholders survey in 2014 we could only present the results of the survey closed in February 2014: 65% of the respondents are satisfied with the current process and 91% of the respondents rated the quality of the support provided by BUDG positively (adequate, useful and timely assistance throughout the adversarial procedure) |

Result indicator: Positive discharge resolution with no postponement or reservations

[Source : EP adoption of Discharge Resolution / EURLEX]

| <u>Baseline</u> | <u>Target</u> | <u>Result (end 2014)</u> |
|----------------------------------|--|---|
| No postponement of the discharge | Getting the discharge in the 2014 April EP plenary | Discharge was granted on April EP plenary |

| <u>Description</u> | <u>Main outputs in 2014</u> | | <u>Result (end 2014)</u> |
|--|---|---|--|
| | <u>Indicator</u> | <u>Target</u> | |
| Reply to ECA annual report for the financial year 2013 (art. 162(4) FR) | Timely delivery of replies to ECA annual report | 15/10/2014 (legal target) | All chapters delivered before target; Letter Comm Semeta 18/09/2014 |
| Reply to ECA Special Reports (art. 163(1) FR) | Timely delivery of replies to ECA Special Reports | 2,5 months after reception of draft Special Report (legal target) | Legal target has been respected for all replies to Special Reports (SRs – tableau d suivi) |

| Main outputs in 2014 | | | |
|--|--|----------------------------------|---|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Summary of MS replies to ECA observations (art 162(5) FR) | Timely delivery of the summary of MS replies to ECA observations | 28/02/2014 (legal target) | Publication took place on 28/02 |
| Fiche GRI in preparation of the EP plenary vote on the discharge answering to all EP discharge requests | Fiche GRI provided timely with input from all DGs concerned | GRI meeting 28/03/2014 | COM(2013)118. Fiche GRI prepared on 25/03/2014 |
| Report on the follow-up to the discharge resolution and recommendations (art. 166(2) FR) | Timely delivery of a comprehensive report on the follow-up to the EP's discharge resolution and t the Council recommendation | 15/11/2014 (self-imposed target) | COM(2014)607final 26/09/2014 |
| Replies to written questions from Members of the EP | Parliamentary questions (PQ) on the black list | none | No PQ in the blacklist |
| Evaluation of the ECA adversarial process collecting feedback from the Commission stakeholders | Launch of a survey | 31/12/2014 (self-imposed target) | No survey has been launched by end 2014 to measure stakeholders' feedback for several reasons. ⁹ |

⁹ Three main reasons:

- 1) the number of answers received for the survey launched by the end of 2013 were only 28 (~13% of discharge population); of those 28, 89%, were happy with the process. This result can not be considered representative and extrapolated.
- 2) the total of costs involved in the preparation and follow-up of the survey certainly overlapped the benefits of a non-representative survey.
- 3) the adversarial process is being discussed between the Court and the Commission and an administrative arrangement will be adopted between the two Institutions. Moreover, proposed amendments to the financial regulation have been introduced by the EP that will have a direct impact on the overall procedure.

Communication to the Commission on the adoption of the Recommendations for the establishment and the use of voluntary National declarations in the framework of Article 59(5) of the Financial Regulation.

Article 59(5) of the Financial Regulation, which covers Shared Management with Member States, has introduced the possibility for Member States to provide a voluntary National Declaration in addition to the obligatory management declarations as provided by the bodies designated by the Member States to be responsible for the management and control of Union funds.

Following a request from the European Parliament in the discharge resolution on the financial year 2011, the European Commission established a Working Group with participants from the European Parliament, the Council and the European Commission to establish practical recommendations supporting Member States who are reflecting on the possibility of establishing a national declaration.

The Commission strongly recommends the use of National declarations as a public accountability instrument between the national Governments and the national Parliaments, because their importance and visibility as well as their potential for raising awareness about the control systems of the EU funds in the Member States are greater than those of the management declarations. The Commission is willing to explore ways to further promote these national (political) declarations following the adoption of the recommendations issued by the Interinstitutional Working Group.

Report on the follow-up to the EP's discharge resolution and the Council recommendation

Taking into account the importance of the EP resolution on 2012 discharge, the core of which creates a double link between both the former and the new elected European Parliament and the former and the current College, through the request for binding commitments, BUDG prepared the follow-up which served in the context of the hearings of the designated Members of the new Commission.

1.1.5 ABB activity Budget execution, control and discharge : 2. Make sure that budgetary implementation follows forecasts and effective use of resources principles

| ABB ACTIVITY: BUDGET EXECUTION, CONTROL AND DISCHARGE | | |
|---|--|---|
| Specific objective 2. : Make sure that budgetary implementation follows forecasts and effective use of resources principles | <input type="checkbox"/> Spending programme | <input checked="" type="checkbox"/> Non-spending |
| Result indicator: Difference between budget estimates and actual execution | | |
| <i>[Source : BUDGWEB]</i> | | |
| Baseline (2013) | Target (end 2014) | Result (end 2014) |
| Execution 2013 : - commitment appropriations (after carry-overs): 100% - payment appropriations, implementation (after carry-overs): 100 % | Full (100%) budget implementation making use of transfers and carryovers | CA : 76 % before carryovers/reprogramming (100% after carryovers/reprogramming) PA : 99 % before (100% after carryovers) |

| Description | Main outputs in 2014 | | |
|--|---|---|--|
| | Indicator | Target | Result (end 2014) |
| Carryover Decision | Timely adoption | Carryover adopted as proposed by BUDG (15 February 2014) | Adopted 11/02/2015 |
| | % of transfers accepted by the Budget Authority | Budget Authority accepts all transfer requests | 94.4 % of transfers approved (51 out of 54) 1 cancelled, 1 postponed and 1 withdrawn and replaced |
| Budget Implementation Plan and regular reports to Budget Authority (BA) | Reports on Agencies sent to the BA as requested | All reports delivered within established deadlines | WD III on agency sent on 27/6/2014. Background Information fiche sent for the meeting of IIWG of 1/4/2014. |
| Budget Forecast Alerts (BFA) | Information notes sent to College as foreseen | Information notes sent three times a year to Parliament and Council | Adopted by the College: 25 February 2014, 25 June 2014, 21 October 2014 |

| <u>Main outputs in 2014</u> | | | | | |
|-----------------------------|------------------------------|--------------|--------------------------------|------------------|--|
| <u>Description</u> | | | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Annual allocated MS | Reporting expenditure | on by | Timely and error-free delivery | Second half 2014 | Contributions to the Financial report on the Allocation of EU expenditure by Member State and by heading have been provided on time, the last element of the contribution was forwarded on 4 June 2014 |

Shortage of payment appropriations in 2014

The shortage of payment appropriations in 2014 and the late approval (only on 17 December) of an amending budget to cover at least part of the outstanding obligations towards beneficiaries of EU funds had a negative impact on the implementation of EU programmes. Despite all the measures put in place for an active management of the available payment appropriations, the Commission could not avoid delays in the reimbursement of legitimate claims beyond the agreed deadlines, and/or delays in the launching/contracting of new programmes. The difficulties are illustrated by the EUR 24, 7 billion backlog of unpaid bills at the end of 2014 for cohesion policy alone. Through the active management of the available appropriations the Commission contained the financial and reputational impact without undermining the policy objectives. The acknowledgement by the European Parliament and Council of the problem, and their willingness to address it, reflected in a joint statement, create the conditions for moving towards sounder annual budgets.

For commitments, the apparent low level of implementation reflects the delays for adoption of the operational programmes of the Cohesion policy, the rural development, the fishery funds and the migration and security funds. These commitments (24% of those authorised in the 2014 budget) will be carried over or reprogrammed according to art 19 of the MFF regulation. Once taking carry overs and reprogramming into account, there is virtual full implementation of all the remaining commitments.

1.1.6 ABB activity Budget execution, control and discharge : 3. Efficiently and effectively manage and control the Union's own resources

| ABB ACTIVITY: BUDGET EXECUTION, CONTROL AND DISCHARGE | | |
|---|---|---|
| Specific objective 3. : Efficiently and effectively manage and control the Union's own resources | | |
| | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending |
| Result indicator: Timely and accurate collection of Own Resources contributions and related payments from Member States and implementation of the inspection programme | | |
| <i>[Source : BUDG's monthly 'Tableau de Bord']</i> | | |
| <u>Baseline (2013)</u> | <u>Target (end 2014)</u> | <u>Result (end 2014)</u> |
| 100% collection and full implementation of inspection programme in 2013 | 100% collection and full implementation of inspection programme in 2014 | 100% |

| Main outputs in 2014 | | | |
|---|---|---|--|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Management of Member States' own resources payments | Percentage of collection of OR contributions and related payments received timely | 100% | All national contributions have been fully and timely paid. Any deviations noted for other own resources were promptly followed. |
| Management of VAT recovery | Timely and accurate recovery of VAT paid by the Commission services | Full and timely refund by Member States | All refund requests for 2013 were made timely (before 30/6/2014). Reimbursement is monitored and followed-up. |
| Control of the Union's traditional own resources (TOR) | Percentage of Implementation and reporting of TOR inspections in accordance with the annual programme | 100% | 100 % of the TOR reports sent within the legal deadlines. 93% of the annual programme implemented (two inspections rescheduled for early 2015 at Member States' request) |
| Treatment of Member State's write-off reports | Percentage of Member States' write-off reports treatment for irrecoverable amounts of TOR | 100% | 100% of reports received treated within the statutory deadline |

| <u>Main outputs in 2014</u> | | | |
|--|---|---------------|---|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Control of VAT-based own resources: Reasonable assurance that Member States' VAT statements are correct and comply with OR regulations | Degree of Completion of agreed programme of inspections | 100% | 100% of the 11 planned inspections were carried out. Croatia initially planned for late 2014 was at an early stage moved to 2015. |
| Production of Inspection Reports within the legal deadlines | Percentage of mission reports sent within the legally prescribed deadlines | 100% | Of 10 reports due to be sent in 2014, 100% were sent within the 3-months' deadline. |
| Control of GNI-based own resources: In accordance with MoU notify Member States of the setting, lifting or variation of reservations for GNI OR, attend all GNI Committee meetings and produce internal report of key points. | Percentage of notifications to MS sent within one month of Eurostat's communication concerning setting, lifting or otherwise varying GNI reservations | 100% | 100% of the 44 notifications were sent within the 1-month deadline. There were also another 27 notifications to be sent between 22 – 30 September, and they were all dispatched within the given timeframe. |
| | Attend GNI Committee meetings | 100% | 100 %, both GNIC meetings, one in May and one in October |

Adjustment MS contributions

The adjustment of Member States' national EU budget contributions based on VAT and GNI (the so-called "balances") takes place every year on the first working day of December. The purpose is to restore the fair burden sharing among the Member States in the light of new statistical data. The 2014 adjustment, however, was triggered by GNI re-calculations dating back to 2002 as there were a number of unresolved issues that had accumulated over the last years. The resulting adjustment of Member States' contributions – 9.5 billion euro across all EU Member States – was unprecedented in size. The Commission therefore informed the Member States rapidly and proposed an immediate Amending Budget to return the gross additional contributions to the Member States. Nevertheless, the extraordinary size of the gross and even the net impact for some Member States against a very short payment delay motivated the Commission to propose on 12 November 2014 a change in the underlying Regulation, allowing in such extreme cases the deferment of payment.

After receiving the opinions of the European Parliament and of the European Court of Auditors, the Council adopted on 18 December 2014 Regulation (EU, EURATOM) No 1377/2014 amending Regulation No 1150/2000 which allows Member States, under certain conditions, to defer making available the amounts of VAT and GNI balances until the first working day of September 2015; the amendment came into effect retroactively to cover the 2014 balances. In 2014 all Member States were eligible; eight Member States chose to submit payment plans to the

Commission to defer their payments. The corresponding Amending Budget was reduced accordingly; the deferred payments will be returned to the Member States in an Amending Budget in autumn 2015.

Production levies in the sugar sector for the years 2001-2006

In December 2013 the Council adopted a new regulation fixing the production levies for the marketing years 2001/2002 to 2005/2006 after the Court of Justice invalidated the previous one.

The levies set by the new regulation are EUR 214 million lower than the ones set by the invalidated regulation. The Member States had until November 2014 to reclaim amounts of overpaid production levies unless they were prevented from respecting that deadline due to the application of national law on the recovery by economic operators of sums paid but not due. They have reclaimed an amount of €200.4 million during the course of 2014, and this amount has been repaid to them.

Member States' control weaknesses in the area of traditional own resources (TOR)

The ECA concluded again in its 2013 Annual Report that the supervisory and control systems of the Member States audited were only partially effective in ensuring that the TOR recorded are complete and correct (paragraphs 2.13-2.18).

As already mentioned in previous Annual Activity Reports, in its TOR controls BUDG has continually put special emphasis on Member States' customs controls, in particular in relation to their global customs control strategies (2008-2010), antidumping duties (2010-2011), local clearance procedure (2011), EU external transit procedure (2012), entry of goods in the EU (2013) and end-use (2013 and 2014). In addition, all findings raised by the ECA, such as the issues raised in ECA's Special Report on Preferential Trade Arrangements, are being thoroughly followed-up.

A thematic report consolidating the results of the inspections on the entry of goods into the EU was presented to Member States in December 2014 both at the Advisory Committee on Own Resources and at the Customs Policy Group. The report concluded that the global situation could be regarded as generally acceptable. However some improvements were necessary in some Member States as far as the content, the use and the check of summary declarations are concerned. In addition in several Member States the authorisation process for temporary storage facilities lacked necessary checks and monitoring and issues were found regarding the monitoring of goods in temporary storage.

The conclusions of the thematic report, the results of the follow-up of the ECA's findings and the findings raised in TOR inspections indicate that BUDG needs to continue monitoring the improvement of customs controls and the effective use of risk management in this context in Member States. This will also be done in the course of the 2015 inspections.

Two inspections (BE and DE) included in the 2014 inspection programme had to be postponed to 2015 at Member States' request. These inspections will be carried out in February and March 2015.

Shortcomings in two Member States requiring specific inspection action

Greece

BUDG's inspection work confirmed during the last years that the reliability of the separate accounts and the treatment of irrecoverable amounts in certain Greek customs offices remain unsatisfactory. Furthermore, it was confirmed on the spot that the information provided to the central customs administration by certain customs offices does not always reflect the actual situation.

Due to the lack of action to remedy the identified weaknesses, a management meeting was organised with the Director-General of the Greek customs administration in order to enable the Greek authorities to draft a concrete action plan for their remedial action. The Greek authorities submitted their action plan in February 2014 explaining how, by the end of 2014, all cases of the locally kept separate accounts would be properly reviewed under adequate managerial supervision and treated in line with the applicable EU legislation. In particular, irrecoverable amounts above 50 000 € would be written-off and communicated to the Commission in line with Article 17 of Regulation 1150/2000.

The 2013 inspections also showed that the Greek authorities still had to take action and to establish a formal procedure guaranteeing that the recommendations made by the Customs Audit Service (ELYT) are effectively followed-up by higher level management.

For the above reasons BUDG performed in 2014, for the second consecutive year, two TOR inspections to Greece, focusing on the follow-up of previous TOR inspection findings and on the implementation of the received action plan concerning the separate accounts.

At the end of 2014 and at the beginning of 2015, the Greek authorities communicated several written-off amounts. DG BUDG is assessing the diligence of Greece when trying to recover the amounts at stake and the Commission services will decide whether to release or not the Greek State from the obligation to make available the written-off amounts.

The 2015 inspection programme foresees only one inspection to Greece. That inspection, among other things, will again check whether progress has been made in the reliability of the separate account. A new management meeting, to be held during the inspection, has been proposed to the Director-General of the Greek customs administration.

The Netherlands

During the previous TOR inspections in the Netherlands findings have been made concerning the lack of reliability and the audit trail in relation to establishment of the A and the B account statements and the non-transparent treatment of amounts of TOR. In the course of 2013 the Dutch authorities reported on the planned adaptations of their systems to address the weaknesses observed.

In 2014 an additional and specific inspection was carried out to support the Dutch authorities in remedying these weaknesses and for checking the success of the action taken by them. It was found that remedial measures had been taken which would allow closing certain findings. However the Netherlands still needed to address many weaknesses. As a consequence, it was concluded that the procedures in place were not yet totally satisfactory with regard to the requirements of a proper A- and B accounting.

When preparing the 2015 inspection programme it was concluded that a specific inspection is again required this year to support the Dutch authorities in remedying the weaknesses found.

Follow-up of ECA audit on "The effectiveness of the Commission's verification of GNI data used for own resources"

The ECA Special Report 11/2013 was discussed extensively in the autumn of 2014, notably in the CONT Committee of the EP. This process went on in parallel to above described activities related to the balances. The Special Report itself did not identify any substantive errors in GNI calculation. It did however make a number of proposals for improvement of the Commission's GNI verifications, carried out by Eurostat in accordance with the Memorandum of Understanding between BUDG and Eurostat. As also declared by the Commission to the CONT Committee, the vast majority of the Court's recommendations have already been implemented

by Eurostat or will be implemented over the course of the next GNI verification cycle. BUDG will continue its close co-operation with Eurostat in the area GNI based own resources.

Simplification initiative in the area of VAT-based own resources

The simplification initiative has been taken forward and following the 70th ACOR/VAT meeting in November 2014 the Commission granted 10 Member States authorisations to use specific percentages of their intermediate VAT base to calculate certain compensations (in all, 16 different calculations). There were also 2 solutions for simplification accepted by the ACOR/VAT. The use of these simplification percentages will materialise for the first time in the 2014 annual VAT own resources statements due to be submitted before 31 July 2015, and will start to be part of the 2016 inspection programme.

1.1.7 ABB activity Financial framework and budget procedure : 1. Establish a budget of good quality within deadlines respecting the Commission's priorities

| ABB ACTIVITY: FINANCIALFRAMEWORK AND BUDGET PROCEDURE | | |
|---|--|--|
| Specific objective 1. : Establish a budget of good quality within deadlines respecting the Commission's priorities | | <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending |
| Result indicator: Commission adopts Draft Budget 2015 within the deadlines set in the Treaty and Budget Authority adopts Budget 2015 according to schedule | | |
| <i>[Source : Agenda Planning]</i> | | |
| <u>Baseline</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Draft Budget 2014 adopted on 27 June 2013 | Commission adopts Estimates of expenditure by 4 June 2014 and Draft Budget 2015 (all languages) by end June 2014 | Commission Statement of estimates adopted by College on 11/6/2014 and official draft budget 2015 in all languages on 26/6/2014 |
| Budget authority (BA) adopted Budget 2014 on 20 November 2013 | Budget Authority adopts Budget 2015 by mid-December 2014 | Budget authority (BA) adopted Budget 2015 on 17/12/2014 |

| Main outputs in 2014 | | | |
|--|--|--|--|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Minimize the differences between Draft Budget and Budget | The difference between Budget 2015 adopted by Budget authority and Draft Budget 2015 | Difference between Draft Budget 2015 and voted Budget 2015 < 1% | CA + € 95million (0,07%) PA –€ -123 million (0,09%) |
| Adoption of amending letter(s) and amending budget(s) | Budget Authority adopts proposed amending budgets / letters | Budget Authority adopts Amending Letters and Budgets as proposed by College | AB 1 approved on 23/4/2014. All other ABs approved on 17/12/2014 |
| Annual Allocation of human resources to Commission services | Decision consistent with the constraints set by Inter Institutional Agreement (IIA) and in line with the Commission policy orientations. | Decisions on HR allocations taken by the College, as proposed by BUDG and in line with envisaged calendar (by December 2014) | 11.6.2014 & 25.11.2014 |

Main outputs in 2014

| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
|--|---|---|--|
| Updated financial programming 2014-2020 | Adoption by the College of financial programming together with Draft Budget 2015 and updated by end of January 2015 after adoption of the Budget 2015 | Commission adopts financial programming as proposed by BUDG | The College adopted on 11/6/2014 the financial programming as proposed, together with statement of estimates 2015 |
| Produce sound opinions on legislative proposals with budgetary implications | Timely processing of legislative proposals in the course of the year | 100% of Inter Service Consultations processed within the normal deadlines set by the SG | 98,63 % of ISC answered in due time |
| Deliver the forecast for the VAT and GNI bases for the establishment of the financing of the Draft Budget 2015 and the Draft Amending Budget 2014 | Timely delivery | Forecast for VAT & GNI bases delivered in time for DB 2015 | ACOR Forecast meeting on 19 May 2014 DAB 4/2014 – update of the OR and UK corrections for 2010-2013 – adopted by the Commission on 9/7/2014 |
| Deliver the calculation of the UK correction | Timely and error-free delivery | Error-free UK correction delivered in time for DB 2015 | Adopted by the EP in December 2014 |

Budget 2015

For the third time since the entry into force of the Lisbon Treaty in 2010, the Conciliation Committee failed to reach an agreement within the 21 days (expiring on 17 November) as set in the Treaty. On 27/11/2014, the Commission presented a new draft budget 2015, on the basis of which a political agreement was reached on 8 December, with the formal adoption of the 2015 budget on 17 December 2014.

The continuous tension created by shortages of payment appropriations, conflicting views on how to count payment appropriations of so-called 'special instruments', and exceptionally high GNI balances were at the source of the failure of reaching agreement in the Conciliation Committee.

1.1.8 ABB activity Financial framework and budget procedure : 2. Forward budgetary planning : frame spending within short and long term financial framework

| ABB ACTIVITY: FINANCIAL FRAMEWORK AND BUDGET PROCEDURE | | |
|---|---|--|
| Specific objective 2. : Forward budgetary planning : frame spending within short and long term financial framework | | |
| <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending | | |
| Result indicator: Finalisation of the legislative framework for the financing of the EU budget 2014-2020 | | |
| <i>[Source : EURLEX]</i> | | |
| Baseline (2013) | Target (end 2014) | Result (end 2014) |
| Commission proposal for new Own Resources adopted in June 2011 | Adoption by Council of the Own Resources Decision in the 1 st half of 2014 | The new Own Resources legislation, including the Own Resources Decision, was formally adopted by Council on 26 May 2014. |

| Main outputs in 2014 | | | |
|--|--|---|--|
| Description | Indicator | Target | Result (end 2014) |
| Commission adoption of the technical adjustment of the MFF 2014-2020 for the year 2015 | Timely delivery of the Technical Adjustment | Q2 2014 | The Technical Adjustment of the financial framework for 2015 in line with movements in GNI was adopted on 28.5.2014 [COM(2014) 307 final] |
| Assistance to the Council in the final stages of adopting the new Own Resources Decision (ORD) 2014-2020 | Council adoption of the Own Resources Decision | 1 st half of 2014 | Council Decision (EU, Euratom) No 2014/335 of 26 May 2014 on the system of own resources of the European Union (OJ L 168, 7.6.2014, p. 105) |
| Assistance to the Council in adopting and the EP in giving its consent on the implementing regulation 311.4 | Council adoption and consent of the EP received | 1 st half of 2014 | Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union (OJ L 168, 7.6.2014, p.29). EP consent given on 17.4.2014. |
| Contribute to the secretariat of the High Level Group on Own Resources | Timely and high-quality preparatory work for the High Level Group on Own Resources | Preparatory work delivered according to the calendar to be defined by the High Level Group on Own Resources | Timely adoption First Assessment of the High Level Group on Own resources (17 December 2014) |

Own Resources

On 26 May, the Own Resources legislative package was formally adopted by Council following the opinion and consent given by the European Parliament on 17 April 2014. Pursuant to Article 311 of the Treaty on the Functioning of the European Union the ORD needs to be ratified by the Member States in accordance with their respective constitutional requirements. The ratification procedure is not expected to be completed before the beginning of 2016, at which time the new ORD will enter into force with retroactive effect from 1 January 2014.

The own resources legislative package adopted comprises the following acts:

- ❖ The Own Resource Decision (ORD): Council Decision of 26 May 2014 on the system of own resources of the EU (2014/335/EU, Euratom).
- ❖ The Implementing Regulation: Council Regulation (EU, Erratum) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the EU.
- ❖ The Making Available Regulation: Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (Recast).

Sectorial legislation concerning multiannual programmes

Most of the sectorial legislation concerning multiannual programmes was adopted by the end of 2013, but a number of basic acts were only adopted later, notably for the European Maritime and Fisheries Fund (May 2014), the Asylum, Migration and Integration Fund and the Internal Security Fund (both May 2014), and the external policy instruments (March 2014) and the final legal bases should be agreed at the February I 2014 EP plenary. All the elements are therefore have been put in place to allow for the timely and successful start of the new generation of multiannual programmes.

1.1.9 ABB activity Promotion of sound financial management: 1. Issue timely derived regulations and rules to complement FR/RAP and adapted to specific needs of entities implementing EU Budget

| ABB ACTIVITY: PROMOTION OF SOUND FINANCIAL MANAGEMENT | | |
|--|--|--|
| Specific objective 1. : Issue timely derived regulations and rules to complement Financial Regulation (FR)/Rules of Application (RAP) and adapted to specific needs of entities implementing EU Budget. | <input type="checkbox"/> Spending programme | <input checked="" type="checkbox"/> Non-spending |
| Result indicator: Timely adoption of regulation and rules. | | |
| <i>[Source : Agenda planning & EURLEX]</i> | | |
| Baseline (2013) | Target (end 2014) | Result (end 2014) |
| FR/RAP entered into force on 1/1/2013 | Derived regulations and rules adopted according to planned deadlines | done |

| Main outputs in 2014 | | | |
|---|---|------------------------------------|---|
| Description | Indicator | Target | Result (end 2014) |
| Internal Rules adopted | Timely adoption of relevant documents. | March 2014 | Adopted on 30 April 2014 |
| Advice on the future legal bases which ensure simplification and coherence with MFF. | Number of advices given throughout the year in relation with advices requested. | Reply to 100% of advices requested | 900 direct consultations (excl. CIS & HD). 3200 Interservice consultations replied within the deadline |
| Develop framework for future & existing Innovative Financial Instruments (IFI). | Agreement achieved on the framework for IFI | March 2014 | Several guidance documents and model contractual clauses in the context of FIIEG, |
| | Number of Financial Administrative framework Agreements (FAFA) | 5 | 4 out of 5 FAFAs have been signed. Strict monitoring of delegations agreements incl.capped remuneration of entrusted entities |
| | | | Political agreement |

| Main outputs in 2014 | | | |
|--|------------------|---------------|---|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Adoption by Council and Parliament of revision of Financial Regulation on the funding of European political parties and foundations | Timely adoption | May 2014 | reached on 25 February 2014, formally adopted on 4 November 2014. |

Revisions of FR

In 2014, the legislative activity remained intense with the conclusions of three first reading agreements relating to the general and EDF Financial Regulations. The first one aligned the general Financial Regulation to the results of the Multiannual Financial Framework (Regulation No 547/2014, OJ L 163/18 of 29.5.2014), the second one adopted the financial regulation applicable to the 11th EDF based on the general Financial Regulation (political agreement in July 2014, see Council document 10178/14) and the third one introduced in the general Financial Regulation a special title dedicated to the financing of EU Political Parties and Foundation (Regulation N°1142/2014, OJ L 317 of 4.11.2014, pp. 28–34). In addition, the Commission proposed a further alignment of the Financial Regulation to the new directive of public procurement (COM (2014)358 – see below).

In parallel, new instructions, internal rules and guidelines were also produced, explained and disseminated through the tools at the disposal of the SFC so that they were understood and applied by the staff concerned. More than 3200 interservice consultations (an increase of more than 1000 when compared to 2013) were replied with within the deadlines. Finally, fine-tuning of the internal control framework and the reporting requirements which have been adapted to the new FR/RAP to increase the accountability of the financial actors was needed.

Ongoing revision of Financial Regulation (public procurement/exclusion)

Following the political agreement on the revision of the directives related to the coordination of public procurement procedures, the Commission immediately launched the revision of the Financial Regulation and its Rules of Application (RAP) in February 2014.

- ❖ Its aim was to be able to align with the revised directive within the same deadlines as those set for the Member States, i.e. early in 2016, as the Commission always committed to apply to itself and the other EU institutions the same rules as those applicable to the national authorities.
- ❖ The scope of this revision not only encompasses an alignment on the revised directive but also a reform of the system of protection of the EU financial interest (COM (2014)358). Indeed, this proposal also foresees the establishment of a single centralised system for the early detection and exclusion of unreliable economic operators. It foresees the setting up of a panel to take exclusion decisions and it guarantees the right of defence of economic operators. Pending the adoption by the legislative authority of this proposal, the Commission has reviewed its current Early Warning System (Decision 2014/792/EU, OJ L 329/68 of 14.11.2014) with a view to simplify it and to prepare the transition towards the future system the establishment of a single centralised system for the early detection and exclusion of unreliable economic operators. An independent

panel will be set up to take exclusion decisions in full respect of the right of defence of economic operators. Pending the adoption by the legislative authority of this proposal, the Commission has simplified its current Early Warning System¹⁰ to facilitate the transition towards the future system.

- ❖ Finally the Commission proposal also includes the recognition of a separate discharge to the PPPs, as a result of the Inter-institutional roundtable organised by DG BUDG on this issue. Date: 13 November 2014 (Roundtable on Audit and Discharge for Joint Undertakings)

The Commission duly adopted its proposal for revision on 18 June 2014 and transmitted to the Council and Parliament. The Budgetary Committee started examining the text under the Italian presidency without though adopting an official position while waiting for the Parliament to start working on the text. The Budget Committee was finally designated as the one responsible for drafting the Parliament's report while the Budgetary control and the Foreign affairs committees would contribute an opinion.

In parallel, the Commission drafted the RAP and already started the work in the autumn in an expert group on the delegated act, following a first interservice consultation.

Innovative financial instruments

2014 was the first year for the implementation of the new generation of financial instruments in line with a new regulatory and policy framework, which reflects their increased importance under the current MFF. BUDG contributed to the establishment of a streamlined implementation framework on the basis of Title VIII of the Financial Regulation, in particular through the negotiation of Framework Administrative Agreements with the EIB and the EIF and preparation of a significant number of guidance documents and model contractual clauses within the Financial Instruments Inter-service Expert Group (FIIEG). Furthermore, BUDG ensured that the remuneration of entrusted entities was performance based and capped at a fixed percentage of the EU contribution. In addition, DG BUDG monitored the negotiation of the delegation agreements for specific instruments, in order to guarantee full transparency and accountability in the implementation of the instruments.

Advice on the future legal bases which ensure simplification and coherence with MFF

- ❖ Assistance given in particular to the Research family for delegated programmes (art. 185 & 187), DG SANCO for setting up the "feed & food" programme.
- ❖ DG BUDG co-led with DG DEVCO the negotiations of the Framework Agreements with International Organisations and Development Banks including the UN family, World Bank group, EBRD, OECD, Council of Europe, IMF and IOM. The application of new Framework Agreements will result in considerable savings for the EU budget which will see the amounts paid from the EU contribution to administration costs reduced and allow a stronger focus on results. Another major result of the negotiations is a coherent Commission wide approach through a set of contractual documents that may be used by both internal and external policies' DGs. This had been, in the past, an element of criticism from International Organisations but also a way to weaken the Commission negotiating position. In 2014 agreements have been signed with the EIB/EIF and the World Bank. Signature of the remaining agreements is expected in March 2015. DG BUDG took the lead for negotiations that have led to lengthy but successful discussions on the issues of cost eligibility conditions and remuneration.

¹⁰ Decision 2014/792/EU, OJ L 329/68 of 14.11.2014

- ❖ Preparation of model grants agreements (H2020 derived models for art. 185 & 187, CEF, COSME, LIFE). In addition, several services received support for design of lumps sums and unit costs decisions for 2014- 2020.

1.1.10 ABB activity Promotion of sound financial management: 2. Contribute to the correct implementation of EU Budget by providing precise information, useful training and clear guidance on financial management matters, including on public procurement and grants

| ABB ACTIVITY: PROMOTION OF SOUND FINANCIAL MANAGEMENT | | |
|--|---|--------------------------|
| Specific objective 2. : Contribute to the correct implementation of EU Budget by providing precise information, useful training and clear guidance on financial management matters, including on public procurement and grants. | | |
| <input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending | | |
| Result indicator: Feedback received on the quality of services rendered by SFC <i>[Source: Quarterly report on Quality in Central Financial Services]</i> | | |
| <u>Baseline</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Score : 3,5 / 5 (Report September 2013) | Maintain 2013 score (Report December 2014) | 4.2 /5 |

| Main outputs in 2014 | | | |
|---|---|--------------------------|--|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Updated pages on guidance and information on BUDGWEB and by SFC helpdesk | Number of pages updated and HD questions answered | 100% of demand completed | In 2014 the SFC helpdesk service responded to 916 questions. Mygration of the SFC database to JIRA. BudgWeb migrated to MyIntracomm platform. New functionalities including a search engine were added to the site. All pages were screened as part of the migration Grants VM (but part of chap. 7), updated procurement VM and revised contracts for experts published |

| <u>Main outputs in 2014</u> | | | |
|---|--|---|--|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Financial networks meetings: Internal Control Coordinators, (ICC net), Réseau des Unités Financières (RUF), ABAC coordinators and users. | Number of network meetings throughout the year | Total 21 meetings (ICC net: Quarterly ; RUF: Monthly ; ABAC: 2) | RUF : 10 Regular monthly meetings; bi-annual Heads of Unit; 3 working groups. 1 ABAC Coordination Board (05/06), 2 Workshops on Commission Reorgansiation (21/11&12/12) |
| Trainings to staff managing the budget (public procurement and grants courses and models, vademecums, etc...), | Number of trainings given/information sessions provided | 100% of demand completed | 9 Workshops on Datawarehouse BO Advanced Features (June, September & November) 89 financial training courses attended by approx. 2400 colleagues ; - 15 accounting courses, and launch of a new accounting programme. 200 ABAC courses attended by about 1600 colleagues and more than 70 ABAC e-learning modules were made available in the form of an interactive simulation of the ABAC environment |
| Feedback obtained on training's quality | Number of trainings with an evaluation below 80% of satisfaction | None | none |

RUF away-day and follow-up 4 workshops including on lack of payment appropriations (see above "The year in brief") and indirect management (i.a. with International Organisations)(see above point "1.1.1").

1.1.11 ABB activity Promotion of sound financial management: 3. Issue clear guidance to harmonize and help DGs on the review of their internal control strategies to ensure cost-effectiveness and proportionality to the risks, in accordance with the new FR/RAP

| ABB ACTIVITY: PROMOTION OF SOUND FINANCIAL MANAGEMENT | | |
|--|---|--|
| Specific objective 3. : Issue clear guidance to harmonize and help DGs on the review of their internal control strategies to ensure cost-effectiveness and proportionality to the risks, in accordance with the new FR/RAP. | <input type="checkbox"/> Spending programme | <input checked="" type="checkbox"/> Non-spending |
| Result indicator: Guidance issued on time and feedback obtained from DG's. | | |
| <i>[Source : BUDGWEB]</i> | | |
| Baseline | Target | Result (end 2014) |
| Specific guidance on cost-effectiveness of controls is available | Guidance used by DG's in AAR 2013 and onwards | 100% of DGs used guidance |

| Main outputs in 2014 | | | |
|--|--|---------------|--|
| Description | Indicator | Target | Result (end 2014) |
| Use of guidance on cost-effectiveness of controls by DG's in their AAR 2013 and subsequent. | % of DG's using relevant and correct calculation of cost-effectiveness on controls on their AAR's. | 100% of DGs | 100 % |
| Overview report & Synthesis report | Timely adoption of reports | June 2014 | Adopted on time: Ares (2014)1298733 dated 25/04/2014 and COM (2014)342 11.6.2014. The annex reporting on the exceptional use of negotiated procedures was duly prepared and adopted |
| Trainings on Risk Management | Number of trainings given | 48 | 36 |

Guidance on cost-effectiveness of controls

Since January 2013, Authorising Officers by Delegation (AODs) are required to report on the efficiency and effectiveness of internal control systems in the Annual Activity Report, including an overall assessment of the costs and benefits of controls. To assist the AODs, BUDG issued in November 2013 a set of guidance documents which included the methodology for estimating the costs and benefits of controls as well as examples on how to assess control cost-effectiveness.

In the 2013 AARs, all DGs complied with these provisions for the first time. The exercise was largely successful, as all DGs and services reported on efficiency and cost-effectiveness. Yet many confronted difficulties because quantitative data were unavailable or because of a lack of relevant benchmarks. In response, BUDG identified the indicators most commonly used in 2013 to measure cost-effectiveness of controls and defined a baseline set of common indicators that could meet the needs of most DGs across the Commission.

By the end of 2014, the document had been discussed with the DGs and there was agreement on the indicators identified. The remaining questions will be addressed in the second quarter of 2015, in the light of the experience of the 2014 cost-efficiency assessment, so that the common indicators are used for the 2015 AARs.

Charge back

In response to an audit recommendation by the IAS, BUDG has steered a process for the definition and practical modalities for the reallocation of budget appropriations between DGs in exchange for the provision of specific services (the Charge-back process). This document establishes the governance framework for the provision of services within the Commission (referred to as a “charge-back process”), provides guidelines on cost calculation, on the services to be charged-back, and the accounting modalities to be used. The ABM Steering Group endorsed this guidance on 25 March and it was published on 20 May 2014.

Subsequently, BUDG has steered the work of issuing guidance intended to cover the provision of services by Commission DGs to other institutions, decentralised agencies and other EU bodies in exchange of a transfer of either human or financial resources (referred to as a “cost recovery”). The guidelines would follow the same general principles as the internal charge-back process, but adapted to the applicable practical modalities.

1.1.12 ABB activity Promotion of sound financial management :
4. Prepare candidate and potential candidate countries to correctly apply the EU own resources system and assist these countries together with the European Neighbourhood countries in creating an EU-wide platform to foster the voluntary exchange among Member States of good practice in public internal control

ABB ACTIVITY: PROMOTION OF SOUND FINANCIAL MANAGEMENT

Specific objective : Prepare candidate and potential candidate countries to correctly apply the EU own resources system and assist these countries together with the European Neighbourhood countries in creating an EU-wide platform to foster the voluntary exchange among Member States of good practice in public internal control

Spending programme
 Non-spending

Result indicator: Achievements in aligning internal control arrangements (in candidate (CC), potential candidate (PCC) and qualifying ENP countries together with existing Member States (MS)) with international good practice standards for Internal Control.

[Source : CC – Commission Progress Reports & PCC & ENP – DG BUDG Progress reports & MS – minutes from PIC Conferences and working group events]

| <u>Baseline</u> | <u>Target</u> | <u>Result (end 2014)</u> |
|--|---|---|
| 100% timely provision of Progress Reports in 2013 | 100% timely provision of Progress Reports in 2014 | 100% timely provision of Progress Reports in 2014 |
| Satisfaction rating from last conference in 2012 - 75% | Minimum customer satisfaction rating of 75%. | 95% Satisfaction rate for PIC Conference |

Result indicator: Progress reported in candidate countries' Own Resources preparedness

[Source : Reports sent to ELARG]

| <u>Baseline</u> | <u>Target</u> | <u>Result (end 2014)</u> |
|---|---|---|
| 100% timely provision of reports to ELARG in 2013 | 100% timely provision of reports to ELARG in 2014 | 100% timely provision of reports to ELARG in 2014 |

Main outputs in 2014

| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
|---|--|----------------------------------|---|
| Coordination of technical assistance and monitoring progress in Own Resources preparedness in candidate countries. | Number of countries progressing to Own Resources preparedness, depending on Council decisions to open-up accession negotiations for Chapter 33 | According to annual work program | Accession negotiations with Montenegro opened mid-December 2014. The same month BUDG started-up its technical assistance program via the distribution of the OR questionnaire. For Turkey: no political |

| <u>Main outputs in 2014</u> | | | |
|---|---|------------------|---|
| <u>Description</u> | <u>Indicator</u> | <u>Target</u> | <u>Result (end 2014)</u> |
| Reports from fact finding missions and other assessments. Providing reliable summaries from those reports as timely input for the Progress reports on candidate, potential candidate and ENP countries | Percentage of reports produced and sent to the client country; input provided to DG ELARG and EEAS in accordance with the administrative deadlines. | 100% | agreement reached. Eight Missions performed and timely feedback provided to ELARG and EEAS |
| Organise 2014 PIC Conference with input from working group events | User satisfaction levels obtained via user appraisal forms | In excess of 75% | Satisfaction level of 95% |
| TOR seminar in Montenegro | Achieve all the objectives set for the seminar and timely reporting | 100% | The seminar is delayed till June 2015 due to the delay in formal opening of CH-33 for accession negotiations. |
| Provide DG ELARG with timely and reliable input concerning own resources for progress reports | Input that respects DG ELARG deadlines and is integrated in their reports | 100% | 100% BUDG's input for the 8 progress reports was sent to ELARG on 26 May 2014. |

Mid 2014 a new function of Principal Adviser was created to steer the Public Internal Control Network operated in full partnership with the Member States. In addition he guides and oversees the re-engineering process in (Potential) Candidate Countries in meeting the EU requirements for accession concerning Public Internal Financial Control and External Audit. In pursuing these objectives, the Principal Adviser is supported by a Task Force.

A. PIC (Public Internal Control)

1. On 15 and 16 May, the second Conference for the PIC Network, organised in partnership with the Netherlands and chaired by BUDG, took place in The Hague and focused on EU public sector governance. The Deputy Director General gave the keynote address to Delegates, experts in internal control or internal audit, from almost all Member States, supplemented by observers from Candidate Countries.

The key features of the Conference were:

- ❖ the launch of the second edition of the Compendium on Public Internal Control systems in the EU; and
- ❖ scrutiny of four discussion papers prepared for Conference by a Working Group of Network members from seven Member States.

Conference agreed to:

- ✓ endorse the papers on “Optimising Internal Control”, “Integrating Internal Control in the Management Cycle”, “Quality Assurance for Internal Audit” and “Audit Committees for public sector Internal Audit” as non-binding European good practice; and

- ✓ the appointment of a new enlarged Working Group to prepare for the next Conference.

2. Two meetings of the PIC Working Group were organised to prepare the May 2014 PIC Conference held in The Hague (see above). The new Working Group (BE, CZ, EE, FR, HU, PT, NL, UK) that will prepare the 2015 Conference in Paris met for the first time in October in London. The full PIC Network was kept informed of the progress of the Working Group via the Newsletters of which five were issued in 2014.

3. In September 2014, Brazil organised and hosted a 3-day EU/Brazil funded conference to learn about EU good practice in developing and operating internal control in line with modern international standards. The EU was represented by the BUDG' PA Office leading a delegation of four members of the PIC Network (AU, BE, BU and PO) and key point presentations were delivered by all. The well attended event provided insight into the similarities and differences between the internal controls systems operated in the EU and Brazil.

4. Consultancy advice was given to individual Member States on their request on the institutional set-up of the Internal Audit function and on the design of primary legislation concerning Internal Control, both in the public sector.

B. PIFC

Eight fact-finding missions were undertaken to candidate and potential candidate countries to assess progress with PIFC implementation against Chapter 32 (Financial Control) benchmarks. Feedback gained from all of these missions was used to provide input to the Progress Reports issued by ELARG. Input resulting from desk scrutiny was also provided to EEAS for the Progress Reports concerning ENP countries.

PIFC, as the European framework for the redesign of public internal control, was presented at a high level conference in Abu Dhabi (UAE) organised and financed by the World Bank. Participants showed a vivid interest, whilst recognizing that creating some of key conditions for successful introduction of the framework is not always easy and will take time.

Discussions to enhance the PEFA instrument by including internal control indicators did not deliver the expected results, since our PEFA partners considered that the measurability of some key components would be too cumbersome. The absence of such indicators makes the PEFA instrument less pertinent when measuring compliance to Chapter 32 benchmarks.

In recognition of the work done by BUDG, since 2004, in assisting the re-engineering of the Public Internal Control framework in Albania, especially concerning the new law, compatible with international standards, governing the external audit function, the Principal Adviser was awarded the Presidential Medal of Gratitude at a ceremony in Tirana.

1.2 Example of EU-added value and results/impacts of projects or programme financed

n/a

1.3 Economy and efficiency of spending and non-spending activities.

According to the financial regulation (art 30), the principle of economy required 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 the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc...) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

It should be pointed out that BUDG will have to face new important challenges in the coming years (budget focussed on results, performance based budgeting, financial reporting strategy, medium and long term budgetary strategy, reinforced effectiveness of controls on EU spending, enhanced communication on the EU budget), while preserving at the same time its core activities. Part of the resources needed to meet those new priorities has been covered through internal redeployment. Overall, the capacity of the DG is now stretched to its limits in all its areas of activities, be it the budgetary negotiations, the establishment of the accounts or the collection of resources.

This shall not prevent of course BUDG to continuously fine-tune its internal arrangements in order to improve the efficiency and economy of its operations.

The following two initiatives show how these principles are implemented in our DG:

1.3.1 Continuing effects of the 2012 exercise for efficiency gains

BUDG launched in 2012 an exercise for efficiency gains. The implementation phase of this exercise –conducted by project teams– is still ongoing. It was indeed decided to favour a smooth approach in terms of staff reduction, taking advantage as much as possible of voluntary mobility and retirements. Therefore, further staff savings have been realised in 2014 as a result of the pooling of secretaries and the merging of two Units in Directorate A.

1.3.2 Rationalisation of services through diversification of competencies and reinforcement of back-ups

A particular effort has been made to increase the versatility of competencies amongst staff and through a broader use of back-ups. This has been the approach followed for instance in horizontal services, where back-ups have been set up not only within specific teams, but also across teams (e.g. mail clerks/document managers, human resources/strategic planning and programming/Internal control,...). This has led to further staff reductions and allows the services concerned within BUDG to deliver and to ensure the continuity of operations with limited resources, as it appears from the central screening exercise.

2. MANAGEMENT OF RESOURCES

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.

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives¹¹. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

2.1 Management of human and financial resources by DG BUDG

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. 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.

It refers to the resources managed by BUDG: the Communities' own resources and the administrative expenditure in 2014.

2.1.1. Own resources (OR)

The three main streams of EU revenue are known as own resources. They are: traditional own resources (primarily customs duties), the VAT own resource and the GNI own resource. The distribution in the budget is the following:

| Amounts in € | 2012 | 2013 | 2014 |
|--|------------------------|------------------------|------------------------|
| TRADITIONAL OWN RESOURCES | 16 453 389 941 | 15 365 321 831 | 16 429 485 119 |
| OWN RESOURCES ACCRUING FROM VAT | 14 871 184 175 | 14 019 723 428 | 17 667 362 373 |
| OWN RESOURCES BASED ON GNI | 98 105 225 030 | 110 358 602 621 | 98 864 478 291 |
| SURPLUS AVAILABLE FROM PRECEDING FINANCIAL YEAR | 1 496 968 014 | 1 053 611 712 | 1 005 406 925 |
| Total Own Resources | 130 926 767 161 | 140 797 259 592 | 133 966 732 708 |

The starting point for all three is the provision of data by the Member States which is subject to later verification including on the spot inspections by the Commission. It is an inherent feature of these arrangements that there will be later revisions to amounts paid after the end of any

¹¹ 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).

budget year. Each own resource system has a 4-year cut-off after which no corrections may normally be made. However, to protect the EU's financial interests the cut-off does not apply to those points notified by the Commission or the Member State concerned prior to the deadline. In these instances corrective action may still take place. Although the possible financial impact of these items can rarely be quantified until they are resolved, experience shows that compared with the overall amounts paid their impact is rarely material.

The management arrangements for each own resource vary. The Internal Control Template (ICT) for own resources in annex 5 demonstrates how the control system in place in the DG addresses the risks related to own resources as well as the indicators used to measure the efficiency and cost-effectiveness of these controls.

Traditional Own Resources (12.26% of Total OR)

Member States, and not the Commission, are primarily responsible for (1) establishing TOR, accounting for it, collecting and making it available within prescribed time limits and (2) implementing EU customs legislation and operating a framework of customs checks and controls to ensure that they collect the correct amount of customs duties at the right time. Failure to comply with the rules may lead to a financial liability to the EU budget.

Contributions for traditional own resources (TOR) are made on the basis of Member States' actual collection of the relevant duties and levies which Member States declare via a monthly statement.

Reasonable assurance concerning the accuracy and completeness of Member State data is provided by an annual inspection programme in which BUDG checks that Member States' administrations have complied with EU law when collecting TOR. BUDG monitors the timely and full receipt of traditional own resource statements and the corresponding payments and manages the recovery of the amounts related to detected errors resulting from the TOR control activity. Any delay in paying own resources gives rise to payment of interest by the Member State concerned.

VAT own resource (13.19% of Total OR)

Contributions for the VAT own resources (VAT OR) are based on the value of supplies in a Member State which are chargeable with VAT according to EU law (the harmonised VAT base). Member States provide the Commission with an annual statement showing how they have calculated their base and its value.

As VAT OR data is only available annually and in arrears VAT own resource payments during any particular year are based on forecasts (each month the Commission requests each Member State to pay one twelfth of the budgeted forecast amounts). Adjustments are made in the year following (and in future years if corrections to the data first supplied are necessary) to adapt payments to reflect the actual VAT data.

Reasonable assurance concerning the accuracy and completeness of Member State data is provided by an annual inspection programme in which BUDG checks that Member States' administrations have complied with OR regulations when calculating the value of their harmonised VAT base. Statement data is analysed and verified in-house and during on-the-spot checks (assisted by ESTAT for the most statistically-reliant aspects of the calculation). Member States receive and react to reports of these controls. BUDG monitors the receipt of VAT OR base data from Member States. It also monitors proactively that amounts of own resources are paid promptly. Delay in paying own resources gives rise to payment of interest by the Member State concerned. Reservations are placed where Member States' data cannot be accepted and lifted when the concern is overcome with any necessary corrective action concerning past payment

being made.

GNI-based own resources (73.80% of Total OR)

GNI OR has a particular role to play as the balancing resource. Once the amount of agreed EU expenditure that will be funded by the TOR and VAT OR is known then GNI contributions are fixed to fund the remainder within the ceiling of no more than 1.23 % of total EU GNI. Member States provide the Commission with their GNI figures annually accompanied by a quality report and supplemented after each five year verification cycle with a new inventory. As GNI own resources data is only available annually and in arrears the own resources payments during that year are based on the amounts entered in the budget for the year concerned (i.e. each month the Commission - BUDG - requests each Member State to pay one twelfth of the budgeted forecast amounts). Adjustments are made in subsequent years by BUDG to adapt payments to reflect "real" GNI data. BUDG monitors proactively that GNI own resource contributions are paid promptly. Any delay in paying own resources gives rise to payment of interest by the Member State concerned.

The arrangements for the collection and verification of GNI own resources are governed by a Memorandum of Understanding (MOU) agreed between ESTAT and BUDG. The data provided by Member States is analysed and verified by ESTAT which also makes on-the-spot checks (Member States may choose to participate in these controls). Member States receive and react to reports of these controls and oversee their treatment in the GNI Committee. To prevent possible time-barring, reservations are placed where Member States' data are considered unacceptable. Reservations are a protective measure. A reservation should not be assumed to imply that a MS's contribution to the Community budget has necessarily been affected. Reservations are lifted when the concern is overcome and any necessary corrective action concerning past payments is made.

During 2013, the MOU was expanded to include a new annex setting out the good practice to be observed when setting (GNI) reservations.

Reasonable assurance: on the accuracy and completeness of Member State data is provided by the opinion of the GNI Committee, bolstered by BUDG's attendance to the Committee meetings and the results of ESTAT's verification activities¹² to which Member States contribute by taking part in controls in other Member States. The annual opinion of the GNI committee is a key element of assurance since it refers to the appropriateness of using the GNI data provided by Member States for own resources purposes and it means the acceptance of all the MS together with the Commission of the data. Control effectiveness as regards legality and regularity

BUDG has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the data Member States provide. As outlined above separately for each of the resources, the control objective is to ensure that the DG has reasonable assurance that amounts of OR collected during the reporting year are in conformity with the applicable regulatory provisions.

The internal control objective related to the management and processing of the incoming revenues by BUDG itself has been fixed at 1 %. For details see Annex 4.

Indicators of control performance for Own Resources are described in the corresponding

¹² See ICT on Verification of GNI data by ESTAT in annexe 5 (pages 90 & 91) and the footnotes 23 & 27 on pages 84 & 90

Internal Control Template in annex 5 throughout four stages: MS statements and collection of resources, verification of TOR collected and VAT-base OR calculated by Member States/ Calculation of GNI contributions, follow-up of verification results and UK correction calculation. Control results in terms of legality and regularity are described under the following sections:

A – MS statements and collection of resources

During 2014, 100 % of national contributions and amounts reported in Traditional Own Resource A statements were fully collected and made available on time. Any deviation noted for other own resources were promptly followed.

In addition 375 requests for accounting action and 1.029 accounting documents were generated.

At the end of the year there were six open Traditional Own resources infringement files. Two new procedures were initiated during 2014 and two closed with respect to the six open procedures in 2013. In addition, six TOR Commission infringement decisions have been taken.

B – Verification of TOR collected and VAT-base OR calculated by Member States/ Calculation of GNI contributions

Traditional Own Resources

For TOR, Member States are responsible for operating an appropriate administrative framework by which they collect customs duties and sugar levies to finance the EU budget. The indicators refer to the annual inspection programme which covers various customs regimes, control methods, plus the procedures for accounting, recovering and making available of TOR. The programme varies from year to year and is based on risk analysis. The focus of the inspections is identifying and testing the adequacy of the key procedures and systems in each Member State that ensure correct and timely collection of TOR and its being made available to the Commission.

During 2014 the annual inspection programme was implemented at 93% since two inspections of the 2014 programme had to be rescheduled for early 2015 at Member States' request. A total of 28 inspection reports were produced and sent to the corresponding Member States respecting, in 100 % of the cases, the legal deadlines. All anomalies identified during the inspections are closely followed up by BUDG in collaboration with the Member States.

In addition, 296 write-off reports from Member States were treated in co-operation with the legal service, DG TAXUD and OLAF within the legal six month deadline in 100 % of the reports.

The TOR control activity during the year 2014 has resulted in a detected error rate of 0, 57 % of TOR collected during the financial year.

The last ECA's annual report on financial year 2013 concluded that the examined systems were overall effective for TOR. In addition, no errors were found in the transactions tested. The key internal controls in Member States visited by ECA were assessed as partially effective.

The Customs Audit Guide, defined by the Commission services was distributed to all Member States to strive for a more uniform approach to audit for the purposes of customs controls and to promote recognised audit controls. A new version of the guide has been issued during 2014 which sets up indicators for the post clearance audits and has the objective to improve controls carried out by Member States.

VAT- based Own Resource

All Member States are obliged to administer a value added tax system. The own resources legislation requires Member States to provide an annual statement of the value of transactions charged with VAT in their jurisdiction. BUDG monitors the timely receipt of these annual statements and checks their completeness and coherence with previous years, primarily by a programme of inspections. The indicators chosen show whether the Member States' statements were received by the due date were sufficiently complete and accurate to be recorded in the VAT OR database.

During 2014, 100% of the agreed inspection programme was implemented as planned. The results of inspections also show that 100 % of statements have been subject to verification prior to becoming time-barred.

GNI

BUDG draws its assurance concerning the accuracy and completeness of GNI data for own resource purposes from the verification work undertaken by ESTAT¹³ together with MS. This inter-relationship is governed by the MOU agreed between ESTAT and BUDG, supplemented by the scrutiny of data by all Member States in the GNI Committee.

Where this process raises concerns and ESTAT wishes to prevent a particular year becoming time-barred then it requests BUDG to set or lift reservations on its behalf. The indicators chosen for GNI (see stage follow-up of verification results) show the timeliness with which BUDG notifies Member States of changes in their reservation position. They also show the frequency of BUDG's participation in GNI Committee meetings.

The results show that activity to notify reservations was prompt. 100% of the 71 notifications were sent within the deadlines. BUDG attended all of GNI committee meetings held during the year.

Assurance is also obtained from the annual opinion of the GNI committee since it represents the acceptance of GNI data by both MS and Commission. Following its examination during the year the GNI Committee, at its 29th meeting on 22 – 23 October 2014 concluded that, in its opinion, the GNI data transmitted through the GNP/GNI Questionnaire 2014 are appropriate for use for own resource purposes with respect to reliability, comparability and exhaustiveness, in accordance with article 5(2)b of the GNI Regulation.

The work carried out by ESTAT and Member States on the country-specific GNI reservations led to improvements in the quality of GNI data submitted on 22 September 2014 as part of the GNI questionnaires. These improvements included the consistent inclusion of illegal activities in all Member States GNI.

ESTAT is currently undertaking the verifications needed to confirm that the GNI reservations have been adequately addressed. It is expected that during the year 2015 most, if not all, of the existing 107 specific GNI reservations and 132 transversal GNI reservations could be lifted.

¹³ See ICT on Verification of GNI data by ESTAT in annexe 5 (pages 89 & 90) and the footnotes 23 & 27 on pages 83 & 89

The ECA Special Report 11/2013 did not identify substantive errors in GNI calculation but presented recommendations for improvement of the Commission's GNI verifications. The majority of the recommendations have already been implemented by ESTAT and the remaining will be implemented over the course of the next GNI verification cycle (see also section 2.3.).

The last ECA's annual report on financial year 2013 concluded that the examined systems were effective for GNI and VAT-based own resources. The Court found no errors in the transactions tested in these OR categories.

C – Follow-up of verification results

A total of EUR 118.5 million were recovered in 2014 on TOR (recovery orders for amounts of principal and interest, issued and/or paid in 2014). The percentage of TOR financial irregularities followed up via recovery orders created and paid has been 81 % in 2014. The average recovery rate for the last five years is 93.2 %.

The proportion of VAT reservations in place for more than 5 years is 8, 4%, which is considered a reasonable percentage.

In addition, 100 % of VAT and TOR inspection reports have been presented at the first available ACOR meeting for information and review.

The new annex included (April 2013) in the MOU between ESTAT and BUDG concerning the good practice when using GNI reservations, guarantees that criteria for placing specific reservations is clear and aims to reduce significantly the number of general reservations.

D- UK correction calculation

Calculation of UK correction was made correctly and on time. During the most recent verification of UK correction by ECA (annual report concerning financial year 2013) no errors were detected linked to its calculation.

Globally, for all Own resources, the most recent ECA's opinion on Own Resources (ECA's annual report for financial year 2013) concluded that revenue collected is not affected by a material level of error and that control systems are overall effective.

Control efficiency and cost-effectiveness.

The principle of efficiency concerns the best relationship 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.

BUDG has quantified the costs of the resources and inputs required to carry out the relevant controls on OR for the four stages described above. Benefits of those controls have also been identified. When possible they have been quantified. In some other cases benefits have been expressed through the corresponding relevant non-quantifiable indicator as indicated in the OR Internal Control Template in annex 5.

Results show that controls performed have ensured the timely and dully collection of Own resources during the year. The total cost of controls performed in all the stages described in Annex 5 represent 0.29% of Own resources collected in 2014 (EUR 133 966 732 708).

The cost of controls carried out to verify the amounts collected represent 0.01 % of TOR collected (EUR 15 365 321 831) and 0.008 % of VAT-based OR collected (EUR 14 019 723 428). These amounts collected during financial year 2013 have been verified by ECA in their most recent annual report which concluded that they were not affected by material error and that controls systems were effective for TOR and VAT. The costs of controls are considered steady and can be also applied to conclude on their cost-effectiveness on this year's TOR and VAT-based OR collection (EUR 16 429 485 119 and 17 667 362 373).

100 % of GNI reservation changes (setting, variation of lifting) were communicated to Member States in their national language within four working-weeks. It can also be concluded that compliant and timely management of GNI reservations has been achieved with a reasonable cost. As detailed above, verification of GNI data is carried out by ESTAT and therefore other indicators on the verification of GNI data are reported in ESTAT Annual Activity Report and in annex 5 of this report¹⁴.

The cost of controls in place related for the follow-up of results of the verification stage represents 0.002 % of TOR and VAT-base resources collected (EUR 34 096 847 492). These include administrative, legal or financial deficiencies detected in Member States local systems, submission of TOR and VAT inspection reports to ACOR meetings, initiation of infringement procedures and management of VAT reservations.

In particular, the costs of controls to guarantee the recovery of established TOR amounts derived from irregularities detected by controls represent 1.57 % of the amounts recovered in 2014 (EUR 118.5 million).

The costs of controls in place to mitigate the risk of errors when calculating the UK correction represent 0.07 % of the amount calculated and paid.

In addition, there are a number of relevant non-quantifiable benefits resulting from controls carried out. These are the following:

- ❖ Timely and comprehensive collection of Own Resources and the compliance with relevant regulatory provisions and internal rules has been ensured;
- ❖ Improvements on MS Internal control systems have been identified and best practices have been shared amongst Member States during ACOR meetings (i.e. Common audit tools have been provided);
- ❖ Controls continue to have a deterrent effect;
- ❖ Transparency of the control activity has been delivered and Member States have been reassured that they have all been measured against agreed standards and received equal treatment when controls have been performed;
- ❖ Commission fulfilment of its obligation under regulation 1553/89;
- ❖ Assurance gained concerning the correct and compliant distribution of Member States share of GNI;
- ❖ VAT and GNI data used for calculations don't become time-barred in case corrective action should be applied.

¹⁴ See ICT on Verification of GNI data by ESTAT in annexe 5 (pages 90 & 91) and the footnotes 23 & 27 on pages 84 & 90

BUDG considers that the necessity of these controls, even if benefits cannot be quantified, is undeniable since Own Resources area would be at risk in case they would not be in place. The non-quantifiable (n.q) benefits of controls are identified in the corresponding ICT in Annex 5 for each stage.

Taken together, these provide a reasonable assurance for 2014 that the OR contributions made by Member States comply with the requirements of the Union's own resources legislation and control systems on own resources are effective. In addition, controls had the expected benefits being those controls cost-effective to achieve their benefits.

The conclusion of the evaluation of costs and benefits of controls performed in BUDG and of the indicators used to measure their efficiency as indicated the ICT's in Annex 5, is that controls performed in BUDG during 2014 have been cost-effective as the estimated benefits exceeded the estimated costs.

2.1.2. Earmarked revenues for the use of Financial Information Systems by External Entities¹⁵

The intrinsic risk for earmarked revenues for the use of Financial information systems managed by BUDG (ABAC and BadgeBud) by the External Entities is considered low because of the limited revenues (EUR 2 815 823). Since this activity is much less significant to the DGs than the other two described in sections 2.1.1 and 2.1.2, an internal control template is not presented for this area. However, it is presented in this section for completeness purposes.

The risks related to these earmarked revenues are effectively mitigated by means of ex ante verifications in the recovery order process covering 100 % of the transactions. In addition, all related procedures, as well as how the fees are calculated are laid down in detail in the Service Level Agreement for the provision of services in relation to the implementation of the ABAC System signed between the External Entity and BUDG.

The 2012 risk analysis concerning these processes has shown that the risks are very low thanks to the applicable procedures/circuits and the relatively low number of transactions. Moreover, the risk of non-payment is mitigated by the possibility to recover the amounts due by offsetting.

An IAS-Audit on the charging back process carried out during 2012 did not reveal any observation in relation to process deficiencies at BUDG and is compliant to the budgetary principles.

The internal control objective related to the incoming revenues by BUDG itself has been fixed at 1 %. For details see Annex 4.

2.1.3. Procurement and administrative expenditure

The intrinsic risk for administrative expenditure managed by BUDG including procurement is considered relatively low because of the limited budget as well as the centralised and direct mode of budget implementation. The Internal Control Template for Procurement and Administrative expenditure in annex 5 demonstrates how the control systems in place in the DG addresses the risks related to this type of expenditure.

¹⁵ External Entities: general term used to indicate EU Institutions, Committees, Regulatory Agencies, Joint Undertakings or Executive Agencies.

The risks related to public procurement are effectively mitigated by means of independent ex ante verifications covering 100 % of transactions. In addition, all related procedures are documented in detail and up to date in the BUDG Financial Vademecum. Tender documents have been approved by the Financial Cell of BUDG before they have been published. Tenders have been evaluated by evaluation committees, as foreseen by the FR. The absence of conflicts of interest of the evaluators has been ensured.

The total amount of the 2014 commitment appropriations represents 13 651 961 EUR including the contributions from Agencies and other Institutions.

The appropriations execution rate for 2014 is 89.85 %, which represents 12 265 883 EUR. The remaining appropriations will be executed in 2015. The authorized payment appropriations, including the amounts carried over from 2013, represent 18 896 848 EUR.

Payments made during the financial year amount to EUR 11 417 717, which represents an execution rate of 60.42 %.

During 2014, seven negotiated procedures have been launched under article 134(1) (b) RAP concerning the selection of banking services for the execution of payments in EUR and other currencies (two procedures with no monetary value), the access to a platform for banking international information (EUR 17 000), the access to a platform for executing payments (EUR 47.048) and three other small procedures amounting a total of EUR 11 350.

In addition, 3 open procedures were organised during 2014. All of them concern selection of banking services for payments in EUR, in GBP and in non-EU currencies outside the EU.

The internal control for the signature and execution of specific contracts include ex-ante controls on 100% of transactions. These consist in cross-checks by a member of the financial cell different than the one who carries out the financial initiation, before being passed to the financial verifying agent. Before the payments are completed, the timely execution of contracts is checked and a financial verification is performed by the Financial Cell of BUDG. All errors detected are corrected or reported. In addition, a risk-based ex-post revision, due to the very low residual risk of executed financial transactions, is also carried out on financial transactions twice per year by the accountant correspondent in BUDG.

The analysis of the risks concerning both processes in 2014 has shown that these are very low thanks to the strong procedures in place, the relatively low number of transactions and the nature of the financial circuit.

The audit on "Contract management", which was launched in 2013, has been completed by IAC in June 2014. The audit assessed the compliance of the operational and financial aspects of contract management (namely monitoring of third party services and goods delivery), acceptance of specific contract deliverables and corresponding financial claims as well as payment execution and recording. The audit gave evidence that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives except for the "Certified correct" procedure which IAC considered that should be enhanced by confirming operational initiation and verification roles and responsibilities. For more details see section 2.3.

The internal control objective for error rate related to the budget executed by BUDG has been fixed at 2 %. For details see Annex 4.

Control effectiveness as regards legality and regularity

BUDG 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 as well as the nature of the payments concerned. The control objective is to ensure that the DG has reasonable assurance that the total amount of any financial operation authorised during the reporting year which would not be in conformity with the applicable contractual or regulatory provisions, does not exceed 2 % of the total expenditure.

During 2014 a total of 711 payments amounting EUR 11.42 million were made, with 98% of these payments made on time, with an average payment deadline of 14.6 days. The best estimate of the errors detected by ex-ante controls is below 0.5%. This indicator however should not be taken as the most relevant one in terms of actual financial implications since ex-ante controls also detect other types of procedural errors which do not necessarily have a financial impact (but would have an impact on compliance if they were not corrected before the payment is made). Since this is the case for the vast majority of errors detected and most of them are corrected before the payment is made, therefore those errors and their corrections are not recorded. Payments have been made free of financial material error, as also confirmed by ex-post controls (see next paragraph). The fact that the financial estimated error rate is below 0, 5% should also be read as an indicator of the strong deterrence effect these controls have on financial transactions.

Ex-post controls were performed on a sample of transactions for a value of EUR 8.7 million (76% of payments made in 2014). No financial errors were detected. Other non-financial errors were found representing 0.54% of the value of the transactions checked.

The results of the accounting quality revisions carried out in 2014 have been satisfactory since none of these controls unveiled material errors with financial or non-financial impact on compliance. In relation to procurement procedures completed in 2014, no relevant incidents have occurred or detected and there is reasonable assurance that compliance has been achieved with relevant regulation and internal rules.

BUDG also reviews the reporting of exceptions and non-compliance events, defined as control overrides or deviations from policies and procedures, and the results of the ex post controls and supervisory activities. Qualitative analysis of the management review of the register of exceptions and non-compliance events is carried out.

During 2014, a total of four exception reports derived from non-compliance events have been reported to the internal Control Coordinator. The exception reports were issued in order to proceed with the payment of invoices related to the related non-compliance events reported. It was considered, in all cases, that the payment was pertinent due to the correct nature of the expense. The amounts involved in these reports were not significant (EUR 13 413) representing 0.1% of payments made during the year. Immediate mitigating measures were taken in order to reduce the risk derived from these events happening in the future. None of them represent an internal control weakness of the systems concerned as confirmed by the review IAC also has made on these reports.

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

Control efficiency and cost-effectiveness.

The principle of efficiency concerns the best relationship 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.

BUDG has made an estimation of the costs of the three main control processes on Procurement and administrative expenditure: Procurement, financial transactions and ex-post supervisory measures. Benefits of those controls have also been identified. When possible they have been quantified. In some other cases benefits have been expressed through the corresponding relevant non-quantifiable indicator. The criteria for the calculation and the indicators used to assess the efficiency of controls are shown in the internal control templates in annex 5.

The costs of ex-ante controls performed by the DG on the verification of financial transactions represent 6.32 % of payments made in 2014.

Cost of controls of ex-post verifications represent 0, 52 % of payments made in 2014.

Controls in place during the procurement stage ensured that the granting of the open procedures during 2014 were made in compliance with regulation and internal rules.

In addition, it should be highlighted that there are a number of non-quantifiable benefits resulting from the controls operated during the implementation of BUDG Administrative expenditure. These benefits are mainly to ensure compliance with relevant regulatory provisions and internal rules, to have a strong deterrence effect, to improve existing procedures and avoid possible litigations.

BUDG considers that the need of these controls is undeniable, as the totality of the procurements granted and appropriations would be at risk in case they would not be in place. The non-quantifiable (n.q) benefits of controls are identified in the corresponding ICT in Annex 5 for each stage.

The conclusion of the evaluation of costs and benefits of controls performed for the management of the budget appropriations and of the indicators used to measure their efficiency, as indicated the ICT's in Annex 5, is that controls performed in BUDG during 2014 have been cost-effective as the estimated benefits exceeded the estimated costs.

Fraud prevention and detection

DG BUDG has developed its anti-fraud strategy as foreseen in the Commission's overall anti-fraud strategy¹⁶.

The action plan defined for year 2014 in this context has been successfully implemented:

- ❖ The internal control section in BUDG Intranet has been updated: A section on "Fight against Fraud" has been included in the page containing relevant information and useful links (Link to the Anti-Fraud website and to the main parts of OLAF webpage, a reference to the whistleblowing procedure and to the document "Working arrangements with OLAF" and the document "DG BUDG Anti-Fraud Strategy")

¹⁶ COM (2011) 376 24.06.2011.

- ❖ Adapt and promote internal training activities (Ethics and other possible ad-hoc training): An ad-hoc information session was organised in Oct-2014 together with IDOC (Investigation and disciplinary Office). It covered ethical values and other interesting ethical aspects, as well as concepts related to Fraud Prevention and references to the tools and controls already in place in BUDG. It was an interactive session based on practical examples. A satisfaction rate of 87% was achieved.
- ❖ Increased visibility of IDOC and OLAF annual activity reports in BUDG's intranet: the reports are published in BUDG's intranet and have been advertised also in the minutes of the Management meeting.
- ❖ A list of red flags for procurement and contract management has been defined taking into account different points of view of actors involved in procurement procedure as well as the advice of Unit D2 as the owners of the "Public procurement procedure" at Commission level. It is now available on the intranet.

The controls aimed at preventing and detecting fraud are not essentially unlike those intended to ensure the legality and regularity of the transactions. During the year 2013 and in the context of the Anti-Fraud strategy BUDG documented in a risk register the risks of fraud inherent to the activity of the DG. These fraud risks are mitigated by the specific controls implemented. Activities and operations that are at a higher risk of fraud are subjected to more in-depth monitoring and control. DG BUDG fraud risk register has been reviewed during 2014. No additional risks have been identified and no new mitigating measures are considered necessary.

During the reporting year, no cases of suspicion of fraud were transmitted to OLAF/IDOC¹⁷ for investigation. To our knowledge, during the same period, OLAF has not initiated any cases which concern the activities of BUDG based other sources of information.

Both OLAF and IDOC report annually on the follow up of their investigations.

Other control objectives: use of resources for their intended purpose, reliability of reporting, safeguarding of assets and information

ABAC is a transversal, transactional information system allowing for the execution and monitoring of all budgetary and accounting operations by the Commission and Agencies. The system has been developed by the Commission and includes a comprehensive set of features to ensure compliance with the Financial Regulation and its rules of application. BUDG, as a horizontal DG, issues guidance to ensure the quality of the information contained in the system and the reliability of reporting.

BUDG is also in charge of the revision of local systems set up by the Authorising Officers throughout the Commission in order to provide assurance as regards the respect of the validation criteria and to ensure integrity of information of systems. The validation team evaluates a local system's capacity to provide data to the central accounting system and provides assurance to the Accounting Officer on notified changes in relation to the introduction or modification of financial management systems. A total of seven FTEs are devoted to the validation of Commission local systems in DG BUDG.

In 2014 the final reports for the validation of local systems in COMM, FPI, ECFIN, OIL and PMO

¹⁷ Investigation and disciplinary Office (IDOC) is to ensure compliance by (former) officials and other agents with their obligations as laid down in the Staff Regulations (SR) by conducting administrative inquiries and disciplinary procedures in a fair, transparent and timely manner.

were sent. In total 25 recommendations -with only 5 very important- will be followed up in 2015. They relate to the timely registration of invoices, consistency of data between local IT systems and ABAC and the improvement and monitoring of debt recovery. This indicates that the local systems in general have reached a certain maturity and continue to steadily improve within DGs and Services. In general, improvement is observed regarding the documentation of procedures and controls and the cleaning of old items (contracts, suspense accounts). In addition to the general trend of more automatic transactions with more controls embedded in the systems, several so called "corporate" applications (e-procurement, SFC2014, Sygma) have been or are being developed for the use of different DGs and Services. It allows better use of resources, reducing the number of errors and standardising procedures for the management of grants or programmes under common legislation.

During 2014 an audit was carried out by IAC on the validation of local systems. The IAC concluded that the internal control system provides reasonable assurance regarding the achievement of the business objectives set up for the validation of local systems except for the lack of consistency of the control strategy which is currently in place (see section 2.3.) Nevertheless, the positive DAS obtained from ECA is an indicator of the reliability of systems in place.

2.2 Budget implementation tasks entrusted to other DGs and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission DGs and entrusted entities distinct from the Commission.

Cross-sub-delegations

BUDG has given crossed sub-delegations to COMM (coverage of bank charges incurred by the Imprest Accounts of Representation Offices), ECHO (clearance of bank charges for accounts held by the offices of ECHO) and DIGIT (maintenance and support of ABAC Assets, ABAC contracts and MUS/DICE – RAD) for which assurance letters have been received. The AODs of those Commission services are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

BUDG has received crossed sub-delegations from COMM (management and update of the MFF 2014-2020 website), ENTR (delivery of technical assistance for SAM – EGNOS), JRC (delivery of services in the framework of ABAC support) and HR (delivery of services related to Financial Training) for which assurance letters have been sent as per the requirement. Being a Commission service, the AOD is required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

It can therefore be concluded that reasonable assurance has been received/given from/to other Authorising Officers for crossed sub-delegation concerning the legality and regularity of the financial operations including sound financial management of funds as no major issues were noted which could have an impact on the declaration of assurance.

ESTAT – Verification of GNI data

The arrangements for verification of GNI for own resources purposes are governed by a Memorandum of Understanding (MOU) agreed between ESTAT and BUDG. The data provided by Member States are analysed and verified by ESTAT which also makes on-the-spot checks (Member States may choose to participate in these controls). Member States receive and react to reports of these controls and oversee their treatment in the GNI Committee. To prevent possible time-barring, reservations are placed where Member States' data require further scrutiny. Reservations are a protective measure and should not be assumed to imply that a MS's contribution to the Community budget has necessarily been affected. Reservations are lifted when the concern is overcome and, where appropriate, any necessary corrective action concerning past payments is made.

In order to present the whole control activity performed on GNI data at Commission level, and purely for information purposes, the Internal Control Template of controls performed by ESTAT has been included in Annex 5 together with the controls performed by BUDG.

2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors 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.

IAC Audits 2014

During 2014 the Internal Audit Capability (IAC) finalised the following audits:

- ❖ Audit on contract management (focus on IT) finalised in June 2014
- ❖ Audit on the validation of local systems by Unit C3 finalised in November 2014
- ❖ Audit on the Activities BUDG (in particular of Dir. D Central Financial Service) in the Area of Performance Management in the Commission" finalised in January 2015.
- ❖ Follow-up Audit of recommendations (30 June 2014)
- ❖ Desk review on open recommendations as of 31 December 2014)

At the end of 2014 there were no delayed recommendations.

IAC's Opinion¹⁸

Based on the results of the audits as described in the objectives and scope of the engagements carried out by the IAC of BUDG during 2014¹⁹, the internal control system in place in BUDG provides reasonable assurance²⁰ regarding the achievement of the business objectives set up for the processes audited except for the following issues:

- ❖ With regard to the validation of local systems by Unit C3, the control strategy in place is not consistently described and formalised. With the current pace of verifications, the average target period for the complete coverage cannot be met.

No critical recommendations, which might give rise to a reservation in an AAR, were issued or remain open.

IAS Audits 2014

The following audits have been concluded by IAS during 2014:

- ❖ Audit on the Management and Supervision of Contracts for the Outsourced IT Services finalised in December 2014
- ❖ Audit on the IT Governance in DG BUDG finalised in January 2015

In addition four follow-up audits were completed:

¹⁸ The official IAC opinion on the state of control is addressed to the Director General of BUDG and annexed to the Annual report of the Internal Audit Unit for 2014. This section provides a summary.

¹⁹ See the list of finalised audits in the first paragraph of 2.3.

²⁰ Even an effective internal control system, no matter how well designed and operated, has inherent limitations including the possibility of the circumvention or overriding of controls – and therefore can provide only *reasonable assurance* to management regarding the achievement of the business objectives and not *absolute assurance*.

- ❖ IAS Follow-up Audit on the Management and Monitoring of Staff Allocation – Closing note SG, HR and BUDG: The first recommendation was considered adequately and effectively implemented and has been closed. Concerning the second one, all the planned actions are considered implemented except for the production (in the context of the yearly job screening exercise) of a note to the ABM Steering Group on the use by DGs of resource allocation. This action is to be implemented by DG HR.
- ❖ SAM follow up engagement - closing note: All recommendations have been closed.
- ❖ IAS 2nd Follow-up Audit on the Charge-back process in the Commission – Note on audit conclusions – BUDG: The two remaining recommendations (No. 1 on *Governance of the Charge-back process* and No.2 on *Central guidance and instructions*) which required BUDG to develop a clear and transparent framework for the charge-back process in the Commission are considered implemented and have been sent for review to IAS. It is expected that these two recommendations will be closed in the next IAS follow-up audit.
- ❖ IAS 2nd Follow-Up of the Overview Report on Executive Agencies of the Commission - DG BUDG: All recommendations have been closed.

No critical recommendations have been addressed to BUDG. At the end of 2014 there are no delayed open recommendations.

None of the open observations should lead to a reservation in the AAR of BUDG.

ECA's Audits 2014

In its Annual Report 2013, the ECA maintained the green light on the reliability of the Annual Accounts of the European Union for the seventh consecutive year (see section “ The year in brief). The ECA has not raised any very important recommendation concerning 2013 accounts.

As concerns revenue, the ECA concluded that:

- ❖ The Court found no errors in the transactions tested.
- ❖ The examined systems are assessed as effective for GNI and Vat-based own resources and other revenue.
- ❖ The examined systems are assessed as overall effective for TOR. The Key internal controls in MS visited are assessed as partially effective.

Overall audit evidence indicates that revenue is not affected by a material level of error.

All ECA recommendations on Own Resources have been implemented on time during 2014.

Concerning ECA audit on "The effectiveness of the Commission's verification of GNI data used for own resources", the Special Report 11/2013 was published in December 2013. The recommendations mainly concern potential improvements to the structure and focus of the verification system operated by ESTAT. The recommendations directly affecting BUDG (AAR coverage and the use of general reservations) were already resolved prior to the publication of the report.

Furthermore the ECA has reviewed BUDG's 2013 AAR and gave a favourable conclusion.

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 BUDG 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.

In the context of the Management Plan 2014, the ICS 6 – Risk Management was prioritized. The action plan proposed to improve its performance on this area was the following:

- ❖ Each directorate is to organize at least one information/brainstorming session on the inherent risks in their directorate's activity and eventually on the whole DG's activity.
- ❖ Following the action initiated in the "Learning and Development Framework" of the DG, training on risk management should be followed by all managers (compulsory in the DG).

As a result, at the end of 2014:

- ❖ Directorates in the DG have organized information/brainstorming sessions on the inherent risks to their Directorate's activities and eventually to the activities of other Directorates. This has been done in various ways: by including a special point in the unit/directorate meeting agenda and discussions held during the meeting or through ad-hoc information sessions organized in various units with the participation of the Internal Control Coordinator of the DG if requested.
- ❖ As intended in the action plan, all managers have followed training on risk management. For those who had never followed this training in the past, two ad-hoc sessions were organized in BUDG during 2014 (17 October 2014 in English and 25 November 2014 in French). The average overall satisfaction rate was 78%. The objective of the action plan was to raise awareness amongst staff on the inherent risks identified in the DG and to discuss more in detail the specific risks of each unit/area to identify possible improvements of the current risk register.

The objective has been satisfactorily achieved.

The functioning of the internal control system has been assessed via a benchmarking against the Commission's 16 internal control standards (ICS) in October-2014. The current methodology applied in the context of the ICAT exercise in 2014 (Internal Control Assessment Tool) has been the same as previous year. Feedback has been requested from a random selection of staff through the ICAT Questionnaire. For ICS for which the respective units' chef-de-file are in a better position to assess compliance, these were asked to do so. Questions addressed to different chef-de-file have been adapted to the specificities of BUDG instead of using the standard questionnaire.

For some ICS, other sources to show compliance were available such as recent audit reports or other specific actions carried out in the DG.

As a result, the standard which was decided to be prioritized in the context of the Management Plan 2015 as well as the reasons to do so, are as follows:

ICS 12- Information and Communication:

This is a strategic point in the MP 2015. Also a decrease has been observed in the ICAT positive assessment on internal communication (from 90% in 2013 to 75% in 2014) Assessment by management on this aspect has been the lowest in the survey (75%).

Comments received through the ICAT questionnaire recognized the improvements recently experienced in this field. A special mention is given to the organization of extended management meetings. However it is also considered that improvements can still be made ("de-syloing" or more/better feedback from management meetings).

The action plan proposed to improve performance on this standard is the following:

- ❖ Regular weekly updates of BUDG Communication Rolling Plan (at meetings of BUDG Management and at meetings between CAB/SPP and BUDG Communication Unit)
- ❖ Organization of the BUDG Communication Week. Following the "pilot project", more BUDG units will be involved in the preparation of this event.
- ❖ Revamp of BUDGnet: the preparation and presentation of the changed internal website will raise attention to communication issues
- ❖ Communication training for BUDG staff (target: at least 2 persons per Directorate)
- ❖ Head of Communication and Information Unit will make a brief presentation to BUDG Units (ideally at the beginning of a Unit meeting) to raise awareness on communication issues (target: at least 80% BUDG Units visited).

Risk management (ICS 6):

The action plans for the six critical risks in the Management Plan 2014 were closely monitored throughout the year. Only one of these risks has materialised during 2014, the shortage of cash resources due to insufficient payment appropriations in 2014. However mitigating measures have been taken to reduce the possible financial and reputational impact. See more details in section "The year in brief".

The risk management exercise for the identification of critical risks to be incorporated in the 2015 Management Plan has been carried out in October 2014. A total of twelve risks including five critical risks have been identified at DG-level. The critical risks will be reviewed by Senior Management in the context of the mid-term review. Specific action plans have been established and are closely monitored by the Units in charge.

Staff holding sensitive functions is below the limit of 5 or 7 years for the year 2014.

Conclusion

The functioning of the internal control systems has been closely monitored throughout the year by the systematic registration of exceptions (ICS 8) and internal control weaknesses (ICS 12). The underlying causes behind these exceptions and weaknesses have been analysed and corrective and alternative mitigating controls have been implemented when necessary

Further enhancing the effectiveness of the DG's control arrangements in place, by inter alia taking into account any control weaknesses reported and exceptions recorded, is an on-going effort in line with the principle of continuous improvement of management procedures.

Concerning the overall state of the internal control system, generally the DG complies with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the DG to its key risks.

In conclusion, the internal control standards are effectively implemented.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information provided in the various preceding sections covers all budget delegated to the AOD of BUDG as well as the EU's own resources. The information reported is complete and reliable, as confirmed by the statement of the Internal Control Coordinator in annex 1.

In the area of Own Resources, the key indicators presented in section 2.1 Own Resources support the reasonable assurance drawn that Member States comply with the relevant regulations for TOR, VAT and GNI own resources when discharging their responsibilities.

The intrinsic risk for administrative expenditure managed by BUDG including procurement is relatively low because of the limited budget as well as the centralised and direct mode of budget implementation. The risks are effectively mitigated by means of controls put in place.

Further assurance is obtained by the risk management process put in place, by the very limited number and significance of exception and non-compliance reports issued in 2014. Management has obtained satisfactory evidence that the internal control system in its entirety is implemented effectively in BUDG.

Results from audits during the reporting year give an overall positive feedback and did not include any critical findings. The residual risk from audit recommendations remaining open from previous years is not considered to have a bearing on the declaration of assurance (see section 2.3).

Assurance letters have been received for cross sub delegations given to other DGs.

4.2 Overall conclusion on assurance and reservations (if applicable)

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the administrative expenditure authorised during the reporting year (EUR 11.42 million) is below 0.5% which implies an amount at risk below EUR 57 000.

The internal control strategy aims to detect and correct errors in the implementation of the administrative expenditure. Over the past years the implementation of these corrective controls (both ex-ante and ex-post) has not resulted in any ex-post financial correction/recovery order. This is due to the fact that no financial error has been detected and administrative errors were corrected before payments were made.

The Communities' own resources managed by BUDG do not fall in the scope of the average recovery / error rate best estimate due to its particular nature. Reasonable assurance on the adequate functioning of systems and controls in this area is built on other elements which are detailed in section 2.1.1.

Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal controls systems implemented by BUDG provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regards to the achievement of the other internal control objectives.

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of DG Budget

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view²¹.

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

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

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

Brussels, 26/03/2015

(signed)

Nadia Calviño

²¹ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG