European Commission

2013

Annual Activity Report

DG BUDGET

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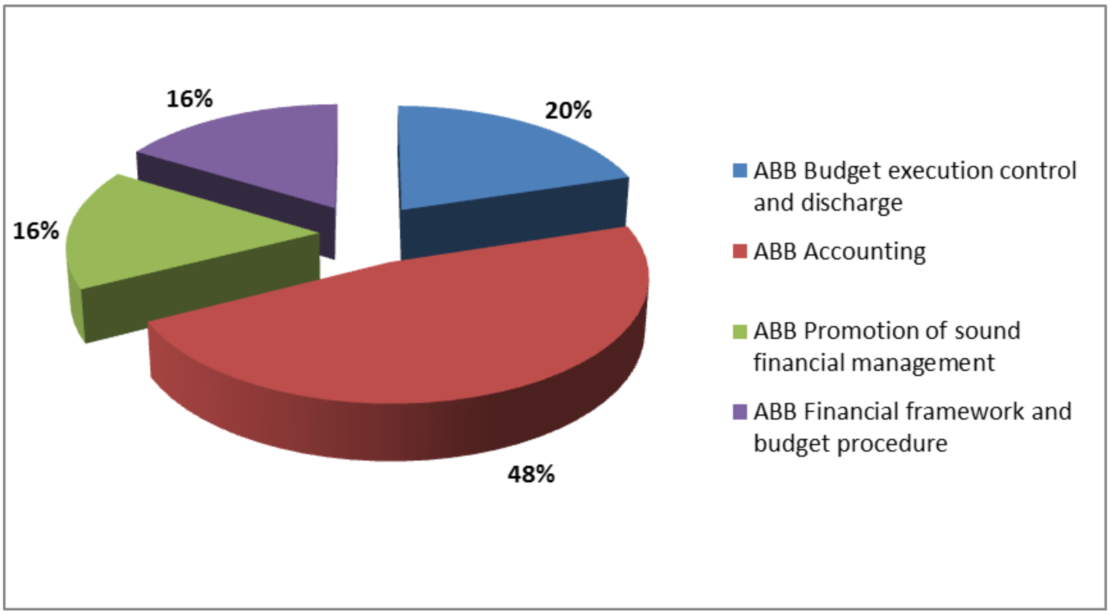
INTRODUCTION:

DG Budget in brief

DG Budget (hereafter "BUDG") has around 490 staff members including contract agents (over and above which a certain number of intra-muros IT consultants are present on the premises) and is structured around five Directorates based in Brussels, out of which 435 are in charge of four operational ABB Activities. Those 435 staff members are distributed as follows between the operational ABB activities:



The six main areas of activities of BUDG are to:

- prepare the draft budget and secure from the budgetary authority the resources needed for the European Union's policies, on the basis of an effective financial programming;
- manage the budgetary regulatory framework;
- implement the budget in compliance with the regulatory framework;
- draw up the annual accounts of the institutions;
- promote sound financial management within Commission services;
- Report on the implementation of the budget, progress towards the granting of a positive Declaration of Assurance (DAS) by the European Court of Auditors (ECA) and coordinate the discharge procedure.

The Accounting Officer prepares both the Commission and EU consolidated accounts. To do this, the accounting services perform certain controls over the accounting data produced by the AODs, noting that, according to the Financial Regulation (FR)[1], the AODs are responsible for the reliability of this data and thus perform more detailed controls themselves.

[1] 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.

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 resources. 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.

Expenditure related to DG Budget is exclusively administrative. It 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.

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 operating as a service provider, providing support, advice and tools to all other DGs within the Commission and to the Agencies.

The year in brief

Adoption of the MFF 2014-2020 package

Following the unanimous agreement among Heads of State and Government at the February 2013 European Council and the subsequent successful conclusion of the negotiations with the European Parliament, the MFF Regulation for 2014-2020 was adopted on 2 December 2013, followed by the signing of the accompanying Interinstitutional Agreement on 10 December 2013.

Most of the sectorial legislation was adopted by the end of 2013 and the final legal bases should be agreed at the February I 2014 EP plenary. All the elements are therefore in place to allow for the timely and successful start of the new generation of multiannual programmes.

Adoption of the 2014 budget during the conciliation together with the new financial framework 2014-2020 and agreement on EUR 11.2 billion of additional payments in the 2013 budget

On 20th November 2013, the European Parliament approved the 2014 budget, based on the 'package' agreed in the conciliation meeting of 11-12th November. The agenda of the conciliation on the 2014 budget was expanded to include the still outstanding Parliamentary consent to the 2014-2020 MFF, which in turn was made conditional on the adoption of an amending budget for 2013 raising the level of payment appropriations to the ceiling, as proposed by the Commission. The negotiations were further complicated by the need to provide additional funds for the EU Solidarity Fund, to cover flood damage in central Europe, in a general context of very tight payment ceilings.

Entry into force of the new FR

The entry into force of the new FR has had a significant impact on financial management in the Commission. BUDG has worked actively throughout the year to ensure that the various sectorial regulations for 2014-2020 were consistent among sectors and with the FR and to support DGs and services to revise their management to adapt to the new and amended provisions. Also, a number of initiatives were aimed to complete the legal financial framework. These included the adoption of a model FR for PPPs, of the Framework Financial Regulation (FFR) for decentralized agencies[2], of the various instruments required for the delegation of implementing tasks to the Executive Agencies and of guidelines on the setting up of Financial Instruments, Trust Funds.

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

Maintaining the clean opinion on the accounts from the ECA for the sixth consecutive time was a major achievement in 2013. In the ECA's opinion, "the consolidated annual accounts of the European Union for the year ended 31 December 2012 present fairly, in all material respects, the financial position of the Union as at 31 December 2012, and the results of its operations, its cash flows and the changes in net assets for the year then ended, in accordance with the FR and with accounting rules based on internationally accepted accounting standards for the public sector."

The ECA Annual Report 2012 can be seen as very positive with regard to the reliability of the accounts, particularly since there was no emphasis of matter paragraph, nor were there any remarks

[2] COMMISSION DELEGATED REGULATION (EU) No 1271/2013 of 30 September 2013 on the framework financial regulation for the bodies referred to in Article 208 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council – OJ L 328, 7.12.2013, p. 42.

made in chapter I.

Own resources

The own resources outturn for 2013 was very closely in line with the figures included in the 2013 budget. The own resources collected (EUR 140 797 259 592) amounted to 99,59 % of the amounts forecast.

Reliability of the Belgian clearance and accounting systems and impact on the correctness of the amounts of traditional own resources (TOR) transferred to the EU budget (previous reservation lifted)

Shortcomings in Belgium's clearance and accounting systems continued to be closely followed up by BUDG in 2013.
Though sustained efforts and supervision will be needed to fully implement the remedying action plan, the assurance level on the reliability of the accounts and the amounts transferred to the EU budget appears to be comparable now with that of the other Member States and the same is valid for the residual risks for which mitigating measures remain to be taken.

Therefore, and due to the fact that the Belgian authorities are cooperative in resolving the remaining shortcomings, the existing reservation in the Director-General's 2011 and 2012 Declaration of Assurance will be lifted. Further follow-up will be guaranteed via the normal channels, being through the Commission inspection report 13-0-1 and thus BUDG's supervision on the implementation by Belgium of the requested actions therein.

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 and the achievement of objectives.

Key Performance Indicators

Indicator		Target	Latest know result as per AAR 2013
Obtain a positive DAS		Positive DAS on 2012 Accounts in November 2013	Positive DAS on 2012 Accounts
Difference between budget estimates and actual execution		Full (100 %) budget implementation making use of transfers and carryovers	Execution 2013 : - commitment appropriations (after carry-overs): 100 % - appropriations, implementation (after carry-overs): 100 %
Commission adopts Draft Budget within the deadlines set in the Treaty and Budget Authority adopts Budget according to schedule		Commission adopts Estimates of expenditure by June 2013 and Draft Budget 2014 (all languages) by end June 2013 Budget Authority adopts Budget 2014 by mid-December 2013	College adopted Estimates of expenditure 2014 on 27 June 2013 Budget authority adopted 2014 budget on 20th November 2013
Feedback received on the quality of services rendered by Central Financial Service		Maintain score (was 3/5)	Score : 4.02 / 5 (Report December 2013)
Error rate detected on the legality and regularity of the underlying transactions is below the materiality criteria (2% for administrative budget implementation and 1% for Own resources collection)		Error rate below 2 % for 2013 administrative budget implementation and Positive DAS Opinion on Own resources for 2012 exercise (not affected by a material level of error)	Error rate below 2 % for 2013 administrative budget implementation and Positive DAS Opinion on Own resources for 2012 exercise(not affected by a material level of error)

Policy highlights of the year

Budget Implementation

Virtually full budget implementation for commitment and payments appropriations authorised in the 2013 budget, with the lowest amount of unused payments in the Commission section of the budget ever recorded. In 2013 overall budget implementation of payments was EUR 8 billion above that of 2012.

Adoption of the 2014 budget

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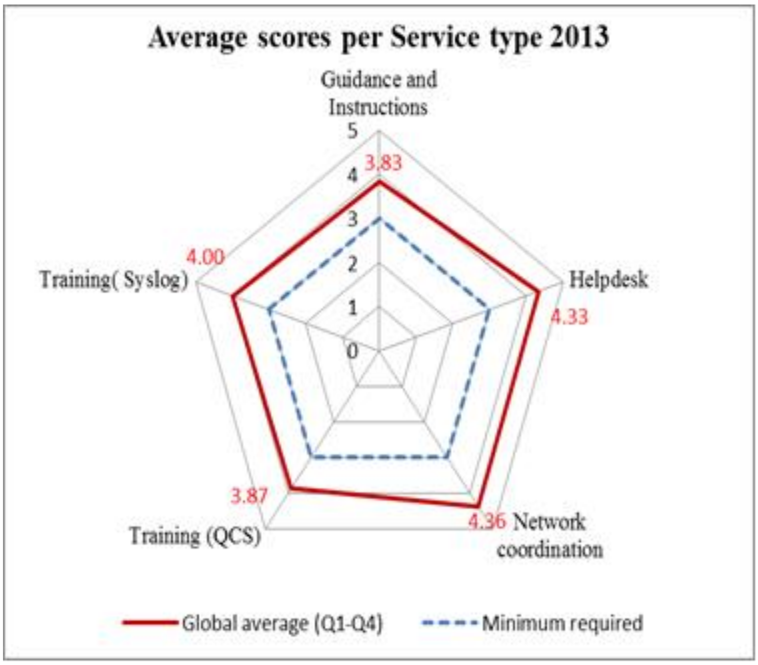
Feedback received on the quality of services rendered by the Central Financial Service

The overall level of satisfaction is at a very good level scoring 4.02 out of possible 5 points (5 points corresponds to 'excellent service'). The result is better than the target set (3 out of 5) at the beginning of the year. The Network Coordination and Helpdesk services are the most appreciated services (above 4). 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.



Financial Management in DG Budget

For 2013, the financial management of the administrative appropriations of the Directorate General went fairly well. The execution rate in commitment appropriations (99.79 %) was higher than in 2012 (99.68 %), excluding the earmarked revenue paid by the Agencies for the use of the ABAC system, as the cashing of the amounts payable is spread throughout the calendar year. The execution rate of payment appropriations (54.65 %) is also significantly higher than last year (45.71 %) despite the fact that a high volume of commitments are still executed during the last quarter of the year.

The error rate detected on the legality and regularity of the underlying transactions is below the materiality criteria, 2 % for administrative budget implementation and 1 % for Own resources collection (Positive DAS opinion on Own resources for 2012 exercise).

Key conclusions on resource management and internal control effectiveness

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 at ensuring the achievement of policy and operational objectives. As required by the FR, 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 Staff allocation and Mobility (ICS-3) as reported in Part 3.

In addition, BUDG has systematically examined the available control results and indicators, including those aimed at supervising those entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the ECA. These elements have been assessed to determine their impact on 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 Commissioner LEWANDOWSKI responsible for Budget Planning and Programming and Commissioner ŠEMETA, responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud areas.

1. POLICY ACHIEVEMENTS

1.1 Achievement of specific objectives

ABB activity Budget execution, control and Discharge: Improving other institutions assessment of financial management in the Commission has been achieved as planned

Activity: Budget execution, control and discharge	☐ Spending programme ☒ Non-spending

Specific Objectives	Result indicators[3]	Target (end 2013)	Main Outputs for 2013
Improving other institutions assessment of financial management in the Commission	Timely delivery of convincing replies to ECA annual report	15/10/2013	**Reply to ECA annual report for the financial year 2012 (art. 162(1) FR)** **Target successfully met. The ECA report was published on time with Commission replies to all chapters in all languages.**
	Timely delivery of replies to ECA Special Reports	Within 2.5 months of legal deadline	**Reply to ECA Special Reports (art. 163(1)FR)** **In 2013 replies to 18 ECA Special reports were delivered. Only in 1 case (Special report on Palestine) the legal deadline was missed by 3 weeks because ECA was obliged to postpone the agreed adversarial meeting.**
	Timely delivery of the summary of MS replies to ECA observations	28/2/2013	**Summary of MS replies to ECA observations (art 162(5) FR)** **Target met. The summary report was published according to plan on 28/02/2013**
	Timely delivery of a comprehensive report on the follow-up to the discharge resolution and recommendations	October 2013	**Report on the follow-up to the discharge resolution and recommendations (art. 166(2) FR)** **The report was published on 26/09/2013**

Adoption of the first Communication from the Commission on the protection of the EU budget

Following a priority request in the European Parliament's resolution of 17 April 2013 concerning the discharge of the 2011 budget, BUDG prepared, in collaboration with the shared management DGs, a new Communication explaining the methods applied by the EU to protect its budget from undue expenditure and detailing the amounts concerned.

[3] [Source : Dates of Reports submitted & replies given].

This Communication, accompanied by an extensive Staff Working Document, provides more detailed information on the financial corrections and recoveries disclosures that had been provided in note 6 of the annual accounts since a number of years. Adopted by Commissioner Semeta in September 2013 and transmitted to the Parliament, Council and ECA, it has been a key element in the ongoing 2012 discharge discussions and will be prepared every year from now on.

Adoption of a Communication from the Commission on the application of net financial corrections on Member States for Agriculture and Cohesion Policy

As a reaction to the increase of the error rate reported by the ECA in its Annual report on the financial year 2012, the Discharge Rapporteur and the Co-ordinators of the main Political Groups in the European Parliament's Budgetary Control Committee addressed a letter to President Barroso on 5th November 2013, asking the Commission to submit a Communication clearly establishing how it will introduce for the financing period 2014-2020 a more effective form of net financial corrections for Member States where weaknesses are observed as regards programmes under shared management. BUDG as the lead DG coordinated the preparation of the Communication with the shared management DGs. The Communication was adopted on 13th December 2013 and transmitted to the Parliament where it forms a crucial part of the 2012 discharge procedure.

ABB activity Budget execution, control and discharge: Make sure that budgetary implementation follows forecasts and effective use of resources principles has been successfully implemented

Activity: Budget execution, control and discharge			☐ Spending programme ☒ Non-spending
Specific Objective	**Result indicators[4]**	**Target (end 2013)**	**Main Outputs for 2013**
Make sure that budgetary implementation follows forecasts and effective use of resources principles	Difference between budget forecasts and actual execution. N° of transfers accepted by the BA Reporting on agencies as requested by BA Take account of implementation in preparation of draft budget	Full budget implementation making use of transfers and, if necessary, amending budget. BA approves all transfer requests Respect deadline. Feed-back from Council and EP on information provided on agencies	**Carryover Decision** Carryover Decision approved by the College as proposed by BUDG and within deadline (by February 15). Virtually full budget implementation for commitment and payments appropriations authorised in the 2013 budget, with the lowest amount of unused payments in the Commission section of the budget ever recorded. In 2013 overall budget implementation of payments was EUR 8 billion above that of 2012. 43 budget authority (DEC) transfers (incl. end of year transfer) submitted to the budgetary authority, of which: - 41 transfers adopted with no change - 1 adopted with amendment (DEC 26 – Global Transfer) - 1 transfer rejected (DEC 43, frontloading for salary adjustment) The 43 (DEC) transfers included: 10 transfers for the EGF; 4 transfers mobilising the Emergency Aid Reserve; 5 transfers releasing funds placed in reserve by the EP; 24 other transfers.
			Budget Implementation Plan and regular reporting to Budget Authority & Budget Forecast Alerts All weekly, monthly and period reports on budget implementation in general (e.g. weekly tables and 3 Budget forecast Alert information notes) and for specific expenditure (e.g. cohesion policy) were delivered in time to the Budget Authority. Reports contributed to avoid any questioning on the foundation of Commission's estimates and used to inform budgetary decisions.

[4] [Source : BUDGWEB & Agenda Planning].

			Working document on agencies produced together with draft budget. Implementation taken into account to estimate new budgetary requirements. Demand from Council to continue producing such a document.
			Annual Reporting on allocated expenditure by MS The contribution to the annual financial report containing the allocated expenditure by MS was finalised in a timely manner on 23 July 2013

Payments constraints and implementation

At the end of 2012, some EUR 16.3 billion of payment applications received for the Structural and Cohesion Funds remained unpaid due to the lack of payment appropriations and had to be charged onto the budget 2013. This situation, together with an under-budgeted level of payments appropriations in the budget 2013, as initially adopted by the budgetary authority led to a major shortage in the course of the year, which in the end required EUR 11.2 billion reinforcement through two amending budgets to meet legal obligations.

The shortage of payment appropriations authorised in the initial budget 2013 created difficulties for the management of the monthly treasury availability resulting from the flow of own resources. The cash-flow constraints forced BUDG to ration the appropriations made available to the largest shared-management Funds (Cohesion Policy and Rural Development), to take account of the monthly cash availability. This forced some Authorising Officers to delay payments compared to the normal schedule, even beyond the legal deadline of 60 days (45 days for Rural Development), in particular during the first months of the year.

Despite all the difficulties with the availability of payments experienced throughout the year, the actual implementation of the EU budget at the end of 2013 was some EUR 8 billion higher than in 2012, with the highest level and rate of implementation ever.

The only transfer request rejected by Council related to the proposed 'frontloading' of administrative expenditure in 2013 to make room for the possible outstanding 2011-2012 salary adjustments in 2014. The initial proposal on the so-called 'Global Transfer' was modified in the framework of the conciliation on the 2014 budget to accommodate part of the payment requirements needed for the EU Solidarity Fund (flooding in Central Europe).

ABB activity Budget execution, control and discharge: Efficiently and effectively manage and control the Union's own resources has been achieved as planned

Activity: Budget execution, control and discharge			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators[5]**	**Target (end 2013)**	**Main Outputs for 2013**
Efficiently and effectively manage and control the Union's own resources	Timely and accurate collection of OR contributions and related payments	Full and timely payment	**Manage Member States' own resources payments** **All national contributions have been fully paid. A clerical error in one MS, which led to a short delay in paying a very small amount (EUR 1 000 000) was promptly followed and regularised. Any deviations noted for other own resources were promptly followed.**
	Timely and accurate recovery of VAT paid by the Commission services	Full and timely payment	**Manage VAT recovery** **All refund requests were made timely (before 30/06/2013). Reimbursement is monitored and followed-up.**
	Complete and timely Implementation and reporting of TOR inspections in accordance with the annual programme	100 %	**Control of the Union's traditional own resources (TOR)** **The inspection programme for traditional own resources was fully implemented with the exception of one inspection (to Lithuania) which had to be cancelled due to service reasons. In 2013 altogether 29 inspection reports were produced and sent to the Member States, 100 % of them within the legal three month deadline.**
	Timely treatment of Member States' write-off reports for irrecoverable amounts of TOR	100 %	**Treatment of Member State's write-off reports** **Altogether 203 write-off reports from Member States treated in co-operation with SJ, TAXUD, and OLAF, and, 100 % of them within the legal six month deadline.**
	Contribute high level of MS compliance by completing agreed programme of inspections to verify MS VAT statements comply with OR regulations, notifying (or updating) reservations in accordance with	100 %	**Control of VAT-based own resources** **Twelve missions were planned, because of staffing considerations one was postponed until the first quarter of 2014. The remaining eleven were completed as intended.** **Thirteen reports were due for issue, 100 % were produced within the legal deadline. Fourteen summary documents were also due, all but one (delayed by one week) were prepared within the administrative deadline set.** **32 reservations were set and 83 lifted, contributing to the lowest number of reservations for over seven years. The end of year snapshot showed a total of 108 (including 21 set by Member States themselves and 27 required because of infringement action), with just eight requiring ongoing monitoring as long outstanding.**

[5] [Source : DG Budget's monthly 'Tableau de Bord' & Yearly Inspection Programme & WOMIS].

	findings and producing a report on each inspection within the legal deadlines Monitor functioning and outcome of GNI OR system via the GNI Committee. Comply promptly and accurately with ESTAT requests to notify to MS of the setting, lifting or variation of GNI reservations.	100 %	**Control of GNI-based own resources** **Both GNI Committee Meetings held during 2013 were attended and internal reports on key items compiled.** **ESTAT sent 70 requests which resulted in 56 new reservations being set and 58 lifted. There have been recent increases in the number of GNI reservations: the year-end total amounted to 285.**

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. Most, if not all, of the difference is expected to be reimbursed to Member States in the course of 2014.

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

ECA concluded again in its 2012 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 (paragraph 2.42).

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 are being thoroughly followed-up.

A thematic report consolidating the results of the inspections on EU external transit procedure was presented to Member States in December 2013 both at the Advisory Committee on Own Resources and at the Customs Policy Group. The report concluded that there are insufficient controls at departure and destination and incomplete declarations, that the review of authorisations is to be better documented and checked on the basis of objective criteria and that there is an improvement in the follow-up to non-discharged transit movements.
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 2014 inspections on follow-up of fraud and irregularities.

Shortcomings in two Member States requiring specific inspection action

Greece

BUDG's inspection work in 2013 confirmed 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 is not always reflecting the actual situation.

Due to the lack of action to remedy the identified weaknesses, a management meeting was organised with the General Director of the Greek customs service 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 will be properly reviewed under adequate managerial supervision and treated in line with the applicable EU legislation.

In addition, the 2013 inspections showed that the Greek authorities still have to take action, to establish a formal procedure that would guarantee that the recommendations made by the Customs Audit Service (ELYT) are effectively followed-up by higher level management.

For the above reasons BUDG programmed for 2014, for the second consecutive year, an additional TOR inspection 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.

The Netherlands

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

When preparing the 2014 inspection programme it was concluded that an additional, specific inspection is required in this year to support the Dutch authorities in remedying these weaknesses and for checking the success of the action taken by them.

IAC audit on the "Inspection activities of Directorate B"

All the recommendations arising from the IAC audit in 2012 were closed or implemented during 2013.

A recommendation rated very important about the use of general GNI reservation was cancelled by the IAC following the management acceptance of the residual legal and reputational risks which are not sufficiently important to require a mention as a reservation in the BUDG AAR for 2013.

A further recommendation rated very important relating to the assessment of risks resulting from existing specific GNI reservations was considered as obsolete by IAC because it was concluded that it is impossible to quantify, when setting a specific reservation, its potential effects on the amount of GNI.

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.

Efficiency Scrutiny

As part of the search for efficiency savings a new approach to producing and controlling compensation calculations – an aspect of Member States' calculation of their harmonised VAT base – was devised during 2013 and explored with stakeholders culminating in its presentation to all Member States in the November ACOR meeting.

ABB activity Accounting: Ensure a true and fair view of entities under the responsibility of the EC accounting officer has been fulfilled

Activity: Accounting			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators[6]**	**Target (end 2013)**	**Main Outputs for 2013**
Ensure a true and fair view of entities under the responsibility of the EC accounting officer	Positive DAS	Positive DAS	**Annual accounts 2012 of all the entities and EU annual accounts** **The 2012 annual accounts of all the entities and 2012 EU consolidated accounts were delivered on time and clean opinions on all were received from the auditors.**
	Timely delivery of quality reporting	On time delivery	**Validation of local systems** **The major work carried out in 2013 was to evaluate the respect of the validation criteria in EEAS, and in HOME, JUST (preliminary stage started in 2012) TAXUD and DIGIT. The evaluations of COMM and FPI were started during the year and are in different phases of completion. A review of the implementation of the recovery context functionality in five selected DGs and in BUDG was also performed and the final reports for the DGs were issued in 2013. An advisory report containing suggestions for further improvement of the procedure for BUDG was issued in January 2014.**
			Follow-up discharge procedure on the reliability of the annual accounts **There were no issues concerning the reliability of accounts in the 2011 or 2012 discharge.** **In September 2013 a Communication on the protection of the EU budget was transmitted to the Parliament and Council and this has been an important input to the 2012 discharge discussions to date.**
			Statutory accounting reporting to the discharge authority required by Article 150 FR: Status report on accounting issues **The monthly figures on budget implementation were delivered on time throughout the year. The first status report (as required by Article 150(4)) was delivered to the Parliament and Council on 15 September.**

European Union accounts

The Accounting Officer prepares both the Commission and EU consolidated accounts. 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

[6] [Source : Annual Report of European Court of Auditors 5/11/2013].

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 operation of the Commission accounts.

- **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 before 31 March and with the final accounts sent by 31 July.

Entry into force of the new FR

In the basis of new Article 150(4) FR, BUDG prepared, for the first time, the "Accounting Officers status report" as at 30 June 2013. This status report was transmitted to the Parliament and the Council on 15 September 2013. 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

At the beginning of 2013, the EC Accounting Officer launched a project to offer Accounting Officer's services to interested agencies and other EU bodies. 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 costs for the EU as a whole are expected through the generation of economies of scale that are not available at the level of an individual body. The project has made important progress and, as of the end of 2013, analyses have been launched in 5 agencies and 1 joint undertaking. As a result of these analyses it has been confirmed in early 2014 that the EC Accounting Officer will become the Accounting Officer of one agency and one joint venture and will also manage centrally the treasury of one other agency.

ABB activity Accounting: Appropriate execution of Accountant's tasks has been accomplished

Activity: Accounting			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators[7]**	**Target (end 2013)**	**Main Outputs for 2013**
Appropriate execution of Accountant's tasks	Extent to which the framework & systems are kept up-to-date Opinions of ECA/Discharge Authority/IAS Full coverage of the fines and safeguard of the related financial assets in accordance with the applicable risk management policy Available cash resources are sufficient at any time, within the limits of the applicable regulatory framework Keeping the backlog of recovery orders under control	High Positive DAS 100 % No payments delayed due to lack of cash resources (within regulatory limits) 1500	**Ensure proper management of the EU accounting framework and system** **Concerning the financial accounting, the main issue to note in 2013 was the introduction of the New GL structure in the accounting system. Updates to the accounting manual were also made** **The objectives related to the budgetary framework have been duly met. Recurrent operations (carry overs, amending budgets, assigned revenue) have been timely performed and the actions related to the year change have been finalised as planned.** **Draft texts for regulations or agreements (e.g. 11th EDF, Financial Instruments) have been closely monitored and suggestions for optimisation have been made. Finally, the related procedures and the IT system (ABAC) have been adjusted to cope with relevant changes (e.g. NFR, MFF, FR 11th EDF, Trust funds).** **A positive opinion (DAS) was received from ECA concerning the reliability of the 2012 EU annual accounts and the 2011 budget received discharge from the appropriate authorities during 2013.** **Efficient management of fines** **Coverage up to 97,4%.The uncovered part relates to companies outside the EU in bankruptcy or under negotiations for an instalment plan or a procedure for inability to pay.** **Efficient Treasury Management** **Cash resources available to the Commission in the first half of the year were not sufficient to cover all the payment needs identified by the authorising officers even if own resources have been called up in advance from Member States up to the maximum allowed. This has required limiting**

[7] [Source : Reports of the European Court of Auditors, Discharge Authority and IAS & reports sent to Discharge Authority].

			spending possibilities for cohesion and rural development in the period February to June. The situation had returned to normal in July. The advance on own resources could start to be reduced in October. Due to the timing of adoption of AB8 a potential risk of cash shortage at the end of the year was identified. Such risk was finally avoided thanks to important amounts of fines definitively cashed during the last weeks of the year. The shortage of cash resources during the year is due to the budgetary and regulatory constraints underlying the financing of the budgetary execution. No particular exceptions or issues related to treasury management were registered in 2013.
			Efficient Recovery **A sharp increase of the overdue recovery orders has been noticed as from October 2013 (2451 RO's for the General Budget at year end).This is linked with a high recovery activity in some services (OIB, PMO, Connect). The backlog is coming back to average figures in early 2014 (1728 at 31/01/2014)**

Adoption of the first Communication from the Commission on the protection of the EU budget

Following a priority request in the European Parliament's resolution of 17 April 2013 concerning the discharge of the 2011 budget, BUDG prepared, in collaboration with the shared management DGs, a new Communication explaining the methods applied by the EU to protect its budget from undue expenditure and detailing the amounts concerned. This Communication, accompanied by an extensive Staff Working Document, provides more detailed information on the financial corrections and recoveries disclosures that had been included in note 6 of the annual accounts for a number of years. Adopted by Commissioner Semeta in September 2013, and transmitted to the Parliament, Council and ECA, it has been a key element in the ongoing 2012 discharge discussions and will be prepared every year from now on.

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 3.2 billion at 31.12.2013.

When provisionally paid, the amounts must be kept off-budget according to Art. 74 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 31.12.2013, the global volume is about EUR 3.2 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 31.12.2013, the global volume invested in the BUFI is about EUR 2.6 billion from which fines for about 0.7 billion are due in 2014.

Some of the fines imposed by the Commission are not fully covered at their deadline. At 31.12.2013 a payment has been received or a bank guarantee lodged in respect of 97. 4% 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 is now impossible to find banks with a very high credit quality, 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.

ECA has started its audit 2013 relating to fines in December 2013. A draft of preliminary findings has been sent to C4 and comments have been provided in December 2013.

ABB activity Accounting: Provisioning of central financial/accounting information system services has been implemented according to plan

Activity: Accounting	☐ Spending programme ☒ Non-spending

Specific Objectives	Result indicators	Target (end 2013)	Main Outputs for 2013
Provisioning of central financial/accounting information system services	FR2012 – respect of deadlines for roll out MAFF – respect deadlines	Completion mid-2013 Completion Oct 2012	**Continuous alignment of ABAC to business imperatives (maintenance, FR, MAFF…)** **Full alignment of ABAC to the Commission's FR, Rules of Application, MAFF and new accounting scheme which entered into force on 1st January 2014. The changes to ABAC were coordinated, specified and tested for being compliant with the new FR and MAFF in due time. This ABAC release, numbered 6.9, was deployed during the end of year period and was completed on 2 January 2014.**
	IT Governance – budgetary transparency	Specifications completed end 2013	**Contribute to corporate IT Governance** **Guidelines on charge-back mechanism are established, role of the domain leaders in assessment of budgetary requests posted against Heading V are reinforced.** **The financial Business Object Model becomes a strategic tool of efficient IT development processing. A proposal was promoted and drafted to increase the level of Data Quality inside ABAC. Furthermore, the occurrence of personal data in the non-production environments of ABAC were analysed and a report with advice to ABAC's Project Office will be submitted in 2014.**
	Review ABAC Architecture – roll out according to Roadmap	LCK Phase 1, Services Invoices and LE/BA by end 2013	**Implement Review ABAC Architecture within the corporate IT-architecture** **Pilot invoice services were completed in 2013. The services for LE/BA are scheduled for 2014 according to the new 5-years ABAC Roadmap.** **Functional specifications for Legal Commitment Kernel (=LCK will replace ABAC Contracts) phase 1 were finalised in October 2013**
	System authorisations aligned to business delegations granted Number of intrusion attempts having an impact on the corporate financial/accounting system	>95 % alignment 0	**Ensure ABAC's secured operational continuity and efficient support to its user community.** **Business authorisations management: alignment OK.**
	Integrate External Entities according to time table	Fully respected	**Integrate new External Entities in ABAC** **eu-Lisa and Ombudsman have both been implemented in ABAC on time and on schedule** **D5 prepares the change and configuration requests for new entities, then D5 assigns them to R3 & R4, and coordinates the execution of the requests until the entity enters in production.**

	Ability to timely set up the financial and accounting system of a trust fund or financial instruments	Be able to timely set up the financial and accounting system of a trust fund	**Set-up of Trust Funds** **Standard configuration and procedures have been implemented and tested. Ready for operational usage Although there are today no concrete plans of the Commission to launch a Trust Fund, the step-by-step for configuring a Trust Fund in ABAC was drafted and tested in cooperation with DEVCO. BUDG is fully prepared for when a real request for a Trust Fund materialises.**

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 46 External Entities, resulting in a user community of over 11 500 users 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. Finally, ABAC is the source of the information made available to the public via the Financial Transparency System.

The main 2013-challenge consisted in the continued alignment of ABAC to the provisions laid down in the FR and the new Multi-Annual Financial framework. On the 1st of January 2014, the new compliant ABAC-version, including a new Chart of Accounts, was opened successfully.

BUDG launched the Review of the ABAC Architecture Programme with the aim of enhancing the effectiveness and efficiency of the financial processes (e.g. move from paper based to paperless finance), to foster data quality and to guarantee ABAC's long-term sustainability. On the basis of the results of a pilot project and proof-of-concept, the implementation of the Review Programme has been re-assessed end of 2013. Taking into consideration the scarce resources and the prudent approach to mitigate risks in terms of business continuity and reliability of the accounts, the programme implementation is spread over the period 2014-2018. Yet, the first results will become operational in 2014, enabling owners of local systems to start the alignment in the context of the corporate IT-rationalisation.

The Review of the ABAC Architecture is a key element in achieving the rationalisation of the Commission's IT-landscape as put forward by the Corporate IT-Governance. The integration of the financial domain with grants management and procurement seems to yield important IT-efficiency gains and is instrumental in meeting the obligation of rolling out a Single Electronic Data Interchange Area (SEDIA portal) as laid down in the Article 95(2) and (3) FR.

ABB activity Promotion of sound financial management: Complete FR/RAP with derived regulations and rules adapted to specific needs has been implemented according to plan

Activity: Promotion of sound financial management			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators**[8]	**Target (end 2013)**	**Main Outputs for 2013**
Complete FR/RAP with derived regulations and rules adapted to specific needs	Adoption and entry into force	End 2013	**Internal Rules** **Adoption 2/05/2013 C(2013)2417**
			Preparation of the regulations and rules following up to the FR (FFR, PPP, executive agencies) & EDF FR **Adoption FFR: C(2013)6287 of 30/09/2013** **Adoption PPP: C (2013)6284 of 30/09/2013** **Adoption 11th EDF FR: COM (2013)660 of 25/09/2013** **Preparation of 10th EDF bridging facility (adopted on 17.1.2014 COM(2014/9)).** **Executive agencies: adoption by the COM of the Decisions extending the mandates of the executive agencies for the new MFF programmes. Coordination by BUDG notably for the presentation of the draft decisions to the Committee for executive agencies (comitology procedure).**
			Revision of the FR to take into consideration the MFF **Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU, EURATOM) No 966/2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002: COM (2013)639 of 20.09.2013**
			Continued guidance on the future legal bases (simplification and coherence) **Assistance to other DGs in preparing their negotiations via briefings and attendance of Council/Trialogue meetings, in particular for CEF and Structural Funds regulations.** **Assistance to the DGs in negotiation of their basic acts and drafting of amendments with a view to compliance with FR, harmonisation in between basic acts and sound financial management. Special support to the research family for H2020: Review briefings, GRI fiches, non-papers, attend Research Working groups in Council, technical trialogues, contribute to ICS on satellite legislation (art.**

[8] [Source : Agenda planning & EURLEX].

			185/187), LLP and Creative Europe, etc, on an almost daily basis.
			<u>Develop framework for future & existing Innovative Financial Instruments</u> Participation in the negotiations of the FAFA with EIB. Work in progress. Template Delegation Agreement. Drafting and revision of documents for the Financial Instruments Expert Group.
			<u>Adoption of revision of FR on the funding of European political parties and foundations</u> Participation of BUDG in Council working party (GAG) regular meetings and in trilogies on the funding Regulation. Revision of the FR in progress, pending the adoption of the founding Regulation.
			<u>Preparation of the adoption of a report to the European Parliament and the Council regarding the accounting officer and the internal auditor of EEAS</u> COM(2013)936 of 6.01.2014
			<u>Memorandum to the Commission from Mr Lewandowski concerning interim implementing measures for the Early Warning System</u>. C(2013)2564 of 02.05.2013 Preparation of the new EWS decision (ICS held in 12/2013-1/2014).

<u>Entry into force of the new FR</u>

The entry into force of the new FR has had a significant impact on financial management in the Commission. BUDG has worked actively throughout the year to ensure that the various sectorial regulations for 2014-2020 were consistent among sectors and with the FR and to support DGs and services to revise their management to adapt to the new and amended provisions. Particular attention was given to providing guidance to DGs for the launch of the new generation of spending programmes as well as on the applicable rules during the transition period up to the adoption of these programmes. In parallel, the number of inter-service consultations treated by the Central Financial Services remained very high (more than 1800 in 2014).

Also, a number of initiatives were aimed to complete the legal financial framework. A revised FFR for decentralized agencies was adopted with the aim of aligning it to the new FR and to the common approach on agencies. The draft financial rules of the 32 decentralized agencies were screened for conformity with the new FFR. A model FR for PPPs establishing simplified and modern financial rules for these bodies was prepared in order to foster the use of PPPs. Proposals aligning the FR on the results of the MFF negotiations and aligning the FR of the 11th EDF on the revised FR were tabled. BUDG also played a key role in the process of externalization to the Executive Agencies: the various instruments required for the delegation of implementing tasks to the Executive Agencies were adopted. Regarding the prevention of activities detrimental to the EU financial interests, the early warning system was revised in order to introduce the right to be heard for flagged entities.

BUDG also contributed to the completion of the new legal framework for financial instruments through an active participation to the FIIEG, the negotiation of Financial and administrative agreements with EIB and EIF, the drafting of a model delegation agreement and the preparation of guidelines on a number of key aspects for the setting up of financial instruments (leverage effect, selection of beneficiaries, publication of beneficiaries, cooperative jurisdiction…).

BUDG provided assistance and guidance to services on the rules relating to indirect management by preparing a model delegation agreement and ensuring a close monitoring of the negotiations of new financial agreements with the United Nations and the World Bank. BUDG also played a key role in defining the new legal framework for the setting up of EU Trust Funds.

Finally, BUDG continued to assist the FPI and the EAAS in revising rules applicable on the CFSP missions and EUSRs as well as on Electoral Missions. It also contributed to the mid-term review of the EEAS (report recommending the continuation of the system of single accounting officer and internal auditor, common to the Commission and the EEAS).

ABB activity Promotion of sound financial management: Assist the financial staff implementing the EU budget with information, training and guidance on financial management matters, including on public procurement and grants has been implemented according to plan

Activity: Promotion of sound financial management			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators[9]**	**Target (end 2013)**	**Main Outputs for 2013**
Assist the financial staff implementing the EU budget with information, training and guidance on financial management matters, including on public procurement and grants	Number of pages updated and HD questions answered Number of network meetings Number of training/information sessions	According to demand Regular meetings throughout the year According to demand	1) Continuous and updated guidance and information on BUDGWEB and by SFC helpdesk Number of consultations: In 2013 the SFC helpdesk service responded to 1084 questions; this represents an increase of 22 % compared to last year. 1973 consultations (by D2) treated as a whole compared to 1629 in 2012 (+ 21 %) - without prejudice to the continuous support provided to the research family to prepare for H2020 implementation through diverse consultations and the numerous interservice groups set up for drafting their GA, VM, unit costs, etc. Special support to EAC and satellites to design lumps sums and unit costs for 2014- 2020. Updates of BudgWeb: All the current 2600 pages of BudgWeb were screened and almost all updated in 2013.A new form was created on Budgweb to receive the feedback of the customers of the CFS. The web page with Questions & Answers was updated after the last AAR training session. The pages related to the Internal Control Standards and Risk Management were revised in September and October 2013. Guidance : - Updated procurement VM following RF revision and lessons learned was published in January and an updated version again (including new thresholds) in December 2013; partial publication of grants VM, incl. guidance on VAT, prizes, guarantees, multi-beneficiaries GA, etc. - Several procurement circulars updated and published on guarantees in June, experts in January, payment deadlines in March, joint offers in November, access to procurement by third countries in October or prepared, on building contracts and access to documents (no

9 [Source: Quarterly report on Quality in Central Financial Services].

validation by SG).
- Updated template of Framework Partnership Agreement published in February and fine-tuning of mono and multi beneficiary GA. Update of decisions postponed
- Templates of declarations on honour published in March 2013.
- Draft prepared for application forms.
- Numerous other templates of letters, award decisions, redress letters published, in the first semester. Model guarantees still to be updated.
- Ongoing negotiation of the FAFA with the EIB.
- Negotiation on the UN FAFA. DEVCO templates (IMDA) reviewed. New delegation template finalized, not yet published.
- Key documents for the AAR 2013 process: template + instructions with accompanying guidelines were published in November 2013.

<u>2) Train and assist the staff managing the budget (public procurement and grants courses and models, vademecums, etc..), including through the financial (RUF, ICC) and ABAC user networks</u>

<u>Networks activity in 2013:</u>

3 (out of planned 5) meetings of the VM groups were organized, 2 were cancelled due to understaffing and work overload.

ICC net: 4 meetings were organised.

RUF: 10 regular monthly meetings; a working group aiming to simplify checklists in use; 2 demos of IT systems in use in DGs; a RUF yammer group was set up. (D2: Participation in the 01, 02, 04 and 05 RUF meetings)

ABAC User Community Meeting organised on 01/10/2013 to present to the Local ABAC Coordinators the upcoming changes to ABAC because of the new FR 2012 and MAFF.

<u>The CFS delivered the following types of courses to colleagues in DGs and Agencies comprising:</u>
- 98 financial training courses attended by over 2400 colleagues
- 50 accounting courses attended by about 500 colleagues
- 230 ABAC courses attended by about 1800 colleagues
- more than 70 ABAC e-learning modules were made available in the form of an interactive simulation of the ABAC environment
- 1st (pilot) session of intermediate grant course delivered in October 2013.
- 56 internal control, risk management and anti-fraud courses (over 500 participants)
- 4 training sessions and 1 seminar on the AAR 2013 instructions, working groups to streamline reporting in the AAR.
- 1 consultancy session on risk management organised on demand
- 2 sessions of ABAC Coordination Board for the Local ABAC Coordinators in the DGs and agencies (25/04/2013 for release 6.7 and 24/10/2013 for release 6.8 and 6.9)

Entry into force of the new FR

The entry into force of the revised FR generated a need for a thorough update of all model contracts and templates and for a revision of all guidance in the field of grants and procurements. Although started as soon as possible by the end of 2012, this activity was pursued throughout the whole year. In the course of 2013 entirely new templates were produced on the grants side and more intricate issues were progressively dealt with, like relations between the Commission and international organizations.

The number of consultations also significantly increased again. Together with the significant investment made in accompanying the DGs in finalizing the negotiations of their basic acts for 2014-2020, this prevented us from progressing as much as expected on the new grants Vade mecum.

The entry into force of the FR is also the most likely reason for the increase of 22 % in the number of helpdesk questions received; colleagues in the DGs, Agencies and other Institutions requested assistance in the interpretation of the new rules, and took the opportunity to confirm their understanding of some other provisions.

The change in the FR also had a considerable impact on the information published on BudgWeb. All web pages had to be screened, with references to the old FR replaced by references to the new one, old documents and information archived, and updated documents uploaded.

ABB activity Promotion of sound financial management: Encourage the DGs review of their internal control strategies to ensure cost-effectiveness and proportionality to the risks, in accordance with the new FR/RAP has been implemented according to plan

Activity: Promotion of sound financial management			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators[10]**	**Target (end 2013)**	**Main Outputs for 2013**
Encourage the DGs review of their internal control strategies to ensure cost-effectiveness and proportionality to the risks, in accordance with the new FR/RAP	Adoption by BUDG of Guidance of internal control strategy	October 2013	**Guidance on internal control strategy** **The Guidance on the revision of the internal control strategies has been distributed to the ICC net on 8/11/2013 and subsequently published on the BudgWeb. The guidance entails new revised Internal control strategy templates (ICT), to be used by the DGs to revise their own control strategies and to report on the economy, efficiency and effectiveness of controls in their AARs (as annex 5). Generic ICTs for the following modules have been drafted: Grants direct, indirect entrusted management, procurement direct and shared management.** **Furthermore as regards the internal control standards (ICS), in December 2013, a simplification proposal has been sent out to the competent services on the simplification of the 61 requirements of the ICS. The finalisation is foreseen for end of March2014.**
	Adoption by BUDG/SG of Guidance on cost-effectiveness of controls, including by revising the AAR instructions	October 2013	**Guidance on cost-effectiveness of controls, including by revising the AAR instructions** **The instructions for the Annual Activity reports 2013 (AAR) have been issued on 25/10/2013 requiring enhanced reporting on sound financial management and use of resources; following the new FR 2013, the commitments in the 2012 synthesis report, and also the ECA and IAS recommendations. Enhanced reporting in a streamlined manner is required both for direct and indirect management.** **To support the AAR instructions on cost-effectiveness of controls, a complete set of guidance has been issued between June and December 2013 and published on the BudgWeb: the Guidance on how to estimate the costs and benefits of controls, the Internal control strategy templates (ICTs), illustrative examples on how to estimate costs and benefits of controls and Harmonised reporting templates.**
	Adoption by BUDG of Overview Report	April 2013	**Overview report & Synthesis report** **Contribution in time to the annual synthesis of AAR regarding the use of negotiated procedures** **The Overview report was issued on 8 May 2013 after review of the AARs of the 48 DGs/Services and the organisation of 5 peer reviews.** **The Synthesis report was issued on 5/06/2013 .**
	Adoption by the College of Synthesis Report	15 June 2013	

[10] [Source : BUDGWEB & Agenda Planning].

Entry into force of the new FR

In the internal control area, the requirements to ensure the legality and regularity of the expenditure have been substantially revised. Authorizing officers must move towards an adequate management of the risks, so that controls are efficient and more intense in riskier areas. This requires rethinking control strategies and systems to ensure higher control intensity and frequency on riskier areas and that controls consistently add value. This is a demanding process, as it involves a paradigm shift, but also has the promise of significant rewards in terms of simplification, a substantial reduction of resources and a higher regard for control-related tasks.

Multiannual Financial Framework

An aspect of the negotiation of the new MFF of particular importance was the final adoption by year end of most sectorial regulations for 2014-2020. BUDG devoted a great deal of energy and resources to ensure that the sectorial regulations were in line with the new provisions and their potential for simplification. This was an immediate major draw on our resources but also a major scene setter for the next seven years in terms of financial management and the battlefield where the simplifications we had planned in the FR/RAP could materialize or collapse immediately for some of them.

Guidance on cost-effectiveness of controls / charge back

The GDR confirmed in its meeting of 17/12/2013, the approach set-out in the "Guidance on how to estimate the costs and benefits of controls, initially submitted in the GDR of July. The GDR will further discuss the outcome when info is available based on the final AARs 2013 (due end of March 2014). The required info on the cost-effectiveness of controls has been intensively discussed in working groups of DGs with similar control strategies, leading to harmonised indicators and even harmonised reporting templates covering all the internal control objectives and providing the related relevant key indicators. For the about 20 DGs which have not participated to a working group, four info meetings have been organised.

In addition, based on the guidance for the calculation of the cost of controls and 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 guidance is to be adopted in early 2014.

ABB activity Promotion of sound financial management: Prepare candidate and potential candidate countries and assist European Neighbourhood countries; creating an EU-wide platform to foster the voluntary exchange among Member States of good practice in public internal control has been achieved successfully

Activity: Promotion of sound financial management			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators[11]**	**Target (end 2013)**	**Main Outputs for 2013**
Prepare candidate and potential candidate countries and assist European Neighbourhood countries; creating an EU-wide platform to foster the voluntary exchange among Member States of good practice in public internal control	Provide EU institutions with timely reliable input, derived from fact finding missions and other assessments, for integration in their progress reports on candidate, potential candidate and ENP countries, and obtain user input for the 2014 PIC Conference via two MS working group meetings.	100 %	**Monitoring progress in OR preparedness in candidate countries and applicant countries** - Input for the various progress reports and the Commission Enlargement Strategy paper was sent to ELARG on 23 May 2013. - Participation in the 'Inter-service group Enlargement' meetings and follow-up of the resulting operational conclusions. - Last Monitoring mission to HR in April. Reporting done early May and after integration of HR's comments, a consolidated version was sent to ELARG in June serving as input to the Commission's Comprehensive Monitoring Report. - A practical training in Zagreb on OWNRES and WOMIS reporting in March - Screening exercise with Montenegro in May and June. Contributions to the screening report and assistance to ELARG in Council that accepted the report mid-October after 6 technical meetings. - For Iceland, the implementation of BUDG's technical assistance and monitoring program was put on hold due to the governmental decision to suspend accession negotiations pending a popular vote.
			PIFC Seven fact-finding missions were undertaken to candidate, potential candidate or ENP countries to assess progress with PIFC implementation. A mission was undertaken to Turkey to contribute to and participate in a Regional Seminar involving all candidate and potential candidate countries. Feedback gained from all these missions was used to provide input to the Progress Reports issued by ELARG and by EEAS. Discussions were held with all PEFA partners to examine the possible enlargement of the focus of the PEFA instrument by developing relevant broadly applicable internal control indicators. The talks continue.

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

			PIC **Two meetings of the PIC networking group were organised in which Unit B4 participated with a view to preparing four documents which will be key input for the May 2014 PIC Conference to be held in the Hague. Consultancy on Internal Control was provided to Romania. The process to update the Compendium of Internal Control systems in the EU was launched, by asking all MS to submit an updated description of their national internal control system.**

ABB activity Financial framework and budget procedure: Establish a budget of good quality within deadlines respecting the Commission's priorities has been accomplished as planned

Activity: Financial Framework and Budget Procedure			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators[12]**	**Target (end 2013)**	**Main Outputs for 2013**
Establish a budget of good quality within deadlines respecting the Commission's priorities	Commission adopts DB according to schedule.	Commission adopts estimates of expenditure by end April and DB 2014 (all languages) in May. Amending Letters and Budgets adopted by College& Budget Authority (BA).	**Draft Budget 2014, amending letter(s) and amending budget(s)** **The Commission adopted its estimates of expenditure 2014 on 26 June 2013 and the Draft Budget 2014 on 28 June. The adoption was later than usual because of the lack of progress on the MFF 2014-2020 including the expenditure ceilings for 2014.** **The Commission also adopted 2 amending letters and 9 amending budgets.**
	Budget authority adopts budget by the end of the (previous) year.	BA adopts B2014 by mid-Dec. 2013	**On 20 November 2014, the budget authority adopted the 2014 budget together with outstanding amending budgets.** **The authorised 2014 budget was EUR 78 million (-0.05 %) and EUR 706 million (-0.5 %) in commitments and payments, respectively, lower than proposed by the Commission.**
	Difference between budget adopted by budget authority and DB.	Difference between DB and voted budget < 1 %	**In the end the BA agreed to increase payment appropriations for the to the 2013 MFF ceiling, as proposed by the Commission.** **The BA agreed to increase commitments for the EU Solidarity Fund in the 2013 budget, but not the corresponding payments which were instead redeployed and split between 2013 and 2014.** **2786 ISC (legislative proposals and financing decisions) were processed by BUDG in 2013. 96 % of ISC replied within deadline.**
	N° of inter-service consultations (ISC) processed (Assess budgetary implications and ensure sound budgeting and	At least 95 % of replies to ISC within normal ISC deadline	**Annual Allocation of human resources to Commission services** **In the framework of the annual budget procedure, the Commission also adopted the proposed allocation of human resources across Commission services.**

[12] [Source : Agenda Planning & CISNET].

	respect of the MFF of: new legal acts or amendment of existing ones proposed by the Commission; Commission decisions.)		
	Timely and error-free delivery	100 %	**Forecast for the VAT and GNI bases for the establishment of the financing of the DB 2014 & Calculation of the UK correction** **The ACOR-forecast meeting, at which Member States agreed on the VAT and GNI bases for the financing of the DB 2014 took place on 16 May 2013. The financing side of the budget was finalised immediately afterwards, in good time for the incorporation in the DB. The calculation of the UK corrections for the various years concerned was finalised in parallel.**

Adoption of the 2014 budget during the conciliation together with the new financial framework 2014-2020 and agreement on EUR 11.2 billion of additional payments in the 2013 budget

On 20 November 2013, the European Parliament approved the 2014 budget, based on the 'package' agreed in the conciliation meeting of 11-12 November. The agenda of the conciliation on the 2014 budget was expanded to include the still outstanding consent of the Parliament on the 2014-2020 MFF, which in turn was made conditional to the adoption of an amending budget for 2013 raising the level of payment appropriations to the ceiling, as proposed by the Commission. The negotiations were further complicated by the need to provide additional funds for the EU Solidarity Fund, to cover flood damage in central Europe, in a general context of very tight payment ceilings.

The final deal was achieved on the following package:

- adjusting the level of commitments by headings in the 2014 budget without any recourse to the flexibility instrument, with the exception of heading 1B (additional structural funds for Cyprus);
- increasing the level of payment appropriations for 2014 above the level proposed by the Council (but below the MFF ceiling as proposed by the Commission in its draft budget, which was in itself substantially below the final budget 2013 for payment appropriations);
- agreement to increase payment appropriations for the budget 2013 (via amending budget 8/2013) up to the ceiling;
- agreement on the split of payment appropriations needed for the EU Solidary Fund over the budgets 2013 (amending budget 9/2013) and 2014;
- Agreement on a set of joint statements related to payment appropriations, resources of decentralised agencies, the possible salary adjustment for 2011/2012, and the budgetary treatment of EU special representatives.

Given the shortage of payment appropriations in the initial 2013 budget, in the course of 2013, the Commission closely monitored budget implementation and reported regularly to the budgetary authority, also responding to a demand to feed inter-institutional meetings dedicated to monitoring the situation. The late adoption of the amending budget increasing payment appropriations had a spill-over effect on the treasury, requiring a close monitoring of the monthly cash flow situation throughout the year for the Commission to be able to meet its legal obligations.

Despite an increase of EUR 11.2 billion in payment appropriations compared to the initial 2013 budget, the year 2013 ended with EUR 23.4 billion of unpaid requests for reimbursement under the cohesion policy (heading 1b).

The agreed level of payment appropriations for 2014 (EUR 135 billion) is severely constrained by the MFF ceiling and is well below the final level of the budget 2013 (EUR 144.5 billion). That means that the pressure will not go away in 2014 and the Commission has already announced in the framework of the budgetary conciliation of November 2013, that it may have to mobilise the contingency margin if necessary.

Preparation of the draft budget 2014

The Draft Budget 2014 had to be prepared under very uncertain conditions, in the absence of a multi-annual financial framework agreed by both arms of the budgetary authority. This had an impact on the calendar for the adoption of the draft budget by the College and on the reference financial framework to be used, also in the absence of agreed new legal acts authorising the new generation of spending programmes once the existing ones expired at the end of 2013. BUDG had to continuously update the preparation of the draft budget in light of (the lack of) progress in the MFF negotiations. Despite the difficult context, the Commission was able to adopt the Draft Budget within the calendar limits set by the Treaty (though later than the traditional pragmatic calendar), and to propose a solid basis for the negotiations with the two arms of the budgetary authority, paving the way for the final agreement on the budget 2014 reached in the November conciliation.

IT environment

BadgeBud is an inter-institutional system used for the preparation of the annual budget. In 2013, the main developments were linked to the implementation of the new financial framework and a module allowing the encoding of appropriations by means of tabular views and the filtering of the budget lines. Additional functionalities to ensure consistency between the text of budgetary documents and the amounts entered in each budget item were also implemented.

ABB activity Financial framework and budget procedure: Forward budgetary planning: frame spending within short and long term financial framework has been successfully achieved

Activity: Financial Framework and Budget Procedure			☐ Spending programme ☒ Non-spending
Specific Objectives	**Result indicators**[13]	**Target (end 2013)**	**Main Outputs for 2013**
Forward budgetary planning : frame spending within short and long term financial framework	Adoption by Council of MFF regulation & ORD Signature by EP, Council & Commission of IIA Timely and error-free delivery	100 % 100 % 100 %	**MFF Regulation 2014-2020** **2013 milestones in the road to the adoption of the MFF regulation were the agreement struck at the European Council of 7-8 March 2013, the conclusion of the negotiations between Council and EP at the end of June 2013 with an agreement between the three Presidents and the consent given by the EP during the November plenary following the fulfilment of the additional conditions set in the EP's 3 July resolution. The regulation was formally adopted by unanimity on 2 December 2013.**
	No. of ISC replied as leading service and associated service	At least 90 % of replies to ISC as leading service within deadline set by author DG/ normal ISC delay	**Own Resources Decision 2014-2020** **After the February 2013 European Council agreement, Council deliberations on the OR legislative package progressed well under Lithuanian Presidency, which was however not able to fully conclude since a few relatively minor issues remained open until January 2014, when the package was agreed under Greek Presidency and sent to the EP for its consent and opinion.**
	Working Document on Financial programming produced by end of May and updated by end of January	Respect of deadlines	**Interinstitutional Agreement** **The milestones on the road to signature of the IIA are the same as for the MFFR. The IIA was signed by the three institutions on 10 December 2013.**
			Technical adjustment of the MFF 2014-2020 for the year 2014 **The timing of the technical adjustment was different compared to other years since it could not be adopted by the Commission before the adoption of the MFF regulation. The communication (COM(2013) 928 final) was adopted on 20 December 2013.**

[13] [Source : EURLEX & CISNET & Agenda Planning]

Adoption of the MFF 2014-2020 package

Following the unanimous agreement among Heads of State and Government at the February 2013 European Council and the subsequent successful conclusion of the negotiations with the European Parliament, the MFF Regulation for 2014-2020 was adopted on 2 December 2013, followed by the signing of the accompanying Interinstitutional Agreement on 10 December 2013.

Most of the sectorial legislation was adopted by the end of 2013 and the final legal bases should be agreed at the February I 2014 EP plenary. All the elements are therefore in place to allow for the timely and successful start of the new generation of multiannual programmes.

Entry into force of the new FR

An aspect of the negotiation of the new MFF of particular importance was the final adoption by year end of most sectorial regulations for 2014-2020. BUDG devoted a great deal of energy and resources to ensure that the sectorial regulations were in line with the new provisions and their potential for simplification. This was an immediate major draw on our resources but also a major scene setter for the next seven years in terms of financial management and the battlefield where the simplifications we had planned in the FR/RAP could materialize or collapse immediately for some of them.

1.2 Specific efforts to improve 'economy' and 'efficiency' in spending and non-spending activities.

According to Article 30 FR, 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…) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

BUDG is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. In this context, BUDG has launched in 2012 an exercise for efficiency gains conducted by an external contractor. The implementation phase of this exercise –conducted by project teams– has started in 2013. As a result, staff savings have already been realised through enhanced processes and a rationalisation of the organisation of the services. This has allowed BUDG to meet the 2 % staff reduction target in 2013 without jeopardizing the fulfilment of its objectives. The following two initiatives show how these efficiency gains are achieved in our DG:

Pooling of secretaries

BUDG has put in place further pools of secretaries common to two Units. These pools are as a general rule composed of 3 secretaries, except in specific cases where the workload and/or the size of the Unit require an additional post. This initiative has not only led to a permanent staff reduction, but has also allowed to better ensuring the continuity of service through back-ups while avoiding the systematic replacement of absent staff.

Merging of units

Units BUDG.A.5 "Administrative appropriations" and BUDG.A.6 "Allocation of Human Resources" have been merged. This has led to synergies and staff reductions. At the same time, the roles and responsibilities have been clarified towards the other DGs, as Unit BUDG/A5 is now the single entry point in BUDG for all Heading 5 issues.

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 objectives[14]. 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 Budget

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: In 2013, the Communities' own resources, the management of which BUDG is responsible for, amounted to EUR 140 797 259 592 and the administrative expenditure of BUDG in 2013 was EUR 11 555 995 (amounts committed during the year).

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 €	2011	2012	2013
TRADITIONAL OWN RESOURCES	16 777 717 889	16 453 389 941	15 365 321 831
OWN RESOURCES ACCRUING FROM VAT	14 798 902 162	14 871 184 175	14 019 723 428
OWN RESOURCES BASED ON GNI	88 418 036 241	98 105 225 030	110 358 602 621
SURPLUS AVAILABLE FROM PRECEDING FINANCIAL YEAR	4 539 394 283	1 496 968 014	1 053 611 712
Total Own Resources	**124 534 050 576**	**130 926 767 161**	**140 797 259 592**

[14] 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).

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 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.

Traditional Own Resources (10.91% 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. Any delay in paying own resources gives rise to payment of interest by the Member State concerned.

VAT own resource (9.96 % 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 (78.38% 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 resource data is only available annually and in arrears the own resource payments during that year are based on the amounts entered in the budget for the year concerned (i.e. each month the Commission - Directorate B of 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.

Assurance concerning the accuracy and completeness of GNI data is obtained by ESTAT acting together with the GNI Committee plus each year the GNI Committee forms an opinion on the appropriateness of using the GNI data provided by Member States for own resources purposes.

Reasonable assurance concerning the accuracy and completeness of Member State data is provided by the opinion of the GNI Committee, bolstered by BUDG's attendance of the meetings of that Committee and the results of ESTAT's verification activities to which Member States contribute by taking part in controls in other Member States.

Control effectiveness as regards legality and regularity

BUDG has set up internal control processes aimed to ensure 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 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 this section.

A – MS statements and collection of resources

During 2013, 100 % (99,999 %) of national contributions and amounts reported in Traditional Own Resource A statements were dully collected and made available on time. Only EUR 1 million out of EUR 140. 797 billion OR collected was made available with a short delay. This amount was promptly followed up and regularised.

In addition 198 requests for accounting action and 525 accounting documents were generated.

It was found that one recovery order for interest in 2013 involved a calculation error of EURO 7 815, amounting to 0.06 % of the total own resources-related interest claimed from Member States in 2013 for belated payments. The error was corrected immediately after it was found still in 2013. No other material errors were detected.

At the end of the year there were six open Traditional Own resources infringement files. Three new procedures were initiated during 2013 and two closed with respect to the 5 open procedures in 2012. In addition, five 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 2013 the annual inspection programme was implemented during 2013 according to plan with the exception of one inspection which had to be cancelled due to service reasons. A total of 29 inspection reports were produced and sent to the corresponding Member States respecting, in 100 % of the cases, the legal three month deadline. All anomalies identified during the inspections are closely followed up by BUDG in collaboration with the Member States.

In addition, 203 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.

As regards the issue concerning doubts about the reliability of the Belgian clearance and accounting procedures and system and thus on the correctness of the Belgian TOR which lead to a reservation in 2011 and 2012 Director's declaration of assurance, for the reasons explained under section 4.1 (*Review of the elements supporting assurance*) it is considered that the reservation should be lifted. The assurance level on the reliability of the accounts and the amounts transferred to the EU budget appears to be comparable now with that of the other 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 2013, the agreed inspection programme was slightly varied by the postponement until the first quarter of 2014 of one inspection but checks on the completeness and accuracy of the calculations and suitability and reliability of the underlying data for the other planned inspections were completed, as was the post-inspection activity needed complete the control cycle by ensuring that Member States are informed of any necessary remedial action they need to take and that their subsequent activity is monitored and assessed.

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 ESTAT. 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 and the frequency of BUDG's participation in GNI Committee meetings.

The results show that activity to notify reservations was usually prompt. The delays which affected a minority of cases at the very beginning of the year had no adverse consequences. DG BUDG attended 100% of GNI committee meetings held during the year. Following its examination during the year the GNI Committee, at its 27th meeting on 23 &– 24 October 2013 concluded that in its opinion the GNI data transmitted through the GNP/GNI Questionnaire 2013 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. Please consult ESTAT's AAR for indicators concerning the results of activity to verify GNI data.

C – Follow-up of verification results

A total of EUR 49. 9 million were recovered in 2013 on TOR (recovery orders for amounts of principal and interest, issued and/or paid in 2013). The percentage of TOR financial irregularities followed up via recovery orders created and paid has been 89 % in 2013. The average recovery rate for the last five years is 97.5 %.

The proportion of VAT reservations in place for more than 5 years is 13 %, which is considered a reasonable percentage.

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

The recommendation derived from the audit of the IAC on *'Inspection activities of Directorate B'* in relation to the use of general GNI reservations was cancelled by IAC following acceptance of the risk by management. The issue was considered covered by BUDG with the new annex to the MOU ESTAT – BUDGET mentioned before in reference to good practice when using GNI reservations.

IAC also considers that residual legal and reputational risk for the Commission does not require mention as a reservation in the AAR. In addition, the special report 11/2013 of ECA addressed the same issue in one of its recommendations by which it is requested to set materiality criteria for placing specific reservations. On this topic, BUDG indicated that the MoU which governs the division of responsibilities for the management of GNI OR between BUDGET and ESTAT was expanded in April 2013 to ensure this point of view is clear. The new annex will also reduce significantly the number of general reservations.

D- UK correction calculation

Calculation of UK correction was made correctly and on time.

Globally, for all Own resources, the most recent ECA's opinion on Own Resources (ECA's annual report for financial year 2012) concluded that revenue collected is not affected by a material level of error and that control system 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 cost of controls performed represent 0.0004% of Own resources collected in 2013 (EUR 140 797 259 592).

Also, reasonable assurance can be given on the compliance of total value of TOR and VAT collected with relevant regulation. The cost of controls carried out to verify the amounts collected represent 0.01 % of TOR collected (15 365 321 831 euros) and 0.005 % of VAT-based OR collected (EUR 14 019 723 428). Amounts collected during 2012 have been verified by ECA in their most recent annual report which concluded that they were not affected by material error. The costs of controls are considered steady and can be also applied to conclude on their cost-effectiveness on last year's TOR and VAT-based OR collection (16 453 389 941 and 14871184175).

A total of 89.1 % 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.

The cost of controls in place related for the follow-up of results of the verification stage represents 0.003 % of TOR and VAT-base resources collected (EUR 29 385 045 259). 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, amounts of TOR corrected and recovered from MS derived from irregularities detected by controls have amounted EUR 49.9 Million in 2013. The cost of controls to guarantee their recovery represent 2.82 % of amounts recovered.

During the most recent verification of UK correction by ECA (annual report concerning financial year 2012) no errors were detected linked to its calculation. The costs of controls in place to mitigate the risk of errors represent 0.0003 % 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.

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 2013 that the OR contributions made by Member States comply with the requirements of the Union's own resources legislation. 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 2013 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 Entities[15]

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 2 855 066). 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

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

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 (EUR 11 555 995 – amounts committed during the year) 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.

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 Resources Unit 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.

A total of 92.12 % of commitment appropriations (including contributions from Agencies and other Institutions) have been executed amounting to EUR 17.809 million. Payments amounted to EUR 12.564 million.

During 2013, three negotiated procedures have been launched under article 134(1)(b) RAP concerning the access to a platform for banking international information for a value of EUR 14 037 and two other small procedures amounting a total of EUR 9 188.

In addition, one open procedure that was initiated in 2012 was completed in 2013 regarding the provision of advice and consultancy services in accounting and financial IT systems. The procedure was structured in two lots: Lot 1 for the provision of Accounting advice and assistance for EUR 3 932 100 (out of which EUR3 608 700 for the Commission); and Lot 2 for the provision of consultancy services in implementing accounting and Financial I.T. Systems for EUR 14 566 750 (out of which EUR 14 221 350 for the Commission).

At the end of the year, 25.36 % of the maximum value of the framework contract granted for 4 years had been used.

The internal control for specific contracts include a cross-check 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 Resources Unit. All errors detected are corrected or reported.

The analysis concerning the risks concerning both processes in 2013 has shown that these are very low thanks to the procedures in place, the relatively low number of transactions and the nature of the financial circuit.

The recommendations derived from the audit on procurement have been all implemented on time during 2013 having as a result improvements in some key procedures.

On the other hand, a new audit was launched during 2013 by IAC on "Contract management" since existing procurement and contract management processes in 2013 could not entirely prevent the delivery of services by external contractors before the signature or after the final due date foreseen in the specific contract. Even though in the specific cases identified no damage was done to the Commission budget, this is in conflict with the FR. A draft report of the audit has been produced in February-2014.

The internal control objective for error rate related to the budget executed by BUDG itself 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.

In order to reach this conclusion, BUDG 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 registry or exceptions and non-compliance events is carried out. During the second half of 2013, 5 non-compliance events were reported and sent to the IAC for review, one concerning the security setting to access back up folders. Immediate mitigating measures were taken to address the issue identified (closure of the call for tender and launch of a new procedure). Nevertheless, the IAC recommended several additional mitigating measures to address the residual risks, which have already been implemented. In particular, specific guidelines have been included in the internal procedure concerning the management, filing and archiving of documents related to tendering procedures.

The other four items have been reviewed in detail in the context of the on-going audit on contract management. For 3 of the 4 reported cases, the IAC concludes that no further mitigating measures are necessary. These 3 cases concern the signature of the extension of a contract having verified that a commitment existed but without verifying its validity date, authorisation of payment of a training without prior authorisation requested and an error in the amount engaged in ABAC which did not correspond to the amount signed in the corresponding contract (amount not significant). The fourth one (work carried out beyond the agreed final date of execution of the specific contracts) is expected to be covered by recommendations in the on-going audit on contract management.

Two exception reports were also issued in order to proceed with the payment of invoices related to two of the non-compliance events reported. It was considered that the payment was pertinent in any case due to the correct nature of the expense. In both cases measures were taken in order to reduce the risk of this event happening in the future.

In addition, a risk-based ex-post revision is also carried out on financial transactions twice per year by the accountant correspondent in BUDG. A total value of operations of EUR 7.3 million (58 % of total payments made in 2013) were subject to a supervisory desk review based on sampling. The results of the accounting quality revisions carried out in 2013 have been satisfactory since none of these controls unveiled errors with impact on compliance. The error rate was below 2 %.

In relation to procurement procedures completed in 2013, no relevant incidents have occurred or detected and there is reasonable assurance that compliance has been achieved with relevant regulation and internal rules.

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

During 2013 a total of 719 payments amounting EUR 12.56 million were made. Results of controls indicate that 99.17 % of these payments were made on time, with an average payment deadline of 14.9 days. The value of corrections made due to detected errors by controls in place is very low (0.26 %). This percentage also constitutes an indicator of the strong deterrence effect controls in place have on financial transactions. The cost of controls on the verification of financial transactions represent 5.75 % of payments made in 2013.

Errors detected during ex-post controls represent 0.69 % of transactions verified amounting EUR 7.3 million. Cost of controls of ex-post verifications represent 1. 10 % of payments made in 2013.

Controls in place during the procurement stage ensured that the granting of the only open procedure during 2013 was made in compliance with regulation and internal rules. The costs of those controls represented 1.31 % of the value of the contract granted.

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 necessity 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 2013 have been cost-effective as the estimated benefits exceeded the estimated costs.

Fraud prevention and detection

BUDG has developed its anti-fraud strategy as foreseen in the Commission's overall anti-fraud strategy.[16] An action plan has been defined and the identified resulting measures will be implemented during 2014.

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 has documented in a risk register the risks of fraud inherent to the activity of the DG. In the context of its annual risk management exercise risks of fraud will also be assessed. The 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.

During the reporting year, no cases of suspicion of fraud were transmitted to OLAF/IDOC[17]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: Reliability of reporting and 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. BUDGET, 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.

[16] COM(2011) 376 24.06.2011

[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.

2.2 Budget implementation tasks entrusted to other services 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 services and entrusted entities distinct from the Commission.

Cross-sub-delegations

BUDG has given crossed sub-delegations to COMM, ECHO, and DIGIT 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, ENTR, JRC, and HR 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.

<u>ESTAT – Verification of GNI data</u>

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.

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 2013

During 2013 the Internal Audit Capability (IAC) finalised the following audits:

- Audit of the budget preparation and adoption activities of Unit A1 (February 2013 – was included in the opinion 2012)
- Audit on procurement (March 2013)
- IT risk Assessment (June 2013)
- Review of Internal Control Weaknesses – Permanent task
- Follow-up Audit of recommendations (30 June 2013)
- Follow-up Audit of recommendations (31 December 2013)

At the end of 2013, two significantly delayed recommendations remained open derived from the following audits:

- The audit on Third Party Files (Report February 2007) made the very important observation that the current LEF/BAF system in ABAC entailed the risk that incorrect links could be made by financial initiators which could result in payments to wrong bank accounts. Unfortunately, the risk is embedded in the current architecture and, therefore, its resolution is connected to the revision of the ABAC architecture project. However new functionalities and the optimisation of the LEF/BA process have been introduced and are potentially able to reduce the risk which is now rated as low/medium.
- The audit on the Early Warning System (Report March 2011) made the very important recommendation to re-establish the communication with the service responsible for Foreign Policy Instruments for the exchange of a specific category of exclusion warnings. As the recommendation has been implemented for an important part, the residual risk level is considered low and, it does not require to be mentioned as a reservation in the AAR of DG Budget for 2013.

IAC's Opinion[18]

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 2013[19], the IAC concluded that the internal control system in place in BUDG provides reasonable assurance[20] regarding the achievement of the business objectives set up for the processes audited except for the following issues:

- With regards to the procurement and contract management process, the controls existing in 2013 could not entirely prevent the delivery of services by external contractors before the signature or after the final due date foreseen in the specific contract. Even though in the specific cases identified no damage was done to the Commission budget, this is in conflict with FR (Art. 88) and RAP (Art. 162).

- With regards to the imprest account inspection activities performed by Unit C1, the control and inspection strategy might not provide the assurance that can be expected from the legal base and is not formally approved by the Accounting Officer. Furthermore, recommendations resulting from on-the-spot checks are not classified in order of importance and are not formally followed-up.

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

The internal control weaknesses identified during the audit and advice engagements IAC carried out during the year, and which have been documented in the above mentioned reports, do not represent deficiencies that are likely to have a bearing on the content of the annual declaration of the Director General of BUDG.

IAS Audits 2013

No audits were concluded during 2013; however four follow-up audits were completed:

- 2009 Follow-up on Compliance with Payment deadlines: All recommendations have been assessed as implemented.
- 2010 Follow-Up on Risk Management in the Commission: All recommendations were closed except one on the "Management of cross cutting risk". This recommendation is still considered in progress by IAS.
- 2010 Audit on Management of Guarantees: All recommendations have been assessed as implemented as a result of the audit follow-up concluded in November-2013.
- 2013 2nd Follow-up on Recoveries: this 2nd Follow-up allowed closing the 2 remaining recommendations, one of which was very important (monitoring of PAR).

[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 2013. 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.*

No critical recommendations have been addressed to BUDG.

At the end of 2013, five significantly delayed recommendations derived from the audit of the Executive Agencies in the Commission remained open out of the initial 10 addressed to DG BUDG. Their implementation initially expected for December 2013, had to be delayed. The revision of guidelines required consultations with all central services and all delegating operational DGs. Considering the length of the document and the need for translation recommendations are expected to be implemented by June 2014. Relevant recommendations have been duly taken into account in the recent externalisation process.

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

ECA's Audits 2013

In its Annual Report 2012, the ECA maintained the green light on the reliability of the Annual Accounts of the European Union for the sixth consecutive year (see section " The year in brief). The ECA has not raised any very important recommendation concerning 2012 accounts.

As concerns revenue, the ECA concluded that:

- Member States' declarations and payments of TOR;
- the Commission's calculation of Member States' contributions on the basis of the VAT and GNI data received from Member States;
- the calculation of the UK correction; and
- other revenue;

were free from material error and that the supervisory and control systems were effective in ensuring the regularity of revenue.

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.

All other four open ECA recommendations on Own Resources have been implemented on time during 2013.

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.

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.

The ICS 3 – Staff allocation and mobility, which was prioritized in the context of MP 2013, is considered sufficiently covered with actions still pending to be implemented derived from the Efficiency gains exercise performed in the DG. A road map was defined in the context of this exercise. Although the implementation phase is still on going, some reallocation and/or reduction of staff has already taken place (e.g. in the context of the mutualisation of secretariats, the IT rationalization and the merge of units A5 and A6). Working groups established are expected to draw some additional conclusions by the end of 2014.

In addition mobility rate for 2013 is considered satisfactory (9.5 % external mobility and 6.25 % internal mobility).

The functioning of the internal control system has been assessed via a benchmarking against the Commission's 16 internal control standards (ICS) in December-13. The current methodology applied in the context of the ICAT 2013 exercise in 2013 (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 internal Internal Control Standard Nr. 6 Risk Management Process has been prioritized in the context of the MP 2014. The assessment by staff of this standard has been the lowest in the survey (78.79 %) indicating the lack of awareness of the inherent risks identified in their area or in the DG in global. In addition, a mismatch was observed between the perception by management on risk awareness by staff and staff's perception.

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

- ❖ Each directorate shall organize at least one informational/brain storming session on the inherent risks to their directorate's activity and eventually to 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).

Risk management (ICS 6):

The action plans for the six critical risks in the Management Plan 2013 were closely monitored throughout the year. None of the risks materialised.

The risk management exercise for the identification of critical risks to be incorporated in the 2014 Management Plan has been carried out in October 2013. A total of eight risks including four critical risks have been identified at DG-level. The critical risks are reviewed by Senior Management in the context of the mid-term review in June. 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 years for the year 2013.

Conclusion

The functioning of the internal control systems has been closely monitored throughout the year by the systematic registration of exceptions (under 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.

In relation to those issues concerning doubts about the reliability of the Belgian clearance and accounting procedures and system and thus on the correctness of the (Belgian only) TOR amounts transferred to the EU budget, the reservation issued in the 2011 and 2012 AAR is now lifted (see details below). For year 2013, for TOR, VAT and GNI resources reasonable assurance can be drawn.

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 reported in 2013. 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.

Follow-up of previous year's reservations

Actions taken in relation to the reservation issued in BUDG's AARs 2011 and 2012 concerning the reliability doubts on the Belgian clearance and accounting procedures and thus on the correctness of the TOR amounts transferred to the EU budget

<u>Action taken by the Belgian authorities in 2013</u>

<u>External audit of the accounting system</u>

The full audit consisting of three stages was finalised in July 2013 and its results checked on-the-spot by BUDG in June and September 2013 in the presence of the external auditor. The audit results for the three parts were accepted by BUDG considering the high quality of the audit work done and because no shortcomings were detected in its review.

Overview of the audit results:

Part IA: Full financial audit on the TOR accounts and TOR amounts made available to the Commission for 2008-2010. The auditor's opinion states that the TOR bookkeeping and the resulting amounts transferred to the Commission are free from material error. The materiality criterion used was 2 %. Some findings with lesser financial impact (mainly following the migration from the old to the new clearance and accounting system in 2008) will be further followed-up by BUDG through its inspection report 13-0-1, Part I and II.

Part IB: Verification and certification of the Belgian refund claim of EUR 169 million gross (following an IT system error, resulting in a double booking of customs duties in cas of an annulment of a customs declaration and its replacement by a rectifying one). The auditor concluded that the refund claim was free from material error and its calculation reliable without any reservation. The Belgian authorities were formally authorized by BUDG to debit the Commission account with about EUR 126.5 million net. The debiting took actually place in July 2013. The refund could be implemented before complete audit results were available as the second and third part of the audit had no link with the years 2008-2010 in which the system error took place.

Part II: IT audit of the accounting system based on a replica of the IT system as it stood end December 2012 (latest updated version). The aim was to test the IT system on commonly accepted accounting principles. The audit results showed that the accounting system is vulnerable and exposed to a series of risks that would have serious impact on the reliability and the exhaustiveness of the accounting data if those risks materialize. However, only one risk was found to be effectively materialized (IT system error allowing customs duties to be annulled twice leading to a potential double refund of duties). Four major findings were listed but they can be summarized as absence or insufficient automated coherence and consistency controls and the fact that some processes are not yet automated and therefore not supported by the IT application. The remedial recommendations issued by the external auditor come down to reinforcing automated controls within the IT system through integration of the manual checks currently done to mitigate the risk exposure and by automating parts of the accounting and reporting processes which are at present done manually.

A detailed and complete action plan was drawn-up by the Belgian authorities to implement the audit recommendations. This action plan was welcomed by BUDG but it needs to be complemented with implementing deadlines and the various actions listed should be prioritised in accordance to quantified risks levels.

Part III: Clearance of the 2011 accounts of the Customs administration by a chartered accountant. The accounts were certified as being considered free from material error. There were some minor findings but without impact on the EU budget.

Overall conclusion:

The audit results were encouraging and considerable progress has been made. However, works remains to be done or completed as regards:

- effective internal controls on the monthly closure of the accounts and the TOR statements
- the upgrade of PLDA allowing complete automated closures of the accounts and related statements
- the implementation of the external auditor's recommendations on the accounting system.

Anyhow, the assurance level on the reliability of the accounts and the amounts transferred to the EU budget appears to be comparable now with that of the other Member States and the same may be said for the residual risks for which mitigating measures remain to be taken.

Action undertaken by BUDG.B3

An on-the-spot review of the audit results took place in June and September 2013. Further follow-up of the audit results will be assured through Commission inspection reports 13-0-1on parts I and II that were sent for observations to the Belgian authorities in July and October 2013. The Commission's general findings in inspection reports 09-0-2 and 13-0-1 on the Belgian accounts is kept pending further progress on the three interwoven issues mentioned under the overall conclusion and analysis of the Belgian observations to report 13-0-1 which were received on 7 January 2014. That report, the Belgian observations and BUDG's analysis will be on the agenda of the July 2014 ACOR meeting.

Action undertaken by the ECA

The ECA carried out an audit on the accounting system in February 2013 in the framework of DAS 2012. The ECA could reconcile the A account statement of February 2013 with the underlying accounting records and the sums transferred to the Commission. The result of the latest ECA audit was in line with the on-the-spot inspection done by BUDG in December 2012 for which inspection report 12-0-2 concluded that the systems and procedures for the establishment, accounting, and making available of TOR related to the last submitted monthly (September 2012) and quarterly (third quarter of 2012) A&B account statements were generally compliant with the relevant EU legislation.

Conclusion and likely evolution

Though much work remains to be done, considerable progress was observed in 2013 and the audit results appeared to be better than initially expected. Close follow-up by BUDG will continue through inspection report 13-0-1. For BUDG top priority should be given to the full automation of the monthly closure of the accounts and the related accounting statements sent to the Commission together with the implementation of the audit recommendations following the IT audit performed.

However, the audit results and the inspection/audit by BUDG and the ECA performed end 2012 and early 2013 show that the remaining potential financial impact is definitely below the materiality threshold (1 % of 2013 TOR). Considering the above and the fact that the Belgian authorities are cooperative in resolving the remaining shortcomings (follows clearly from their observations to inspection report 13-0-1), **the existing reservation in the Director-General's declaration of assurance will be lifted.**

Further follow-up will be guaranteed via the normal channel i.e. through Commission inspection report 13-0-1 and thus BUDG supervision on the implementation by the Belgian authorities of the requested actions therein.

As a conclusion, the AOD of BUDG has obtained reasonable assurance for the budget delegated to him as well as for the Communities' own resources.

4.2 Reservations and overall conclusion on assurance

n/a

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of DG BUDG

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[21]*.*

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, 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, 31/03/2014

"Signed"

Hervé JOUANJEAN

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