Ref. Ares(2018)2037959 - 17/04/2018

European Commission

2017

Annual Activity Report

DG BUDGET

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THE DG IN BRIEF

DG Budget (hereafter BUDG) is the central service of the European Commission in charge of the management of the EU budget throughout the annual and multiannual cycle; from the preparation of the draft budget and Multiannual Financial Framework to its implementation and the final discharge by the European Parliament. The DG is also responsible for the legal framework applicable to the implementation of the EU budget by the different institutions, agencies and Member states. Il also plays a key role in promoting sound financial management through a strong internal control system and a performance culture that focuses on excellence and on maximizing the European added value of public expenditure on the ground.

The Treaty[1] provides that the Commission shall execute the budget and manage programmes. It details the Financial Provisions for the European Union, BUDG's mission and responsibilities.

BUDG has around 480 staff members. It is structured around five Directorates based in Brussels, which deliver results in eight operational activities:

- Driving the process of strategic budgetary planning: **Multiannual Financial Framework (MFF)**
- Managing the expenditure of the **annual EU budget** efficiently within the framework of the MFF
- Managing and controlling the **revenues of the EU budget**
- Maintaining a high quality **central accounting /financial and reporting framework**
- Supporting budget execution through **Treasury and recovery of funds** management and a **high quality Information System (ABAC)**
- Promoting consistency and **simplification of financial rules**, **sound financial management** and cost-effectiveness of controls
- Driving the strategy of an **EU budget focused on added value**.
- Overseeing the relations with the European Court of Auditors (ECA) and other institutions paving the way for the **annual discharge** of the Commission in the implementation of the EU budget

One of the two Deputy Director-Generals is the **Accounting Officer** of the Commission, responsible for the management of the central Treasury and preparation of the accounts of the Commission, of a number of other EU bodies and of the consolidated accounts of the EU.

In order to ensure the integrity of the system, BUDG oversees the accounting data produced by the different DGs and bodies implementing the EU budget. The accounts are prepared via **ABAC**, the **Commission's corporate financial/accounting system**. BUDG is the system owner and supports the Commission's DGs/Services and 49 other External Entities, with over 12 000 users around the world.

From an operational perspective, BUDG aims at maximizing the contribution of the EU Budget to the achievement of all the General objectives of the Commission. Beyond its direct economic impact, the EU budget complements national budgets and plays a key role in a wide range of areas[2].

On top of its own operational responsibilities, BUDG is the domain sponsor of the financial management community inside the Commission. As a horizontal service, it leads a number of networks and projects and provides support, advice and tools to enhance coherence and efficiency in the implementation of the EU budget as well as promoting a strong culture on internal control. In addition, BUDG plays a central role in ensuring compliance with Financial Rules and accountability for the management of tax payer's money.

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[1] Article 17(1) TEU ; Articles 310 to 325 included in Title II of the TFEU.

[2] It provides a stable source of funding for key economic activities, such as agriculture, investments to underpin economic cohesion and potential growth throughout the EU, research and innovation. Moreover, it funds the European response to global challenges which range from the global warming to humanitarian crisis, from security risks to geopolitical developments in our neighborhood.

Expenditure executed by BUDG is exclusively administrative, for the functioning of the DG as well as maintaining and improving the Commission's corporate financial/accounting system. To optimize the use of human resources, appropriations are centrally managed and a centralized financial circuit is in place.

Organisational changes:

On 1 March 2017, the College appointed Ms Maria Rosa Aldea Busquets as Accounting Officer of the Commission, replacing Mr Manfred Kraff, who was appointed Director General of the Internal Audit Service.

On 20 December 2017, taking effect on 1 January 2018, the College nominated Maria Rosa Aldea Busquets as a second Deputy Director-General of BUDG and confirmed her position as Accounting Officer of the Commission. She is currently the acting director of Directorate C while the replacement process takes place.

Other changes during 2017:

- Given the completion of the work of the "High Level Group on Own Resources", the related BUDG "Task Force on the future financing of the EU" was dissolved and integrated in the activities of the Directorate in charge of managing and control of the revenues of the EU Budget.
- A new "Task Force on Administrative Efficiency/Business Process Reengineering" was created to streamline BUDG processes and to identify best practices.
- Following the progressive integration of the work of the "Task Force on Public Internal Control" into other work streams of the DG, the Task Force was dissolved on 31 December 2017.

The following changes also took place in DG BUDG in the beginning of 2018:

- In order to ensure a solid management of the implementation of the new ABAC architecture, a new unit BUDG.DGA01.03 "Corporate financial and accounting systems" has been created. This unit, which reports directly to the Accounting Officer, integrated some staff members from Unit BUDG.DGA1.C5 "ABAC-user service management" and Unit R3 "IT Development", as well as Unit BUDG.R5 "IT programme and architecture office" which has been dissolved.
- The titles of some units and directorates were modified to better and more clearly reflect their actual function, especially after the reorganisations described during 2017 and 2018.
- At the beginning of 2018 the nomination of 6 Deputy Heads of Unit and 3 Heads of Sector was completed.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Budget to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes 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[3].

a) Key results and progress towards the achievement of general and specific objectives of the DG

New Multiannual Financial Framework proposal (new MFF)

Following the White Paper on the Future of Europe, published on 1 March 2017, the Commission adopted on 28 June 2017 **the Reflection Paper on the Future of EU finances[4]**. Taking account of the specific context of the moment, it maps out new challenges, possibilities and reform options, risks and trade-offs for the future of EU finances.
With this Reflection paper the Commission launched an open debate on how to build a modern system delivering visible results for all citizens which is fit to respond to the challenges of the future. The purpose was to have an inclusive, constructive process with a positive result, on the basis of which the Commission will make its proposals for the next Multiannual Financial Framework in May 2018.
To underpin the political discussions on the new multiannual financial framework without pre-judging them, **a comprehensive EU spending review was started in 2017** assessing the extent to which spending programmes contributed to achieving the EU's strategic priorities and identifying opportunities to further increase the added value of EU programmes. The spending review will be concluded in 2018.
This comprehensive review of spending programmes focused on: priority setting and EU added value, delivery mechanisms, synergies and complementarities with other programmes, performance features and possibilities to simplify and make the programmes more flexible.
On the revenue side, following up on the High Level Group on Own Resources, the Commission started reflecting **on possible legislative initiatives to reform the own resource system**. In this context, DG BUDG ensured coordination within the Commission via the internal network on Own Resources and continued in-depth analysis on potential new own resources candidates. A proposal to amend the own resources decision will be part of the MFF package to be adopted in May 2018.

Midterm review/revision of the MFF 2014-2020

On 20 June 2017, the General Affairs Council gave **final approval to the Mid-term revision of the Multiannual Financial Framework.**
In September 2016, the Commission had proposed the Mid-Term Revision as well as a number of legislative proposals, notably a proposal for amending the MFF Regulation as well as a proposal to simplify financial rules under the Financial Regulation and relevant basic acts.

Even though it does not increase the global Multiannual Financial Framework ceilings, the Mid-term Revision includes an increase of flexibility and a potential increase of expenditure over the period 2017-2020, particularly in areas such as the youth employment initiative, security, Erasmus+and the intra-EU and international dimension of migration and addressing its root causes. The Mid-term Revision also reinforces successful programmes such as Horizon 2020, COSME, the European Fund for Strategic Investments and the Connecting Europe Facility including Wireless for EU (W4EU).

On 16 October 2017, the Commission presented an **update of the Medium term payments**

[3] Article 17(1) of the Treaty on European Union.
[4] https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en

forecast. The Commission presented also payment forecasts beyond 2020, in accordance with point 9 of the Interinstitutional Agreement of 2 December 2013.

Annual Budgetary procedure

Budget 2018 was adopted timely on 30 November 2017 broadly following the initial Commission proposal. In 2018, the biggest part of the EU budget will be used to stimulate the creation of jobs, especially for young people and to boost growth, strategic investments and convergence. The EU will also continue supporting the efforts to effectively deal with the migration challenge, both inside and outside of the EU.
The 2017 Budget was fully implemented (EUR 122.6 billion on 31 December 2017 representing a 99.8 % implementation)
The submission of claims by Member States for the European Structural and Investment Funds increased significantly in the last weeks of the year. As a result, the 2017 voted budget was fully consumed. Moreover, additional 5 billion EUR of assigned revenue were used to reimburse Member States claims. Almost all of these payment claims were paid by the end of the year leaving only a normal backlog of claims received after 26th December which were paid at the beginning of 2018.
This means that the implementation of the 2014-2020 programmes has now finally reached the cruising speed.

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

In April 2017, the European Parliament, on the basis of a recommendation by the Council, with a very large majority **granted discharge to the Commission for the 2015 financial year**. During the discharge procedure, the key stakeholders - the European Parliament, the Council and the European Court of Auditors – agreed both in relation to improving results delivered by the EU budget and to further reducing the level of error. The debate also touched upon issues of relevance to the future of the EU budget such as the EU financial architecture and the alignment of political priorities. The European Court of Auditor's **special reports** also provided important input to the discharge procedure.

The main feature of the 2016 discharge process was the fact that for the first time the European Court of Auditors gave **a qualified rather than an adverse opinion** on the legality and regularity of the EU Budget payments. The level of error dropped in all policy areas, allowing the overall level of estimated error to continue its downwards trend from 3.8% in 2015 to 3.1% in 2016. Half of expenditure was free from material error, and no error was found in revenue.

For the 10th consecutive year, the Court of Auditors also gave a **positive ("clean") opinion on the EU annual accounts.** These accounts were also delivered to the discharge authority before the end of June, much earlier than in previous years. This allowed the ECA to also adopt and present its annual report earlier, thus starting the discharge procedure almost 6 weeks in advance of the usual date.

Hearings of Commissioners in the European Parliament took place between October 2017 and the end of January 2018. In line with the improved financial management of EU finances, the debate focused more on performance of policies and less on compliance with rules.

Given the multiannual nature of many programmes and the importance of corrective mechanisms implemented before and after payment, the Commission also estimates the "amount at risk at closure" of the main policy areas, for each service and for the entire Commission. As indicated in the **Annual Management and Performance Report**, the estimated amount was between 0.7 % and 1.1 % in 2017, below the 2 % materiality threshold. This analysis shows that the existing mechanisms allow for an adequate protection of the EU budget.

Integrated Financial Reporting Package

For the second consecutive year the Commission published a 'suite' of reports in the form of the 'Integrated Financial Reporting Package'. The information presented provides a comprehensive overview of how the EU budget is supporting the Union's political priorities, while being spent in line with EU rule and puts a special emphasis on performance, thus making a **big step forward**

in transparency and accountability and achieving one of the concrete outcomes of this Commission's 'Budget Focused on Results' initiative. In order to further promote transparency and accountability the presentation of the package has been streamlined and in 2017 consisted of:

- Annual Management and Performance Report (AMPR)[5],
- the EU Annual Accounts[6] and
- the report on the follow-up of the 2015 discharge[7].

Management and control of revenues

The **own resources** of the EU continued to be effectively managed and controlled, as confirmed by the Declaration of Assurance from the ECA which concluded that concerning 2016 revenue of the European Union was not affected by a material level of error:

- no errors in the transactions tested were found
- the examined systems were assessed as effective for GNI and VAT-based own resources and other revenue
- the examined systems were assessed as overall effective for TOR and the key internal controls in Member States visited were assessed as partially effective

On 1 March 2017 OLAF concluded its investigation (OF/2014/1274/B1) on the undervaluation of textiles and footwear imported in the UK between 2013 and 2016. OLAF addressed recommendations to Her Majesty's Revenue and Customs, to the Crown Prosecution Service and to the Commission. As a consequence of this investigation as well as those conducted by BUDG within the framework of own resources management, **serious doubts exist on the accuracy of the traditional own resources (custom duties) amounts transferred to the EU budget by the UK**. This AAR is therefore qualified by a reservation (more detailed information can be found in sections 2.1.1.A. and 2.1.5).

The Commission decided on 8 March 2018 to start a formal infringement procedure by sending to the UK a Letter of Formal Notice under Article 258 TFEU concerning this case. Depending on the UK's reply to this letter, it might be followed by a reasoned opinion and eventually, if no solution is found, a referral to the Court of Justice of the EU.

In this context, cooperation with OLAF and TAXUD was intensified during 2017 especially on undervaluation, risk management and other fraud related issues. A High Level Steering Group BUDG-OLAF-TAXUD at directors' level was established in 2017 with the objective of discussing strategic policy issues concerning the protection of the revenue side of the EU Budget (information about ongoing investigations, legislative procedures, Strategy and Action Plan for Customs Risk Management, follow up of Special Report concerning the implementation of import procedures in the EU,…).

In 2017, all calculations and controls of the own resources have been done in accordance with the **Own Resources Decision 2014/335** and its implementing Regulations 608/2014 and 609/2014.

Treasury and recovery of funds management

Treasury management continued to be particularly challenging in the course of 2017 in view of the persistence of a negative interest rate environment. In addition, regular monitoring of payment needs and cash flows was required to ensure proper and timely execution of all payments, which is key to budget implementation.

[5] https://ec.europa.eu/info/publications/2016-annual-management-and-performance-report-eu-budget_en
[6] http://ec.europa.eu/budget/library/biblio/publications/2017/EU_Annual_Accounts_2016_en.pdf
[7] https://publications.europa.eu/en/publication-detail/-/publication/38af0736-f684-11e7-b8f5-01aa75ed71a1/language-en/format-PDF

The Commission continued during 2017 to **recover all amounts due** as efficiently and effectively as possible, using all the initiatives available to avoid unnecessary losses and applying an appropriate **risk management for provisional fines and bank guarantees**. The risk management policy for financial guarantees has been reviewed during the year to take into account the current macro-economic situation in the EU.

Accounting financial System (ABAC)

During 2017 BUDG continued to support other DGs in the implementation of the annual budget via an efficient **execution of payments and revenues** and the correct management of the **corporate information and accounting IT tool (ABAC).**
ABAC was adapted during 2017 to the new provisions derived from the revision of the Financial Regulation and the new Legal Commitment module was deployed. This new module centralizes all the legal commitments (e.g. grants, procurements, contracts with third parties…) in a single repository allowing for better management and reporting.
Over the last years, there has been a thorough analysis on the different options in view of the necessity of replacing ABAC by an upgraded system ensuring the integrity and resilience of financial management in the future. ABAC's technical foundations date back to the early 90s and, throughout the years, have included various systems powered by different technologies, thus becoming increasingly complex, costly to maintain and difficult to change. In October 2017, the IT Board of the Commission approved the business case to launch the **new ABAC architecture.**

Financial rules

The Central Financial Service continued during 2017 to provide training and advice on the application of financial rules, in order to ensure an appropriate control but also efficiency in the implementation of the EU budget. In this regard, in line with the Better Regulation Agenda of the Commission and the Budget Focused on Added Value strategy (see below), BUDG focused during 2017 on reaching a successful agreement on the revision of the Financial Regulation proposed in September 2016, with its focus on **flexibility and simplification.**

Political agreement on the proposal to revise the Financial Regulation was reached in December 2017. The revised Regulation makes the current legal framework for the implementation of the EU budget more simple as well as more focussed on the delivery of concrete results on the ground. to ensure a more efficient management already in the current MFF and to pave the way to the preparation of simplified financial post-2020 architecture.

BUDG also continued to support the negotiation of **framework agreements with financial institutions,** in particular with the EIB, responsible for designing and implementing the European Investment Advisory Hub - part of the European Fund for Strategic Investments enabling the integration of European Bank for Reconstruction and Development and the National Promotional Banks (NPBs) in the provision of advisory services for Small and Medium Enterprises and other companies.

EU Budget focus on added value

The focus on maximising the European added value of the budget is at the center of the reflections of the new generation of programmes. It is key to identify actions for strengthening further the performance orientation of the budget implementation as well as achievements of the public expenditure creating the conditions for convincing communication on EU Budget achievements. In this sense, efforts are made to:

- **improving transparency and accountability** by streamlining the performance information of the EU Budget. As a result, the quality of the Annual Management and Performance Report has been improved in 2017 providing better and more clear information on the progress of the 2014-2020 MFF programmes and the latest available evidence on the results of the 2007-2013 MFF programmes. In addition, it demonstrates that the EU budget contributed to the achievement of Commission's political priorities and the Europe 2020 objectives.

- **aligning of budget to political priorities** and spend where the **highest EU added value** is achieved

The focus on results was the key during the preparations of the 2018 draft budget. DGs were requested to provide information on the areas where EU spending programmes bring positive results or where implementation is lagging behind. In addition they have also been invited to assess the performance of different instruments used (grants, procurement, and financial instruments). Also in the context of the next MFF, the new generation of programmes should contain a limited number of indicators for communicating and reporting in a coherent way on the results achieved for the entire EU budget.

A **conference on the Future on EU Finances** took place in September gathering high-level speakers representing stakeholders and distinguished experts who addressed the performance of the EU Budget and implications for European Added Value, the role of simplification and better regulation for the performance of the EU Budget and its ability to address emerging priorities.

The OECD report on budgeting and performance in the European Union was published. The Commission asked the OECD to undertake an independent assessment of how the EU model of budgeting for performance and results compares with good practice around the world. The OECD concluded The **EU system** of budgeting for performance and results **is advanced and highly specified**, scoring higher than any OECD country in the standard index of performance budgeting frameworks.

Organisational management of the DG and internal control

In order to **reinforce the internal control function** inside the DG a dedicated new deputy Head of the unit post was created in the unit dealing with HR, Finance and Internal Control matters.

The **internal control survey organised at the beginning of 2018** showed **very positive results** highlighting the understanding by staff of their tasks and roles and how they contribute to BUDG's mission and also the readiness for change to improve procedures.

The survey was carried out in a context of raising awareness on the importance of a robust internal control in BUDG daily tasks as a way to ensure the successful achievement of its objectives. To reinforce this message and with a strong tone at the top and support by senior management, **a seminar with all managers** (including deputy Heads of Unit) was organised in January 2018 focused partly on internal control.

During 2017, a number of actions were implemented aimed at **keeping the motivation of staff** following the staff survey 2016 where some requests were made as well as efforts to reach the **HR corporate targets** such as the rate of women in middle management for a more engaged and gender balanced organisation. This rate in BUDG has increased from 20% in 2013 to 33% in 2017.

Internal communication was also improved by promoting the cooperation across directorates and with other DGs, the organisation of lunch-time conferences, extended management meetings, and dedicated seminars. Also in **the external communication**, more clear and attractive messages and publications were produced by BUDG as well as the **participation in public conferences and events** to bring the EU budget closer to citizens and other stakeholders.

The major challenge for BUDG in 2017 in terms of **Human Resource Management** was to successfully implement the pilot of the new HR centralisation model while maintaining the high quality of service that contributed in the past to achieving the key objectives of the DG, and at the same time propose actions and activities to maintain the level of engagement and motivation of staff. With this aim, BUDG continued to scrutinize the allocation of human resources to the identified priorities by analysing the profile of each post which became vacant.

BUDG was not affected during 2017 by massive retirements or loss of competencies; its human resources situation remained fairly stable.

Nevertheless, the current workload is resulting in a particular high level of stress also due to the long standing vacancies of a number of senior management positions.

Main milestones BUDG Strategy 2016-2020

CALENDAR STRATEGIC PLAN DG BUDGET							
		2015	2016	2017	2018	2019	2020
Annual activities	**Annual budget**	Adoption budget 2016 Implementation budget 2015 Adoption of annual accounts 2014	Adoption budget 2017 Implementation budget 2016 Adoption of annual accounts 2015	Adoption budget 2018 Implementation budget 2017 Adoption of annual accounts 2016	Adoption budget 2019 Implementation budget 2018 Adoption of annual accounts 2017	Adoption budget 2020 Implementation budget 2019 Adoption of annual accounts 2018	Adoption budget 2021 Implementation budget 2020 Adoption of annual accounts 2019
	Discharge	Discharge budget 2013	Discharge budget 2014	Discharge budget 2015	Discharge budget 2016	Discharge budget 2017	Discharge budget 2018
Strategic multiannual activities	**Budget Focussed on European added value**	Conference Launch of strategy and work streams	Conference Contribution to Mid-Term Review	Conference Contribution to the preparation of the 2021-2027 MFF (see below) OECD report peer review on performance	Conference Contribution to the preparation of the 2021-2027 MFF (see below) Impact assessment and public consultation process and review of programmes legal basis	Conference	Conference
	Multi-annual Financial Framework **(MFF)**		Special Technical Adjustment[8] Proposal Midterm review / revision Report HLGOR	Reflection Paper on Future of EU Finances Spending review Conference on the future of EU finances	Proposal programmes next MFF[9] (MFF regulation, OR regulation and Commission Communication)	Adoption of 2020 MFF	
	Financial regulation (FR)		Proposal of simplified FR	Proposal of alignment of FR to MFF			

8 Recalculation of cohesion envelopes.
9 For information, responsibility of the operational DGs.

b) Key Performance Indicators (KPIs)

Indicator	Baseline (2014)	Target 2020	Milestones achieved in 2017
MFF midterm review / revision and Proposal post 2020 MFF	MFF 2014-2020 adopted in December 2013 Key milestones Mid-term Revision proposal 2016	Conclusion of negotiations on the post-2020 MFF package of proposals	Final approval in General Affairs Council on 20 June of MFF Mid Term revision with consent of EP on 5 April 2017.
Adoption and implementation of Annual budget within the deadlines set by the Treaty , respecting the political priorities and promoting efficient allocation of resources (including the 5% staff reduction target)	Budget 2016 adopted : 25/11/2015 Execution 2015 - commitment appropriations (after carry-overs): [100] % - payment appropriations, implementation (after carry-overs): [100] % Payment Plan : March 2015 Allocation of human resources consistent with 5% staff reduction target	Adoption of annual Budget in December at the latest Full (100%) annual budget implementation making use of transfers and carryovers Full use of resources within the MFF Optimal allocation of financial and human resources to address the political priorities	Budget 2018 adopted (30/11/2017) Budget implementation: 99.8% 5% staff reduction completed for the Commission as confirmed by the European Court of Auditors
Confirmation by ECA of the effectiveness of the Commission's Own Resources control systems	Positive DAS Opinion on Own resources for 2014 exercise	Positive DAS Opinion on Own resources for 2015-2019 exercises	Positive DAS Opinion for 2016 on OR
Confirmation by ECA of the reliability of the annual accounts and discharge resolution by EP with no postponement or reservations	Positive DAS on 2014 Accounts No postponement of the discharge	Positive DAS on annual accounts 2015-2019 Annual discharge in EP plenary for 2015-2019 budgets	Positive DAS Opinion for 2016 on accounts Discharge 2015 given
Develop a Budget Focused on European Value Added	SPP cycle and reporting framework Programme statements in MFF	Reinforcing performance framework for evaluation, reporting, budgeting and programming	EU Budget Integrated Financial Reporting Package 2016 Improved 2016 Annual management and Performance report for the EU Budget Design and implementation of a Spending review process for the EU Budget OECD report confirming that EU performance framework is advanced and highly specified scoring higher than any other OECD country
Adoption of simpler and more coherent financial rules		Simplification of financial rules through the adoption by 2019 of the Simplified Financial Regulation	Political agreement reached December 2017 on the Financial Regulation
Promote sound financial management	DAS from the ECA based on materiality threshold of 2 %	Progress in cost-effectiveness of controls Implementation of residual error methodology	The estimated level of error for expenditure further declined from 4.4 % to 3.8 %. Amount at "risk at closure" concept developed in the context of the AAR preparation and below 2%

c) Key conclusions on Financial management and Internal control

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

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. BUDG has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and function as intended. Nevertheless further improvements are needed for some standards. The remedial measures are implemented or envisaged. Please refer to AAR Section 2.1.3. for further details.

In addition, BUDG has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the ECA. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2.1. 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 the capacity as Authorising Officer by Delegation (AOD) 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 by the UK. As described in the corresponding section and in the reservation details (section 2.1.5), BUDG, in cooperation with the relevant services is following-up very closely on this matter. However, 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 and therefore the responsibility of the Commission to mitigate the risk is limited. Please refer to sections 2.1.1.A. and 2.1.5. for further details.

D) Information to the Commissioner(s)

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 Günther H. Oettinger, responsible for Budget and Human Resources as of 1 January 2017.

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

SO1.Driving the process of strategic budgetary planning: Multiannual Financial Framework (MFF)

On 20 June 2017, the General Affairs Council gave final approval to the Mid-term revision of the Multiannual Financial Framework. In September 2016, the Commission had proposed the Mid-term Revision the main objective of which was to increase funding and flexibilities available to continue to provide an appropriate budgetary response to the two main political priorities – growth and jobs and response to migration – and to reinforce the flexibility and agility of the budget.

After intense negotiations between the three institutions, a unanimous agreement was reached in the Council on 7 March 2017 and the European Parliament gave its consent on 5 April 2017 to a compromise package, including the revision of the MFF regulation as well as a number of political agreements concerning in particular the reinforcement of specific programmes.

Agreement on the Mid-term revision of current MFF focussed on growth, security, Erasmus, youth unemployment and migration root causes

Even though it does not increase the global MFF ceilings, it includes a potential increase of expenditure over the period 2017-2020, particularly in successful programmes fostering growth, security , Erasmus + and in those addressing youth unemployment and the intra-dimension of migration as well as its root causes. The agreement provides substantial additional flexibility for the financing of new emergencies (at least EUR 1.3 billion is available immediately from 2017 onwards).

On 16 October 2017, the Commission presented the Medium term payments forecast providing an update of the medium term payments forecast presented in the autumn of 2016 at the occasion of the Mid-term revision of the current multiannual financial framework. The Commission presented also the forecast of payment appropriations after 2020, in accordance with point 9 of the Interinstitutional Agreement of 2 December 2013. It concludes that the expected payments in 2019 and 2020 could be covered under the MFF payment ceiling as adapted in the 2018 MFF Technical Adjustment. Any additional needs arising from initiatives beyond the ones already included in the Draft Budget 2018 would come on top of the current forecast payments. The spill-over of payments into the next MFF due to an increase of the RAL at the end of 2020 will need to be accounted for when setting up the payment ceiling for the MFF post 2020.

Following the White Paper on the Future of Europe, published on 1 March 2017, the Commission adopted on 28 June 2017 the Reflection Paper on the Future of EU finances. Together with the reflection papers on the social dimension of Europe, on deepening the Economic and Monetary Union, on globalisation and on defence, this paper will have decisive implications for the next Multiannual Financial Framework. The reflection papers set out a range of ideas, concepts and possibilities for the future of the EU27.

The Reflection paper on EU finances brings together the reflection on the material priorities and on how we should finance them. It does not present definitive answers or proposals. It maps out new challenges, possibilities and reform options, risks and trade-offs for the future of EU finances.

The paper takes account of the specific context of the moment: it therefore anticipates a gap in EU finances arising from the UK's withdrawal from the European Union and from the emerging financing needs for new priorities. It looks at these financing bottlenecks as an opportunity to modernise the EU budget and as a responsibility to equip it better to respond to existing and new challenges. In this light the reflection paper underlines key questions on the way forward. The principle of EU value added is emphasised as crucial in view of better alignment between priorities and available resources. The paper refers to ongoing debates about key established EU policies (agriculture and cohesion), and presents some policy reform options to optimise their impact. Further principles of reform and future design of the EU budget encompass:

- concentrating funding on the areas of highest value added,
- accountability,
- providing more flexibility while preserving predictability for long-term investment, and
- simplification of the rules in order to ease their implementation by beneficiaries.

Some key parameters of the Multiannual Financial Framework such as duration, architecture, flexibility mechanisms, and special instruments to cater for new developments or unexpected events are also discussed.

Building on the Monti report (published in January 2017), the reflection paper also refers to options on the revenue side, as future proposals on own resources might mutually reinforce the structural shift towards more common public goods and EU added value on the spending side, bringing truly European revenue.

With this Reflection paper the Commission launched an open debate on how to build a modern system delivering visible results for all citizens which is fit to respond to the challenges of the future.

As announced in the State of the Union Speech of President Juncker on 13 September 2017, the Commission will present the **proposal for the future Multiannual Financial Framework (MFF) beyond 2020**, including on own resources, in May 2018.

EU Spending review started as a basis of the new MFF proposal by May 2018

To underpin the political discussions on the new multiannual financial framework without pre-judging them, a comprehensive EU spending review was started in 2017 assessing the extent to which spending programmes contributed to achieving the EU's strategic priorities and identifying opportunities to further increase the added value of EU programmes. The spending review will be concluded in 2018.

During 2017 BUDG continued to conduct analytical and conceptual work on possible reforms of the revenue side and the own resources system and re-activated and organised consecutive meetings of the Commission internal network on own resources. This inter-service exercise took place in the broader context of the spending review and results of the work will inform the decision making in view of the next MFF package.

SO2. Managing the expenditure of the EU budget efficiently within the framework of the MFF

Budget 2018 was adopted in November 2017, broadly following the initial Commission proposal, reflecting and supporting the political priorities, in particular contributing to the greatest extent possible to jobs, growth and investment, and providing a European response to the challenges of migration management and the fight against terrorism and organised crime.

Commitment appropriations are set at around EUR 160 billion (increase of 0.2 % compared to 2017) leaving a margin of about EUR 1.6 billion. Payment appropriations are set at EUR 145 billion (increase of 14.1 % compared to 2017) leaving a margin of about EUR 11 billion. The additional commitments were enabled by some redeployments and the mobilisation of the "special instruments" foreseen in the MFF:

Budget 2018 adopted on time
160 billion

- the Flexibility Instrument for 2018 is mobilised for an amount of EUR 837 million for heading 3 Security and Citizenship.
- the Global margin for commitments is mobilised for an amount of EUR 1.1 billion for heading 1a Competitiveness for growth and jobs and Heading 1b Economic, Social and Territorial Cohesion.
- The offsetting of the Contingency margin mobilised in 2017 is adjusted to lower the amount offset in 2018 (by EUR 252 million) and the same amount introduced in 2020 in Heading 5.

Implementation of the budget 2017:

Until November 2017 there was still a very slow progression in terms of submission of payment claims for the European Structural and Cohesion funds from the Member States. Therefore in order to avoid a potential significant under-implementation at the end of the year, the Commission proposed and the EP and Council accepted a significant reduction of the level of payment appropriations in amending budget 6 (EUR 7.7 billion, of which EUR 5.9 billion for Heading 1b).

During the year the Commission was very pro-active in working with and assisting the Member states to accelerate implementation of European Structural and Investment Fund (ESIF). The closure process for the 2007-13 ESIF programmes was also intensified.

The submission of claims increased significantly during the last weeks of the year; payment applications for a total of EUR 11 billion for Heading 1b were received in the month of December 2017 representing 45% of the 2017 amount.

As a result, the 2017 authorised budget (after amendments agreed in amending budget 6/2017) was fully implemented and a further EUR 5 billion of assigned revenue - generated by the annual examination and acceptance of accounts - were also used to reimburse payment applications, reflecting an improvement in the implementation pace of 2014-2020 programmes.

Budget 2017 fully implemented

The Commission made significant efforts to reimburse as much as possible before the end of the year. Almost all of the payment claims related to ESIF were reimbursed leaving a "normal" backlog of EUR 2 billion at the end of 2017, consisting of the payment applications received after the 26th of December 2017 which could not be processed before year end.

BUDG assessed budgetary implications and ensured sound budgeting within the MFF for new legal acts/Commission decisions through the timely reply to Interservice consultations received (98.5% of replies were sent within the deadline)

The process of **implementing a 5 % reduction in staffing level** of all EU institutions, bodies and agencies over five years is almost completed. Most institutions, including the Commission, applied the final step of the reductions in their 2017 budget proposals, while the EEAS did so in 2018, and the European Parliament has indicated its intention to do so in 2019. In December 2017, the European Court of Auditors (ECA) issued a Rapid Case Review on the application of the cut, stating that it had been achieved by all institutions and bodies, albeit with slight delays in some limited cases.

Furthermore, major efforts continued to achieve all possible **efficiency gains** and to meet new challenges with a reduced level of staffing. Pressure continued on the administrative and human resources of all the Institutions, especially the Commission in the light of the higher-than-expected 2016 salary and pension update. However, careful management of the occupation rate meant that the needs could be met through redeployment for 2016, and the adoption of amending letter 1/2017 stabilised the situation for 2017.

SO3. Efficiently and effectively manage and control the revenues of the EU budget

Positive opinion by European Court of Auditors on the collection of Own Resources

The **own resources of the EU** were continuously effectively managed and controlled, and this was confirmed in 2017 by the European Court of Auditors (ECA) Declaration of Assurance. The ECA considered that the Commission's control systems for the GNI and the VAT-based own resources were effective and those for Traditional Own Resources (TOR) overall effective. However the key internal controls in Member States visited by the ECA were assessed as partially effective.

On 5 December, the ECA published the **Special Report on import procedures** (19/2017) with the title "Shortcomings in the legal framework as well as an ineffective implementation of customs controls by Member States on imports, which adversely affect the financial interests of the EU".

This report outlines 8 recommendations for the Commission. Only the first recommendation concerning customs gap is for BUDG - the ECA considers that the absence of an estimate of the customs gap adversely affects the evaluation of the performance of the Customs Union in terms of the protection of the EU's financial interests and prevents an efficient allocation of resources to areas e.g. undervaluation, or Member States where the highest potential losses are identified. Commission does not accept this recommendation explaining that Commission's calculations in the TOR area, based on hard data, is the most reliable methodology to establish such gap and is used for operational purposes, namely for preparing the annual inspection programme of Member States.

The other recommendations are mainly for TAXUD, OLAF and Member States or related to the existing legal framework. This report for which TAXUD is the lead DG was presented and discussed in EP Budget Committee (CONT) and the EP Committee on the Internal Market and Consumer Protection (IMCO) and is now being discussed in Council Customs Union Working Group. BUDG participates actively in this discussion.

For Traditional Own Resources (TOR), the Commission completed **26 inspections** in Member States as part of the work programme 2017. The B account[10] and corrections to the A account were examined in all the inspections[11]. An Own Resources acquis seminar was organised in view of a political settlement on a unified Cyprus[12].

10 Irregularities in TOR are accounted for in the so called B account and TOR is made available to the EU by the Member States in the so called A account.

11 In addition to this general topic, application of transit, the reliability of the A & B accounts, the control strategy in the field of customs value and the management of irrecoverable amounts were examined in specific Member States. Joint audits were also part of the

TOR controls included the timely assessment of 202 **write-off reports**[13] submitted by Member States (see more details on the results of the assessment in section 2.1.1.A)

Also in the TOR area, OLAF concluded on 1/3/2017 its investigation (OF/2014/1274/B1), opened on 16/01/2015, on the undervaluation of textiles and footwear imported in the UK and issued a final report. On the basis of this investigation, OLAF concludes that the UK has failed to apply the appropriate measures to prevent systematically undervalued imports of textiles and footwear from the People's Republic of China from entering the EU through the UK. As a consequence, OLAF and BUDG estimate losses of EUR 2 735.5[14] million (gross) of traditional own resources (customs duties) to the EU budget between November 2011 and December 2017.

Also BUDG's controls have confirmed significant weaknesses in Her Majesty's Revenue and Customs management and control of undervalued imports of textiles and footwear in the traditional own resources area. This is shown by the inspections carried out in the UK in November 2016, May 2017 and November 2017 as well as the special monitoring of additional debt establishments made by the UK in this area since 2014 (see further information on the reservation set on TOR in sections 2.1.1.A. and 2.1.5.).

The Commission has intensified its inspection activities to the UK and national authorities finally started to tackle the issue - as of October 2017 they have partly introduced the remedial measures requested by the Commission. Although only a very limited number of undervalued imports could actually be checked, a preliminary analysis of import data shows a steep reduction of the TOR losses in the UK since November 2017. However, since the belated action by the UK authorities to tackle the undervaluation led to very significant losses of traditional own resources, which the UK refuses to make available to the EU budget, the Commission decided on 8 March 2018 to start a formal infringement procedure by sending to the UK a Letter of Formal Notice under Article 258 TFEU concerning this case. Depending on the UK's reply to this letter, it might be followed by a reasoned opinion and eventually, if no solution is found, a referral to the Court of Justice of the EU.

Cooperation with OLAF and TAXUD was intensified especially on undervaluation, risk management and other fraud related issues. A High Level Steering Group BUDG-OLAF-TAXUD on directors' level was established in 2017 with the objective to discuss regularly strategic policy issues for the protection of the revenue side of the Budget (information about ongoing investigations, legislative procedures, a Strategy and Action Plan for Customs Risk Management, follow-up of the Special Report concerning the implementation of import procedures in the EU,…).

Cooperation with OLAF and TAXUD was intensified to further ensure the protection of the revenue side of the Budget

In the area of **VAT own resource**, the Commission carried out the **13 inspection visits to Member States** during 2017, as planned.

As part of the preparations of the new MFF package to be adopted in May 2018, the Commission started reflecting on possible legislative initiatives to reform the own resource system. BUDG ensured coordination within the Commission via the internal network on Own Resources and continued in-depth analysis on potential new own resources candidates. See more details in specific objective 1.

The Preparatory work started for the new Own Resources decision 2016 package. Draft proposals were prepared and submitted to ACOR in December to replace:

programme.

12 Technical assistance work on candidate and applicant countries concerned also Serbia, Turkey and Bosnia-Herzegovina.

13 These reports concern TOR amounts that became irrecoverable allegedly for reasons not attributable to the Member States. When the Commission's assessment concludes that the losses are attributable to Member States' though, the latter are required to make the relevant amounts available to the EU budget.

14 In compliance with Article 12 of Regulation No 609/2014, interest for late-payment are also due and will be calculated and requested when the relevant dates are known.

- Commission Implementing Decision 2016/2365 establishing forms for reporting on fraud and irregularities affecting entitlements to traditional own resources and on inspections relating to traditional own resources pursuant to Council Regulation (EU, Euratom) No 608/2014 and
- Commission Implementing Decision 2016/2366 establishing models for statements of accounts for entitlements to own resources and a form for reports on irrecoverable amounts corresponding to the entitlements to own resources pursuant to Council Regulation (EU, Euratom) No 609/2014.

The adoption of the two new Commission Implementing Decisions is scheduled for February 2018. The changes relate mainly to the A&B account statements, OWNRES and WOMIS[15] templates and the Annual activity reports Member States should submit. The OWNRES and WOMIS applications are currently upgraded to meet the legal expectations.

Organisationally, the Task Force Own Resources was dissolved, and a new sector 'Revenue Policy' was integrated into unit BUDG.B4 which has been renamed 'Revenue Policy and Control of other own resources'.

SO4. Maintain a high quality central accounting /financial framework

The Commission demonstrated its accountability by providing high-quality and timely financial and other information to all its stakeholders, internal and external. During 2017 BUDG produced the 2016 **annual accounts** of the EU, the Commission and many other EU entities[16] and obtained for the tenth consecutive time a **positive ("clean") opinion on the EU annual accounts from the ECA.** These accounts were also delivered before the end of June to the discharge authority, much earlier than in previous years. This allowed the ECA to also adopt and present its annual report earlier, thus starting the discharge procedure almost 6 weeks in advance of the usual date. All other entities also received clean opinions.

European Court of Auditors Positive ("clean") opinion on the EU annual accounts

In line with the highest standards of transparency and accountability, the Commission published **the EU Budget Integrated Financial Reporting Package 2016 (IFRP),** which included three[17] reports, providing key and detailed information for the reporting year on revenue, expenditure, management and performance. The package provides a comprehensive overview of how the EU budget is supporting the Union's political priorities, while being spent in line with EU rules. It puts special emphasis on performance making a big step forward in transparency and accountability and achieving one of the concrete outcomes of this Commission's focus on European added value.

The IFRP in 2017 included:

- The **Annual Management and Performance Report** (AMPR) detailing the results achieved by/with the EU budget (EU budget performance) and on how it has been managed (management performance) as well as actions taken by the Commission and Member States to ensure the proper use of taxpayers' money***;***
- the **EU Annual Accounts** containing financial statements information on the activities of the institutions, agencies and o their bodies of the EU.

[15] IT applications to manage the collection and control of Own resources which are managed jointly by the Commission and the Member States

[16] Using the resources and expertise at its disposal, BUDG's accounting services are already providing high quality services to, amongst others, 2 institutions, 13 EU agencies and joint undertakings and the EDF and 4 trust funds, and remain available to expand the offer to any other interested EU body. This allows the agencies and joint undertakings in particular to reduce their headcount while maintaining (and often improving) their performance in this area. As the number of entities availing of this option grows, so should the cost savings and efficiency gains.

[17] The former Communication on the protection of the EU budget has been integrated in the Annual Management and Performance Report.

- Information on the Commission's follow-up on the **discharge for the financial year 2015**.

Financial reporting by BUDG was generally considered of good quality. The European Parliament welcomed the newly produced regular reports on Trust funds and the Facility for Refugees in Turkey. The Commission is following up a recommendation from ECA to improve reporting on funding related to the refugee and migration crisis.

The work on the development of **corporate reporting tools** has continued with the design and partial implementation of the expenditure cycle dashboard allowing the senior and middle management to visualise financial Key performance Indicators (KPI's) in a quick way. This enables an easy monitoring of budget implementation. In addition, a central Trust Fund report has been developed to meet the requirements of the Budgetary Authority.

In 2017, the 20th meeting of the **EU Advisory Group of Experts on Accounting Standards** took place in Brussels providing advice to the Commission's Accounting Officer on the adoption of new accounting rules and accounting treatment for important transactions such as the European Fund for Strategic Investments (EFSI). This advisory group is composed of independent external public sector accounting experts and of experts of EU institutions and bodies whose advice helps to ensure that the accounting environment and the EU annual accounts are in line with internationally accepted accounting standards for the public sector.

The Commission continued to **raise the profile of its accounting services** within the global accounting profession through participation in conferences and standard setting activities, the most relevant of which include the confirmed status as observer of the **IPSAS board**, full membership of the IPSAS Consultative Advisory Group, member and regular contributor of the EPSAS task force and participation in international treasury networks.

The Commission also extended again its client base in 2017 with regard to providing accounting services for other EU entities – on 1 October 2017 the Commission's Accounting Officer became the accounting officer of the ACER agency, whilst the ECSEL Joint Undertaking's Governing Board decided in December 2017 to appoint the Commission's Accounting Officer as of 1 July 2018.

SO5. Support to Commission Services through Treasury management and recovery of funds management and a high quality Information System (ABAC)

During 2017 BUDG has continued to support other DGs in the implementation of the annual budget, via an efficient **execution of payments and revenues** and the correct management of the **corporate information and accounting IT tool (ABAC).**

In particular, BUDG has developed and implemented a **new strategy for the validation of local systems**. It aims at increasing the efficiency of the process, reducing the administrative burden on authorising departments, identifying best practices and disseminating them beyond the departments examined. The validation of local systems is an important element of assurance to the Accounting Officer of the reliability of the information entered by the various authorising departments in the financial systems and of the overall quality of financial data.

In the past, assurance was achieved by auditing the control systems operated in all 59 departments and entities under the responsibility of the Accounting Officer. This took too long (close to ten years) and yielded observations of a too general nature, seldom with direct impact on the accounts or reporting.

New strategy for the validation of local systems has led to significant increase of efficiency and outputs

The new strategy has been implemented progressively, developing the necessary methodology and tools and leading to a revision of the work programme. This has led to a significant increase of the unit's efficiency and output (twelve engagements completed and six ongoing, compared with only three at the end of the previous year). It has also produced a risk score for all 59 entities and completed a snapshot of unmitigated risks which may have an impact on the accounts or on reporting.

Treasury managed effectively despite challenges and the negative interest environment

Treasury management has continued to be **particularly challenging** in the course of 2017 due also to the persistence of a negative interest rate environment. In this context, The safeguards provided by the Making Available Regulation and the European Development Fund (EDF), together with the specific treasury management procedures put in place have ensured that impact of negative interest on the EU and EDF budgets could be minimised in 2017, and for the EU Trust Funds even completely avoided. Monitoring of payment needs and cash flows also remained important to ensure proper and timely execution of payments, which is key to the EU budget. An effective treasury management and safeguarding of EU assets has become increasingly critical over the past years.

In 2017, the **Commission has recovered all amounts due as efficiently and effectively as possible**, using all the initiatives available to avoid unnecessary losses and applying an appropriate risk management for provisional fines and bank guarantees. The risk management policy for financial guarantees has been reviewed during the year to take into account the macro-economic situation in the EU characterised by steady economic recovery and consequently lower risks, the experience with the current procedure over the last five years and the (expected) evolution of the amounts of fines being imposed and covered by financial guarantees.

ABAC is the Commission's **corporate finance and accounting system** managing the financial transactions, accounts and disclosure of the Commission and of 49 External Entities. ABAC's availability and reliability is essential, both from a daily business as well as from a political point of view. Throughout 2017 ABAC ran in **compliance to the provisions of the Service Level Agreement**, letting a user community of over 12 000 users to operate EUR 160 billion in appropriations and over one million payments.

The changes in ABAC required by the revision of the **Financial Regulation 2018** were completely implemented in 2017 with the objective to be activated in 2018. Enhancements to ABAC were carried out to reduce the number of "manual interventions" (interventions made directly into ABAC to sort out technical problems)

With a view to propel the **rationalisation of the Commission's IT-landscape**, a new module "Legal Commitment Kernel" (LCK) was successfully deployed in October 2017. LCK is the central and single repository of legal commitments (contracts) for the Commission. This will lead in 2018 to a full decommissioning of ABAC Contracts module. Further investments in interoperability between ABAC and its linked Local Systems in the DGs were made.

Two major releases of ABAC were successfully deployed during 2017 one of them including the LCK module which is now fully integrated in ABAC.

Important IT achievements in view of the new corporate Finance Platform ABAC 2

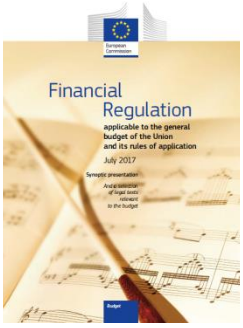
These achievements fit into a roadmap which must lead to **a new corporate Finance Platform** which is the successor of ABAC (**ABAC2**). A "business case" proposed that ABAC2 could be built on a SAP platform "S/4 HANA" with limited specific additional developments. The business case was approved by the IT Board on the 5th of October 2017.

Coherence with the successor of ABAC must be ensured with other corporate IT tools being developed in relation to budget/contract management. To this end, BUDG participates to the Grant and Procurement Steering Board (GPSB) and the OPSYS Steering committee in the field of external relations.

To ensure the proper functioning of **EU Trust Funds and of the Turkey Refugees Facility**, the related tasks that are under the responsibility of the Accounting Officer were duly performed:

- Treasury management, cash flow monitoring and payment processing
- Accounting
- Recovery of funds
- ABAC system and new functionalities in place including reporting

SO6. Promote consistent and simplification of financial rules, sound financial management and cost-effectiveness of controls



Agreement on the revision of the Financial Regulation: step towards a simpler and flexible EU Budget

BUDG achieved the challenge of **reaching an agreement** on its proposal **to simplify the Financial regulation and 15 other sectoral legal acts** providing the DGs with a simplified basis for the preparation of the post-2020 generation of funding programs (Post-2020).

DG BUDG organised a **working group on simplification and flexibility** allowing all DGs to share lessons learned from current financial rules, in order to facilitate the preparation of the **new spending rules for the post 2020 multiannual financial framework**. This work led to the elaboration of simplified template regulation for the post-2020 funding programs with the LS and SG with the objective to increase flexibility and interoperability of the future funding programs and to facilitate the development of corporate IT solutions for management of eGrants and eProcurement.

The **Early Detection and Exclusion System (EDES) Panel** responsible for the assessment of cases of intended sanctions on unreliable economic operators has **become fully operational** and its recommendations have led, where appropriate, to exclusion decisions by authorising officers from EU funds.

New Internal Control Framework adapted to COSO- more flexible and closer to services needs

Progress was also consolidated in the area of internal control with the adoption of a **new internal control framework** on 19 April 2017. Based on international best practice, the new framework moves away from a purely compliance-based whereby services are offered the necessary **flexibility** to adapt to their specific characteristics and circumstances while **ensuring a robust internal control**. In order to disseminate the new approach, BUDG has organised in 2017 a series of workshops and provided guidance to the DGs as well as to the Agencies.

The **guidance on the provision of services to other EU Institutions, Agencies and Bodies was adopted** on 30 March 2017. It sets up the rules which the Commission services shall respect when recovering the costs incurred for the services they provide to those clients.

Finally BUDG reviewed the draft 2016 AARs of the DGs, in particular as regards the conservativeness of the estimations of the error rates, overall amounts at risk and future financial corrections. On this basis, the Commission has produced the Annual Management and Performance Report; alongside the information on the EU Budget performance this report contains an assessment of the Commission's management of the EU budget. The Commission provides **information on the remaining amount at risk after all corrective mechanisms** have been implemented – the so-called amount at risk at closure, showing that the **Commission effectively manages risks related to the legality and regularity** of expenditure in a multi-annual perspective.

Important progress in efficiency gains in financial management; i.e. Procurement

During 2017 BUDG also continued to coordinate and implement, in close cooperation with the Directorates-General, actions aiming to generate **synergies and efficiencies in financial management:** further progress was made towards **harmonising and simplifying** contractual and financial circuits at corporate level; BUDG supported the new eGovernance including the establishment of a single entry point for recipients and corporate support services (SEDIA); BUDG participated actively to the Grant and Procurement Steering Board (GPSB) and the OPSYS Steering committee in the field of external relations; simplified procedures were introduced for the management of delegated appropriations among Commission services; best practices in terms of setting more efficient financial circuits were identified. A **platform for exchange of practice among public procurement experts** now offers a space for mutual learning (e.g. from questions treated by the Central Financial Service helpdesk) among specialists from different DGs, with the aim to improve the quality of the procurement procedures in the Commission.

BUDG also continued to provide training and advice on the application of financial rules, in order to ensure an appropriate control but also efficiency in the implementation of the EU budget. In addition to the classroom courses, BUDG continues to **animate the Finance Community of Practice**, which enables peer learning through the discussion of practical questions on the application of the financial rules.

The **Central Financial Service** continues to pay a great attention to the quality of its services, and regularly collects feedback from its customers (namely through feedback forms and face-to-face meetings with different DGs). The overall satisfaction rate for 2017 of the Central Financial Services' clients is 4.3 out of 5, with **all services provided highly appreciated**.

SO7. Driving the strategy of an EU budget focused on added value

The current Multiannual Financial Framework (MFF) introduced a number of elements to strengthen performance focus whilst ensuring continued compliance. **The focus on European value added** common to BUDG activities, strives to make best use of these features and further improve them in view of the preparation of the proposal for the future MFF. In 2017 the strategy focused on:

Improved transparency and accountability

In 2017 the Commission released for the second time the so-called **Integrated Financial Reporting Package.** The package aims to improve transparency and accountability in order to streamline the information concerning the performance of the EU Budget. Further actions carried out to improve the reporting on the performance of the EU Budget were the following:

- **The Annual Management and Performance Report** provides information on the progress of the 2014-2020 MFF programmes and the latest available evidence on the results of the 2007-2013 MFF programmes. In addition, it demonstrates that the EU budget contributed to the Commission's political priorities and the Europe 2020 objectives.
- **Programme Statements** were attached to the Draft Annual Budget and the distance to target methodology has been introduced.
- **The OECD report on budgeting and performance in the European Union** was published. The Commission asked the OECD to undertake an independent assessment of how the EU model of budgeting for performance and results compares with good practice around the world. The OECD concluded The EU system of budgeting for performance and results is advanced and highly specified, scoring higher than any OECD country in the standard index of performance budgeting frameworks.

EU system of budgeting for performance and results is advanced and highly specified (OECD report)

Effectiveness and efficient implementation

Simplification of spending rules in line with the Better Regulation agenda and higher leverage of EU funds are two significant factors in improving the efficiency of delivery. The elements agreed with the revision of the Financial Regulation that will allow focusing on results more than on spending are the following:

- Allowing for payments based on conditions fulfilled, output or performance in all management modes
- A "single lump sum" could in the future cover all eligible costs of the action. Checks and controls will focus exclusively on the outputs/deliverables

- Priority given to simplified forms of grants where payment is triggered by output and results

To complement the stronger focus on results, a **reinforced performance framework** has been set up through the agreement on the revision of the Financial Regulation:

- Linking performance, objective-setting, indicators, results and the principles of economy, efficiency and effectiveness in the use of appropriations
- Providing for performance based fees to remunerate organisations for managing EU funds
- Considering programme statements as the main source of programme performance information
- Aligning the terminology on evaluation to the provisions of the 2016 Inter Institutional Agreement on better law making and creating a link between ex-ante evaluations under the Financial Regulation and Impact Assessments

Alignment of budget to political Priorities

A central factor in the EU budget allocation is **alignment to priorities** and analysis of performance, through the:

<u>MFF Mid-term revision and annual budget negotiations</u>

- Increasing the resources of high-performance programmes (EFSI, Youth Employment initiatives, COSME, etc.)
- Redeployment towards maximum EU value added: addressing the root causes of migration, European Border and Cost Guard, new entry-exit system for better border control, creating support to host communities inside the EU, etc.

<u>Post-2020 MFF</u>

- Conducting a comprehensive **EU Budget spending review** before the new MFF proposal. BUDG in cooperation with the Secretariat General undertook a comprehensive review of spending programmes focusing on: priority setting and EU added value, delivery mechanisms, synergies and complementarities with other programmes, performance features and possibilities to simplify and make the programmes more flexible. Without pre-judging the outcome of the political process, this technical work underpinned deliberations on the new generation of programmes.

As part of the budget focussed on added value, BUDG has dedicated big efforts to **capacity building,** including exchanges and cooperation with a number of Member States, OECD, World Bank, World Food Programme, US Treasury. Moreover, BUDG animated a number of **performance budgeting fora** with stakeholders from European Commission, Council and Member States administrations, European Parliament administration, academics and performance experts to exchange best practices and develop a common understanding on performance of the EU budget.

BUDG building capacity on performance as a key to lead relevant discussions and enhance cooperation with different stakeholders (Institutions, MS, experts)

On 25 September, a **conference on the Future on EU Finances** took place gathering high-level speakers representing stakeholders and distinguished experts who addressed the performance of the EU Budget and implications for European Added Value, the role of simplification and better regulation for the performance of the EU Budget and its ability to address emerging priorities.

SO8. Ensure effective management of the relations with the Court of Auditors and other institutions paving the way for the annual discharge of the Commission in the implementation of the EU budget

With a very large majority, the **European Parliament granted discharge to the Commission for the 2015** financial year on 27 April 2017. Throughout the 2015 discharge procedure, discussions among key stakeholders in the European Parliament, Council, the European Court of Auditors (ECA) and the Commission centred around the need to increase the focus on results delivered by the EU budget while continuing to further improve compliance with rules. In that context, the Commission's Annual Management and Performance Report was an important input to the debate, presenting a comprehensive overview of results achieved by the EU budget as well as the amount at risk at closure, which for 2015 was estimated to be in the range between 0.8 % and 1.3 % of total relevant expenditure.

Discharge granted for year 2015; focus on performance and on the amount at risk at closure

The European Parliament also focused on issues which should be considered in the context of the next MFF such as the overall EU financial architecture, the need to align political priorities with the MFF and further strengthening transparency and accountability of EU funds.

In order to provide faster feedback on the key priorities of the European Parliament and the Council, the Commission adopted its report on the **follow-up to the discharge for the 2015 financial year**[18] already in July as part of the Integrated Financial Reporting Package. Detailed replies on the 361 specific requests made by the European Parliament and the 106 specific requests made by Council were made timely available in October 2017. The Commission committed to take action on a vast majority of requests made, inter alia by:

- examining the European Parliament's proposal for a new balance between political agenda setting, policy implementation and financial frameworks as part of the preparations for the next MFF,
- following up on issues concerning budgetary and financial management, in particular how to address the high level of outstanding commitments, and
- analysing how to further improve reporting in the Annual Management and Performance Report.

In September 2017, the ECA published its **Annual report for the financial year 2016**, thereby also launching the start of the **2016 discharge procedure**. **For the first time** since the ECA started providing a statement of assurance in 1994, it issued **a qualified opinion** on the legality and regularity of the payments from the EU budget. The **level of error dropped** in all policy areas, allowing the overall level of error to continue its downward trend from 3.8% in 2015 to 3.1% in 2016. Half of expenditure was free from material error, and no error was found in revenue. The Annual report also contained a **clean opinion on the EU accounts for the 10th year in a row**.

Overall level of error to continue its downward trend: from 3.8% to 3.1%

Furthermore, the ECA reported that an important improvement in EU finances had been achieved, and it confirmed that **the Commission's estimates of levels of error were, in most cases, broadly in line with the ECA's own findings**. It found higher levels of error in reimbursement payments than in payments to entitlement schemes which supported the Commission's objective to further simplify rules. In 2017, simplification measures were indeed proposed as part of the review of the Financial Regulation and the so-called omnibus.

[18] See COM(2017) 379 of 10 July 2017.

The **ECA adopted its 2018-2020 strategy** where it inter alia announced that it would adapt its Statement of Assurance audit approach to benefit from the improved situation of EU financial management. This would allow the ECA to shift its attention and resources on assessing whether the EU is delivering results and, if necessary, look into targeted compliance issues. Currently, the Statement of Assurance audit relies mainly on direct testing by the ECA auditors of compliance of random representative samples of payments. A new approach for the Statement of assurance would include more qualitative elements and is expected to lead to a reduction in the ECA's own direct testing of payments.

And as part of the political agreement on the review of the Financial Regulation, the European Parliament, the Council, and the Commission issued a **joint statement** that they will – in cooperation with the ECA – set out a **pragmatic calendar for the discharge procedure with the aim of shortening the entire process**. The Commission will do its utmost to contribute in a constructive manner to both issues.

BUDG also coordinated the timely Commission's replies to the **ECA's special reports**. A total of 24 reports passed through the adversarial procedure in 2017, covering a broad range of issues directly relating to the EU budget, e.g. agricultural policy (Young farmers, Greening) and cohesion policy (Ex ante conditionalities and performance reserve), transport policy (Single European Sky, European Railway Traffic Management Scheme), external actions (the Bekou EU Trust Fund, EU assistance to Tunisia) as well as other issues, e.g. the Greek financial crisis, and the Macroeconomic Imbalance Procedure. The monitoring of the **follow-up of ECA recommendations** was strengthened with **regular reporting to the Audit Progress Committee**.

In 2017, the public internal control (PIC) Sector organised, in cooperation with the Hungarian Ministry of Economy and Finance, a **successful EU-28 conference on Public Internal Control**. Input to the conference, in the form of Discussion Papers, was prepared in association with volunteer Member States and included topics related to the management of EU funds. The conference **endorsed a Strategic Development approach** for the PIC Network for the coming years.

The PIC Sector updated its approach to the scope of public internal financial control (PIFC) and work is underway, in collaboration with OECD SIGMA and NEAR, to set out directions for the better understanding of, and implementation of, the principle of Managerial Accountability. The Sector **provided technical advice on PIFC and External Audit matters** to various candidate and potential candidate countries and some countries benefitting from the European Neighbourhood Programme. Input was provided to all annual Commission progress meetings with the candidate and potential candidate countries.

There were **5 fact-finding missions on PIFC** and External Audit to client countries plus a mission to (Northern) Cyprus to explain the requirements of Accession Chapter 32. These missions combined participation in events such as an EU Parliament conference on Accountability, a public launch event for a new Serbian PIFC Policy Paper, a Balkans regional seminar on internal audit standards, and a Balkans regional seminar on the interlinkage between Managerial Accountability and Public Administration reform.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question how the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

The second subsection deals with the other components of organisational management: human resources, information management and external communication.

2.1 Financial management and internal control

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

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

- Reporting on the existent risks twice a year to Senior Management and discussions with all management in the context of the management plan and its mid-term review
- Yearly assessment on the implementation of the Internal Control Standards
- The opinion of the Internal Audit Service (IAS) on the state of control and the observations and recommendations issued by them. BUDG carries out internally a quarterly follow-up on the open recommendations.
- Observations and recommendations reported by the European Court of Auditors (ECA)
- Reports on the exception and non-compliance reports and ulterior analysis of internal control weaknesses
- Ex-post controls carried out once a year on the administrative expenditure and Own Resources accounting processes
- Monitoring on the implementation of BUDG Anti-Fraud Strategy
- Notes from the Director General to Commissioner OETTINGER twice a year on audit, fraud and internal control matters

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

2.1.1. Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[19]. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks when

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

processing BUDG main resources and controls aimed to mitigate them as well as the indicators used to measure the performance of the control systems.

The resources managed by BUDG are mainly the **EU's own resources** and the **yearly administrative expenditure**.

The results of the main indicators and/or conclusions are summarised in the following table:

Activity	Results of Indicators				
	Legality & regularity	**Cost-Effectiveness of controls**	**Anti-Fraud Strategy**	**Reliability of information and reporting**	**Safeguard of Assets**
Collection and control of Own resources	Error rate below 1 % on Total Own Resources (2.1% on TOR)	Positive conclusion (Costs/funds = 0.31 %)	Area covered by the AFS	Positive conclusion	n/a
Management of administrative expenditure	Error rate below 2 %	Positive conclusion (Costs/funds = (4.4%)	Area covered by the AFS	Positive conclusion	n/a

A) Own resources (OR)

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

Amounts in €	2015	2016	2017
TRADITIONAL OWN RESOURCES	18 730 353 938	20 094 118 220	20 459 059 160
OWN RESOURCES ACCRUING FROM VAT	18 086 962 720	15 895 098 431	16 947 265 370
OWN RESOURCES BASED ON GNI	100 517 359 019	96 185 062 177	78 021 354 126
SURPLUS AVAILABLE FROM PRECEDING FINANCIAL YEAR	1 434 557 708	1 349 116 814	6 404 529 791
Total Own Resources	138 769 233 384	133 523 395 642	121 832 208 447

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

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

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

Traditional Own Resources (TOR) – 17 % of Total OR

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

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

Reasonable assurance concerning the accuracy and completeness of Member State data is provided by an annual inspection programme by which BUDG checks that Member States' administrations have complied with EU law when collecting TOR. The setting-up of the annual inspection programme has risk based approach as not all MS can be inspected in the same year. BUDG monitors the timely and full receipt of traditional own resource statements and the corresponding payments and manages the recovery of the amounts related to detected errors resulting from the TOR control activity. Any delay in paying own resources gives rise to payment of interest by the Member State concerned.

VAT own resource - 14 % of Total OR

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

As VAT OR data is only available annually and in arrears VAT own resource payments during any particular year are based on forecasts (each month the Commission requests each Member State to pay one twelfth of the budgeted forecast amounts). Adjustments are made in the year n+2[20] (and in future years if corrections to the data first supplied are necessary) to adapt payments to reflect the actual VAT data.

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

GNI-based own resources – 64% of Total OR

GNI OR has a particular role to play as the balancing resource. Once the amount of agreed EU expenditure that will be funded by the TOR and VAT OR is known then GNI contributions are fixed to fund the remainder within the ceiling of no more than 1.20 % of total EU GNI. Member States provide the Commission with their GNI figures annually accompanied by a quality report and supplemented after each five-year verification cycle with a new inventory. As GNI own resources data is only available annually and in arrears the own resources payments during that year are based on the amounts entered in the budget for the year concerned (i.e. each month the Commission - BUDG - requests each Member State to pay one twelfth of the budgeted forecast amounts). Adjustments are made in subsequent years[21] by BUDG to adapt payments to reflect the GNI data. BUDG monitors proactively that GNI own resource contributions are paid promptly. Any delay in paying own resources gives rise to payment of interest by the Member State concerned.

[20] In June of the second year following the financial year

[21] Same modalities as for the VAT-based own resource.

ESTAT – Verification of GNI data

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

The MOU with ESTAT includes an annex setting out the good practice to be observed when setting (GNI) reservations.

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

Reasonable assurance on the accuracy and completeness of Member State data is provided by the opinion of the GNI Committee, and the results of ESTAT's verification activities[22] to which Member States contribute by taking part in controls in other Member States. The annual opinion of the GNI committee is a key element of assurance since it refers to the appropriateness of using the GNI data provided by Member States for own resources purposes and it means the acceptance of the data by all the Member States together with the Commission.

Coverage of the Internal Control Objectives and their related main indicators

Control effectiveness as regards legality and regularity

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

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

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

A – MS statements and collection of resources

During 2017, 100 % of national contributions were made available on time[23]. The customs duties amounts reported in Traditional Own Resources A-statements by Member States were also made available to the EU budget two months later as required by the EU legislation. Verification of the amounts declared in the A Statements is ensured through on the spot inspections by BUDG. As a consequence some adjustments are made to the initial statements and the corresponding documents are issued to adjust the due amounts. During 2017, a total of 274 requests for accounting action were made by the inspection units representing an adjustment of EUR 47 million in principal and EUR 88 million in late payment interest, and the issue of 647 accounting documents in order to enter these adjustments and the Forecast of Revenue in the EU accounts[24].

At the end of the year there were five open TOR infringement files with corresponding recovery orders. There was one new procedure initiated during 2017 and one case was closed with respect

22 See ICT on Verification of GNI data by ESTAT in annexe 5.

23 Bulgaria, Luxembourg and Finland had exceptionally once a short delay in making available the own resources. These delays were not included in this figure as they were considered as non-substantial (less than 0.5%)

24 Global figures representing all accounting activities for all the kind of own resources (TOR, VAT and GNI).

to the five open procedures in 2016.

BUDG has set a reservation on TOR amounts collected in view of the final report of OLAF's investigation (OF/2014/1274/B1) of 1 March 2017, confirmed by the conclusions arising from BUDG controls in terms of the lack of appropriate measures in the UK to prevent the systematic undervaluation of textiles and footwear from the People's Republic of China imported into the EU. As a consequence, BUDG and OLAF, estimate the loss of Traditional Own Resources at EUR 2 735.5 million (gross)[25] between November 2011 and 2017. For further details see section 2.1.5.

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

Traditional Own Resources (TOR)

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

During 2017 the annual inspection programme was implemented at 86.7 % since two inspections had to be cancelled and one postponed to 2018. All anomalies identified during the inspections are being closely followed up by BUDG in collaboration with the Member States. The partial implementation of the 2017 inspection programme does not have significant implications on the assurance building, because the MS concerned will be inspected the following year

Inspections and controls conducted in UK by BUDG have detected significant weaknesses in Her Majesty's Revenue and Customs management and control of undervalued imports of textiles and footwear in the traditional own resources. In particular the inspection carried out in May 2017 and in November 2017 concluded that undervaluation of textiles and footwear from the People's Republic of China entering the EU through the UK was still ongoing in 2017. The Commission has launched an infringement procedure on 8 March 2018. (see section 2.1.5.for further details).

For the 2017 reporting year, the financial impact of these ineffective controls is estimated at EUR 430.7 million[26] (net). Although this represents 0.4% on total Own Resources, it amounts to 2.1 % of TOR. This explains the need for a qualification of the assurance and the immediate actions undertaken by BUDG for the protection of the EU budget.

Member States issue write-off reports stating the TOR amounts assessed by them as irrecoverable. During 2017, a total of 202 write-off reports involving an amount of EUR 73.6 million were evaluated by the Commission (BUDG in co-operation with the legal service, TAXUD and OLAF) within the legal six month deadline in 100 % of the reports. As a result of this evaluation, it was found that an amount of EUR 10.6 million could have been indeed recovered by MS and the amounts were claimed, an amount of EUR 51.3 million additional information was sought from the respective Member State to reach a conclusion and a total of EUR 11.2 million were considered justified.

Another source of assurance is the ECA’s annual report. In its financial year 2016, ECA concluded that the examined systems were overall effective for TOR. In addition, no errors were found in the transactions tested. The key internal controls in Member States visited by ECA however were assessed as partially effective.

25 In compliance with Article 12 of Regulation No 609/2014, interest for late-payment are also due and will be calculated and requested when the relevant dates are known.

26 In compliance with Article 12 of Regulation No 609/2014, interest for late-payment are also due and will be calculated and requested when the relevant dates are known.

The Customs Audit Guide, defined by the Commission services was distributed to all Member States to strive for a more uniform approach to audit for the purposes of customs controls and to promote recognised audit controls. The guidance sets up indicators for the post clearance audits and has the objective to improve controls carried out by Member States. In on-the-spot inspections the use of the guide or national instructions implementing the guide by the Member States is systematically checked.

VAT- based Own Resource

All Member States are obliged to administer a value added tax system. The own resources legislation requires Member States to provide an annual statement detailing the calculation of their harmonised VAT base. BUDG monitors the timely receipt of these annual statements and checks their completeness and coherence with previous years, primarily by a yearly inspection programme. An indicator of good performance of BUDG controls is the timely execution of the inspection programme and the avoidance of Member States' statements becoming time barred (corrections can still be made). The objective is to guarantee that complete and accurate information is recorded in the VAT OR database which will server for further calculations.

During 2017, the annual inspection programme was executed as planned (13 inspections in total)[27]. The results of inspections also show that 100 % of statements have been subject to verification prior to becoming time-barred. It is usual practice not to inspect all MS in a given year but to do so by inspecting several financial years before time-barring. A risk-based approach is used when deciding on a year's work programme.

GNI

BUDG draws its assurance concerning the accuracy and completeness of GNI data for own resource purposes from the verification work undertaken by ESTAT[28] together with MS. The inter-relationship BUDG-ESTAT is governed by an agreed MOU, supplemented by the scrutiny of data by all Member States in the GNI Committee.

Where this process raises concerns and ESTAT wishes to prevent a particular year becoming time-barred then it requests BUDG to set or lift reservations on its behalf. The indicator of performance of this control on GNI is the timeliness with which BUDG notifies Member States of changes in their reservation position.

The results show that the activity to notify reservations was carried out promptly, since 100% of the 30 notifications were sent within the deadlines.

Assurance is also obtained from the annual opinion of the GNI committee since it represents the acceptance of GNI data by both all Member States and by the Commission. Following its examination during the year, the GNI Committee, at its 35th meeting in November 2017 concluded that, in its opinion, the GNI data transmitted through the GNP/GNI Questionnaire 2017 are appropriate for use for own resource purposes with respect to reliability, comparability and exhaustiveness, in accordance with article 5(2)(b) of the GNI Regulation.

During 2017 the main focus of ESTAT control activity was the continuation of the verification cycle for the new GNI inventories. The existence of one specific GNI reservation for Greece provides assurance that revisions to that item for the period 2002-2009 will still be taken into account for own resources purposes, to avoid that the rule of GNI becoming time-barred after 4 years.

The latest ECA's annual report on financial year 2016 concluded that the examined systems were effective for GNI and VAT-based own resources and no errors were found in the transactions tested.

[27] One inspection was postponed to the 2017 work programme owing to staff mobility.
[28] See ICT on Verification of GNI data by ESTAT in annexe 5.

C – Follow-up of verification results

As a result of the control activity, recovery orders (ROs) both for principal and belated interest totalling EUR 133 million were issued in 2017 on TOR, out of which 76 % was already paid in 2017. The average recovery rate since 2009 of ROs issued following inspection work is 88.4 %[29] (similar to last year – 89.9%). The recovery rate on global TOR[30] is 99.9% (same rate as last year)

The proportion of VAT reservations set by the Commission and in place for more than 5 years is 10 %, which is considered a reasonable percentage. A total of 40% of these reservations are related to on-going infringement cases.

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

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

Currently all 28 Member States are subject to a GNI reservation due to the transition in the Member States National Accounts from the system ESA 95 to ESA 2010. These reservations were extended to cover the year 2013 to avoid that they become time-barred, and will be active until the end of the ongoing verification cycle scheduled for the end of 2019.

D- UK correction calculation

Calculation of UK correction was made on time. The strengthened procedures on checking the inputs were followed.

Globally, for all Own resources, the most recent ECA's opinion (ECA's annual report for financial year 2016) concluded that revenue collected is not affected by a material level of error and that control systems are effective for VAT and GNI and overall effective for TOR. Nevertheless, in view of the already mentioned BUDG investigations and the recent OLAF report on the undervaluation of textiles and footwear imported in the UK on the inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011. This AAR is therefore qualified by a reservation (see section 2.1.5.).

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

Cost-effectiveness and efficiency

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

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

BUDG has quantified the costs of the resources and inputs required to carry out the relevant controls on Own Resources for the four stages described above (A to D). Benefits of those controls have also been identified. When possible they have been quantified. In some other cases benefits have been expressed through the corresponding relevant non-quantifiable indicator as

[29] Total amounts recovered up to the end of 2016 out of the recovery orders issued since 2009.
[30] The global TOR includes the monthly payments made by the MS and the payments made following our inspections.

indicated in the OR Internal Control Template in annex 5.

Results show that controls performed have ensured the timely and dully collection of Own resources during the year. The total cost of controls performed in all the stages described in Annex 5 represent 0.31 % of Own resources collected in 2017 (EUR 121 832 208 447).

The cost of controls carried out to verify the amounts collected in 2016 , the latest figures validated by ECA in their most recent annual report, represent 0.01 % for both TOR (EUR 20 094 118 220) and VAT-based OR collected (EUR 15 895 098 431). The costs of controls are considered to remain steady and can thus be also applied to calculate cost-effectiveness on this year 2017 TOR and VAT-based OR collection (EUR 20 459 059 160 and EUR 16 947 265 370)

The controls performed in the area of Own Resources have allowed to obtain assurance on the legality and regularity of the figures as detailed in the previous section, i.e. 86.7 % and 100 % of TOR and VAT inspection programmes respectively have been implemented as expected, 87.5 % of TOR inspection reports have been sent on time, 100 % of VAT statements have been inspected before they become time barred, 100 % of GNI notifications have been sent within the legal deadlines and the UK correction was made on time. 100 % of GNI reservation changes (setting, variation of lifting) were communicated to Member States in their national language within four working-weeks. It can also be concluded that compliant and timely management of GNI reservations has been achieved with a reasonable cost.

As detailed above, verification of GNI data is carried out by ESTAT and therefore other indicators on the verification of GNI data are reported in ESTAT AAR and in annex 5 of this report[31]. This annex has been also included in BUDG AAR (annex 5) for information and completeness.

The cost of controls in place related for the follow-up of results of the verification stage represents 0.002 % of TOR and VAT-base resources collected in 2017 (EUR 37 406 324 530). These include administrative, legal or financial deficiencies detected in Member States local systems, submission of TOR and VAT inspection reports to ACOR meetings, initiation of infringement procedures and management of VAT reservations

In particular, the costs of controls to guarantee the recovery of TOR amounts due to the EU budget derived from irregularities detected by controls represent 1.69 % of the amounts cashed in 2017 (EUR 101 404 million[32]- much higher than last year's amount of EUR 45 729 million)

The costs of controls in place to mitigate the risk of errors when calculating the UK correction represent 0.08 % of the amount calculated and paid.

It is also important to take in account that even more important that the quantifiable benefits described above, there are a number of relevant non-quantifiable benefits resulting from controls carried out as follows:

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

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

[31] See ICT on Verification of GNI data by ESTAT in annexe 5.
[32] This figure relates to all payments received in 2017 following recovery orders issued as of 2009.

each stage.

Taken together, these provide a reasonable assurance for 2017 that the OR contributions made by Member States comply with the requirements of the Union's own resources legislation and control systems on own resources are effective, albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011. Please refer to sections 2.1.1.A. and 2.1.5. for further details.

The conclusion of the evaluation of costs and benefits of controls performed in BUDG and of the indicators used to measure their efficiency as indicated the Internal Control Template in Annex 5, is that controls performed in BUDG during 2017 have been cost-effective as the estimated benefits exceeded the estimated costs and the cost of controls compared to the funds managed are at a reasonable level. Also the results of controls show the efficiency of those since they served to mitigate the risks to which they address.

B) Earmarked revenues for the use of Financial Information Systems by External Entities[33]

Earmarked revenues in BUDG are derived from the charge back to external entities of services such as the use of financial information systems and accounting and treasury services managed by BUDG. The intrinsic risk is considered low because of the limited revenues (EUR 3.3 million). Since this activity is much less significant than the other two, described in sections 2.1.1.A. and 2.1.1.C., neither an internal control template nor indicators are presented for this area. However, it is presented in this section for completeness purposes.

The risk analysis concerning these processes has shown that the risks are very low also thanks to the procedures/circuits in place and the relatively low number of transactions (around 50 per year). Moreover, the risk of non-payment (which is very low and in the past years has never materialised) is mitigated by the possibility to recover the amounts due by offsetting.

The risks related to these earmarked revenues are effectively mitigated by means of ex ante verifications in the recovery order process covering 100 % of the transactions. Also by sending out pre-information notes to which external entities give their agreement before the credit note is issued. Finally, all related procedures, as well as how the fees are calculated, are laid down in detail in the Service Level Agreement for the provision of services signed between the External Entity and DG BUDG.

There exists also an amount of internal charge back of EUR 94 000 which is disclosed in this report for completeness. However given its low value no further specific details are provided.

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

C) Procurement and administrative expenditure

The intrinsic risk for administrative expenditure managed by BUDG including procurement is considered relatively low because of the limited budget as well as the centralised and direct mode of budget implementation. The Internal Control Template for Procurement and Administrative expenditure in annex 5 demonstrates how the control systems in place address the related risks which consist mainly in ex ante verifications covering 100 % of transactions. In addition, all related procedures are documented in detail and up to date in BUDG Public procurement guidance. Tender documents are approved by the Financial Cell of BUDG before they are published. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured.

The total amount of 2017 commitment appropriations[34] represents EUR 21.75 million. The execution rate for 2017 is 89.8% (EUR 19.54 million). The remaining appropriations will be

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

[34] This amount includes the contributions from Agencies and other Institutions as well as the co-delegated lines but not the reserves (budget line 40).

executed in 2018.

The authorized payment appropriations[35], including the amounts carried over from 2016, represent EUR 28.07 million. Payments made during the financial year amount to EUR 11.63 million, which represents an execution rate of 41%. This is a lower rate compared to last year -59%- due to fact that the IT Board agreed in October this year on the execution of the project ABAC 2 and therefore BUDG received EUR 8.1 million appropriations in November. They have been committed in December and will be paid during 2018.

During 2017 a follow-up on the audit on Procurement has been carried out (ARES (2017)6322554). As a result all outstanding recommendations have been assessed as duly implemented. The necessary measures are now in place to improve the related procedures.

During 2017, one negotiated procedure has been launched under article 134(1) (b) RAP[36] concerning SWIFT - Security Products amounting EUR 79 121

No open procedures were completed in 2017, however one was initiated (BUDG/17/PO/01) at the end of the year on the management of bank deposits which will be concluded in 2018.

The internal control for the signature and execution of specific contracts include ex-ante controls on 100 % of transactions. These consist in cross-checks by a member of the financial cell different than the one who carries out the financial initiation, before being validated by the next step (financial verifying agent). Before the payments are completed, it is checked that the invoice details are correct and that work has been executed within the deadlines of the contract by the Financial Cell of BUDG. All errors detected are corrected or reported. In addition, a risk-based ex-post revision, due to the very low residual risk of executed financial transactions, is also carried out on financial transactions twice per year by the accountant correspondent in BUDG.

The analysis of the risks concerning the related processes in 2017 has shown that these are very low thanks to the control procedures in place (verification of 100% of operations), the relatively low number of transactions and the nature of the financial circuit.

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

Coverage of the Internal Control Objectives and their related main indicators
Control effectiveness as regards legality and regularity

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

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

During 2017 a total of 751 payments[37] amounting EUR 11.63 million were made, 97.34 % of them executed on time, with an average payment deadline of 18 days.

Ex-ante controls are performed on 100% of payments, in order to detect and correct any procedural errors with or without financial impact. No financial error has been detected as confirmed by ex-post controls (see next paragraph). Errors detected were of a procedural nature and were corrected before the payment was made. This confirms the strong deterrence effect that ex-ante controls have on financial transactions.

Ex-post controls were performed on a value targeted sample of 60 transactions out of 751 for a value of EUR 1.97 million representing 17% of DG BUDG's administrative expenditure in 2017[38] (EUR 11.63 million). No financial errors were detected. Other non-financial errors were found representing 1.4% of the value of the transactions checked. These errors consisted in the booking

[35] This amount includes the payments made from the co-delegated lines but not the reserves (budget line 40).
[36] Procedures without prior publication - Work of art, technical reasons or protection of exclusive rights

[37] This amount includes the payments made from the co-delegated lines but not the reserves (budget line 40).
[38] As posted in the accounts at the moment of the accounting closure.

of various invoices related to IT expenditure in the wrong account number (registered as development of intangible assets when their nature was of research of IT solutions). Measures will be taken in 2018 to avoid these accounting errors in the future.

The results of the accounting quality revisions carried out in 2017 have been satisfactory since none of these controls unveiled material errors with financial or non-financial impact on compliance.

BUDG also reviews the reporting of exceptions and non-compliance events, defined as control overrides or deviations from policies and procedures, and the results of the ex post controls and supervisory activities. During 2017, one exception report triggered by a non-compliance event has been communicated to the Internal Control Coordinator: a recovery order for an amount of EUR 399 585 was validated at the wrong level (validated at Directorate level instead of Director General which is the level requested for amounts higher than EUR 15 000). Nevertheless this represented no financial impact on the EU budget as the recovery order was duly issued. Also additional mitigating measures have been put in place to avoid this event happening in the future.

No other internal control weaknesses have been identified during 2017.

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

In the context of the protection of the EU budget, the Commission consolidates the DGs' estimated overall amounts at risk and their estimated future corrections and publishes the corporate estimate in the Annual Management and Performance Report.

Ex-post controls of BUDG's administrative expenditure resulted in no financial errors detected. In 2017 and over the past years the implementation of ex-ante and ex-post controls has not resulted in any financial correction/recovery order after payment. This is due to the fact that no financial error has been detected and administrative errors were corrected before payments were made. These results are expected to continue, having as a result no estimated future financial corrections (0%). See table below

Yet, in order to avoid any potential underestimation, as ex-post controls are based on a sample of transactions, BUDG uses the ECA's Material Level of estimated Error for the Commission's administrative expenditure (0.5%) as a conservative estimate in order to allow the consolidation of data when determining the amount at risk at payment at Commission level. This percentage corresponds to an estimated overall amount at risk at payment[39] for 2017 of EUR 58 149. This is the AOD's best, conservative estimation of the amount of relevant expenditure[40] during the year (EUR 11.63 million) potentially not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

For BUDG, the estimated overall amount at risk *at closure* equals the estimated overall amount at risk at payment since there is no expectation of any future financial correction.

[39] In order to calculate the weighted average error rate (AER) for the total relevant expenditure in the reporting year, the detected, estimated or other equivalent error rates have been used.
[40] "relevant expenditure" during the year = payments made, minus new pre-financing paid out, plus previous pre-financing cleared

Estimated overall amount at risk at closure

DG BUDG	"payments made" (FY; m€)	*minus* new[a] prefinancing [*plus* retentions made[b]] (in FY; m€)	*plus* cleared prefinancing [*minus* retentions (partially) released and deductions of expenditure made by MS] (in FY; m€)	= "relevant expenditure"[d] (for the FY; m€)	Average Error Rate (*weighted* AER; %)	estimated overall amount at risk *at payment* (FY; €)	Average Recoveries and Corrections (*adjusted* ARC; %)	estimated future corrections [and deductions] (for FY; €)	estimated overall amount at risk *at closure* (€)
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Budget line	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing	= (2) – (3) + (4)	Detected error rates, or equivalent estimates	= (5) x (6)	*based* on 7Y-avg historic ARC (as per ABAC DWH BO report on corrective capacity)[f]: (2.3 %), but *to be adjusted to* the *best but conservative* estimate for the current MFF	= (5) x (8)	= (7) – (9)
	11 629 740	**0**	**0**	**11 629 740**	**0.5%**	**58 149**	**0 %**	**0**	**58 149**

(3) and (4) the amounts booked as new pre-financing during 2017 in BUDG for an amount of 951.387 euros and for cleared pre-financing for 522.386 euros have been posted in BUDG accounts by error by another DG. These amounts will be corrected during 2018 and additional measures will be taken to prevent this happening in the future

(8) the Amount at Risk at Closure for BUDG in the AAR corporate reporting -2.3%- includes Recovery Orders which do not fall under the scope of BUDG as they are mainly of a corporate nature or corrections before the payment is made, therefore the adjusted recovery rate for BUDG is 0% (as all the corrections are made before the payment is made)

Efficiency and Cost-effectiveness

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

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

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

The costs of ex-ante controls performed by the DG on the verification of financial transactions represent 4.4% of payments made in 2017. Cost of controls of ex-post verifications represent 0.3 % of payments made in 2017.

The controls performed in this area are considered reasonable and have allowed complying with the legality and regularity control objective as detailed in the previous section, i.e. 97.34 % of payments made on time, time to pay far below the maximum allowed of 30 days (18 days for 2017) and no relevant deficiencies detected by ex-post controls.

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

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

The conclusion of the evaluation of costs and benefits of controls performed for the management of the budget appropriations and of the indicators used to measure their efficiency is that controls performed in BUDG during 2017 have been cost-effective as the estimated benefits exceeded the estimated costs, which are considered reasonable compared to the funds managed. Also the results of controls show the efficiency of those since they served to comply with the deadlines and mitigate the risks that they address.

Fraud prevention and detection

BUDG developed its own anti-fraud strategy in December 2013, based on the methodology provided by OLAF. It was last updated in October 2015. The strategy covers the inherent risks, which have been rather stable since 2015, derived from the main activities of BUDG: Collection and control of Own resources and management of administrative expenditure and the mitigating measures currently in place.

The controls aimed at preventing and detecting fraud do not necessarily defer from those intended to ensure the legality and regularity of the transactions. BUDG fraud risk register is integrated in the risk management exercise which is performed twice a year. The fraud risk register has remained stable in comparison with 2016 and no new risks have been identified in 2017. An update of the Anti-Fraud Strategy is planned during the first part of 2018.

In addition to the measures already in place, and as stated in PART I (Specific Objective 6), it must be highlighted that The Early Detection and Exclusion System (EDES) Panel responsible for the assessment of cases of intended sanctions on unreliable economic operators has become fully operational and its recommendations have led, where appropriate, to exclusion decisions by authorising officers from EU funds. This has represented an important step towards the fight against fraud.

The cooperation with OLAF and TAXUD was intensified especially on undervaluation, risk management and other fraud related issues. High Level Steering Group BUDG-OLAF-TAXUD at directors' level was established in 2017 with the objective to discuss regularly strategic policy issues in the Traditional Own Resources area (for example OLAF information about ongoing investigations, ongoing and possible upcoming legislative procedures, EU Strategy and Action Plan for Customs Risk Management, ECA Special Report concerning the implementation of import procedures in the EU,…).

An analysis of tasks managing procurement procedures in BUDG will be completed in 2018 in order to assess the need to flag those as sensitive to ensure the objectivity when managing procurement procedures in BUDG in all its stages.

No case of fraud concerning BUDG has been brought forward.

Budget implementation tasks entrusted to other DGs and entities

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

Cross-sub-delegations

BUDG has given crossed sub-delegations to COMM (coverage of bank charges incurred by the Imprest Accounts of Representation Offices), to ECHO (clearance of bank charges for accounts held by their offices) and to COMP (for the adaptation of the EC@case IT tool of COMP to BUDG needs). Assurance letters for the corresponding amounts have been received. The AODs of those Commission services are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

Co-delegations

The Commission may delegate powers concerning a given budget line to one or more AODs. In other words, various AODs are responsible for the same item of expenditure, but each one for a specific type of transaction.

For BUDG, this was the case in 2017 with DIGIT, with total commitments amounting to EUR 1 484 million mainly to improve RAD tool (follow-up of ECA's recommendations in the Commission) and for the Project ABAC 2. Being a Commission service , DIGIT is required to implement the appropriations subject to the same rules, responsibilities and accountability arrangements as BUDG.

BUDG has received co-delegations from COMM (management and update of the MFF 2014-2020 website, Organization of the Conference on the future of EU Finances) for an amount EUR 140 000, from HR (delivery of services related to Financial Training) for EUR 200 000 and from JRC (use of ABAC functionalities) for 94 000. Also being a Commission service, BUDG is required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

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

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

As described in Section 1, BUDG has among its objectives and achievements: (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 through Treasury and Recovery of fund Management (including the receipt of fines); These activities are under the direct responsibility of the Commission's Accounting Officer. Given the importance of these activities for BUDG and for the financial management of the Commission services, a description of the main controls providing assurance to the Accounting Officer is provided.

To specifically address the risk that the annual accounts could be materially misstated (by fraud or other reasons), the resources under the responsibility of the Accounting Officer perform various types of controls and checks (in addition the controls performed by the authorising officer services). These include both controls throughout the year (e.g. review of the DGs accounting information ensuring ongoing accounting quality), as well as specific year-end controls (e.g. review all material year-end bookings of the Commission Services to ensure that there are no material misstatements). The controls in place are covered by written procedures and are documented.

The validation of local systems is also an important element of assurance to the Accounting Officer of the reliability of the information entered by the various authorising departments in the financial systems. The validation team evaluates the systems set up or modified by each of the 58 Directorate Generals, Agencies and other EU bodies covered over a multiannual cycle. Additional details are provided in Section 1 (under specific objective 5)

For the management of the Commission's treasury operations, the rules and principles are laid down in the Council Regulation 609/2014 (amended by Council Regulation 804/2016) and in the Financial Regulation and its rules of application.

In addition to the own resources accounts (opened with the Treasury of national central banks), other bank accounts are opened by the Commission, with central banks and commercial banks, for the purpose of executing payments and receiving receipts other than the Member State contributions to the budget.

Treasury and payment operations are highly automated and rely on modern information systems. Specific procedures are applied to guarantee system security and to ensure segregation of duties in line with the Financial Regulation, the Commission's internal control standards, and audit principles.

A written set of guidelines and procedures regulates the management of the Commission's treasury and payment operations with the objective of limiting operational and financial risk and ensuring an adequate level of control. They cover the different areas of operation (for example: payment execution and cash management, cashflow forecasting, business continuity, etc.), and compliance with the guidelines and procedures is checked regularly. Additionally, information is exchanged between Directorate General for the Budget (BUDG) and Directorate-General for Economic and Financial Affairs (ECFIN) on risk management and best practices.

Specific controls apply to fines imposed on companies breaching EU competition rules.

Amounts received before 2010 remain in bank accounts with banks specifically selected (according to an internal risk management policy) for the deposit of provisionally cashed fines. Financial and operational risks are identified and evaluated and compliance with internal policies and procedures is checked regularly. Fines imposed and provisionally cashed from 2010 onwards are invested in a specifically created fund, BUFI, which is managed by DG ECFIN, and has as one of its main objectives the reduction of risks associated with financial markets.

Significant amounts of guarantees issued by financial institutions are provided by the fined companies as an alternative to making provisional payments. The guarantees are managed in compliance with the internal risk management policy. Financial and operational risks are identified and evaluated and compliance with internal policies and procedures is checked regularly.

ABAC, is the corporate finance and accounting system allowing for the execution and monitoring of all budgetary and accounting operations. In addition to the controls performed by the Authorising Officer and Accounting Officer services, ABAC includes a set of features ensuring the quality of the data and the reliability of reporting. These include continuous adaption of the tool to ensure compliance with the Financial Regulation and its rules of application, and inbuilt security functionalities and other safeguards minimising the risk of erroneous data entry. Moreover, BUDG, as a horizontal DG, issues guidance to ensure the consistency, coherence and quality of the information entered by the Authorising Officer Services.

The main components of the cash balance at the end of 2017 are related to:

1. Amounts of own resources to be returned to Member States in early 2018 as result of amending budgets adopted late in 2017
2. Payment appropriations and assigned revenue that were not executed by the end of the year
3. Competition fines definitively cashed in 2017

Regarding the contingent liabilities (OB.2.4) in annex 3 - table 5bis, this amount is considered correct[41] and concerns fines imposed by the Commission for infringement of competition rules that have been provisionally paid and where either an appeal has been lodged or where it is unknown if an appeal will be made. The contingent liability will be maintained until a decision by the Court of Justice on the case is final.

2.1.2. Audit observations and recommendations

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

The Internal Audit service (IAS)

There are 5 open recommendations for BUDG, out of which 3 have been sent for review to IAS. There are no delayed open recommendations at the date of the report. The audits concerned are the following:

- Audit on Design and Implementation of EU Trust Funds (2 open recommendations): the two "important" recommendations were sent for review to IAS in June 2016 and June 2017. No follow-up audit has been carried out yet.
- Audit on the Effectiveness of measures to handle manual interventions in ABAC (1 open recommendation): two of the three recommendations issued have been closed by IAS and the one "very important" remaining has been sent recently for review to IAS as it is considered implemented by BUDG.
- Audit on Performance of Anti-Fraud activities in the own resources and taxation

[41] At the date of the report.

areas (1 open recommendation): a recent follow-up audit has been carried out by IAS concluding that one of the two open recommendations will be closed. The other one remaining rated as "important" is due in July-2018 and implementation is ongoing.

- Audit on Commission's framework/arrangements for the Estimation, Assessment and Reporting on the Cost-effectiveness of Controls (1 open recommendation): the "very important" recommendation has been implemented to a big extent. The remaining part is due in November.2018

No critical recommendations, which might give rise to a reservation in the AAR, were issued. The risks derived from the open recommendations do not have an impact on the assurance for year 2017 as also confirmed by the IAS positive opinion on the functioning of BUDG audited internal control systems (see section 2.1.3. below)

BUDG was associated to one recommendation derived from the audit on the Management of Intra-muros contractors being HR in the lead of its implementation which is due in July 2018.

Detailed overview of open recommendations (not sent for review)

IAS Audit on Performance and Coordination of Anti-fraud activities in the Traditional Own Resources area

The final audit report was issued on 5 December 2016 (Ares (2016)6785329). The overall objective of the audit engagement was to assess whether or not the anti-fraud activities in the area of TOR are planned, managed and coordinated in an effective manner to ensure the best protection of the Commission's financial interests. The audit focused on the activities of OLAF, BUDG and TAXUD. The scope of this audit engagement covered the Commission’s anti-fraud activities in the TOR area with a particular focus on customs duties and cigarette smuggling[42].

The IAS recognises the ongoing efforts by the audited DGs and has identified the following strengths:

- BUDG cooperation on annual inspections,
- An IT Coordination Group TAXUD - OLAF on Customs matters ,
- TAXUD prepares the Customs Union Performance (CUP) annual report,
- TAXUD's work on new developments in the area of customs controls,
- OLAF has put in place Guidelines on Financial Monitoring.

The recommendation open rated important concerns the performance, monitoring and reporting on Anti-Fraud Activities in the TOR area. BUDG should improve the quality of the data recorded in OWNRES to facilitate their performance review and reporting. The improvement of OWNRES should be done in consultation with the other TOR DGs and in the context of the revision of Commission Decision 97/245[43] on OWNRES.

IAS Audit on the Management of Intra-muros contractors

The final audit report was issued on 13 July 2016 (Ares(2016) 3376572). The overall objective of the audit was to assess if the Commission uses the external contractors working intra-muros in an effective and efficient way. The audit covered the arrangements both at the corporate level aimed at facilitating the management of intra-muros contractors by DGs and the way in which they are managed in practice at the individual DG level.

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[42] Anti-fraud activities of the Commission on smuggling of cigarettes and other tobacco products involves a joint evasion of customs duties, VAT and excise duties. However, excise duties on tobacco products are not part of the TOR of the EU, but represent national revenues of MS. For this reason they are not covered by the present audit.

[43] Decision 97/245 is repealed and replaced by Commission Implementing Decisions 2016/2365 and 2016/2366.

The audit covered the overall framework put in place by HR, responsible for coordinating the personnel and administrative policy of the Commission, as well as by BUDG, responsible for laying down the procurement procedures and contract templates. The audit also focussed on DIGIT, given that a large number of intra muros contractors work in the IT domain.

BUDG was associated to the very important recommendation related to the lack of a corporate framework for the use of intra-muros contractors. The action plan for this recommendation has been established by HR as the lead DG with BUDG and DIGIT as contributors. The due date is 31/7/2018.

Audit on the Commission's framework/arrangements for the estimation, assessment and reporting on the cost-effectiveness of controls

Derived from this audit there is a sole open very important recommendation concerning the design and implementation of the corporate framework to estimate, assess and report on the cost-effectiveness of controls. BUDG should redesign the existing framework for estimating, assessing and reporting on the cost-effectiveness of controls by better distinguishing between its Annual Activity Reporting and the reporting on the cost to control EU spending when presenting revised or new spending proposals.

At this stage a big part of the recommendation has been implemented – a corporate guidance to calculate the cost-effectiveness of controls has been partially revised for the 2017 AAR exercise[44], and to be completed for the 2018 AAR exercise.

Ongoing audits

Audit on the governance/oversight arrangements concerning risk management, financial reporting and the ex-post verification/audit function

The Internal Audit Service sent the final report on the Commission's governance and oversight arrangements to the Secretariat-General and the Directorate-General for Budget on 26 January 2018. The Internal Audit Service concluded that, overall, the decentralised model for financial management in the Commission, established following the administrative reform of 2000, has matured over time to become well understood and embedded in the culture of the organisation and does not need to be fundamentally changed. However, the Internal Audit Service identified a need for targeted improvements in key areas which would, in its view, provide for more effective overall governance and oversight.

This audit contained two recommendations considered by the IAS as very important:

1. The IAS concluded that the risk management process in the Commission is carried out primarily at the DG level and that the existing oversight of it is mainly embedded in the vertical reporting lines between individual AODs and their respective Commissioners. However, the second level scrutiny of this process by corporate oversight bodies is limited.

2. The IAS concluded that while the reasons underlying the Commission's original decision for a decentralised accountability structure remain valid, there is need for proportionate improvements in key areas, which would provide for more effective overall governance and oversight.

Most of the recommendations in the final report were accepted in full or in part by the auditees; however a number of recommendations were judged not to fall under the direct control of the auditees and will be referred to the political level for further discussion. SG and BUDG have sent a joint action plan to the IAS on which the feedback is still pending. Meanwhile, the central services have already taken action in

[44] Especially for details on benefits of controls and on the administration/management fees for shared and indirect management.

the context of the risk management exercise. In particular, the list of all critical risks (cross-cutting or not) have been communicated to the CMB which in turn has transmitted it to the IAS in view of its own risk assessment.

Moreover, a note on was sent to all DGs (including Directors in charge of risk management and internal control, SPP and Internal Control correspondents) with the key information regarding cross-cutting critical risks.

Internal Audit Service (IAS) Limited conclusion

IAS concludes that the internal control systems audited are effective for DG BUDG's internal processes. However, the IAS has made a number of 'very important' recommendations at the corporate level of the Commission which were (partially) accepted by DG BUDG and remain to be addressed. The residual risks related to these recommendations may affect one or several internal control principles and/or components[45] [46].

The European Court of Auditors (ECA)

ECA's Annual Report

The ECA maintained the green light on the reliability of the accounts and furthermore no very important recommendations were raised. In its Annual Report 2016 the ECA concluded that the Annual accounts of the European Union **were reliable for the 10th consecutive year and were not affected by material misstatement. ECA also concluded that revenue of the EU is not affected by a material level of error in 2016.**

The ECA reviewed BUDG's 2016 AAR and gave a favourable conclusion. ECA concluded that the 2016 AARs of BUDG and EUROSTAT provide a fair assessment of financial management in relation to the legality and regularity of underlying transactions concerning own resources and other revenue and the information provided corroborates ECA's observations and conclusions. The 2016 Annual report also shows the result of the progress in addressing recommendations made in previous annual reports.

Follow-up of ECA recommendations

As of 31 December 2017 the following recommendations remained opened and their actions plans ongoing within the deadline:

- Annual report on the financial year 2015 (2 recs) concerning the reduction of outstanding commitments.
- Annual report on the financial year 2016 (3 recs) concerning the definition of reporting of all funding related to migration, the engagement of the Budgetary Authority in order to take actions on simplification of budgetary arrangements in post 2020 and the streamline of the performance reporting by reducing the number of objectives and indicators in the various performance reports.

[45] In addition, while not under the direct control of SG/DG BUDG, the IAS refers to the risks concerning the Commission's governance and oversight arrangements for some parts of one open very important recommendation (no. 4 – *Governance set-up*) stemming from the IAS audit on *Governance/oversight arrangements concerning risk management, financial reporting and the ex-post verification/audit function*. These parts of the recommendation, i.e. related to (i) the strengthening of the APC function, (ii) the update of the mandates of the corporate (oversight) bodies and (iii) the administrative and functional independence of the APC Secretariat from the IAS, are ultimately addressed to the College and therefore require discussion and decision at a higher level, which had not yet taken place at the time of finalisation of this conclusion.

[46] As the Commission's newly adopted Internal Control Framework will become fully applicable only as from 01/01/2018, 2017 is a transitional year for which the DGs can opt to report on the previous Internal Control Standards or on the new Internal Control Principles.

- Special Report 02 2016 "2014 report on the follow-up of the European Court of Auditors' Special Reports"(2 recs) related to the improvement of the revision of the actions of Member States and agencies in addressing the audit recommendations; and on the reviewing of recommendations assessed as partially implemented by the Court to reflect their actual status.

- Special report "The EU institutions can do more to facilitate access to their public procurement" (3 recs) concerning the collection and analysis of data, procedure by procedure, the definition of a single rule book and use by EU institutions of peer reviews

- Special report "Implementing the EU budget through financial instruments — lessons to be learnt from the 2007-2013 programme period"(1 rec) concerning the definition of the general risk-sharing principles which may have an impact on the EU budget, for centrally managed financial instruments, in the legislation governing the instrument concerned

- Special REPORT 2016 "Governance at the European Commission — best practice"(1 rec remains open concerning the publication as part of the annual accounts or accompanying information of an estimate of the level of error based on a consistent methodology

2.1.3. Assessment of the effectiveness of the internal control systems

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

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

Internal Control Assessment

In order to **reinforce the internal control function** inside the DG a dedicated new deputy Head of the unit post was created in the unit dealing with HR, Finance and Internal Control matters.

The yearly assessment of BUDG internal control system was done in a context of raising awareness on the importance of a robust internal control in BUDG daily tasks as a way to ensure the successful achievement of its objectives. To reinforce this message and with a strong tone at the top and support by senior management, **a seminar with all managers** (including deputy Heads of Unit) was organised in January 2018 focused partly on internal control. The objective was to collect evidence from colleagues experience on the key aspects to take in account to ensure success in BUDG operations. The elements highlighted by colleagues corresponded to the main aspects of internal control standards thus showing that internal control is embedded in all BUDG tasks at all levels.

Best practices by several units were also presented on different aspects such as efficiency gains, streamline of processes and simplification, effective filing systems, working together across the DG (i.e. collaborative spaces) and paperless initiatives. These best practices have a direct link to internal control and served to inspire other colleagues to identify such improvements in other areas of the DG.

As a result a **leaflet has been produced with 10 basis points based on internal control** main aspects that should be taken in account when performing BUDG operations. The leaflet was distributed amongst the staff as a way to inspire colleagues to continue working effectively having always in mind the mission of the DG and its objectives.

Subsequently a survey on internal control was launched to all staff, in contrast to previous years where the survey was launched to a sample of staff. The participation rate for "2017 exercise" has been of 49 % which is considered satisfactory given the higher population consulted this year. This makes the results more representative. The **exercise resulted in an overall positive assessment rate** of 83 % which is higher than last year (80%) and above the 75 % benchmark rate established.

The standards that have scored the best rates have been those related to a clear understanding by staff of the mission and values of the DG (ICS 1- 90%) and of the objectives of their tasks (ISC5- 88 %). There is also a positive perception on the existence of clear processes, definition of roles and repartition of tasks (ISC8– 86%). The vast majority of staff has expressed their readiness for change (96%). There is also a positive perception of supervision received by hierarchy and granted to staff (ICS9-85%). Finally, staff stated that the assessment of risks is embedded in their daily tasks and that a no surprise approach is applied (ICS6- 83%).

There are areas that although the score was not below the benchmark further analysis should be carried out such as the ensuring of the business continuity of operations (ICS 10- 75%) and the backup of key services in the DG, the staff allocation and mobility (ICS 3- 77%) and on the organisational structure (ISC7-78%) in relation to the decision making process and if the escalation mechanisms are known and work as intended.

As a result of the seminar, **some actions are already ongoing in relation to internal communication, sharing of knowledge and information across the DG and document management**. The improvement of the use of collaborative spaces is being analysed for a more effective collaboration across the DG and a faster and easier access to key information. Current filing systems are also being assessed to turn them into a useful system for knowledge sharing in BUDG. In addition the extended management meetings have now been broaden to deputy Heads of Unit as an additional measure to a better sharing of information.

Finally, the work to **streamline the process of the assessment of Inter –Service consultations** arriving in BUDG will continue with the ideas presented to the seminar on internal control as it represents a big workload in the DG.

Similar seminars will be organised during 2018 by the different directorates including all staff and focussing partly on internal control as a key element to achieve the related objectives. One has been organised in Directorate C (accounting services) and units dealing with discharge (01), Budget focussed on added value (02) and the unit in charge of leading the development of the new financial platform ABAC 2 (03). The session received very positive feedback.

The functioning of the internal control systems has also been closely monitored throughout the year by the systematic registration of exceptions and internal control weaknesses. The underlying causes behind these exceptions and weaknesses have been analysed and corrective and alternative mitigating controls have been implemented when necessary. Furthermore no financial impact on the EU budget was suffered.

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

Conclusion

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

BUDG has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and functioning as intended. Nevertheless further improvements are needed for certain standards as described above. Considering that these improvements are not so impactful it can be concluded that they do not undermine the assurance.

2.1.4. Conclusions as regards assurance

This section reviews the assessment of the elements reported above (Sections 2.1.1., 2.1.2., 2.1.3. and 2.1.4.) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

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

In the area of Own Resources, the key indicators presented in section 2.1.1.A. Own Resources support the reasonable assurance drawn that Member States comply with the relevant regulations for TOR, VAT and GNI own resources when discharging their responsibilities albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011. As described in the corresponding section and in the table below, BUDG, in cooperation with OLAF and TAXUD is following-up very closely this matter. Also, 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 and therefore the responsibility of the Commission to mitigate the risk is limited.

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

Further assurance is obtained from the risk management process put in place, by the limited number of exception and non-compliance reports and and their limited financial impact during the year (in particular only one report issued in 2017).

Results from audits during the reporting year give an overall positive feedback and did not include any critical findings. The residual risks from audit recommendations remaining open from previous years are not considered to have a bearing on the declaration of assurance (see section 2.1.2.).

Management has obtained satisfactory evidence that the internal control system in general is implemented effectively in BUDG, notwithstanding further improvements are being carried out with the strong support of management.

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

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the administrative expenditure authorised during the reporting year (EUR 11.63 million) is below 0.5 % which implies an amount at risk below EUR 58 149.

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in her capacity as AOD 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 by the UK.

2.1.5. Declaration of Assurance and Reservation

Declaration of Assurance

I, the undersigned,

Director-General of BUDG

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[47].

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 limited conclusion of the Internal Auditor on the state of control 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 by the UK since November 2011.

Brussels, 28 March 2018

Signed

Nadia Calviño

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

Reservation

DG	BUDG
Title of the reservation, including its scope	**Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK** Possible losses of EU customs duties between November 2011 and December 2017 are estimated at EUR 2,735,509,500.82 (gross). Further losses may have occurred in 2018.
Domain	**Direct centralized management**. 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. On behalf of the Commission, BUDG's role is to seek reasonable assurance that traditional own resources are collected and made available to the EU budget in conformity with EU law. It does so by carrying out on-the-spot TOR inspections and documentary checks and also by following on findings from investigations and audits conducted by the European Court of Auditors (ECA) and OLAF namely when the actions taken autonomously by Member States does not protect satisfactorily the EU financial interests.
Programme and amount affected (="scope")	**The revenue part of the budget** is concerned. Directly, the scope is limited to the TOR. Chapter 12, article 1.2.0 Customs duties and other duties referred to in Article 2(1)(a) of Decision 2014/335/EU, Euratom. Indirectly, the VAT-basis in the destination Member States as well as the correctness of the GNI-related resources are also affected. The amounts concerned are the following: **Year** / **Traditional Own Resources EUR millions (net)** 2011 / 16 777.7 2012 / 16 453.4 2013 / 15 365.3 2014 / 16 429.5 2015 / 18 730.4 2016 / 20 094.1 2017 / 20 459.1 Total 2011-2017 / 124 309.5
Reason for the reservation	OLAF has concluded its investigation (OF/2014/1274/B1), opened on 16/01/2015, on the undervaluation of textiles and footwear imported in the UK and issued a final report together with recommendations to the UK, to TAXUD and to BUDG. The OLAF final report and the recommendations to BUDG were received on 3 March 2017. OLAF concludes that the UK has failed to apply, even after repeated warnings and requests to that effect by OLAF, the appropriate

measures to prevent systematically undervalued imports of textiles and footwear from the People's Republic of China from entering the EU through the UK.

BUDG's controls traditional own resources inspection carried out in the UK also confirmed significant weaknesses in Her Majesty Revenues and Customs (HMRC) management and control of undervalued imports of textiles and footwear as well as the ongoing TOR losses in 2017.

Materiality criterion/criteria

- The seriousness of the weakness: the ineffective or inexistent controls to detect and stop the undervaluation fraud, which was uncovered by a report of the European Anti-Fraud Office and by BUDG traditional own resources inspections;

- The duration of the fraud of over six years, from November 2011 to 2017, and which is still ongoing according to BUDG latest TOR inspection in November 2017; the amounts at stake are quantified above. For the 2017 reporting year, the financial impact of these ineffective controls is estimated at EUR 430.7 million (net). Although this represents 0.4% on total Own Resources, it amounts to 2.1 % of Traditional Own Resources. This explains the need for a qualification of the assurance and the immediate actions undertaken by BUDG for the protection of the EU budget.

Quantification of the impact (= actual exposure")

According to OLAF and BUDG, between November 2011 and December 2017, the UK should have made available an estimated amount of additional traditional own resources of EUR 2 735 509 501 (gross), or EUR 2 161 659 337 (net). The quantification of the possible loss (in net terms, after the deduction of collection costs) compared to the total own resources and traditional own resources actually made available by the EU-28 during the same period can be found below:

ears	Estimated traditional own resources losses in EUR millions (net)	Own Resources made available by EU-28 EUR mill	Traditional Own Resources (net) made available by EU-28 EUR mill	Estimated Loss in % of Own Resources made available by EU-28	Estimate loss in % of Tradition Own Resource made availabl by EU-28
011	17.1[48]	119 994.7	16 777.7	0.01%	0.1
012	140.2	129 429.8	16 453.4	0.1%	0.9
013	243.9	139 743.6	15 365.3	0.2%	1.6
014	384.1	132 961.3	16 429.5	0.3%	2.1
015	428.2	137 334.7	18 730.4	0.3%	2.1
016	517.4	132 174.3	20 094.1	0.4%	2.5
017	430.7	115 427.7	20 459.1	0.4%	2.1
otal	**2 161.6**	**907 066.1**	**124 309.5**		

In compliance with Article 12 of Regulation No 609/2014, interest for late-payment are also due and will be calculated and requested when the relevant dates are known.

[48] Only for November and December 2011

Impact on the assurance	As a result of the fraud and the serious control and management weaknesses regarding the importation of undervalued textiles and footwear from the People's Republic of China through the UK, uncovered by the OLAF report and also by BUDG traditional own resources inspection activities, it is estimated that EUR 2 735 509 501 (gross)-this amount does not include interest for late payment - of traditional own resources have not been made available to the EU budget between November 2011 and December 2017. Although the responsibility for collecting and making available TOR falls on Member States, the management of the system of own resources is a direct competence of the Commission. The effectiveness of the UK's national control remained inadequate in 2017, although the measures put in place by the UK as of 12 October 2017 have recently reduced the ongoing TOR losses. Therefore, and in view of the financial impact, a reservation is considered necessary.
Responsibility for the weakness	The possible losses for the EU budget resulted from the failure of the UK to act in a timely manner. OLAF and BUDG had repeatedly informed the UK about the extent of the fraud and requested the UK to take measures to tackle it, in particular through the implementation of value thresholds as risk profiles, physical checks of targeted consignments at clearance, and taking securities payments for additional duties likely to be due before releasing the goods for free circulation in the EU. Only after the UK started, on 12 October 2017, to implement partially the requested measures (limited in duration and scope), the ongoing TOR losses were reduced. In accordance with Article 8 of the Council Decision of 26 May 2014 on the system of own resources of the European Union and with Article 2(2) of Regulation No 608/2014, Member States are responsible for collecting the Union's own resources and for taking all measures that are necessary to ensure that the own resources are made available to the Commission. As a consequence, the UK will be held responsible for any traditional own resources possibly lost and will be requested to make them available to the EU budget.
Responsibility for the corrective action	**Corrective actions to be taken by the UK** Member States are responsible for collecting and making available timely and in full the traditional own resources to the EU. They are also required to put in place effective management and risk-based control systems to that effect. So the UK must take the necessary action to overcome the failures identified and make available to the EU budget any TOR lost, including interest due for belated payment if applicable. To that effect, OLAF has sent the UK several recommendations. The UK is now responsible for giving them an appropriate follow-up. OLAF will monitor the progress made regarding its recommendations. OLAF requested to be informed by the UK of the actions taken to recover evaded customs duties (from the customs debtors) as a result of these recommendations as soon as possible and in any event no later than 12 months (i.e. March 2018). However, for what regards the UK's obligations towards the EU budget, it should take action to reassure the Commission that all

	amounts due to the EU budget are made available without delay. Since the UK failed to take appropriate and timely action to make available all amounts due to the EU budget a formal infringement procedure under article 258 of TFEU was launched on 8 March 2018. **Follow-up action by the Commission** BUDG has been monitoring additional debt establishments made by the UK in connection with possible undervaluation of imports of textiles and footwear since 2014. As the UK authorities did not provide clear and satisfactory answers regarding the cancellation of those debts, BUDG's inspection 16-11-1 of 14 to 18 November 2016 in the UK investigated the matter further and confirmed weaknesses in the management and control systems of the UK. The inspection report was sent to the UK authorities on 15 February 2017. Following the OLAF report, BUDG sent letters to the UK on 24 March and 28 July 2017 inviting them to inform the Commission of any measures taken to prevent undervaluation fraud, in particular through the implementation of value thresholds as risk profiles, physical checks of targeted consignments at clearance, and taking securities payments for additional duties likely to be due before releasing the goods for free circulation in the EU. If no such measures had been taken, the UK authorities were requested to take action without delay. Also, if the UK authorities could not provide the elements necessary to determine the amount of customs duties not collected, the Commission would be obliged to call on the UK to make available an amount of TOR corresponding to the losses identified by OLAF and BUDG (of course, after deduction of collection costs). BUDG performed two further TOR inspections in the UK, one in May 2017 and another in November 2017. During these inspections, samples of import declarations declared at suspiciously low values were checked. The findings obtained confirmed that the undervaluation fraud in the UK was ongoing in 2017. The corresponding inspection reports 17-11-1 and 17-11-2 have been sent on 28 July 2017 and 14 February 2018, respectively. The additional customs duties lost in 2017 are estimated at EUR 538 million (gross). Hence, for the period between November 2011 and December 2017, the TOR losses incurred in the UK in relation to systematically undervalued imports of textiles and footwear from the People's Republic of China are estimated at EUR 2 735 509 5010.82 (gross). The Commission decided on 8 March 2018 to start a formal infringement procedure by sending to the UK a Letter of Formal Notice under Article 258 TFEU concerning this case. Depending on the UK's reply to this letter, it might be followed by a reasoned opinion and eventually, if no solution is found, a referral to the Court of Justice of the EU. Furthermore, in line with the action plan submitted in the context of the IAS' audit on the anti-fraud strategy for TOR, BUDG will work together with OLAF and TAXUD to strengthen the co-operation among the services and to achieve a more efficient risk-based approach of TOR control systems aimed at fraud prevention and detection.

2.2 Other organisational management dimensions

2.2.1. Human resource management

BUDG was fully engaged in two **major synergies and efficiencies initiatives** within the Commission in 2017: the full roll-out of the OIB Proximity Team for logistics and the HR Modernisation pilot for the centralisation of HR services.

The major challenge for BUDG in 2017 in terms of **Human Resource Management** was to successfully implement the pilot of the new HR centralisation model while maintaining the high quality of service that contributed in the past to achieving the key objectives of the DG, and at the same time propose actions and activities to maintain the level of engagement and motivation of staff. With this aim, BUDG continued to scrutinize the allocation of human resources to the identified priorities by analysing the profile of each post which became vacant.

BUDG was not affected during 2017 by massive retirements or loss of competencies; its human resources situation remained fairly stable.

Nevertheless, the current workload is resulting in a particular high level of stress also due to the long standing vacancies of a number of senior management positions.

Furthermore, another three Middle Managers took part in the 2017 Inter-DG Mobility Exercise. BUDG participated also in the pilot scheme for the Voluntary Mobility of Middle Managers, a scheme aiming at facilitating the exchange of middle managers interested in mobility.

BUDG focused in 2017 on the following main areas:

1. **Consolidating** the new relationship created by the **HR modernisation pilot.** All processes and procedures had to be reviewed and roles and responsibilities redefined between the new parties, Business Correspondent team in the DG and Account Management Center in DG HR. The pilot will continue in 2018 with further fine-tuning and optimising of HR processes.

2. The necessary **flexibility in terms of HR allocation** was maintained so that BUDG could achieve its objectives by building bridges between units/directorates to respond quickly to extra workload. Flexibility in this context was ensured by using the "working together" traineeships and by facilitating exchanges of staff between units in order to create opportunities to use their full potential.

3. The 35% target set for the **Representation of women in middle management positions** was replaced in 2017 by DG HR with a new quantitative target of three new managers to be appointed by the end of 2019. One was already fulfilled in 2017. BUDG actively encouraged and supported the promotion of women in management functions by offering in 2017 a tailor-made talent management programme for women, and will continue its actions to provide high potential women with the best guidance.

4. While addressing the results of the **2016 Staff Survey** five areas of interest were identified and discussed with Management: logistics, health and private/work balance, career and mobility, learning and development and the attention given to the results of the staff survey. In response the following activities took place:
   - An "Ergonomics at work" session was organised together with the Medical Service, followed by office visits and replacement of old chairs with ergonomic ones.
   - A training package was offered to managers on psychosocial risk management, four key conversations (giving feedback), and managing underperformance.

- Several team building events were organised with units and Directorates.
- Organisation of internal lunchtime conferences on subjects of interest.

5. A series of actions will be put in place or continue in 2018, such as a new session of Talent Management training for women, improving the bicycle space in the garage, an Activity Fair to promote sports and other activities under the new Fit@Work strategy, more visibility to internal vacancies, discussions with staff and communication on the actions taken following the survey.

2.2.2. Information management aspects

Document management

All incoming and outgoing documents are registered and filed in Nomcom files. Procedures are in place to follow up on the **correct and timely attribution and filing**. **97 % of BUDG files are readable by all units**; the other 3 % have a more restrictive nature and are only accessible by the concerned stakeholders.

On the basis of a screening of the existing files by the responsible units, BUDG has decided to open the **visibility at Commission level of 19% of files in 2017**. We have also ensured during 2017 that **100% of DG BUDG files have a retention code**, as requested by the document management rules, which allow the correct follow up of the files in terms of archiving and accessibility in the long term in the Commission.

In 2018 the **filing plan of the DG will be reviewed** in order to simplify and streamline the internal working methods. The purpose is to put in place a logical and useful structure with fewer headings and files which will facilitate the easy access, searching and storing of all the information available in the DG.

Training and support on document management has been provided on the use of ARES, DECIDE and BASIS during all the year.

Internal communication

Internal communication focused on **reinforcing staff's commitment to the Commission's political priorities and the mission of BUDG**. Interactive communication between staff and management to enhance mutual understanding was supported through various means: regular video read-outs of management meetings, regular all-staff meetings and informal meetings with different staff groups with the Director General. These channels, combined with ad-hoc and regular directorate or unit level meetings kept staff informed of any upcoming issues or challenges the Commission, or BUDG in particular, were facing as well as key achievements or relevant changes.

The **organisation of lunch-time conferences** in the DG about different interesting topics was also an opportunity for staff to break the silos and to gain on flexibility. In particular, the presentation on the whole process of the annual budget adoption or on the negotiations linked to the revision of financial regulation were good opportunities to get more understanding on the work being done by other colleagues. **The presentations on the White Paper on the Future of Europe and on the 5 subsequent reflection papers by the Director General** gave an excellent opportunity to all staff to express many interesting ideas.

BUDGnet concentrated on relevant information for BUDG staff. The increased ownership of communication activities was promoted through the newly created BUDG internal group on communication. Thanks to this, **BUDGnet continued to engage colleagues** through regular publication on major events quotes, weekend tips and spotlight videos, as well as covering outside work events (exhibitions, charitable auctions, etc.) taking place. Cooperation with MyIntracomm team of DG HR was increased. In particular, the joint video production of BUDG, HR and several other DGs, "People behind results", was successfully used for internal as well as for external communication purposes.

The use of **BUDG Connected platforms** were further encouraged both through BUDG working groups as well as during several special training sessions. A group of colleagues promotes further the use of the platforms, in particular those managing intra-DGs networks. See other initiatives in **section 2.1.3** to continue working across directorates in BUDG and to have effective tools for sharing all the valuable knowledge and information existing in the DG.

A BUDG communication week for staff was planned during 2017, however due to the high demand on external communication services and the covering of BUDG events, it was not possible during this year. A specific lunch time conference on social media is planned during 2018.

2.2.3. External communication activities

One of the priorities in 2017 was to **continue stressing the value added of the EU budget**. This required showing practical results in an efficient and convincing manner by employing new communication tools and channels.

The Reflection Paper of the Future of EU Finances was an important contribution to the discussions about the future European Union at 27. It helped to focus the discussion with citizens, stakeholders and key decision-makers in all EU Member States on key aspects of the post-2020 Multiannual Financial Framework.

The European Commission, for the second time, reported on the **EU budget in an integrated financial package** including three reports with detailed information on revenue, expenditure, management and performance and follow-up to the discharge. Accompanied by a variety of communication materials this reporting package helped both to increase the understanding on how the EU budget works as well as to promote the results achieved in priority areas.

The **Guide to EU Funding** (2017 edition) was a publication, widely appreciated by readers and stakeholders as an easy to read basic overview useful for anybody interested in getting support from the EU budget. It was one of the **most popular publications** in the EU bookshop in the autumn of 2017.

The "EU Results" project website demonstrated concrete results in EU Member States and third countries that were achieved thanks to EU budget. The existence of this public database has brought positive effects since European citizens can identify concrete achievements in their immediate environment.

The **EU budget annual conference on the future of EU finances** was held in September, bringing together a great variety of stakeholders from Member States, think tanks and EU institutions, in order to discuss the challenges ahead for the EU budget, and the ways to address them.

Web-based interactive communications and increased use of visuals especially on social media prevailed over traditional paper-based publications. Apart from high quality complete information for experts and interested stakeholders simplified information material was made available online to explain the complexities of the EU budget and its impact on the daily life of European citizens. All major publications or events were accompanied by the production of factsheets.

Cooperation with DG COMM, HR and SG was increased. In particular, BUDG initiated corporate teamwork on the post-2020 **Multiannual Financial Framework communication plan**, the MFF visual style guide, definition of post-2020 corporate communication and visibility requirements as well as harmonisation of data requirements for EU Results database.

Finally, in the framework of **2017 MOOC** (Committee of the Regions' massive open online course) a live **Facebook chat with EU Budget Director General Nadia Calviño** was organised on the challenges of the future EU budget. The event took place on 25 of January 2018 and **was very successful**, with more than 27,000 views (400 LIVE viewers on average) 212 Shares and 223 comments from the followers.