



European  
Commission

# Annual Activity Report 2022

DG BUDGET

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## Foreword



Dear reader,

There has never been a more interesting time to work on the EU budget, I am constantly hearing from different sides time and again. Looking at the achievements of the EU budget over the past years, this sounds like a fair assessment.

Since 2020, DG BUDG has been at the heart of the EU reaction to crises. In 2020, it played a key role in supporting EU countries' immediate response to the coronavirus pandemic and in addressing the EU's long-term recovery and resilience needs. In 2021, DG BUDG started borrowing to finance the recovery under NextGenerationEU, thus taking the steps to turn the EU into one of the largest issuers in euro.

In 2022, following Russia's war of aggression against Ukraine, the EU budget was mobilised for emergency and budgetary assistance and humanitarian aid to Ukraine. EU funds also served to help EU Member States face the unprecedented inflow of refugees to Europe, and to finance the investments in Europe's strategic autonomy. Through the REPowerEU instrument, it has played a key role in reducing Member States' dependence on Russian fossil fuels and fast forwarding the green transition. In parallel, the EU budget has continued to finance existing priorities – research and innovation, investments in climate change and digital transition, support to farmers, students and entrepreneurs. It also remained committed in ensuring every euro from the budget is well spent and protected against fraud and irregularities. The list of achievements is long.

All of these efforts have put the EU budget under strain and raised fundamental questions about its capacity to face crises and challenges from now to the end of this long-term EU budget in 2027. In 2023, the European Commission – and the Directorate-General for Budget – will seek to address some of these questions, through the review of the 2021-2027 long-term EU budget, and the proposal for new own resources.

2023 will surely be another exciting year for EU finances. For now, I invite you to learn about the EU budget's achievements in 2022 and assess its contribution to EU policymaking, crisis response, and resilience.

Stéphanie Riso,  
Director-General for the Budget

## THE DG IN BRIEF

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

Although DG BUDG oversees the EU's entire budget, its own spending is limited. Its expenditure is mostly used to maintain and improve the Commission's corporate financial and accounting system. The DG is also in charge of the management of the borrowing and lending operations funded from the capital markets. In addition, DG BUDG is the domain leader for financial management and is in charge of developing the SUMMA system that is gradually replacing the ABAC<sup>1</sup> system.

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

The Chief Risk Officer (CRO) and Compliance Officer for NGEU debt management is responsible for ensuring the sound governance and effective risk management of the borrowing and lending activities in BUDG. This overview is guided by the High-Level Risk and Compliance Policy (HLRCP), the established risk framework, and by monitoring the implementation of the HLRCP in a comprehensive and consistent manner.

DG BUDG has 536 staff members assigned across six Directorates and three horizontal Units both in Brussels and Luxembourg. All things considered, and from an operational perspective, DG BUDG's activities are organised around three general objectives of the von der Leyen Commission: (i) an economy that works for people; (ii) promoting our European way of life; and (iii) a modern, high performing, sustainable Commission. Director- General Gert Jan Koopman left on 16 January 2023. The new Director-General, Stéphanie Riso, arrived on 1 March 2023. The interim period was ensured by Deputy Director-General, Rosa Maria Aldea Busquets.

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

## EXECUTIVE SUMMARY

This annual activity report is a management report of the Director-General of DG Budget to the College of Commissioners. Annual activity reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the treaties<sup>2</sup>.

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

The EU budget has always been the key instrument in supporting the European Union in delivering on its policy agenda and investing in projects that no Member State can implement as efficiently and effectively on its own.

Despite its relatively small size, DG BUDG has an ever-growing role in EU policy making over the past few years. Since 2020, DG BUDG has been at the heart of the EU reaction to crises. In 2020, it played a key role in supporting EU countries' immediate response to the coronavirus pandemic and in addressing the



EU's long-term recovery and resilience needs. In 2021, DG BUDG started borrowing to finance the recovery under NextGenerationEU, thus taking the steps to turn the EU into one of the largest issuers in euro. In 2022, this trend continued, with DG BUDG helping to secure the support to Ukraine following Russia's war of aggression. At the same time, DG BUDG continued to work on existing EU budget priorities.

Some of the highlights include:

- ✓ Supporting **Europe's green and digital recovery** through the implementation of the largest long-term EU budget in history combined with the NextGenerationEU recovery instrument.
- ✓ Steering investments towards **Europe's strategic autonomy**, through support to sectors like energy and defence. More concretely, DG BUDG contributed to the agreement of the **REPowerEU** plan, which will enable EU countries to use the available RRF loans for energy projects. In addition, DG BUDG helped secure EUR 500 million to reinforce the European defence industry through common procurements.
- ✓ Borrowing on capital markets to secure a stable flow of funding to the relevant programmes based on the regular disbursement needs' assessment and in execution of the funding strategy. In 2022, DG BUDG continued to attract the strong investor interest towards its issuances even in challenging market conditions. **To ensure EU-Bonds will secure the most advantageous terms possible for the beneficiaries of EU funding also in the future**, DG BUDG presented, at the end of 2022, its unified funding approach – which is underpinning its borrowing operations since January 2023 and will continue in the future.
- ✓ Full mobilisation of all resources and flexibilities of the EU budget to secure **funds for Ukraine and help the neighbouring EU countries** face the unprecedented inflow of refugees.
- ✓ In this context, DG BUDG – on behalf of the EU – raised EUR 7.2 billion in loans in 2022 under its **Macro-Financial Assistance programme for Ukraine** and played a key role in putting together

<sup>2</sup> Article 17(1) of the Treaty on European Union.

and negotiating the proposal for an unprecedented support package for Ukraine of **up to EUR 18 billion for 2023**, in the form of a joint borrowing guaranteed by the EU budget headroom.

- ✓ Facilitating the timely adoption and implementation of the annual budget.
- ✓ Protection of the [EU budget](#), including through the **rule of law conditionality regulation**, of which DG BUDG made use for **the first time in 2022**.
- ✓ **Continuous outreach and communication with EU budget stakeholders**, and opinion and decision makers, on the EU budget contribution to the EU's political priorities and its role in enabling the EU to act decisively. This culminated in the number of events such as the 2022 Annual [EU Budget](#) Conference, regular investor outreach events in and outside Europe and the publication of three EU budget policy briefs on (i) the EU's strategic autonomy; (ii) the EU as a borrower; and (iii) the EU budget for a geopolitical Europe.
- ✓ In this context, the excellent work of DG BUDG on capital markets was positively recognised by capital market participants. In 2022, the EU as an issuer was granted several awards, including SSAR Issuer of the Year 2020 and 2021, euro bond of the year 2021 for NGEU's 1st bond and sustainable bond of the year 2021 for NGEU's 1st green bond by International Financing Review; and largest green supranational bond in 2021 and supranational green market pioneer by the Climate Bonds Initiative.
- ✓ Legislative work, including:
  - Facilitating the negotiations on the **next generation of own resources for the EU budget** which was proposed in December 2021.
  - Once adopted, these new sources of revenue will help repay the funds raised by the EU to finance the grant component of NextGenerationEU and should also finance the Social Climate Fund.
  - Co-leading the negotiations on the budgetary aspects of the **Social Climate Fund**, which culminated in a political agreement in December 2022.
  - Work on the **Revised Making Available Regulation** (MAR 1) which enhances the predictability and clarifies the procedures for Member States when making own resources available and ensured its adoption following intense negotiations.
- ✓ Enhanced internal procedures and reporting through:
  - The **rollout of SUMMA** to Clean Aviation Joint Undertaking (CAJU) including integration of SUMMA to eGrants. This is a key milestone towards the rollout of SUMMA across the Commission planned for beginning 2024.
  - Use of the International Public Sector Accounting Standard (IPSAS) 41 covering financial instruments for the **preparation of the 2021 EU annual accounts**. In addition to ensuring better reporting to stakeholders, this move made the Commission one of the first public entities in the world to apply this standard.
  - Development of a performance culture throughout the Commission.
  - Publication of relevant information and data on the **DG BUDG pages on the Europa website** (e.g. FTS, EU budget interactive charts, EU programmes' performance, EU as a borrower).



The consequences of the war in Ukraine resulted in major challenges for DG BUDG in 2022. In addition to the mobilisation of resources for Ukraine and neighbouring EU member states described above, the surge of energy prices and the general increase of inflation rates put significant pressure on the EU budget. The management of heading 7, the EC's administrative budget, has become a matter of concern, which was reflected in the results of the corporate management risk assessment at the end of 2022. Both at corporate and at DG-level initiatives were taken to make savings in heading 7, including conservative management of posts and energy savings in buildings.



In 2023, DG BUDG will build on 2022's work, securing revenue through borrowing on the capital markets and executing payments under the EU budget. It will also complete the annual budgetary and discharge cycles and conduct a mid-term review of the 2021-2027 EU budget. Additionally, the DG will propose a second set of new own resources while continuing negotiations on the first set presented in December 2021.

At the same time, DG BUDG will work closely with the relevant Commission services, with the other EU institutions, with Member States and with a wide range of external stakeholders towards the timely commitment of the funds under the 2021-2027 MFF and NextGenerationEU. Spending in line with the rules and protection against any misuse will remain a priority. In 2023, DG BUDG will also continue implementing the conditionality regulation which offers an extra layer of EU budget protection in cases where rule of law deficiencies or risks threaten the financial interests of the Union. Finally, DG BUDG will take forward the SUMMA project – the new corporate platform for the management of budgetary implementation, accounting, and treasury - which will make financial management for the entire Commission, agencies and other EU Institutions easier and more efficient.

The current annual activity report provides a comprehensive overview of the work done in 2022 and outlines the challenges ahead, which are clearly identified in the Management Plan for 2023.



## B. Key performance indicators

Indicator	Baseline	Target 2024	Milestones achieved in 2022																												
<p><b>New Own Resources</b> developed</p> <p>Revision of Making Available Regulation (MAR 1)</p> <p><b>MFF 2021-2027</b> implementation, revisions and mid-term review</p>	<p>Amended Own Resources Decision proposed in 2021</p> <p>Conclusion of negotiations in the working party of Own Resources, 1st quarter of 2022;</p> <p>MFF 2021-2027 adopted in 2020</p>	<p>New own resources have entered into force</p> <p>Revised MAR 1 fully implemented</p> <p>Targeted amendments to the MFF to allow repayment of NGEU based on new own resources and support to Ukraine</p>	<p>The Commission facilitated discussions related to the amendment of the <b>Own Resources Decision</b> to establish three new sources of revenue based on CBAM, ETS and OECD/G20 Pillar One and proposed the related Making Available Regulation and implementing measures Regulation.</p> <p>Adopted on 5 April, entered into force on 3 May 2022.</p> <p>The interinstitutional deliberations on the Commission proposal of December 2021 for an amendment of the 2021-2027 MFF (new own resources, Social Climate Fund) did not take place in 2022, as they were dependent on progress of the related legislative initiatives in the Council and the European Parliament.</p> <p>The Commission proposal of 9 November 2022 to amend the MFF Regulation to enable the financing of exceptional aid to Ukraine (MFA+) was adopted and came into force in December 2022.</p>																												
<p>Facilitate <b>adoption and implementation of annual budget</b> within deadlines set in the Treaty.</p>	<p>Budget 2020 adopted on 27 November 2019</p>	<p>Adoption of annual Budget in December at the latest</p> <p>100% implementation</p>	<div style="text-align: center;">     </div> <p><b>Budget 2023 adopted on time</b> (23/11/2022)</p> <p>Almost full implementation (99,3% for commitment and 99,9% for payment appropriations, taking into account carry-overs) of the voted budget, including all transfers and 5 amending budgets.</p>																												
<p>Develop a <b>performance culture in the Commission</b>.</p>	<p>Performance information presented in the Annual Management and Performance Report (AMPR) 2020, in the programme statements and Programmes' Performance Overview accompanying the draft budget 2020.</p>	<p>Integrated presentation of performance information embedded in the annual draft budget and performance reporting cycle. Implementation of residual error methodology.</p> <p>Reinforcing performance framework for evaluation, reporting, budgeting and programming.</p>	<p><b>Integrated Financial and Accountability Report:</b> published, including a short and political AMPR with a new structure of annexes.</p> <p><b>Programmes' Performance Overview</b> published in form of a <b>website only</b> as annex IV to the AMPR. <b>Training</b> provided to DGs to ensure proper focus on performance.</p> <p><b>2021 Delegation package for Executive Agencies</b>, merging six separate acts into a single act and containing an innovative provision on synergies to combine funding from different sources.</p>																												
<p>Confirmation by ECA of the <b>reliability of the annual accounts and discharge resolution</b> by EP with no postponement or reservations</p> <p>Confirmation by ECA of the <b>effectiveness of the Commission's Own Resources control systems</b>.</p>		<table border="1"> <thead> <tr> <th>Indicator and its result per discharge year</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> <th>2021 (last known result)</th> </tr> </thead> <tbody> <tr> <td>ECA's clean opinion on the accounts</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> </tr> <tr> <td>ECA's clean opinion on own resources</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> </tr> <tr> <td>Discharge granted</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> </tr> </tbody> </table>	Indicator and its result per discharge year	2016	2017	2018	2019	2020	2021 (last known result)	ECA's clean opinion on the accounts	✓	✓	✓	✓	✓	✓	ECA's clean opinion on own resources	✓	✓	✓	✓	✓	✓	Discharge granted	✓	✓	✓	✓	✓	✓	
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<p>Degree of implementation of the new corporate financial platform (<b>SUMMA</b>)</p>	<p>Phase I and II successfully finished. GAPS and specific needs being identified.</p> <p>2022: Pilot agencies rollout 2024: Commission rollout</p>	<p>Successful implementation of SUMMA for all the Commission services.</p>	<p>SUMMA is used by 3 Pilot Agencies as their financial system since January 2022, in line with the SUMMA programme timeline.</p> <p>SUMMA was rolled out to an additional pilot entity (Clean Aviation JU) at the end of 2022, incorporating also the integration of SUMMA with eGrants and the functionalities needed for the management of grants. The development of the SUMMA system for the Commission has progressed in line with the objective of going live at beginning of 2024.</p>																												
<p>BUDG Anti-fraud Strategy</p>		<p>All actions planned for 2021-2024 implemented</p>	<p>2/3 of actions planned for 2021-2024 implemented</p>																												

## **C. Key conclusions on financial management and internal control**

In accordance with the governance arrangements of the European Commission, DG Budget 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 system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, except for principle 10: control activities, where there is a major deficiency in design controls in the audited areas, due to the very important audit recommendations, covering a non-material part of the DG's activities.

During 2022 several very important recommendations from previous audits have been successfully implemented, but at the end of 2022 two new IAS audit reports were issued, including three new very important recommendations, which will be addressed in 2023. Please refer to annual activity report 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. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated, and necessary improvements and reinforcements are being implemented. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

## **D. Provision of information to the Commissioner**

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

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

This section provides information on the key results and progress towards the achievement of the general and specific objectives set in the 2020-2024 strategic plan and towards the achievements of the outputs set in the 2022 management plan. It tells the performance story of the DG as regards the policy dimension (What have we delivered?). Through its many roles and activities, DG BUDG contributed directly or indirectly to all Commission priorities. The direct contribution is concentrated on three **general objectives** (numbered 3, 5 and 7) of the von der Leyen Commission, broken down to specific objectives, as outlined below.

## General Objective 3: AN ECONOMY THAT WORKS FOR PEOPLE

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

### *3.1.1. Effectively execute the long-term EU budget and NextGenerationEU*

In 2022 DG BUDG pursued a timely adjustment of the **Multiannual Financial Framework** (MFF) to accommodate the late adoption of programmes in shared management and focused the analysis of its long-term expenditure forecast in June 2022 on the effects of the delayed implementation for the future years.

In addition DG BUDG continued to support SG RECOVER and DG ECFIN in the implementation of the **Recovery and Resilience Facility** (RRF). For **NextGenerationEU** (NGEU), DG BUDG disbursed in 2022 around EUR 47.1 bn to 12 Member States in the form of grants under the RRF. These payments were processed, in collaboration with DG ECFIN, in a very efficient manner with funds reaching Member States on average within 6 business days from the relevant Commission Decision, well below the 30 days limit set in the RRF Regulation.

Both the collection of funds from the borrowing activities, and the disbursements to beneficiaries (mostly Member States) were conducted in a streamlined manner, taking into consideration the payment forecasts established by the Authorising Services. The efficiency of the process significantly contributed to the objective of ensuring funds for the EU recovery from the pandemic reached their destination in a timely manner.

### *3.1.2. Enhance the transformative role of the EU budget*

The EU climate law states that the EU should become climate neutral by 2050 and the EU budget makes a **crucial contribution to the achievement of the EU climate goals enshrined in the Green Deal communication**. Based on the new climate tracking methodology, the Commission monitors the financial contribution to the fight against climate change. Using this methodology, the Commission publishes annual figures for the past and estimates for future contributions in its annual report. In particular, the EU budget including NextGenerationEU is on track to ensure that **30% of the entire EU budget, including NGEU,**

**contributes positively to the fight against climate change.** Estimates included with the Draft Budget 2023 correspond to EUR 557 billion dedicated to climate initiatives over the full MFF period.

In 2021, the Commission published a **state-of-the-art Green Bond framework** under which the first green bond was issued. In 2022, DG BUDG finalised a thorough due diligence exercise to identify the precise pool of measures eligible for financing from green bonds. That pool, to which issuance proceeds are allocated, is accessible through a 'best-in-class' green bond dashboard, displaying the amount of overall eligible measures as well as the actual allocation up until now. The Commission published a snapshot of that information in an externally audited first allocation report in December 2022.

DG BUDG also contributed to the negotiations to establish the **Social Climate Fund** by co-leading the discussion on the budgetary aspects. The aim of the Social Climate Fund is to contribute to a socially fair transition towards climate neutrality by addressing the social impact on the most vulnerable groups arising from emissions trading for the two *new sectors* of "buildings" and "road transport". The agreement of co-legislators foresees that the Fund will be established as of 2026 (until 2032) for a total of EUR 65 billion, of which EUR 14.9 billion for the period 2026-2027 to be financed temporarily and exceptionally through external assigned revenues. The legal text of the agreement is being fine-tuned at technical level to be finalised for adoption early in early 2023.

Furthermore, DG BUDG analysed the economic impact, added value and optimal policy mix associated with the long-term EU budget with a view to contribute to the debate on the complementarities between Member States' and EU level policies and initiatives. More broadly, **enhanced modelling capabilities** provided quantified assessment of the socio-economic impact of EU funds. Such analysis addresses long-term budget impacts both on the expenditure (e.g. in terms of investments mobilised) and revenue sides (implications for national budgets), and the overall relation with economic indicators.

To enhance its modelling capabilities, in 2022, DG BUDG continued technical migration to a new business intelligence tool for handling and analysing long-term budgetary and economic data.

The proposal for the amendment of the Own Resources Decision 2020/2053 adopted on 22 December 2021 adds **three new own resources to the EU budget**. These proposed new own resources will be based on (i) the EU Emissions Trading Scheme for greenhouse gas emission allowances, (ii) the Carbon Border Adjustment Mechanism and include a (iii) national contribution to the EU budget based on a share of the residual profits of in-scope companies that are reallocated to EU Member States under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting agreement. The new own resources proposed will help to repay funds raised by the EU to finance the non-repayable expenditures of NextGenerationEU.

The Commission adopted in March 2022 a Council Regulation on the methods and procedure for making available these own resources and on 30 April 2021 a Council Regulation amending Regulation (EU, Euratom) No 2021/768 as regards implementing measures for **new own resources of the European Union**.

For all these proposals, the Commission facilitated the negotiations to reach an agreement. In particular, DG BUDG contributed to in-depth analysis, providing technical fiches to the Council and the European Parliament, and bilateral exchanges with Member States in view of reaching a rapid agreement.

### **3.1.3. Translate the long-term budget into annual budgets**

The current **multiannual financial framework** (MFF) was adjusted twice in 2022. In January 2022, the Commission adopted the technical adjustment of the MFF based on the Article 7 of the MFF regulation which provides for a specific adjustment of the MFF ceilings allowing the ‘re-programming’ of unused 2021 tranches of commitment appropriations for the 9 funds under shared management in the case of late adoption of programmes. In total, EUR 49 billion of the 2021 allocations for shared management programmes that could not be committed in the course of 2021 were reprogrammed in equal proportions to each of the years 2022 to 2025 and the MFF ceilings adjusted accordingly.

In June 2022, the Commission communicated on the **results of the annual technical adjustment** of the 2021-2027 MFF, which included the mechanism to top-up priority programmes on the basis of the revenue from competition fines to the EU from the preceding year and for the first time the calculation of the Single Margin Instrument set out of the MFF regulation.

At the end of June 2022, DG BUDG issued **the updated annual report on the long-term forecast of revenues and expenditure of the EU budget** in line with the requirements of Article 247 of the Financial Regulation. The report encompassed the inflows and outflows in relation to NextGenerationEU. The analysis followed the long-term trends in the spending patterns of the EU policies and the evolution of outstanding obligations as well as key drivers. The report assessed and demonstrated the compatibility of the expected EU payment needs with the available ceilings of the financial framework, evaluating the risk of shortfalls and, if relevant, suggesting mitigating measures.

Thanks to the careful monitoring and budget adjustments (through transfers, amending budgets and carry-overs), the 2022 budget was nearly fully executed. Moreover, **the 2022 budget provided significant support to the needs stemming from the Russian invasion to Ukraine**: from direct support and loans to Ukraine and Moldova, to support to Member States help them to deal with the people fleeing the war or humanitarian aid to help with the food crisis.

The 2023 budget was presented and adopted in line with the deadlines. The 2023 budget continues to finance the Commission priorities of green and digital transition, including emphasis on energy efficiency, as well as the new priorities linked to the supply chain issues, space security and increased humanitarian aid to Ukraine and the world.

### **3.1.4. Manage the budgetary and legal aspects of the new relations with the UK and in the association of other third countries to Union programmes**

#### *Manage the budgetary and legal aspects of the new relations with the UK*

During the past year, DG BUDG has largely coordinated the Commission position and has represented the Union in full agreement with the EU Member States in a formal consultation procedure requested by the UK under the terms of the Trade and Cooperation Agreement. To this end DG BUDG has organised and led a meeting of the **Specialised Committee on Participation in Union Programmes** (SCPUP) in September 2022.

Moreover, DG BUDG has extensively contributed to the **implementation of the UK Withdrawal Agreement**. The Commission issued two invoices (in April and September) to the UK for the 2022 UK contribution to the EU budget. All the UK payments (monthly contributions in January-December) were received on time.

The Commission has furthermore ensured that the new generation of **Programme Association Agreements** under the 2021-2027 MFF is aligned in terms of conditions and financial modalities to ensure equal treatment of third countries. DG BUDG led the application of corporate templates, guidance, and methodologies for the calculation of third country contributions during the preparation phase and during the negotiations with the third countries.

The contribution of other third countries including the EFTA proportionality factor were also computed and collected in 2022.

### *Association of third countries to Union programmes and EU restrictive measures to Russia*

What is more, in the past year DG BUDG has developed, together with the Secretariat-General and the Legal Service, a common set of templates for international agreements with third countries for participation in Union programmes, including a common methodology for third country financial contributions. The agreements now contain common building blocks for **sound financial management and the protection of the financial interest of the Union**. During 2022, DG BUDG ensured that all new Programme Association Agreements under the 2021-2027 MFF complied with this new common approach. DG BUDG provided extensive support to negotiations of international agreements for association of third countries to Union programmes, with approximately 20 association agreements signed in 2022.

In particular, DG BUDG supported measures to facilitate the **participation of Ukraine in Union programmes**. In response to the Russian aggression, DG BUDG prepared an amendment of the Council decision on sanctions against Russia and supported services in the implementation of EU restrictive measures blocking Russia and Russian public-controlled entities from EU funding.

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

### *3.2.1. Lead the way in financial management, internal control and knowledge management*

As domain leader for financial management, in 2022 DG BUDG continued to contribute to growing a **culture of knowledge-sharing on financial and budgetary matters**, communicating effectively and sharing guidance and finance related knowledge through the corporate knowledge management platform for budget and finance, **BUDGpedia**, as well as via the RUF network ("Réseau des unités financières"). The Helpdesk of the Central Financial Service in BUDG continued to reply to specific questions on complex or specific financial and budgetary matters. DG BUDG continued to organise **corporate training courses and workshops**, in line with its new blended learning strategy, combining classroom and online training with new e-learning modules (e.g. on grants and procurement).

Regarding **eProcurement**, DG BUDG continued to be closely involved in the ongoing developments for building a corporate eProcurement solution which will be integrated with SUMMA. The corporate solution will be gradually improved in the future but in 2022 the works were focused on preparing a minimum viable product for eProcurement, with very mature modules for the pre-award phase and more advanced but still ongoing development of the modules serving the post-award phase.

In addition, DG BUDG with the collaboration of DIGIT, has developed the **Pillar Assessment Automated Workflow** ('PAAW') with the aim of automating the pillar assessment process of entities working under

indirect management with the Commission. The new corporate IT tool was launched in December 2022 in the form of an online repository of up-to date information on pillar assessed entities.

### **3.2.2. Measure the performance of the EU budget and improve its impact**

The Commission has published the **Climate mainstreaming architecture in the 2021-2027 multiannual financial framework** in June 2022. The publication takes the form of a staff working document, which presents the Commission's methodology to maximise the impacts of the EU budget towards achieving the objectives of the European Green Deal. This methodology builds on the lessons learned from the 2014-2020 period, and notably provides an integrated and consistent approach to track climate-related expenditures. One of the key improvements is the introduction of tracking based on the expected effects of the activities financed, rather than the intention behind their financing, as well as an explanation on how the do-no-harm principle is operationalised in each of the EU budget programmes.

The **37% climate target** that should be applied in the Recovery and Resilience Facility (RRF), the main programme financed by NextGenerationEU, has led to the identification by the Member States of key reforms and investments for the achievement of the Green Deal objectives to be financed by the RRF. The implementation of these measures is being closely followed-up by the Commission.

In line with commitments made under the interinstitutional agreement accompanying the MFF, the Commission has also worked on tracking methodologies for **biodiversity and gender equality**.

In relation to tracking expenditures of the EU budget contributing to biodiversity mainstreaming, the Commission has published the methodology developed by an external expert in May 2022. The methodology builds on current practices of the "EU coefficients" and is still to be complemented for the Common Agriculture Policy.

The **Commission's gender equality methodology** was implemented in a pilot for the first time under Draft Budget 2023 across all programmes in June 2022. It has been the result of a collaborative effort of all Commission services. A core element of the methodology is that it is applied seamlessly and consistently across all EU spending programmes, whilst at the same time taking into account the specificities of the respective programme.

In 2022 as in previous years, DG BUDG published programme specific information in the context of the draft budget and the **Annual management and performance report** (AMPR) in two documents. In addition, performance information has been published for the second time on the Europa website with improved visualisation features, providing reader-friendly graphs for performance indicators and a streamlined presentation of the key aspects of each programme. DG BUDG is continuing in this direction for 2023 when performance information will only be published online and no longer in paper version.

In 2022, DG BUDG deepened its economic and budgetary analyses to uplift policy design and implementation. This work was structured around the themes: "EU value added" and "Economic impact of the EU budget and contribution to the policy mix". This work was underpinned by an integrated data model on economic and budgetary matters.

In complement, **DG BUDG enhanced its modelling capabilities** to provide a quantified assessment of the socio-economic impact of EU funds. Such analysis addresses long-term budget impacts both at the expenditure (e.g. in terms of investments mobilised) and revenue sides (implications for national budgets), and the overall relation with economic indicators. The analytical work focused specifically on the **digital**

**and green transition** embedded into the EU policy mix, including the **social aspects of climate change and green policies** on the European economies.

In September 2022 the DG published on the Europa website the **interactive data on EU budget** spending and revenues in 2021. This publication provides the data per Member State and third countries and for the first time includes the NextGenerationEU data.

**Specific Objective 3.3. Enhance agility of the budget by strategic planning and foresight, harmonized asset management as well as efficient use of financial instruments, budgetary guarantees and the budgetary headroom<sup>3</sup>.**

### ***3.3.1. Optimal use of resources within the available framework***

In order to reach its policy objectives, the EU budget has over the years made increasingly use of financial instruments and budgetary guarantees. Thanks to these tools, the EU budget is able to crowd in private money, thereby ensuring that end investments serving a **European policy interest** are a multiple of the initial contribution of the EU budget (i.e. the multiplier effect).

**Budgetary guarantees** given are only partially provisioned, and DG BUDG monitors closely whether the provisioning of budgetary guarantees remains adequate. The results of the monitoring process are presented in the Article 41(5) report – which is a Staff Working Document attached to the Draft Budget. Next to that, DG BUDG also continued to chair and fulfil the Secretary Tasks of the Steering Committee on Contingent Liabilities, where horizontal issues related to budgetary guarantees are discussed with DG ECFIN, DG NEAR and DG INTPA. This Steering Committee also played an important task in the design of **new financial support instruments for Ukraine** such as the MFA 2 instrument (where the Member States provide a 61 % counter guarantee to the EU budget on 6 billion EUR of MFA loans) and the MFA+ instrument (where the Commission will borrow 18 billion EUR for Ukraine under the coverage of the headroom).

In 2022 DG BUDG continued to ensure that the headroom is managed in a prudent manner so that the headroom is at all times sufficient to cover contingent liabilities. The results of these headroom calculations are summarised in the so-called Article 250 report where both the headroom is calculated under a base case scenario and where subsequently a number of stress scenarios are applied. DG BUDG ensured the **prudent management of the headroom** throughout 2022 so that at any point in time the headroom was sufficient to cover all contingent liabilities falling due in the same year with regards to the Own Resources Decision in force. DG BUDG also ensured close coordination of relations and interactions with credit rating agencies and provided analytical support to underpin the EU credit rating.

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

#### ***Borrowing and lending***

DG BUDG worked to develop a **state-of-the-art debt management capacity**. A **centralised borrowing** for up to around EUR 800 billion is being implemented mainly via issuance of bonds, to support spending programmes with a view to address the impact of the COVID-19 pandemic. With 30% of this

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<sup>3</sup> The difference between the Own Resources ceiling and the payment ceiling under the long-term budget plus the amount of other revenue (e.g. taxes on the salaries of EU staff and competition fines) is referred to as headroom.



amount due to be issued via NextGenerationEU green bonds, the Commission – on behalf of the EU – would be on track to become the world’s largest green bond issuer. In 2022, EU-Bonds continued to attract strong investor interest despite the more challenging market context.

The involved amounts were accounted for in line with International Public Sector Accounting Standards, presented to stakeholders and disclosed in the Union Annual Accounts.

Liquidity management enabled **smooth financial flows** between borrowing and the disbursement of loans and non-repayable support to the Member States. In addition, the Chief Risk Officer continued to provide independent oversight of all aspects of the NextGenerationEU funding programme, on the basis of the NextGenerationEU High Level Risk and Compliance Policy (HLRCP).

In the framework of the Recovery and Resilience Facility, DG BUDG continued the **smooth and timely disbursement of funds to Member States** to support the economic recovery. In the context of financial **support to Ukraine** timely disbursements were made under the MFA programme in 2022; in addition, payment flows were set up to allow for the disbursement of MFA+ financial support to Ukraine to start in 2023.

Work on the European Issuance Service (EIS) continued in 2022 with a view to implementing a reliable public-sector based post-trade infrastructure within the Eurosystem, with the support of the European Central Bank (ECB) as paying agent, and the National Bank of Belgium as Central Securities Depository for EU securities.

To ensure EU-Bonds continue to secure the most advantageous terms possible for the beneficiaries of EU funding, DG BUDG presented, at the end of 2022, its unified funding approach – which is underpinning its borrowing operations since January 2023 and will continue in the future. Under this approach, EU securities are being issued under a single branded EU-bonds label as of 2023 and in the future.

The EUR 100 bn of NGEU bonds issued in 2022 were issued into markets characterised by steeply rising interest rates for all issuers (the interest rates paid on NGEU bonds increased by over 2% over the course of the year). To counteract this and ensure that interest rates on EU bonds reflect the fundamental strength of the issuance programme, DG BUDG will be implementing a quoting reward framework and building a repo facility. *Management of budgetary guarantees*

The management of budgetary guarantees is supervised by the **Steering Committee for Contingent Liabilities** that meets on a regular basis and the senior management of all involved DGs is present.

The strong reporting framework on financial instruments and budgetary guarantees, ensured that all related reports listed in the Financial Regulation were issued in 2022. The work around the credit risk model used to generate the risk metrics for the budgetary guarantees is now close to final. Regarding InvestEU and NDICI, the agreements with the implementing partners were negotiated and signed during the year.

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

The CPF is the critical capital buffer for the system of EU budgetary guarantees. The CPF is aligned with CPF’s benchmark (i.e. indicative strategic asset allocation for long term investment guidance) and with CPF’s short-term Tactical Asset Allocation. In 2022, DG BUDG continued to improve the management of assets owned by the EU budget via a set of measures, including investment diversification opportunities in

some or all portfolios, and also a stronger emphasis on **Environmental, Social and Governance investments**, which were initiated in 2021.

These measures translated into the update of the CPF benchmark following the inclusion of equities into the asset allocation in 2022. In a context of historical and challenging market conditions characterised by increased market volatility, DG BUDG reached its investment objectives of the portfolios under management; their performance being in line with the evolution of the benchmarks.

The equity exposure will be built progressively via diversified instruments (Exchange Traded Funds) selected based on a methodology approved by DG BUDG.

## STRATEGIC COMMUNICATION

DG BUDG communication actions in 2022 are part of **BUDG's communication strategy**. This enabled communication support to all key initiatives of DG BUDG and greater outreach towards target audiences: citizens, specialised and general media, financial market participants, members of the EU primary dealer network and the other issuers, in order to promote and improve understanding of the EU budget.

**Press material** related to the EU budget was very well-received by the press and the relevant stakeholders. DG BUDG worked with DG COMM, DG NEAR and DG ECFIN to secure timely, accurate and comprehensive information on the European funds flowing to countries. This included information on the borrowing and disbursement operations under the different Macro-Financial Assistance programmes implemented in 2022, to a total value of EUR 7.2 billion, and the proposed EUR 18 billion Macro-Financial Assistance plus programme being implemented in 2023.

In 2022, DG BUDG continued to maintain a **solid web performance on the topic of the EU budget**. Some of the key web projects launched in 2022 included new pages on access to EU funding, new interactive charts on spending and revenue, while the compilation of myths and facts about the EU budget was updated and finalised.

In 2022, DG BUDG continued to maintain its two Twitter accounts and a LinkedIn cooperation project with DG COMM's social media team, by ensuring social media presence at the time of each borrowing transaction. The posts about borrowing and lending work were well-received by the target audience, generating a good level of traffic to our website. In addition, DG BUDG enhanced its presence on SMARP (corporate tool providing easy and ready-to-use Commission materials and messages for sharing), engaging staff to be active on social media. Our most successful posts across all platforms were those linked to EU support to Ukraine.

In terms of events, in October 2022 DG BUDG organised the conference "**Enhancing EU strategic autonomy: a budget for a geopolitical Europe**", under the leadership of Commissioner Johannes Hahn. The event brought together European and global policymakers, institutions and organisations as well as representatives of think tanks, civil society, businesses leaders and citizens in a



lively discussion on the challenges ahead of the EU, focusing on the role of the EU budget in supporting Europe's geopolitical role and building up its strategic autonomy, including in the defence and energy

sectors. Around 1000 participants registered for the event, of which 421 on-site and 592 online. Around 260 participants came in person and there were more than 3000 connections via web streaming. Throughout the year, DG BUDG organised several EU budget talks i.e. smaller scale virtual debates which sought to stimulate discussion around the EU budget.



In 2022, DG BUDG continued to engage actively with financial markets participants, and prepared and distributed different communication products aimed at these audiences. These included regular updates of the EU as a borrower website (including its revamp in December 2022, to reflect the new approach to markets), regular communication on each syndicated transaction and each EU-Bonds or EU-Bills auction, a quarterly newsletter, social media support, participation in events, and print material, where relevant. In March 2022, DG BUDG released the NextGenerationEU green bonds dashboard and in the summer of 2022, DG BUDG published a policy brief on the first year of NextGenerationEU, which was discussed with great success at an online event in October 2022. Efforts to promote the EU as a borrower and the unified funding approach to markets will continue throughout 2023.

## General Objective 5: PROMOTING OUR EUROPEAN WAY OF LIFE

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

In 2022 DG BUDG provided extensive **policy, legal and financial advice** in the establishment of new EU policy initiatives such as the Chips Act, the Secure Connectivity Act, the Short-term Defence instrument, RePowerEU, and the amendment of the Emissions Trading Directive. By doing so DG BUDG has ensured simple, efficient and result-oriented solutions thus incentivising cooperation in tackling common challenges at EU level.

DG BUDG has also continued to ensure a decisive steer in the **modernisation, standardisation and simplification of the Commission's budget implementation**. In that sense, DG BUDG played a lead role in ensuring the continued roll out of: (i) eGrants and (ii) of the corporate eProcurement/contract management solution covering the whole procurement end-to-end process. Once implemented, this solution will further reduce the risk of procedural errors, simplify and harmonise the business processes and optimise the use of the resources, making the overall process more efficient and user-friendly for everybody involved.

As regards indirect management, DG BUDG, continued to provide horizontal guidance and support to Commission services by issuing instruction notes on key aspects of the process (e.g. on supervisory measures), and the new dedicated corporate IT tool was released in the first phase in December 2022.

DG BUDG was in the **lead on negotiations of contractual clauses including on EU restrictive measures** and cost provisions included in Financial Framework Partnership Agreements (FFPA) signed with key partners (e.g. OECD). DG BUDG provided continuous support to policy DGs in negotiations of Financial Framework Partnership Agreements (e.g. EBRD) and ensured the daily implementation of the FFPA with

World Bank Group (WBG). Throughout 2022 DG BUDG advised DGs on the legal framework of contributing to global initiatives and provided extensive support in the negotiations with international partners.

Regarding procurement, DG BUDG updated the model procurement documents and provided guidance, in view of addressing the impact of increased inflation and the EU restrictive measures amongst other measures. In addition, it provided support to policy DGs on the implementation of complex procurement procedures (i.e. Monkeypox vaccines and EU FAB contracts). In 2022, DG BUDG continued to play a key role by strengthening its support to the Commission services, promoting adequate **oversight on the Commission's multiannual control systems** so that they ensure that EU funds are spent according to the rules, avoiding double funding and preventing errors and, in the case of errors, to detect and correct them, during the programme's lifecycle. In this respect, DG BUDG led the work on the **enforcement of the general regime of conditionality**, which protects the budget from breaches of the principles of the rule of law in Member States. In 2022, DG BUDG's work and the coordination of the many other services concerned led to the adoption of **the first Council Implementing Decision with protective measures for rule of law breaches in Hungary**.

In the context of the RRF, DG BUDG also contributed to the **assessment of the national recovery plans** and to the fulfilment of the milestones related to control and audit, as well as to rule of law issues. DG BUDG ensured transparency and accountability in relation to EU funds in its comprehensive, but clear, reporting.

In the context of the protection of the EU budget, **the Accounting Officer's** services in DG Budget also ensured the management of the Commission's accounts. At corporate level, DG Budget coordinated the Commission departments' recoveries of EU funds that were unduly spent (e.g. grants claims affected by ineligible costs, irregularities, etc) - including by offsetting, dunning and/or enforcement. In this regard, in the case of penalties imposed by the Court which are not paid by a Member State, the Accounting Officer has the obligation to offset them against payments due to the same Member State. This occurred with Poland, that was sanctioned in two Court cases and where all the penalties imposed were offset against payments due to Poland under several EU programmes (see also under Objective 7.1.4).

As regards **the discharge procedure**, the European Parliament, based on a recommendation from the Council, granted discharge to the Commission for the 2020 financial year. DG BUDG closely cooperated with the discharge authority, in particular key MEPs such as discharge rapporteurs and shadow rapporteurs to ensure a smooth discharge procedure. The DG coordinated the Commission's input to the discharge procedure and raised stakeholders' **awareness of the Integrated Financial and Accountability Reporting** package through regular presentations.

DG BUDG also ensured a **corporate steer of exchanges with the European Court of Auditors** (ECA) on its strategic goals, work programme and on operational issues related to streamlining procedures. In particular, DG BUDG continued to coordinate the Commission's input and reaction to the ECA emerging challenges, especially as regards the ECA various work streams on NGEU (in particular on the Recovery and Resilience Facility (RRF)) and the ECA's strategy on performance auditing. In this context, DG BUDG developed a new streamlined approach to respond to special reports from the European Court of Auditors.

**Specific Objective 5.2 Strengthen the protection of the EU budget from financial risks including through the Early Detection and Exclusion System (EDES) from breaches of the principles of the rule of law in the Member States by greater transparency, knowledge sharing and accountability achieved by regular dialogue between all concerned stakeholders.**

### **5.2.1. Financial risk management**

In 2022 financial risk management remained under close scrutiny in view of the challenges faced since 2020. Within this context, the risks related to the war in **Ukraine**, the increase in **energy prices and inflation** received close attention whereas the critical risks related to the COVID-19 pandemic were all lifted. The related risks are closely followed-up by the central services, DG BUDG and SG. Overall, DG BUDG continued to provide guidance to the Commission services for the set-up and implementation of **cost-effective audit and control strategies**, to maintain and/or increase their effectiveness, including the promotion of the use of automated IT tools.

The prevention of fraud will also continue to be reinforced through the Commission's Anti-fraud Strategy where DG BUDG works in close collaboration with OLAF, including with regard to the follow-up of OLAF's administrative and financial recommendations.

In 2022, the protection of the EU's financial interests in relation to fraud and organised crime was also ensured via the **Early Detection and Exclusion System (EDES)**. The system allows the early detection of fraudulent or unreliable economic operators, their possible blacklisting (exclusion) by banning them from obtaining EU funds and possibly imposing financial penalties. The exclusion decisions contained in the EDES database are also made available to all entities implementing the budget in all management modes.

The Commission put forward several actions in order to (i) promote the use of EDES; (ii) enhance its effectiveness; and (iii) make the system more efficient. In the proposal for the amendment to the Financial Regulation, the Commission proposed to extend EDES to beneficiaries under shared management with a proportionate and targeted approach. Moreover, the Commission proposed to allow the exclusion of affiliated entities and/or beneficial owners of a primary excluded entity from bidding for public contracts and ultimately from obtaining EU funds.

DG BUDG is in the lead for the enforcement of **Regulation 2020/2092 on the general regime of conditionality to protect the Union budget** (the "Conditionality Regulation"). In this context, DG BUDG constantly screens the situation in all Member States as regards possible breaches of the principles of the rule of law that may affect the Union's financial interests in a direct way. In 2022, DG BUDG led and coordinated the work that delivered the first case under the Conditionality Regulation, with the adoption of protective measures by the Council for rule of law breaches in Hungary.

DG BUDG also continued to contribute to the work led by DG JUST on the Annual Rule of Law Report. Moreover, in 2022, DG BUDG contributed to the assessment of the compliance by Member States with the enabling condition related to the Charter of Fundamental Rights under the Common Provision Regulation.

The adoption of the **High-Level Risk and Compliance Policy** was followed with workshops focusing its implementation and identified risks on the NGEU operations. Furthermore, two additional policies were adopted and implemented in the second half of 2022, namely, the **Operational Risk Management Policy** ('ORMP') and the **Market and Funding liquidity risk policy** ('MFLRP'). Appropriate procedures were put in place to ensure that staff responsible for NGEU operations report identified or potential risks

and near misses, including a risk registry for NGEU-related risks. Additionally, monthly and/or quarterly reporting of identified risks to either the Member of College responsible for the Budget, the Director-General or the Risk and Compliance Committee, as appropriate, was implemented. On the side of compliance, a clear and succinct Compliance Charter and a Compliance notification were adopted and implemented in the first half of 2022.

### **5.2.2. Providing information on beneficiaries and recipients of EU funds**

The **Financial Transparency System** (FTS) continues to be the one-stop shop for information on beneficiaries of EU funds. This database is now the single source for replying to numerous MEP questions on beneficiaries. The database is available on Europa. It receives around 200 inquiries per day which makes it one of the most searched websites on the DG BUDGET Europa website.

In its 2022 proposal for a Financial Regulation recast, the Commission also proposed to reinforce the “prevention, detection, correction and follow-up of fraud and irregularities” by enlarging to **all methods of EU budget implementation** (shared, direct and indirect management) the standardised electronic recording and storing of data on the recipients of EU funding, including their beneficial owners. The proposed measures require the use of a single integrated IT system for data-mining and risk-scoring (provided by the Commission) to access and analyse data on the recipients of EU funding and allow the identification of contracts and recipients which might be susceptible to risks. The IT system should facilitate risk assessment for the purposes of selection, award, financial management, monitoring, investigation, control and audit and contribute to the effective prevention, detection, correction and follow up of fraud, corruption, conflicts of interest, double-funding and other irregularities.

The Commission proposal contains a provision making the use of the tool compulsory. This provision may prove difficult to accept for the Member States. The Commission continued promoting the voluntary use of the tool for control and audit purposes, with a view to a generalised application by Member States, while defending its proposal for compulsory use.

In parallel, DG BUDG cooperated with other DGs in 2022 on the establishment of the corporate data-mining and risk-scoring tool that would meet the above requirements and the user needs of the Member States and Commission services.

Moreover, in the context of RepowerEU, the transparency provisions for **the Recovery and Resilience Plans** were strengthened in 2022. Each Member State will have to publish, in a public portal, data on the 100 biggest final recipients for the implementation of measures under the whole plan. The Commission will consolidate the information in the Recovery and Resilience Scoreboard.

### **Specific Objective 5.3. Promote strong enforcement culture to protect the EU budget on the revenue side**

With regard to the EU’s own resources, DG BUDG ensured **strict compliance with the financial rules to minimise errors, prevent fraud and enhance transparency**, by ensuring the timely recovery and recording of Member States’ own resources contributions. The general actions, results and controls related to DG BUDG’s role in managing the revenue are also documented and followed-up in the Commission’s and DG BUDG’s Anti-fraud Strategies. DG BUDG also cooperated with OLAF in the follow-up of financial recommendations addressed to Member States to protect the financial interest of EU revenues.

As regards controls, the 2022 **Traditional Own Resources** (TOR) inspection programme planned 18 inspection visits (out of which 1 was cancelled and one was postponed to 2023), The inspections covered the Control strategies for e-commerce and low value consignments as well as for anti-dumping and countervailing duties. The desk audit on solar panels initiated in 2021 continued in 2022. In addition, other targeted desk audits were carried out, amongst which, desk audits on the Control strategy for COVID-19 related goods.

The 2022 inspection plan on the control of the **VAT-based Own Resource** identified 9 Member States and the UK to be inspected. All 10 inspections were carried out as planned. Close cooperation with Eurostat on verification activities concerning GNI-based resources continues.

As regards the **resource based on non-recycled plastic**, during 2022 the set up and implementation of controls of the new own resource was carried out in close collaboration between DG BUDG and Eurostat. The methodology for risk prioritisation and inspections were presented to the Member States and informal voluntary country visits took place in 8 Member States in order to assist with the implementation process.

Throughout 2022 DG BUDG actively participated in the interservice work on the impact assessment for the comprehensive **revision of the customs legislation**. In particular, DG BUDG assessed the implications of the Customs Reform on the collection and making available of Traditional Own Resources (TOR – customs duties) and closely analysed the implications of the creation of an EU Customs Agency, including exploring options on the type of the agency and the funding of the governance reform.

The **Customs Reform Package** also includes significant changes in the e-commerce area, including abolishing the EUR 150 customs duty threshold or making e-commerce platforms charge the customs duties on checkout, which will have implications on the revenue of the budget. Major changes are envisaged also in the risk management area and data collection and analysis with the introduction of EU Data Space and EU Customs Authority.

## **STRATEGIC COMMUNICATION**

Strategic communication activities supported BUDG's activities in relation to sound financial management, the anti-fraud strategy and the protection of the Union's financial interests, as well as EU budget performance. DG BUDG contributed to a more streamlined approach when it came to communicating around the EU budget performance and project results.

A key communication moment on the protection of the budget was linked to the operationalisation of the rule of law conditionality regulation. In 2022, DG BUDG proceeded with the first case under the regulation, which led to increased media and public attention to the case. Proactive and reactive press work accompanied the proceedings – press material, defensives, technical briefings, social media presence, which helped demonstrate the Commission's commitment to making sure the EU budget is well-protected also through the correct use of this instrument. As work on this case will continue in 2023, DG BUDG will continue to provide the necessary communication support.

In 2022 DG BUDG launched a corporate project seeking to ensure more proactive responses to the ECA reports by Commission services. As first step, DG BUDG introduced a more user-friendly template for answers to ECA concerns in the context of the adversarial procedure. In addition, DG BUDG developed a new approach to press relations. Work on the successful implementation of this project, which was positively received by peer DGs, will continue throughout 2023.

The main publications corresponding to General objective 5 were the IFAR package, including the Annual accounts and reporting on financial instruments and the budgetary guarantees. In addition, DG BUDG introduced a new full-web version of the EU programmes' performance overview, which will be further developed in 2023.



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

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

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

### 7.1.1. Domain leadership

As **domain leader for financial management**, DG BUDG cooperates with colleagues across the board in terms of policy making and day-to-day operations. In 2022 the DG continued to grow a **culture of knowledge-sharing on financial and budgetary matters**. It did so by (i) effectively communicating and sharing guidance and finance-related knowledge through the corporate knowledge management platform for budget and finance, **BUDGpedia**, as well as (ii) via the regular meetings of the RUF network (“Réseau des unités financières”) and the organisation of multiple communities of practice sessions.

The **Helpdesk of the Central Financial Service in BUDG** continued to reply to specific questions on complex or specific financial and budgetary matters. DG BUDG also organised corporate training courses and workshops, in line with its new blended learning strategy, combining classroom and online training with new e-learning modules (e.g. on grants and procurement). To support on-the-job learning and further professionalisation of the finance community in the EU institutions, DG BUDG made available learning paths for each job profile in the financial circuits. A further expansion of these learning paths will continue in 2023 in collaboration with DG HR.

In this sense, the **Central Financial Service** plays a key role in the dissemination of a solid internal control culture at all levels of the institution. Together with the SG, DG BUDG fosters coherence in the identification, assessment and response to critical risks and to identify and address any crosscutting critical risks. Regular support of the services in implementing the Commission’s internal control framework continued in 2022, while also pursuing the modernisation of the internal control monitoring and reporting tools.

The future **Central Register of Internal Control Systems** (CENTRICS) started to be rolled-out at the end of 2022 for the critical risk exercise 2023. Further roll-out is foreseen as from the second quarter 2023 with the 4 other registers and the extended use of the risk register to non-critical risks. The use of this tool significantly reduced the administrative burden linked to the monitoring of and reporting on the internal control processes, while providing the central services with a better corporate oversight.

### **7.1.2. Revision of the Financial Regulation**

A **targeted revision of the Financial Regulation** has been proposed in May 2022, focusing on the alignment with the rules for implementing the 2021-2027 MFF, crisis management, integrity, digitalisation and simplification. This was followed by intensive work with Council and European Parliament in order to prepare trilogues, which are expected to start by April 2023.

An additional stand-alone proposal, that is still pending, concerns changes needed to allow for financing compensation to companies following an annulment of competition fines imposed on them. A further 2022 proposal to introduce in the Financial Regulation the possibility of using a diversified funding strategy for borrowing and lending operations was adopted in December 2022 as part of a **support package for Ukraine**.

### **7.1.3. Centralised reporting**

With the first year of **SUMMA** operations closing for three pilot agencies, DG BUDG developed a new SUMMA Datawarehouse environment with the related financial reports; focus was on the production of reports legally required for the annual accounts. The reports were delivered according to a tight schedule in December 2022 to leave sufficient time to the Agencies for verification. These developments can now be re-used and improved to allow timely availability of financial information and reports for the Commission when 'going live' in SUMMA in January 2024.

For ABAC users DG BUDG already provides an important offer of centralised reporting through dashboards. In 2022 the Open Transactions dashboard was launched. This new dashboard for ABAC helps users to identify open and pending transactions requiring their intervention. It also serves as support for the forthcoming data migration to SUMMA, as SUMMA-relevant transactions are clearly identified. All these dashboards will continue to function in 2024 with SUMMA data.

### **7.1.4. Accounting and treasury**

DG BUDG is the **central treasury service of the Commission**, managing the entire treasury related to the implementation of the EU budget. It also provides treasury services to other EU Institutions and bodies and thus contributes to the increase of overall efficiency of treasury management and cost savings at EU level. In 2022 DG BUDG provided its treasury services to further four Agencies.

DG BUDG, together with the EEAS, continued remodelling the payment process in delegations, by simplifying the management of imprest accounts and extending the ACH (Automated Clearing House) services to cover further 46 currencies by the end of year.

Throughout 2022. DG BUDG stepped up its efforts to optimise the **cash reporting and cash forecasting capacity through the SUMMA Business planning consolidation** (BPC) central forecasting model. Once fully implemented in 2023, this automation of a previously manual process is expected to bring time and resource efficiencies and provide more accurate forecasts for the call for funds simulations.

In the framework of the **Recovery and Resilience Facility**, DG BUDG continued the **timely disbursement of funds to Member States** and other EU budget beneficiaries to support the economic recovery. Upon the outbreak of the Russian invasion of Ukraine, DG BUDG ensured sustainability of payment channels in the war zone to allow continuous financing of projects and flow of budgetary support. At the same time, it fully implemented the sanctions regime in the Commission payment flows. Moreover, the

Treasury Management **swiftly designed and implemented the budgetary and treasury flows allowing disbursement of MFA+ financial contribution to Ukraine**. It was also instrumental in operationalising the REPowerEU initiative, which will be continued in 2023.

Finally, in 2022 the Treasury worked actively with other parts of the DG and Member States on an optimised cash management model for the collection of new own resources.

As a **centre of expertise on accounting**, DG BUDG provides guidance and support to EU Institutions and bodies, and produced world-class annual accounts, according to the highest international standards. In 2022 DG BUDG prepared the 2021 EU annual accounts, as always, based on the International Public Sector Accounting Standards (IPSAS), receiving as a result a clean opinion on these accounts.

It is also important to note that the 2021 accounts were the first to include the NGEU/RRF activities. To best report on these significant actions, and on other financial instruments such as budgetary guarantees (InvestEU, EFSF, etc.), these accounts **applied the most up-to-date standard- IPSAS 41-** for financial instruments. This will ensure that the Commission's rules are harmonised with those used by external financial institutions who provide the crucial information in this area, allowing for a more efficient and reliable reporting process for all parties. This also makes **the Commission one of the very first public entities** to apply this standard and is critically important for the reporting under the new MFF, where much of the necessary financial information will be received from entrusted entities. Moreover, this also **ensures high quality reporting on the EU's liabilities and contingent liabilities** arising from financial instruments and creating a clear link between accounting and the Commission's risk management framework.

In the area of the accounting framework, the DG continued to work closely with the IPSAS Board and the Consultative Advisory Group on the development of new standards and implementation topics. In 2022 DG BUDG was invited to be part of the drafting group for the new revenue and expenses standards, which will ultimately define how the core EU operations are accounted for.

In search of efficiency gains, in 2022 DG BUDG also supported the **creation of back-office arrangements for Joint Undertakings** (JUs), by transferring the accounting responsibilities to the newly set-up JU back office. In 2023 a similar approach will be followed with Agencies currently using DG BUDG accounting services – although there will be no designated back office, the sharing of accounting officers is being encouraged.

It is also important to note that in 2022 more than 98% (in value) of the funds to be recovered were fully cashed on time. To further **enhance the recoveries from overdue debtors**, during 2022 initiatives have already been taken as regards the follow-up of OLAF financial recommendations and the reduction of the departments' backlogs of pending requests for stance and/or waivers. Further actions will be taken in the context of the enhanced corporate strategy for the management of the Commission's debtors, which is expected to be launched during the first half of 2023.

#### **7.1.4. Corporate financial IT systems**

DG BUDG made substantial progress towards the **implementation of SUMMA for the Commission** that is planned for the beginning of 2024. The three pilot Agencies (CINEA, EJUST, ERA) have been using SUMMA as their financial system since the beginning of 2022 and the system was gradually improved during the year via different releases. The SUMMA system was rolled out to an additional pilot entity (Clean Aviation

JU) at the end of 2022, incorporating the SUMMA/eGrants integration, developed in cooperation with DG RTD, and SUMMA functionalities for the management of grants. This pilot represents a **key milestone towards the objective of rolling out SUMMA to the Commission at the beginning of 2024**.

In 2022 substantial progress was made also in the development of the system for the Commission, which is built based on the one for the pilots, and whose first version has been put in the test environment in January 2023.

Furthermore, DG BUDG continued to ensure the business **continuity of ABAC** and related systems during the transition to SUMMA. Business continuity of the legacy, productive systems was ensured by keeping them updated in view of the evolving security threats and responding to any major or blocking issues encountered by the user community.

**A dedicated IT Task Force has been set-up to address the NGEU-specific challenges** between 2021 and 2022. The IT Task Force has delivered all short-term solutions in the second quarter of 2021 and all medium-term solutions were delivered on time and on target in the course of 2022.

Other IT applications (corporate and local) were maintained in 2022. In particular, BadgeBud was adjusted to accommodate the 2023 nomenclature and the workflow of inter-services consultation for Internal Rules was automated. - The VATRES component, which caters for ACOR Forecasting Data Exchange Platform between the Commission and the Member States, was also delivered in 2022.

The Corporate IT security risk management methodology has been applied to the IT systems and is now undergoing a regular yearly review. Compliance with IT security standards, both internal to the EC, but as well external ones, remains a major activity for the DG.

## **STRATEGIC COMMUNICATION**

Strategic communication under strategic *Objective 7: A modern, high performing, sustainable Commission* is mainly targeted at internal and highly specialised audience in the EU institutions and agencies. It is linked to promoting knowledge management through targeted outreach to the community of specialised finance professionals. In this context, BUDGpedia plays an important part in maintaining and strengthening the community of financial experts, in ensuring knowledge-sharing and adherence to the highest professional standards in finance and internal control (see also section 2.2.2).

On the internal communication side, in 2022 DG BUDG continued to develop and enrich its internal communication tools, and to participate in the overarching corporate internal communication initiatives. More concretely, the internal BUDG Times newsletter continued to gain readership. DG BUDG organised a series of internal lunchtime conferences, which gathered great interest by colleagues across the Commission. DG BUDG contributed to the corporate internal communications platform *Commission en Direct* on a regular basis, which enhanced the visibility of DG BUDG's work for the entire Commission.

DG BUDG's publications – which are widely used by financial specialists across the Commission – became more easily accessible via widgets, which contributed to their increased popularity among their readership.

In 2022, DG BUDG also started gradually to promote SUMMA – the new corporate financial and accounting IT tool, in parallel to its gradual introduction across an ever-growing number of users.

## **2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL**

### **2.1. Financial management and internal control**

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who 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. The following reports are taken into account:

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

The report to the Commission on the implementation of the NextGenerationEU (NGEU) High Level Risk and Compliance Policy for the period 1/09/2021-30/09/2022. The systematic analysis of the available evidence provides sufficient guarantees as to the completeness and reliability of the information reported and results in the full coverage of the budget delegated to the Director-General of DG BUDG.

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

**Table 1. The scope of assurance with materiality criteria**

Activity	Value	Specific indicators
Own resources revenue	EUR 158 985	Residual error rate<1%
Expenditure (direct management)	EUR 83 m <sup>1</sup>	Residual error rate<2%
Off-budget corporate activities (accounting)	Positive conclusion for accounting (production of annual accounts, treasury, recoveries)	
	Positive conclusion on ABAC and transition to SUMMA	
Off budget activities (financial assets and loans)	Positive conclusion on management of financial assets (36.9 bn: direct 21.5 bn, indirect 15.4 bn) and loans	
Internal control objectives	Legality and regularity = OK, Sound financial management=OK, Antifraud Strategy= OK, Safeguarding of assets=OK, Reliability of reporting=OK	
Availability of information from auditors (IAS, ECA)	No critical recommendation=OK 4 very important recommendations open, of which 1 overdue	
Reservations	None	

<sup>(1)</sup> annex 3 table 2 (payments made)

DG BUDG's control systems are presented below in three main categories: own resources revenue, direct budget management and off-budget management. Off-budget management covers accounting, financial assets<sup>4</sup> in direct and indirect management and borrowing and lending operations.

### 2.1.1. Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO)<sup>5</sup>. DG BUDG's assurance building and materiality criteria are outlined in annual activity report annex 5. The annual activity report annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

Following the 2018 Financial Regulation additional requirements, DG BUDG declares that in 2022 there were no cases of:

- "confirmation of instructions" (new FR art 92.3)
- financing not linked to costs (new FR art 125.3)
- Financial Framework Partnerships >4 years (new FR art 130.4)
- Financial Framework Partnerships >4 years (new FR art 130.4)

<sup>4</sup> Understood in a broad sense, they include contingent assets (and liabilities) and financial income (and costs) linked to the assets.

<sup>(5)</sup> 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.

- flat-rates >7% for indirect costs (new FR art 181.6)
- "Derogations from the principle of non-retroactivity [of grants] pursuant to Article 193 FR" (new Financial Regulation Article 193.2). DG BUDG does not manage grants.

## 1. Effectiveness of controls

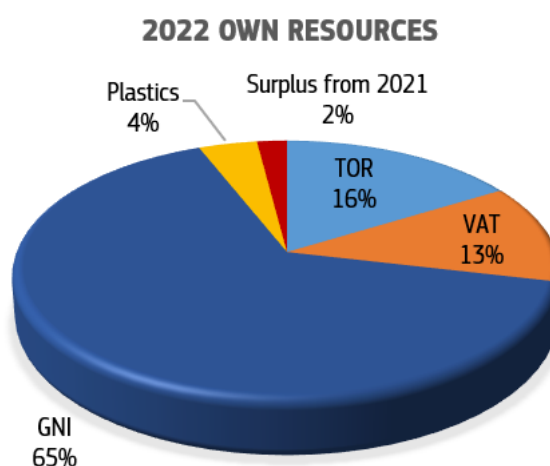
### a) Legality and regularity

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

#### Revenue

Four main streams of EU revenue are known as own resources.<sup>6</sup> They are: 1) Traditional Own Resources (primarily customs duties); 2) the VAT-based own resource; 3) the own resource based on non-recycled plastic packaging waste and 4) the GNI-based own resource.

In 2022, own resources revenue amounted to EUR 159 bn (including the surplus from the previous year). Compared to 2021, the revenue from traditional own resources is higher as well as the surplus from the previous year, with a consequential reduction of the balancing GNI resource. DG BUDG conservatively fixed the materiality criteria related to the management and processing of the revenues at 1%, which are stricter than the materiality level (of 2%) for expenditure (details in annex 5).



Indicators of control performance for own resources at each stage are described in the corresponding part of annex 6. Control results in terms of legality and regularity have allowed to obtain assurance and are described in annex 7.2. Annual programmes of TOR and VAT inspections cover 100 % of statements for all Member States during a 3-year cycle. The inspection plan for traditional own resources in 2022 was 89%<sup>7</sup> completed (with one inspection cancelled and another inspection postponed to 2023) and for the VAT-based own resources 100% completed.

For VAT, BUDG does not calculate the error rate as the main goal of inspections is to arrive at the correct VAT-base for the calculation of VAT OR to ensure equal treatment of Member States. For TOR, in principle for all the errors detected in the Member States the recovery orders are issued to correct them (the amount of recovery orders/the amount of TOR=2.5%), which makes the residual error rate close to 0%. However, the AOD's conservatively estimated the residual error rate for the area of TOR at 0.5%.

<sup>6</sup> There is also other revenue, such as the taxes on the salaries of EU staff and the contributions from the UK under the Withdrawal Agreement, see Annex 3, Table 5.

<sup>7</sup> 16 out of 18 planned inspections carried out.

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

Globally, for all own resources, the most recent ECA’s opinion (the annual report for financial year 2021) concluded that revenue collected is not affected by a material level of error and that control and revenue related systems are generally effective.

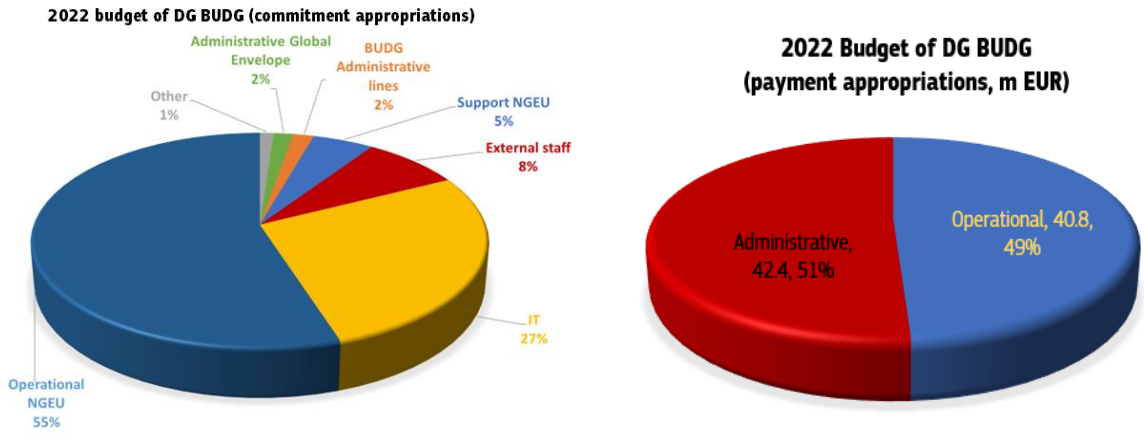
In 2022 there were significant positive developments regarding the Traditional Own Resources reservation. DG BUDG lifted both the quantified and unquantified reservation in the area of textiles and shoes imported from China. More information is included in section 2.1.4. Conclusion on assurance.

DG BUDG is also managing earmarked revenues, which derive from the charge-back of services such as the use of financial information systems, the annual Accounting Officer and treasury services managed by BUDG. In 2022, charge-back amounted to EUR 6.7 m representing about 5% of DG BUDG commitment appropriations<sup>8</sup>. Since this activity is much less significant and of lower risk than revenues and administrative expenditure, and the related risks are very low, the relevant control system and indicators are not presented for this area.

Expenditure

In terms of commitment appropriations, in 2022 DG BUDG managed a budget of EUR 124.7 m, of which:

- 55% (EUR 68.5 m) related to operational expenditure, under the EURI line related to payments of periodic coupons and redemption at maturity;
- 45 % (EUR 56.2 m) related to administrative/support expenditure. EUR 6.45 m were credits generated from charge-back that could be implemented in 2022 and/or 2023.



In terms of payments made, 2022 DG BUDG’s expenditure amounted to EUR 83.2 m. The **administrative** expenditure budget lines (EUR 41.4 m) were used mainly to pay for the external service providers, bank services, IT licences and audits. DG BUDG’s **operational** expenditure related to the European Union Recovery Instrument is intended to cover the costs of building and maintaining the infrastructure needed to borrow the funds on the capital markets on behalf of the Union (EUR 40,8 m).

<sup>8</sup> External chargeback concerns entities outside the Commission (other EU Institutions, Committees, Regulatory Agencies, Joint Undertakings), internal- other DGs and offices of the Commission.



The main objective of the controls on DG BUDG's expenditure is to ensure that the value of the detected errors in transactions does not exceed the materiality criteria as described in annex 5.

Ex-ante controls are mandatory<sup>9</sup>, in order to prevent errors and irregularities before the authorisation of operations and to mitigate risks of non-achievement of objectives. They also mitigate the risk of fraud and reputational risk in relation to inadequate administrative practices. The risk level in the expenditure managed by DG BUDG is low. The financial controls on expenditure in DG BUDG are centralised in BUDG's financial cell. Annex 6 demonstrates how the control systems in place address the related risks which are mainly ex-ante controls covering 100 % of transactions.

The Authorising Officer by Delegation may decide to carry out ex-post controls to verify the quality of its ex-ante controls<sup>10</sup>. In 2022, DG BUDG did not carry out ex-post controls in its expenditure in the form of checks on randomly sampled transactions. However, a horizontal analysis of the information from available financial dashboards and reports was carried out twice in 2022, verifying the spotted outliers in the data extracted from the financial systems, and the areas with a higher likelihood of errors. Strengthened monthly monitoring of payment dates resulted in a review of a few invoices with pending status and reduction of payment delays to acceptable levels. Errors (mainly encoding) detected during analysis were corrected ex post. For its expenditure, DG BUDG decided to use an estimate of the residual error rate of 0.5%.

#### [Off-budget activities](#)

In addition to the management of its own appropriations, DG BUDG also does off-budget management: horizontal financial activities such as treasury, asset management, borrowing and lending operations and guarantees such as those related to competition fines and VAT reimbursement.

#### [Borrowing and lending \(back-to-back approach\), treasury and financial assets](#)

Financial assets shown on the DG BUDG balance sheet relate to asset management (EUR 21.5 bn) and lending & borrowing (EUR 165 bn) activities.

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

The current financial assistance programmes (EUR 165 bn) assigned to DG BUDG are:

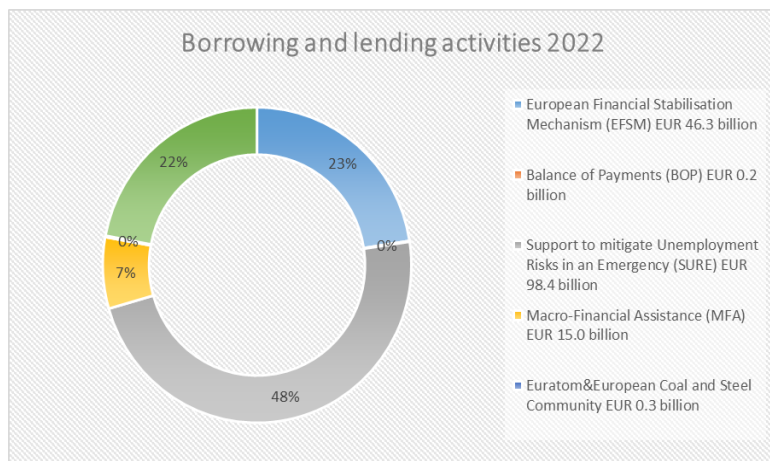
- The [Balance of Payments](#) (BOP) assistance facility, which enables the EU to provide assistance to EU countries outside the euro area experiencing or threatened by difficulties regarding their balance of payments;
- The [European Financial Stabilisation Mechanism](#) (EFSM), which enables the EU to provide financial assistance to any EU Member State experiencing or threatened by severe financial difficulties;
- [Support to mitigate Unemployment Risks in an Emergency](#) (SURE), an up to EUR 100 billion euro instrument to finance short-term employment schemes across the EU Member States in the fallout of the coronavirus pandemic;

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<sup>9</sup> Art. 74.5 FR: "[...] each operation shall be subject at least to an ex-ante control relating to the operational and financial aspects of the operation [...]"

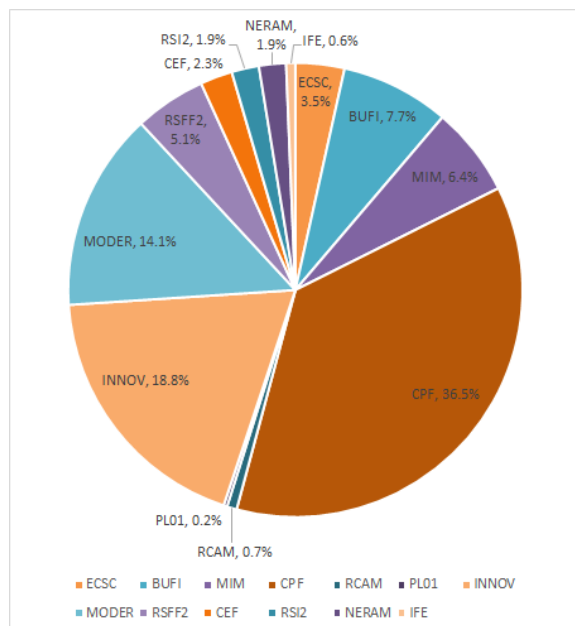
<sup>10</sup> Art. 74 FR: "The authorising officer by delegation may put in place ex post controls to detect and correct errors and irregularities of operations after they have been authorised. Such controls may be organised on a sample basis according to risk and shall take account of the results of prior controls as well as cost-effectiveness and performance considerations."

- **Macro-Financial Assistance (MFA)**, which can be provided in the form of loans and grants to partner countries outside the EU experiencing a balance of payments crisis. In 2020, an exceptional MFA package was adopted to help ten partner countries to limit the economic fallout of the coronavirus pandemic.
- Euratom loans by issuing bonds on behalf of Euratom. The terms of the loan mirror those of the related Euratom bond with respect to amount, maturity and coupon payments.



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

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



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

The accounting unit follows procedures and controls defined in the accounting manual. As part of the monthly accounting closure, the accounting reconciles holdings of assets in the portfolio to the statement received from the depository of securities. All

movements in the portfolio of assets under management are reconciled and the valuation of the portfolio of assets is cross-checked with external data providers. The reconciliation team carries out the monitoring of settlements of security deals with bank balances on a daily basis.

Accounting closures in the domain of lending and borrowing are performed quarterly. All movements on loans and borrowing are reconciled with supporting documents, Maturities of lending and borrowings and related interests are monitored daily.

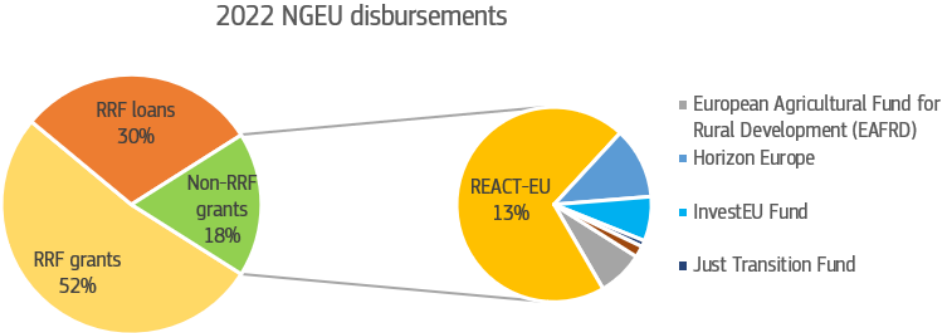
Year-end financial statements of the main asset portfolio instruments (CPF, MIM, BUF and ECSC) and all lending and borrowing instruments are subject of statutory annual audit performed by external audit firm that is supervised by the Court of Auditors.

DG BUDG controls among others the related transactions ex-ante and ex-post. In 2022, asset management transactions and positions led to 3 active breaches of risk limits. All 3 breaches were due to an incorrect parametrization of the Bloomberg IT system. The breaches originated from the double counting of cancelled trades and were rapidly solved within a couple of days after the IT system was adjusted. It should be noted that all the breaches mentioned were technical limit breaches (i.e., breaches being the consequence of an error or technical failure), and not breaches as a result of traders’ activities. There were 23 passive breaches, mainly related to price movements of securities. All passive breaches were immaterial and were quickly resolved. The estimated cost of these controls is at 0.003%. The error rate is not calculated for the related amounts.

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

***Borrowing and lending under NGEU***

To respond to the needs of NextGenerationEU programme, the Commission has deployed a diversified funding strategy to carry out the necessary borrowing in the necessary volumes and under optimal market conditions. In 2022, all the disbursements (payments) under NGEU amounted to EUR 90.6 bn.



The largest spending programme of all NGEU programmes is the Recovery and Resilience Facility (RRF), which provides to the beneficiary Member States non-repayable financial support (in 2022, EUR 47 bn) and loans (EUR 27 bn, see annex 3 “RRF implementation table”). The remaining part (EUR 16.3 bn in 2022) is provided through other Union spending programmes in the form of non-repayable financial support and as provisioning to the InvestEU budgetary guarantee. The spending programmes under NGEU are implemented under the responsibility of Authorising Officers by Delegation (AODs), as indicated in Decision C(2018)5120, while forecasting, liquidity and disbursement processes are managed by DG BUDG. Risk management performs both ex-ante and ex-post oversight of borrowing and lending operations. While ex-ante oversight focuses on assessment of potential risks and threats to the operations, the ex-post oversight focuses on risk mitigating measures, post-execution assessment where needed, and review of adequacy of existing control points. The error rate is not calculated for the related amounts.

***Conclusion on legality and regularity***

DG BUDG's portfolio consists of segments with a relatively low risk and low estimated error rate, being revenue, administrative expenditure and off-budget activities.

Concerning the expenditure side, the residual error rate is estimated to be 0.5%, which is lower than the 2% threshold, set in the materiality criteria (annex 5). Concerning Traditional Own Resources, the residual error rate is conservatively estimated at 0.5%, which is lower than 1% set as materiality threshold. No error rate is calculated for VAT Own Resources. The error rate for the amounts charged back by DG BUDG is conservatively estimated at 0.5% despite no single error has ever been detected. For off-budget activities, no error rate is calculated.

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

Based on all the above, DG BUDG presents in the Table 2 below an estimation of the risk at payment and risk at closure for the expenditure managed in 2022.

**Table 2: Estimated risk at payment and at closure**

The detailed version of the table is provided in annex 9.

DG BUDG	Payments made	Relevant expenditure	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
	m EUR	m EUR	m EUR	%	m EUR	%	m EUR	%
Expenditure	83.2	83.2	0.4	0.5%	0	0%	0.4	0.5%

The estimated overall risk at payment for 2022 expenditure (EUR 0.4 m) is the AOD's best conservative estimate of the amount of relevant expenditure during the year, not in conformity with the contractual and regulatory provisions applicable at the time the payment was made. The estimated future corrections are estimated at 0%, since BUDG's expenditure is of low risk and the value of recoveries in past few years was insignificant. This expenditure may subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. This amount corresponds to the conservatively estimated future corrections for 2022 expenditure.

For an overview at Commission level, the departments' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated in the AMPR.

**b) Fraud prevention, detection and correction**

DG BUDG has developed and implemented its own Anti-fraud Strategy since 2013, on the basis of the methodology provided by OLAF. It was last updated in 2021 in coordination with DG BUDG's Internal Control and Risk Management Network. DG BUDG's Anti-fraud Strategy and the implementation of its Action Plan are monitored on an annual basis and updated during the year if necessary. Most of the actions in BUDG's Action Plan are either ongoing or implemented, with 2 out of the 28 actions delayed. The remaining actions should be completed by 2023 and one in 2027, most of the actions being recurrent by nature.

As the corporate service responsible for the EU budget and accounts, fraud risk management plays a very important role in DG BUDG activities. In 2022 DG BUDG continued to cooperate with OLAF to finalise the Commission's Corporate Anti-Fraud Strategy (CAFS) 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. DG BUDG is linked

to about half of the Commission's actions on antifraud matters<sup>11</sup> and all these actions have been implemented.

Good cooperation with OLAF, TAXUD and JRC continued in 2022, especially for cases of undervaluation and evasion of anti-dumping duties, but also to deal with risk management and other fraud related issues. This covered both enforcement aspects and upstream actions for ensuring fraud-proofing for future spending programmes.

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

In the context of OLAF's financial recommendations and in cooperation with OLAF, DG BUDG has published "Guidance for the follow-up of recoveries as regards suspected fraud and other irregularities" to facilitate the work of spending DGs. This guidance will lead to the better registration, diligent follow-up and more frequent monitoring of recoveries related to OLAF's financial recommendations (i.e. earlier registration, shorter delays and improved justification of differences between amounts recommended and authorised for recovery).

With the financing of EU actions in response to COVID 19 (SURE and NextGenerationEU), the complexity and size of borrowing and lending operations have dramatically increased. The Commission developed a strong governance and risk management framework, centred on the role of an independent Chief Risk Officer (CRO) and supported by the Compliance Officer (CO) within DG BUDG. The CRO and CO oversees a strong risk and compliance policy to ensure sound financial management of NGEU operations, including fraud related aspects. In 2022 fraud related risks that could potentially stem from NGEU operations were re-assessed in cooperation with the Compliance Officer. The mitigating measures put in place were deemed adequate and appropriate.

In DG BUDG the level of awareness of anti-fraud and ethics matters is considered to be high. In 2022 efforts were made to promote knowledge about fraud prevention and detection in the Internal Control and Risk Management Network, RUF (Réseaux des unités financières) and BUDG Middle Management. Moreover, last year the DG centralised its procurement and contract management.

DG BUDG continued to ensure visibility for anti-fraud related aspects and updated the anti-fraud related content on the intranet. In 2022 a dedicated training on ethics was organised, together with the Investigation and Disciplinary Office of the Commission (IDOC).

In 2022 fraud related risks that could potentially stem from NGEU operations for Directorate E were re-assessed in cooperation with the Compliance Officer. The mitigation measures put in place were deemed adequate and appropriate.

There were no OLAF financial recommendations to be followed in 2022 by DG BUDG. In conclusion, and based on the information available, DG BUDG has reasonable assurance that the antifraud measures in place are overall effective. The residual risks of fraud in DG BUDG are quite low, and in relation to risk of fraud detected in the area of Own Resources, and in particular the issues related to the undervaluation of imported goods, the previous reservation is no longer kept.

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<sup>11</sup> Out of the 63 CAFs Actions DG BUDG is involved in, at different levels, in 30 actions. DG BUDG is leading 6 actions, supporting other DGs in 21 actions and coordinating another 3 actions.

### c) Safeguarding of assets and information, reliability of reporting

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

#### Accounting

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

All three activities are under the direct responsibility of the Commission's Accounting Officer. Robust procedures and processes and/or results of controls applied in these areas in 2022 gave a reasonable assurance to the Accounting Officer. The main controls are detailed in annex 7.4.

The Accounting Officer, having taken into account the control environment and the need to reorient resources to support SUMMA implementation, has decided that a number of controls related to treasury, validation of local systems, business partners and recoveries would be reduced or discontinued pending the roll-out of SUMMA.

DG BUDG is the business owner of the SUMMA IT system, a corporate financial and accounting IT tool, which will in future replace the current ABAC system. For 2022, the BUDG's conclusion on ABAC and transition to SUMMA is positive. The details are in annex 7.4.

#### Safeguarding of financial assets

On 31 December 2022, DG BUDG managed €36.9 bn of assets (mainly fixed income bonds), directly (€21.5 bn) or indirectly (€15.4 bn) through the European Investment Bank (EIB).

Considering the specific nature of the asset management operations, the control of the various risks related to this activity is based on dedicated governance and working procedures adopted following benchmarking with the highest standards adopted by peer international institutions. These procedures, which were subject to various internal and external audits, ensure the achievement of a sound asset management.

The asset management governance guarantees clear delegation of decision-making and lines of accountability, adequate segregation of duties between Front Office, Risk and Back Office, clearly defined roles and well-framed and documented procedures and processes and checks and balances at all levels. The compliance procedures provide the framework for adequate rules for codes of conduct to manage potential personal conflicts of interest as well as rules to manage risks of insider trading.

The Asset Management Guidelines and internal investment restrictions provide a solid internal control framework to ensure the safeguarding of assets. In particular, assets under the form of securities are kept with our custodian in accordance with market best practices, while cash and deposits are placed with highly rated financial institutions. DG BUDG has put in place the appropriate governance to monitor the respect

of the control framework on a continuous basis. An exhaustive set of performance and risk metrics for the assets under management is reported periodically to the relevant stakeholders.

The safeguarding of financial assets is assured by segregation of duties between the team responsible for initiation of securities deals and back-office team responsible for their settlement and bank reconciliation. An additional layer of control is assured by accounting team during monthly closure reconciliation process when the portfolio of securities is reconciled with the security custodian's statement. Any settlement discrepancies and late payments caused by counterparties are followed by bank reconciliation and back-office team on daily basis. In 2022 the reconciliation team identified 70 incidents that concerned late settlement and late interest payments by counterparties that generated EUR 23 thousand of interests cost for the European Commission due to negative interest charged by banks. Out of this this amount EUR 21 thousand were recovered from the counterparties (according to internal guidelines, all charges above EUR 200 must be recovered). No other issues with safeguarding of financial assets were identified during the monthly closure reconciliation.

In 2022, DG BUDG continued to build of the governance and control frameworks put in place at the start of NGEU. To that effect DG BUDG put in place processes and control points across all the core borrowing and lending processes, including funding planning, execution of borrowing transactions, liquidity management, cost calculation and allocation. These processes ensured that all aspects of borrowing and lending operations were implemented in accordance with a robust set of risk controls, fully documented in manuals, and implemented consistently by the relevant teams subject to rigorous oversight by a second line of defence (independent Chief Risk Officer). These embedded processes involve the presence of controlling officer functions (4 eyes principle) in the execution of key transaction (e.g. auctions, syndications) or process related tasks (cost calculation, invoicing).

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

## **2. Efficiency of controls**

The principle of efficiency concerns the best relationship between resources employed and results achieved. Results show that controls performed have ensured the timely and due collection of Own Resources throughout the year. In addition, the results of controls show the efficiency of those since they have served to mitigate the risks to which they are addressed.

### Revenue

In 2022, due to a technical problem, one Member State made available one monthly TOR payment with one day of delay and another Member State made available a too low amount of one monthly call of own resources which was corrected with one day of delay. In both cases<sup>12</sup> this resulted in the Member State paying one day of late interest for the amounts in question. This had no material impact on the situation of the Commission's Treasury.

### Expenditure

At the end of 2022, DG BUDG achieved full implementation of its budget and timely and effective reported to DG BUDG's senior management and other stakeholders on the results.

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<sup>12</sup> Romania and Portugal.

In January 2022 the management of procurement procedures and contracts was centralised in a newly created Procurement cell, which brought synergies and efficiencies. The cell has established a procurement plan covering the period 2022-2024. Another efficiency gain was achieved by the full use of the PPMT (Public Procurement Management Tool) and parts of the e-submission tool (e-request, e-ordering and e-invoicing). In 2022, this cell launched 19 calls for tenders, out of which 5 were above the threshold of EUR 140 000. Two of them were delayed till 2023. One open procedure related to IT and accounting services, launched in 2021, was cancelled in 2022.

The payment efficiency indicators are monitored monthly to solve possible bottlenecks in the workflows, to avoid delays and late payment interest. In 2022, the time-to-pay indicator (% of payment value transferred within the regulatory time limits) for BUDG's expenditure was 95%, in line with the target set in the Management Plan 2022. This indicator improved in comparison to 2021 (91%).

Timely Payments	BUDG Score	EC Score
	<b>95%</b>	<b>98%</b>

[Off-budget activities](#)

[Borrowing and lending \(back-to-back approach\), treasury and financial assets](#)

An exhaustive set of performance and risk metrics for the assets under management is reported periodically to the relevant stakeholders (in 2022, all twelve reports were issued on time).

The operations that concern portfolio asset management must be executed in timely manner on order to assure correct settlement of all security deals. Daily reconciliation of security deals and subsequent bank reconciliation is essential part of the established control process. Accounting monthly closure process must respect deadlines agreed with the involved DGs that are recipients of the monthly shareholder report and Net assets value of the portfolio.

Lending and borrowing operations must be recorded on time to generate contractual payments. This is particularly important for payments to investors where a breach of payment could have negative impact on reputation of the whole European Union. 100% of the payments is executed on time. For incoming payments, the Back-office is monitoring daily collection of expected payments from loan beneficiaries and initiates corrective actions if necessary.

[Borrowing and lending under NGEU](#)

In 2021 DG BUDG completed the execution of five NGEU syndications (including one NGEU Green Bond), two bond auctions and seven Bill auctions, with a daily average cost of funding for the period June to December 2021 of 0.14%. The execution of these transactions was the result of the set-up of the required infrastructure and processes in record time, including the establishment of the Primary Dealers network and the acquisition of services offered by the auction system (TELSAT) operated by Banque de France and EU-bills programme.

Using these proceeds, DG BUDG handled the transfer of EUR 64.4 bn (46.4 bn for grants, 18 bn for loans) for the Recovery and Resilience Facility (RRF) and EUR 8.6 bn for non-RRF programmes (Horizon Europe,



InvestEU Fund, ReactEU, the Union Civil Protection Mechanism (RescEU), the European Agricultural Fund for Rural Development (EAFRD), and the Just Transition Fund). All NGEU disbursements took place within six working days after signing the Financing and Loan Agreements.

The NGEU instrument is managed under diversified funding strategy that has some specifics to back-to-back loans that follows fixed payment schedule agreed in the beginning of loan contract. On the NGEU loan anniversary the funding costs are invoiced to loan beneficiaries based on the cost allocation calculation and approved methodology. The calculation is completed on a timely manner one day before loan anniversary to invoice loan beneficiaries within two days after loan anniversary.

### **3. Economy 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.

#### Revenue

The total cost of controls in 2022 related to the BUDG inspections (ex post controls) on Traditional Own Resources (TOR) and Value Added Tax (VAT) amounted to EUR 4.4 m and represented 0.01%<sup>13</sup> of TOR and VAT (calculated as average of amounts collected in 2019-2021). See table in annex 7.1 Table Y.

#### Expenditure

The total cost of controls related to BUDG's expenditure amounted to EUR 1.6 m and represents 1.97% of the payments made in 2022 (cf. annex 7.1 Table Y). This cost dropped by 2% in comparison to 2021, mainly because the amount of payments made (in denominator of the indicator) increased from EUR 27 m to EUR 82 m. Creation of Procurement cell did not have a visible impact on the indicator. DG BUDG considers the cost of controls in its expenditure reasonable.

#### Off-budget activities (Borrowing and lending, treasury and financial assets, NGEU)

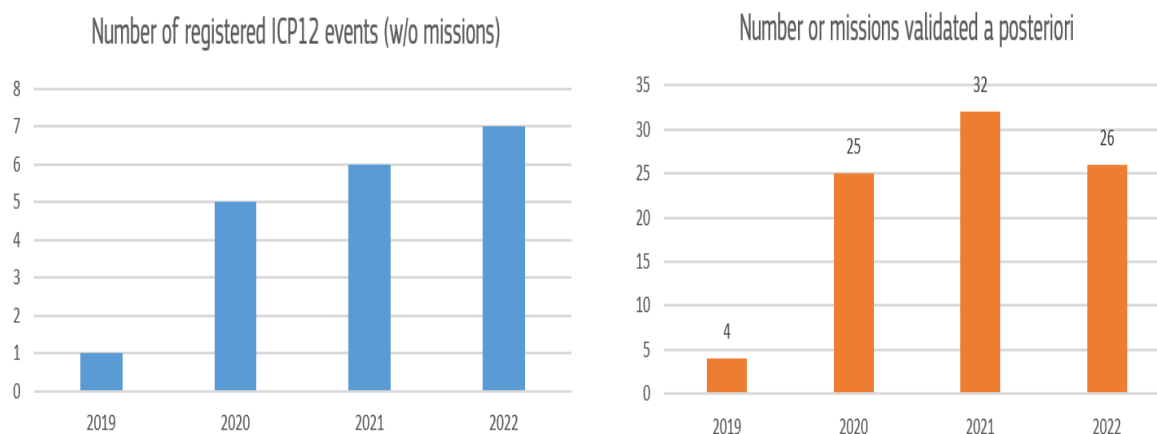
The cost of controls performed on off-budget instruments were EUR 2.3 m for ex-ante controls and EUR 0.6 m for ex post checks. In 2022, this cost is higher than last year due to including in the estimation also NGEU-related costs, in units and the CRO office. DG BUDG considers the cost of controls in this area reasonable.

### **4. Exceptions and non-compliance events**

The information on exceptions and non-compliance events was reviewed and communicated to BUDG management and staff.

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<sup>13</sup> This percentage does not include figures of costs of controls by Member States, as these are not part of the relevant internal control system.



The reason exceptions and non-compliance events are increasing is probably linked to greater awareness of the reporting procedure and the improvement of existing procedures and controls. In 2022 a review of all the cases encoded in the ICP12<sup>14</sup> register since 2019 took place; this showed that 7 exceptions and non-compliance events occurred in 2022 while 26 missions were approved after the mission’s start date.

None of the exceptions or non-compliance events implied a financial loss. In most cases the root causes were a lack of knowledge of the procedures, poor planning, or the unintentional omission of a step in the formal procedure. In 6 cases (out of the 19 registered since 2019) the override of the procedure in BUDG resulted from circumstances beyond the DG’s control. It was either the result of a situation in another DG (3 cases), urgent cashing needs in another DG (2) or Brexit (1). Nevertheless, where applicable, the controls which should prevent the occurrence of the exceptions and non-compliance events, have been reinforced and the Heads of Unit were reminded that such cases should remain exceptional. This also applies to the control on missions, where instructions were sent in order to warn staff going on mission to introduce their mission orders on time.

### Conclusion on the cost-effectiveness of controls

The design of controls in DG BUDG is adapted to the underlying risks and is considered appropriate. The controls applied in 2022 were best suited to fulfilling the relevant control objectives efficiently and at a reasonable cost. BUDG also reviewed most of its units’ procedures. However, this needs to be put in context of the risk related to pressure on resources, the rating of which increased in the end of 2022.

Based on the most relevant key indicators, control results and analysis of ICP12 events, DG BUDG has assessed the effectiveness, efficiency and economy of the control systems (revenue, expenditure, off budget activities) and reached a positive conclusion on the cost-effectiveness of controls for which the DG was responsible in 2022.

### **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

<sup>14</sup> Exception reporting is one of characteristics of Internal Control Principle 12.

likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

### *The Internal Audit Service (IAS)*

In 2022, three previously finalised IAS' multi-DG audits that concerned DG BUDG as an auditee were open for follow up: (i) audit on the recovery orders and bank guarantees for fines, (ii) audit on pillar assessment in the external actions family, and (iii) audit on the management of the EFSI Guarantee Fund. Final reports from the IAS audit on the reliability of performance information on EU financial programmes and the limited review on the reporting of the Commission's preventive and corrective measures became available in first trimester of 2023. In total, 4 very important IAS recommendations issued to BUDG remain open.

One of the IAS very important recommendations from the **2019 audit on the recovery orders and bank guarantees for fines** (part 2) on the regular review of insolvencies and bankruptcies, had three out of four measures implemented. The action remaining open is the enhanced corporate strategy for the management of the Commission's debtors, planned to be launched in the interservice consultation in early 2023, to be adopted by the Commission later in the year. Subsequently, this sub-action 2.4, which is a broader version of 2.3 (i.e. covering all contractors and beneficiaries, beyond the overdue debtors already covered), will then be implemented during 2023. Given that other measures have been implemented, DG BUDG assesses the residual risks as moderate.

The 2020 multi-DG **audit on pillar assessment in the external actions family** resulted in five very important recommendations for DG BUDG. They concerned (further) developing the corporate coordination and coherence of the pillar assessment process, the related guidance for the DGs, the central repository/automated workflow tool, the mechanism of reporting the substantial changes and the conditions for making a presumption of conformity. The remaining two very important recommendations were implemented in 2022, one was closed by the IAS and the other downgraded to important (deadline on 31/12/2023). The last recommendation from this audit has to be completed, as initially proposed, by 30/06/2027.

At the end of 2022, DG BUDG received 2 new very important recommendations from the thematic review on the Commission's corrective capacity (deadline is in June 2023 and both are already partially implemented) and 1 on the Commission's control system in relation to the reliability of performance information on EU financial programmes (action plan not ready yet).

The details about the implementation of actions related to all the open very important recommendations mentioned above are provided in annex 7.3.

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

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

- Management has accepted all the recommendations issued in 2018-2022;
- 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. For the audit on the Commission's control system in relation to the reliability of performance information on EU financial programmes' (2022) management has not yet adopted an action plan;
- The implementation of 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.

The Internal Audit Service concluded that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations from the audit on recovery orders and bank guarantees for fines (1), the limited review on the reporting of the Commission's preventive and corrective measures (2) and the audit on the Commission's control system in relation to the reliability of performance information on EU financial programmes (1).

### [The European Court of Auditors \(ECA\)](#)

The European Court of Auditors (ECA) in its Annual Report 2021 concluded that the 2021 annual accounts of the European Union were reliable for the 15th consecutive year and were not affected by material misstatement. It also concluded that the revenue of the EU was free from material error.

The European Court of Auditors stated that the 2021 Annual Activity Reports of DG BUDG and EUROSTAT generally corroborated the Court's findings and conclusions. The Court also noted the progress in addressing recommendations made in previous annual reports. Out of four revised recommendations, one was implemented in most respects, and three in some. annex 7.3 provides details on open audits and recommendations of both the Internal Audit Service (4) and the European Court of Auditors (48). This also includes details on the actions already taken to address the ECA's recommendations.

### **2.1.3. Effectiveness of internal control systems**

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

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

The accounting and borrowing and lending-related control frameworks are part of the overarching DG BUDG's general internal control framework. They were further adjusted in 2022 following the development of the financial assets and NGEU-related operations (see section 2.1.1 Control results, e. Off-budget activities), especially in terms of controls, monitoring and reporting. This section focuses only on the assessment of BUDG's overall internal control system.

The functioning of the internal control principles is regularly monitored and assessed in DG BUDG. The risks and control activities are discussed at the Internal Control and Risk Management Network's meetings, chaired by the Director in charge of Risk Management and Internal Control.

The **assessment** is based on the indicators from various sources, **in line with the corporate guidance**<sup>15</sup>. The result of the analysis is documented in the assessment forms, a non-mandatory tool annexed to the corporate guidance. Evidence from the following sources was analysed:

- state of the internal control monitoring criteria from the 2022 Management Plan;

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<sup>15</sup> "Implementation Guide of the Internal Control Framework of the Commission"

- results of the assessment of the deficiencies from the previous year and those newly identified;
- follow-up of DG BUDG's reservation, which was lifted in the end of 2022;
- analysis of exceptions and non-compliance events;
- the audit recommendations of the Internal Audit Service and European Court of Auditors and the state of implementation of the action plans;
- the results of the risk assessments, carried out in DG BUDG;
- the information on incidents (risk events, breaches) and reputational events;
- the results from the Staff Survey of DG HR, covering human resources-related aspects and the 2022 Internal Control Survey of DG BUDG, organised in November 2022.

The **result of the assessment** is a list of deficiencies. At the end of 2022, there was one major weakness on the list of deficiencies, impacting IC principle 10: control design, related to the very important IAS audit recommendations, one resulting from the 2019 audit on the recovery orders and bank guarantees for fines, and three issued at the end of 2022: two on the reporting of the Commission's preventive and corrective measures and one on reliability of performance information on EU financial programmes. These very important recommendations are listed in section 2.1.2 above and detailed in annex 7.3. A few moderate deficiencies affecting in limited ways aspects of principles 4 (competences), 12 (procedures; linked to major weakness in principle 10); 13 (data protection: old entries in the database and open DPO recommendations: 1 under review, 1 to complete by end 2023)<sup>16</sup>.

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

### **Conclusion**

DG BUDG has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, except for principle 10: control activities, where a major deficiency in the design of controls in the audited areas continued from 2021, as reflected in the open very important audit recommendations, covering a non-material part of the DG's activities. Some minor improvements are needed in some other areas.

DG BUDG's management takes these deficiencies seriously and will support the teams responsible in addressing them. Although there are four very important recommendations open, affecting principle 10 (control activities) in a major way and 12 (procedures) in a moderate way, their scope is limited to activities, which do not have a significant impact on the overall assurance. In addition, most of the related actions have been already implemented. The follow-up of audit recommendations was periodically discussed in DG BUDG's internal control correspondents' network. A report on the state of internal control was provided to the Commissioner twice in 2022.

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<sup>16</sup> Principles 4 and 13 have moderate deficiencies recorded since more than three years, however, the deficiency in principle 13 concerned document management, and was remediated by 2020, when data protection deficiency (the same principle) was detected. HR strategy (principle 4), adopted in the end of 2022, identified some areas of concern, for which the actions started being implemented.

#### 2.1.4. Conclusion 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.

Following the change of Director-General on 16 January 2023, this Annual Activity Report is signed by the Authorising Officer by delegation (AOD) on the basis of the previous AOD's handover.

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

In the area of Own Resources, the key indicators presented in section 2.1.1. A. "Own Resources" support the reasonable assurance drawn, that Member States comply with the relevant regulations for own resources. On the basis of the follow-up on the issue on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget since November 2011, the authorising officer by delegation decided to lift the reservation covering this activity in the 2021 and earlier AARs. The recapitulative table below shows the evolution of the BUDG reservation between 2021 and 2022.

**Table 3: Evolution of BUDG's reservation**

Reservation Title	Financial impact		Residual error rate 2022	Evolution
	2021	2022		
Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget	Qualified and unqualified	Fully paid by UK and by the other Member States	DG BUDG lifted both the quantified and unquantified reservation in the area of textiles and shoes imported from China. Following the CJEU judgment in the case C-213/19, the Commission quantified the final amount due by the UK. The UK has now paid the full amount due including interest, while 26 Member States have made significant provisional payments. In line with the Court judgment and on the basis of the UK case methodology, the Commission will recalculate the final amounts due by Member States. This recalculation will lead to lower amounts ultimately due to the EU budget than those paid by Member States under reservation. The overpaid amounts will be returned. Consequently, as there is no longer a shortfall in the TOR made available, the reservation has been lifted.	Lifted

In conclusion, based on the elements reported above, management has reasonable assurance that, overall, suitable controls are in place and working as intended except for three limited areas: recovery orders and bank guarantees for fines, performance reporting and corrective capacity where they are partially effective; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented, also following the recommendations by the Internal Audit Service and the European Court of Auditors. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

### **2.1.5. Declaration of Assurance**

I, the undersigned, Director-General of DG BUDG,

In my capacity as authorising officer by delegation,

Declare that the information contained in this report gives a true and fair view<sup>17</sup>.

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

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

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

Brussels, 31 March 2023

(e-signed)

Stéphanie Riso

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<sup>17</sup>True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

## **2.2. Modern and efficient administration – other aspects**

### **2.2.1. Human resource management**

DG BUDG delivers on its responsibilities by putting people at the centre, responding to changing modes of working and expectations in a supportive and healthy working environment. In 2022 DG BUDG continued to focus on the effective management of human resources to deliver on its objectives outlined in the 2020-2024 Strategic Plan and 2022 Management Plan. In this respect, the HR Correspondent team (HRC) ensured proper and efficient management of DG BUDG human resources, while at the same time informing, supporting and advising managers and staff on a wide variety of issues.

#### *HR Strategy*

DG BUDG successfully developed its local HR strategy and action plan for the period 2022-2024, which was endorsed by DG BUDG's senior management. The overall objective of DG BUDG's HR strategy and action plan is to serve the main specific objectives put forward by the DG while keeping its staff at the core. The strategy and action plan outline concrete actions on communication, mobility and career development.

DG BUDG continued to manage its resources dynamically throughout 2022, attracting suitable staff to fill vacancies as they arose. In addition, DG BUDG supported the principle that there should be a Deputy Head of Unit in every unit, nominating 3 Deputy Heads of Unit throughout the year. Special attention has been paid to filling the vacancies in Luxemburg and the DG managed to fill them successfully.

Regarding learning and development, DG BUDG tailored its training offer to meet the needs and successfully implemented all its actions. DG BUDG organised for the fourth year in a row a specific talent management programme open to all colleagues, irrespective of grade and gender. This gave the opportunity for 24 colleagues to benefit from a tailor-made programme to develop their competences further. In addition, the DG designed a specific Leadership Capacity Development programme allowing 12 officials in pre-management functions to develop their personal branding and benefit from interactive experiential workshops and coaching.

DG BUDG continued to invest in transforming the way we work, moving towards more automated processing in order for staff to be able to focus on more value-adding tasks.

#### *Equal opportunities*

Gender equality is a priority for DG BUDG. In 2022 the DG continued implementing the 16 actions from its Equality, Diversity and Inclusion Action Plan. The following achievements from the internal dimension of the work plan can be highlighted: (i) the creation of BUDG Equality Task force - an internal network of equality focal points (ii) the adoption of BUDG Equality, Diversity and Inclusion Charter, (iii) a series of BUDG Women's Breakfast meetings that allows for an open and sharing experiences environment, and not lastly, (iv) a dedicated Equality Mainstreaming space on DG BUDG's intranet.

In addition, questions on equality, diversity and inclusion in DG BUDG were incorporated into the 2022 Internal Control survey. The results will be translated into appropriate actions in 2023, also taking into account the Diversity and inclusion in the workplace and Action plan for 2023 – 2024 that was adopted beginning 2023.

In this context, two further female middle managers were appointed. Women represent 30% of BUDG's senior managers, 51.6% of middle managers, and 50% of BUDG's Deputies to the Directors. When it comes



to pre-management positions (Deputy Head of Unit and Head of Sector) 43.6% are occupied by women. When recruiting, DG BUDG continued to pay particular attention to women applicants. Women with potential continued to be encouraged to apply for middle and senior management posts and to take up the opportunity to follow a specific DG BUDG talent management programme.

### *Staff engagement*

The DG has a fully engaged workforce that continuously strove for excellence throughout 2022, despite the difficulties brought about by the war in Ukraine, the economic and social crisis as well as by the post COVID-19 pandemic consequences. The latest available Staff Survey results showed an overall staff engagement score of 74% demonstrating this engagement. DG BUDG's own internal control survey results show that DG BUDG's working environment continues to be a strength: the related principles<sup>18</sup> 1, 2, 3, 6 and 8 reached levels of weighted effectiveness of 80% and higher.

The DG kept looking at ways to improve its existing operational structures in order to promote engagement. The wide-ranging scope of staff engagement actions set out in the local HR strategy were designed to drive staff well-being and engagement forward.

### *Well-being*

DG BUDG adopted its well-being programme, promoted and participated actively in fit@work actions, and introduced several classroom activities. Various individual and group meetings were organised (physical and/or virtual) along with 13 team events with the objective of reuniting teams.

In 2022 the DG updated its Management Charter and adopted the DG BUDG's Equality, Diversity and Inclusion Charter. These form the pillars which will help DG BUDG deliver on its responsibilities while putting people at the centre, responding to changing modes of working and expectations in a supportive and healthy working environment.

## **2.2.2. Digital transformation and information management**

Knowledge sharing, efficient data management, dissemination and exchange of information is a key pillar of a supportive, stimulating and challenging working environment at DG BUDG. B, the knowledge management platform for budget and finance, which was launched at corporate level in autumn 2021, was further enhanced in 2022. It contains all information necessary to DG BUDG's staff and the wider finance community to carry out budgetary and financial management work. BUDGpedia is updated with fresh content on an on-going basis by a community of BUDG experts. In 2022, an important volume of content was added to the platform covering all the novelties in financial management during the year. As a significant development, annotations to the Financial Regulation were also made available via BUDGpedia for the first time accessible to the entire finance community of the EU institutions (*see also section 7.1.4 on implementation of SUMMA*). In 2022, DG BUDG built an interactive IT-tool to collect KPIs on operational performance of the MFF programs. This tool will replace a manual collection procedure and prevent many data quality errors which made the original manual process very heavy. The tool will be deployed in all DGs and will be used for the first time in 2023 to collect the performance results within the 2024 budget procedure.

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<sup>18</sup> More information on the Commission's Internal Control Framework:  
[https://ec.europa.eu/info/sites/default/files/about\\_the\\_european\\_commission/eu\\_budget/revision-internal-control-framework-c-2017-2373\\_2017\\_en.pdf](https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/revision-internal-control-framework-c-2017-2373_2017_en.pdf)



#### 2.2.4. Examples of economy and efficiency

In its role of the central financial service of the Commission, DG BUDG continuously seeks to improve the economy and efficiency of the EC's financial processes, both internally and together with other services and institutions.

The revision of the Financial Regulation, for which DG BUDG is in the lead, will continue in 2023. It aims at aligning the general financial rules with the MFF package, enhancing the protection of the EU financial interests, improving crisis management, digitisation and simplification. DG BUDG representatives in corporate bodies such as the Corporate Management Board, the Information Technology and Cybersecurity Board, the Information Management Steering Board and the Group of Resources Directors, continued to examine the proposals and projects presented to these bodies, from an economy and efficiency perspective and to provide valuable feedback and advice.

An important initiative in 2022 was the creation of the procurement sector to provide more efficient administrative support and centralised procurement coordination within DG BUDG. The Sector initiated the drafting of internal procedures and training material which has been presented to colleagues and will continue to be part of the regular training provided. The network of procurement and contract management correspondents has also been enhanced aiming at achieving further effectiveness when launching a procurement procedure or when covering contractual needs.

In order to streamline the regular financial reporting activities of DG BUDG regular meetings with the IT Governance have been established to ensure effective collaboration and communication. These meetings are instrumental in the development of a specific dashboard, which provides an in-depth analysis of budget implementation by project and/or unit. The integration of this technology-driven solution has significantly improved the speed and accuracy of the financial reporting process, providing stakeholders with real-time insights into the budget implementation progress.

In 2022 manual-based processes continued to be replaced by automated electronic processes. Such was the case with the production of the monthly foreign exchange accounting rates. Thanks to the excellent collaboration of various services in DG BUDG, a new automated process has been implemented in 2022: a task which required 3 full days of work each is now performed in 4 hours.

2022 was also the year where replenishments and signature card management processes of our local bank accounts managed by our EU Delegations have been streamlined. The first months required an additional time investment of the team to deal with the change, but the institution can now benefit from these efficiencies to focus attention to other tasks.

Together with the EEAS, in 2022 DG BUDG continued remodelling the payment process in delegations, by extending the ACH (Automated Clearing House) services to cover a further 46 currencies by year-end, and simplifying the management of Imprest accounts. In this system, the banks directly access the domestic clearing platform where ACH international payments are perceived by the beneficiaries as local payments, resulting in reduced payment delays, central cash management and significantly lower costs as compared to traditional international payments.

DG BUDG is also working on enhancing the efficiency of non-financial activities. For example, DG BUDG is the Commission's single point of contact for credit rating agencies. These agencies' periodic reviews engage significant numbers of resources (in terms of affected services and time invested) across the DG. In 2022, DG BUDG established a single procedure applicable to the whole DG, with formally established contacts,

contribution channels and a single digital workspace for storing and collecting information (incl. on contingent liabilities) that is shared with these agencies. This will ensure a more efficient workflow, better traceability over time of the exchanges with rating agencies and improve business continuity.

In order to enhance the efficiency of the preparation of replies to interservice consultations, briefing requests and incoming documents, DG BUDG carried out a review of the attribution guide in order to ensure that consultations are correctly assigned without delay.