European Commission

2019

Annual Activity Report

DG BUDGET

Foreword

Dear readers,

The EU budget plays a key role in the delivery of the Union's policies and 2019 was the sixth year of the current 2014-2020 Multiannual Financial Framework (MFF). In this context, 2019 proved to be a year of continuity for the budget, achieving the right balance between the implementation of ongoing programmes and addressing new challenges. It was however also a very important year with regard to the negotiation of the next MFF period 2021-2027 to which BUDG actively contributed, providing unprecedented transparency, technical information and explanatory material to all stakeholders involved.

The need to maximise the European added-value of the EU budget has remained at the centre of BUDG's concerns. In this context, BUDG has continued working to improve the understanding of the EU budget by both enhancing accountability on sound management of EU money towards our stakeholders, in particular the European Parliament and the Court of Auditors, as well as by improving transparency about the performance of the EU budget towards EU citizens.

The year 2019 also saw the adoption of the 2020 annual budget. Focused on two main priorities (i) the promotion of investments, growth and jobs and (ii) the effective response to migration, solidarity and security within and outside the EU, it has been widely recognised as one of the most progressive budgets yet.

When it comes to new initiatives, BUDG worked very intensely on getting the "Just Transition Mechanism" across the line. Having started out as a rather spontaneous BUDG idea proposed to the new Commission – to put in place a relatively small Just Transition Fund – it has become one of the foundation pillars of the European Green Deal, one of the current Commission's priorities.

Turning to the modernisation of the Commission's Financial System, which is one of BUDG's priorities and crucial to the functioning of all services across the Commission, the intensive work on this throughout 2019 has led to the SUMMA project arriving at cruising speed.

Finally, 2019 was marked by close collaboration with the Article 50 Task Force on preparing and finalising the Draft Agreement on the United Kingdom's withdrawal from the Union (in particular with regard to the financial provisions of that Agreement). Throughout 2019, the accounting services ensured their readiness for the departure of the UK on a number of dates, including the possibility of a no-deal Brexit and the preparation of EU accounts for each date. Multi scenario cash forecasting was prepared for each possible date, in order to ensure availability and predictability of cash resources in all relevant currencies.

Based on the above, I can confidently say that BUDG has fulfilled its role throughout 2019 not only in preparing and overseeing EU budget implementation, including the collection and control of own resources, but also in seeing to it that the budget delivered concrete results and added value across all EU policies.

Looking ahead, there are many challenges facing BUDG in 2020, including facilitating the successful conclusion of the negotiations on the MFF 2021-2027and ensuring the timely preparation and conclusion of the (annual) budgetary process for 2021.

While at the time of writing this report the effects of the Corona crisis are yet to fully unfold, it is clear that there will be major and far reaching implications for the EU and its policies. DG BUDG will need to advise the College on the related budgetary implications and is already gearing up to prepare for this.

In line with our Commissioner Johannes Hahn's statement that "Budget is nothing but policy in numbers", BUDG will continue to strengthen the oversight of operations and will reinforce its foresight capabilities notably by an increased use of financial data and modelling in support of the design of future policies. BUDG will also continue its mission to foster a stronger culture of performance and protection of the EU budget among all financial actors including the Commission, the financial partners and the Member States.

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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 (MFF) to overseeing its implementation, and the final discharge by the European Parliament. BUDG is also responsible for ensuring the correct implementation of the legal framework applicable to the execution of the EU budget by the different institutions, agencies and Member States. In addition, BUDG plays a key (corporate) role in promoting sound financial management within the DG and more broadly, through promoting 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.

BUDG had 503 staff members[1] on 31 December 2019, structured around five directorates based in Brussels, dedicated to delivering results across eight specific objectives.

One of BUDG's 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 and those of a number of other EU bodies. The Accounting Officer is also responsible for the preparation of the consolidated accounts of the EU and the recovery of funds including fines.

In order to guarantee integrity, BUDG oversees the accounting data produced by the different DGs and bodies implementing the EU budget. The accounts are prepared through ABAC, the Commission's corporate financial and accounting information system, for which BUDG is the system owner. As such, BUDG supports 15 000 users across the whole EU landscape (colleagues working in the Commission's DGs/Services and 51 other external entities).

From an operational perspective, BUDG aims to maximize the contribution of the EU budget to the achievement of the over-arching 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 policies. BUDG is also responsible for the effective collection of Own Resources.

In addition to BUDG's own operational responsibilities, BUDG is the domain sponsor of the financial management community inside the Commission. As a horizontal service, BUDG 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. BUDG also plays a central role in ensuring services comply with the Financial Rules and accountability for the management of the European taxpayers' money.

BUDG Expenditure is exclusively administrative, for the functioning of the DG and for maintaining and improving the Commission's corporate financial/accounting system.

Organisational changes:

On 1 January 2020, following a decision taken by the new College in December 2019, the former ECFIN.DDG2.L, "Treasury and financial operations" was transferred to DG BUDG forming the new Directorate E "Asset and Financial Risk Management". This transfer will strengthen the corporate management of financial instruments and budgetary guarantees and the related asset management function, to ensure their budgetary sustainability for the EU budget.

[1] Data as of 31.12.2019 excluding external consultants, trainees and interimaires

EXECUTIVE SUMMARY

This Annual Activity Report is BUDG's Director General's management report. For the purpose of informing the College of Commissioners, Annual Activity Reports are the main instrument of management accountability within the Commission; they constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordination, executive and management functions it exercises, as laid down in the Treaties[2].

a) Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives (executive summary of section 1)

Proposals for the Multiannual Financial Framework 2021-2027

In 2019, the Commission continued to facilitate **negotiations on the Multiannual Financial Framework 2021-2027**, in order to ensure **a new, modern, long-term budget for the future**. Up until December 2019, negotiations were held based on the Commission proposal from 2018, which was geared towards the Union priorities, in line with the Bratislava and Rome agreements. At 1.114% of EU Gross National Income, it introduced a major modernisation of the EU budget with balanced financing share for innovation, research, digital, youth, climate, migration and border management, external relations, security and defence – priority areas with increased budget allocations – and the long-standing cohesion and common agricultural policies. It took into account the withdrawal of the United Kingdom from the Union. While preparing the European Council in December, the Finnish Presidency presented its own proposal in the form of a Negotiating Box. This proposal proposed some significant changes compared to the original Commission proposal, and set the overall level for the MFF at 1,07% EU GNI.

Throughout 2019, BUDG actively contributed to **the progress in negotiations**, providing unprecedented transparency, technical information and explanatory material. BUDG also engaged actively with the European Parliament and other stakeholders, advocating for a swift agreement as agreed by the EU leaders in December 2018.

On the revenue side, the Commission continued to defend a legislative package **to reform the EU's own resources system**. It comprises new Own Resources Decision and complementary implementing rules. The Commission proposed to maintain some of the well-established pillars of the existing system such as the Traditional Own Resources mechanisms and the Member States' contributions based on Gross National Income, which serve as the "balancing item" of the income side.

In addition, a **simplification of the Value Added Tax-based own resource was put forward**, as well as a basket of new own resources including a share of the proceeds of the European Emissions Trading System (ETS), the Common Consolidated Corporate Tax Base, and a national contribution based on non-recycled plastic packaging waste. BUDG has explained and defended these proposals in the Working Group on Own Resources under the Romanian and Finnish Council presidencies in 2019. In the meantime, the Council decided not to continue a discussion on another new Own Resource proposed by the Commission, i.e. the Common Consolidated Corporate Tax Base.

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

Brexit preparedness actions and future relationship with the United Kingdom

In 2019, BUDG participated in the work led by the Article 50 Task Force on preparing and finalising the financial provisions of the Draft Agreement on the United Kingdom's withdrawal from the Union.

More generally, BUDG initiated and updated Brexit preparedness measures covering all possible scenarios including, inter alia, procedures to implement the Withdrawal Agreement and its reporting; preparation of EU and European Developent Fund (EDF) accounts; specific measures to protect the financial Union's financial interest; budgetary implications of a " no-deal scenario; proposals for regulations establishing a contingency framework for 2019 and 2020 in case of a "no-deal»; guidelines for the Commission's services on the implications of a "no deal" on the implementation of programmes and contracts; and also, Business continuity measures in relation to the IT systems managed by BUDG.

Annual Budgetary procedure

The annual budget for 2020 was adopted by a large majority in the European Parliament on 27 November 2019. This is the last budget of the current financial framework. As such, it already reinforces the priorities of the new Commission and the next Multiannual Financial Framework, in particular in relation to climate change-related expenditure and research while still providing significant resources to stimulate the creation of jobs, especially for young people, and to boosting growth, strategic investments and convergence. Through this budget, the EU will also continue to support efforts to effectively deal with the migration challenges, both inside and outside of the EU.

The 2019 Budget was fully implemented (EUR 161.3[3] billion on 31 December 2019 representing a 99.89 % implementation rate)

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

In March 2019, the European Parliament, with a very large majority, and based on a recommendation by the Council, **granted a discharge to the Commission for the 2017 financial year**. During the discharge procedure, the key stakeholders - the European Parliament, the Council and the European Court of Auditors (ECA) – focused on how to improve the results delivered by the EU budget and how to reduce further the level of error. The debate also touched upon issues of relevance to the next Multiannual Financial Framework. The discharge for one Agency (the European Asylum Support Office) was postponed by the European Parliament.

The European Court of Auditors' publication of its 2018 Annual report marked the start of the 2018 discharge procedure. In this report, and for the 12th year in a row, the accounts for the EU budget **received a clean opinion** from the Court, and, for the third year in a row, the Court issued **a qualified** (instead of an adverse) **opinion** on the legality and regularity of the underlying transactions.

The ECA estimated an **overall level of error for the EU budget of 2.6%**. While this is indeed a slight increase over the previous year's 2.4%, it remains significantly lower than in the years before 2017. It is important to underline that over half the expenditure was found to be free from material error and no error was found in revenue.

[3] Commitment appropriations

Integrated Financial and Accountability Reporting

As required under the new Financial Regulation, the Commission published, for the second time, a set of reports as part of its 'Integrated Financial and Accountability Reporting '. The information presented in these reports provides a comprehensive overview of how the EU budget supports the Union's political priorities, while being spent in line with EU rules. This set of 5 reports is focused on performance, thus taking a **big step forward in transparency and accountability** and in achieving one of the concrete outcomes of this Commission's 'Budget Focused on Results' initiative.

During 2019, BUDG also started sending regular customised 'flash reports on budget implementation' to each Director General; the purpose of these reports is to provide each authorising officer with targeted information on the implementation of commitments and payments compared to their forecasts.

Management and control of revenues

The **own resources** of the EU continued to be managed and controlled effectively, as confirmed by the Declaration of Assurance from the ECA which concluded that the 2018 revenue of the European Union was free from material error. However, the key internal TOR controls assessed in the Commission and in certain Member States, were deemed only partially effective.

The excellent EU issuer ratings were confirmed by the major rating agencies. With stable outlooks, this reflects their positive views of the Commission's financial management of revenue and own resources in particular, as sound and prudent. These ratings allow the EU to obtain very favourable conditions on credit markets, which the Commission passes on to the Member States under the loan and guarantee programmes.

A **reservation** has been made with regard to the **collection of traditional Own Resources** due to detected undervaluation of textiles and footwear imported into the UK since 2011(for more detailed information see sections 2.1.1.A. and 2.1.5).

Protection of the Union's Budget and Cooperation with OLAF and TAXUD

Cooperation with OLAF and TAXUD remained intense throughout 2019. The High Level Steering Group (at Directors' level) BUDG-OLAF-TAXUD, established in 2017, met regularly to discuss strategic policy issues for the protection of the revenue and expenditure side of the Budget.

On the revenue side, undervaluation remained high on the agenda as well as the measures necessary to improve customs controls, the monitoring of the functioning of the Customs Union and how to deal with new challenges such as e-commerce.

On the expenditure side, BUDG liaised closely with the SG and OLAF in strengthening the monitoring of the financial recommendations issued by OLAF in order to obtain a comprehensive picture of the situation and to identify the systemic reasons for under-implementation of recommendations.

Turning to the protection of the EU budget against unreliable economic operators, BUDG has undertaken a broad awareness-raising exercise with the Commission's services and EU agencies throughout 2019, focused on the proper and compulsory use of the early-detection and exclusion system. The substantial increase in early-detection cases and in requests for exclusion addressed to the Early Detection and Exclusion System (EDES) Panel is a clear indication that this campaign has been effective.

Treasury and recovery of funds management

The central Treasury ensured the **speedy and proper execution of payments**. This is key to good budget implementation and to the achievement of the Commission's policy goals. **Treasury management,** involving the regular monitoring of payments needs and cash flows, continued to be particularly challenging in the course of 2019 in view of the persistence of the negative interest rate environment and the uncertainty over the various Brexit scenarios.

The Commission continued throughout 2019 to **recover all amounts due** as efficiently and effectively as possible, using all the mechanisms available to avoid unnecessary losses and applying an appropriate **risk management strategy for provisional fines and bank guarantees**. The follow-up and reporting of amounts actually recovered, following OLAF recommendations, was carried out for both direct and indirect management. To improve the management and efficiency of fines' recovery, a new database has been developed and deployed successfully during the year.

Accounting financial System (ABAC)

During 2019, 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 **ABAC.**

In the context of the new Green Deal, the **commitments tracking mechanism** has been adapted to be ready to report on **climate spending.** In the light of the SAP decision to stop introducing upgrades to the software that is at the core of ABAC by the end of 2025, the Commission decided, at the end of 2017, to replace ABAC by a new platform (SUMMA), which will be fully based on SAP's latest technology. This new platform will not only bring additional business benefits, but will also solve some of ABAC's technical constraints. With the SUMMA project, launched in January 2018, BUDG is anticipating a solution well in advance of the announced 2025 deadline.

Following the high-level screening carried out during 2019 on the first phase of the SUMMA project, it is clear that the project requirements are more complex to analyse and implement than expected when the programme was launched. For this reason, the project's timeframe had to be extended by two years (from 2023 to 2025) and the total estimated cost of the project increased. A second phase started after the summer 2019 and will continue until end 2020 to identify the "solution design" of the new system. It will provide the basis for the build phase.

In the meantime, ABAC remains a reliable tool, as the necessary resources to make changes and upgrades to support DGs and to ensure availability, reliability and security, have been maintained.

Financial rules

Following the entry into force in August 2018 of the revised Financial Regulation, work has focussed on developing the appropriate governance for the implementation of the EU Budget by:

- promoting the effective implementation of conflict of interest rules in the Member States;

- actively contributing to the negotiations as part of the MFF Package of the proposal for protecting the EU budget in case of generalised deficiencies as regards the rule of law in the Member States;

- aligning the financial rules applicable to other bodies (framework financial regulation for decentralised agencies, model financial regulation for public-private partnership bodies, framework agreements with international institutions, in particular with the World Bank Group, UN, OECD and others), ensuring the application to all these bodies of a common set of rules on governance including avoidance of conflicts of interest, a common performance framework and harmonised reporting requirements;

- making progress in the implementation of the new internal control framework notably through the first successful peer review of DGs' critical risks and a revision of the corporate methodology on the cost-effectiveness of controls.

Further steps were also taken as domain leader in financial management to harmonise, standardise and simplify financial management across the Commission, focussing on:

- putting in place more interoperable and flexible post-2020 funding programmes;

- drafting the first corporate model grant agreement;

- developing IT solutions for management of grants and procurements underpinned by corporate systems leading to a high level of standardisation in the field of eGrants and of eProcurement;

- ensuring consistency in the relations with partners implementing EU funds under indirect management.

EU Budget focus on added-value

The **focus on maximising the European added-value** of the budget is at the centre of reflections of the new generation of programmes. Considerable efforts have been made to strengthen performance orientation and to improve communication on the achievements of the EU Budget. These efforts include **improving transparency and accountability** by streamlining the performance information of the EU Budget and **aligning the budget to political priorities** and spending where the highest EU added-value can be achieved.

In preparing the 2020 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 the latter case combined with proposed remedial actions.

In the context of the next MFF, the new generation of programmes will contain a **limited number of indicators** for communicating and reporting in a coherent way on the results achieved for the entire EU budget.

Organisational management of the DG and internal control

With regard to **Human Resource Management,** BUDG continued to work closely with its Account Management Centre and corporate HR to provide a high quality of service to underpin the achievement of the DG's key objectives and, at the same time, to maintain a high level of engagement and motivation of staff.

DG BUDG also continued to invest in a series of actions addressing the work environment and working methods, which were the main areas of concern expressed by BUDG staff in two different surveys carried out in 2018. At a retreat in January 2019, BUDG's Senior Management drew up an Action Plan based on the proposals formulated by a DG-wide Focus Group that had examined the results of the two surveys.

Five Project Teams, made up by representatives from each Directorates, were subsequently set up to work on the implementation of the over-arching actions proposed. This resulted in concrete proposals on the Work environment, Knowledge Management, Internal Communication and the management of HR as well as on EMAS/Art@work.

In 2019, **internal communication** actions focused on providing timely and comprehensive information on BUDG and Commission priorities and activities. In the context of introducing major changes in working methods and the work environment, DG BUDG devoted considerable resources and efforts to change management initiatives. Communicating effectively and efficiently contributed to the closely involvement of staff and building a sense of ownership.

The **external communication activities** of BUDG focused on three main themes: the proposals for the post-2020 Multiannual Financial Framework (MFF), the results and added-value of the EU budget, and the financial management of the EU budget.

b) Key Performance Indicators (KPIs)

Indicator	Baseline (2014)	Target 2020	Milestones achieved in 2019
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	The Commission presented its proposal on 2 May 2018, negotiations continue intensively
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 2020 adopted timely (27/11/2019) Almost 100% budget implementation 5% staff reduction completed for the Commission and the agencies as confirmed by the European Court of Auditors Rapid Case Review. The reduction process was completed for all Institutions in 2019. Final allocation of human resources and decentralised administrative appropriations for 2020 adopted on 11.12.2019, aligned with the reorganisation and priorities of the new Commission.
Confirmation by ECA of the effectiveness of the Commission's Own Resources control systems	Positive DAS Opinion on Own resources for 2014 exercise Residual error rate is below 1%	Positive DAS Opinion on Own resources for 2015-2019 exercises Residual error rate is below 1%	Positive DAS Opinion for 2018 on Own Resources Residual error rate has resulted in less than 1%
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 2018 on accounts Discharge granted for the exercise 2017
Develop a Budget Focused on European Value Added **Adoption of simpler and more coherent financial rules** **Promote sound financial management**	SPP cycle and reporting framework Programme statements in MFF DAS from the ECA based on materiality threshold of 2 %	Reinforcing performance framework for evaluation, reporting, budgeting and programming Simplification of financial rules through the adoption by 2019 of the Simplified Financial Regulation Reduction of error rates Complementing the residual error rate methodology	Integrated Financial and Accountability Reporting 2018 demonstrates how every euro was managed and spent in 2018. Improved 2018 Annual management and Performance report for the EU Budget. Publication of **Programmes' Performance Overview** together with the Draft Budget 2020. The new Financial Regulation 2018 (Regulation (EU,Euratom) No 2018/1046 of 18 July 2018) has entered into force and is applicable from 2 August 2018. The rules of the new Financial Regulation provide for simplification and flexibility and will serve as a basis to harmonise and simplify rules across programmes also in the future MFF. Estimated level of error for expenditure further reduced (from 3.1% for 2016 to 2.4% for 2017 and to 2.6% for 2018 ; ECA 2016 & 2017 &2018 Annual Report) "Risk at closure" concept further enhanced and below 2% % [(0.6% for 2017; Commission 2017 AMPR)]/ [(0.8% for 2018; Commission 2018 AMPR)]

c) Key conclusions on Financial management and Internal control (executive summary of section 2.1)

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

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG BUDG has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified related to components I. "Control Environment", III. "Control activities" and IV. "Information and Communication" (cf. section 2.1.3 for further details).

In addition, DG BUDG has systematically examined the available control results and indicators, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives (cf. section 2.1 for further details).

In conclusion, BUDG's management has reasonable assurance that, overall, the controls in place are appropriate and working as intended; risks are correctly monitored and mitigated and any necessary improvements or reinforcements are being made. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget. As described in the corresponding section and in the reservation details (cf. section 2.1.5), BUDG, in cooperation with the relevant services is following-up very closely on this matter.

d) Provision of 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, were brought to the attention of Commissioner Günther H. OETTINGER, responsible for Budget and Human Resources as of 1 January 2017 and until 30.11.2019 and since 01.12.2019 to Commissioner Johannes Hahn, responsible for Budget and Administration.

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

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

In 2019, the Commission continued to play an active role in facilitating the negotiations on a new EU Budget for the future, the Multiannual Financial Framework 2021-2027. This MFF will be the first one for the 27-Member State Union, and as such addresses, in a balanced way, both new political priorities and the consequences of the withdrawal of the UK from the EU. The Commission defended its original proposal following up on the positive agenda set by President Juncker and the priorities agreed by EU leaders in Bratislava and Rome to increase spending on research, innovation and digital, youth, climate action, migration and border management, external action, security and defence. For the first time ever, combined investment in these priority areas is comparable to spending on agriculture and cohesion policy, respectively. BUDG led the Commission effort to enable this major modernisation by finding a delicate balance between moderate savings in long-standing policies and fresh financing from Member States, proposing EU level spending at 1.114% of Gross National Income of the Union, a slight overall increase from the current MFF set at 1% of GNI.

Throughout the MFF negotiations, the Commission ensured that the proposed new long-term budget for the Union was underpinned by a new mechanism to protect the EU budget from financial risks linked to the non-compliance with the rule of law. It also defended a strong focus on European added-value and on performance, less red tape for beneficiaries and an increase in climate mainstreaming to 25% - ensuring more climate-relevant investment at EU level.

Throughout 2019, BUDG was actively engaged in communication and technical presentation of the proposed MFF, notably in the Council under the Romanian and Finnish Presidencies as well as with the Parliament, national institutions, other stakeholders and citizens. Together with the Secretariat-General BUDG provided input for the Presidencies on the negotiation box thereby enabling swift technical analysis of the proposal.

Despite the fact that the proposal was widely accepted a basis for negotiation by all Member States and by the European Parliament, in preparing the December European Council, the Finnish Presidency decided to depart from it, proposing in its Negotiation Box a significant cut to the overall level of spending, setting it at 1,07% EU GNI. Furthermore, a number of programmes with significant European value-added suffered from significant cuts, for instance in the defence, space or energy areas. The conclusions of the December European Council foresaw that the negotiations would continue under the leadership of the EUCO President, Charles Michel.

During 2019, BUDG contributed very significantly to **Brexit preparedness** measures. In particular:

- The preparation of the procedures required to implement the Withdrawal agreement and the reporting required by it with regard to financial liabilities of the EU at possible withdrawal dates;

- Preparation of EU & European Development Fund accounts at possible withdrawal dates;

- Specific measures aimed at the protection of the Union's financial interests as regards revenues in case of a "no-deal";

- Assessment of the budgetary implications of a "no-deal" as well as ways of addressing these;

- Preparation and adoption by the Commission in January and September 2019 of proposals for Regulations establishing a contingency framework for 2019 and 2020 in case of a "no-deal", adopted by the Council in July and December, respectively[4]. The purpose of these Regulations was to minimise the most significant disruptions for beneficiaries of EU spending programmes and for the implementation of the EU budget;

- Guidelines for the Commission's services on the implications of a "no deal" on the implementation of programmes and contracts (updated several times throughout 2019). In addition, BUDG analysed and replied to more than 100 Brexit-specific questions sent from virtually all Commission services, agencies and other institutions;

- Business continuity in relation to the IT systems managed by BUDG.

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

The 2020 budget was finally adopted on 27 November 2019. Even though the positions of the Parliament and Council diverged significantly in absolute terms, an agreement was reached in the November conciliation. The final compromise broadly follows the Commission proposal, but further reinforces the political priorities, in particular in relation to climate-related actions and research innovation.

Commitment appropriations are set at around EUR 169 billion (increase of 1.5 % compared to 2019) leaving a margin of EUR 1.5 billion. Payment appropriations are set at around EUR 154 billion (increase of 3.4 % compared to 2019) leaving a margin of more than EUR 20 billion. Some actions required the mobilisation of the "special instruments" foreseen in the MFF[5]

The **preparation for the 2021 budget** procedure started soon after the presentation of the new MFF proposals in May 2018. As of 2021, the annual budget structure will be streamlined. It will be based on the structure of the clusters and programmes of the MFF instead of the structure of the Commission.

This required significant adjustment of the budget nomenclature and the IT tools used for the preparation and the adoption of the budget. At the beginning of 2020, the system was ready to launch the 2021 budgetary procedure and to collect the contributions and positions of all other DGs/services, Offices and Agencies.

The **implementation of the 2019 Budget** ran smoothly; all programmes across all headings have reached cruising speed. The pace of implementation has accelerated which allowed the Commission to finish the year with almost full implementation without having to revert to an amending budget to reduce the payment appropriations as in 2018

During 2019, the Commission was very pro-active in working with, and assisting, the Member States to accelerate implementation of European Structural and Investment Funds (ESIF).

After delays in the implementation of the new generation of programmes in the first three years of implementation (2014-2016), the financial implementation of the European Structural and Investment Funds has improved as of 2017. In 2018 and 2019

[4] COM (2019)64 final of 30.01.2019 – Council Regulation (EU, Euratom) 2019/1197 of 9 July 2019, and COM(2019)461 - Council Regulation (EU, Euratom) 2019/2234 of 19 December 2019.

[5] the Flexibility Instrument for 2020 was mobilised for an amount of almost EUR 780 million for heading 3 Security and Citizenship; the Global margin for commitments was mobilised for an amount of EUR 270 million 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 amounts to EUR 252 million in Heading 5 in 2020.

the totality of the voted budget and the majority of the assigned revenues were consumed. As in previous years the submission of claims increased significantly during the last weeks of the year; payment applications for a total of EUR 13 billion for Heading 1b were received in the month of December 2019 representing 32% of the 2019 amount.

As a result, the **2019 authorised budget 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, confirming that the 2014-2020 programmes are at cruising speed since 2018.

The Commission made significant efforts to reimburse as many claims 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 4 billion at the end of 2019. The majority (EUR 3.3 billion) consisted of the payment applications received after the 27th of December 2019 which could not be processed before year-end. In addition, EUR 0.7 billion of payment applications remained outstanding at the end of the year because they needed further analysis or were suspended.

BUDG assessed budgetary implications and ensured sound budgeting within the MFF for new legal acts/Commission decisions through its **timely replies to the inter-service consultations received** (99.1% of replies were sent within the deadline).

The process of **implementing the 5 % reduction in staffing level** of all EU institutions, bodies and agencies over five years has been completed.

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. Major efforts continued to achieve all possible **efficiency gains** and to meet new challenges through the redeployment of existing resources across the Commission. In 2019, 54 posts were allocated to priority areas thanks to redeployment. The Final Allocation for 2020 took account of the decisions on the reorganisation of certain Commission services, and addressed the resources needs of the key political priorities of the new College by re-allocating a total of 135 posts. Follow-up to the 2016 *Communication on Synergies and Efficiencies in the Commission* continued.

Careful monitoring of the consumption of budgetary appropriations under Heading 5 continued with close follow-up of the occupation rates, to ensure the optimal use of the budget.

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

The **own resources of the EU** were c**ontinuously and effectively managed and controlled**. In its latest Declaration of Assurance, the European Court of Auditors (ECA) confirmed the overall effectiveness of the Commission's revenue systems for Traditional Own Resources (TOR), and own resources based on Gross National Income (GNI and the Value-Added Tax (VAT). However, the key internal TOR controls assessed at the Commission and in certain Member States were partially effective (cf. sections 2.1.1.A. and 2.1.5. for further information).

All the rating agencies that issue EU ratings confirmed the excellent EU issuer ratings with stable outlooks, confirming once again that they consider the Commission's financial management of revenue in general, and the management of own resources in particular, both sound and prudent. These ratings allow the EU very favourable conditions in the credit markets, which the Commission passes on to the member states in the loan and guarantee programmes.

Furthermore, in 2019 BUDG carried out additional inspections focussing on the correct implementation of the Binding Tariff Information (BTI), the control strategy for large businesses and the follow-up of previous findings with financial impact.

The AAR was re-aligned with the Customs Union Performance report issued by TAXUD. This results in synergies and simplifies the work for Member States that are **no longer** requested to provide **identical data to different Commission services**. This alignment also reduces the risk of discrepancies in data communication from national contact points from different departments in MS. Any discrepancies left are discussed with the Member States.

In 2017, the European Anti-Fraud Office's (OLAF) investigation report OF/2014/1274/B1 and three TOR inspection reports highlighted a significant case of undervaluation of textiles and footwear imported from China in the UK by OLAF that resulted in an estimated global amount of EUR 2,679.6 million (gross[6]) being lost between 2011 and 2017. As of October 2017, the UK authorities have gradually introduced the remedial measures requested by the Commission but they still refuse to make available to the EU budget the TOR losses resulting from their lack of action before October 2017.

Hence, on 8 March 2018 the Commission opened infringement proceedings against the UK for this case, sending it a Letter of Formal Notice under Article 258 TFEU. On 24 September, the Commission decided to send a Reasoned Opinion to the UK because of its failure to make the TOR amounts due available to the EU budget, as required by EU law. The UK did not reply to the Reasoned Opinion within the deadline of two months. On 19 December 2018, the Commission decided to refer the case to the Court of Justice of the European Union (CJEU). After analysing the UK's reply received on 11 February 2019, the Commission confirmed on 6 March 2019 its decision and referred the case to the CJEU on 7 March 2019.

Over 2018 and 2019, BUDG has intensified its inspection activities concerning undervaluation and carried out inspections in all Member States to check whether their control strategy in the field of customs value adequately protects the EU budget. The inspection reports sent to Member States include many recommendations, in particular to use EU-wide risk thresholds. OLAF and the Joint Research Centre had developed these thresholds for each textiles and footwear product imported from the People's Republic of China to help Member States in identifying imports at risk of being undervalued so that customs could check them. The reports further requested Member States to physically check the goods at clearance and to take guarantees as appropriate, to ensure that customs duties due are actually paid.

As result of the cooperation with OLAF and TAXUD, BUDG presented the current situation as regards undervaluation in the group of Directors General of Customs of the 28 Member States on 5 July 2019. During this presentation, BUDG informed them of the results of the inspections on customs value and raised awareness about undervaluation of goods, in particular textile and shoes. Furthermore, BUDG encouraged them to monitor their imports to detect potentially undervalued goods and to take timely measures and informed them about the extent of the potential losses to the national and EU budget due to undervaluation.

Another relevant output was the thorough discussions on the possibility to put in place a Joint Analysis of Customs data at EU level in order to be able to identify unusual trade patterns and to act upon them as early as possible was also thoroughly discussed

In the area of VAT own resource, the Commission carried the inspection programmes as planned.

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[6] Collection costs need to be deducted from this amount to obtain a net amount.

SO4. Maintain a high quality central accounting /financial framework

The Commission demonstrated its accountability by providing high quality financial and other information to its stakeholders, both internal and external, in a timely fashion.

Working in close and productive cooperation with the DGs and all EU bodies, during 2018 BUDG produced the 2017 **annual accounts** of the EU, the Commission and many other EU entities[7] and obtained for the 12th consecutive time a **positive ("clean") opinion on the EU annual accounts from the ECA.** There were no significant audit findings identified during the audit of the reliability of the 2017 EU accounts and the error rates noted by the auditors were much lower than for the previous year (see S08). This is a reflection of the work done by BUDG accounting services together with the DGs, including reinforcing the need for greater attention to their financial data quality. These accounts were also delivered **before the end of June** to the discharge authority, thus allowing the ECA to also adopt and present its annual report early, with the ultimate result of **starting the discharge procedure 6 weeks in advance** of the legal deadline. All other entities' accounts also received clean opinions.

In line with the highest standards of transparency and accountability, the Commission published **the Integrated Financial and Accountability Reporting 2018 (IFAR),** which included five reports:

- The 2018 **Annual Management and Performance Report** that provides an overview of the performance, management and protection of the EU budget.

- The **Consolidated annual accounts of the European Union 2018** contain financial information on the activities of the year, the assets and liabilities, the revenue and expenditure of the institutions, agencies and other bodies of the EU.

- In the **Report on the follow-up to the discharge for the 2016** financial year, the Commission reports on how it proceeded with the requests made by the Parliament and the Council during the discharge procedure. They cover wide-ranging topics and help the Commission to further improve the way it manages and implements the EU budget.

- The **Commission report to the discharge authority on internal audits carried out in 2018**

- The **long-term forecast of future inflows and outflows of the EU budget (2020-2024)** complements the information on budget implementation presented in the annual accounts report by providing a long-term forecast of inflows and outflows of the EU budget for the next 5 years.

The financial reporting service published two **Financial Reports (2015-2017 and 2015-2018 data) on the implementation of funding raised for the migration and refugee crisis** as requested by the Budgetary Authority and the European Court of Auditors. The data in this report was update, to include 2018 data, using the migration marker in ABAC for this financial year.

The work on the development of **corporate reporting tools** has continued with the further implementation of the expenditure cycle dashboard allowing senior and middle management to visualise financial performance indicators rapidly, to enable easy monitoring of budget implementation. The Director General of BUDG was able to provide

[7] Using the resources and expertise at its disposal, BUDG's accounting services are already providing high quality services to, amongst others, 2 institutions, 14 EU agencies and joint undertakings, the EDF and 4 trust funds. 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.

all other Directors General with customised flash reports on their budget execution, showing the implementation of commitments and payments compared to the forecast, and based on the budget appropriations. The flash reports showed the overview on the financial performance of relevant organisational entities, thus helping to prevent under-implementation of the budget by showing deviations from forecasts.

The Commission continued to **raise the profile of its accounting services** within the global accounting profession. This was done through participating in conferences and standard setting activities, the most relevant of which included a seat as observer of the International Public Sector Accounting Standards (IPSAS) board, full membership of the IPSAS Consultative Advisory Group, member and regular contributor of the European Public Sector Accounting Standards (EPSAS) task force and participation in international treasury networks. During 2019, BUDG was actively involved in the development process for crucial new international accounting standards that will ultimately define how the core EU operations are accounted for.

With regard to Brexit, the accounting services in BUDG, working with the IT units and the other EU entities, worked throughout 2019 to put in place the necessary elements to ensure that a closure of the accounting system and subsequent preparation of EU consolidated accounts could be done at the withdrawal date if needed. The withdrawal date moved three times during 2019, thus requiring continuous updating from BUDG in this respect. Detailed instructions were sent out to all DGs and EU entities. Furthermore, the accounting services continued to work with concerned services to have the reporting on financial instruments required by the draft withdrawal agreement available when needed.

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

During 2019, 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 **ABAC.**

BUDG validates the internal control systems implemented in the Commission departments, the External Action Service (EEAS), the European Data Protection Supervisor (EDPS) as well as the 11 Decentralised Agencies and Joint undertakings under the responsibility of the Accounting Officer of the Commission. Carrying out monitoring and supervisory controls, this ensures that complete and accurate information is available in a timely manner to produce the annual accounts and reliable reporting.

In 2019, the validation of local systems significantly increased its coverage, implementing strategies to increase the efficiency of the available resources.

Because of their wide coverage, the validation engagements carried out in 2019 identified a number of cross-cutting issues that concern several departments and, therefore, could be better addressed at corporate level under the steering of BUDG. These have been reported in a management letter to the Directorates concerned.

In addition, the BUDG carried out a continuous assessment of accounting risks, resulting in a specific risk score communicated to each department, the assessment of changes to local systems notified during the year and the systematic follow-up of outstanding recommendations.

Treasury management has continued to be **particularly challenging** in the course of 2019 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 the impact of negative interest on the EU and EDF budgets was be minimised in 2019. 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. In this context, uncertainty about Brexit scenarios imposed additional prudence in cash forecasting activities and management of GBP cash balances.

In the context of an optimisation project addressed to decentralised and executive agencies and joint undertakings, BUDG offered its treasury services to four new clients[8]:

In 2019, 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.

ABAC is the Commission's **corporate financial and accounting information system** managing the financial transactions, accounts and disclosure of the Commission and of 51 other EU Entities. ABAC's availability and reliability is essential, both from a daily business as well as from a political point of view. Throughout 2019 ABAC ran in **compliance to the provisions of the Service Level Agreements**, allowing a user community of around 15 000 users to manage EUR 160 billion in appropriations and over one million payments per year.

The high standards of security embedded in BUDG's IT systems was maintained through sustained actions such as the renewal of the SWIFT annual self-attestation, the migration of SWIFT to the most recent version, the renewal of the connectivity package to the SWIFT network with improved redundancy and services, the update of the IT security action plan of the DG and several security awareness campaigns for the DG staff. Additional critical technological updates were performed in the context of ABAC and SWIFT to ensure the security standards.

These achievements fit into a roadmap which will lead to **a new Corporate Finance Platform** which is the successor of ABAC (**SUMMA**). SUMMA will be the next generation corporate platform for any financial process within the EC and other EU entities. 2019 was marked by a number of major achievements that also capitalised on the experience and work carried out in the first year of the programme:

- The successful completion, early in the year, of the first phase of the programme, which resulted in the identification and validation of the high-level business requirements and of the main issues and gaps;

- The successful preparation and transition to the second phase of the project, which started after the summer and will extend through most of 2020. This second phase analyses more in detail the requirements and gaps identified in the first phase, also with an extensive involvement of different Commission's services; it will produce as a result the solution design of the new system, which will be the basis for build phase;

- The preparation and setup of the infrastructure and procedures for starting the build phase in the first months of 2020. This phase will run in parallel with the solution design phase, so as to minimise the time needed for the rollout of the new system;

- Cooperation between SUMMA and other IT corporate systems (e.g. SYGMA, eProcurement…) made substantial progress taking also into account the project timeframe extension; the definition of boundaries with the other corporate systems will be completed in the course of 2020 with the objective to ensure an efficient integration within the Commission's IT landscape.

[8] Fusion for Energy Joint Undertaking (F4E), European Agency for Safety and Health at Work (OSHA), European Institute for Gender Equality and Consumer, Health, Agriculture and Food Executive Agency (CHAFEA).

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

A new framework financial regulation for Union bodies (mainly decentralised agencies) and a **model financial regulation for public-private partnership bodies** have been adopted. The subsequent alignment of the financial rules of each of these bodies after examination by BUDG has created a common set of rules on governance including avoidance of conflict of interest and a performance framework and harmonised reporting requirements for all of them.

Other secondary acts had to be aligned to the new Financial Regulation such as the framework agreements with international institutions, in particular with the World Bank Group, UN, OECD and others. BUDG also led work on the implementation of the reinforced rules on **conflict of interest** of the new Financial Regulation in the area of shared management in close coordination with shared management DGs. BUDG provided guidance to Member States through a conference on 10 April 2019.

In order to facilitate the preparation of the new spending rules for the post-2020 multiannual financial framework BUDG, together with the Legal Service and the SG, has provided all DGs with a template regulation for the post-2020 funding programmes. This led to a substantial simplification of the proposals (notably by avoiding the repetition of rules already covered by the new Financial Regulation).

BUDG also intensified its **cooperation on fraud prevention with the OLAF**: BUDG completed a fraud-proofing exercise on future spending programmes, actively contributed to the new Commission Anti-fraud policy and worked closely with the OLAF on strategic issues related to the anti-fraud policy for the "Expenditure" part of the EU budget. Such issues were discussed within the Steering Group "Anti-Fraud Policy" and included OLAF Instructions on Financial Recommendations and Guidelines on Financial Monitoring to the spending DGs as well as improving reporting on the amounts actually recovered following OLAF's financial recommendations. Fraud prevention action also continued through the **Early Detection and Exclusion System (EDES)**.

Extensive communication efforts have been made throughout the year to raise awareness on the Commission's **internal control framework** and promote a sound internal control culture in the services. Examples of good practices shared within the internal control network show that these efforts are paying off.

A review of potential crosscutting risks was carried out for a second year under the strengthened oversight of the central services, without prejudice of the AODs' responsibility for the risk assessment and management within their services including Peer Review meetings with services.

BUDG prepared the 2018 reporting on charge back, presented it to the Corporate Management Board (CMB) and elaborated a **strategy for simplifying** the **charge-back process** which was presented to the Corporate Management Board in October (and will be implementation as from the 2021 budget).

BUDG reviewed the **DGs' draft AARs for 2018**, paying particular attention to the estimations of error rates, amounts at risk at payment and future financial corrections. On this basis, the Commission has produced the Annual Management and Performance Report. Alongside information on the results achieved with the EU Budget, this report contains an assessment of the Commission's financial management of the EU budget. It presents **the amount at risk at closure**; i.e. the remaining risk after all corrective mechanisms have been activated. In so doing, the **Commission** demonstrates that it **manages the risks related to the legality and regularity** of expenditure in a multi-annual perspective

BUDG was established as **'domain leader' for financial management and internal control.** BUDG will continue to promote sound financial management while taking better account of recent evolutions in financial management. One of the actions recently taken in this respect was to step-up the guidance and coordination role vis-à-vis both Member States and other DGs, in areas which are relevant to the implementation of the EU budget (e.g. internal control systems in Member States, conflict of interests, rule of law, antifraud). Another is the creation of a Task Force on Domain Leadership in Financial Management. Furthermore, specific resources have now been dedicated to the assessment of budgetary guarantees and management of the Common Provisioning Fund (CPF)*.*

BUDG continued to **provide training, community of finance sessions 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.

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** aims at improvements to this performance framework for the future MFF in parallel with a high level of performance reporting to inform the budgetary authority, ECA and stakeholders. In 2019, the strategy focused on:

Further actions were to improve the reporting on the performance of the EU Budget, in particular through two documents:

- **Programme Statements:** These are prepared by the Commission in relation to the funding requested for each of the EU spending programmes in the annual budget procedure. They include information on the rationale and EU added-value of each programme, actual and forthcoming implementation, progress on performance, contribution to the main EU policies and objectives and highlight recent key achievements.

- The **Programmes' Performance Overview** is a document added in 2018 to the Commission's set of performance reporting tools. It provides a uniform and comprehensive presentation of each of the spending programmes.

The **work on the performance framework** was very demanding in 2019. The focus was on continuous efforts to promote a performance culture across the EC services based on the overall 'Budget focused on Results' initiative launched in 2015 and to operationalise it by developing a common approach on performance for the next MFF.

In 2019, work continued in order to finalise the **performance indicators** of each programme under the 2021-2027 MFF. BUDG organised a number of workshops with spending DGs to refine the list of indicators for the next generation of Programme Statements, which will serve to inform the annual Draft Budget decisions. Guidance has been provided in relation to the methodology, narrative and measurement metrics of each indicator proposed.

BUDG made significant efforts to facilitate the negotiation of the performance indicators, by presenting the criteria and process for developing a coherent and consistent EU budget performance framework and participating actively to discussions with Council, EP, Member States and stakeholders. Moreover, work has started to expand the information on performance, in particular to illustrate the EU budget contribution to EU policy goals and to the priorities of the Commission, as well as to collect performance data at programme and project level, so as to monitor progress and results and to feed evaluations.

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 large majority, the **European Parliament granted discharge to the Commission for the 2017** financial year on 26 March 2019. Throughout the 2017 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. The European Parliament focused on issues linked to reporting (on migration and on performance), error rate calculation and reporting, timely absorption and performance, and conflict of interest and fight against fraud. The European Parliament postponed the discharge for one agency (European Asylum Support Office).

The Commission adopted its report on the follow-up to the discharge for the 2017 financial year[9] already in July 2019[10]. The Commission committed to take action on a vast majority of requests made in relation to performance of programmes and policies, accountability reporting, absorption of European funding, and other specific issues such as conflict of interest.

The report was part of the Commission's **Integrated Financial and Accountability Reporting,** which brought together comprehensive information on the implementation, performance, results, sound financial management and protection of the EU budget in 2018. The set of reports was presented to the European Parliament's Committee on Budgetary Control, highlighting examples of good performance and that the **Commission's estimate for the amount at risk at closure was 0.8%.**

The ECA has estimated an **overall level of error for the EU budget of 2.6%**, which is a slight increase from the preceding year's 2.4% but remains significantly lower than in the years before 2017. Over half the expenditure was free from material error and no error was found in revenue.

The ECA confirmed that **the Commission's estimate of error is at the lower of the ECA's range**. The ECA also announced that, in line with its 2018-2020 strategy, it would continue to strive to make better use of the auditee's legality and regularity information in areas where this is feasible. Thus, in its 2018 Annual report, **the ECA continued to use a new audit approach for 'Economic, social and territorial cohesion',** first introduced for its 2017 Annual report, to take account of changes in the design of the control systems for the 2014-2020 programming period. It also carried out work to examine the possibility of extending the new approach to other policy domains.

On **performance issues**, the ECA focused on using performance indicators to measure progress towards targets set and aggregated quantitative measures of progress across programmes to draw conclusions at the level of MFF headings. The ECA concluded that indicators show significant variation in achievements.

BUDG played a leading role, **liaising with the European Parliament, Council and the European Court of Auditors** to ensure that audits were completed on time and subsequently followed up. BUDG took all necessary steps to support a smooth discharge procedure, e.g. by providing relevant information to the discharge authority, and by coordinating audits in relation to potential conflicts of interest in Member States.

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[9] See COM(2019) 334 of 2 July 2019.

[10] Detailed replies on the 292 specific requests made by the European Parliament and the 82 specific requests made by Council were made available in September 2019.

BUDG also coordinated the Commission replies to the **28 ECA special reports** passing through the adversarial procedure in 2019. These covered a broad range of issues directly relating to the EU budget, e.g. agricultural policy (farmers' income stabilisation), cohesion policy (fraud in EU cohesion spending), environmental policy (wind and solar power, greenhouse gas emissions), security (border control, migrants), external actions (EU support to Morocco), as well as other issues (food safety, cross-border healthcare, e-commerce, fiscal stability).

BUDG undertook **regular reporting to the Audit Progress Committee** on the Commission **follow-up of ECA recommendations**. The ECA had announced that it would follow up all relevant performance audit recommendations made to the Commission 3 years earlier and reports on it in its annual report. For 2018, the ECA found that the Commission implemented a high proportion of the ECA's recommendations[11].

In 2019, the **ECA published various other products** (briefing papers and reviews) covering a wide range of topics (e.g. outstanding commitments, defence, cyber security, performance in cohesion, sustainability). While these products should not be based on new audits, and therefore not subject to a formal adversarial procedure with the Commission, BUDG coordinated the Commission reaction whenever necessary or supported other DGs. BUDG also provided feedback to the ECA on possible improvements to these processes in the future and it will continue playing a coordination role, liaising with the ECA and the relevant Commission departments.

In 2018, a **comprehensive review** of the proposed future scope and functioning of the **Public Internal Control (PIC) Network** was undertaken and a questionnaire was sent to Member States seeking their input. Member State responses received by the end of 2018 were positive and made useful comments and proposals. These responses were taken as a basis for the re-launch of the Network with a wider scope and the involvement of high-level management. The relaunch of the Network started with a Conference and a workshop at technical level held in the last quarter of 2019. The results of discussions with Member States representatives will feed into the organisation of a conference to be held in the first semester of 2020 with the participation of high-level managers/top administrators from national authorities.

BUDG continued to provide added-value to the Commission's efforts to promote and monitor the implementation of **public internal financial control (PIFC) and external audit (EA) reforms** in Enlargement countries and some European Neighbourhood countries**. Direct discussion during fact-finding missions, and desk reviews of policies and legislative proposals,** contributed to provide technical advice and accurate and evidence based input to NEAR and ECFIN Subcommittee meetings with the candidate and potential candidate countries and to the formal Commission Enlargement reports.

[11] The ECA found that, of the 184 recommendations followed-up, the Commission had fully implemented 114 (62 %). It had implemented 26 of the remaining recommendations (14 %) in most respects, 33 (18 %) in some respects, and had not implemented the other 11 (6 %) at all (the Commission had not accepted the recommendations which were not implemented).

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section, divided in two sub-sections, explains how the DG delivered the achievements described in the previous section.

The first sub-section reports on the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives[12]. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the DG.

The second sub-section deals with the other components of organisational management: human resources, better regulation principles, 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, who monitor the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General (see detailed list of reports in Annex 10 point B).

This section is for reporting the control results and other relevant elements that support management's assurance. It is structured in four parts: (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

2.1.1 Control results

This section is for reporting and assessing the elements identified by management which support the assurance on the achievement of the internal control objectives[13]. The DG's assurance building and materiality criteria are outlined in Annex 4. Annex 5 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems**.**

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

[12] Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

[13] 1) Effectiveness, efficiency and economy of operations;2) *reliability of reporting; 3) safeguarding of assets and information*; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2). *The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.*

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 (AFS)**	**Reliability of information and reporting**	**Safeguard of Assets**
Collection and control of Own resources	Error rate below 1 % on Total Own Resources (note a a reservation on TOR)	Positive conclusion (Costs/funds = 0.003%)	Area covered by the AFS	Positive conclusion	Positive conclusion: Treasury and Recoveries management (at corporate level)
Management of administrative expenditure	Error rate below 2 %	Positive conclusion (Costs/funds = (0.65%)	Area covered by the AFS	Positive conclusion	

As requested in the financial regulation, BUDG would like to disclose that during 2019 there were no cases as described in art.92.3 of Financial Regulation (receiving binding instructions in writing considered by the Authorising Officer irregular or contrary to the principle of sound financial management). In addition, as BUDG does not manage operational expenditure, there were no cases as described in the following articles:

- Art.125.3 (payments based on the fulfilment of conditions or the achievement of results)
- Art.130.4 (financial Framework Partnerships implemented through specific grants)
- Art.181.6 (cases of flat rates of more than 7% for indirect costs) as decided by reasoned Commission Decisions
- Art.193.2 (Derogations from the principle of non-retroactivity-acceptance of costs incurred before the project grant application was submitted)

A) Own resources (OR)

Three main streams of EU revenue are known as own resources. They are: 1) Traditional Own Resources (primarily customs duties); 2) the VAT-based own resource; and 3) the GNI-based own resource. The distribution in the budget is the following:

Amounts in €	2017	2018	2019
Traditional Own Resources	20 459 059 160	20 231 629 937	21 364 541 356
VAT-based Own Resource	16 584 027 142	17 132 576 159	18 104 846 959
GNI-based Own Resource	78 372 850 496	104 965 443 888	105 298 072 383
SURPLUS AVAILABLE FROM PRECEDING FINANCIAL YEAR	6 404 529 791	555 542 325	1 802 988 329
Total Own Resources	**115 415 936 798**	**142 329 649 983**	**146 570 449 027**
Amounts in €			

1. *Effectiveness = the control results and benefits*

- ***Legality and regularity of the transactions***

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

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.

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

Indicators of control performance for Own Resources are described in the corresponding Relevant Control System in Annex 5. Control results in terms of legality and regularity have allowed to obtain assurance and are described in annex 10.2.

The benefits of these controls have also been identified and, where possible**,** they have been quantified. In other cases, these benefits are evidenced by the corresponding relevant non-quantifiable indicator as indicated in the OR Relevant Control Systems for budget implementation (Annex 5).

It is also important to take in account that even more important than the quantifiable benefits, there are a number of relevant non-quantifiable benefits resulting from controls carried out (i.e. improvements on Member States Controls systems, more transparency, compliance with rules, correct and compliant distribution of the GNI share, VAT and GNI data used not becoming time barred) – further details of benefits are provided in Annex 10 point 2.

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 Relevant Control System in Annex 5 for each stage.

Globally, for all Own resources, the most recent ECA's opinion (the annual report for financial year 2018) 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 qualified by a qualitative reservation (see section 2.1.5.).

2. *Efficiency = Time indicators and other efficiency indicators*

The principle of efficiency concerns the best relationship between resources employed and results achieved.

Results show that controls performed have ensured the timely and dully collection of Own resources during the year. In addition, the results of controls show the efficiency of those since they have served to mitigate the risks to which they address.

In addition, 100 % of VAT and TOR inspection reports have been presented timely at the first available Advisory Committee on Own Resources (ACOR) meeting for information and review.

Reservations have been timely set on GNI and VAT allowing the amounts not to become time barred and they have been timely communicated to Member States. Also, the information on GNI has been presented to ACOR meetings to allow for a timely agreement on GNI figures.

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[14]. This annex has been also included in BUDG AAR (annex 5) for information and completeness.

A risk-based analysis has been introduced for the purpose of the VAT-based own resource verification where a first layer is used for the selection of Member States to be inspected, and subsequently a second layer used to determine the thematic focus of each individual inspection.

3. *Economy = the cost of controls*

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

The total cost of controls performed in all the control stages described in Annex 5 amounts to 4 EUR Mio and represent 0.003 %[15] of Own resources collected in 2019 (EUR 146 570 449 027). See table in Annex 10.1

The cost of controls carried out to verify the amounts collected in 2019 , the latest figures validated by ECA in their most recent annual report, amounts to EUR 1.9 Mio and EUR 1.3 Mio and represent 0.01 % both for TOR (EUR 20 231 629 937) and VAT-based OR collected (EUR 17 624 815 831). The costs of controls are considered to remain steady and can thus be also applied to calculate cost-effectiveness on this year 2019 TOR and VAT-based OR collection (EUR 21 364 541 356 and EUR 18 104 846 959)

The cost of controls in place related for the follow-up of results of the verification stage amounts to EUR 0.7 Mio and represents 0.002 % of TOR and VAT-base resources collected in 2019 EUR (EUR 36 469 388 495). 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

The controls to recover the TOR amounts due to the EU budget derived from irregularities detected represent a cost of EUR 1.9 Mio and a 1.95 % of the amounts cashed in 2019 amounting to EUR 94 460 million[16]. The absolute cost of controls has remained stable compared to last year, however the bigger amount of amount cashed in comparison with 2018 (almost double) explains the lower percentage of cost of controls in comparison with 2018 – 3.31%).

The costs of controls in place to mitigate the risk of errors when calculating the UK correction amount to EUR 0.04 Mio and represent 0.0009 % of the amount calculated and paid.

4. *Conclusion on the cost-effectiveness of controls*

Based on the most relevant key indicators and control results, BUDG has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls for which it is responsible. The control strategy is considered adequate, as with a reasonable cost of controls the main objectives have been achieved on time as described above. For the most part, they provide a reasonable assurance for 2019 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

[14] See Relevant Internal Control System on Verification of GNI data by ESTAT in annexe 5

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

[16] This figure relates to all payments received in 2019 following recovery orders issued as of 2009. Recoveries have doubled in comparison with 2018.

of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011.

B) Earmarked revenues for the use of Financial Information Systems by External Entities[17]

Earmarked revenues in BUDG derives from the charge back to external entities of services such as the use of financial information systems, the annual Accounting Officer services and treasury services managed by BUDG. In 2019, external charge-back amounts to EUR 4 million representing 20% of BUDG commitment appropriations directly executed by BUDG. In addition, an amount of EUR 95.000 is internally charged back for the same type of services. Since this activity is much less significant than the other two, described in sections 2.1.1.A. and 2.1.1.C., and the risks have been assessed as very low, neither a Relevant Control System nor indicators are presented for this area. However, it is presented in this section for completeness purposes.

The risk analysis concerning these earmarked revenues has shown that the risks are very low because of the limited amounts involved, 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.

These risks are effectively mitigated by means of ex ante verifications in the recovery order process covering 100 % of the transactions.

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 Relevant Control System 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.

The total amount of 2019 commitment appropriations[18] represents EUR 25.18 million. The execution rate for 2019 is 96.8% (EUR 24.39 million – higher than the rate of 90.8% in 2018). The remaining appropriations will be executed in 2020.

The authorized payment appropriations[19], including the amounts carried over from 2018, represent EUR 38.37 million. Payments made during the financial year amount to EUR 22.59[20] million, which represents an execution rate of 58.15%. While this is a higher execution rate compared to last year (54.17%), its level can be explained by the fact that a part of the IT budget appropriations were received during the 3rd and 4th quarter of the year (both commitment and payment appropriations). These appropriations were committed but have to be paid in 2020.

The Relevant Control System for Procurement and Administrative expenditure in annex 5 demonstrates how the control systems in place, consisting mainly in ex ante verifications covering 100 % of transactions, address the related risks.

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

[18] This amount includes the contributions from Agencies and other Institutions as well as the co-delegated lines but not the reserves (budget line 40) and neither the appropriations allocated to other services – figures only refer to line 27 which refers to the administrative expenditure of BUDG)

[19] This amount includes the payments made from the co-delegated lines but not the reserves (budget line 40) and neither the appropriations allocated to other services.

[20] This amount does not include the amounts allocated to other services (EUR 0.36 Mio)

During 2019, no negotiated procedures under Point 14.2 of Annex 1 of the Financial Regulation were launched. However five open procedures where completed related to banking services (3), external audits and controls (1) and financial training (1). Other five low value procedures were also finalised for the provision of banking services for the execution of payments in different currencies.

The internal control for the signature and execution of specific contracts include ex-ante controls on 100 % of transactions. In addition, twice a year, the accountant correspondent in BUDG carries out a risk-based ex-post review on financial transactions, due to the very low residual risk of these transactions. All errors detected are corrected or reported. The analysis of the risks concerning the related processes in 2019 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.

1. ***Effectiveness = the control results and benefits***

- ***Legality and regularity of the transactions***

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

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.

Ex-ante controls are performed on 100% of payments, in order to detect and correct any procedural errors with or without financial impact. 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 of BUDG's administrative expenditure resulted in no financial errors detected. Other non-financial errors were found representing around 1% of the value of the transactions checked. These errors consisted in the booking 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). Controls have been intensified in 2019 to ensure that the correct account is selected before authorising the payment. The mechanisms to use the correct accounts are also being reinforced as well as a regular monitoring and reporting.

The results of the accounting quality revisions carried out in 2019 have been satisfactory apart from the observation above 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 2019, two exception/non-compliance reports were brought to the attention of BUDG Director on Risk Management and Internal Control. One was related to mission order that was validated after the mission took place. There was no financial impact as the mission was needed and was carried out as planned. Also a non-compliance event was reported on the signature of a contract once the services had started to be provided.

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

In 2019 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 because 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 at the end of this section.

Yet, in order to avoid any potential underestimation, as ex-post controls are based on a sample of transactions, BUDG uses an estimated error rate for the Commission's administrative expenditure of 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.

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level.

BUDG's data is shown in Table X and its accompanying notes below.

The estimated overall risk *at payment* for 2019 expenditure is 0.113 M€. This is the AOD's best, conservative estimation of the amount of *relevant expenditure* during the year (22.59 M€) not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. The conservatively estimated future corrections for 2019 expenditure are 0.113 M€. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in succeeding years.

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.

Benefits of those controls have also been identified. When possible they have been quantified. Both quantifiable and non-quantifiable (n.q) benefits of controls are identified in the corresponding Relevant Control System in Annex 5.

The controls carried out have allowed complying with the legality and regularity objective as detailed previously.

In addition, it should be highlighted that there are a number of non-quantifiable benefits resulting from the controls carried out. 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 necessity of these controls is undeniable, as the totality of the procurements and appropriations management would be at risk in case they would not be in place.

Table X - Estimated overall risk at closure

DG BUDG	"payments made" (FY; m€)	*minus* new prefinancing [*plus* retentions made*] (in FY; m€)	*plus* cleared prefinancing [*minus* retentions released* and deductions of expenditure made by MS] (in FY; m€)	**= "relevant expenditure" (for the FY; m€)**	Average Error Rate (*weighted* **AER**; %)	estimated overall amount at risk *at payment* (FY; m€)	Average Recoveries and Corrections (***adjusted* ARC**; %)	estimated future corrections [and deductions] (for FY; m€)	**estimated overall amount at risk *at closure* (m€)**
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Programme, Budget Line(s), or other relevant level	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)	H-ARC (as per ABAC DWH BO report on corrective capacity), but adjusted	= (5) x (8)	= (7) – (9)
BUDG Administrative expenditure	22.59	0	0	22.59	0.5%	0.113	0%	0	0.113
Total	22.59	0	0	22.59	0.5%	0.113	0%	0	0.113

(8) the Amount at Risk at Closure for BUDG in the AAR corporate reporting - 0.6 % - 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

2. *Efficiency = Time indicators and other efficiency indicators*

The principle of efficiency concerns the best relationship between resources employed and results achieved.

During 2019, a total of 651 payments[21] amounting EUR 22.59 million were made out of which 85 % were executed on time, with an average payment deadline of 21 days, below the maximum of 30 days allowed. The number of delayed payments increased however due to temporary constraints in the Financial Cell as several colleagues left the team during the last quarter of 2019, which meant that the closure of the year was extremely challenging.

The following improvements have been made to modernise, simplify and harmonise the financial management of the DG: i) Review of procedures, workflows and checklists; ii) implementation of electronic flows and iii) better budget monitoring

There are still areas to be improved as the communication with units implementing the budget, better support, more harmonised implementation of procedures and use of e-tools in procurement procedures and contract management.

3. *Economy = the cost of controls*

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.

The total cost of controls related to BUDG's procurement and administrative expenditure amounts to EUR 0.3 million and represents 0.65% of the payments made in 2019 (cf. Annex 10.1- Table Y).

4. *Conclusion on the cost-effectiveness of controls*

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

The control strategy is considered adequate as with a reasonable cost of controls the main objectives have been achieved on time. They provide a reasonable assurance for 2019 that BUDG's administrative budget has been effectively implemented, on time and complying with the rules. However there are some controls that need to be enhanced as explained in section 2.1.3. in relation to the internal control principle 10- Control activities in the area of Own Resources and Recovery of debts.

- ***Fraud prevention, detection and correction***

BUDG has developed and implemented its own anti-fraud strategy since 2013, based on the methodology provided by OLAF and was last updated in October 2016.

The next update, foreseen in the first quarter of 2020, will integrate the new approach and objectives of the revised Commission Anti-Fraud Strategy. It will ensure coherence with the corporate level by: (i) referring to the actions where BUDG is involved in the Commission Action Plan; (ii) reinforcing the description of the fight against fraud in the area of revenue; and (iii) referring to the cooperation with other services and the different roles each of them play.

[21] This amount includes the payments made from the co-delegated lines but not the reserves (budget line 40) neither from other lines of other services

The current BUDG anti-fraud 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.

DG BUDG keeps a fraud risk register which is integrated in the risk management exercise performed twice a year. The fraud risk register has remained stable in comparison with 2018 and no new risks have been identified in 2019 other than the cases of undervaluation detected by OLAF and BUDG inspections, which continues to be followed up closely.

Cooperation with OLAF and TAXUD was intensified especially on these cases of undervaluation, but also to deal with risk management and other fraud related issues.

During 2019, in the area of the fight against fraud, DG BUDG focussed its work on the cooperation with OLAF to finalise the Commission's corporate Anti-Fraud Strategy and its action plan as DG BUDG is in the lead of a number of actions, mainly related to legal aspects, data analysis and collection of Own Resources. The year was very challenging in other fronts and due to the focus on the corporate Anti-Fraud Strategy it was not possible to review the local BUDG Anti-Fraud strategy.

Efforts were invested in order to raise awareness amongst BUDG staff: a lunchtime seminar was organised in the beginning of 2019 open to all BUDG staff on the fight against fraud.

The residual risks of fraud in BUDG are quite low, except for the one related to the fraud detected in the area of Own Resources and more in particular the issued related to undervaluation of imported goods. This has deserved the placement of a reservation in BUDG AAR. Details are explained in PART 1 under the specific objective 3 and in the dedicated section 2.1.3.

In the context of the revision of sensitive posts, an analysis of tasks dealing with procurement procedures in BUDG was completed in 2019 in order to assess the need to flag those as sensitive. This way, the objectivity in the management procurement procedures is ensured in BUDG at all stages, especially when drafting specifications.

- ***Other control objectives: safeguarding of assets and information, reliability of reporting***

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; and (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, contingent liabilities and the collection of Own Resources). 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 in Annex 10.4. In addition to the controls in the area of accountancy and treasury, other controls are described as the validation of local systems and the controls ensuring the good functioning of the corporate IT financial system ABAC.

The controls in place in the areas described above have worked as intended and have offered enough assurance to the Authorising Officer and Accounting Officer on the effective functioning of the internal control systems.

2.1.2 Audit observations and recommendations

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

The internal audit service (IAS)

IAS carried out in 2019 a series of follow-up audits resulting in the closure of the majority of the recommendations.

Two recommendations were considered as not been fully implemented : i) recommendation on the need for providing guidance and raise awareness (very important) related to the "audit on the effectiveness and efficiency of the new Early Detection and Exclusion system (EDES) in protecting the EU financial interests"; ii) recommendation to improve monitoring arrangements and the reliability of savings estimates related to the "Audit on Synergies and efficiencies review (SER)".

As a result both recommendations were re-opened and downgraded from very important to important taking into account that for i) the actions implemented so far have increased the level of awareness on EDES overall and have therefore reduced the residual risk and for ii) important progress has been made overall and the number of actions that are on-going reduce the risk initially identified,

In November 2019 IAS also issued the final report for the "Audit on management of recovery orders for competition fines and for recovery orders in the context of the Commission's corrective capacity".

More details on the above are provided in annex 10.3

Conclusion on the state of internal control by IAS at DG BUDG

The **annual opinion of the Internal Audit Service** on the state of control of BUDG took in account the fact that:

- Management has accepted all the recommendations issued in 2017-2019
- Management has adopted action plans to implement all the accepted recommendations. The IAS considers that these action plans are adequate to address the residual risks identified by the auditors;
- The implementation of these action plans is monitored through reports by management and follow-up audits by the IAS;
- Management has assessed a number of action plans as implemented, which have not yet been followed up by the IAS.

Based on the above the Internal Audit Service concludes that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations on the audit on recovery orders and bank guarantees for fines (see details of recommendations in annex 10.3)

The European Court of Auditors (ECA)

In its Annual Report 2018, the Court concluded that the Annual accounts of the European Union were reliable for the 12th consecutive year and were not affected by material misstatement. It also concluded that the revenue of the EU is not affected by a material level of error. Furthermore, no very important recommendations were made.

The European Court of Auditors stated that the 2018 Annual Activity Reports 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 that the information provided corroborates the Court's observations and conclusions. The Court also noted that the Annual report shows the progress in addressing recommendations made in previous annual reports.

Annex 10.3 provides details on open audits and recommendations of both the Internal Audit Service and the European Court of Auditors. This also includes details on the actions already taken to address the ECA's 2018 recommendation 4.1 on the TOR inspections planning, which have already mitigated any residual impact from the ECA observations on the effectiveness of the TOR controls.

2.1.3 Assessment of the effectiveness of internal control systems

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

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

The Director General launched the survey in September 2018 to all staff with 11 questions. The participation rate was considered satisfactory as it went beyond 50%. A Focus Group composed by volunteer non-management staff was established to follow-up on the results of the survey and to gather other complementing evidence (interviews, previous work done in the DG, additional feedback through world cafes for all staff). The mandate of the Focus Group was to issue a report with recommendations that could give place to an action plan endorsed by senior management and subsequently by all staff to ensure their involvement in the priority setting of the actions proposed.

Conclusions of Focus Group report issued in January 2019 confirmed (as in previous surveys where BUDG working environment is positively assessed by its staff) that the starting point of the action was rather positive: **overall positive mood in the DG.** This conclusion is also reinforced by BUDG Staff engagement index set at 75% in 2018[22] (higher than in 2017-70%) and the fact in 2018 53% of BUDG staff feel that the Commission cares about their well-being (much higher than in 2017-40%- and slightly above Commission average-52%). Last year internal control survey also concluded with an overall positive assessment of 83 % which was higher than 2017 (80%) and above the benchmark established of 75%.

The feedback collected in the context of the Focus Group report also showed that there is still scope for improvement in some areas. Five projects teams were stablished Internal Communication Strategy, Knowledge management, HR strategy, EMAS and ART@work

[22] Source: Commission Staff survey results published in March 2019

and Work environment

Building on the work of the Focus Group and the Senior Management Action Plan, a dedicated survey was launched enquire and establish common values that describe BUDG as a Directorate General and that guide work within the Directorate. All staff was invited to participate in a survey and select 10 out of 55 values, which were considered as important ones. In total, 236 BUDG staff members participated in the survey and the results gave the top 10 list of values of BUDG[23].

This list of common values complements our management charter on which with the aim of developing a staff charter that will make BUDG an even better place to work. It also shows which are the important elements for a good cooperation and effective work for BUDG staff.

Other sources of evidence used were the Commission Staff survey[24] results, audit reports, risk assessment, control activities and monitoring, meetings with colleagues to clarify roles and procedures in certain cases and other supervisory reports.

During 2019, no dedicated internal control survey was launched due to the other many various surveys launched upon request of BUDG Director General to identify priorities on the improvements proposed for the DG, to identify the values of the DG and other surveys on the future of our work place. In addition, the results of the Commission Staff survey have served as evidence to assess BUDG internal control systems during 2019.

The overall evidence collected shows that actions for the improvement of the areas identified will contribute to reinforce the effectiveness of mainly two Internal Control Components and five principles: **I-Control environment**: in particular principles 1- Demonstrates commitment to integrity and ethical values; 3 - establish structure, authority and responsibility 4- Demonstrates commitment to competence and **IV-information and Communication:** in particular principles 13- Uses relevant information and 14- Communicates effectively.

BUDG is also carrying out actions to reinforce the principles related to the component III. Control activities and in particular principle 10. Selects and develops control activities:

- In the area of Traditional Own resources to mitigated the risk of undervaluation as described in specific objective 3 in PART 1 and in the reservation described in section 2.1.5; Also some improvements are being made to achieve a more structured and documented risk assessment for the TOR inspection planning. Finally additional measures have been taken to include in the Commission's 2020 inspection plan as main topic the reliability of TOR accounting in the Member States.
- Improvements in the process of setting recovery orders for competition fines and for recovery orders in the context of the Commission's corrective capacity. See recommendations derived from the Internal Audit Services in annex 10.3.B
- BUDG Anti-Fraud Strategy: Upcoming update following the additional actions taken to strengthen the fight against fraud in the area of Traditional Own Resources and the imminent finalisation of Commission Anti-Fraud Strategy and its action plan where BUDG participation is substantial**;**
- Business Continuity: finalisation of the update of BUDG Business continuity plan to include the activities of the new Directorate E and organisation of

[23] 1.Work-life-balance; 2.Respect;3.Competence;4.Integrity;5. Collaboration;6.Effectiveness;7.Fairness;8.Trust;9. Honesty;10.Meaningful work

[24] Staff survey results published in March 2019

raising awareness sessions amongst management and duty officers to clarify roles and procedures. Regular updating of critical staff in related IT systems. Finally, the organisation of testing is foreseen during the second quarter of 2020.

Conclusion

BUDG has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, but some improvements are needed as deficiencies were identified related to certain principles as described above, to build on a reasonable assurance reflected also in the overall positive feedback received by staff and analysis carried out by the Focus Group.

The improvements and/or remedial measures implemented or envisaged as described above will render BUDG internal control systems stronger and more effective but do represent important deficiencies that could have an impact on the declaration of assurance, except for the topic of undervaluation for which a reserve has been set for year 2019 as detailed in section 2.1.5.

2.1.4 Conclusions on the assurance

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

The information provided in the various preceding sections covers the budget delegated to the Authorising Officer by Sub-delegation (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 own resources. Nevertheless, given the issue on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011, this assurance has to be qualified by a reservation. 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. Other improvements are being made to the risk assessment done to carry out TOR inspections and to include topics suggested by ECA in their 2018 Annual Report.

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 (very limited in 2019).

In addition, the audits issued in 2019 gave as a result important recommendations which will be addressed according to the agreed action plans (for details see annex 10.B; point 3). The residual risks from audit recommendations remaining open are not considered to have a bearing on the declaration of assurance (see section 2.1.2.).

Management has obtained satisfactory evidence that overall there are no major deficiencies in the Internal Control Systems of BUDG, notwithstanding areas for further improvements that have been identified and that will be addressed through an action plan endorsed by BUDG Senior Management and staff. See in particular improvements to be made in the internal control principle 10- Selects and develops control activities as described in section 2.1.3.

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 22.59 million) is below 0.5 % which implies an amount at risk below EUR 113 942.

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 also following the recommendations by the Internal Audit Service and the European Court of Auditors as detailed in Annex 10.B. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance; albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget 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[25].

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 and the work of the Internal Audit Service 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 due to the Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget

Brussels, 31 March 2020

(e-signed)

Gert Jan KOOPMAN

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

Reservation 1

DG	
Title of the reservation, including its scope	**Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget** Losses of traditional own resources (TOR) between November 2011 and October 2017 estimated at EUR 2 679 637 088.86 (gross) and unquantified potential TOR losses in other Member States due to the undervaluation of textile and shoes imported from China
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 in which the reservation is made and total (annual) amount of this programme	**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 of TOR affected by the losses 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
2018	20 231.6
2019	21 364.5
Total 2011-2019	165 905.6

Reason for the reservation	The OLAF investigation report on the undervaluation of textiles and footwear imported in the UK concluded that the UK had failed, even after repeated warnings and requests to that effect by the Commission services and OLAF, 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 from October 2017, the UK gradually implemented the measures requested by the Commission and the estimated TOR losses for the UK are below the materiality threshold for 2018 (as shown in the table below). However, the undervaluation fraud also concerns other Member States for amounts that cannot be quantified yet. The five inspections of traditional own resources carried out by BUDG in the UK between 2016-2018 confirmed the existence of significant weaknesses in Her Majesty Revenues and Customs (HMRC)'s control of undervalued imports of textiles and footwear.
Materiality criterion/criteria	The seriousness of the weakness: the ineffective or inexistent controls to detect and stop the undervaluation fraud, confirmed by a report of the European Anti-Fraud Office and by BUDG traditional own resources inspections The period concerned of around six years, from November 2011 to October 2017 (the amounts at stake are quantified below). This explains the need for a qualification of the assurance in 2017 and 2018, and the immediate actions undertaken by BUDG for the protection of the EU budget. As of 12 October 2017, the UK started implementing the measures recommended by the Commission, including checking the imports of textile and shoes declared at extremely low values at clearance, and taking guarantees for the customs duties due. This led to a dramatic reduction of TOR losses (error rate below 1% for TOR). For that reason, the materiality for the reservation does not persist in 2018. Therefore, figures for 2018 are not included in the reservation. Nevertheless, the UK still refuses to make available to the EU budget the TOR amounts lost during the period 2011 – 2017. The Commission decided to refer the case to the Court of Justice of the European Union (CJEU) on 19 December 2018. Following the Commission's decision, the UK authorities indicated that they still intended to provide a formal reply, which was received on 11 February 2019. After analysing the UK' reply, the Commission confirmed on 6 March 2019 their decision to refer the case to the CJEU and so the Commission did on 7 March 2019. On 29 August 2019, the Commission lodged its reply to the UK's Defence of 24 June 2019 at the CJEU, maintaining its position. The Commission is currently analysing the UK's rejoinder of 20 December 2019 and there may be a hearing in 2020. Besides, the Commission services consider that after the UK gradually implemented measures, the undervaluation fraud partly moved to other Member States, affecting the collection of traditional own resources to an extent pending final quantification.

	For these reasons, a non-quantifiable reservation is maintained for 2019. Even at EU28 level (UK TOR losses plus EU27 losses), the total losses do not surpass 1% of OR (however: >1% of TOR, already for the UK alone).
Quantification of the impact (= actual "exposure")	According to OLAF and BUDG, between November 2011 and October 2017, the UK should have made available an estimated amount of additional traditional own resources of EUR 2,679,637,088.86 (gross). As from October 2017, the UK gradually implemented the measures requested by the Commission and the estimated TOR losses for the UK have been dramatically reduced. However, the undervaluation fraud also concerns other Member States (MS) for amounts that are in the process of being quantified. Inspections on undervaluation have now been carried out in all MS. During its inspections, the Commission checked how MS are organised to address undervaluation, in particular concerning textile and shoes from China. MS' financial responsibility for losses of TOR has been explicitly addressed during these inspections and the corresponding reports. The results of inspections are followed up according to regulations and procedures in place and MS will be held financially responsible for TOR losses incurred, where appropriate. The quantification process is ongoing but provisional calculations indicate that the TOR losses in 2019 would reach 1% of the 2019 TOR, which justifies a reservation by the Authorising Officer by Delegation. 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. As from October 2017, the UK gradually took control measures to address the import of undervalued textile and shoes from China and the estimated loss in % of TOR made available by EU-28 for 2018 and 2019 is less than 1%. The process for the recovery of the 2011-2017 TOR losses is pending as the case has been referred to the CJEU. However, the undervaluation fraud also affects other Member States to an extent that cannot be finally quantified. To address this risk, inspections of traditional own resources took place in 2018 and 2019 in all 28 Member States (several visited more than once). In general, BUDG considered the control strategy for customs value to have serious shortcomings in many Member States. BUDG therefore maintains its existing non-quantified reservation for the Traditional Own Resources for the 2019 revenue, given that there is no new 'material' exposure from the UK and the total amounts concerned in other Member States for the 2019 reporting year are not finally known.

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, confirmed by the OLAF report and by BUDG inspection activities, it is estimated that EUR 2,679,637,088.86 (gross) of traditional own resources have not been made available to the EU budget between November 2011 and October 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. Although the UK's customs controls further improved in 2018, the UK still refuses to make available the TOR lost due to its lack of effective action on the period 2011-2017 to the EU budget. Therefore, and in view of the financial impact, a reservation was considered necessary for 2017. Finally, the undervaluation of textile and shoes imported from China affects other Member States, for amounts of traditional own resources that cannot yet be quantified. Therefore, the unquantified reservation is maintained for year 2019.
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. The TOR losses reduced after 12 October 2017 when UK started to implement the requested measures. 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. Consequently, the UK is considered responsible for the traditional own resources lost and is 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. Therefore, the UK had to 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 was responsible for giving them an appropriate follow-up. For what regards the UK's obligations towards the EU budget, it had to take action to reassure the Commission that all amounts due to the EU budget were made available without delay. Since the UK failed to take appropriate and timely action to make available all amounts due to the EU budget, the Commission referred the case to the CJEU on 7 March 2019. **Follow-up action by the Commission:** BUDG performed four TOR inspections in the UK in 2018 and 2019. The findings obtained confirmed that the measures taken by the UK, although limited in scope, had a positive impact on the undervaluation fraud. 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. The UK replied on 22 June 2018. On 24 September 2018, the Commission decided to send a Reasoned Opinion to the UK because of its failure to make the TOR amounts due available to the EU budget, as required by EU law. The UK did not reply to the Reasoned Opinion within the deadline of two months. On 19 December 2018, the Commission decided to refer the case to the Court of Justice of the European Union (CJEU).On 11 February 2019, the UK replied belatedly to the Reasoned Opinion of the Commission. On 7 March 2019, the Commission referred the case to the CJEU. On 29 August 2019, the Commission lodged its reply to the UK’s Defence of 24 June 2019 at the CJEU, maintaining its position. The Commission is currently analysing the UK’s rejoinder of 20 December 2019 and there may be a hearing in 2020.

2.2 Other organisational management dimensions

2.2.1 Human resource management

In line with the objectives outlined in the Management Plan 2019, BUDG's main achievements in the area of human resource management were in the following areas:

Representation of women in middle management positions

The revised objective set in the Commission's Decision of 19th July 2017[26] for BUDG was to nominate three new first time female managers by November 2019. BUDG reached this target already at the end of 2018 and has maintained the ratio of female to male colleagues in middle management since then. By the end of 2019, the female representation rate in middle management in BUDG was thus 38%.

Gender balance in all management posts remained a priority for BUDG through 2019 through paying special attention to women applicants in general, extending publications as necessary, and proactively encouraging female candidates with potential to apply for middle management and senior management positions. In parallel, as part of BUDG's female talent management programme, BUDG put in place a network where women can further explore their common career goals and opportunities.

At the end of 2019, DG BUDG also initiated an all-inclusive talent management programme addressed to all BUDG colleagues (irrespective of grade and gender) who are interested and motivated in developing further their skills and competences and who wish to enhance their career development. It is hoped, through this programme, to increase colleagues' confidence in their abilities to lead (should they so wish) and to gain experience at the level of their responsibilities, which will help them to further their careers.

Addressing the results of Staff Surveys - targeting BUDG needs and its staff

BUDG continued to invest in a series of actions addressing the work environment and working methods, which were the main areas of concern expressed by staff in two different surveys carried out in the latter half of 2018 (a specific BUDG staff survey and the general Commission staff satisfaction survey). In January 2019, BUDG's Senior Management drew up an Action Plan based on the proposals formulated by a DG-wide Focus Group that had examined the results of the two surveys. This Action Plan was presented to, and collectively adopted during a BUDG all-staff Away Day held in February 2019. Four Project Teams, made up by representatives from each Directorates, were subsequently set up to work on the implementation of the over-arching actions proposed; this resulted in the delivery of Advisory Papers setting down concrete proposals on the Work environment, Knowledge Management, Internal Communication and the management of HR.

Some of these concrete proposals have already been implemented (such as the transformation of the 13th floor of the BRE2 building into a collaborative space) while others are being implemented currently or are still in the pipeline.

[26] SEC(2017)359

Mobility & career development

The ongoing BUDG "Journey of Change" introduced a series of collaborative working methods with the aim of better sharing information, improving networking and increasing internal mobility. BUDG's approach to increase collaboration has resulted in an increase in cross-DG project-based working, and the setting up of a number of specific working groups on, inter alia, Financial Instruments, MS desks, Internal Communication, Work environment, Knowledge Management, HR, Learning needs, EMAS and various well-being activities including the introduction of art into the workplace. This new approach has facilitated the cross-fertilisation of ideas and increased knowledge-sharing throughout the DG. BUDG has also invested in improving the attractiveness of the DG through re-wording its vacancy notices emphasizing possible career paths and learning and development opportunities. With regard to the latter, BUDG's job-shadowing initiative "Working together" first launched in 2018, will be re-launched in 2020.

Well-being

The DG continued supporting "fit@work" activities, maintaining pilates classes, massage sessions and mindfulness meditation throughout 2019, in addition to which BUDG colleagues were actively encouraged to participate in the 2019 "Velomai" cycling initiative and also the 20 km of Brussels running event.

Year 2019 was also marked by intensive discussions with all BUDG staff on a project to re-group all BUDG colleagues in one building, providing a modern and high quality work environment, adapted and adaptable to the fast-evolving and increasing complex and inter-linked world of work, when it comes to digital/technological developments and information and knowledge flows. Should this project go ahead, in addition to providing colleagues with a modern physical environment, it would provide – inter alia – an increase in meeting room/project zone spaces and modern equipped kitchens/social corners as well as a well-being room for the organisation of the pilates/other classes.

Harmonization and streamlining of HR processes

The pilot phase of the Commission's HR Modernisation project came to an end mid-2019. Since then, there have been a number of adjustments made to the roles and responsibilities of the various actors (HR corporate, Account Management Centres and HR Business Correspondents) in order to further improving workflows and services.

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**. **95.96 % of BUDG files are readable by all units;** the other 4.04 % have a more restrictive nature (human resources, bank-related information) and are only accessible by the stakeholders concerned. Based on a screening of the existing files by the responsible units, BUDG has decided to open the **visibility at Commission level of 38 % of files in 2019** (higher percentage than in 2018 - 36 %).

In 2019, the **filing plan of the DG was 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 (more multi annual files for example) which will facilitate the easy access, searching and storing of all the information available in the DG.

Knowledge, information and data management

BUDG Action Plan identified knowledge sharing, efficient data management, dissemination and exchange of information as one of the five pillars aiming at offering a supportive, encouraging and challenging working environment at BUDG. The Knowledge Management Project Team performed a **mapping of existing procedures, existing knowledge/information management processes** and of the supporting IT tools and applications in use in BUDG at all levels.

Following that, the focus was set on the **design of a new BUDG Knowledge Management System** supporting BUDG´s role as Domain Leader for the core functions of financial management and the internal control framework.

A horizontal Working Group composed of colleagues from all BUDG Directorates presented a plan for the creation of **BUDGpedia**: an integrated portal solution based on a commonly defined structure reflecting all BUDG processes, to be created on a platform supporting sharing knowledge, information and data. It will cover an optimisation of BUDG document management system as well. In December 2019, preparatory discussions started with the aim to ensure the widest possible participation BUDG staff in shaping and implementing the system.

Strategic coordination

Bringing together strategic coordination and communication functions in one Unit in early 2019 consolidated key business activities and information actions, resulting in higher internal coherence and increased efficiency.

Internal communication

Internal communication concentrated on providing timely and comprehensive information on BUDG and Commission priorities and activities. In the context of introducing major changes in working methods and work environment, BUDG devoted additional resources and efforts to change management. Communicating efficiently was among the key elements of this process and contributed to closely involve staff and build sense of ownership.

Based on the Focus Group report the senior management developed a detailed an Action Plan for the modernisation of the DG on five areas. Particular importance was placed on informing and closely involving staff in the transformation process. A dedicated Intranet page "BUDG Journey of change" was created to offer up-to-date information on the progress of the different project teams.

Introduction of an internal weekly newsletter as additional communication channel helped improving knowledge sharing and fostering interactive communication between staff and management increasing transparency, sharing relevant information and promoting cooperation and good practices.

BUDGnet facilitated engaging staff with priority initiatives and actions such as conferences and round tables on policy priorities, as well as key corporate events (Volunteering Week, Knowledge Week, Research and Innovation Days, VeloMai, Ekiden, Shuman Trophy, Zero waste).

These channels combined with regular meetings at Directorate, extended management or unit level kept staff informed of the state of affairs and the upcoming challenges as well as of the key achievements of BUDG and the Commission. Continued cooperation with Commission en Direct offered opportunities to find synergies, contribute to informing about common topics and give Commission-wide visibility to BUDG people and priority tasks.

A daily review of the media (major EU headlines and budget related news) was another source of information. Two additional, specialised monthly reviews on Commission priorities, the Green Deal and the Digital Transformation were introduced to keep the management informed on ongoing developments and forthcoming events.

Moreover, lunchtime conferences were organised on specific subjects (e.g. annual budgetary negotiations, discharge process, new own resources…), allowing for a timely and interactive updates on on-going priority files to BUDG staff. With the MFF negotiations entering a crucial stage, BUDG's Director-General presented the latest developments and the way forward to all staff in November 2019, providing guidance, figures and arguments to support the Commission proposal and to explain and defend it towards external stakeholders.

Finally, as Domain Leader for Financial Management, BUDG participated in the brainstorming sessions and contributed to shaping the Internal Communication Campaign on Modernisation, for which we will contribute by creating and disseminating various communication products.

Data protection

The new regulation on data protection 2018/1725 entered into force on 11 December 2018. During 2019, BUDG invested big efforts, together with other Commission services, to adapt relevant processes to ensure compliance with the new regulation as well as to demonstrate compliance to the data subjects who want to exercise their rights.

The most relevant processing operations involving personal data are documented in the corresponding records and are compliant with the new data protection rules, except for some processes which need to be refined and some privacy statements. There is also room for simplification of the current documentation of the processing operations by merging some documents and by using a clearer language.

Also new clauses have been introduced in the Framework contract templates managed by BUDG, agreed with the European Data Protection Supervisor. Subsequently model contracts at corporate level have been timely adapted.

DG BUDG has not needed so far to establish internal rules governing the restrictions of data subject's rights to any of its personal data processing.

Several actions of raising awareness are envisaged for 2020.

2.2.3 External communication activities

In 2019, BUDG focussed efforts on coordinated external communication that focused on three main themes: the Multiannual Financial Framework (MFF) negotiations, the benefits of the EU budget, and the protection of the EU budget.

Throughout 2019, BUDG worked closely with the Spoke's Person's Service to align all communication activities on the MFF in order to maintain unity of messages and derive synergies. BUDG produced MFF visuals, Lines to take and a number of presentations and country-specific info sheets about all Member States, which serve as communication material for by senior management in negotiations and missions to Member States.

BUDG accompanied the MFF negotiations from a communication point of view. The Director-General offered technical briefings for journalists to clarify complex concepts of the EU budget and participated in missions to several EU capitals to deliver country-specific political messages.

Continued cooperation with the EU Representations offered opportunities to build common messages in order to influence national debates about the MFF and the EU budget. This cooperation included regular provision of information on the state of play of the MFF negotiations and Commission priorities (e.g. technical briefings with BUDG Director-general for EU Representations, updates on LTTs) as well as joint preparation of country-specific communication material.

In parallel to the communication on the MFF proposal, BUDG cooperated with COMM on the corporate external and internal communication campaigns by providing input, participating in the project teams and disseminating the communication products. For example, BUDG has worked with the InvestEU team over 2019 to find synergies in communicating on the MFF as well as with the EP to coordinate on planned activities for the EU in my region website.

BUDG actively engaged in explaining the benefits of the EU budget to citizens and other stakeholders. The new brochure "EU budget at a glance" explains what the EU budget is and how it works and highlights its concrete impact on Europeans´ lives. This publication was widely appreciated by readers and stakeholders as an easy to read basic overview useful for anybody interested in the EU budget. The brochure was particularly popular with the Representations in the Member State.

BUDG devised and implemented a new social media strategy, in line with the corporate strategy, to promote messages in support of the political priorities in relation to the EU Budget, with focus on MFF negotiations. This new strategy increased the number of followers of BUDG´s Twitter account and their interaction with BUDG content.

Another communication focus was the protection of the EU budget, in particular, in April 2019, BUDG organised a conference on the Conflict of Interest and on the 2018 Financial Regulation.

As another way to bring the EU budget closer to citizens and other stakeholders, BUDG management participated in various public conferences and events. Finally, in autumn 2019, BUDG organised a seminar on Public Internal control with the participation of stakeholders from the EU Member States' administration.

With the Integrated Financial and Accountability Reporting 2018, BUDG reported on the implementation, performance, results, financial management and protection of the EU budget in 2018. Additionally, a dedicated brochure summarised and visualised the key messages of all reports. The approach to summarize information in an integrated brochure required working across DGs to put very technical content into a visually appealing format. The brochure received positive feedback from several stakeholders.

Additionally, BUDG published two factsheets on the technical topics of the discharge and the "RAL" ("Reste à liquider") with the aim to explain these concepts to the relevant stakeholders and deliver its political messages.

Finally, as domain leader for financial management, BUDG cooperated closely with its counterparts in the Commission and disseminated relevant communication material via BUDGWEB and the RUF ("Réseau des unites financières") network. It also regularly supported Visitor Centre of the Commission by providing speakers and organising conferences for the external visitors.

The concerted efforts of BUDG in communication domain helped increase the understanding of how the EU budget works and what its value added for European citizens is.