



2015 Annual Activity Report

DG BUDGET



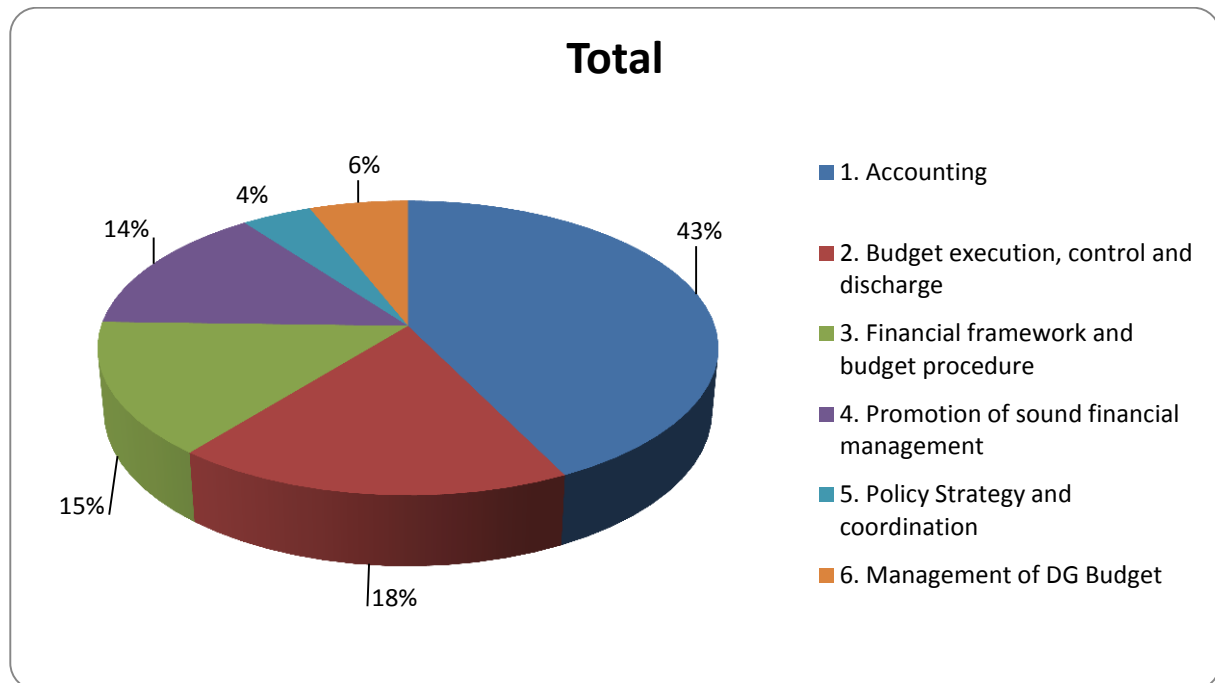
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INTRODUCTION

The DG in brief

DG Budget (hereafter BUDG) has approximately 490 staff members including contract agents. It is structured around five Directorates based in Brussels, which deliver results in four operational activities: (i) Accounting, (ii) Budget execution, control and discharge, (iii) Financial framework and budget procedure, and (iv) Promotion of sound financial management. The Deputy Director-General is the Accounting Officer of the Commission.



The Treaty (Article 17(1) TEU) provides that the Commission shall execute the budget and manage programmes. More specifically Articles 310 to 325 included in Title II of the TFEU detail the Financial Provisions for the European Union and determine BUDG's mission and responsibilities.

The Accounting Officer manages the central treasury and prepares both the Commission and the EU consolidated accounts. To do this, BUDG controls the accounting data produced by the different DGs or bodies. The accounts are prepared via ABAC, the Commission's corporate financial/accounting system. BUDG is the system owner and provides support to all 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.

Beyond its own operational responsibilities, BUDG is the domain sponsor of the financial management community inside the Commission. As a horizontal service, it leads a number of workstreams and projects and provides support, advice and tools to all other DGs, to other institutions and to the Agencies, to enhance coherence and efficiency in the implementation of the EU budget.

BUDG leads the initiative 'EU Budget Focused on Results' at Commission level. This initiative is a collective commitment of the DG embedded in all its operations.

Expenditure executed by BUDG is exclusively administrative. The budget 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 centralized financial circuit is in place.

BUDG is the central service of the European Commission leading the management of the EU budget throughout the annual and multiannual cycle; from the preparation of the draft budget and Multiannual Financial Framework to its implementation and the final discharge by the European Parliament. The DG is also responsible for the legal framework applicable to the implementation of the EU budget by the different institutions, agencies and Member states, and it plays a key role in promoting sound financial management and a performance culture that focuses on maximizing the results on the ground of public expenditure.

The main tasks in BUDG's mission are:

- **Driving the process of strategic budgetary planning, leading an effective financial programming within the Multiannual Financial Framework and ensuring the smooth operation of budgetary procedures** through a constructive dialogue with the two arms of the Budgetary Authority. Within the Multiannual financial framework, BUDG ensures that the budgetary dimension is considered in all policy initiatives and/or legislative actions.
- **Driving the annual budgetary process with a view to ensuring that the budgetary authority provides the resources needed to implement the European Union's policies.** BUDG prepares the budgetary proposals presented by the Commission and follows them through until adoption by the budgetary authority, the European Parliament and the Council of Ministers. It also prepares Commission decisions on the allocation of resources to the Commission Directorates General and Services¹.
- **Managing the Union's own resources** and coordinating the related regulation, notably for the three main categories: traditional own resources (TOR, i.e. custom duties and sugar levies), VAT and GNI-based resources. The DG manages financial flows with Member States and checks that own resources are properly collected. It also provides the core support to the High level Group on Own Resources established by the Parliament, the Council and the Commission in order to reflect on the future of EU financing.
- **Drawing up the annual accounts of the EU and the Commission (as well as certain other institutions/bodies).** The EU annual financial statements are prepared by BUDG on the basis of a modern accounting framework following generally accepted international standards (IPSAS), as well as reliable and relevant financial reporting to all stakeholders.
- **Providing support to the Commission services and other bodies in the implementation of the EU Budget** in compliance with the regulatory framework. Under the responsibility of the Commission's Accounting Officer, BUDG manages the central treasury and ensures the execution of payments for all authorized Commission expenditure and of recovery orders backed up by an efficient and reliable corporate IT system for financial management and accounting (ABAC).
- **Promoting sound financial management.** As domain sponsor of financial management inside the Commission, the **Central Financial Service (CFS)** within BUDG provides formal guidance, advice and training to Commission services and other institutions for strict and efficient financial management. It is in charge of the budgetary regulatory framework for the establishment, the implementation and the control of the budget, in particular the Financial Regulation. BUDG also promotes

¹ 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.

sound financial management by assisting Member States and candidate countries to improve their public internal control systems

- **Driving the EU budget focused on results initiative:** As a complement to its role to promote compliance with the legal framework, BUDG is leading the "EU budget focused on results" strategy of the Juncker Commission. This strategy is based on the different actions and processes to increase the focus, speed and impact of the EU Budget.
- **Reporting on the implementation of the budget, cooperating with the European Court of Auditors (ECA), the European Parliament and the Council, and coordinating the action of the Commission in the context of the discharge of implementation of the budget.** Furthermore, BUDG supports an appropriate follow up to the recommendations of the ECA, as well as the Discharge recommendations from the European Parliament and the Council, with a view to improving the management and control of community funds, both at the EU and at national level.

EXECUTIVE SUMMARY

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

a) Policy highlights of the year (executive summary of section 1)

Strategic budgetary planning: Multiannual Financial Framework (MFF) and annual budgeting

The **annual budgetary process in 2015** has been marked by the phasing out of payment shortages, the adoption of the programmes for the new programming period, the agreement and launch of the European Fund for Strategic Investment (EFSI) and providing a response to the three crisis that unfolded in the course of the year: the Greek debt crisis², the worsening market conditions for certain food products, partly due to the Russian ban on exports and finally the security challenges and the unprecedented refugee crisis.

In the course of 2015 BUDG contributed to **bringing the EU Budget back on a sustainable path**, in particular via the progressive elimination of the shortage of payment appropriations that hindered the proper implementation of EU programmes in the previous two years. On the basis of an analytical paper produced by BUDG, Parliament and Council agreed on a 'Payments Plan' in order to ensure an orderly payment of the outstanding bills from the 2007-2014 programming period by the end of 2016, in particular for 'cohesion' policy (heading 1b). The actual result at the end of 2015 indicates a phasing out of the payments shortage even quicker than planned as some Member States did not send payment claims at the end of 2015 as announced initially in their forecasts.

A revision of the MFF 2014-2020 to transfer funds not used in 2014 to subsequent years was required in order to adopt pending programmes under shared management³. This **reprogramming** was successfully carried through on the basis of the Commission proposal of 20 January 2015. The amendment of the MFF Regulation was adopted by Council on 21 April 2015 after having received the consent of the European Parliament⁴. This allowed for the adoption of all programmes by the end of 2015.

2015 also saw the start of intensive **preparatory work on the MFF midterm review to be presented in 2016**. Under the leadership of SG and BUDG various work streams were set in motion gathering contributions from all services concerned on the wide range of areas to be covered by the review. BUDG carried out the preparatory work, notably on issues such as flexibility, simplification, financial instruments and conditionalities in line with the priority areas identified under the Budget focused on results strategy. The payments forecast model which will be crucial to underpin the assessment of the sufficiency of the MFF payments ceilings up and until 2020 was further developed and is

² for which a reinforcement of payments was agreed to ensure project implementation on the ground

³ Financed from the European Regional Development Fund, the Cohesion Fund, the European Social Fund, the European Agricultural and Rural Development Fund, the European Maritime and Fisheries Fund, the Asylum Migration and Integration Fund and the Internal Security Fund.

⁴ OJ L 103, 22.4.2015, p. 1.

being regularly updated, in parallel with the upgrading of the economic analysis capacity of the DG.

Beyond the implementation of the MFF, BUDG contributed to a renewed thinking about how to improve the value-added and performance of the EU budget which should focus on policy priorities and reinforce its contribution to growth and jobs.

Parliament and Council **adopted all the 7 amending budgets** proposed by the Commission in the course of 2015 which aimed at the re-programming under shared management⁵, the creation of the budgetary structure for the provisioning of the guarantee for the new European Fund for Strategic Investments (EFSI)⁶ and to mobilise the European Union Solidarity fund to cover part of the cost of floods in Romania, Bulgaria and Italy⁷.

The Commission also proposed two amending budget to address the growing refugee crisis in order to reinforce the Union's resources to manage migration and refugee flows⁸. Also to take further immediate measures, including the reinforcement of the emergency assistance provided under the AMIF and ISF⁹, of the capacity of FRONTEX, EASO and EUROPOL and of the funding for the European Neighbourhood Instrument so that the EU Regional Trust Fund in response to the Syrian crisis ('Madad Fund') could reach at least EUR 500 million.

In addition to substantial redeployment, the EUR 331 million reinforcement in commitment appropriations was achieved by using the existing margins under the expenditure ceilings of heading 3, as well as by mobilising the Flexibility Instrument (EUR 66 million).

The other two amending budgets were agreed on the revenue side in order to budget the surplus resulting from the implementation of the 2014 budget¹⁰ and to include a revision of the forecasts of Traditional Own Resources with related adjustments in the breakdown of contributions by Member States.¹¹

Thanks to a rigorous monitoring of implementation, substantial redeployment efforts and positive developments on the revenue side, **the additional expenditure in 2015 did not require any additional call of own resources** from Member States, and it was even possible to decrease the overall contributions initially budgeted for 2015.

The decision-making process in Council and Parliament was characterized by loyal and effective inter-institutional cooperation which greatly contributed to the successful conclusion of the **budgetary conciliation on the 2016 budget** focused on reinforcing the available means to tackle the refugee crisis as well as on boosting jobs, growth and investments.

Through close monitoring, redeployment, transfers, and carry overs, BUDG contributed to ensure practically **full implementation of the 2015 budget** (99.9% both for commitments and payment appropriations)

⁵ AB No 1 of EUR 16.5 billion in headings 1b, 2 and 3 of the MFF

⁶ AB No 2 of EUR 1.4 billion

⁷ AB No 4 of EUR 67 million

⁸AB No 5 : redeployment of available appropriations and increase of EUR 76 million

⁹AB No 7 of EUR 100 million for AMIF and ISF, additional posts (FRONTEX-60 posts, EASO-30 posts, EUROPOL-30 posts), EUR 300 million for European Neighbourhood Instrument.

¹⁰ AB No 3 - EUR 1.4 billion surplus entered as revenue in the 2015 budget

¹¹ AB NO 6

Management and control of the revenues

The European Court of Auditors (ECA) considered that the Commission's control systems for GNI and the VAT-based own resource were effective and those for Traditional Own Resources (TOR) overall effective. It confirmed that no errors were found in the transactions tested and thus that **revenue, in general, is not affected by a material level of error.**

The allocation of own resources is still made in accordance with the rules laid down in the Council Decision No. 2007/436/EC, Euratom of 7 June 2007 on the system of the EU's own resources (ORD 2007). A **new Council decision No 2014/335/EU**, Euratom of 26 May 2014 establishing the system of the EU's own resources (ORD2014) has been adopted for the 2014-2020 period. This Decision **will enter into force after it has been ratified by all Member States** according to their constitutional rules (expected in 2016). Until then, the ORD 2007 remains valid. The retroactive effects (the ORD 2014 will apply from 1 January 2014) will be taken into account in the budgetary year when the decision will enter into force.

On 14 September 2015 a **Commission proposal to amend the 'Making Available Regulation'** No 609/2014, which implements the Own Resources Decision, was adopted. It addresses, inter alia, the late interest (as announced in a joint declaration made in the course of adoption of the Own Resources legislative package in 2014) and a revised calendar and process for the yearly GNI and VAT balances.

BUDG has contributed to the reflection on the future of EU financing through the coordination of the secretariat of the **High Level Group on Own Resources** and support to its Chairman. It has also ensured coordination within the Commission via the internal network set up for this purpose.

EU Accounts

Maintaining the **positive opinion on the accounts from the European Court of Auditors** for the eighth consecutive time was a major achievement in 2015. BUDG continued to reinforce its international stance as a high quality public sector accountant, contributing actively to tasks and debates such as the IPSAS Board, EPSAS project and other conferences and events.

The **Communication on the protection of the EU budget** adopted in 2015 gives a comprehensive view of the preventive and corrective measures taken by the Commission during 2014 to protect the EU budget from irregular expenditure. Additionally, the communication also analyses the evolution of the financial corrections and recoveries during the previous years by policy heading and compares them to the payments executed.

During 2015, BUDG made a particular effort to demonstrate to the discharge authorities, and the general public, the role of these corrections in terms of providing an appropriate protection of the EU budget within a multi-annual expenditure cycle allowing the estimated level of error to be put in the appropriate context.

Treasury and recovery of funds management

Within the context of the difficult economic and financial environment, the efforts of consolidation in public finances and the high level of payment needs, the **regular and effective monitoring of the treasury** situation remained challenging in 2015.

Furthermore, the financial environment became increasingly critical in view of the persistence of a negative interest rate situation. Variables such as the rhythm and amount of payment requests from beneficiaries (Member States in particular), the variances in the amount of cash resources actually received compared to forecasts, negative remuneration, the evolution of traditional own resources, and the time taken for the adoption of amending budgets all had a direct impact on the availability of funds and the management of the treasury during 2015. Regular cash forecasts from the Authorising Officers helped to monitor the situation and to limit spending in the first months of the year.

Finally, during 2015 BUDG maintained a focus on the risk management for provisional fines cashed and bank guarantees received.

Accounting financial System (ABAC).

2015 has been a challenging year due to several necessary adaptations to take into account new business objectives, primarily: supporting the Commission re-organization; new Financial Regulation provisions concerning the new exclusion database (see next section); providing service to two new external entities and two trust funds which were created. Moreover, important steps have been taken to prepare the revision of the ABAC architecture and a few features were developed in ABAC to improve the efficiency of some existing business processes.

Financial rules

In 2015 BUDG successfully negotiated with the EP and the Council the **adoption of the alignment of the Financial Regulation to the 2014 EU Directives on public procurement**. The new rules also ensure a better protection of the Union's financial interests: as from 1 January 2016 a new Early Detection and Exclusion System (**EDES**) is in place. A specialised central panel may recommend the exclusion of unreliable companies and individuals from accessing EU funds. This exclusion may be made public. Financial penalties may also be imposed in certain cases. While the rights of defence of such companies or individuals are guaranteed, the new rules allow much swifter action than now, effectively showing a red card to those applying for EU funds who are involved in fraud or corruption.

Work on simplification has also progressed with the preparation of the **re-launch of the Simplification Scoreboard**. For the first time, simplification in the implementation of the budget will be monitored not only at the level of the Commission but also at the level of the Member States (shared management). Work has also continued in the area of simplification of financial rules in view of the preparation of a simplification package together with the Mid-Term Review of the MFF.

EU budget focused on results

In a time of increasing pressure on Member States finances, all budgets are under close scrutiny. Against this background, the **new initiative "EU Budget Focused on Results"** was launched during 2015 with the objective to build on the mechanisms embedded in the new Multiannual Financial Framework so as to ensure progress on three axes:

- reinforced alignment with political priorities (focus)
- effectiveness in implementation (speed) and
- positive impact on the ground (results): Where we spend, how we spend, how we are assessed and how we communicate.

2015 has been the year laying the logic and the structure of the initiative: Vice-president Kristalina Georgieva has led and promoted the initiative at political level. The **governance structure has been set up** with the creation of the Network of Commissioners for political endorsement and to steer the Inter-service working group for technical coordination and operational support.

The outreach to stakeholders and Member States found its pivotal moment in the **BFOR Conference on 22 September 2015** which showed the strong interest of stakeholders in the developments of the EU budget and validated the direction taken by the Commission with a greater focus on results. Meetings at Member States level were organized to raise awareness on the topic.

Preparatory work was carried during 2015 to start up an **expert group on performance-based budgeting** in the EU budget in early 2016. It will aim at establishing a common understanding on the methods and principles of performance-based budgeting applicable to EU budget and possible improvements to the existing framework.

During 2015, BUDG launched the "EU Budget for results" project database ("EU results app")¹² which aims at demonstrating concrete results achieved thanks to EU budget through the presentation of 720 EU funded projects so far.

Annual discharge of the Commission in the implementation of the EU budget

In April 2015, the European Parliament, on the basis of a recommendation by the Council, **granted discharge to the Commission for the 2013 financial year**.

As part of the **discharge procedure for the 2014 financial year**, hearings of Commissioners in the European Parliament started in December 2015 and continued until the end January 2016. The European Parliament will vote on the discharge in the plenary session end of April 2016. On 12 February 2016 the **Council proposed to grant the discharge to the Commission**.

The ECA's audit process of the 2014 budget finished with an overall error rate of 4.4% (which has been stable over the last three years). Across the 6 policy areas, 3 chapters had an increased error rate, 2 had a decreased error rate, and the revenue chapter remained at 0% error. Efforts to reduce error rates in budget implementation will continue with a view to reaching cost-benefit equilibrium.

¹² http://ec.europa.eu/budget/euprojects/search-projects_en

In 2015, the Commission has stepped up its efforts to show how it protects the budget: it included in its Synthesis report a Commission-wide estimation of the amount at risk alongside the estimated future corrections (i.e. financial corrections and recoveries expected to result from controls implemented after the payment). This progress was recognised by the Court of Auditors: it found that most directorates-general for direct and indirect management applied the new methodology for estimating amounts at risk consistently and that shared management directorates-general had adjusted data provided by national authorities to improve reliability. Furthermore, the Court also reported that the Commission improved the calculation of corrective capacity.

Public Internal Control Task Force

In 2015, the PIC Task Force organised, in cooperation with the French Ministry of Finance and Economy, a successful **EU-28 conference on Public Internal Control**. Input to the conference, in the form of Position/Discussion Papers on key Internal Control and Internal Audit topics, was firmly endorsed by all participants. For the next conference, the PIC Task Force intends to widen the scope to also include the strengthening of management and control systems for EU funds subject to shared management.

BUDG Publications in 2015

BUDG produces a number of paper and e-publications addressed to both general and specialised public which aim at providing a more clear and transparent information on the EU budget. More details on the specific publications finalised during 2015 are provided in Section 1.

b) Key Performance Indicators

<u>Specific Objective</u>	<u>Indicator</u>	<u>Target</u>	<u>Result 2015</u>
Ensure appropriate and full budgetary implementation¹³	Degree of budget implementation	Full (100%) budget implementation making use of transfers and carryovers	Appropriate 99.9% implementation of Budget 2015 after carry-overs, both for commitments and payment appropriations
Obtain the discharge resolution by EP with no postponement or reservations	Positive discharge resolution with no postponement or reservations	Getting the discharge in the 2015 April EP plenary	The European Parliament granted discharge to the Commission in April 2015.
Adoption of Annual budget within the deadlines set by the Treaty , respecting the political priorities and promoting efficient allocation of resources	Commission adopts Draft Budget 2016 within the deadlines set in the Treaty	Commission adopts Statement of Estimates by 4 June 2015 and Draft Budget 2016 (all languages) by end June 2015	The Statement of Estimates was adopted by Commission on 27 May 2015 and the Draft Budget 2016 on 24 June 2015.
	Budget Authority adopts Budget 2016 according to schedule	Budget Authority adopts Budget 2016 by mid-December 2015	The conciliation committee concluded its work successfully on 14 November and the budget was adopted by Parliament on 25 November 2015.
Confirmation by ECA of the reliability of the annual accounts	Obtain a positive DAS	Positive DAS on 2014 Accounts in November 2015	Positive DAS for 2014 accounts granted by European Court of Auditors (ECA)
Support the Commission services and other bodies in the implementation of the EU budget in line with Sound Financial Management principles	Feedback received on the quality of services rendered by Central Financial Service	Maintain 2014 score	Score 2015: 4,2 out of 5 points (same as in 2014)
Effective and reliable internal control system	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 2015 administrative budget implementation	Target achieved: Error rate below 0,5%
		Positive DAS Opinion on Own resources for 2014 exercise	Positive opinion by ECA: EU revenue not affected by a material level of error.

¹³ In line with agreed budget (annual and MFF), financial planning and promoting efficient use of resources.

c) Key conclusions on Management and Internal control (executive summary of section 2)

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

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

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

The Director General, in his capacity as Authorising Officer by Delegation, has signed the Declaration of Assurance.

d) Information to the Commissioner

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

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

ABB activity: Financial framework and budget procedure

Establish a budget of good quality within deadlines respecting the Commission's priorities

The **procedure for the budget 2016** was complex but can be considered as a model of what should be a successful decision-making process under the Lisbon treaty. The Statement of Estimates of the Commission was adopted by the College in May-15 as planned, after the completion of the difficult negotiations on the 'payment plan', and a few days ahead of the completion of the negotiations on the legal base of the European Fund for Strategic Investments (EFSI). The result of these negotiations was rapidly integrated in June-15 through amending letter No 1.

The rapid implementation of the European Fund for the Strategic Investment (EFSI) required the recourse to the Global Margin for Commitments (GMC), which was integrated through amending letter No 1, just after the agreement on the EFSI legal act. Moreover, the DB 2016 already scaled up the measures to address the looming refugee crisis. As the refugee crisis deepened, the Commission proposed a further EUR 1.5 billion reinforcement through amending letter No 2. At the same time, the budget 2016 accommodated a EUR 1 billion frontloading of payments to provide, liquidity relief to Greece and exceptional measures to help farmer to overcome difficulties in the milk sector.

All the Commission proposals for the draft budget 2016, focused on boosting jobs, growth and investments, were agreed by Parliament and the Council without unnecessary delays. Negotiations were intense but made in a constructive climate up to the successful conclusion of the budget conciliation on 14 November 2015, four days before the deadline and the budget adoption on 25 November 2015. The **final agreement on the 2016 budget is very close to the initial Commission proposal** both in commitments and payments. In particular it retains all the proposals made to address the migration crisis.

BUDG successfully assessed the budgetary implications of the new legal acts/Commission decisions or amendments of existing legal acts through the Inter-Service consultations (ISC) by replying on time to practically all the 2.800 consultations received. BUDG also ensured through these consultations the respect of the MFF regulation.

The technical Adjustment of the MFF for 2016 was adopted on 22 May 2015 and for the first time included the calculation of the Global Margin for Commitments and the Global Margin for Payments provided for in the MFF Regulation 1311/2013.

The forecasts were delivered timely following the meeting of the Advisory Committee on Own Resources (ACOR) on 19 May 2015.

Strategic budgetary planning: frame spending within short and long term financial framework

2015 saw the effective launch of the **preparatory process for the MFF mid-term review/revision**. Based on preparatory work made by BUDG, presenting the concept, scope and outline of the review, the internal coordination process was launched with a first meeting of the Core Group on 21 May 2015 and a questionnaire sent to all services in July. A number of Core Group meetings were organised on thematic issues (flexibility, simplification, financial instruments) as well as on policy areas (jobs and growth, migration, external action).

The **medium and longer-term payment forecasts** will be a crucial element underpinning the Commission's proposals under the mid-term review/revision in terms of assessing the sufficiency of payment ceilings up and until 2020. For that purpose, a fully functional payment model distinguishing scenarios for main spending areas has been set up and is being regularly updated.

During 2015 support has been granted to the **High Level Group on Own Resources** (HLGOR) by providing timely and high-quality preparatory work and assistance to its Chairman, M. Monti, by the setting up of a network of correspondents from most concerned DGs and by successfully organising regular meetings responding to the ad-hoc requests of the HLGOR.

As regards the implementation of the 5% staff reduction target for EU agencies as set out in point 27 of the Inter-Institutional Agreement of 2 December 2013, work continued in the framework of the **Inter-Institutional Working Group on resources of decentralised agencies** (IIWG), notably in the context of the third IIWG meeting on 15 September 2015, for which the Commission prepared two *analytical fiches* on (1) the evolution of the number of agency posts 2014-2020 and (2) the treatment of new tasks assigned to agencies.

ABB activity: Budget execution, control and discharge

Make sure that budgetary implementation follows forecasts and effective use of resources principles.

The second half of 2015 was characterized by the unfolding of the **migration/refugee crisis**. The Commission responded with the mobilization of all the necessary resources in 2015 and 2016. The Commission proposed in addition to the two successive amending budgets(as detailed below), the full mobilization of the flexibility instrument for 2016 through amending letter No 2.

Parliament and Council adopted all the 7 amending budgets proposed by the Commission in the course of 2015, out of which 5 on the expenditure side which aimed to:

- re-programming in 2015 of EUR 16.5 billion under shared management (in headings 1b, 2 and 3 of the MFF) which had not been adopted by the end of 2014 (AB No1)
- creating the budgetary structure for the provisioning of the guarantee for the new European Fund for Strategic Investments (EFSI), with the budgeting of EUR 1.4 billion (AB No 2)
- mobilising the European Union Solidarity Fund (EUSF) providing EU financial solidarity (EUR 67 million) to cover part of the cost of floods in Romania, Bulgaria and Italy (AB No 4)
- address the growing refugee crisis by:

- reinforcing the Union's resources to manage migration and refugee flows, further to the developments in the Southern Mediterranean (AB No 5). In particular through additional appropriations for the FRONTEX agency, the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF). That was achieved through redeployment of available appropriations and an increase of EUR 76 million in commitment appropriations.
- further immediate measures (AB No 7), including a reinforcement of emergency assistance provided under AMIF and ISF (EUR 100 million), reinforcing the capacity of FRONTEX (+ 60 posts), EASO (+ 30 posts) and EUROPOL (+ 30 posts), additional funding for the European Neighbourhood Instrument (EUR 300 million), so that the EU Regional Trust Fund in response to the Syrian crisis ('Madad Fund') could reach at least EUR 500 million.

In addition to substantial redeployment, the EUR 331 million reinforcement in commitment appropriations was achieved by using the existing margins under the expenditure ceilings of heading 3, as well as by mobilising the Flexibility Instrument (EUR 66 million).

The other two amending budgets were focused on the revenue side to:

- budget the surplus (EUR 1.4 billion) resulting from the implementation of the 2014 budget, which was entered as revenue in the 2015 budget (AB No 3)
- include a revision of the forecasts of Traditional Own Resources, with related adjustments in the breakdown of contributions by Member States (AB No 6)

The reprogramming made possible the adoption, by the end of 2015, of the programmes under shared management¹⁴ not adopted in 2014. A **revision of the MFF 2014-2020 to transfer funds not used in 2014** to subsequent years was required. This was successfully achieved on the basis of the Commission proposal of 20 January 2015 and adopted by the Council on 21 April 2015 after having received the consent of the European Parliament¹⁵.

On the basis of an analytical paper produced by BUDG, **Parliament and Council agreed on a 'Payments Plan'** in order to ensure an orderly payment of the outstanding bills from the 2007-2014 programming period by the end of 2016, in particular for 'cohesion' policy (heading 1b). The actual result at the end of 2015 points at a phasing out of the payments shortage even quicker than planned as some Member States did not send payment claims at the end of 2015 as announced initially in their forecasts.

The significant increase in expenditure was achieved without requiring additional contributions from Member States. Practically full implementation (99.9%) was achieved at the end of 2015, both in commitments and payments.

The EUR 11 billion carry-over of commitments from 2014 (in conformity with Article 13 § 2a of the MFF Regulation) concerned the shared management programmes whose adoption was nearly completed by end-2014. All the 46 transfers were adopted by Parliament and Council as proposed by the Commission.

BUDG regularly informed the Council and Parliament on the state and outlook of budget implementation, feeding the inter-institutional meetings foreseen for this purpose, and thus providing a sound basis for the budgetary discussions.

¹⁴ Financed from the European Regional Development Fund, the Cohesion Fund, the European Social Fund, the European Agricultural and Rural Development Fund, the European Maritime and Fisheries Fund, the Asylum Migration and Integration Fund and the Internal Security Fund

¹⁵ OJ L 103, 22.4.2015, p. 1.

Efficiently and effectively manage and control the Union's own resources

The European Court of Auditors (ECA) considered that the Commission's control systems for GNI and the VAT-based own resource were effective and those for Traditional Own Resources (TOR) overall effective. It confirmed that no errors were found in the transactions tested and thus that revenue, in general, is **not affected by a material level of error**.

For what concerns **TOR**, the **inspection programme was implemented satisfactorily** even though a few inspections were cancelled. The ECA had indicated in its 2014 Annual Report that in its visits to Member States it found similar problems than in previous years concerning the management of the B accounts indicating therefore systematic weaknesses. Hence, the inspection programme 2015 once again focused on the B account and the corrections of the A account, which was examined in all Member States visited.

In addition to this general topic, the following topics were examined in specific Member States:

- reliability of the normal and separate account statements
- management of tariff suspensions and quotas
- management of preferential tariff measures
- treatment of goods from their entry in the EU until their assignment to a customs-approved treatment use, the control strategy in the field of customs value and the follow-up of different findings raised in previous inspections.

For the Member States which participated in the Audit Pilot project on the TOR A&B accounting, the inspections covered the assessment of Audit Pilot's results.

Finally, for two countries, the inspections were carried out under the Joint Audit Arrangement, according to which Member States perform an audit on a specific topic, which is then checked by the Commission in its own inspection.

Management of Member States' own resources payments

In 2015, Member States made available on time their monthly contributions. In 2015 the size of the **adjustment for the VAT and GNI balances** was EUR 1.4 billion for all EU Member States. This is a fraction of the exceptional adjustment which was calculated in 2014 and that amounted to EUR 9.5 billion for all EU Member States.

The Budgetary Authority adopted on 25 November 2015 the Amending Budget(AB) n° 8/2015 having as main purpose to respond rapidly to changes in the budget and to have in place only the required contributions to finance the 2015 EU Budget. Apart from the 2015 balances, this amending budget included, inter alia, the exceptional deferred 2014 VAT and GNI balances for an amount of EUR 5.7 billion.

Nevertheless the Commission is seeking to simplify the balances procedure. A proposal has been made to **amend the Making Available Regulation**. The key element of the Commission proposal is to remove uncertainty with regard to when the VAT & GNI rebalancing will take place by removing the need for an AB. This means that the timing of payments to and from Member States would be predictable (1 June), transparent (advance warning of at least 4 months instead of 6 weeks), and simple (no more gross inflows and outflows of cash, just the net result).

On 4 February 2016 the Court of Justice declared invalid certain Regulations imposing anti-dumping duties on footwear. BUDG is currently assessing the financial impact and years affected by the Court decision but the best estimation available so far does not indicate that this event will have impact on the global assurance on Own resources collection for 2015. This event has been reflected in the Annual Accounts as a contingent liability.

Management of VAT exemption pursuant to PPI (Protocol of Privileges and Immunities)

As a center of competence, **BUDG replied to questions from all institutions** regarding VAT exemption. All the VAT recovery claims for 2014 were sent on time. In two occasions an offsetting had to be requested as 2 Member States did not fully reimburse the funds within the deadlines set. Possibilities to simplify are continuously explored, and in this context there were contacts with 5 Member States.

Control of the Union's traditional own resources (TOR)

For TOR, out of the 28 inspections of the 2015 programme, 24 were carried out as planned¹⁶. As a result, the topic 'control strategy in the field of customs value' was shifted to the 2016 inspection programme. As a whole, 30 reports were sent to the Member States in 2015 and 101 findings were communicated, of which 43 were of a financial nature. The **management of A and B accounts by Member States improved**. However shortcomings were still identified.

Treatment of Member State's write-off reports

In 2015 the amount of write-off reports received increased by 14.7% in comparison with 2014 (initial assessments and re-assessments). Although there was a slight decrease of initial assessments in comparison with 2014, this was overcompensated by the increase of cases for reassessment. In total 309 cases were assessed involving an amount of EUR 103.7 million. This also represents an increase of 9% of cases assessed in comparison with 2014 (284 cases, EUR 103.6 million).

Write-Off reports	2014	2015
Received	333	382
<i>Initial assessments</i>	<i>145</i>	<i>130</i>
<i>Reassessments</i>	<i>188</i>	<i>252</i>
Assessed	284	309

The result of the assessment during 2015 was that:

- ❖ In 35 cases it was accepted that the loss of TOR was due to reasons not attributable to Member States
- ❖ In 110 cases corresponding to an amount of EUR 28.4 million the loss was deemed attributable to Member States
- ❖ In 5 cases the reporting of the write-off was considered non-appropriate
- ❖ In 159 cases the assessment resulted in requests for additional information.

These figures are in line with the trends of 2014. There was a slight increase of refused cases but within the margin of normal fluctuation.

Control of VAT-based own resources: Reasonable assurance that Member States' VAT statements are correct and comply with OR regulations

BUDG ensures, with the assistance of DG TAXUD and Eurostat, under the terms of an agreement concluded by all three services, that the Member States calculate their VAT base for own resources with the greatest possible compliance with the provisions in force in order to obtain a VAT-based budget contribution from each Member State as correct as possible.

¹⁶ The inspection to Denmark was postponed at the request of the national authorities, the ones to Italy, Netherlands and Slovakia had to be cancelled for service reasons.

Twelve Member States were inspected as originally planned in 2015 (CZ, BG, EL, ES, PT, RO, NL, UK, FI, HR, LV and FR). Moreover, two shorter follow-up visits from earlier inspections were made to BE and IT. The inspection activity has resulted in a **reduction of outstanding reservations** from 107 to 81 in 2015, i.e. a reduction of 24%;

At present 25% of Member States have no reservations at all. Long-outstanding reservations are defined as reservations which have been in place for more than five accounting years. There are presently 11 such reservations, that represents 13.5% of all reservations. Four are set by Member States, three originate from the inspection activity, and another four relate to infringements. All inspection reports and subsequent documents in an inspection cycle are presented and exposed to peer reviews at the ACOR/VAT meeting which takes place in November of each year. At the 71st ACOR/VAT, on 12 November 2015, inspections to AT, DE, SK, MT, CY, BE, DK, IT, SE, LT and CZ were dealt with.

Control of GNI-based own resources¹⁷:

There is a division of responsibilities in the area of the GNI-based Own Resources. Eurostat is responsible for the checking of national GNI data and BUDG, in its capacity of authorising service for own resources, is responsible for drawing financial conclusions from the work carried out by Eurostat.

During 2015 the main focus of ESTAT control activity was the assessment of the work done by Member States to address their GNI reservations for the period 2002-2010. BUDG was in permanent contact with Eurostat contributing to find solutions for the issues identified and making sure that the letters to the Member States notifying of lifting of reservations were sent as soon as possible. In the April meeting of the GNI Committee, BUDG highlighted the importance of dealing with the outstanding reservations. The cooperation between all parties involved allowed a **reduction of 77% on the number of active GNI specific and transversal reservations** and having closed GNI revisions until 2009 in 20 Member States.

BUDG also gave full support to measures suggested by Eurostat to be introduced in the next verification cycle which aim at increasing even more the quality of the work done in this area. These measures include a formal risk analysis and increased cross country comparisons in particular areas. Also, the setting of reservations on different periods during the verification cycle giving shorter deadlines for Member States to address them and avoid this way having one single deadline for all reservations and for all Member States.

Ensure effective management of the relations with the Court of Auditors, the EP's Budgetary Control Committee (CONT) and the Council in the context of the discharge procedure

The **European Parliament granted on 29 April 2015** with an overwhelming majority discharge regarding the implementation of the 2013 budget by the Commission.

By doing so, the Parliament recognized the high complexity linked to the implementation of about 150 billion € of payments in very diverse policy areas, Member States and Third Countries. It gave credit to the Commission's efforts in further improving the performance culture and the actions in the field of preventive and corrective capacities which protect the EU's taxpayer's money. In fact, the figures on financial corrections in 2013 were high: 3.4 billion euro was corrected, which is an equivalent of 2.3% of the EU

¹⁷ In accordance with Memorandum of Understanding notify Member States of the setting, lifting or variation of reservations for GNI OR, attend all GNI Committee meetings and produce internal report of key points.

budget payments made in 2013. The financial corrections in the last 5 years averaged 2.9 billion euro per year (2.2% of the average payments made from the EU Budget).

The ECA's audit process of the 2014 budget finished with an overall error rate of 4.4% (which has been stable over the last three years). Across the 6 policy areas, 3 chapters had an increased error rate, 2 had a decreased error rate, and the revenue chapter remained at 0% error. Efforts to reduce error rates in budget implementation will continue with a view to reaching cost-benefit equilibrium.

BUDG has also delivered an exhaustive overview of its actions to **follow-up on the Parliament's and the Council's discharge recommendations** by drafting the Report on the follow-up to the discharge for the 2013 financial year.

Furthermore, **BUDG successfully coordinated the replies of the Commission services to the ECA** Annual Report for the 2014 financial year and its Special Reports. All efforts were made to respect the deadlines foreseen in the Financial Regulation (100% timely responses to Annual Reports and 85%¹⁸ in case of Special reports). BUDG was also responsible for organising the related Inter-service meetings, Inter-service Consultations and the adversarial processes.

Moreover, the Summary of Member States' replies to the ECA observations was timely delivered (before 28th February 2015).

BUDG organised in spring 2015 an evaluation exercise of the ECA adversarial process identifying potential improvements for future processes by launching a satisfaction survey. Over 80% of Commission services which participated in the survey expressed their satisfaction.

Furthermore, BUDG prepared the Commission services for the upcoming adversarial process with ECA related to its Annual Report 2014 by organising in June 2015 a Discharge Correspondents' Meeting.

Prepare candidate and applicant countries to correctly apply the EU own resources (OR) system

The Council decided on 16 December 2014 to **formally open the accession negotiations on acquis Chapter 33 with Montenegro** (ME). Immediately after its formal opening, BUDG started-up the OR technical assistance and monitoring programme. The first step was the distribution of the OR questionnaire that was completed and transmitted to BUDG mid-March 2015 in view of a workshop on the OR system held in June 2015. A detailed assessment report on the state of play of the OR preparations, including a needs assessment and measures to bridge the gaps was established on 26 June 2015 and sent to ME for comments. A consolidated version was sent to NEAR in August in view of the 2015 progress report on ME. Simulation exercises on VAT and TOR accounting were launched and discussed during the workshop. An action plan to build-up administrative capacity has been requested and a first draft was received on 1 November 2015. Once the plan is adopted by the ME government, three-monthly implementing updates will be requested allowing BUDG to evaluate the realisation of the commitments included in the action plan. The VAT simulation exercise (reconstruction of the statistical VAT base on the basis of the 2014 VAT receipts) was submitted in December 2015 (however very incomplete-more elaborated simulation is requested for end March 2016) and two twinning exercises have been approved allowing ME to benefit from Member States' practical experience and expertise in the OR field.

¹⁸ The indicator is calculated on the basis of all special reports received, including reports for which non-respect of the legal deadline is due to the adversarial procedure between the Court and the Commission being prolonged.

The **screening exercise with Serbia** took place in January (explanatory session) and March 2015 (bilateral session). BUDG provided to NEAR its input for the screening report in April 2015 and largely contributed to the draft EUCP, adopted by the Member States in October 2015. The screening report is now being discussed in Council. BUDG assists NEAR in the Council discussions on the report and contributes to drafting the EUCP. Depending on the timing of the formal opening of chapter 33 for accession talks, an own resources workshop could be held in Belgrade towards the end of 2016.

For **Cyprus**, BUDG is involved in the settlement talks by supporting the bi-communal ad-hoc Committee and the Structural Reform Support Service (SRSS). Operational meetings took place in December 2015 in view of presenting the own resources acquis to the two Cypriot Communities, to take stock of the needs gaps and to find out whether derogations or transitional periods will be needed for the correct application of the own resources system once the suspension of the acquis is lifted for the northern part of the Island. To this end, BUDG will be invited for an on-the-spot visit in spring 2016.

As in previous years, BUDG participated in the meetings of the Inter-service Group Enlargement and carried out the operational conclusions derived from these meetings, made various contributions to NEAR related to the 2015 Progress Reports and the Enlargement Strategy Paper and responded to various inter service consultations launched by NEAR.

ABB activity Accounting

Ensure a true and fair view of the EU accounts and of other entities under the responsibility of the EC Accounting Officer

The key objective of the accounting, which is to receive **a positive opinion from the European Court of Auditors (ECA) on the 2014 EU annual accounts**, was achieved. While this was the eighth consecutive time that a fully clean opinion has been received, the result is still a significant achievement as each year throws up new challenges and issues in the accounting area. With this clean opinion, the ECA certifies the reliability of the Commission accounting framework and system and clearly demonstrates that the EU is producing very high quality financial statements, more than comparable with any other public sector body in the world. Moreover, the 2014 accounts were greatly improved from previous years with the addition of a new element, the Financial Statement Discussion and Analysis (FSDA).

In addition, clean opinions were received on all the 7 other annual accounts prepared by BUDG during 2015.

The **Communication on the Protection of the 2014 EU Budget** was improved from the previous year, taking into account the feedback from the key users. This document demonstrates to the discharge authority the positive results of the Commission actions to prevent and correct errors and irregularities in order to ensure that the EU budget is spent according to the rules.

The project to provide various accounting services to the agencies and JU's continued in 2015 with further success. BUDG is currently providing these services to 4 agencies and 3 joint undertakings. An estimated four more bodies are expected to avail of these services in 2016. This project is a good example of efficiency gains across the different entities.

To allow the Accounting Officer to discharge his responsibilities, the **Accounting Officer validates the local systems** in the DGs and Services, and gives his agreement to the introduction or modification of such systems. Therefore, the validation activity reinforces and supports the assurance provided to the Accounting Officer in particular, and contributes to the quality of the internal control framework at the Commission in general.

Based on the work performed during 2015 and the follow-up of previous validation exercises, nothing has come to our attention to indicate that the financial management systems in the DGs and Services visited do not meet in a significant way the validation criteria drawn up by the Accounting Officer. However, attention is drawn to the weaknesses identified in some DGs which still require further action from these authorising services.

New developments for IT applications for the financial management of the new programming period were put into production in 2015. These applications promote increased automation and more embedded controls in ensuring the respect of applicable regulations. The stated purpose of some of these IT "standard solutions" is to benefit the whole family of DGs of a specific programme and policy (e.g. IT system SFC2014) or of a specific type of expenditure, such as grant management (IT suite SyGma). This allows for better use of resources, reduction of errors and standardisation of processes and procedures for the management of programmes under common legislation. Following the positive assessments of these new IT solutions the Accounting Officer agreed on the use of different functionalities of SyGMA and of SFC (for the management of structural funds and DG HOME).

Appropriate execution of EC Accounting Officer's tasks

Obtain positive opinions of the European Court of Auditors, Discharge Authority and IAS

As stated above, **clean opinions were received for all eight annual accounts** produced by the accounting services in 2015. These opinions are a crucial first step to achieving the relevant discharges for these entities and of course the 2014 EU budget as a whole.

Efficient treasury management

Within the context of the difficult economic and financial environment, the efforts of consolidation in public finances and the high level of payment needs, the **regular monitoring of the treasury situation** remained challenging in 2015. 2.400.000 payments were executed during 2015, for a total amount exceeding EUR 142 billion. Practically all of them were executed within one day after authorisation. A few payments were suspended some days in order to verify with the authorising services if the banking conditions of final beneficiaries were optimal to receive the funds. No authorised payments were delayed due to lack of cash resources. However, in the first months of the year, due to the high EAGF amounts to be paid, authorisation by the ESIF spending DGs had to be limited in an orderly way. Regular payments forecasts from the Authorising Officers helped to monitor the situation. Payments under direct and indirect management were never delayed.

The financial environment became increasingly critical in view of the persistence of a negative interest rate situation. In this context, the Treasury has taken the necessary measures to **reduce the impact of negative interest**, within the limits of the regulatory provisions.

Towards the end of the year, three **Trust Funds** were operational (Bêkou, Madad and Africa), for which specific treasury management procedures were put in place. In addition, by end 2015, the central treasury managed the operations for 7 agencies.

Efficient and effective recovery and management of fines

The Accounting Officer must exercise due diligence to ensure that the EU receives its revenue and shall ensure that the Union's rights are safeguarded. When the revenue concerns competition fines, the Financial Regulation states that the amounts shall not be recorded as budgetary revenue as long as the decisions imposing them may be overruled

by the Court of Justice of the EU. Pending an action brought before the Court, the Accounting Officer must either collect provisionally the amount of the fine or obtain an acceptable financial guarantee. The target in this area is to reach a full coverage of all fines (100%) in order to **safeguard the revenue of the EU** and to ensure the deterrence effect of EU competition policy. However, this goal is in some cases unattainable because some fined companies are bankrupt or in a difficult financial situation, or they have their seat and assets outside the EU. The rate of coverage of the pending fines (5.818 billion at 31.12.2015) is 96.07% as of 31 December 2015.

When the revenue concerns sundry debtors, the objective is to **reduce the overall number of outstanding recovery orders** below 1500. The figure relates to the backlog of accumulated open entitlements concerning the General Budget over the years. This target is self-imposed and is used as an indicator of all open entitlements to recover. As of 31 December 2015 the backlog amounts to 1575 recovery orders for a total of EUR 210 569 903 (fines and own resources excluded). The slight deviation from the target is to be explained by several factors:

- intense activity in terms of recovery actions by the Commission DGs, services and executive agencies;
- a considerable number of recovery orders issued by the authorising services in November and December, meaning that the entitlements reached their deadline, and a deterioration in the quality of some debtors, leading to larger numbers of unpaid recovery orders, especially as regards the number of new insolvency cases

EU accounting framework

An **update of a number of accounting rules** was made, in line with the current IPSAS in force. To do this, a meeting of the EU advisory Group on Accounting standards was held in 4Q 2015 and a consultation with DGs and other EU entities was made. Moreover, BUDG continued to reinforce its international stance as a high quality public sector accountant, contributing actively to tasks and debates such as the IPSAS Board and other conferences and events as well as giving support to ESTAT in the EPSAS project.

Provide central financial/accounting information system services

ABAC is the corporate IT system managing the financial transactions, accounts and disclosure of the Commission and of 49 External Entities. 2015 has been a challenging year since several adaptations were necessary to take into account new business objectives, primarily:

In 2015, ABAC welcomed the EU Agency SRB (Single Resolution Board) and the Joint Undertaking BBI (Bio-Based Industries) next to two new Trust Funds Bêkou and Syria.

Throughout 2015 **ABAC ran in compliance to the provisions of the Service Level Agreement**, letting a user community of over 12 000 users to operate € 150 billion in appropriations and over one million payments. Particular investments were made to re-assign the financial files in accordance to the Commission's organisation revised in function of President Juncker's priorities.

As part of the continuous efforts to protect the system and the interests of the Commission, initiatives in relation to anti-fraud, technical security and user authentication via ECAS were initiated.

ABAC was aligned to the new obligations stemming from the **entry into force of the new Early Detection Exclusion System (EDES)** for Third Parties as well as some updates to the Financial Regulation in the area of procurement.

With a view to propel the **rationalisation of the Commission's IT-landscape**, further investments were made with a view to increase process efficiency between finances,

procurement and grants management thanks to DEVCO's adoption to use ABAC instead of their local IT system, via the Legal Commitment Kernel project and the context-driven validation of Legal Entities and Bank Accounts. These business changes are supported by the further roll-out of services to integrate IT systems more efficiently. Finally, strategic reflections were taken to ensure the Commission remains equipped with an IT landscape capable of efficiently absorbing future challenges as the new multi-annual framework, the revision of the Financial Regulation and the initiative Budgets focussed on Results.

Provide reliable, consistent and timely reports and data on the execution of the budget and budgetary and financial management

BUDG has an important **contribution to the accountability of the Institution**, the financial reporting issued and data made available generate knowledge based on which political and management decisions can be made and provide information for general public.

Several **reporting obligations** of BUDG are foreseen in the legal framework other are required by the Budgetary Authority. A number of other reports are also produced and distributed across the Commission services as part of the DG's monitoring role on specific financial management aspects like for example the monitoring reports on payment times. As system owner of the central financial information system (ABAC), BUDG also has the responsibility to ensure the availability of financial data for operational and official financial reporting to all user-services of the system.

Within the above context the overall target of BUDG for 2015 was reached; BUDG provided **consistent reliable and timely reports** meeting all the legal or the specific requirements of the Budgetary Authority. Moreover it ensured the availability of reliable financial data and support that meet the reporting needs of ABAC user-services. A detailed table with the reporting obligations of BUDG is available in annex 13. The most important ones are the weekly, monthly and annual budget implementation, analyses of payment deadlines and **Financial Transparency system** (FTS). The latter very well appreciated by external stakeholders.

ABB activity: Promotion of sound financial management

Promote consistency and simplification of the financial rules

In 2015 BUDG stepped up its efforts towards **consistent and simplified financial rules**.

The **revision of the Financial Regulation aligning it to the new 2014 EU Directives on public procurement** was finalised with success and the new rules are in place, as foreseen on 1 January 2016. These new rules also ensure a better protection of the Union's financial interests: a specialised central panel may recommend excluding companies and individuals from accessing EU funds, or even impose financial penalties. This will allow much swifter action than now, effectively showing a red card to those applying for EU funds who are involved in fraud or corruption. The rights of defence of such companies or persons will of course be guaranteed. The proposal also aims at enhancing public control and transparency – it is proposed to make public the exclusion of unreliable economic operators.

With the decision to **relaunch the Simplification Scoreboard**, the monitoring of administrative simplification in the implementation of the budget will include for the first time not only the level of the Commission but also the Member States (shared management). Preparatory work is well advanced but the adoption of the Scoreboard has been postponed to July 2016 in order to benefit from the result of studies conducted in the implementation of the EU funds by the Member States. The Scoreboard will be part of the upcoming communication on a Budget Focussed On results.

Work has also continued in the area of simplification of financial rules with a view to preparing a simplification package together with the Mid-Term Review of the MFF. Consistency remains a priority, also in the simplification agenda: the impact of simplification proposals is always assessed not only in relation to the financial horizontal rules (Financial Regulation) but also in relation to the sectorial rules.

BUDG has replied to a substantial number of inter-service consultations (2.806) **ensuring the consistency of the legal acts adopted by the Commission** with the financial regulations. It has also screened several delegation agreements with EIB and EIF, **setting up sectorial Financial Instruments**, so as to ensure that they remain in line with the Framework Agreements signed with these Institutions. BUDG has also co-ordinated with DG DEVCO and NEAR the negotiations on the **review of the Framework Agreement with the World Bank**.

In 2015, the Commission included in its Synthesis report a Commission-wide estimation of the amount at risk alongside the estimated future corrections (i.e. financial corrections and recoveries expected to result from controls implemented after the payment). These figures show how the Commission protects the budget. It met the requests of the discharge Decision for 2013, in which the European Parliament asked the Commission to further clarify the calculation of the amount at risk in explaining the estimated impact of corrective mechanisms on this figure. BUDG monitored closely the estimations reported in the draft Annual Activity Reports in order to ensure compliance with the instructions, the reliability of the estimations and to apply conservative criteria to avoid understatement of the amount at risk. As a result, a number of DGs adjusted their estimates in view of their specific circumstances. This consistently resulted in more conservative estimates being disclosed in the AARs and in one specific case BUDG increased the reported amount at risk.

Subsequently, the Court of Auditors examined the consistency and appropriateness of the Commission's estimates and found that most DGs for direct and indirect management applied the new methodology for estimating amounts at risk consistently and that shared management DGs had adjusted data provided by national authorities to improve reliability. Furthermore, the Court also reported that the **Commission improved the calculation of corrective capacity**.

Promote appropriate budget implementation through the provision of timely and efficient advice to clients

BUDG, through its **Central Financial Service (CFS)**, remains a **center of financial expertise** providing guidance and training to the Commission Financial Community (plus other Commission services, EU Institutions and bodies). The feedback received from guidance and training (4300 colleagues trained) remains very positive. Training not only focused on general finance, accounting, internal control and IT Systems, but also on new procurement rules and the Early Detection and Exclusion Systems, for which specific information sessions were organised. In addition the **CFS helpdesk** has allowed replying to 787 questions received from the services on financial issues in a very short time frame. At the same time, an important work was conducted in order to update the Guidelines on Financing Decisions, the Vade-Mecum on procurement, the contract models and the templates on the declaration on honor as well as to publish large parts of the Vade-Mecum on grants.

As in the past, most DGs regularly and actively participated in the events organised in the framework of the Financial Units Network (RUF). Several brainstorming sessions were held to ensure an early and upstream involvement of the DGs in the reflexions leading to the 2016 revision of the Financial Regulation, in particular on issues related to simplification. The working method in this area builds on the excellent cooperative process tested in recent years with the services for the annual update to the internal rules of the Commission.

Finally, BUDG, through its co-chairing with DIGIT of the SEDIA steering Committee, provided the required input on the **roll-out of eTendering and eSubmission** (procurement) and in addressing the **governance and technical aspects of SEDIA**. Several issues were analysed, ranging from the conformity to the Financial Regulation, the possibility to delegate to executive agencies certain tasks and the impact of the IT changes on the financial circuit and more general the internal control systems of the DGs.

Reinforce the conditions (including the Inter-institutional dialogue) for providing evidence of the achievements of the EU budget in line with the Commission priorities

The **initiative Budget Focused on results** (BFOR) aims at addressing this specific objective. It is built on a number of discussions and analysis already initiated in 2014 to reinforce the performance framework for Budget planning and implementation structured in the MFF 2014-2020 around 3 axes (i) reinforced alignment with political priorities (focus), (ii) effectiveness in implementation (speed) and (iii) positive impact on the ground (results):

- **Where we spend:** Ensure that the EU budget is increasingly deployed in areas serving European public goods, increasing the EU added value of funds.
- **How we spend:** Improving the legality but also the speed and efficiency of expenditure, including via a higher leverage with other sources of public and private funding, in order to maximize the impact on the ground of EU funds. Flexibility and simplification are key drivers in this regard.
- **How we are assessed:** Together with ensuring that expenditure is done according to the rules, there is a growing call from stakeholders to improve the tools to assess and report on the performance of the EU budget in terms of its results on citizens. In parallel with existing mechanism to ensure compliance, progress should be made to reinforce transparency and the development of a solid methodology to assess and report in a holistic manner on the performance of the EU budget.
- **How do we communicate:** In order to improve awareness of the results of the EU budget, it is important to ensure a common approach with the main stakeholders, and especially a shared strategy with Member states, which are primarily responsible for the implementation of 80% of the EU budget. Different initiatives such as public conferences, expert groups, a revision of the reporting framework, and the development of the "EU Budget for results" project database ("web app") are steps in the direction of improving citizens' awareness and support.

In 2015 the BFOR strategy was documented and a governance structure in the form of a Network of Commissioners set up within the Commission to implement the BFOR concept. The **Network of Commissioners** met 3 times during 2015 to discuss and validate the concept of the BFOR, follow up on the 6 working streams agreed for the implementation of the strategy and provide political endorsement and steer. To support the work of the Network of Commissioners and offer technical coordination and operational insight, the **Inter-service working group for performance** was launched and met 3 times in 2015.

The public kick-off for the BFOR strategy was the **high-level conference on BFOR** on 22 September 2015. The conference was well received by the participants, showed big interest of stakeholders in the developments of the EU budget, as well as validated the direction taken by the Commission with a greater focus on results.

Another initiative to improve the communication of the results of the EU budget was the launch of the project app Budget for Results at the Conference on 22 September. This started as a collection of 500 EU funded projects that are stored into a database. By the end of the year it included 720 projects.

The outreach to Member States was complemented by organizing information meetings in few Member States.

In order to discuss and agree on **common principles of performance-based budgeting** applicable to the EU budget the Commission proposed to **create an inter-institutional working group** (IIWG) in April 2015. The Commission presented the draft terms of reference (ToR) for the group and asked institutions (Council, Parliament and European Court of Auditors) to name their representatives for the political level of the group. ECA nominated a member as an observer. Although the Commission provided a revised version of the ToR in November, to accommodate the views of the Council and the Parliament it proved to be impossible to agree on the ToR in the near future. Therefore the Commission decided to take a pragmatic approach instead, postponing the discussions on the political level and starting work on expert level only by organising a series of expert meetings in 2016 and 2017.

BUDG and SG, over 2015, have worked in close collaboration for **streamlining the reporting tool on performance of the EU Budget** and **establish planning documents** more centered on the priorities of the Commission and the competencies of the DGs, helping them to set operational priorities and tell a coherent performance story with a clear distinction between attribution and contribution for policy and programmes' achievements.

This collaboration has materialized in the request to the DGs to prepare two planning documents: a Strategic Plan covering the Commission term and an Annual Management Plan. The Strategic Plan is organised around the long-term objectives defined at Commission level (general objectives, derived from the political priorities of the Commission and Treaty obligations) and operational objectives defined at DG level (specific objectives). The Management Plan lists the main outputs for the year to come.

In view of giving a major role to the Programme Statements (PS) and to consolidate programme information in a single document to which other reports will refer, as from 2016, in addition to the updates of programme indicators and outputs, PS will contain a new section, the so called "programme fiche" giving a narrative of the programme progress and lessons learnt from predecessor programmes.

Discussions are ongoing on the rationalisation of the EU Budget performance reporting and will materialize in 2016 in instructions for the first combined art.318+synthesis report.

Facilitate improvements in Public Internal Control systems throughout the European Union, candidate, potential candidate and qualifying European Neighbourhood countries through the animation of an active PIC Network for EU Member States and by providing bespoke tailor-made coaching and guidance on Internal Control reforms to the other above mentioned countries.

This objective is pursued through two activities: Public Internal Control (PIC) – governance improvements in Member States primarily; and Public Internal Financial Control (PIFC) assisting non-member countries with re-engineering their internal control systems to align with international standards, frameworks and guidance:

The following was achieved during 2015:

- ❖ **Organizing and chairing the 2015 PIC Conference:** Despite the security situation in Paris in November, the 3rd PIC Conference, aimed at spreading good internal control practise within Member States, was well attended and delegates rated its content positively (73% thought it excellent). In addition to 26 Member

States, all 5 candidate countries were represented plus the Comptroller General's Office from Brazil.

- ❖ **Chairing the PIC Working Group, identifying topics for the PIC Conference, monitoring progress and controlling quality:** The PIC Working Group produced potential good practice points, for 3 key internal control areas, which were debated in workshops in Paris. Conference endorsed the findings, with more than 75% of delegates rating them as useful or better. A fourth topic, the use of Assurance Mapping to analyse the effectiveness and efficiency of internal control systems was covered in a specific plenary session.
 - ❖ **Animation of the PIC Network:** Newsletters were published to maintain the interest of the wider PIC Network and to ensure that all members were aware of the Working Group's progress.
 - ❖ **Response to requests for specific consultancy work:** Advice on the use of independent Audit Committees and on internal audit service centralisation was provided to the Czech Republic.
 - ❖ **Reports from fact finding missions and other assessments.** Seven mission reports incorporating analysis and tailored recommendations were issued to client countries and timely technical input was provided for Progress Reports on candidate, potential candidate and ENP countries.
-

External Communication – Budget publications in 2015

BUDG has produced the following paper and e-publications during 2015 which aim at communicating on the EU BUDGET in a clear and transparent way:

For the general public

- ✓ **EU budget at a glance¹⁹**: Aimed at a big audience, this booklet explains the budget of the European Union, with lots of examples and success stories. It obtained the 2015 Commission's Clear Writing Award in the external publications' category (available in 23 languages)
- ✓ **A Beginner's guide to EU funding (EU funding opportunities in 2014–20)²⁰**: This guide provides basic information on how and where to apply for EU funding. It is especially aimed at those having no previous experience with getting support from EU budget (available in 23 languages)
- ✓ **EU budget focused on results web app²¹**: This web application shows the results achieved by EU funded projects. The information is accessible through different search options.

Specialised publications

- ✓ **EU budget 2014 Financial Report²²**: This publication gives an overview of EU finances, EU budget revenue and expenditure in 2014.
- ✓ **2015 EU budget focused on results conference summary²³**: The brochure summarises the content of the Conference "EU Budget Focused on Results" which took place in Brussels on 22 of September 2015.
- ✓ **Consolidated annual accounts of the European Union financial year 2014²⁴**: This leaflet provides information on the activities of the institutions, agencies and other bodies of the EU from a budgetary and accrual accounting perspective.
- ✓ **Analysis of the budgetary implementation of the Structural and Cohesion Funds in 2014²⁵**: This is an implementation report of the European Regional Development Fund, Cohesion Fund and Social Fund in 2014.
- ✓ **Report on budgetary and financial management (financial year 2014)²⁶**: This publication analyses the 2014 implementation of EU budget by headings.

¹⁹ <http://bookshop.europa.eu/en/eu-budget-at-a-glance-pbKV0614180/?CatalogCategoryID=mpgKABstFogAAAEjbIUy4e5K2014>

²⁰ <http://bookshop.europa.eu/en/a-beginner-s-guide-to-eu-funding-pbKV0113878/>

²¹ <http://ec.europa.eu/budget/euprojects/>

²² http://ec.europa.eu/budget/financialreport/2014/lib/financial_report_2014_en.pdf

²³ http://ec.europa.eu/budget/library/biblio/documents/2015/2015_eu_budget_focused_on_results_conferencesummary_en.pdf

²⁴ http://ec.europa.eu/budget/library/biblio/publications/2014/annual_account_leaflet_2014_en.pdf

²⁵ http://ec.europa.eu/budget/library/biblio/documents/2014/sf_implem_rep_2014.pdf

²⁶ http://ec.europa.eu/budget/library/biblio/publications/2014/2015.04.15_RBFM_Report_en.pdf

2. MANAGEMENT AND INTERNAL CONTROL

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

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

- Notes to Vice-President GEORGIEVA twice a year on audit, fraud and internal control matters.
- The opinion of the Internal Audit Service (IAS) on the state of control and the observations and recommendations issued by them. BUDG carries out internally a quarterly follow-up on the open recommendations.
- Reporting on the existent risks twice a year to Senior Management
- Yearly assessment on the implementation of the Internal Control Standards (ICAT exercise)
- Observations and recommendations reported by the European Court of Auditors (ECA)
- Reports on the exception and non-compliance reports and ulterior analysis of internal control weaknesses
- Ex-post controls carried out twice a year on the administrative expenditure
- Monitoring on the implementation of the Anti-Fraud Strategy of BUDG

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

2.1. Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives²⁷. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

It refers to the resources managed by BUDG: the EU's own resources and the administrative expenditure in 2015. The main indicators and/or conclusions on each control objective and area are summarised in the following table:

²⁷ 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).

Activity/ Indicator	Legality & regularity	Cost- Effectiveness of controls	Anti-Fraud Strategy	Reliability of information and reporting	Safeguard of Assets
Collection and control of Own resources	Error rate below 1%	Positive conclusion (Costs/funds = 0.3%)	Area covered by the AFS	Positive conclusion	n/a
Management of administrative expenditure	Error rate below 0,5%	Positive conclusion (Costs/funds = 4.3%)	Area covered by the AFS	Positive conclusion	n/a

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 €	2013	2014	2015
TRADITIONAL OWN RESOURCES	15 365 321 831	16 429 485 119	18 730 353 938
OWN RESOURCES ACCRUING FROM VAT	14 019 723 428	17 667 362 373	18 086 962 720
OWN RESOURCES BASED ON GNI	110 358 602 621	98 864 478 291	100 517 359 019
SURPLUS AVAILABLE FROM PRECEDING FINANCIAL YEAR	1 053 611 712	1 005 406 925	1 434 557 708
Total Own Resources	140 797 259 592	133 966 732 708	138 769 233 384

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 as well as the indicators used to measure the efficiency and cost-effectiveness of these controls.

Traditional Own Resources (TOR) - 13.50% of Total OR

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

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

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

VAT own resource (13.03% 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 (72.43% of Total OR)

GNI OR has a particular role to play as the balancing resource. Once the amount of agreed EU expenditure that will be funded by the TOR and VAT OR is known then GNI contributions are fixed to fund the remainder within the ceiling of no more than 1.23 % of total EU GNI. Member States provide the Commission with their GNI figures annually accompanied by a quality report and supplemented after each five year verification cycle with a new inventory. As GNI own resources data is only available annually and in arrears the own resources payments during that year are based on the amounts entered in the budget for the year concerned (i.e. each month the Commission - BUDG - requests each

Member State to pay one twelfth of the budgeted forecast amounts). Adjustments are made in subsequent years by BUDG to adapt payments to reflect the GNI data. BUDG monitors proactively that GNI own resource contributions are paid promptly. Any delay in paying own resources gives rise to payment of interest by the Member State concerned.

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

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

Reasonable assurance on the accuracy and completeness of Member State data is provided by the opinion of the GNI Committee, and the results of ESTAT's verification activities²⁸ to which Member States contribute by taking part in controls in other Member States. The annual opinion of the GNI committee is a key element of assurance since it refers to the appropriateness of using the GNI data provided by Member States for own resources purposes and it means the acceptance of the data by all the Member States together with the Commission.

Coverage of the Internal Control Objectives and their related main indicators

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

BUDG has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the data provided by Member States. 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 Materiality criteria.

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 the following sections:

A – MS statements and collection of resources

During 2015, 100 % of national contributions and amounts reported in Traditional Own Resource A statements were fully collected and made available on time. Any deviation noted for other own resources were promptly followed.

²⁸ See ICT on Verification of GNI data by ESTAT in annexe 5 (pages 14 & 15) and the footnotes 4 & 8 on pages 8 & 14

In addition 351 requests for accounting action and 969 accounting documents were generated.

At the end of the year there were six open TOR infringement files. One new procedure was initiated during 2015 and one closed with respect to the six open procedures in 2014. In addition, four 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 2015 the annual inspection programme was implemented at 89% since four inspections of the 2015 programme had to be rescheduled for 2016²⁹. A total of 30 inspection reports were produced and sent to the corresponding Member States respecting in 93 % of the cases the legal deadlines. All anomalies identified during the inspections are closely followed up by BUDG in collaboration with the Member States.

In addition, 309 write-off reports from Member States were assessed, involving an amount of EUR 103.7 million, in co-operation with the legal service, DG TAXUD and OLAF within the legal six month deadline in 99.7%³⁰ of the reports.

The TOR control activity during 2015 has resulted in a detected error rate of 0.28%³¹ of TOR collected during the financial year.

The last ECA's annual report on financial year 2014 concluded that the examined systems were overall effective for TOR. In addition, no errors were found in the transactions tested. The key internal controls in Member States visited by ECA were assessed as partially effective.

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

VAT- based Own Resource

All Member States are obliged to administer a value added tax system. The own resources legislation requires Member States to provide an annual statement detailing the calculation of their harmonised VAT. BUDG monitors the timely receipt of these annual statements and checks their completeness and coherence with previous years,

²⁹ The inspection to Denmark was postponed at the request of the national authorities, the ones to Italy, Netherlands and Slovakia had to be cancelled for service reasons

³⁰ In one case additional information was requested (information meanwhile obtained).

³¹ While this is lower than last year, positive conclusions about the error propensity should not be drawn due to the fact that control themes change from year having some themes more propensity to financial consequences than others. Also fewer missions were performed than last year.

primarily by a programme of inspections. The indicators chosen show whether inspections were carried out on time and if Member States' statements didn't become time barred so it is guaranteed that complete and accurate information is recorded in the VAT OR database.

During 2015, 100% of the agreed inspection programme was implemented as planned. The results of inspections also show that 100 % of statements have been subject to verification prior to becoming time-barred.

GNI

BUDG draws its assurance concerning the accuracy and completeness of GNI data for own resource purposes from the verification work undertaken by ESTAT³² together with MS. This inter-relationship is governed by the MOU agreed between ESTAT and BUDG, supplemented by the scrutiny of data by all Member States in the GNI Committee.

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

The results show that activity to notify reservations was prompt since 100% of the 80 notifications were sent within the deadlines.

Assurance is also obtained from the annual opinion of the GNI committee since it represents the acceptance of GNI data by both Member States and Commission. Following its examination during the year the GNI Committee, at its 31st meeting on 21 – 22 October 2015 concluded that, in its opinion, the GNI data transmitted through the GNP/GNI Questionnaire 2015 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.

As stated in section 1, during 2015 the main focus of ESTAT control activity was the assessment of the work done by Member States to address their GNI reservations for the period 2002-2010. BUDG was in permanent contact with Eurostat contributing to find solutions for the issues identified and making sure that the letters to the Member States notifying of lifting of reservations were sent as soon as possible. In the meeting of the GNI Committee in April, BUDG highlighted the importance of dealing with the outstanding reservations. The cooperation between all parties involved allowed a reduction of 77% on the number of active GNI specific and transversal reservations and having closed GNI revisions until 2009 in 20 Member States.

The ECA Special Report 11/2013 did not identify substantive errors in GNI calculation but presented recommendations for improvement of the Commission's GNI verifications. The majority of the recommendations have already been implemented by ESTAT and the remaining will be implemented over the course of the next GNI verification cycle which will start in April 2016 (see section 2.3 for details).

The last ECA's annual report on financial year 2014 concluded that the examined systems were effective for GNI and VAT-based own resources. The Court found no errors in the transactions tested in these OR categories.

³² See ICT on Verification of GNI data by ESTAT in annexe 5 (pages 14 & 15) and the footnotes 4 & 8 on pages 8 & 14

C – Follow-up of verification results

Recovery orders both for principal and belated interest totalling EUR 52 million were issued in 2015 on TOR, out of which 78.84% was already paid in 2015. The recovery rate for 2015 is expected to increase further as many recovery orders issued in the second semester of 2015 are likely to be paid in 2016. The average recovery rate since 2009 is 90.92%³³.

The proportion of VAT reservations set by the Commission and in place for more than 5 years is 8.6%, which is considered a reasonable percentage. More than half of these reservations are related to on-going infringement cases.

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

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

D- UK correction calculation

Calculation of UK correction was made on time. With regard to the update of the 2013 correction, it was found that a few input data needed to be corrected, the impact of which was, however, non-material. The calculation will be corrected with the regular update of the 2013 correction in spring 2016. The procedures on checking the inputs were subsequently strengthened.

Globally, for all Own resources, the most recent ECA's opinion on Own Resources (ECA's annual report for financial year 2014) concluded that revenue collected is not affected by a material level of error and that control systems are overall effective.

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

• Control efficiency and cost-effectiveness.

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.

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

Results show that controls performed have ensured the timely and dully collection of Own resources during the year. The total cost of controls performed in all the stages described in Annex 5 represent 0.28% of Own resources collected in 2015 (EUR 138 769 233 385).

The cost of controls carried out to verify the amounts collected represent 0.01 % of TOR collected (EUR 16 429 485 119) and 0.006 % of VAT-based OR collected (EUR 17 667

³³ Total amounts recovered up to the end of 2015 out of the recovery orders issued since 2010.

362 373). These amounts collected during financial year 2014 have been verified by ECA in their most recent annual report which concluded that they were not affected by material error and that controls systems were effective for TOR and VAT. The costs of controls are considered steady and can be also applied to conclude on their cost-effectiveness on this year's TOR and VAT-based OR collection (EUR 18 730 353 938 and 18 086 962 720).

The controls performed in the area of Own Resources, which represent a low amount on the resources verified, have allowed to comply with the legality and regularity control objective as detailed in the previous section, i.e. 89% and 100% of TOR and VAT inspection programmes respectively have been implemented as expected, 93% of TOR inspection reports have been sent on time, 100% of VAT statements have been inspected before they become time barred, 100% of GNI notifications have been sent within the legal deadlines and the UK correction was made on time. 100 % of GNI reservation changes (setting, variation of lifting) were communicated to Member States in their national language within four working-weeks. It can also be concluded that compliant and timely management of GNI reservations has been achieved with a reasonable cost.

As detailed above, verification of GNI data is carried out by ESTAT and therefore other indicators on the verification of GNI data are reported in ESTAT Annual Activity Report and in annex 5 of this report³⁴.

The cost of controls in place related for the follow-up of results of the verification stage represents 0.002 % of TOR and VAT-base resources collected in 2015 (EUR 36 817 316 658). These include administrative, legal or financial deficiencies detected in Member States local systems, submission of TOR and VAT inspection reports to ACOR meetings, initiation of infringement procedures and management of VAT reservations.

In particular, the costs of controls to guarantee the recovery of TOR amounts due to the EU budget derived from irregularities detected by controls represent 2.96 % of the amounts paid in 2015 (EUR 62.86 million³⁵).

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

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

- ✓ Timely and comprehensive collection of Own Resources and the compliance with relevant regulatory provisions and internal rules has been ensured;
- ✓ Improvements on MS Internal control systems have been identified and best practices have been shared amongst Member States during ACOR meetings (i.e. Common audit tools have been provided);
- ✓ Controls continue to have a deterrent effect;
- ✓ Transparency of the control activity has been delivered and Member States have been reassured that they have all been measured against agreed standards and received equal treatment when controls have been performed;
- ✓ Commission fulfilment of its obligation under regulation 1553/89;
- ✓ Assurance gained concerning the correct and compliant distribution of Member States share of GNI;

³⁴ See ICT on Verification of GNI data by ESTAT in annexe 5 (pages 14 & 15) and the footnotes 4 & 8 on pages 8 & 14

³⁵ This figure relates to all payments received in 2015 following recovery orders issued as of 2009 (EUR 54 million). It also includes an amount of EUR 8.6 million Member States paid in 2015 following control activities but for which no recovery order was issued yet at the end of 2015.

- ✓ 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 2015 that the OR contributions made by Member States comply with the requirements of the Union's own resources legislation and control systems on own resources are effective. In addition, controls had the expected benefits being those controls cost-effective to achieve their benefits.

The conclusion of the evaluation of costs and benefits of controls performed in BUDG and of the indicators used to measure their efficiency as indicated the ICT's in Annex 5, is that controls performed in BUDG during 2015 have been cost-effective as the estimated benefits exceeded the estimated costs and the cost of controls compared to the funds managed are at a reasonable level. Also the results of controls show the efficiency of those since they served to mitigate the risks to which they address

2.1.2. Earmarked revenues for the use of Financial Information Systems by External Entities³⁶

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 3.033.078,39). Since this activity is much less significant than the other two described in section 2.1.1 and 2.1.3, neither an internal control template nor indicators are presented for this area. However, it is presented in this section for completeness purposes.

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

The 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.

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

2.1.3. Procurement and administrative expenditure

The intrinsic risk for administrative expenditure managed by BUDG including procurement is considered relatively low because of the limited budget as well as the centralised and direct mode of budget implementation. The Internal Control Template for

³⁶ External Entities: general term used to indicate EU Institutions, Committees, Regulatory Agencies, Joint Undertakings or Executive Agencies.

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 Cell of BUDG before they have been published. Tenders have been evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators has been ensured.

The total amount of the 2015 commitment appropriations represents EUR 14 164 934 EUR including the contributions from Agencies and other Institutions.

The appropriations execution rate for 2015 is 86.16% which represents 12 205 134 EUR. The remaining appropriations will be executed in 2016.

The authorized payment appropriations, including the amounts carried over from 2014, represent 19 836 404 EUR. Payments made during the financial year amount to EUR 11 528 357, which represents an execution rate of 58.12 %.

During 2015, one negotiated procedure has been launched under article 134(1) (b) RAP concerning SAP Belgium SA for the acquisition of SAP Licences (BO & ERP) and the provision of associated services and two other small procedures amounting a total of EUR 15 978.

In addition, 4 open procedures were organised during 2015:

- ❖ Inter-institutional procedure for provision of on- and off-site information technology assistance for financial management systems; this procedure has been cancelled in order to enable the comprehensive evaluation of concordant criticism expressed by a number of potential tenderers concerning the selection criteria related to one specific profile. The procedure will be relaunched in 2016.
- ❖ Inter-institutional procedure for supply of technical assistance services in the field of audits and controls
- ❖ Inter-institutional procedure for the delivery of training on Financial IT systems;
- ❖ Connectivity to the SWIFT network for BUDG.

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

The analysis of the risks concerning both processes in 2015 has shown that these are very low thanks to the strong procedures in place, the relatively low number of transactions and the nature of the financial circuit.

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

that should be enhanced by confirming operational initiation and verification roles and responsibilities. For more details see section 2.2.1.

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

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

BUDG has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions as well as the nature of the payments concerned.

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

During 2015 a total of 659 payments amounting EUR 11.53 million were made, with 99.39% of these payments made on time, with an average payment deadline of 14.5 days. The best estimate of the errors detected by ex-ante controls is below 0.5%. This indicator however should not be taken as the most relevant one in terms of actual financial implications since ex-ante controls also detect other types of procedural errors which do not necessarily have a financial impact (but would have an impact on compliance if they were not corrected before the payment is made). Since this is the case for the vast majority of errors detected and most of them are corrected before the payment is made, therefore those errors and their corrections are not recorded.

Payments have been made free of financial material error, as also confirmed by ex-post controls (see next paragraph). The fact that the financial estimated error rate is below 0,5% should also be read as an indicator of the strong deterrence effect these controls have on financial transactions

Ex-post controls were performed on a sample of transactions for a value of EUR 1.2 million (11% of administrative expenditure in 2015). No financial errors were detected. Other non-financial errors were found representing 0.16% of the value of the transactions checked.

Over the past years the implementation of these corrective controls (both ex-ante and ex-post) has not resulted in any ex-post financial correction/recovery order. This is due to the fact that no financial error has been detected and administrative errors were corrected before payments were made. These results are expected to continue having as a result no estimated future financial corrections.

The results of the accounting quality revisions carried out in 2015 have been satisfactory since none of these controls unveiled material errors with financial or non-financial impact on compliance. In relation to procurement procedures completed in 2015, no relevant incidents have occurred or been detected (except the cancellation of one procedure as indicated above under point 2.1.3.) and there is reasonable assurance that compliance has been achieved with the relevant regulation and internal rules.

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

During 2015, a total of 3 exception reports derived from non-compliance events have been communicated to the Internal Control Coordinator representing a total amount of EUR 11.110 (0,01% of payments made during 2015):

- One report consisted in the continuation of work on IT services by an external consultant beyond the final execution date (See Note ARES (2015)762282). There

was no financial impact since there was enough evidence to certify that the service was correctly delivered and therefore the related invoices had to be paid. An exception was requested in order to proceed with the payment of the related invoices. In order to avoid such events in the future, Unit R2 runs a quarterly report with contracts which are close to the final due date and sends it to the units concerned as a preventive measure.

- The other two reports were initiated due to the late signature of a mission order. Taking into account that the missions were correctly carried out two exceptions were requested and approved in order to pay the expenses incurred. The colleagues concerned were reminded of the procedure and of the importance of obtaining a prior authorisation before incurring any expenditure. As an additional measure to prevent future errors in the planning of missions and the corresponding exception/non-compliance reports, an information session was organised for all staff in BUDG in May-15. Through practical examples and scenarios, the main procedures were presented and explained in an interactive session.

None of them represent an internal control weakness of the systems concerned.

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

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

For DG BUDG, the estimated overall amount at risk for the 2015 payments made is EUR 57.641 This is the AOD's best, conservative estimation of the amount of expenditure authorised during the year (EUR 11 528 357) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

• **Efficiency and Cost-effectiveness**

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

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.

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

The costs of ex-ante controls performed by the DG on the verification of financial transactions represent 4.29 % of payments made in 2015. Cost of controls of ex-post verifications represent 0, 15 % of payments made in 2015.

The controls performed in this area are considered reasonable and have allowed to comply with the legality and regularity control objective as detailed in the previous section, i.e. 99% of payments made on time, time to pay far below the maximum

allowed of 30 days (13.8 days for 2015) and no relevant deficiencies detected by ex-post controls.

Controls in place during the procurement stage ensured that the granting of the open procedures during 2015 were made in compliance with regulation and internal rules.

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

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

The conclusion of the evaluation of costs and benefits of controls performed for the management of the budget appropriations and of the indicators used to measure their efficiency, as indicated the ICT's in Annex 5, is that controls performed in BUDG during 2015 have been cost-effective as the estimated benefits exceeded the estimated costs and the cost of controls compared to the funds managed are considered reasonable. Also the results of controls show the efficiency of those since they served to comply with the deadlines and mitigate the risks that they address.

- **Fraud prevention and detection**

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

The strategy covers the inherent risks derived from the main activities of BUDG: Collection and control of Own resources and management of administrative expenditure and the mitigating measures currently in place. In this context a number of actions were defined and implemented during 2015 which aimed to achieve the strategy objectives³⁷:

- ✓ **Organisation of Ethics information sessions:** Specific sessions have been organised internally on Fraud Prevention and Ethical Values per unit/directorate for all BUDG staff. Sessions have covered so far Directorates B and C. The rest of directorates will be covered by May 2016.

A total of 208 colleagues have attended the sessions in 2015 and a satisfaction rate of 88% has been registered by participants.

- ✓ **Ad-hoc information sessions focussing specifically on IT and information security and Conflict of interests:** A session was organised on "Fighting potential conflict of interest" in BUDG by an external expert. The content of the training, adapted to BUDG activities, proved to be useful. The organisation of a second session will be considered during 2016. Also an information session on "IT and information security" is envisaged for the second part of 2016.

³⁷ 1- Raise awareness amongst the staff on the fight against fraud and ethics
2- Improve the internal procedures for fraud prevention and detection purpose

- ✓ More visibility has been given to the **"Fight against Fraud" page in BUDG** web containing useful information and links. Also the job description of the Internal Control Coordinator has been adapted to formally include the task of Fraud prevention and detection.
- ✓ **Launch of a Fraud Control and prevention survey:** The survey concerned all BUDG staff and concluded with a participation rate of 49, 9%. The questionnaire covered different aspects of fraud with the objective to collect evidence on the perception of the fraud control environment. It has also served to identify specific areas that still need to be worked upon in terms of awareness raising or improvement of procedures. Finally it has helped to measure staff understanding of the fraud concepts.

Based on the feedback collected the following has been implemented/planned during 2016:

- ❖ Publication of the correct replies to the questionnaire in [BUDGWEB](#) (Published last 29 January 2016) and in the "Fight against Fraud" page of the Intranet.
- ❖ Continue with the organisation of Ethics information sessions per Unit during 2016.
- ❖ Organisation of information sessions on Security of documents and IT by LSO and LISO in 2016.
- ❖ Flag as sensitive those tasks managing procurement procedures in BUDG (during 2016)

No case of fraud concerning DG BUDG has been brought to my attention.

The controls aimed at preventing and detecting fraud are not essentially unlike those intended to ensure the legality and regularity of the transactions. During the year 2013 and in the context of the Anti-Fraud strategy BUDG documented in a risk register the risks of fraud inherent to the activity of the DG. These fraud risks are mitigated by the specific controls implemented. Activities and operations that are at a higher risk of fraud are subjected to more in-depth monitoring and control. BUDG fraud risk register is integrated in the risk management exercise which is performed twice a year. The fraud risk register has remained stable in comparison with 2014 and no new risks have been identified in 2015.

During the reporting year, no cases of suspicion of fraud were transmitted to OLAF/IDOC³⁸ 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.

³⁸ 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.

2.1.4. Budget implementation tasks entrusted to other DGs and entities

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

Cross-sub-delegations

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

BUDG has received crossed sub-delegations from COMM (management and update of the MFF 2014-2020 website, Organisation of Conference BFOR), DEVCO (developments on CRIS module in ABAC) and HR (delivery of services related to Financial Training) for which assurance letters have been sent as per the requirement. Being a Commission service, the AOD is required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

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

ESTAT – Verification of GNI data

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

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

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

ABAC is a transversal, transactional information system allowing for the execution and monitoring of all budgetary and accounting operations by the Commission and Agencies. The system has been developed by the Commission and includes a comprehensive set of features to ensure compliance with the Financial Regulation and its rules of application. BUDG, as a horizontal DG, issues guidance to ensure the quality of the information contained in the system and the reliability of reporting. An audit on "IT Governance in BUDG" has been finalised during 2015 which had the objective to assess whether IT Governance in DG Budget ensures optimal alignment between business and IT, sound management of resources and effective IT solutions. The IAS concluded with a positive opinion except for 6 recommendations which are detail in section 2.2.

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

The major work carried out in 2015 was to evaluate the respect of the validation criteria in DGs CLIMA, ENV, EAC, GROW, MARE, REGIO and OIB and OP. The findings and corresponding recommendations relate to the timely registration of invoices, consistency of data between local IT systems and ABAC and the improvement and monitoring of debt recovery. In general, improvements were observed regarding the documentation of procedures and controls, and the cleaning of old items (contracts, suspense accounts).

In 2015 the tendency observed in previous years of increasing number of notifications for newly developed local systems and or changes to already existing local systems has continued. These applications promote increased automation and more embedded controls for ensuring the respect of applicable regulations.

An audit on validation of local systems has been finalised in 2015. The conclusion of IAS was positive except for two recommendations which have been implemented on time as detailed in section 2.2.

2.2. Audit observations and recommendations

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

2.2.1 Audits finalised in 2015

During 2015 and to date, the following reports have been issued:

Audits:

- ✓ Audit on ***the Activities of DG Budget (in particular of Dir. D Central Financial Service) in the Area of Performance Management in the Commission***: The final report was issued in January 2015 with no observations requiring a specific follow up by IAS.
- ✓ Audit on ***Waiving of Recovery of an Established Amount Receivable***: The final report was issued in September 2015 with a positive opinion and containing 1 desirable recommendation; therefore no follow-up of this recommendation will be made on this audit by IAS.
- ✓ Audit on ***"IT Governance in DG BUDG"***: The final report was issued in January-2015 with a total of 6 recommendations (3 very important and 3 important). Details are provided in the next section.
- ✓ Audit on the ***"Objective Setting process in the context of the preparation of the Management Plans"***: The audit was finalised in December 2015 and concerned SG and BUDG as central services issuing guidance and conducting peer reviews in the planning process. Also a sample of seven operational DGs was selected (CLIMA, CONNECT, DGT, ECHO, HOME, JUST and MARE). Out of the 5 recommendations³⁹ addressed to central services, only one concerned BUDG (REC3-Important⁴⁰). An action plan is being agreed currently with IAS taking into account the recent changes to the strategic planning cycle and the related instructions.
- ✓ Audit on the ***"Design and Implementation of EU Trust Funds in DEVCO, NEAR and BUDG"***. The final report was issued in January 2016 and concluded with 6 recommendations (2 very important and 4 important). BUDG is concerned by 2 of the important recommendations. One of them was implemented before the finalisation of the audit report and for the remaining one an action plan is being agreed between BUDG and the IAS.

³⁹ 3 "very important" and 2 "important"

⁴⁰ Ensure a consistent approach amongst BUDG correspondents for reviewing the draft MPs. Ensure that knowledge is properly shared and retrievable for all correspondents in BUDG. Put in place a system for DGs/Services to report back on how significant comments have been taken into account, or if they have been disregarded.

Follow-up audits:

- ✓ 2nd follow-up audit on **"AAR Process in the Commission"** was carried out in July 2015. As a result, the 2 remaining open recommendations have been closed (see ARES (2015)3031481 - 17/07/2015).
- ✓ 2nd follow-up audit on the **"Charge-back process in the Commission (multi-DGs)"** carried out in December concluded that the 2 remaining recommendations were not completely implemented. Guidelines on the charge-back process were issued for the Commission as requested; however guidelines for other EU institutions, agencies and bodies are pending to be endorsed by the ABM Steering Group and published. A new deadline is proposed: September 2016 (see Ares (2015)5766063 - 11/12/2015).
- ✓ Audit on the **"Management and Supervision of Contracts for the outsourced IT services"**: The audit was finalised in December 2014. All recommendations derived from the audit (7 in total) have been implemented and closed.
- ✓ Audit on the **"Validation of local systems by unit C3"**: The audit was finalised in November 2014 with a total of 2 recommendations which have been timely reported as implemented to IAS. The IAS is currently doing a follow-up on these recommendations.

2.2.2 Internal Audit Service (IAS) Opinion

Based on the work undertaken by the IAS and the Internal Audit Capability (IAC) for the period 2013-2015 on the audits detailed in section 2.2.1 and taking in account that:

- for the accepted recommendations made by the IAS and the IAC in 2013-2015, management has adopted plans to implement them which the IAS considers adequate to address the residual risks identified by the auditors,
- the implementation of these plans is monitored through reports by management and through follow-up audits by the IAS,
- management has assessed a number of action plans not yet followed up by the IAS as implemented, and
- management has not rejected any critical and/or very important recommendations.

The IAS concludes that the internal control systems audited are overall working satisfactorily although a number of very important findings remain to be addressed in line with the agreed action plans as listed below. IAS indicated that particular attention should be given to the impact of the delays observed in implementing two very important recommendations on IT governance and one very important recommendation on the charge-back process in the Commission.

2.2.3. Follow-up of open recommendations

As of December 2015 there were 10 open recommendations for DG BUDG, out of which 5 are considered implemented by the services and have been sent for review to IAS. The detail of audits concerned is as follows:

Audit	Recommendation Status			
	Open	Sent for review	Delayed	Not yet due
Validation of local systems by unit C3	2	2	-	-
IT Governance in DG BUDG	6	3	2	1
Charge-back process in the Commission	2	-	2	-
TOTAL	10	5	4	1

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

The risks derived from the remaining open recommendations do not have an impact on the assurance for year 2015 as also confirmed by the IAS positive opinion on the functioning of BUDG audited internal control systems.

Detailed overview

- Validation of local systems by Unit C3 - Note Ares (2014)3822513

The activities for which the Deputy Director General, in his role of Accounting Officer, expects assurance from the validation of local systems are included in the audit scope. Those activities are performed by the sector 'validation of local systems' of Unit C3; other C3 activities are excluded.

The objective of the audit was to assess compliance with the applicable legal base and internal procedures as well as to assess the efficiency and effectiveness of the business process⁴¹

Based on the results of the audit, the IAC concluded that the internal control system in place provides reasonable assurance⁴² regarding the achievement of the business objectives set up for the validation of local systems, except for the following issues:

- The control strategy in place is not consistently described and formalised.
- The average target period for the complete coverage with the current pace of verifications cannot be met (completeness of the validation)

⁴¹ The audit focused on the activities performed/planned in the period 2012-2014.

⁴² 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*.

The audit acknowledged the specific conditions that have affected C3's ability to complete its work programme 2012/2013 (the complete reshuffling of the validation team, the priority given to previous commitments and training of newcomers).

The 2 recommendations issued with due dates 31 December 2015 have been reported as implemented on time and sent for review to IAS:

- The document "High level Control Strategy" has been defined and includes the mission and objectives of the validation work, the quality policy, responsibilities and accountability as well as details on the activities of the team. It also includes now a specific reference to the strategic coverage and target frequency. The universe has been redefined to cover the latest extension of responsibilities of the Accounting Officer over EU bodies.
- A new procedure and questionnaire is in place to request from DGs yearly an updated list of local systems and changes introduced. The risk assessment methodology to perform verifications has been also modified.

- Audit on the "IT Governance in DG BUDG" - Note Ares (2015)253309

The overall objective of the audit was to assess whether the IT Governance in BUDG ensures optimal alignment between business and IT, sound management of resources and effective IT solutions. The audit focused on BUDG's current framework to govern and oversee its IT activities. In particular, it looked into the design and implementation of processes and organizational structures in place to ensure that IT adequately supports the DG's strategies and objectives.

Overall, BUDG's IT function delivers effective IT solutions in terms of availability of financial systems, reliability of accounts and compliance with legal obligations. However, given the BUDG complex IT governance structure involving different bodies working at different levels, the key roles and related responsibilities are not always clearly defined or consistently/fully implemented. Shortcomings were noted in the IT Governance set-up which could lead to the sub-optimal alignment between business and IT and resources management.

The IAS recommended reviewing the current IT governance structure including the clarification of key roles at business and IT side in order to:

- ensure that it defines needs adequately and monitors the IT value delivery effectively
- reorganise its IT capacity separating IT supply and demand
- better set priorities and plan its IT activities/projects.

The audit resulted in 6 recommendations (3 very important and 3 important). Three of the six recommendations are considered implemented:

- A new governance structure is in place and will ensure that Business and IT Supply side yearly review BUDG's Information Systems Policy, as well as the associated goals and objectives which will be submitted for adoption to the IT Steering Committee (REC 6)
- The cartography of IT projects: They have been standardised and are part of a Roadmap which is designed by the Business. The matrix-organisation for R3, framing the staff rotation, is confirmed and is being implemented operationally (REC 5)
- BUDG's "tableau de bord" will be updated with newly defined Key Performance Indicators agreed upon between Business and IT Supplier side (REC 4)

The finalisation of two recommendations has been delayed to April and May 2016 (initial due date being Dec-2015). They relate to the enhancement of the current IT governance structure and key roles in BUDG to improve its effectiveness (REC 1) and to the improvement of IT planning (REC 3). The remaining one⁴³ will be due in December 2016.

The risks induced by the current complex IT Governance structure and IT planning may lead to ineffective leadership and steering of the information systems, a lack of clear accountability for the timely completion of projects and the delivery of results, limited/weak control over the status and progress of IT-driven activities, ineffective allocation and control over IT resources and insufficient stakeholders participation.

Although the above risks currently do not impact on the assurance of year 2015 it is very important that the recommendations are implemented by the deadlines agreed. BUDG is already working on their implementation and will closely monitor the progress achieved during 2016.

- Audit on Charge-back process in the Commission- Note Ares (2014)4276310

The IAS recommended developing (under the responsibility of the ABM Steering Group and with the support of the DGs involved in the process, as provider and client) a clear and transparent framework for the charge-back process in the Commission. A guidance on the charge back process will mitigate the risk of having practices and mechanisms not implemented in a systematic manner both across, and within service providers.

The first follow-up audit carried out in December 2014 did not result in a re-assessment of the adequacy of controls as a whole but focused on the specific recommendations which resulted from the original audit. Out of the 3 recommendations, IAS considered that one recommendation had been adequately and effectively implemented and was closed (No. 3 on *Clarity of budget lines used for financing of IT expenditures*). The other 2 recommendations which referred to the guidance on the charge back process remained open.

After a second follow-up, IAS concluded that the 2 recommendations⁴⁴ should remain open. The guidance for the charge back process inside the Commission had been defined and approved, however guidelines for other institutions⁴⁵, as requested by the recommendations, still needed to be endorsed by the ABM steering committee and published. A new deadline has been proposed: Sept-2016.

The residual risks of the remaining issues to be implemented in the context of this audit do not have an impact on the assurance for year 2015.

2.2.4. ECA audits

In its Annual Report 2014, the ECA maintained the green light on the reliability of the Annual Accounts of the European Union for the 8th consecutive year (see section 1). The ECA has not raised any very important recommendation concerning 2014 accounts.

As concerns revenue, the ECA concluded that:

- ❖ The Court found no errors in the transactions tested.
- ❖ The examined systems are assessed as effective for GNI and Vat-based own resources and other revenue.

⁴³ REC 2: In order to increase efficiency and effectiveness, DG Budget should reorganise its IT capacity in homogeneous areas and consolidate the IT-related tasks. In particular, DG Budget should firstly undertake an assessment and classification of the IT-related activities currently performed in the DG.

⁴⁴ REC 1 on Governance of the Charge-back process and REC 2 on Central guidance and instructions

⁴⁵ GUIDANCE ON THE PROVISION OF SERVICES TO OTHER EU INSTITUTIONS, AGENCIES AND BODIES

- ❖ The examined systems are assessed as overall effective for TOR. The Key internal controls in MS visited are assessed as partially effective.

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

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 which will be implemented during the next GNI verification cycle starting in April 2016. The recommendations directly affecting BUDG (AAR coverage and the use of general reservations) were already resolved prior to the publication of the report.

Furthermore the ECA has reviewed BUDG's 2014 AAR and gave a favourable conclusion. ECA concluded that the 2014 AARs of DG BUDG and EUROSTAT provide a fair assessment of financial management in relation to the legality and regularity of underlying transactions concerning own resources and other revenue and the information provided corroborates ECA's observations and conclusions.

• **Follow-up of ECA reports**

During 2015, 3 new recommendations have been issued. Those due in 2015 have been reported to ECA as implemented:

- 2013 annual report
 - Encourage Member States to correctly use A and B accounts and to ensure their completeness and correctness (due in December 2015; reported to ECA as implemented)
 - Encourage Member States to use the existing guidance and monitor the implementation of Member States' post-clearance audits(due in December 2016)
- Special report 2/2014
 - Verify that MS improve the effectiveness of their risk management systems and control strategies (due in December 2015; reported to ECA as implemented)

2.3. Assessment of the effectiveness of the internal control systems

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

DG 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.

• **Internal Control Assessment (ICAT Exercise) - Results 2015**

In January 2016 BUDG has carried out the annual assessment of the effective implementation of the Internal Control Standards of the Commission in the DG.

The overall participation rate for 2015 exercise has been of 79% which is considered positive and represents an increase compared to last year (62%). The ICAT exercise resulted in an overall positive assessment rate of 84.51% which is slightly lower than in 2014 (85.98%) but above the 75% benchmark rate established (same as last year).

Although in none of the ICS taken individually the results were below this benchmark, for some of them a decrease in the positive assessment has been observed from last year. This is the case for the standards ICS 7 - Operational Structure and ICS 8 - Processes and Procedures. On the other hand the most relevant improvements have been observed in the assessment by management of ICS -1 Mission (from 90% in 2014 to 98% in 2015) and in the assessment by the staff of ICS-2 Ethical and organizational values (from 80% to 89%).

As a result, some actions have been suggested for 2016 to improve effectiveness of some ICS, notably for ICS-12 Information and Communication for which some actions starting in 2015 will need to be finalized during 2016 as detailed in next sections. Also in relation with ICS-7 improvements will be achieved due to the implementation of open recommendations derived from the audit "IT Governance in BUDG" as explained in section 2.2.3.

- **Prioritisation of Internal Control Standards (ICS) in recent years**

- MP 2011: ICS 5 – Objectives and Indicators & ICS7 – Operational Structure
- MP 2012: ICS 2 – Ethical and organizational values & ICS 8 – Processes and procedures;
- MP 2013: ICS 3 – Staff allocation and mobility;
- MP 2014: ICS 6 – Risk Management

Prioritization of ICS for 2015: Information and Communication (ICS 12)

This was a strategic point in the MP 2015. Last data available (ICAT⁴⁶ exercise 2014) shows a decrease in the positive assessment on internal communication (from 90% in 2013 to 75% in 2014). Assessment by management on this aspect has been the lowest in the exercise (75%).

Comments received in this context recognized the improvements recently achieved in this field. A special mention was given to the organisation of extended management meetings. However it is also considered that improvements can still be made (avoid working in silos or more/better feedback from management meetings).

The following has been achieved during 2015 in order to improve performance on this standard:

- ❖ Regular weekly updates of BUDG Communication Rolling Plan (at meetings of BUDG Management and at meetings between CAB/SPP and BUDG Communication Unit)
- ❖ Revamp of BUDGnet in order to make it more user friendly and dynamic
- ❖ Communication training for BUDG staff: Training has taken place as planned and at least two colleagues per unit have attended the sessions (53 colleagues in total in BUDG)

There are some actions still in progress or that will take place during 2016:

- ❖ Brief presentations to BUDG Units have been made by the Head of Communication and Information (Unit R1) to raise awareness on communication issues (target: at least 80% BUDG Units visited). The action will continue until March 2016.

⁴⁶ Internal Control assessment tool- yearly evaluation of the effective implementation of the internal control standards

- ❖ Organization of the BUDG Communication Week. Following the "pilot project", more BUDG units will be involved in the preparation of this event. It will be organised in the course 2016.

Conclusion

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

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

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

The annual review of the Internal Control Standards has resulted on an overall positive assessment, except for some actions that need to be implemented during year 2016.

In conclusion, the internal control standards have been mostly effectively implemented.

2.4. Conclusions as regards assurance

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

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

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

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

Further assurance is obtained by the risk management process put in place, by the very limited number and significance of exception and non-compliance reports issued in 2015. 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 risks from audit recommendations remaining open from previous years are 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.

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the administrative expenditure authorised during the reporting year (EUR 11.53 million) is below 0.5% which implies an amount at risk below EUR 57.641.

3. DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of DG BUDGET

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁴⁷.

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

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

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

Brussels, 23/03/2016

(signed)

Nadia Calviño

⁴⁷ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.