



Annual Activity Report 2021

DG BUDGET

Table of Contents

THE DG IN BRIEF	5
EXECUTIVE SUMMARY	6
A. Key results and progress towards achieving the Commission’s general objectives and DG’s specific objectives	6
B. Key Performance Indicators (KPIs)	8
C. Key conclusions on Financial management and Internal control.....	9
D. Provision of information to the Commissioner	9
1. KEY RESULTS and progress towards achieving the Commission’s general objectives and DG’s specific objectives	10
General Objective 3: AN ECONOMY THAT WORKS FOR PEOPLE	10
Specific Objective 3.1. Design, negotiate and manage EU budget expenditure and revenue that delivers efficiently on Union priorities and provides added value through the financing of EU public goods	10
Specific Objective 3.2. Develop policy-relevant knowledge, performance and financial intelligence in order to optimize the use of resources, influence policy design and ensure efficient and effective implementation of the spending programmes	13
Specific Objective 3.3. Enhance agility of the budget by strategic planning and foresight, harmonized asset management as well as efficient use of financial instruments, budgetary guarantees and the budgetary headroom	14
STRATEGIC COMMUNICATION.....	16
General Objective 5: PROMOTING OUR EUROPEAN WAY OF LIFE.....	17
Specific Objective 5.1. Secure that the amounts allocated from the EU budget are invested for the intended purpose, and ensure strict compliance with the financial rules in order to minimize errors, prevent fraud, enhance transparency, and pave the way to the discharge.....	17
Specific Objective 5.2 Strengthen the protection of the EU budget from financial risks including through EDES, the generalized deficiencies as regards the rule of law in the Member States by greater transparency, knowledge sharing and accountability achieved by regular dialogue between all concerned stakeholders.....	18
Specific Objective 5.3. Promote strong enforcement culture to protect the EU budget.....	20
STRATEGIC COMMUNICATION.....	21
General Objective 7: A MODERN, HIGH PERFORMING, SUSTAINABLE COMMISSION	22
Specific Objective 7.1. Act as a centre of excellence and trusted partner for Commission services, other institutions, agencies and bodies, Member States and beneficiaries.....	22
CORPORATE COMMUNICATION	25
2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL.....	27
2.1. Financial management and internal control	27
2.1.1. Control results	28
2.1.2. Audit observations and recommendations	38
2.1.3. Assessment of the effectiveness of internal control systems.....	40
2.1.4. Conclusions on the assurance.....	42
2.1.5. Declaration of Assurance and reservation.....	44
Declaration of Assurance	44
2.2. Modern and efficient administration – other aspects.....	45
2.2.1. Human resource management.....	45
2.2.2. Digital transformation and information management	46

Foreword



Dear reader,

In 2021, following one of the most challenging years in its history, the EU launched its recovery from the COVID-19 pandemic.

At the heart of the EU response was the long-term term budget 2021-2027 and the NextGenerationEU recovery instrument. Worth a total of over €2 trillion, the package has already started to help repair the damage caused by the pandemic and rebuild a greener, more digital and sustainable economy. The expected effects include additional economic growth of between 1-3% in the longer term, as well as the creation of some 2 million jobs.

To finance NextGenerationEU, the European Commission, on behalf of the EU, can borrow on the capital markets up to around €800 billion. The borrowing, which started in mid-2021 will continue up until 2026 and will be repaid by 2058. 30% of the funds will be raised through the issuance of NextGenerationEU green bonds.

The European Commission's Directorate-General for Budget and its team played a key role in designing, negotiating and implementing this package. While a lot of the preparatory work around it was carried out in 2020, last year was about putting it into practice. After taking all the necessary legislative steps and setting up the relevant infrastructure, the Commission proceeded with the first NextGenerationEU issuance in June 2021. By the end of the year, it had raised a total of €71 billion in EU-Bonds, and additional funds in short-term EU-Bills.

The funds enabled the Commission to finance some €64 billion in Recovery and Resilience Facility payments to a number of Member States. As of end-December 2021, over €7 billion had been allocated in support of other EU programmes for the successful implementation of the digital and green transitions. All payments were successfully carried out in record time by DG BUDG, in an illustration of the success of our treasury operations.

All borrowing under NextGenerationEU will be repaid by 2058. To help repay the funds raised, and to contribute to the EU policy objectives also on the EU budget revenue side, the Commission has proposed the introduction of new sources of revenue to the EU budget. Proposed in December 2021, these are based on (1) revenues from the Emissions Trading System (ETS); (2) the resources generated by the proposed EU carbon border adjustment mechanism; and (3) the share of residual profits of multinational companies reallocated to Member States pursuant to the forthcoming Directive on the implementation of the global agreement on the re-allocation of taxing rights. These revenues, if agreed by the legislator, will also contribute to the financing of the Social Climate Fund, an innovative instrument designed to make sure that the transition to a decarbonised economy works for all.

In parallel to supporting Europe's recovery, the EU budget continued to respond to other emergencies inside the EU and in our neighbourhood, and to ensure much needed support to existing and new policy priorities. Thanks to the €2.7 billion from the EU budget made available through the Emergency Support Instrument, the European Commission signed advance purchase agreements with individual medicine producers to buy coronavirus vaccines for all EU citizens and people in developing countries. By the end of 2021, more than 78% of the EU population had been fully vaccinated, and many were getting boosters. The EU budget made available EUR 6 billion for 2022-2027 for the new health authority HERA, to prevent, detect, and rapidly respond to health emergencies. Also in 2021, the EU budget increased the humanitarian aid for Syrian refugees in Turkey. Thanks to the EU budget, a support package of EUR 1

billion was secured for the Afghan people and neighbouring countries, addressing the urgent needs in the country and the region.

These examples demonstrate the agility of the EU budget and its particular importance at times of crisis. But the EU budget is also there to support overarching policy priorities. To make this possible in 2021 the BUDG team prepared and negotiated the 2022 budget proposal, successfully completed the discharge of the 2020 budget and started the discharge of the 2021 budget. We continued working to make sure every euro from the budget is well-spent and protected against fraud and irregularities. In this context, DG BUDG has been applying since January 2021 the regulation on the general regime of conditionality for the protection of union budget, which provides an extra layer of protection to the union's finances. To be able to continue successfully carrying out our operations, we launched BUDGpedia and SUMMA for agencies, making sure we have best in class knowledge management and payment infrastructure for our operations.

To raise awareness about the work done and about the evolving nature of the EU budget, we revamped our Europa web presence with a new section targeted at NextGenerationEU investors and revived our Annual Budget Conference – a flagship event that gathered the main stakeholders in the EU and beyond who follow the EU budget debate.

All of this took place under the very challenging circumstances of teleworking and the difficulties for many colleagues related to home schooling their children and personal concerns.

In 2022, the work towards Europe's green and digital recovery will continue, interlinked with support to in response to emergencies and new policy developments. DG BUDG will keep providing invaluable support to achieve that objective. More than ever, the EU budget is essential to provide the means for Europe's successful operations, and the DG BUDG team has a key role to make sure the funds are allocated in the best way possible, and spent correctly, bringing advantages to society as a whole through EU public goods and driving Europe's progress.

To learn more about the work done so far, I invite you to read the detailed overview of our achievements in the past year, which will certainly serve as an inspiration for the future.

Gert Jan Koopman, Director-General of DG Budget

THE DG IN BRIEF

The Commission's Directorate-General for Budget, or DG BUDG, is the horizontal Commission service in charge of all budgetary matters, making sure the EU has the resources to deliver on its political priorities. In its role, DG BUDG is central to the policy-making process and interacts, on a daily basis, with all Commission services and with the wider financial community. Its main responsibilities include negotiating and implementing the multiannual financial framework (MFF) and the annual budgets, managing the annual budget cycle, overseeing the revenue and expenditure side of the budget, executing all payments, and ensuring the budget has the tools to guarantee all funds are spent in a transparent way, in line with the rules and generating EU added value. The DG also played a key role in the proposal and negotiations of the NextGenerationEU recovery instrument and since 2021 is borrowing funds on the capital markets to finance the recovery via NextGenerationEU.

Although DG BUDG oversees the EU's entire budget, its own spending is limited. Its expenditure is mostly used to maintain and improve the Commission's corporate financial and accounting system. Indeed, DG BUDG is the domain leader for financial management and is in charge of developing the SUMMA system that is gradually replacing the ABAC¹ system.

The Accounting Officer of the Commission sits in BUDG, as a Deputy Director General, and is responsible for the management of the central treasury and the preparation of the accounts of the Commission and of a number of other EU bodies. The annual financial statements are certified by the European Court of Auditors. The Accounting Officer is also responsible for the recovery of funds, including fines.

In 2021 DG BUDG appointed the Chief Risk Officer (CRO) and Compliance Officer for NGEU debt management. The CRO is responsible with ensuring the sound governance and effective risk management of the borrowing and lending activities in BUDG. This oversight is guided by the High Level Risk and Compliance Policy (HLRCP), the established Risk framework, and by monitoring that the HLRCP is implemented in a comprehensive and consistent manner.

All things considered, and from an operational perspective, DG BUDG's activities are organised around three general objectives of the von der Leyen Commission: (i) an economy that works for people; (ii) promoting our European way of life; and (iii) a modern, high performing, sustainable Commission. 550 BUDG's staff members are allocated in six Directorates and three horizontal units in Brussels and Luxembourg.

In 2021, Directorate B was reorganised to provide a clearer structure and organisation of the Directorate's activities in terms of revenue policy, revenue management, revenue control and enforcement but also to better address workload issues and achieve synergies between the different teams.

¹ ABAC (Accrual Based Accounting System) is the central accounting, budgetary and treasury system set up by the Commission to implement its budget and prepare its annual accounts.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG BUDG to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes, as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties ⁽²⁾.

A. Key results and progress towards achieving the Commission's general objectives and DG's specific objectives

In 2021, the European Commission continued working towards a sustainable recovery from the pandemic and rebuilding of a greener, more digital and more resilient Europe. All Commission services were involved in this endeavour, and DG BUDG played a significant role in supporting the recovery.

While in 2020 DG BUDG contributed to the proposal, negotiations and agreement of the 2021-2027 long-term budget and the NextGenerationEU instrument, in 2021 the work of the DG concentrated on the implementation and operationalisation aspects. More concretely, in 2021, DG BUDG focused on the following:

- ✓ DG BUDG started implementing the largest EU budget in history, of EUR 2.0 trillion. It consists of the long-term EU budget of over EUR 1.2 trillion plus the NextGenerationEU recovery instrument of up to around EUR 800 billion. While DG BUDG was implementing the budget for 2021, we received the discharge to the 2019 budget, reported on the 2020 budget and proposed and negotiated the 2022 budget.
- ✓ In 2021, DG BUDG supported the launched of the NextGenerationEU recovery by disbursing EUR 64.34 billion to EU countries under the Recovery and Resilience Facility and a few billion to other EU budget programmes funded via NextGenerationEU.
- ✓ For that, DG BUDG raised EUR 71 billion in long-term funding from capital markets in 2021, after having developed a diversified funding strategy and put in place all necessary elements for its implementation, and following the approval of the Own Resources Decision by all EU countries in line with their national procedures in just 5 months! NextGenerationEU borrowing included the first NextGenerationEU green bond of EUR 12 bn that DG BUDG successfully issued in October - the biggest green bond ever. It was based on a state-of-the-art NextGenerationEU green bond framework put forward a month earlier.
- ✓ Along the way, DG BUDG made a difference for millions. Thanks to funding from the EU budget, the European Commission signed agreements for the purchase of coronavirus vaccines for all EU citizens and people in developing countries. By the end of 2021, more than 78% of the EU population had been fully vaccinated, and many were getting boosters.
- ✓ The EU budget was also there to help the EU better deal with unforeseen circumstances, show global leadership, build a stronger Union. For example, EUR 6 billion for 2022-2027 will go to the new health authority HERA, to prevent, detect, and rapidly respond to health emergencies. Also, in 2021, the EU budget increased the humanitarian aid for Syrian refugees in Turkey. Thanks to the EU budget, a support package of EUR 1 billion was made available for the Afghan people and neighbouring countries, addressing the urgent needs in the country and the region.
- ✓ Very importantly, as of 2021, the budget is getting an extra layer of protection via the rule of law conditionality mechanism which offers an extra layer of EU budget protection in cases where

² Article 17(1) of the Treaty on European Union

rule of law deficiencies threaten the financial interests of the Union. In 2021, the Commission started gathering evidence, [launched a comprehensive website](#) and published a complaint form inviting everybody to flag possible cases. Work on the implementation of this instrument will continue in 2022.



✓ In 2021, DG BUDG revived its flagship Annual Budget Conference, where we hosted high-level speakers like European Commission President Ursula von der Leyen, Commissioner Johannes Hahn, the Managing Director of the International Monetary Fund Kristalina Georgieva, the Prime Minister of Portugal Antonio Costa and the Vice-President and Minister for Economy and

Digitalisation of Spain, Nadia Calviño. To foster the discussion at the event, DG BUDG published the first ever EU budget policy brief.

- ✓ In 2021, DG BUDG also proposed the next generation of EU own resources for the EU budget. Once adopted, these would help repay the funds raised by the EU to finance the grant component of NextGenerationEU, and should finance the Social Climate Fund.
- ✓ In 2021, DG BUDG also made many internal projects happen, to help us work better and deliver even more impressive results. These included most notably the launch of SUMMA for agencies, the new corporate platform for the management of budgetary execution, accounting, and treasury.

In 2022, DG BUDG will build on the work done in previous year. More concretely, DG BUDG will keep borrowing on the financial markets to finance the recovery under NextGenerationEU. DG BUDG will help to take forward the discussions on new revenue sources to the EU budget, in particular to repay the borrowing, and on the proposal for amending the 2021-2027 long-term budget to cater for the early repayment of NextGenerationEU and the establishment of the Social Climate Fund. On this basis, DG BUDG will continue the reflection on the changing role of the EU budget and identifying its practical implications in the years to come.

At the same time, DG BUDG will pay particular attention to the implementation of the 2021-2027 long-term budget and NextGenerationEU. DG BUDG will be working closely with the relevant Commission services, with the other EU institutions, with Member States and with a wide range of external stakeholders to make sure every euro from the EU budget reaches beneficiaries, creates EU added value, is spent in line with the rules and protected against any misuse. In the same vein, DG BUDG will continue implementing the conditionality regulation. Finally, DG BUDG will take forward the SUMMA project, which will make financial management for the entire Commission, agencies and other EU Institutions easier and more efficient.

The current annual activity report provides a comprehensive overview of the work done in 2021 and outlines the challenges ahead, which are clearly identified in the Management Plan for 2022.

B. Key Performance Indicators (KPIs)

Indicator	Baseline	Target 2024	Milestones achieved in 2021
<p>New Own Resources developed</p> <p>MFF 2021-2027 implementation, revisions and mid-term review</p>	<p>Own Resources Decision entered into force in 2020</p> <p>MFF 2021-2027 adopted in 2020</p>	<p>New own resources have entered into force</p> <p>The targeted MFF amendment related to new own resources is adopted</p>	<p>Proposed on 22.12.2021:</p> <p>-The amendment of the Own Resources Decision to establish three new sources of revenue based on CBAM, ETS and residual profits.</p> <p>-The amendment of the 2021-2027 MFF financed by the new own resources to allow for early repayment of NextGeneratioEU and to accommodate the Social Climate Fund.</p>
<p>Facilitate adoption and implementation of annual budget within deadlines set in the Treaty.</p>	<p>Budget 2020 adopted on 27 November 2019</p>	<p>Adoption of annual Budget in December at the latest</p> <p>100% implementation</p>	<p> Budget 2022 adopted on time (24/11/2021)</p> <p> Almost 100% budget implementation, including all transfers and 6 amending budgets</p>
<p>Develop a performance culture in the Commission.</p>	<p>Performance information presented in the Annual Management and Performance Report (AMPR) 2020, in the programme statements and Programmes' Performance Overview accompanying the draft budget 2020.</p>	<p>Integrated presentation of performance information embedded in the annual draft budget and performance reporting cycle. Implementation of residual error methodology.</p> <p>Reinforcing performance framework for evaluation, reporting, budgeting and programming.</p>	<p>Integrated Financial and Accountability Report: published.</p> <p>Programmes' Performance Overview</p> <p>Performance websites launched for all EU spending programmes.</p> <p>"Programme and performance" fiches for each 2021-2027 EU spending programme, were annexed to 2021 Communication on the Performance Framework of the EU Budget.</p> <p>Training provided to DGs to ensure proper focus on performance.</p> <p>2021 Delegation package for Executive Agencies, merging six separate acts into a single act and containing an innovative provision on synergies to combine funding from different sources.</p> <p>Reliability of consolidated data in the Commission 2020 AMPR.</p>
<p>Confirmation by ECA of the reliability of the annual accounts and discharge resolution by EP with no postponement or reservations</p>	<p>Indicator and its result per discharge year</p>	<p>2014</p> <p>2015</p> <p>2016</p> <p>2017</p> <p>2018</p> <p>2019 (last known res)</p>	
<p>Confirmation by ECA of the effectiveness of the Commission's Own Resources control systems.</p>	<p>ECA's clean opinion on the accounts</p> <p>ECA's clean opinion on own resources</p> <p>Discharge granted</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	
<p>Degree of implementation of the new corporate financial platform (SUMMA)</p>	<p>Phase I and II successfully finished. GAPS and specific needs being identified.</p> <p>2022: Pilot agencies rollout 2024: Commission rollout</p>	<p>Successful implementation of SUMMA for all the Commission services.</p>	<p>The design and build of the SUMMA pilot solution for agencies was completed in 2021. SUMMA was opened in November 2021 for the Pilot agencies anticipated budget operations and went live for the full operation of the Pilot Agencies in January 2022, in line with the SUMMA programme timeline.</p>
<p>BUDG Anti-fraud Strategy</p>	<p>Strategy revised in 2021</p>	<p>100% of implementation of the action plan in 2024</p>	<p>25% of actions implemented in 2021.</p>

C. Key conclusions on Financial management and Internal control

In accordance with the governance arrangements of the European Commission, DG 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.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG BUDG has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, except for principle 10: control activities, where there is a major deficiency in design of controls in the audited areas, due to the open very important audit recommendations, covering a non-material part of the DG's activities. Please refer to the section 2.1.3 of this report for further details.

In addition, DG BUDG has systematically examined the available control results and indicators, as well as the observations and recommendations issued by the Internal Audit Service and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1.2 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 qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the Member States. As described in the corresponding section and in the reservation details (cf. annex 9.2), DG BUDG, in cooperation with the relevant services, is following-up very closely on this matter.

D. Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of Commissioner Johannes Hahn, responsible for Budget and Human Resources.

1. KEY RESULTS and progress towards achieving the Commission's general objectives and DG's specific objectives

This section provides information on the key results and progress towards the achievement of the general and specific objectives set in the 2020-2024 strategic plan and towards the achievements of the outputs set in the 2021 management plan. It tells the performance story of the DG as regards the policy dimension (What have we delivered?). Through its many roles and activities, DG BUDG contributed directly or indirectly to all Commission priorities. The direct contribution is concentrated on three **general objectives** (numbered 3, 5 and 7) of the von der Leyen Commission, broken down to specific objectives, as outlined below.

General Objective 3: AN ECONOMY THAT WORKS FOR PEOPLE

Specific Objective 3.1. Design, negotiate and manage EU budget expenditure and revenue that delivers efficiently on Union priorities and provides added value through the financing of EU public goods

3.1.1. Framework for the implementation of the next long-term EU budget and the NextGenerationEU

In 2021 DG BUDG continued to ensure coordination across the Commission to guarantee the overall coherence and the quality of the operational legal acts (e.g. implementing/delegated acts, proposals for Council implementing decisions, operational arrangements, financing agreements and loan agreements where relevant, contracts) necessary for the new programmes to kick-off swiftly.

In addition, DG BUDG initiated the implementation of the NGEU via debt issuances on behalf of the EU³. The Commission completed the first NGEU debt issuance two weeks after the entry into force of the Own Resources Decision. By 31 December 2021, the Commission had issued EUR 71 billion for NextGenerationEU of which EUR 12 billion in the form of NextGenerationEU green bonds. In addition, in September 2021, the Commission launched its new EU-Bills programme for securities with a shorter maturity of below one year giving it access to a wider investor base.

In line with the increased funding needs NGEU the Commission adopted in April 2021 a Diversified Funding Strategy. The strategy reflected best practice by big issuers, combining the use of different funding instruments and funding techniques with an open and transparent communication to the market participants. In order to facilitate the efficient execution its transactions the Commission also established a Primary Dealer Network, with 42 banks and investment firms established in 12 different Member States having been admitted to the network by end 2021.

The launch of the NGEU operations in 2021 was underpinned by a structured approach to the planning of its issuance activities in annual and 6-monthly cycles, based on NGEU financed programmes' disbursement needs, updated on a regular basis. The NextGenerationEU issuance planning also took into account the longer-term requirement for a steady and progressive repayment of the debt as it matures. In 2021 the Commission was able to meet all payment requests within six days.

³ See "[Semi-annual report on the execution of the NextGenerationEU funding operations pursuant to Article 12 of Commission Implementing Decision C\(2021\)2502](#)", COM(2022) 43 final, 17/02/2022.

The Commission established in May 2021 a forecasting committee which provides regular, consolidated and updated information on the NGEU disbursement needs, on the basis of input from DGs in charge of NGEU financed programmes via the forecasting tool. This regular reporting forms the basis for the amounts to be borrowed from the market in order to honour the payments under the NGEU financed programmes. Where actual disbursement needs deviate from original forecasts, procedures are in place to revise the borrowing activities and communicate accordingly to the market (e.g. such a revision took place in November 2021).

The Commission published the NextGenerationEU Green Bond Framework in September 2021. It identifies nine broad categories of eligible expenditure such as renewable energy, energy efficiency, clean transportation, and R&I supporting the green transition. The first green bond issuance took place on 12 October 2021, raising EUR 12 billion to be used exclusively for green and sustainable investments across the EU. The inaugural green bond was more than 11 times oversubscribed, attracted interest from a wide range of investors, and represented the world's largest green bond issuance to date.



In addition, DG BUDG handled the financial execution of the NGEU payments which in 2021 included the transfer of EUR 64.4 bn for the Recovery and Resilience Facility (RRF), and EUR 8.6 bn for non-RRF programmes⁴. All NGEU disbursements have taken place within six working days after the signing of the Financing and Loan Agreements, with 20 Member States receiving grants and loans under the RRF. In the period June to December 2021 the Commission achieved a daily average cost of funding for the

financing of the loan and grant disbursements of 0.14%⁵.

3.1.2. Launching the Recovery and Resilience Facility⁶

DG BUDG contributed to the full operationalisation of the Recovery and Resilience Facility, which has required the assessment of several national recovery and resilience plans (RRPs), regarding control aspects and performance issues, and the preparation of a series of legal documents. The main challenges for these activities were the very short timeframe available and the sensitivity of the matter. DG BUDG participated in all the country teams set up by SG RECOVER and DG ECFIN to discuss the draft RRPs with the national authorities and then assess the final RRPs. In that context, DG BUDG proposed a series of milestones to ensure that the concerned Member States would put in place a robust control system and appropriate performance indicators.

Particular importance was attached to striking a balance between the need to launch the Recovery and Resilience Facility quickly to support national investment and reforms, and the need to protect the financial interests of the Union. This was achieved by ensuring that robust internal control systems are in place in the Member States before the Commission disburses any funds. DG BUDG also proactively identified the need to address certain past Council Country Specific Recommendations, which had some bearing on the protection of the financial interests of the Union. This required an in-depth analysis of each of the proposed RRPs and the design, together with the other services involved, of solutions tailored to each Member State but equivalent in terms or results among all of the concerned Member States.

⁴ Actual disbursements to final beneficiaries may be lower, due to timing differences.
⁵ For more information, please refer to the [Semi-annual report on the execution of the NextGenerationEU funding operations pursuant to Article 12 of Commission Implementing Decision C\(2021\)2502](#).
⁶ For more detailed reporting on the set-up and implementation of the Recovery and Resilience facility, please refer to the Annual Activity Reports of DG ECFIN and SG.

In 2021 DG BUDG also worked on preparing the model financing and loan agreements signed by the Commission and the Member States giving the necessary legal frame to the implementation of the RRP. The DG contributed to all the other legal documents, such as (i) the Commission Staff Working Documents, draft Council Implementing Decisions essential for approving the RRP, (ii) draft Operational Arrangements necessary so that Member States can submit payments for milestones and targets, and finally, (iii) assessments of the first payment requests that were received already before the end of 2021. DG BUDG has also been working with DG ECFIN to ensure there is sufficient guidance provided to Member States to ensure that they can meet their obligations on avoiding double funding costs (by RRF and by other source).

3.1.3. Adapting the revenue side of the EU budget

On 22 December 2021, the Commission delivered on its legal obligation under the Inter-institutional agreement of 16 December 2020 and proposed three new own resources for the EU budget, based on emissions trading, the carbon border adjustment mechanism and a share of the residual profits of in-scope companies that are reallocated to EU Member States under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting agreement. The new own resources proposed will help to repay funds raised by the EU to finance the non-repayable expenditures of NextGenerationEU and finance the Social Climate Fund. The package proposed by the Commission also included a targeted amendment of the Multiannual Financial Framework Regulation to enable the expenditure foreseen for the Social Climate Fund, and a dedicated annual automatic adjustment of the Multiannual Financial Framework ceilings, based on new own resources, used for the repayment of NextGenerationEU borrowing.

The new own resources support the Fit for 55 package and the climate ambitions of the EU. They finance the Social Climate Fund, which will address the social impact of the new Emission Trading System to Building and Road Transport. More fundamentally, the proposed next generation of own resources further embeds within the revenue side of the EU budget the Union's overarching common priorities.

In addition, a proposal for amending the Making available regulation 609/2014⁷ was adopted on 25 June 2021 with the objective to further strengthen the system of making available OR in order to ensure regular and timely payments to the EU budget.

3.1.4. Translating the long-term budget into the annual budgets

One of the core responsibilities of DG BUDG is to ensure the proper functioning of the annual budgetary procedure. The amendments to the annual budget and transfers during the year allow for financing new priorities and the most efficient use of the available resources.

The 2022 budget was the second year of the new long-term budget. It was also the first year that the budget was prepared and adopted in a stable multiannual and legal framework, even if some legal bases were only adopted very late in the year. The technical update of the financial programming was prepared in January after the adoption of the 2022 budget.

In June 2021, the Commission communicated on the results of the annual technical adjustment of the 2021-2027 MFF, which included for the first time the new mechanism to top-up priority programmes on the basis of the revenue from competition fines to the EU from the preceding year.

⁷ COM(2021) 327 final.

3.1.5. Budgetary aspects in the new relations with the UK and in the association of other third countries to Union programmes

In 2021 DG BUDG was appointed to Co-chair of the Specialised Committee on Participation in Union programmes under the EU-UK Trade and Cooperation Agreement. In this role DG BUDG has ensured the Union representation vis-à-vis the UK in full cooperation with the Member States, including during the first meeting of this joint body in December 2021.

More generally, DG BUDG has extensively contributed to the implementation of the UK Withdrawal Agreement. The Commission issued 2 invoices (in April and September) to the UK for the 2021 UK contribution to the EU budget. All the UK payments (monthly contributions in June-December) were received on time. The Commission has furthermore ensured that the new generation of Programme Association Agreements under the 2021-2027 MFF is aligned in terms of conditions and financial modalities to ensure equal treatment of third countries. DG BUDG led the introduction of corporate templates, guidance, and methodologies for the calculation of third country contributions.

Specific Objective 3.2. Develop policy-relevant knowledge, performance and financial intelligence in order to optimize the use of resources, influence policy design and ensure efficient and effective implementation of the spending programmes

3.2.1. Measuring the performance of the EU budget

DG BUDG has continued to strengthen the performance framework for the EU Budget. The DG coordinated a dedicated Commission communication on the performance framework under the 2021-2027 MFF (published in June 2021) that described recent achievements and laid out the plans for further improvements. This included, but was not limited to:

- streamlining core performance indicators, now included in legal bases;
- new sections on performance assessment in programme statements;
- integration of the Programme Performance Overview (PPO) in the Annual Management and Performance Report (linking the draft budget and discharge procedures);
- enhanced information on performance timely supplied to budgetary authorities in the context of the budget for the following year;
- further improving the reporting on horizontal priorities,
- enhance availability of user-friendly performance information on its website,
- look into methodological improvements to capture input and output/results in key areas across programmes.

The DG also organised several internal training sessions to ensure that line DGs focus on performance in both the management of their programmes and the associated reporting, and launched a new training course on enhancing the gender-equality perspective in programme implementation.

3.2.2. Assessing the impact of the EU funds on the ground



The development of the EU budget and its financing as an important policy instrument must be based on sound economic evidence and analysis. As part of its contribution to this analysis, in 2021 DG BUDG started the series 'EU Budget Policy Briefs' which analyse selected topics on spending and financing of the EU budget. The first publication in this series was on the topic 'The evolving nature of the EU budget'. To enhance its modelling

capabilities underpinning the analysis on the socio-economic impact of EU funds, in 2021 DG BUDG initiated the technical migration to a new business intelligence tool for handling and analysing long-term budgetary and economic data.

The 2020 Annual management and performance report for the EU budget and the Programme Statements attached to the draft budget for 2022 had an enhanced reporting focus on all major budget mainstreaming efforts (climate, biodiversity, gender, SDGs). Comprehensive methodologies for tracking EU budgetary expenditure in the areas of climate and gender equality are under development. The climate tracking methodology has been delayed by the late approval of several legal bases, and is now scheduled to be published in the 1st quarter of 2022. The gender equality tracking methodology will be used for the first time in reporting in the context of DB 2023.

Specific Objective 3.3. Enhance agility of the budget by strategic planning and foresight, harmonized asset management as well as efficient use of financial instruments, budgetary guarantees and the budgetary headroom.

3.3.1. Optimal use of resources within the available framework

On 30 June 2021, the Commission adopted the annual report on the long-term forecast for the EU expenditure and revenue, which provided the first forecast after the historical agreement on the EU Recovery Plan. To ensure a comprehensive view of EU spending in the longer term, the forecast covered expenditure both under the MFF and NextGenerationEU and was extended to the entire 7-year period 2021-2027. On the revenue side, the projections reflected the new system of the 2020 Own Resources Decision, which had just entered into force. The long-term forecast gave important indications on the developments and expected patterns for the EU cash flows (both on the spending and the revenue side) in the medium and longer term. Through careful forecasting of the expected implementation, the report assessed the sustainability of the expenditure ceilings of the MFF, allowing for an optimal use of unallocated margins and adequate planning and strategic foresight of future revenue and expenditure flows, including for the first time those related to NextGenerationEU⁸.

In November 2021, the Commission issued the first edition of the report on financial instruments, budgetary guarantees and financial assistance in accordance with the requirements of Article 250 of the 2018 Financial Regulation ("Art. 250 report"). The report provides an overview of contingent liabilities borne by the EU at the end of 2020 and of the measures and safeguards, through which the Commission rigorously manages budgetary guarantees and loan programmes and minimises the risk that contingent liabilities exceed available budgetary capacity. The sustainability analysis in the report demonstrated that the EU budget had adequate resources to cope with the risks related to contingent liabilities. The report also concluded that the EU financial capacity under the existing legal framework (i.e. the Own Resources Decision and the MFF Regulation) was sufficient to cater for the materialisation of any losses that may

⁸ Art.247.1(c) of the Financial Regulation.

arise in respect of un-provisioned loans over the period until end-2027 (also in an more adverse stress scenario).

To substantiate the analysis and conclusions of the Art. 250 report in its first edition (as well as in the future), DG BUDG developed a dedicated analytical framework for the assessment of the sustainability of EU contingent liabilities. The set-up of an EU budget-specific framework has become more pertinent with the launch of NextGenerationEU, which may bring more than a tenfold increase in the volume of EU issuances. The framework provides the analytical and methodological underpinning for a prudent management of the headroom. The framework includes also specific risk management and compliance elements under the oversight of the Chief Risk Officer. The specific risks and associated appetite, and controls for operational units participating in NGEU operations are further elaborated on in the High Level Risk and Compliance Policy.

3.3.2. Efficient asset and risk management of the EU budget guarantees, debt issuance and loan administration

Borrowing and lending

In 2021 DG BUDG advanced in the development of a state-of-the-art debt management capacity. A centralised borrowing for up to around EUR 800 billion has been implemented mainly via issuance of bonds, to support spending programmes with a view to address the impact of the COVID-19 pandemic. The involved amounts were accounted for in line with International Public Sector Accounting Standards and presented to stakeholders and also within the Annual Accounts.

The liquidity management enabled smooth financial flows between borrowing and disbursement of loans and non-repayable support to the Member States. In addition, the Chief Risk Officer, in office since 1 September 2021, has been appointed to provide independent oversight of all aspects of the NextGenerationEU funding programme, on the basis of the NextGenerationEU High Level Risk and Compliance Policy (HLRCP) adopted in December 2021.

Management of budgetary guarantees

Last year DG BUDG finalised the implementation of the corporate risk management and reporting framework. The Steering Committee for Contingent Liabilities is now fully operational and meets on a regular basis.

Reporting on financial instruments and budgetary guarantees was also reinforced. All reports about financial instruments and budgetary guarantees, as listed under the Financial regulation were issued in 2021. The work around the credit risk model used to generate the risk metrics for the budgetary guarantees made good progress in 2021. Regarding InvestEU and NDICI, the negotiations of agreements with some of the key implementing partners were close to final at year end.

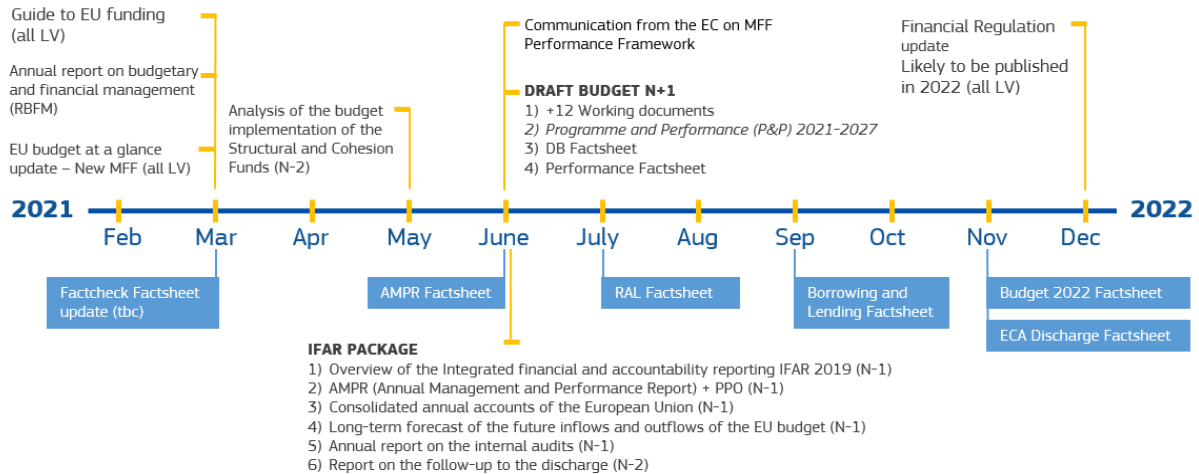
Management of the assets of the Common Provisioning Fund (CPF)

The CPF became the critical capital buffer for the system of EU budgetary guarantees. The EU legacy guarantee funds were grouped under the CPF (the European Fund for Strategic Investments (EFSI), the European Fund for Sustainable Development (EFSI) and the Guarantee Fund for External Actions (GFEA), strengthening the budget agility through strategic oversight and harmonized asset management (in line with the CPF Asset Management Guidelines). The InvestEU compartment of the CPF was opened in July 2021. The CPF was aligned with CPF's benchmark (i.e. indicative strategic asset allocation for long term investment guidance) and with CPF's short-term Tactical Asset Allocation.

STRATEGIC COMMUNICATION

DG BUDG actions to deliver on the communication objectives were identified at the beginning of 2021 and integrated into the BUDG's communication strategy. This enabled communication support to all key initiatives of the department and greater outreach towards target audiences: citizens, specialised and general media, market participants, members of the EU primary dealer network and the other issuers, in order to promote and improve the understanding of the EU budget.

BUDG PUBLICATIONS – ANNUAL OVERVIEW 2021



Abbreviations used in the picture: LV: language versions; RAL: “reste à liquider”, outstanding commitments; DB : draft budget.

Press material related to the EU budget was very well-received by the press and the relevant stakeholders. Publication [“The EU’s 2021-2027 long-term budget & NextGenerationEU: Facts and figures”](#) was the second most downloaded publication of the Commission in 2021. DG BUDG publications available in the EU Publications portal registered over 100 000 visits and page views. At the same time, DG BUDG developed a portal on the next long-term budget, covering wide range of DG BUDG activities – the MFF and NextGenerationEU, EU as a borrower, access to EU funding, programmes and performance pages.

In 2021, DG BUDG continued to maintain its two Twitter accounts. Our most successful tweet, by Director-General Gert Jan Koopman, about the ratification of the Own Resources Decision, generated half a million unique views. DG BUDG also launched a successful LinkedIn cooperation project with DG COMM’s social media team. The posts about borrowing and lending work were well-received by the target audience, generating a good level of traffic to our website.

In November 2021 DG BUDG hosted the conference “The EU budget and NextGenerationEU: fireworks or big bang?”, which brought together, in person or online, around 660 registered policy-makers, research organisations, capital market participants and citizens in a lively discussion on the challenges ahead of the EU, NextGenerationEU’s game-changing role, the importance of the new revenue for the EU and the digital and green transitions. DG BUDG also participated in numerous third-party events.

In 2021, DG BUDG supported communication on NextGenerationEU and especially the borrowing operations to finance the recovery, ensuring a smooth and targeted communication around each disbursement, significant transaction and auction. DG BUDG created a website, which has quickly become a reference point of information about the EU as a borrower by the investment community. From its

launch in April to the end of December (less than 9 months), the website EU as a borrower – investor relations generated 61 446 visits for 145 405 page views.

General Objective 5: PROMOTING OUR EUROPEAN WAY OF LIFE

Specific Objective 5.1. Secure that the amounts allocated from the EU budget are invested for the intended purpose, and ensure strict compliance with the financial rules in order to minimize errors, prevent fraud, enhance transparency, and pave the way to the discharge.

In July 2021, DG BUDG published the Integrated Financial and Accountability Reporting package, including: the consolidated EU annual accounts, the Annual Management and Performance Report (incorporating information on the protection of the EU budget), future cash flow forecasts, the annual internal audit report, and the report on the follow-up to the 2019 discharge.

DG BUDG prepared the Annual Management and Performance Report (AMPR) in collaboration with SG. This report consolidates the information presented in the Annual Activity Reports of the individual Directorates-General and executive agencies on the performance of the EU budget, on the legality and regularity of EU spending and the effectiveness, efficiency and economy of the control systems. For the first time, the 2020 report distinguishes between high, medium and low risk expenditure, which provides a detailed and nuanced picture of the strengths and weaknesses identified and the targeted actions taken.

The full set of reports on the budgetary guarantees and financial instruments, as specified under the Financial Regulation, was published in 2021.

As regards the discharge procedure, the European Parliament, based on a recommendation from the Council, granted discharge to the Commission for the 2019 financial year. DG BUDG closely cooperated with the discharge authority, in particular key MEPs such as discharge rapporteurs and shadow rapporteurs to ensure smooth discharge procedure. The DG coordinated the Commission on crosscutting issues and raised stakeholders' awareness of the Integrated Financial and Accountability Reporting package through regular presentations to e.g. COMBUD and CONT Committees.

DG BUDG also ensured a corporate steer of exchanges with the European Court of Auditors (ECA) on its strategic goals, work programme and on operational issues related to adversarial proceedings. In particular, DG BUDG continued to coordinate the Commission's input and reaction to the ECA emerging challenges, especially as regards the ECA various work streams on NGEU (in particular on the Recovery and Resilience Facility (RRF)) and the ECA's strategy on performance auditing (special reports and future of the annual report on the performance of the EU budget).

Specific Objective 5.2 Strengthen the protection of the EU budget from financial risks including through EDES, the generalized deficiencies as regards the rule of law in the Member States by greater transparency, knowledge sharing and accountability achieved by regular dialogue between all concerned stakeholders.

5.2.1. Financial risk management

In 2021 the protection of the EU's financial interests in relation to fraud and organised crime was also ensured via the Early Detection and Exclusion System (EDES). The System allows the early detection of fraudulent or unreliable economic operators, their possible blacklisting (exclusion) by banning them from obtaining EU funds and possibly imposing financial penalties. The exclusion decisions contained in the EDES database are also currently available to all Member States.

DG BUDG prepared, in consultation with other DGs, a Guidance note on avoidance and management of conflicts of interest under the Financial Regulation, adopted and published in April 2021⁹. This guidance promotes a uniform interpretation and application of the rules on avoidance of conflicts of interest in all management modes (direct, indirect and shared management), with a view to strengthen the measures to protect the EU budget against fraud and irregularities. The DG also supported the actions of other relevant Commission services to ensure the enforcement of Article 61 of the Financial Regulation (conflict of interests) and raise awareness both within EU Institutions and in Member States.

DG BUDG participated in DG JUST country teams and in all the country visits for the preparation of the 2021 annual report on the rule of law, with a view also to exploiting potential synergies and sharing information relevant for the enforcement of the Regulation on a general regime of conditionality for the protection of the Union budget ('Conditionality Regulation'). The DG also led periodic meetings with other Commission services and consulted several of them to gather all the information relevant for the application of the Conditionality Regulation.

DG BUDG took action since the entry into force in January 2021 of the Conditionality Regulation. In particular, DG BUDG monitored the situation in all Member States thoroughly to assess whether the conditions to apply the Conditionality Regulation are fulfilled. In November 2021, administrative letters were sent to two Member States. DG BUDG's analysis of the replies will feed into the Commission's assessment of whether the conditions set out in the Conditionality Regulation are met and whether additional steps are necessary under it. DG BUDG prepared guidelines on the application of the Conditionality Regulation. These guidelines were prepared through a comprehensive process, including consultation with the European Parliament and EU Member States, taking into account the judgements of 16 February 2022 by which the European Court of Justice confirmed the validity of the Conditionality Regulation. In addition, DG BUDG published on the Commission's website a presentation of the Conditionality Regulation, the guidelines and a complaint form to flag possible breaches of the principles of the rule of law that affect or seriously risk affecting the Union budget and that may therefore be relevant for the application of the Conditionality Regulation.

DG BUDG enhanced its risk management capacities related to its NGEU borrowing and lending operations with the appointment of Chief Risk Officer/Deputy Director-General, on the 1st of September 2021. The CRO oversees the NGEU borrowing, debt management and lending operations and ensures that the systems and processes used to implement the NGEU operations are designed and implemented to ensure the protection of the financial interests of the Union. The CRO is supported by a Risk and Compliance Committee, a senior Risk Manager and a Compliance Officer.

⁹ The guidance was adopted by the Commission on 7 April 2021 and published in the Official Journal of the European Union on 9 April 2021: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2021.121.01.0001.01.ENG

The CRO has drawn up the first High Level Risk and Compliance Policy for NGEU operations, that has been endorsed by the Risk and Compliance Committee and approved by the Commissioner for Budget and Administration, Johannes Hahn on 1 December 2021. This policy comprises an appropriate risk management and compliance framework for the oversight of the risks and compliance matters arising from the implementation of NGEU borrowing, debt management and lending operations and sets the appropriate mitigation measures and monitoring procedures. The CRO ensures that the policy is implemented in a comprehensive and consistent manner, and reports annually to the Commission on the implementation of this policy. All these elements built into the general assurance provided in DG BUDG's Antifraud Strategy (see Part 2.1.1 Effectiveness – Fraud prevention, detection and correction).

5.2.2. Providing information on beneficiaries and recipients of EU funds

DG BUDG supported and contributed to the preparation of the Commission proposals, for the 2021-2027 MFF and NGEU, to improve the collection of data by Member States on recipients of EU funding implemented under shared management and under the Recovery and Resilience Facility ('RRF'). These proposals included the recording and storing of data on recipients of EU funding including their beneficial owners (in case the recipients are not natural persons) in standardised (electronic) format and the compulsory use of a single data-mining and risk-scoring tool to access, analyse such data, and allow identifying, based on a set of risk indicators, measures, contracts and recipients that might be susceptible to risks of irregularities, fraud and conflicts of interest. Such a tool would enhance the quality and comparability of data on the recipients of EU funding for control and audit purposes and would allow Member States to better target their audit and control activities and the Commission to better target its supervisory role.

Important progress was achieved in the adopted legislation as regards the type of data, including beneficial ownership data, which now has to be collected by Member States for Cohesion Policy and RRF. For CAP, the adopted legislation requires, for the purposes of protecting the financial interests of the Union and transparency, the identification of the group in which the beneficiaries participate.

Unfortunately, the adopted legislation does not make obligatory the use of the single data-mining and risk-scoring tool to be provided by the Commission. The Commission made formal statements concerning this point. For CAP, there is however a review clause requiring the Commission to present, by 2025, a report assessing the use of the single data-mining tool and its interoperability with a view to its generalised use by Member States, accompanied, if necessary, by appropriate proposals.

While the use of the tool was not made compulsory at this stage, all texts (including the Inter-institutional Agreement – "IIA") contain an obligation for the Commission to provide Member States with a single data-mining and risk-scoring tool that they can voluntarily use for control and audit purposes, with a view to a generalised application by Member States. The Commission will keep doing its utmost to encourage the Member States to use this data-mining tool.

In 2021, for the 2020 projects, in addition to the final beneficiaries of EU funding managed directly by the Commission, the intermediate beneficiaries such as partner organisations or other authorities managing funds on behalf of the Commission (indirect management) have been published for the first time on the revamped Financial Transparency System website.

The ongoing move to eGrants during 2021 for directly managed EU funding programmes will also continue to improve the information available on all beneficiaries of EU funds. Contrary to paper-based grant administration, the eGrants system allows a full breakdown of where funding goes between beneficiaries within individual grants.

Specific Objective 5.3. Promote strong enforcement culture to protect the EU budget

With regard to the EU's own resources, DG BUDG ensured strict compliance with the financial rules to minimize errors, prevent fraud and enhance transparency, by ensuring the timely recovery and recording of Member States' own resources contributions. The general actions, results and controls related to DG BUDG's role in managing the revenue are also documented and followed-up in the Commission's Anti-fraud Strategy and the DG's Anti-fraud Strategy (see part 2.1.1 Effectiveness – Fraud prevention, detection and correction).

DG BUDG also ensured cooperation with OLAF in the follow-up of financial recommendations addressed to Member States to protect the financial interest of the EU revenues. Actions for infringement were launched in case where a Member States was not compliant in making own resources available to the EU budget. It also followed-up on the open infringement cases which are in different stages of the procedure. Interest on late payment was also requested whenever Own Resources were not made available on time.

The management and control of Traditional Own Resources (TOR), mostly customs duties, involves on-the-spot inspections in Member States and checking that the TOR due are made available in good time. This contributes to the definition of a balanced EU Customs policy. The 2021 inspection programme for TOR was based on a risk-based approach. DG BUDG focused on: the management by Member States of the normal ('A') and separate ('B') accounts, the follow-up of the inspections on undervaluation, anti-dumping duties as well as the e-commerce and low value consignments, as these are the most significant risks currently affecting the proper collection of TOR. As regards e-commerce, the two pilot inspections planned for 2021 were postponed to 2022, at the request of the Member States concerned.

DG BUDG started implementing a **new enforcement strategy aiming at reacting more swiftly to upcoming risks and better protecting the TOR**. On 7 May 2021, DG BUDG sent letters notifying each Member State of the preliminary calculation of estimated TOR loss in this regard. By 31 December 2021, in relation to the letter of 7 May 2021, 21 Member States have made available under reservation additional amounts of traditional own resources totalling over EUR 1 470 million.

Following a recurrent shortcoming identified during its inspections of 2018 and 2019 related to solar modules and key components imported from countries (China, Malaysia and Taiwan) subject to trade defence measures, in 2021 DG BUDG launched a targeted desk audit on this topic covering all Member States.

DG BUDG continued intense cooperation with the DGs involved in the protection of TOR and meeting regularly with OLAF and TAXUD to better coordinate in mitigating the risks identified. In particular, a Memorandum of Understanding between DG BUDG, TAXUD and OLAF was signed in September 2021 in order to establish the cooperation of the three services under the Joint Analytics Capability (JAC). Under the JAC framework DG BUDG is actively engaged in five analytical projects, under the lead of TAXUD, aiming to identify new financial risks and emerging fraud.

In addition, DG BUDG participated in meetings organised by TAXUD or Council with the customs authorities of the Member States (Customs Policy Group (CPG), Experts' Group, Customs Union Working Party).

An inspection plan was established for 2021 on the control of the **VAT-based Own Resource**, and DG BUDG will continue to cooperate closely with Eurostat on inspection activities concerning GNI-based resources. 13 inspections were planned for 2021 on the control of the VAT-based own resource. This was done in close cooperation with Member States and was carried out in coordination with ESTAT and TAXUD. All 13 planned inspections were carried out, despite the challenging pandemic situation that has

made it necessary for the inspection teams to do their work remotely. Moreover, DG BUDG also cooperated closely with ESTAT on the follow-up of the verification activities concerning the **GNI-based own resource**, and participated to the GNI expert Group and its Sub Groups meetings.

The control framework concerning the **reformed VAT-based own resource** was simplified in 2021, by which most corrections and compensations were discontinued. Member States submit annual VAT-based own resource statements by 31 July of the year following the financial year. The statements under the amended Regulation 1553/89 now only consist of collected receipts, corrections for any territorial scope, corrections for any possible infringement against or other similar departure from the VAT Directive, and a multiannual weighted average rate based on the percentage from the financial year 2016.

The **plastics own resource** is a statistical own resource, like GNI. In terms of control and reporting, it thus follows the GNI model. The Commission checks the data and is assisted by an expert group and an advisory committee on this task. The Commission will, on that basis, determine the amount of plastics own resource that Member States shall provide to the EU budget. DG ESTAT is in the lead on the control of the plastics based own resource. A memorandum of understanding between DG ESTAT and DG BUDG was signed and several voluntary country visits took place in 2021. This new resource was entered for the first time in the EU budget by the amending budget 4/2021, which implemented the new own resources decision 2020/2053.

Lastly, in 2021 DG BUDG continued to advise on legal issues regarding the Protocol on the Privileges and Immunities of the EU and the VAT exemption of the Commission (recovery of VAT for official purchases).

STRATEGIC COMMUNICATION

Strategic communication activities supported BUDG's activities related to the sound financial management, the anti-fraud strategy and the protection of the Union's financial interests, as well as EU budget performance and project results.

DG BUDG also had a leading role in the discharge procedure through ensuring the effective management of relations with all relevant stakeholders in the process, in particular the European Parliament and the European Court of Auditors, thus paving the way to a positive discharge. The DG continued to provide a corporate steer for exchanges and communications with the European Court of Auditors on its strategic goals and work programme, as well as on operational issues such as the streamlining of adversarial proceedings.

The main publications corresponding to General objective 5 were the Integrated Financial and Accountability Reporting (IFAR) package, including the Annual accounts and reporting on financial instruments and the budgetary guarantees.

Moreover, DG BUDG publications page was totally revamped in 2021 and currently allows for simple and easy access to published material. All new publications have been made available to the public on the Europa website and the EU Publications portal.

General Objective 7: A MODERN, HIGH PERFORMING, SUSTAINABLE COMMISSION

Specific Objective 7.1. Act as a centre of excellence and trusted partner for Commission services, other institutions, agencies and bodies, Member States and beneficiaries

- regarding **high performing financial governance**, single (simplified) rulebook, transparency, smart reporting and derived intelligence, single audit approach, compliance and accountability
- modern, sound and efficient management of **accounts, treasury, financial risks and corporate financial and contract management IT systems**
- stronger central oversight and **management of debt, asset, and contingent liabilities** in view of ensuring sustainability of the EU budget
- **performance optimisation** through developing, implementing, monitoring and evaluating policies in an evidence-based, transparent and collaborative way with stakeholders and experts
- **robust internal control** that helps the Commission to achieve its objectives and sustain operational and financial performance.

DG BUDG's mission is to continuously improve financial management, through the further professionalization of the domain and by improving related tools, taking better account of the recent evolution in the way the EU budget is managed i.e. (i) wider use of indirect management with implementing partners; (ii) an increased number of multi-DG programmes; (iii) use of new forms of intervention; and (iv) a stronger focus on results and on performance. The general actions, results and controls related to DG BUDG's role in financial management are also documented and followed-up in the Commission's Anti-fraud Strategy and the DG's Anti-fraud Strategy (see part 2.1.1 Effectiveness – Fraud prevention, detection and correction).

The Central Financial Service (CFS) of DG BUDG provides regular services to the Commission services, other institutions and bodies as regards the Financial Regulation, internal control, risk management and financial reporting.

In this context, the DG has continued to jointly lead the rollout of electronic management of grant procedures through the ongoing **eGrants** process. Following the finalisation of the Model Grant Agreement in 2020, in 2021 DG BUDG supported other DGs in migrating new funding programmes to eGrants. Of the 39 EU funding programmes expected to use the new system in the 2021-2027 MFF period, 33 were fully migrated by the end of 2021. In addition, the training programme was adapted to include the eGrants process, which will be rolled out during 2022. As domain leader in relation to simplified forms of contributions, DG BUDG steered the adoption of a Commission Decision in 2021 allowing travel, accommodation and subsistence costs to be declared using pre-defined **unit costs** for all funding programmes. The DG also rolled out an information session on **simplified forms** of contributions.

In relation to **eProcurement**, DG BUDG has continued to lead the preparation of corporate guidance or models to be used by all DGs and other EU institutions and agencies, and to provide legal and operational support for its development. In addition, DG BUDG contributed to the preparation of the rollout of the Qualified electronic signature (QES) in the Commission.

As per its key role in the eGovernance project, BUDG was invited by ECA to be part of a working group on the establishment of automation in auditing controls in the Commission eGovernance solutions¹⁰.

¹⁰ This working group is composed from the ECA and eProcurement eGovernance representatives with the mandate of implement the automation for the ECA audits.

As regards **indirect management**, DG BUDG was on lead on negotiations of contractual clauses¹¹ and cost provisions¹² to be included in Financial Framework Partnership Agreements signed with key partners. The DG provided an important number of opinions to the Pillar Assessment reviews carried out by Authorising Officers Responsible (AOR), issued new guidelines for indirect management mode and prepared an upgrade of the repository of pillar assessed entities into the modern Pillar Assessment Automated Workflow.

As **domain leader** for financial management, in 2021 DG BUDG supported the related processes in other DGs and communicated on the related topics via BUDGpedia and the RUF (“Réseau des unités financières”) network. Its Helpdesk continued to reply to specific questions on complex or specific financial and budgetary matters. DG BUDG continued to organise corporate training courses and workshops, in line with its new blended learning strategy, combining classroom training (online) with new e-learning modules on grants and procurement.

7.1.1. Necessary adjustments of the legal frameworks

DG BUDG continued work on the adaptation of the Financial Regulation and on the legal framework for the Executive Agencies. A proposal for aligning the Financial Regulation with the various new sectoral basic acts was prepared for adoption in early 2022.

The delegation package for Executive Agencies was adopted in early 2021. It ensured a revised set-up of executive agencies fit for delivering key spending programmes under the new MFF, including a new Health and Digital Agency and the closure of the Luxembourg-based CHAFEA. An innovative single establishment act simplifies six previous texts, providing for a central overview of agency tasks, ensuring co-ordination between DGs, feedback to policy, and coherent governance.

Revised guidelines and first-ever procedures for appeals against Executive Agency decisions were prepared for adoption in early 2022.

7.1.2. Financial governance

In 2021 DG BUDG continued providing support on the simplification of internal processes, the modernisation of the financial management across the Commission and adjustments to the rules and regulations due to unforeseen crises as was the case for the COVID – 19. DG BUDG also supported DGs with finding appropriate governance solutions for innovative financing like the Catalyst Fund, European Research Infrastructure Consortia or the European Innovation Council.

Throughout 2021 the DG promoted a strong internal control and risk management culture within the Commission and beyond. In particular DG BUDG organised four meetings of the Internal Control Coordinator’s Network, as well as two workshops. The cooperation with the EU network of decentralised agencies has also been further strengthened in this field.

The annual risk management exercise was organised in cooperation with the Secretariat-General and led to 4 peer-review meetings with all Commission departments. Within this context, the risks related to the pandemic continued to receive close attention.

Good progress was achieved on the design of the future “Central Register of Internal Control Systems” (CENTRICS), for which the necessary budget has been made available. Business requirements have been

¹¹ E.g. on EU Restrictive Measures and on anti-money laundering, the prevention of terrorist financing, and tax avoidance rules to be complied with for implementing EU funds under indirect management.

¹² Following the reform of cost recovery policies of international organisations i.e. the OECD and the World Bank Group.

further specified and will allow DG INTPA to start the development phase. This tool will significantly reduce the administrative burden linked to internal control processes and reporting, while providing the central services with a better corporate oversight.

7.1.3. Accounting and treasury

DG BUDG is a centre of expertise on **accounting** for EU Institutions and bodies, producing world-class annual accounts, according to the highest international standards. In 2021 DG BUDG prepared the 2020 EU annual accounts in line with the EU Accounting Rules, based on the International Public Sector Accounting Standards (IPSAS), receiving as a result a clean opinion on these accounts.

Working closely with the DGs, DG BUDG ensured the accuracy and completeness of the data in the accounting system by various checks throughout the year (e.g. review of the DGs accounting information ensuring ongoing accounting quality) and year-end controls (e.g. review all material year-end bookings of the Commission Services). This is supplemented by the validation of local systems and the checks done during this process.

Various tools were further developed in 2021 (e.g. forecasting tool, financial dashboard) to increase the efficiency of the supervisory controls, automatizing its processes and reducing the administrative burden on Commission services. DG BUDG has proposed measures to ensure that debtors impacted by the crisis are dealt with fairly and proportionately; an active follow-up of these measures was undertaken. Particular attention was paid to recoveries following OLAF financial recommendations.

DG BUDG is the **central treasury service** of the Commission, managing the entire treasury related to the implementation of the EU budget. It provides also treasury services to other EU Institutions and bodies and thus contributes to the increase of overall efficiency of treasury management and cost savings at EU level. In order to reap the benefits of economies of scale, in 2021 DG BUDG extended its treasury services to a further seven agencies. Centralisation of their treasury operations significantly reduced the workload and increased cost efficiency in these agencies and their parent DGs. It simplified the processes, reduced cash flow forecasting requirements and the number of forex transactions and, also, the risk of negative interest.

In 2021, DG BUDG together with the EEAS continued remodelling the payment process in delegations, by gradually rolling out the ACH (Automated Clearing House) project and simplifying the management of imprest accounts. In this system, the banks directly access the domestic clearing platform so that ACH international payments are perceived as local payments by the beneficiaries, resulting in reduced payment delays, central cash management and significantly lower costs as compared to traditional international payments. DG BUDG signed contracts with two banking partners and following successful testing, activated the solution to 17 countries by the end of year.

In the framework of NGEU operations, the Treasury Management designed and implemented the budgetary and treasury processes related to the non-repayable support provided through both the Recovery and Resilience Facility and the other Union spending programmes. This is allowing the smooth and timely disbursement of funds to Member States and other EU budget beneficiaries to support the economic recovery in the aftermath of the COVID-19 crisis.

7.1.4. Corporate financial IT systems

DG BUDG, in its role as leading service in the financial domain, continued to develop the new **IT corporate financial platform, SUMMA**, which started gradually replacing the ABAC system. The aim of SUMMA project is to contribute to the **modernisation and digitalisation** of the EU administration. It will be used in the Commission's key financial day-to-day activities. Beyond the technological upgrade, it

will standardise and simplify the treasury, financial and accounting processes of the Commission and 55 other EU Institutions and Entities, and facilitate the decision making process through integrated reporting and enhanced analytics capabilities.

Three pilot agencies moved to SUMMA at the end of 2021, as scheduled. This was a key milestone of the programme, paving the way for the rollout of SUMMA to the Commission, planned for the beginning of 2024. DG BUDG ensured the **business continuity of ABAC and related systems** during the transition to SUMMA. In 2021, the ABAC set-up has been adjusted to accommodate the new MFF nomenclature, the NextGenerationEU, the CPF, the European Peace Facility (“EPF”) and the new Executive Agencies delegation package. During 2021 ABAC was deployed in four EU entities¹³. A dedicated IT Task Force has been set-up to address the NGEU-specific challenges between 2021 and mid-2022.

The local Forecasting application has been decommissioned in 2021 and its functionalities have been integrated in the SUMMA Financial Forecasting Tool. This application also served to develop automated liquidity tools, managing treasury and NGEU liquidity forecasts.

Other IT applications (corporate and local) were maintained in 2021. BadgeBud has been adjusted to accommodate the new MFF nomenclature and the performance management module was added. A new VATRES¹⁴ component has been set-up to cater for ACOR¹⁵ Forecasting Data Exchange Platform with production foreseen for Q1 2022. Following the completion of the requirements analysis for the Pillar Assessment Automated Workflow, its development was transferred to DIGIT.

The first part of the IT risk studies (ITSRM²) was completed for thirteen selected critical IT systems. The full analysis was completed and **IT security plans** have been documented for five of them in 2021. The finalisation of the remaining eight IT security plans will continue in 2022. As regards SWIFT security compliance, in addition to the IT Security Risk Management Methodology (ITSRM²) risk study, a first independent positive assessment on DG BUDG’s SWIFT infrastructure compliance with the SWIFT Customer Security Control Framework was provided by the HR.DS auditor.

CORPORATE COMMUNICATION

Building on the established good practices, DG BUDG remained closely involved in supporting and promoting the Together Campaign in 2021. As Domain Leader for Financial Management, DG BUDG actively participated in workshops, brainstorming sessions and project teams. In practice, these actions included informing about recent developments and training in the areas of finance and accounting.

DG BUDG’s Financial Units Network held monthly virtual meetings, as well as bi-annual seminars, while content from the monthly Finance Community Newsletter was frequently promoted at DG and corporate level through BUDG’s other internal communication channels.

Translating the corporate external communication actions internally (on NextGenerationEU, the 2021-2027 MFF, SURE issuances, borrowing and lending, new Own Resources Decision, etc.) was also important whilst our close cooperation with COMM and HR helped DG BUDG to convey the right messages, align the visual content, and communicate with impact. The DG also contributed with ideas and content to CenD (mainly on NGEU and green bonds, but also BUDGpedia, for example) and the CN newsletter, further increasing the outreach and the effectiveness of the collective communication efforts.

¹³ European Labour Authority, European Public Prosecutor’s Office, The European Centre for the Development of Vocational Training and Health and Digital Executive Agency.

¹⁴ VATRES is a system ensuring data quality and control of the revenue (own resources) to EU budget.

¹⁵ The Advisory Committee on Own Resources.

2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

This section explains how DG BUDG delivered the achievements described in the previous section. It is divided into two subsections. 2.1. Financial management and control results, and 2.2. Modern and efficient administration – other aspects (human resources, digital transformation and information management, and sound environmental management).

2.1. Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence 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. The results are explicitly documented and reported to the Director-General. The following reports have been considered:

- the reports from Authorising Officers by Sub-Delegation and the reports from Authorising Officers in other DGs managing appropriations in cross-delegations;
- the contribution by the Director in charge of Risk Management and Internal Control, including the results of internal control monitoring at DG level;
- the reports on recorded exceptions and non-compliance events;
- the reports on ex-post supervision and/or audit results;
- the limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the available evidence. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG BUDG. As stated in Part 1, on the 1st of December 2021 the first High Level Risk and Compliance Policy for NGEU operations was endorsed by the Risk and Compliance Committee and approved by the Commissioner for Budget and Administration. Moreover, an Operational Risk Management Policy that is currently being developed will be an additional element of assurance taken into account by the AOD.

This section covers the control results and other relevant elements that support management's assurance. It is structured into 2.1.1 Control results, 2.1.2 Audit observations and recommendations, 2.1.3 Effectiveness of internal control systems, and resulting in 2.1.4 Conclusions on the assurance.

Overall conclusion table, illustrating the scope of assurance

Activity	Value	Specific indicators
Internal control objectives	Legality and regularity = OK, Sound financial management=OK, Antifraud Strategy= OK, Safeguarding of assets=OK, Reliability of reporting=OK	
IAS limited conclusion	Internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations on the audit on recovery orders and bank guarantees for fines (1) and the audit on pillar assessment in the external actions family (2).	
Availability of information from auditors (IAS, ECA)	No critical recommendation=OK 3 overdue very important IAS recommendations 11 overdue very important ECA recommendations	
Internal control assessment	11 internal control strengths, 5 moderate deficiencies and 1 major deficiency, covering a non-material part of the DG's activities	
Reservations	Yes (1 reservation on Traditional Own Resources)	

^[1] Annex 3 table 5; ^[2] Annex 3 table 7 (other administrative revenue); ^[3] Annex 3 table 2 (payments made);

^[4] 16 bn listed in Annex 3 table 4 (current and non-current assets); ^[5] Annex 3 table 17 (NGEU loans and disbursements)

DG BUDG's control systems are presented below in four main categories: revenue, earmarked revenue (charge-back), direct budget management and off-budget management. Off-budget management covers accounting, financial assets¹⁶ in direct and indirect management and borrowing and lending operations.

2.1.1. Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO)¹⁷. The DG's assurance building and materiality criteria are outlined in the Annex 5 of the Annual Activity Report (AAR). The AAR Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

In line with the 2018 Financial Regulation, in 2021 DG BUDG's assessment for the new reporting requirement is as follows:

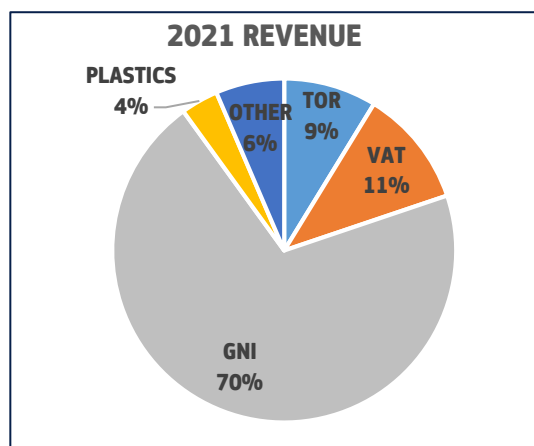
- No cases of "confirmation instructions" (FR Art. 92.3);
- No cases of financing not linked to costs (FR Art. 125.3);
- No cases of Financial Framework Partnerships >4 years (FR Art. 130.4);
- No cases of flat rates >7% for indirect costs (FR Art. 181.6);
- No cases of "Derogations from the principle of non-retroactivity of grants pursuant to Art. 193 FR" (FR Art 193.2); DG BUDG does not manage grants.

¹⁶ Understood in a broad sense, they include contingent assets (and liabilities) and financial income (and costs) linked to the assets.

¹⁷ 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) 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 36.2). The 2nd and/or 3rd ICO are applicable only to section d) Off-budget activities.

a. Revenue

Four main streams of EU revenue are known as own resources. They are: 1) Traditional Own Resources (primarily customs duties); 2) the VAT-based own resource; 3) the plastic packaging waste based own resource and 4) the GNI-based own resource. The distribution in the budget is reflected in the graphic. In 2021, DG BUDG's revenue amounted to EUR 165 817 m. The EU's own resources managed by DG BUDG do not fall in the scope of the average recovery and the error rate 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 explained in Annex 5.



DG BUDG conservatively fixed the materiality criteria related to the management and processing of the revenues at 1%, which are stricter than the materiality level (of 2%) for expenditure (details in Annex 5).

- **Effectiveness: the control results and benefits (legality and regularity)**

DG BUDG uses internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

Indicators of control performance for own resources at each stage are described in the corresponding part of Annex 6. Control results in terms of legality and regularity have allowed to obtain assurance and are described in annex 7.2. The inspection plan for traditional own resources in 2021 was 92%¹⁸ completed (with two inspections postponed to 2022) and for the VAT-based own resources 100% completed. Therefore, the overall level of assurance was considered to be sufficient. The benefits of these controls have also been identified and, where possible, they have been quantified.

The estimated error rate is 0.7%. Related recoveries and improvements of control procedures will continue in 2022.

The main non-quantifiable benefits resulting from controls carried out are improvements to Member States control systems; more transparency and compliance with rules; correct and compliant distribution of the GNI share; VAT and GNI data used not becoming time barred. Further details of benefits are provided in Annex 7.2. These controls are necessary, even if benefits cannot be quantified, since the own resources area would be at risk in case they would not be in place.

Globally, for all own resources, the most recent ECA's opinion (the annual report for financial year 2020) concluded that revenue collected is not affected by a material level of error and that control and revenue related systems are generally effective. Notwithstanding this positive opinion, DG BUDG qualified this Annual Activity Report by a reservation for losses of traditional own resources (TOR) due to the undervaluation of textile and shoes imported from China between November 2011 and October 2017 for UK (EUR 2.1 bn net) and additional unquantified potential TOR losses in other Member States and the UK continuing to occur after 2017 (see annex 9.2).

¹⁸ 23 out of 25 planned inspections carried out

- **Efficiency: Time indicators and other efficiency indicators**

In 2021, two Member States¹⁹ had a very short delay in making available their own resources monthly contributions, the bulk of the monthly contributions for VAT and GNI having been made available on time and in full by Member States. These delays do not affect the overall result as they represent only 0.01 % of the total budget.

Above result shows that controls performed have ensured the timely and due collection of Own Resources throughout the year. It also shows the efficiency of these controls since they have served to mitigate the risks towards which they were targeted.

- **Economy: the cost of controls**

The principle of economy requires that the resources used by the institution in the pursuit of its activities will be made available in due time, in appropriate quantity and quality and at the best price.

The total cost of controls performed in all the control stages described in Annex 7 amounts to EUR 3.8 m and represents 0.0002%²⁰ of Own Resources collected in 2021. See table in Annex 7.1.

Conclusion on the cost-effectiveness of controls related to revenue

Based on the most relevant key indicators and control results (e.g. error rate of 0.7%, cost of controls <0.01%, only two cases of very short delays of making the own resources available), DG BUDG has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls for which it is responsible. The control strategy is considered adequate, as with a reasonable cost of controls the main objectives have been achieved on time as described above.

For the most part, they provide a reasonable assurance for 2021 that the Own Resources contributions made by Member States comply with the requirements of the Union's own resources legislation and control systems on own resources are effective, albeit qualified by a reservation on the accuracy of the TOR amounts transferred to the EU budget since November 2011.

b. Earmarked revenues for the use of financial information systems (charge-back)

Earmarked revenues in DG BUDG derive from the charge-back of services such as the use of financial information systems, the annual Accounting Officer services and treasury services managed by BUDG.

In 2021, charge-back amounted to EUR 6.5 m representing 23% of DG BUDG payment appropriations directly executed by DG BUDG, with EUR 6.4 m charged back **externally** and EUR 0.1 m **internally**²¹. Since this activity is much less significant than revenues and administrative expenditure, and the related risks are very low, the relevant control system and indicators are not presented for this area. However, it is included in this section for completeness purposes.

The risk of non-payment (which in the past has never materialised) is mitigated by the possibility to recover the due amounts by offsetting. The remaining risks are effectively mitigated by means of ex ante

¹⁹ Estonia and Malta.

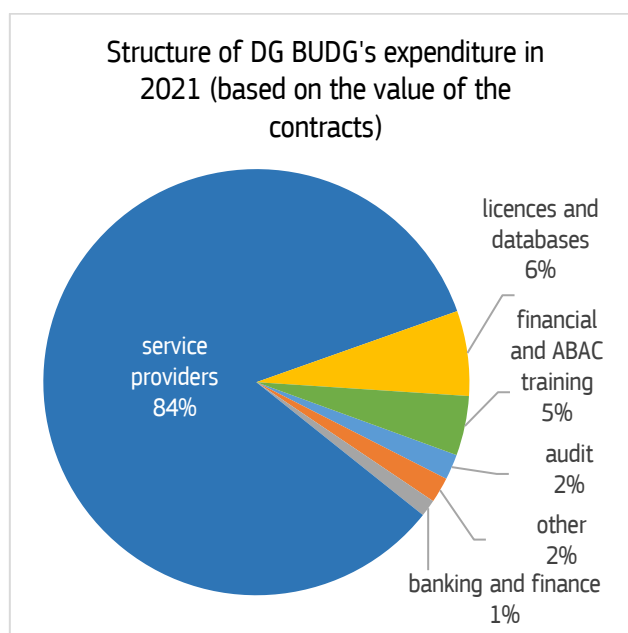
²⁰ This percentage does not include figures of costs of controls by Member States, as these are not part of the relevant internal control system.

²¹ External chargeback concerns entities outside the Commission (other EU Institutions, Committees, Regulatory Agencies, Joint Undertakings), internal- other DGs and offices of the Commission.

verifications in the recovery order process covering 100 % of the transactions. The materiality threshold related to the revenues has been set by DG BUDG at 1%, with the 2021 estimated error rate of 0.5%.

c. Expenditure (direct management)

DG BUDG manages administrative expenditure of a value of EUR 27 m. In 2021 DG BUDG received two cross-delegations from DG ECFIN (one for the support expenditure for "InvestEU" and one for the "RRF" (NGEU credits) and also a cross-delegation from DG RTD (for SUMMA contribution). DG BUDG gave one cross-delegation to DG DGT for the transfer of credits related to Publications. During 2021, DG BUDG transferred funds on co-delegated lines to DG COMP, DG DIGIT and DG INTPA for the support of the IT projects; to DG COMM and DG ECHO for operations related to financial charges; and to DG HR and PMO for the HR associated expenditure. DG BUDG used about 84% of appropriations in 2021 to pay for the corporate and local IT applications: related development, maintenance and helpdesk.



- Legality and regularity of the transactions

In 2021, DG BUDG completed 6 **negotiated procedures** without prior publication²², concluded due to exclusive rights and technical monopoly on the market (limited choice of financial software for trading systems and of the rating agencies).²³

In 2021, as a result of the new MFF, an **operational** line for the European Union Recovery Instrument (EURI) was created for DG BUDG. Moreover, DG BUDG committed credits and processed payments under another operational line, the NGEU support line and committed amounts under two operational lines cross-subdelegated from ECFIN. Payments under these lines were performed by PMO.

The main objective of the controls on DG BUDG's expenditure is to ensure that the value of the detected errors in transactions does not exceed the materiality criteria as described in Annex 5. DG BUDG uses a **fully centralised financial circuit** for its expenditure. The risk level in the expenditure managed by DG BUDG is low. Annex 6 demonstrates how the control systems in place address the related risks which are mainly ex-ante controls covering 100 % of transactions.

²² See Annex 3, table 11.

²³ Out of the 6 negotiated procedures: two concerned the purchase of two different trading systems for the purposes of business continuity and complementarity of services. The services from two different rating agencies were acquired since the Commission as the Union's issuer needs ratings from at least two of the internationally recognised credit rating agencies. One procedure concerned opening of two accounts for NGEU in ECB, where the fiscal agent (performing the financial duties) service is charged. One negotiated procedure was related to the auction system service, bought from the Banque de France, one of the central banks in the European Union, which after a thorough analysis of the market, proved to be the optimal option to fulfil the Commission's needs. These expenses were necessary for borrowing and lending activities. Bought items will be used in next several years.

The legality and regularity of transactions related to expenditure in 2021 was assessed against the results of the ex-ante controls and ex-post supervisory checks.

Ex-ante controls are mandatory under the Financial Regulation. They aim at preventing procedural and financial errors. They also ensure that contractors deliver the services requested as planned. The qualitative benefits of the ex-ante controls on financial transactions include the prevention of fraud, the availability of payment appropriations and the mitigation of reputational risk in relation to inadequate administrative practices.

DG BUDG suspended 40 payments to ask for clarifications or enhance the quality of the reports provided. The most frequent reasons for suspensions were errors on the invoices and/or supporting documents, and the submission of invoices before the completion of the deliverables agreed under the contractual terms.

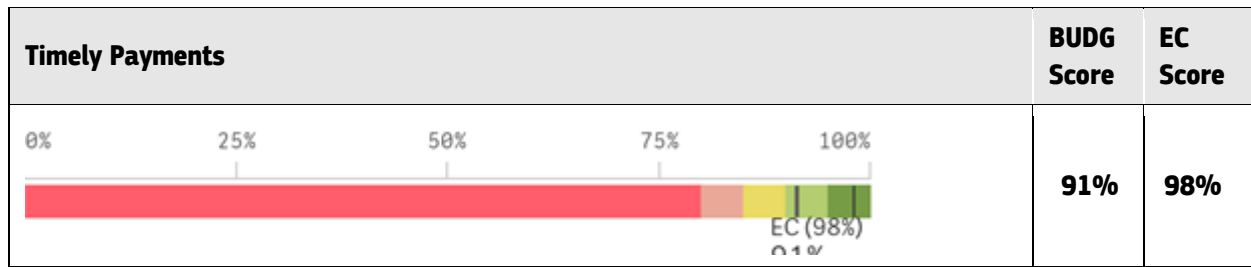
Ex-post controls may be added to the DG's control strategy to complement its ex-ante checks. In 2021 DG BUDG carried out ex-post supervisory checks on legal commitments selected in a way to detect the maximum possible number of potential errors. The checks detected some financial and underlying procedural errors. The procedures were corrected and the related recovery orders were issued. However, the errors detected using this risk-based method cannot be used for the calculation of the error rate, and the result cannot be extrapolated to the whole expenditure, mainly because the sample was not representative. Instead, DG BUDG decided to use an estimate of the residual error rate of 0.5%.

- **Efficiency: Time indicators and other efficiency indicators**

During 2021, DG BUDG launched 13 calls for tenders and signed 4 contracts below the threshold of EUR 139 000. There was one case of cancellation of the procurement procedure because the only participating tenderer was unable to provide a VAT number. Two procedures expected to be finalised in 2020 were delayed. One was completed in 2021 and the second one will be completed in 2022. In 2021 all the procedures above EUR 15 000 were encoded in PPMT (Public Procurement Management Tool), which ensures a high level of control and excellent documentation of the audit trail. In 2022, DG BUDG will set up the follow-up statistics to be able to calculate "time to procure" indicator in the future.

The payment efficiency indicators are monitored on a monthly basis to detect and solve possible bottlenecks in the workflows. The aim of such monitoring is to verify that financial transactions are being carried out without delay and to avoid the payment of interest for late payment. The time-to-pay indicator for the whole of BUDG's transactions, measuring the % of payment value being transferred within the regulatory time limits in 2021, was 91%. The average payment took only 11 days to process. While the average payment time (per invoice) improved considerably during 2021, the % of payments on time (% of value) dropped below the target set in the Management Plan 2021. The main reason of delay was one major inflow of high-value invoices during a holiday period, which was difficult to process at once due to a reduced number of staff. During this period, deadlines were exceeded on average only by 3 days, which explains why the overall average payment time (per invoice) remained very short. In 2020 the average time to process invoices had been longer, but in that year a single payment for an exceptionally high amount, which was made on time, resulted in a higher percentage of payments on time (value).

In 2021, DG BUDG's time to pay indicator of 91% was below the average Commission's result.



As from 2021 the use of the Qualified Electronic Signature (QES) has become the standard method of signing financial documents with external actors, which has increased the efficiency of the process.

- **Economy: Cost of controls**

The principle of economy requires that the resources used by the institution in the pursuit of its activities are made available in due time, in appropriate quantity and quality and at the best price. The total cost of controls related to BUDG's expenditure amounts to EUR 1.1 m and represents 4% of the payments made in 2021 (cf. Annex 7.1-Table Y). DG BUDG considers it reasonable. The method used to estimate this cost in 2021 was the same as in 2020, since there were no changes in the related circuits.

- **Conclusion on the cost-effectiveness of controls for expenditure**

Based on the most relevant key indicators and control results, DG BUDG has assessed the effectiveness, efficiency and economy of its control system for expenditure and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

d. Off-budget activities

In addition to the management of its own appropriations, DG BUDG also does **off-budget management**: horizontal financial activities such as treasury, asset management (see below for the assets managed by the European Commission and European Investment Bank), borrowing and lending operations, and guarantees such as those related to competition fines and VAT reimbursement.

Accounting

As described in Section 1, among BUDG's objectives are: (i) the production of the **annual accounts** of the EU, the Commission and many other entities; (ii) the support to other DGs in the implementation of the annual budget via **treasury** services (including the validation of local systems) and the **recoveries** of funds (including the receipt of fines, contingent liabilities and the collection of Own Resources); and (iii) harmonized asset management as well as efficient use of financial instruments and the budgetary headroom. All three activities contribute to the control objective of ensuring the **reliability and integrity of financial information and reporting**, and **safeguarding of assets**.

The activities (i) and (ii) are under the direct responsibility of the Commission's **Accounting Officer**. Robust procedures and processes and/or results of controls applied in these areas in 2021 gave a reasonable assurance to the Accounting Officer. The main controls are detailed in Annex 7.4.

DG BUDG is the business owner of the **SUMMA IT system**, a corporate financial and accounting IT tool, which will in future replace the current **ABAC** system. For 2021, the BUDG's conclusion on ABAC and transition to SUMMA is positive. The details are in Annex 7.4.

Borrowing and lending, treasury and financial assets (back to back approach)

Financial assets shown on the DG BUDG balance sheet relate to asset management (EUR 16 bn) and lending & borrowing (EUR 145 bn) activities.

Concerning lending activities, the European Commission, on behalf of the EU, is a well-established participant in the capital markets. Over a period of 40 years, the European Commission has run several lending programmes to support EU Member States and third countries.

The current financial assistance programs (EUR 145 bn) attributed to DG BUDG are:

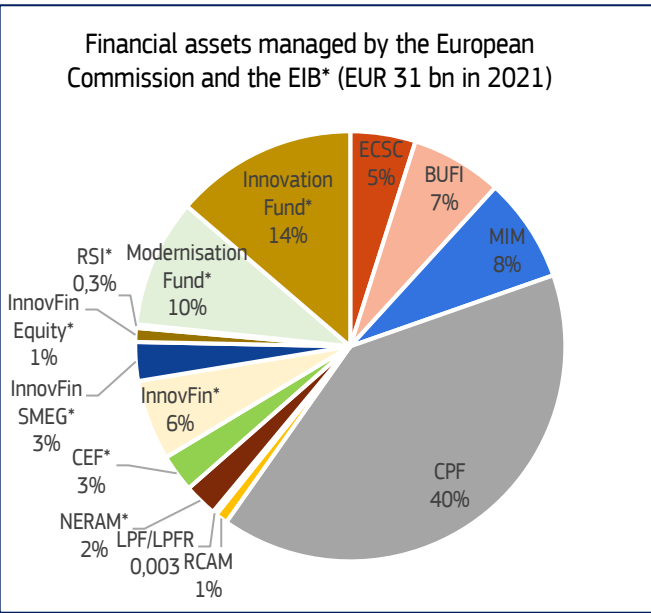
- The Balance of Payments (BOP) assistance facility, which enables the EU to provide assistance to EU countries outside the euro area experiencing or threatened by difficulties regarding their balance of payments;
- The European Financial Stabilisation Mechanism (EFSM), which enables the EU to provide financial assistance to any EU Member State experiencing or threatened by severe financial difficulties;
- Support to mitigate Unemployment Risks in an Emergency (SURE), an up to €100 billion euro instrument to finance short-term employment schemes across the EU Member States in the fallout of the coronavirus pandemic;
- Macro-Financial Assistance (MFA), which can be provided in the form of loans and grants to partner countries outside the EU experiencing a balance of payments crisis. In 2020, an exceptional MFA package was adopted to help ten partner countries to limit the economic fallout of the coronavirus pandemic.
- Euratom loans by issuing bonds on behalf of Euratom. The terms of the loan mirror those of the related Euratom bond with respect to amount, maturity and coupon payments.

2021 BUDG balance sheet position	BUDG lending (fin. assistance programs)					BUDG financial assets ¹			SUM
	MFA	ATOM	BOP	SURE	EFSM	CPF	BUFI	ECSC	
Non-current financial assets (>1 year)	7.13	0.33	0.20	90.50	43.97	9.17	0.98	1.16	153.43
Current financial assets (<1 year)	0.04	0.01	0.00	0.07	3.17	3.14	0.28	0.23	6.93
Non-current financial liabilities (>1 year)	7.43	0.34	0.20	90.50	43.97	0.00	2.07	0.22	144.72
Current financial liabilities (<1 year)	0.04	0.01	0.00	0.07	3.17	0.00	0.02	0.31	3.61

The funding activities for these programmes are organised on a back-to-back basis. This means that funds raised on the market are on-lent by the Commission to beneficiary countries on the same terms and conditions (coupon, maturity, nominal amount) as those received by the Commission. This transfers the benefit of the Commission's comparatively attractive financing rates to the beneficiary country.

Bond issuances for these four EU programs are exclusively denominated in euro. The maturities of issued bonds range from 3 to 30 years. Transactions have so far been predominantly organised as syndicated bond issues, with some private placements for MFA. All bonds have been issued under the EU/Euratom Debt Issuance Programme and are listed at the Luxemburg Stock Exchange.

On 31 December 2021, DG BUDG managed EUR 31 bn of assets (mainly fixed income bonds), directly (EUR 19 bn) or indirectly (EUR 12 bn) through the European Investment Bank (EIB). EUR 16bn directly managed assets relate to funds assigned to DG BUDG., EUR 3bn relate to funds assigned to other DGs. The assets are managed on behalf of other DG's²⁴ according to Asset Management Guidelines agreed between the mandators and BUDG, and according to further investment rules and restrictions set by BUDG internally. The Asset Management Guidelines and internal investment restrictions provide a solid internal control framework to ensure the **safeguarding of assets**. DG BUDG has put in place the appropriate governance to monitor the respect



of the control framework on a continuous basis. An exhaustive set of performance and risk metrics for the assets under management is reported periodically to the relevant stakeholders. DG BUDG controls among others the related transactions ex ante and ex post, with the estimated cost of these controls at 0.003%. For the entrusted portfolios, the controls are done by the EIB, which provides DG BUDG with the reports on the management of the concerned assets. The 2021 report confirms the absence of a significant breach of the risk framework. More details are presented in Annex 7.4.

The largest fund, the Common Provisioning Fund (“CPF”), contains the provisions from EC budgetary guarantees and financial assistance (EFSI, EFSF, ELM, MFA, Euratom). The assets under management in the CPF are controlled under the usual risk framework in place for all in-house asset management activities. The main controls relate to the monitoring of the (i) limit framework, (ii) the eligible investment universe and (iii) the investment objective.

The controls in place as regards **financial assets** have been working as intended and provided DG BUDG with sufficient assurance on the effective functioning of the internal control systems.

Borrowing and lending under NGEU

Over the past 40 years, the Commission has used a back-to-back funding approach (as described in the section above) in its borrowing and lending operations, issuing bonds and transferring the proceeds directly to the beneficiary country on the same terms that it received (in terms of interest rate, maturity). This method has successfully addressed small funding needs. However, it has reached its limits with the SURE programme, where 19 Member States are being served by a single funding programme.

To respond to the needs of the NextGenerationEU programme, the Commission is deploying a diversified funding strategy²⁵ to carry out the necessary borrowing in the necessary volumes and under optimal market conditions. In 2021 DG BUDG completed effectively the execution of five NGEU syndications (including one NGEU Green Bond), two bond auctions and seven Bill auctions, with a daily average cost of funding for the period June to December 2021 of 0.14%. The execution of these transactions was the result of the set-up of the required infrastructure and processes in record time, including the

²⁴ Out of 19bn managed by the Commission, ECSC, BUFI and CPF (16bn) are in BUDG’s balance sheet, while MIM, RCAM and LPF/LPFR (3bn) are managed by BUDG on behalf of other DGs and are included in their balance sheets.
²⁵ [NextGenerationEU diversified funding strategy | European Commission \(europa.eu\)](https://ec.europa.eu/economy_finance/next-generation-eu-diversified-funding-strategy)

establishment of the Primary Dealers network and the acquisition of services offered by the auction system (TELSAT) operated by Banque de France and EU-bills programme.

Using these proceeds, DG BUDG handled in 2021 the transfer of EUR 64.4 bn (46.4 bn for grants, 18 bn for loans²⁶) for the Recovery and Resilience Facility (RRF) and EUR 8.6 bn for non-RRF programmes (Horizon Europe, InvestEU Fund, ReactEU, the Union Civil Protection Mechanism (RescEU), the European Agricultural Fund for Rural Development (EAFRD), and the Just Transition Fund). All NGEU disbursements took place within six working days after signing the Financing and Loan Agreements.

Business processes and accounting flows for NGEU borrowing and lending activities were defined and implemented in ABAC accounting (SAP), while liquidity, forecasting and disbursement management processes and tools were also established.

In implementing the borrowing and lending operations, DG BUDG established regular communication with the investor base, including investor outreach activities, regular newsletters and ongoing updates on the Europa page.

Conclusion on the cost-effectiveness of controls for off-budget activities

Off-budget activities concern the resources of the whole Commission and entities outside the Commission (other EU Institutions, Committees, Regulatory Agencies, Joint Undertakings). By managing these activities centrally by highly specialised staff, DG BUDG assures compliance with the rules and realises economies of scale. On this basis, DG BUDG has assessed the effectiveness, efficiency and economy of its control system for off-budget activities and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

Exceptions and non-compliance events

In 2021 DG BUDG encoded six exception requests or non-compliance events. Four of them were a posteriori cases (either the budgetary commitment was signed after the legal commitment, or the contract was signed after provision of the services). Two exceptions concerned in-house accounting operations of cashing funds before the arrival of payment. In addition, some missions were exceptionally authorised in MIPS. The circumstances which triggered these events were thoroughly analysed and further mitigating measures were taken to avoid these incidents happening in the future. The establishment of a centralised procurement cell in DG BUDG as from 16 January 2022 will help operational units to follow-up on their contracts to plan their renewals on time.

In addition awareness raising actions have been taken to inform operational units of the importance of having a budgetary commitment before the legal commitment is signed (i.e. contract). Also the concerned units were informed of the procedures to carry out a mission in compliance with rules and the importance to have a mission order signed before the mission performer leaves on mission.

Fraud prevention, detection and correction

DG BUDG has developed and implemented its own Anti-fraud Strategy since 2013, on the basis of the methodology provided by OLAF and it is updated yearly. It was last updated in 2021 in coordination with DG BUDG's Internal Control and Risk Management Network. Its implementation is being monitored to the management on an annual basis. The implementation of the current Action Plan should be completed by 2023.

²⁶ See Annex 3 table 17.

DG BUDG also contributed to the Commission anti-fraud strategy and continued to cooperate with OLAF to finalise the Commission's Corporate Anti-Fraud Strategy (CAFS) Action Plan, as the DG is linked to approximately half of the Commission's actions on antifraud matters²⁷.

There were no OLAF financial recommendations to be followed up in 2021.

The results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows: the DG's AFS was adopted, including the revision of the list of the red flags and the Fraud Risk Register. Each risk of fraud in the register takes into account the mitigating measures in place and documents if there are any residual risks to be covered. Moreover, last year the DG reviewed and documented its financial procedures and circuits and updated the anti-fraud content on the DG's intranet.

Indeed, as the corporate service responsible for the EU budget and accounts, fraud risk management plays a very important role in DG BUDG activities. The new DG BUDG AFS sets down the DG's overall corporate and local anti-fraud objectives, the specific structures, processes and roles, measures and controls that are in place in the DG to prevent fraud, as well as an action plan to further strengthen the protection of the EU budget against fraud. It covers a variety of DG BUDG's control systems: administrative expenditure, revenue, treasury, accounting, financial assets, borrowing and lending activities, recovery of fines and other controls derived from the financial regulation, for which DG BUDG is the guardian.

In DG BUDG the level of awareness of anti-fraud and ethics matters is considered to be high. In 2021 efforts were made to promote knowledge about fraud prevention and detection in the Internal Control and Risk Management Network.

DG BUDG's OLAF Correspondent for Fraud Prevention attends OLAF's quarterly meetings and is also a member of OLAF working groups. In addition, DG BUDG assists OLAF in multi-or bilateral meetings with other DGs to ensure that OLAF budgetary proposals are followed up on.

Good cooperation with OLAF, TAXUD and JRC continued in 2021, especially for cases of undervaluation, but also to deal with risk management and other fraud related issues. In conclusion, and based on the information available, DG BUDG has reasonable assurance that the antifraud measures in place are overall effective. The residual risks of fraud in DG BUDG are quite low, except for the one related to the fraud detected in the area of Own Resources and in particular the issues related to the undervaluation of imported goods. This is the reason for which this reservation has been retained in DG BUDG's Annual Activity Report for 2021. Details are explained in the annex 9.2.

Conclusion on legality and regularity

DG BUDG's portfolio consists of segments with a relatively low error rate, being revenue, earmarked revenues for the financial information systems, administrative expenditure and off-budget activities.

Concerning the expenditure side, the residual error rate is estimated to be 0.5%, which is lower than the 2% threshold, set in the materiality criteria (annex 5). Concerning revenue, the estimated error rate is 0.7%. The error rate for the amounts charged back by DG BUDG is conservatively estimated at 0.5% despite no single error has ever been detected. For off-budget activities, no error rate is calculated.

This leads to the conclusion that DG BUDG set up adequate controls giving a reasonable assurance as regards the legality and regularity of transactions.

²⁷ Out of the 63 CAFs Actions DG BUDG is involved in, at different levels, in 30 actions. DG BUDG is leading 6 actions, supporting other DGs in 21 actions and coordinating another 3 actions.

Through recoveries and financial corrections, DG BUDG has in place an effective mechanism for correcting errors. During the reporting year the executed corrective capacity amounted in total at least to EUR 0.08 million representing 0.3% of the relevant expenditure. In 2021 BUDG did not collect data necessary to estimate the total amount of errors corrected ex ante (it starts being collected only as of 2022), but BUDG achieved a benefit in a form of compliance by covering 100% of its transactions by ex ante controls. The recoveries and financial corrections following the results of ex post controls amounted to EUR 0.08 million.

In the context of the protection of the EU budget, the DGs’ estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level in the AMPR. DG BUDG’s relevant expenditure, estimated overall risk at payment, estimated future corrections and risk at closure are disclosed in the table below.

The estimated overall risk at payment for 2021 expenditure amounts to EUR 0.12 m, representing 0.5% of the DG’s total relevant expenditure for 2021. This is the AOD’s best, conservative estimation of the amount of relevant expenditure during the year estimated not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure might be subject to the ex-post control in the future. DG BUDG estimated that the future corrections rate for its 2021 expenditure is 0%.

The difference between those two amounts results in the estimated overall risk at closure, representing 0.5% of the DG’s total relevant expenditure for 2021. For DG BUDG, the estimated overall amount at risk at closure of EUR 0.12 m.

DG BUDG	Relevant expenditure	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
(1)	(2)	(3)		(4)		(5)	
Expenditure	23.5	0.12	0.5%	0	0%	0.12	0.5%
DG total	EUR 23.5 m	EUR 0.12 m	0.5%	EUR 0m	0%	EUR 0.12m	0.5%

(4) The corrective capacity in statistical reports is calculated on the basis of historical recoveries, which include Recovery Orders not falling under the scope of DG BUDG as they are mainly of a corporate nature or corrections before the payment is made, therefore DG BUDG used here the adjusted future corrections rate of 0%.

2.1.2. Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management’s assurance.

The Internal Audit Service (IAS)

In 2021, three previously finalised IAS' multi-DG audits that concerned DG BUDG as an auditee were open for follow up: (i) audit on the recovery orders and bank guarantees for fines, (ii) audit on pillar assessment in the external actions family, and (iii) audit on the management of the EFSI Guarantee Fund.

One of the IAS very important recommendations from the **2019 audit on the recovery orders and bank guarantees for fines** (part 2) on the regular review of insolvencies and bankruptcies, had three out of four measures implemented and the remaining adoption of the corporate strategy for the management of accounts receivable was expected to be completed by March 2022. This recommendation was due on 30 June 2021. Given that other measures have been implemented and the strategy is expected to be adopted very soon, DG BUDG assesses the residual risks as moderate.

The 2020 multi-DG audit on pillar assessment in the external actions family resulted in five very important recommendations for DG BUDG. They concerned (further) developing the corporate coordination and coherence of the pillar assessment process, the related guidance for the DGs, the central repository/automated workflow tool, the mechanism of reporting the substantial changes and the conditions for making a presumption of conformity. Three very important recommendations were implemented in 2021 and are considered closed by the IAS (two on corporate oversight and one on agreements signed with pillar-assessed entities). Two very important recommendations still remain open, and are partially implemented. The partial implementation of the recommendations means that the residual risks related to the delayed actions are reduced. By 31 December 2021, 88% of the measures from the action plan (23 out of 26) were completed. Out of the remaining actions, one has been postponed to 30/06/2022 (corporate oversight, measure on the update of the internal rules: they will be adopted in the spring 2022) and one to 31/12/2023 (the automated reminders to be sent to inform on substantive changes: delay is related the IT development of the pillar assessment automated workflow). Open important recommendation, on 2019 terms of reference for pillar assessment, is to be completed, as initially proposed, by 30/06/2027. The details about the implementation of actions related to the very important recommendations are provided in Annex 7.3.

The 2020 **audit report on the management of the EFSI Guarantee Fund** did not include any critical or very important recommendations for DG BUDG.

Limited conclusion on the state of internal control by IAS at DG BUDG

The **conclusion of the Internal Audit Service** on the state of control of DG BUDG took into account that:

- Management has accepted all the recommendations issued in 2019-2021;
- Management has adopted action plans to implement all the accepted recommendations. The IAS considers that these action plans are adequate to address the residual risks identified by the auditors;
- The implementation of these action plans is monitored through reports by management and follow-up audits by the IAS;
- Management has assessed a number of action plans as implemented which has not yet been followed up by the IAS.

The Internal Audit Service concluded that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations on the audit on recovery orders and bank guarantees for fines (1) and the audit on pillar assessment in the external actions family (2).

The European Court of Auditors (ECA)

The European Court of Auditors (ECA) in its Annual Report 2020 concluded that the 2020 annual accounts of the European Union were reliable for the 14th consecutive year and were not affected by material misstatement. It also concluded that the revenue of the EU was free from material error.

The European Court of Auditors stated that the 2020 Annual Activity Reports (AAR) of DG BUDG and EUROSTAT generally corroborated the Court's findings and conclusions. The ECA pointed out that DG BUDG's AAR did not include the information on the weakness concerning the compilation of the TOR statements of customs duties collected and not yet collected in the Netherlands²⁸.

The Court also noted the progress in addressing recommendations made in previous annual reports. Out of four revised recommendations, one was implemented in most respects, and three in some. Annex 7.3 provides details on open audits and recommendations of both the Internal Audit Service and the European Court of Auditors. This also includes details on the actions already taken to address the ECA's recommendations.

2.1.3. Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG BUDG uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

The borrowing and lending-related control framework, which was further developed in 2021 (including the new function of the CRO, dedicated HLRCP, etc.) has been successfully embedded into the overarching general internal control framework. The risk management and controls for borrowing and lending were further adjusted in 2021 to support development of NGEU-related operations (see section 2.1.1 Control results, d. Off-budget activities). This section focuses only on the assessment of BUDG's overall internal control system.

The internal control coordination team monitors and assesses the functioning of the internal control principles in DG BUDG. Moreover in 2021 DG BUDG set up the Internal Control and Risk Management Network aimed at regularly identifying, monitoring, and reporting on DG BUDG's activities from an internal control and risk management perspective. The network involves representatives from all Directorates of DG BUDG and aims at improving the consistency and robustness of the DG's internal control system.

²⁸ In DG BUDG's view, for the year 2020, there were no new facts justifying reporting in DG BUDG's Annual Activity Report (AAR) as there is no confirmation that the actual TOR amounts have not been included in the accounting statements and paid to the EU budget – only that the audit trail cannot confirm that all amounts are correctly and timely paid. Moreover, both the Court of Auditors' audit and the Commission services' inspection on TOR accounting scheduled for 2020 had to be postponed to 2021 due to the COVID-19 pandemic. Reporting on the weaknesses relating to the TOR accounting and the compilation of the TOR statements in the Netherlands therefore take place in the framework of the current 2021 BUDG's AAR (see Annex 7 point 7.2.A).

The annual **assessment is done in line with the corporate guidance**²⁹, taking on board the review of the indicators from various sources. To document the process, DG BUDG uses assessment tables, which is a non-mandatory tool annexed to the corporate guidance. Evidence from the following sources was analysed:

- state of the internal control monitoring criteria from the 2021 Management Plan;
- results of the assessment of the deficiencies from the previous year;
- follow-up of DG BUDG's reservation;
- analysis of exceptions and non-compliance events; in 2021, there were six exceptions recorded;
- the audit and consultancy engagement recommendations and of the Internal Audit Service and European Court of Auditors and the state of implementation of the action plans;
- the state of implementation of various action plans;
- the results of the risk assessments, carried out in DG BUDG twice a year;
- the results from the bi-annual Staff Survey of DG HR, covering human resources-related aspects and the 2021 Internal Control Survey of DG BUDG, which was organised in October 2021 and covered all seventeen internal control principles (overall result: 84%);
- internal control deficiencies reported by staff members.

The **result of the assessment** is the list of deficiencies. At the end of 2021, on the list of deficiencies there was one major weakness, relating to IC principle 10: control strategy, related to the very important IAS recommendations still open from two audits: on the recovery of fines and on pillar assessment in the external actions family. These very important recommendations are listed in section 2.1.2 above and detailed in Annex 7.3. A few moderate deficiencies affecting in limited ways aspects of principles 4 (attracting and retaining competent staff); 11 (IT security), 12 (procedures and exceptions), 13 (data protection: old entries in the database and 3 open DPO recommendations), 14 (internal communication) have been registered³⁰. Due to the improvements in comparison to 2020, there are no longer moderate deficiencies in principle 3 (structure and responsibility): unclear decision making mechanism and ineffective organisation of work in some units (very good 2021 survey results for related questions) and principle 7 (risk assessment): design of the exercise and development of risk management framework in Dir E (training provided to the ICRM network and appointment of the Chief Risk Officer who established the High Level Risk Management Policy).

The monitoring of the deficiencies and related actions (detailed in Annex 8) will continue to further reduce the levels of related risks.

Conclusion

DG BUDG has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, except for principle 10: control activities, where there is a major deficiency in the design of controls in the audited areas, linked to the long overdue very important IAS audit recommendations, covering a non-material part of the DG's activities, and delays in implementing the ECA's recommendations. Some minor improvements are needed in some other areas.

²⁹ "Implementation Guide of the Internal Control Framework of the Commission".

³⁰ Principles 4 and 13 have moderate deficiencies recorded since more than three years, however, the problem in principle 13 concerned document management, which improved in 2020, when data protection (the same principle) was detected. Work on the HR strategy (principle 4) is ongoing (adoption planned in 2022).

DG BUDG's management takes these deficiencies seriously and will support the teams responsible in defining and redesigning their operations. Although there are three very important recommendations open (of which in one last measure is pending official adoption), affecting principle 10 (control activities) in a major and 12 (procedures) in a moderate way, their scope is limited to activities, which do not have a significant impact on the overall assurance. Implementing and reporting on the audit recommendations was discussed within the DG BUDG's network of the internal control correspondents in 2021 and enhanced the monitoring in the Directorates. A report on the progress of the actions carried out in the area of the reservation is provided to the Commissioner twice a year.

2.1.4. Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

The information provided in the earlier parts of this report covers the budget delegated to the Authorising Officer by delegation (AOD) of DG BUDG as well as the EU's own resources. The information reported is complete and reliable, as confirmed by the statement of the Director in charge of Risk Management and Internal Control, in annex 1.

In the area of Own Resources, the key indicators presented in section 2.1.1. A. "Own Resources" support the reasonable assurance drawn, that Member States comply with the relevant regulations for own resources. Nevertheless, given the issue on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget since November 2011, the authorising officer decided to maintain a reservation covering this activity in the 2021 Annual Activity Report. DG BUDG, in cooperation with OLAF and DG TAXUD is following-up on this matter very closely. It is important to note that according to Article 8 of Council Decision of 26 May 2014 on the system of own resources of the European Union, the responsibility for collecting and making available TOR falls on Member States; in light of this the responsibility of the Commission to mitigate the risk is limited.

Reservation title	Financial impact 2021 (EUR m)	Error rate	Evolution
Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget	150	0.7%	Maintained

Despite the sanitary restrictions which did not allow to fully complete the inspection plans, DG BUDG assesses that the 92% completion³¹ of the TOR inspection plan and 100% completion of VAT inspection plan for 2021 provide sufficient assurance.

The risk for expenditure managed by DG BUDG is relatively low due to the relatively low budget and the centralised mode of budget implementation. The risks are effectively mitigated by controls in place. The AOD's conservative estimation of the risk or error related to the expenditure authorised during 2021 is 0.5%, which implies an estimated amount at risk of about EUR 0.12 million. Further assurance is obtained from the risk management process put in place, reports received from the European Investment Bank for the funds managed indirectly and from the limited number of encoded and properly processed exceptions.

³¹ Two inspections were postponed to 2022.

The very important and important IAS recommendations currently open will be implemented as soon as possible, in line with the action plans. DG BUDG management takes the underlying deficiencies seriously and will support the responsible teams in restructuring their operations. Given that the scope of the very important recommendations is limited to two non-critical areas of its activity, and actions are being implemented, DG BUDG assessed that its internal control system is overall present and functioning thus the detected weaknesses do not have a negative impact on the overall assurance. Nevertheless, in view of the corporate dimension of the audit on pillar assessments, BUDG takes all appropriate measures for a swift implementation of the action plan. The areas of further improvements, identified during the internal control assessment, will be addressed through an action plan endorsed by DG BUDG Senior Management (see Annex 8).

Overall Conclusion

In conclusion, based on the elements reported above, management has reasonable assurance that, overall, suitable controls are in place and working as intended except for two limited areas: recovery orders and bank guarantees for fines and pillar assessments where they are partially effective; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented, also following the recommendations by the Internal Audit Service and the European Court of Auditors. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget.

2.1.5. Declaration of Assurance and reservation

Declaration of Assurance

I, the undersigned,

Director-General of DG BUDG

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view³².

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

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

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

However, the following reservation should be noted: Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget (see annex 9.2).

Brussels, 31 March 2022

(e-signed)

Gert Jan KOOPMAN

³²True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

2.2. Modern and efficient administration – other aspects

2.2.1. Human resource management

In 2021 DG BUDG continued to focus on the effective management of human resources to deliver on its objectives outlined in the 2020-2024 Strategic Plan and 2021 Management Plan. In this respect, the HR Business Correspondent's team ensured proper and efficient management of DG BUDG human resources, while at the same time supporting and advising managers and staff on a wide variety of issues. DG BUDG is part of the development of the "HR Modernisation and Digital Transformation" programme that was introduced in March 2021 and has also developed a single model for efficiency of recruitment procedures with DG HR.

DG BUDG continued to **manage its resources** dynamically throughout 2021, attracting suitable staff to fill vacancies as they arose. In addition the DG supported the principle that there should be a Deputy Head of Unit in every unit, nominating 9 Deputy Heads of Unit in the course of the year.

With regard to **learning and development**, DG BUDG tailored its training offer to meet the needs expressed in the 2020 Learning and development needs survey. The DG also organised the second edition of its all-inclusive talent management programme.

On 1 April 2020, the Commission adopted measures to reach gender equality at all levels of management by the end of 2024. In this respect, DG BUDG adopted an **Equality Action Plan** and organised a lunchtime conference on equal opportunities, diversity and inclusion. A BUDG Equality network was set up with representatives from each directorate and horizontal units. In addition, questions on **equality, diversity and inclusion** in DG BUDG were incorporated into the 2021 Internal Control survey, the results of which will be translated into appropriate actions in 2022.

Gender balance in management posts remained a priority in 2021. At senior management level, DG BUDG appointed a second female Deputy Director General. In parallel, 3 women were nominated to middle management positions. Today, women represent 48,4% of BUDG's middle managers, and 50% of BUDG's Deputies to the Directors. Women with management potential were encouraged to apply for middle and senior management posts and were also offered the opportunity to follow a specific DG BUDG talent management programme.

The DG has a fully **engaged workforce** that continuously strove for excellence throughout 2021, despite the difficulties brought about by the COVID-19 pandemic. The latest available Staff Survey from 2021 showed an overall staff engagement score of 74%, 2 percentage points higher than the average in the Commission. The DG's own internal control survey results show that the working environment continues to be a strength of the DG: principles³³ 1, 2, 3, 6 and 8 reached levels of weighted effectiveness of 90% and higher.

In the 2021 pandemic context, regular oral communication between management and staff remained a key element to maintaining a high level of commitment and **well-being**. To this end, various individual and group meetings were organised (physical and/or virtual). 11 physical unit team building events took place with the objective of bringing colleagues together, rebalancing and tightening relationships, and providing staff that joined the DG during the pandemic a warm welcome. The **internal communication**

³³ More information on the Commission's Internal Control Framework: https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/revision-internal-control-framework-c-2017-2373_2017_en.pdf

initiatives covered, among others, the move to MO15 building, launch of BUDGpedia and SUMMA pilot project, EMAS, ART@work, Fit@work (Fit@home), Volunteering Week, Career Days, Research and Innovation Days, Green Week and VeloMai.

Given the importance of the Commission's overarching HR Strategy, DG BUDG provided DG HR with consolidated comments received from staff and management regarding the proposed text. In parallel BUDG continued to work on the development of its **local HR strategy**. To be as inclusive as possible, a dedicated focus group was set up to act as a sounding board with regard to DG BUDG specificities. This Strategy will be finalised following consultation of BUDG's Senior Management in early 2022.

2.2.2. Digital transformation and information management

Knowledge sharing, efficient data management, dissemination and exchange of information is one of the five pillars of a supportive, encouraging and challenging working environment at DG BUDG. The Knowledge Management working group mapped existing procedures, processes and IT tools in use in DG BUDG at all levels and identified a need for a modern BUDG Knowledge Management System, reflecting at the same time all main DG BUDG processes, to strengthen BUDG's role as domain leader in financial management and internal control. [BUDGpedia](#) was launched at corporate level in autumn 2021. It contains all information necessary to DG BUDG's staff and the wider finance community to carry out budgetary and financial management work.

DG BUDG has further enlarged its digitalised Key Performance Indicators to measure financial performance in all the DGs. As of the end of 2021 these dashboards comprise 10 indicators, which allow to immediately spot deficiencies and identify the underlying transactions causing them. DG BUDG also sends a monthly financial flash report to all Directors-General, informing them about the state of their main financial performance indicators, which is expected to trigger actions in weaker areas. Due to these 2021 developments, financial reporting in DGs has become more standardised, quicker to produce and more easily available.

In March 2021, DG BUDG launched a new forecasting tool to communicate in a structured way on funding needs for NGEU. It provides the figures needed by DG BUDG to calculate funding needs and intervene on the financial markets. The tool integrates the expenditure forecasts of the main spenders, previously exchanged manually, and the bi-annual budget implementation forecasts. The DGs from the research 'family' migrated their internal forecasts to DG BUDG's tool, to have all the short-term forecasts digitalised in a single IT-Tool, which eliminated the exchange of emails.

For central and NGEU treasury management, digitalised liquidity calculation tools are currently developed to automate, simplify and speed-up the calculation of funding needs.

The document management team's work focused on the revision of DG BUDG's filing system and the promotion of best practices. Two meetings with DG BUDG's document management correspondents took place in 2021 with the DMO coordinating the assessment of paper files before the move of DG BUDG in Brussels to a new building. Files falling under the Administrative Retention Period were moved to the new building, while all others were disposed of in accordance with e-Domec rules, or transferred to the Historical Archives. On the policy side, the DMO was involved in discussions with DG BUDG IT teams and the SG's e-Domec team in view of the future integration of SUMMA into Hermes-Ares-NomCom (HAN).

In the area of data protection, DG BUDG continued to work to ensure that the relevant processing operations involving personal data are documented and updated in the corresponding records. DG BUDG also continued to be in the lead as regards the corporate records in relation to new clauses in framework contract and specific contract models. In the second half of 2021 DG BUDG organised a middle management meeting with the DPO, which also allowed for an exchange on topics like accountability,

responsibilities of delegated controller, record keeping and personal data breaches. In parallel, the DPC team organised several DG-wide awareness-raising campaigns.

The 2021 Internal Control Survey in DG BUDG included for ICP 13 some questions on data protection. The results showed a high level of general awareness as more than 90% of staff were able to correctly indicate the key data protection elements.

Sound environmental management

In 2021, DG BUDG followed and implemented on a local level the Commission's corporate environmental and EMAS actions, promoting measures to reduce the related day-to-day impact of the administration and its work. The sanitary restrictions have already led to changes in the way the Commission and DG BUDG operates, reducing its environmental footprint further. In this respect, tele-conferencing, a decrease in missions and DG BUDG's move to a modern open space building had a positive effect on the Commission's environmental footprint. DG BUDG also made progress in the implementation of paperless processes.

The EMAS action plan adopted by the Commission in 2021 was designed to be recurrent in order to anchor new behaviours, thus contributing on a permanent basis to the "greening" of daily operations and working methods. In 2021 BUDG's EMAS team communicated and organised activities around the key actions supporting the Commission's corporate action plan for 2021, focussing on reduction of energy consumption, water use, office paper, emissions to air and carbon footprint, and waste management. Increasing awareness of the importance of biodiversity, green public procurement and the circular economy were also addressed with the aim of DG BUDG becoming an even greener DG.

DG BUDG continued to organise lunchtime conferences and art exhibitions on environment/green topics in 2021 as these are important vehicles that help boost key messages and which also have proven effective for staff morale and well-being. Art exhibitions targeted topics that colleagues might otherwise fail to pay attention to when communicated through other mediums, such as reusing waste materials and biodiversity. Finally, DG BUDG colleagues were regularly encouraged in 2021 to use public transport and soft mobility to commute to work. DG BUDG's EMAS web-page is kept up to date with information on all the above initiatives, in parallel to which "eco-tips" are regularly included in BUDG's weekly newsletter "BUDGTimes".