



2018

Annual Activity Report

DG BUDGET



Foreword



Dear readers,

The EU budget plays a key role in the delivery of the Union's policies and 2018 was the fifth year of the current 2014-2020 Multiannual Financial Framework (MFF). In this context, 2018 proved to be a year of continuity for the budget, achieving the right balance between the implementation of ongoing programmes and addressing new challenges. As the central service responsible for the preparation and implementation of the budget, DG BUDG has fulfilled its role throughout 2018 in ensuring not only sound financial management but also in seeing to it that the budget delivers concrete results and added value across the EU policies.

Some key highlights:

In May 2018, the European Commission put forward an ambitious yet realistic set of proposals for a modern EU budget with a **new Multiannual Financial Framework 2021-2027**, a budget proposal truly about EU added value. DG BUDG, together with the Secretariat General of the Commission, supported the technical and political negotiations under the Austrian and subsequent Romanian Presidencies.

2018 was also the year of the entry into force of **the new Financial Regulation**, which paved the way for further simplification and flexibility in the implementation of the EU Budget. It also ensures a better protection of the financial interests of the EU, reinforcing the rules on conflict of interests and the role of the Early Detection and Exclusion Database, facilitating the early detection and exclusion of unreliable economic operators.

Focus on **performance** of the budget has also been at the core of DG BUDG's work in 2018. In the context of the next MFF, the new generation of programmes should contain a limited number of key indicators for tracking, communicating and reporting in a coherent way on the results achieved for the entire EU budget, demonstrating the added value this has brought to the citizens. This will provide crucial information going forward to inform policy decisions.

DG BUDG has also successfully ensured the timely preparation and final adoption of the **Budget for 2019**, reflecting and supporting the EU political priorities, in particular contributing to the greatest extent possible to jobs, growth and investment and providing a European response to the current challenges such as migration management and protection of external borders as well as climate change.

For the 11th consecutive year, the Court of Auditors gave a positive ("clean") opinion on the **EU annual accounts**. Error rates reported by the Court declined to the lowest level on record in 2017. On this basis, in April 2018 and March 2019, the European Parliament, based on a recommendation by the Council, with a very large majority, granted **discharge** to the Commission for the 2016 and 2017 financial years respectively.

Many challenges remain ahead for DG BUDG, including facilitating the successful conclusion of the negotiations on the Multiannual Financial Framework (MFF) 2021-2027, which will be a core objective of the DG in 2019 as well as ensuring the timely preparation and conclusion of the Budgetary process for 2020, the last one to be proposed by this Commission.

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THE DG IN BRIEF

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

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

BUDG has around 470 staff members¹. It is structured around five Directorates based in Brussels, which deliver results in eight operational activities:

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

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

In order to ensure the integrity of the system, BUDG oversees the accounting data produced by the different DGs and bodies implementing the EU budget. The accounts are prepared via ABAC, the Commission's corporate financial/accounting system. BUDG is the system owner and supports the Commission's DGs/Services and 50 other External Entities, with over 12.700 users around the world.

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

¹ Data as of 01.02.2019 excluding external staff.

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

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

Organisational changes:

Mr. Gert Jan KOOPMAN was appointed as Director General of DG BUDG on 1st August 2018.

In addition, as of 1st January 2019 some targeted structural and management changes took place in the DG. The main purpose being:

- to improve the organisational structure of the DG
- to facilitate our work and improve internal communication
- to strengthen cross-DG cooperation.

The changes aimed to broaden the mandates and tasks of the units in charge of the implementation of SUMMA project and the unit in charge of performance-based budgeting. The changes also included the creation of a new unit on Strategic Coordination and Communication reporting directly to the Director General.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG BUDG to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties².

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

Proposals for the Multiannual Financial Framework 2021-2027

In 2018, the Commission presented its proposal for **a new, modern, long-term budget for the future**. The Multiannual Financial Framework 2021-2027 is geared towards the Union priorities, in line with the Bratislava and Rome agreements. At 1.114% of EU Gross National Income, it introduces a major modernisation of the EU budget with balanced financing share for innovation, research, digital, youth, climate, migration and border management, external relations, security and defence – priority areas with increased budget allocations – and the long-standing cohesion and common agricultural policies. It does so taking into account the withdrawal of the United Kingdom from the Union. The proposal was widely accepted by Member States as a basis for the MFF negotiations, which achieved notable progress under the Bulgarian and Austrian Presidencies.

BUDG has actively contributed to this result, providing unprecedented transparency, technical information and explanatory material. It also engaged actively with the European Parliament and other stakeholders, advocating for a swift agreement as agreed by the Leaders in December 2018.

On the revenue side, the Commission adopted a legislative package **to reform the own resource system**. It comprises a new Own Resources Decision (accompanied by a Staff Working Document) and complementary implementing rules. The Commission proposes to maintain some of the well-established pillars of the existing system such as the Traditional Own Resources like customs duties and the Member States contributions based on Gross National Income which serve as the 'balancing item' of the income side. Moreover, a simplification of the Value Added Tax-based own resource is put forward, as well as a basket of new own resources including a share of the proceeds of the European Emissions Trading System (ETS), the Common Consolidated Corporate Tax Base and a national contribution based on non-recycled plastic packaging waste. BUDG explained and defended the proposals in the Working Group on Own Resources under the Bulgarian and Austrian Council presidencies.

Brexit Preparedness actions

In 2018, BUDG participated in the work lead by the Article 50 Task Force on preparing and finalising the Draft Agreement on the United Kingdom's withdrawal from the Union (with regard to the financial provisions of that Agreement).

In close consultation with the Secretariat-General's Brexit Preparedness team, the Article 50 Task Force, and other horizontal services as appropriate, BUDG also initiated Brexit preparedness measures covering all possible scenarios and which included:

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

- the preparation of the reporting required by the Withdrawal Agreement with regard to financial liabilities of the EU from financial instruments and budgetary guarantees and the EDF Investment Facility outstanding at withdrawal date;
- the preparation of EU & EDF accounts (Financial Statements and budget implementation reports) at withdrawal date;
- specific measures aimed at the protection of the Union's financial interests as regards revenues to the EU budget in case of "no-deal";
- the assessment of the budgetary implications of "no-deal" as well as ways to address those (i.e. as precautionary measure, a 15% portion of the envelope of some spending programmes in direct management has been set aside to that end);
- the preparation and adoption by the Commission in January 2019 of proposal for a Regulation establishing a contingency framework for 2019 in case of "no-deal"³. The purpose of this proposal is to avoid, or at least minimise, any unnecessary disruption for beneficiaries of EU spending programmes and for the implementation of the EU budget;
- initial guidelines to services on the implications of "no deal" on the implementation of programmes and contracts;
- measures in relation to the IT systems managed by BUDG.

Annual Budgetary procedure

The budget 2019 was adopted timely on 12 December 2018 broadly following the Commission proposal. In 2019, the biggest part of the EU budget will be used to stimulate the creation of jobs, especially for young people and to boost growth, strategic investments and convergence. The EU will also continue supporting the efforts to effectively deal with the migration challenge, both inside and outside of the EU.

The 2018 Budget was fully implemented (EUR 140.4 billion on 31 December 2018 representing a 99.8 % implementation rate)

The submission of claims by Member States for the European Structural and Investment Funds increased significantly in the last weeks of the year. As a result, the 2018 voted budget was fully consumed. Moreover, additional 6.7 billion EUR of assigned revenue were used to reimburse Member States claims. Almost all of these payment claims were paid by the end of the year leaving only a normal backlog of claims received after 27th December which were paid at the beginning of 2019.

This confirms that the implementation of the 2014-2020 programmes reached the cruising speed.

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

In April 2018, the European Parliament, based on a recommendation by the Council, with a very large majority **granted discharge to the Commission for the 2016 financial year**. During the discharge procedure, the key stakeholders - the European Parliament, the Council and the European Court of Auditors – focused on how to improve results delivered by the EU budget and to reduce further the level of error. The debate also

³ COM (2019)64 final of 30.01.2019.

touched upon issues of relevance to the next Multiannual Financial Framework. The discharge for one agency (European Asylum Support Office) was refused by the European Parliament in October 2018.

The 2017 discharge procedure was launched when the European Court of Auditors published its 2017 Annual report, presenting the lowest error rate ever - the overall level of estimated error continued its downward trend from 3.1% in 2016 to 2.4% in 2017. In addition, for the second time in a row the ECA gave **a qualified rather than an adverse opinion** on the legality and regularity of the EU Budget payments. Over half of expenditure was free from material error, and no error was found in revenue. For the 11th consecutive year, the Court of Auditors also gave a **positive ("clean") opinion on the EU annual accounts**. As in 2017, these accounts were delivered to the discharge authority before the end of June, much earlier than in previous years. This allowed the ECA to also adopt and present its annual report 1.5 months earlier than the legal deadline set out in the Financial Regulation.

Hearings of Commissioners in the European Parliament took place between October and December 2018. In line with the improved financial management of EU finances, the debate focused more on performance of policies and less on compliance with rules. The Commission's Integrated Financial Reporting Package and the European Court of Auditor's **special reports** also provided important input to the discharge procedure.

Given the multiannual nature of many programmes and the importance of corrective mechanisms implemented before and after payment, the Commission estimated the "amount at risk at closure" of the main policy areas, for each service and for the entire Commission. As indicated in the **Annual Management and Performance Report**, the estimated amount was 0.6% in 2017, below the 2 % materiality threshold. This analysis shows that the existing mechanisms allow for an adequate protection of the EU budget.

Integrated Financial Reporting Package

For the second consecutive year, the Commission published a 'suite' of reports in the form of the 'Integrated Financial Reporting Package'. The information presented provides a comprehensive overview of how the EU budget is supporting the Union's political priorities, while being spent in line with EU rules. The package puts a special emphasis on performance, thus making a **big step forward in transparency and accountability** and in achieving one of the concrete outcomes of this Commission's 'Budget Focused on Results' initiative. In order to further promote transparency and accountability the presentation of the package has been streamlined and consisted of:

- Annual Management and Performance Report (AMPR)⁴,
- the EU Annual Accounts⁵,
- the report on the follow-up of the 2015 discharge⁶ and
- Programmes' Performance Overview⁷.

Management and control of revenues

The **own resources** of the EU continued to be effectively managed and controlled, as confirmed by the Declaration of Assurance from the ECA which concluded that 2017 revenue of the European Union was free from material error. No errors in the transactions tested were found and the examined systems for own resources and other revenue were assessed as effective overall, although in certain Member States visited by

⁴<https://publications.europa.eu/en/publication-detail/-/publication/f5729b08-88a5-11e8-ac6a>

⁵http://ec.europa.eu/budget/library/biblio/publications/2017/EU_Annual_Accounts_2016_en.pdf

⁶<https://publications.europa.eu/en/publication-detail/-/publication/38af0736-f684-11e7-b8f5-01aa75ed71a1/language-en/format-PDF>

⁷ http://ec.europa.eu/budget/library/biblio/documents/2019/Programmes_performance_overview.pdf

the Court, the key internal Traditional Own Resources controls were assessed as partially effective.

The excellent EU issuer ratings were confirmed by the rating agencies with stable outlooks, reflecting their view of the Commission's financial management of revenue in general and own resources in particular as sound and prudent. These ratings allow the EU very favourable conditions in the credit markets, which the Commission passes on to the member states in the loan and guarantee programmes.

On 1 March 2017 OLAF concluded its investigation (OF/2014/1274/B1) on the undervaluation of textiles and footwear imported in the UK between 2013 and 2016. OLAF addressed recommendations to Her Majesty's Revenue and Customs, to the Crown Prosecution Service and to the Commission. As a consequence of this investigation as well as those conducted by BUDG within the framework of own resources management, **serious doubts exist on the accuracy of the traditional own resources (custom duties) amounts transferred to the EU budget by the UK** and the Commission decided on 8 March 2018 to start a formal infringement procedure by sending to the UK a Letter of Formal Notice under Article 258 TFEU concerning this case. Since the UK did not provide a satisfactory reply, the Commission sent a reasoned opinion on 24 September 2018. Following the Commission's decision of 19 December 2018, the UK authorities indicated that they still intended to provide a formal reply. The UK reply was received on 11 February 2019. After analysing the reply, the Commission confirmed on 6 March 2019 their decision to refer the case to the CJEU. The case was referred to the CJEU on 7 March 2019. The Director-General of BUDG therefore maintains the reservation in the statement of assurance in 2018 (more detailed information can be found in sections [2.1.1.A.](#) and [2.1.5.](#)).

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

The cooperation with OLAF and TAXUD remained intense within the High Level Steering Group BUDG-OLAF-TAXUD on directors' level was established in 2017 with the objective to discuss regularly strategic policy issues for the protection of the revenue and expenditure side of the Budget.

On the revenue side, undervaluation remained high on the agenda as well as the measures necessary to improve customs controls, the monitoring of the functioning of the Customs Union and the way to face new challenges like e-commerce. The possibility to have Joint Analysis of Customs data at EU level to be able to identify unusual trade patterns and act early upon them was also thoroughly discussed (see further information on the reservation set on TOR in sections [2.1.1.A.](#) and [2.1.5.](#)).

On the expenditure side, BUDG conducted a fraud-proofing of future spending programme and actively contributed to the new Commission Antifraud policy, BUDG also worked closely with OLAF on other strategic issues related to Anti-Fraud policy for the "Expenditure" part of the EU budget. Such issues were discussed within the Steering Group "Anti-Fraud Policy" and included OLAF Instructions on Financial Recommendations and Guidelines on Financial Monitoring to the spending DGs as well as improving reporting on the amounts actually recovered following OLAF's financial recommendations.

The protection of the Union's budget against fraud and irregularities was further enhanced with the merge of the **Early Detection and Exclusion System (EDES) Panel** with the Financial Irregularities Panel allowing harmonised decision-making where officials are concerned.

In 2018, BUDG also initiated Brexit preparedness measures for the protection of the Union's financial interests as regards revenues to the EU budget.

Treasury and recovery of funds management

Treasury management continued to be particularly challenging in the course of 2018 in view of the persistence of a negative interest rate environment. In addition, regular monitoring of payment needs and cash flows was required to ensure proper and timely execution of all payments, which is key to budget implementation.

The Commission continued during 2018 to **recover all amounts due** as efficiently and effectively as possible, using all the initiatives available to avoid unnecessary losses and applying an appropriate **risk management for provisional fines and bank guarantees**. The risk management policy for financial guarantees has been reviewed during the year to take into account the current macro-economic situation in the EU.

Accounting financial System (ABAC)

During 2018 BUDG continued to support other DGs in the implementation of the annual budget via an efficient **execution of payments and revenues** and the correct management of the **corporate information and accounting IT tool (ABAC)**.

The new provisions derived from the revision of the Financial Regulation were deployed and activated in 2018 and the new Legal Commitment module was finalised with the completion of the migration of contracts and framework partnership agreements. This new module centralizes all the legal commitments (e.g. grants, procurements, contracts with third parties...) in a single repository allowing for better management and reporting.

SAP will stop introducing upgrades to the software that is at the core of ABAC by the end of 2025. The Commission therefore decided at the end of 2017 to replace it by a new platform (SUMMA), which is fully based on SAP's latest technology. The new platform SUMMA will not only bring additional business benefits, but will also solve some technical constraints. By launching the SUMMA project in January 2018 BUDG is anticipating a solution well in advance of the 2025 deadline.

The year 2018 was marked by two major achievements: (i) The foundations for the project have been built, including its scope, and governance structure ensuring regular monitoring of the project's status, as well as updating the key stakeholders through the relevant forums (e.g. IT Board, SUMMA's Steering Committee, Commission network of financial units), and; (ii) The successful completion of the first phase of the project, which intended to identify the high-level business requirements as well as the main issues and gaps.

The experience from 2018 and its close monitoring reveals the need to review the planning established at the beginning of the project and the first cost and resources estimation. Indeed, following the high level screening of the needs carried out during the first phase of the project, the requirements identified have resulted to be more complex to analyse and implement than initially assumed at the beginning of 2018 with our external partners and advisors. Although additional human resources will be assigned to the project, an extension of the project's timeframe and an increase of its total cost are anticipated.

At this juncture, it is not considered that the implementation of the SUMMA project is likely to be delayed beyond the 2025 deadline. In the meantime, ABAC can still be relied upon, as the necessary resources to make changes and developments in the current system to support the DGs, to guarantee its availability, reliability and security, are maintained. On this basis, the objective of ensuring the continuity and reliability of the Commission's budgetary and accounting operations is not jeopardised, and therefore a reservation is not required. The management and monitoring of the project has been further reinforced

and a reassessment of the impact of the delays will be performed and reported in next year's annual activity report.

Financial rules

Following the **entry into force in August 2018 of a shorter and modernised Financial Regulation**, further steps were taken towards simpler EU financial rules with the preparation of more interoperable and flexible post-2020 funding programmes and the development of corporate model contracts and IT solutions for management of eGrants and eProcurement. The simplification efforts included a new financial framework regulation for Union bodies and the revision of framework agreements with international institutions. Special attention was also given to the implementation of the reinforced rules on conflict of interest of the new Financial Regulation in the area of shared management. Negotiations started on the proposal for Protection of the Union's budget in case of generalised deficiencies as regards the rule of law.

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

Work on **synergies and efficiencies in financial management** continued focussing on simplification and harmonisation of post-2020 spending programmes, including opportunities for further externalisation.

EU Budget focus on added value

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

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

The focus on results was the key during the preparations of the 2019 draft budget. DGs were requested to provide information on the areas where EU spending programmes bring positive results or where implementation is lagging behind. In addition they have also been invited **to assess the performance of different instruments** used (grants, procurement, and financial instruments). Also in the context of the next MFF, the new generation of programmes should contain a **limited number of indicators** for communicating and reporting in a coherent way on the results achieved for the entire EU budget.

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

Organisational management of the DG and internal control

The DG continued to focus its efforts on **Human Resource Management** under the new HR model, in collaboration with the Account Management Centre in DG HR, in order to provide a high quality of service to underpin the achievement of the key objectives of the DG, and at the same time maintaining the level of engagement and motivation of staff.

In this context, an **ad-hoc survey** was launched in September 2018, followed by several interviews **aiming at taking the pulse of staff** and identifying areas of improvement. A **Focus Group** composed by non-management staff to analyse the survey results and propose further actions to management. The result of this work served as a very important input in the assessment of some key areas of BUDG internal control systems.

In 2018, **Internal communication** focused on providing timely information on BUDG and Commission priorities and activities. Significant importance was given to improving knowledge sharing and interactive communication between staff and management.

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

b) Key Performance Indicators (KPIs)

<u>Indicator</u>	<u>Baseline (2014)</u>	<u>Target 2020</u>	<u>Milestones achieved in 2018</u>
MFF midterm review / revision and Proposal post 2020 MFF	MFF 2014-2020 adopted in December 2013 Key milestones Mid-term Revision proposal 2016	Conclusion of negotiations on the post-2020 MFF package of proposals	The Commission presented its proposal for the MFF 2021-2027 on 2 May 2018, which was accepted as a basis for negotiations.
Adoption and implementation of Annual budget within the deadlines set by the Treaty , respecting the political priorities and promoting efficient allocation of resources (including the 5% staff reduction target)	Budget 2016 adopted : 25/11/2015 Execution 2015 - commitment appropriations (after carry-overs): [100] % - payment appropriations, implementation (after carry-overs): [100] % Payment Plan : March 2015 Allocation of human resources consistent with 5% staff reduction target	Adoption of annual Budget in December at the latest Full (100%) annual budget implementation making use of transfers and carryovers Full use of resources within the MFF Optimal allocation of financial and human resources to address the political priorities	Budget 2019 timely adopted (12/12/2018) Almost 100% budget implementation (99.8%) 5% staff reduction completed for the Commission and the agencies as confirmed by the European Court of Auditors Rapid Case Review. B2019 completes reduction process for all Institutions.
Confirmation by ECA of the effectiveness of the Commission's Own Resources control systems	Positive DAS Opinion on Own resources for 2014 exercise	Positive DAS Opinion on Own resources for 2015-2019 exercises	Positive DAS Opinion for 2017 on Own Resources
Confirmation by ECA of the reliability of the annual accounts and discharge resolution by EP with no postponement or reservations	Positive DAS on 2014 Accounts No postponement of the discharge	Positive DAS on annual accounts 2015-2019 Annual discharge in EP plenary for 2015-2019 budgets	Positive DAS Opinion for 2017 on accounts Discharge granted for the exercise 2016
Develop a Budget Focused on European Value Added	SPP cycle and reporting framework Programme statements in MFF	Reinforcing performance framework for evaluation, reporting, budgeting and programming	Integrated Financial Reporting Package 2017 demonstrates how every euro was managed and spent in 2017. Improved 2017 Annual management and Performance report for the EU Budget. Designed and carried out a Spending review of all spending programmes. Publication of Programmes' Performance Overview with concise and uniform information for all spending programmes
Adoption of simpler and more coherent financial rules		Simplification of financial rules through the adoption by 2019 of the Simplified Financial Regulation	The new Financial Regulation 2018 (Regulation (EU, Euratom) No 2018/1046 of 18 July 2018) has entered into force and is applicable from 2 August 2018. The rules of the new Financial Regulation provide for simplification and flexibility and will serve as a basis to harmonise and simplify rules across programmes also in the future MFF.

Promote sound financial management	DAS from the ECA based on materiality threshold of 2 %	Reduction of error rates	Estimated level of error for expenditure further reduced (from 3.1% for 2016 to 2.4% for 2017; ECA 2016 & 2017 Annual Report)
		Complementing the residual error rate methodology	"Amount at risk at closure" concept further enhanced and below 2% (0.6% for 2017; Commission 2017 AMPR)

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

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

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these principles. DG BUDG has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended with the exception of some improvements that will reinforce the effectiveness of some principles in the components I. Control Environment and IV. Information and Communication. Please refer to section 2.1.3 for further details.

In addition, BUDG has systematically examined the available control results and indicators, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to section 2.1 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 his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget . As described in the corresponding section and in the reservation details (section 2.1.5), BUDG, in cooperation with the relevant services is following-up very closely on this matter.

However, according to Article 8 of Council Decision of 26 May 2014 on the system of own resources of the European Union, the responsibility for collecting and making available TOR falls on Member States and therefore the responsibility of the Commission to mitigate the risk is limited. Please refer to sections [2.1.1.A.](#) and [2.1.5.](#) for further details.

d) Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of Commissioner Günther H. OETTINGER, responsible for Budget and Human Resources as of 1 January 2017.

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

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

On 2 May 2018, the Commission presented its proposal for a new EU Budget for the Future, the Multiannual Financial Framework 2021-2027. The proposed MFF is the first one for a Union at 27, and as such addresses both new political priorities and the consequences of the withdrawal of the UK from the EU in a balanced way. Notably, it follows up on the positive agenda set by President Juncker and the priorities agreed by Leaders in Bratislava and Rome to increase spending on research, innovation and digital, youth, climate action, migration and border management, external action, security and defence. For the first time ever, combined investment in these priority areas is comparable to spending on agriculture and cohesion policy, respectively. BUDG lead the Commission effort to enable this major modernisation by finding a delicate balance between moderate savings in long-standing policies and fresh financing from Member States, proposing EU level spending at 1.114% of Gross National Income of the Union, a slight overall increase from the current MFF set at 1% of GNI.

The new long-term budget for the Union is also characterised by a new mechanism to protect the EU budget from financial risks linked to the rule of law, a strong focus on European added value and on performance, less red tape for beneficiaries and regulatory simplification, as well as continued efforts to ensure the requisite budgetary flexibility to address new challenges effectively as they emerge. It also increases climate mainstreaming to 25% - ensuring more climate-relevant investment at EU level. The MFF thus sets the framework for the 37 newly proposed programmes under the seven new budget headings corresponding to Europe's priorities. The proposal offers unprecedented transparency and takes into account the results of the spending review finalised in early 2018. While it presents some difficult financial choices, the proposal was widely accepted as a basis for negotiation by all Member States and the European Parliament.

In the second half of 2018, BUDG thus engaged in active communication and technical presentation of the proposed MFF, notably in the Council under the Bulgarian and Austrian Presidencies as well as with the Parliament, national institutions, other stakeholders and citizens. BUDG and the Secretariat-General were actively involved in the negotiations at the technical level in the Council, working with the Presidencies on the negotiation box, the draft text to be discussed by the Heads of State or Government of Member States. It continued providing an unparalleled level of detail and explanatory material on technically complex aspects of the proposed budget, thereby enabling swift technical analysis of the proposal. This was a sound basis for the Commission to advocate a swift political agreement on the long-term budget, culminating in the Commission's contribution to the Leaders' debate on the MFF in December 2018. At the European Council, Leaders agreed to conclude an agreement by autumn 2019, in line with the Commission's strategic budgetary planning.

In October 2018, the Commission published the first Report on the Long-term forecast of future inflows and outflows of the EU budget (as required under the new Financial Regulation, Article 247(1)(c)). This new report replaces and extends the Medium-term payment forecast, which the Commission prepared in previous years. In addition to the EU budget expenditure (outflows), the report covers also the corresponding revenue (inflows) over a period of 5 years (i.e. 2019-2023). This forecast is a key element ensuring predictability in the budget evolution in the longer term as it provides indication for the expected implementation trends of key spending items, the sustainability of the MFF payment ceilings and the accumulation and evolution of outstanding commitments (RAL).

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

The budget 2019 was finally adopted in December 2018. Because of diverging positions of the Parliament and Council on some sensitive political issues (notably the reinforcement of Research using past de-commitments and the financing mechanism of the extension of the Facility for Refugees in Turkey), the November conciliation failed and the Commission tabled swiftly a second draft budget, so as to avoid the recourse to the provisional twelfths regime (last applied in 1988). The final outcome, forged during a decisive trilogue early December 2018 between the three institutions, broadly follows the Commission proposal, reflecting and supporting the political priorities, in particular contributing to the greatest extent possible to jobs, growth and investment, and providing a European response to the challenges of migration management and the fight against terrorism and organised crime.

Commitment appropriations are set at around EUR 166 billion (increase of 3.2 % compared to 2018) leaving a margin of about EUR 1.3 billion. Payment appropriations are set at EUR 148 billion (increase of 14.1 % compared to 2017) leaving a margin of almost EUR 20 billion. The additional commitments were enabled by some redeployments and the mobilisation of the "special instruments" foreseen in the MFF:

*Budget 2019 adopted
on time
EUR 166 billion*



- the Flexibility Instrument for 2019 was mobilised for an amount of almost EUR 1.2 billion for heading 3 Security and Citizenship, Heading 4 Global Europe and Heading 1a Competitiveness for growth and jobs.
- the Global margin for commitments was mobilised for an amount of EUR 1.5 billion for heading 1a Competitiveness for growth and jobs, Heading 1b Economic, Social and Territorial Cohesion and Heading 4 Global Europe.
- The offsetting of the Contingency margin mobilised in 2017 amounts to EUR 254 million in Heading 5 in 2019.

Implementation of the budget 2018:

The implementation of the 2018 Budget ran rather smoothly, all programmes across all headings have reached cruising speed; the pace of implementation has accelerated which allowed the Commission to finish the year with almost full implementation. And – contrary to the years 2016 and 2017 – in 2018 this was done without having to revert to an amending budget to reduce the payment appropriations.

During the year the Commission was very pro-active in working with and assisting the Member states to accelerate implementation of European Structural and Investment Fund (ESIF). The closure process for the 2007-13 ESIF programmes progressed significantly and 60% of the outstanding commitments were paid, leaving less than EUR 5 billion still outstanding.

After delays in the implementation of the new generation of programmes in the first three years of implementation (2014-2016), the financial implementation of the European Structural and Investment Funds has improved as of 2017. In 2018 the totality of the voted budget and the majority of the assigned revenues were consumed. As in previous years the submission of claims increased significantly during the last weeks of the year; payment applications for a total of EUR 18 billion for Heading 1b were received in the month of December 2018 representing 38% of the 2018 amount.

*Budget 2018 fully
implemented*

As a result, the 2018 authorised budget was fully implemented and a further EUR 6.7 billion of assigned revenue - generated by the annual examination and acceptance of accounts - were also used to reimburse payment applications, confirming that the 2014-2020 programmes are at cruising speed now.

The Commission also swiftly proposed an amending budget to kick-start the implementation of the **second tranche of the Facility for Refugees in Turkey** (FRIT2). The EUR 500 million thus added to the Facility was fully committed before year-end in order to ensure a seamless follow-up of interventions under the first tranche, notably by continuing to pay salaries for teachers providing education to refugee children in Turkey. A final agreement on the full financing of the second tranche, with EUR 2 billion coming from the EU budget and EUR 1 billion from Member States as bilateral contributions, was reached in Coreper in July and with the Budgetary Authority in the negotiations on the 2019 budget in December 2018

The Commission made significant efforts to reimburse as much as possible before the end of the year. Almost all of the payment claims related to ESIF were reimbursed leaving a "normal" backlog of EUR 3.4 billion at the end of 2018, consisting of the payment applications received after the 27th of December 2018 which could not be processed before year-end. In addition, there were at the end of the year also EUR 1.5 billion of payment applications outstanding because they needed further analysis or were suspended.

BUDG assessed budgetary implications and ensured sound budgeting within the MFF for new legal acts/Commission decisions through the **timely reply to Interservice consultations received** (99.5% of replies were sent within the deadline). More importantly, it was actively involved in the preparation of the post 2020 MFF proposals, provided steer on horizontal aspects and assisted the DGs in this complex exercise. DG BUDG participated in the Interservice steering groups, providing a critical assessment and contributing to the design of the sector-specific proposals

The process of **implementing a 5 % reduction in staffing level** of all EU institutions, bodies and agencies over five years is completed. Most institutions, including the Commission, applied the final step of the reductions in their 2017 budget proposals, while the EEAS did so in 2018, and the European Parliament reached the target with the Draft Budget (DB) proposal for 2019. For the agencies, the five year exercise of staff reductions was completed in the 2018 budget.

In December 2017, the European Court of Auditors (ECA) issued a Rapid Case Review on the application of the cut, stating that it had been achieved by all institutions and bodies, albeit with slight delays in some limited cases. Major efforts continued to achieve all possible **efficiency gains** and to meet new challenges through the redeployment of existing resources across the Commission. The Complementary Allocation of establishment plan posts for 2018 – SEC(2018)365 of 11.7.2018 – allocated 98 posts to priority areas, made possible by redeployment. The Final Allocation for 2019 – SEC(2018)520 of 19.12.2018 – confirmed the importance of maintaining a substantial reserve to address the emerging priorities of the new College in 2019. Follow-up to the 2016 *Communication on Synergies and Efficiencies in the Commission* continued.

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

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

The **own resources of the EU** were continuously and effectively managed and controlled, as confirmed in 2018 by the European Court of Auditors' (ECA) Declaration of Assurance. The ECA confirmed the overall effectiveness of the Commission's revenue systems for Traditional Own Resources (TOR) and own resources based on Gross National Income (GNI) and the Value-Added Tax (VAT). However, in certain Member States visited by the ECA, some key internal controls were assessed as partially effective.

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

As regards **Traditional Own Resources (TOR)**, in its control function the Commission carried out **23 inspections**⁸ in Member States focussing on the areas considered as being the most risky. To address the significant risks posed by the undervaluation of textiles and shoes imported from China, BUDG carried out inspections in 13 Member States in 2018 to check their control strategy in the field of customs value. The remaining 15 Member States will be inspected in 2019 so that within two years, all Member States will have been inspected on this topic.

The 10 other inspections carried out in 2018 mainly focussed on the import of solar panels from China with an emphasis on the measures taken to make sure the anti-dumping or countervailing duties due are paid and the EU industry is protected.

As usual, all inspections included a thorough check of how Member States managed the B account⁹ and the corrections to the A account¹⁰ based on sample examination. Finally, the 234 **write-off reports**¹¹ submitted by Member States were timely assessed so that all amounts due in compliance with the TOR legislation were requested from MS (see more details on the results of the assessment in section 2.1.1.A).

As regards TOR legislative work, **new decisions were adopted to bring along more transparency** (changes in the TOR accounting statements); **better and more complete information** on cases of fraud and irregularities (OWNRES) to which other Commission services have access too; and more complete write-off reports via the WOMIS system allowing a better judgement of Member States' recovery efforts and avoiding BUDG systematically requesting additional information from Member States, and thereby an overall leaner and more effective system. The following decisions were taken:

- Commission Implementing Decision (EU, Euratom) 2018/194 of 8 February 2018 establishing models for statements of accounts for entitlements to own resources and a form for reports on irrecoverable amounts corresponding to the entitlements to own resources pursuant to Council Regulation (EU, Euratom) No 609/2014¹²

⁸ 1 inspection visit foreseen in programme 2017 was carried out in 01/2018, 4 inspection visits foreseen in programme 2018 were carried out in 01/2019. Inspection programme implemented at 85%.

⁹ Irregularities in TOR are accounted for in the so called B account and TOR is made available to the EU by the Member States in the so called A account.

¹⁰ In addition to this general topic, the control strategy in the field of customs value and the control of imports of solar panels were examined in specific Member States. Joint audits were also part of the programme.

¹¹ These reports concern TOR amounts that became irrecoverable allegedly for reasons not attributable to the Member States. When the Commission's assessment concludes that the losses are attributable to Member States' though, the latter are required to make the relevant amounts available to the EU budget.

¹² Repealing Commission Implementing Decision 2016/2366 establishing models for statements of accounts for entitlements to own resources and a form for reports on irrecoverable amounts corresponding to the entitlements to own resources pursuant to Council Regulation (EU, Euratom) No 609/2014.

- Commission Implementing Decision (EU, Euratom) 2018/195 of 8 February 2018 establishing forms for reporting on fraud and irregularities affecting entitlements to traditional own resources and on inspections relating to traditional own resources pursuant to Council Regulation (EU, Euratom) No 608/2014¹³

The changes brought in relate mainly to the A&B account statements, OWNRES¹⁴ and WOMIS¹⁵ templates and the Annual activity reports (AAR) Member States should submit. The OWNRES and WOMIS applications were upgraded to meet the legal expectations. A further upgrade of the OWNRES application is scheduled for 2019 and the OWNRES and WOMIS manuals will be revised and updated towards end 2019. The AAR was brought in line with the Customs Union Performance report issued by TAXUD. This results in synergies and simplifies the work for Member States that are no **longer requested to provide identical data to different Commission services**. This also reduces the risk of discrepancies in data communication from national contact points from different departments in MS.

In 2017, the European Anti-Fraud Office's (OLAF) investigation report OF/2014/1274/B1 and three TOR inspection reports highlighted a significant case of undervaluation of textiles and footwear imported from China in the UK by OLAF that resulted in a global amount of 2 679.6 (gross¹⁶) being lost between 2011 and 2017. The Commission found that importers in the UK evaded the payment of customs duties by using fictitious and false invoices and incorrect customs value declarations at importation. During that period, the UK failed to take any effective customs measures to prevent those high-volume imports of clearly undervalued textiles and footwear from China - thereby infringing customs, VAT and Own Resources legislation.

As of October 2017, the UK authorities have gradually introduced the remedial measures requested by the Commission but they still refuse to make available to the EU budget the TOR losses resulting from their lack of action before October 2017.

Hence, on 8 March 2018 the Commission opened infringement proceedings against the UK for this case, sending it a Letter of Formal Notice under Article 258 TFEU. The UK replied on 22 June 2018. On 24 September, the Commission decided to send a Reasoned Opinion to the UK because of its failure to make the TOR amounts due available to the EU budget, as required by EU law. The UK did not reply to the Reasoned Opinion within the deadline of two months. On 19 December 2018, the Commission decided to refer the case to the Court of Justice of the European Union (CJEU). Following the Commission's decision of 19 December 2018, the UK authorities indicated that they still intended to provide a formal reply. The UK reply was received on 11 February 2019. After analysing the UK' reply, the Commission confirmed on 6 March 2019 their decision to refer the case to the CJEU. The case was referred to the CJEU on 7 March 2019.

¹³ Repealing Commission Implementing Decision 2016/2365 establishing forms for reporting on fraud and irregularities affecting entitlements to traditional own resources and on inspections relating to traditional own resources pursuant to Council Regulation (EU, Euratom) No 608/2014.

¹⁴ IT application for communicating cases of fraud and irregularities to the Commission.

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

¹⁶ Collection costs need to be deducted from this amount to obtain a net amount.

In 2018, BUDG has intensified its inspection activities concerning undervaluation, not only regarding the UK (where two inspections were carried out) but also in other Member States as 16 inspections as a whole were carried out to check whether their control strategy in the field of customs value adequately protects the EU budget. The inspection reports sent to Member States include many recommendations, in particular to use risk thresholds based on EU-wide 'cleaned average prices'¹⁷ (also known as 'fair prices') developed by OLAF in cooperation with the Joint Research Centre for each textiles and footwear product imported from the People's Republic of China to help Member States in identifying imports at risk of being undervalued so that customs could check them. Another important recommendation to Member States is to physically check the goods at clearance and to take guarantees as appropriate, to make sure the customs duties due will be paid.

BUDG also made a presentation in the group of Directors General of Customs of the 28 Member States on 13 July 2018 to inform them of the results of the inspections on customs value, raise awareness about undervaluation of goods, in particular textile and shoes, to encourage them to monitor their imports to detect potentially undervalued goods and to take timely measures and inform them about the extent of the potential losses to the national and EU budget as a result of this fraud.

The cooperation with OLAF and TAXUD remained intense since the High Level Steering Group BUDG-OLAF-TAXUD on directors' level was established in 2017 with the objective to discuss regularly strategic policy issues for the protection of the revenue side of the Budget. Undervaluation remained high on the agenda as well as the measures necessary to improve customs controls, the monitoring of the functioning of the Customs Union and the way to face new challenges like e-commerce. The possibility to have Joint Analysis of Customs data at EU level to be able to identify unusual trade patterns and act early upon them was also thoroughly discussed (see further information on the reservation set on TOR in sections [2.1.1.A.](#) and [2.1.5.](#)).

In the area of **VAT own resource**, the Commission carried out the **12 inspection visits to Member States** during 2018, as planned.

In 2018, BUDG also initiated **Brexit preparedness** measures for the protection of the Union's financial interests as regards revenues to the EU budget.

SO4. Maintain a high quality central accounting /financial framework

The Commission demonstrated its accountability by providing high quality and timely financial and other information to its stakeholders, both internal and external. Working in close and productive cooperation with the DGs and all EU bodies, during 2018 BUDG produced the 2017 **annual accounts** of the EU, the Commission and many other EU entities¹⁸ and obtained for the eleventh consecutive time a **positive ("clean") opinion on the EU annual accounts from the ECA**. No significant audit findings were raised during the audit of the reliability of the 2017 EU accounts and the error rates noted by the auditors were much lower than for the previous year (see S08). This is a reflection of the work done by BUDG accounting services together with the DGs, including reinforcing the need for greater attention to their financial data quality. These accounts were also delivered **before the end of June** to the discharge authority, thus allowing the ECA to also adopt and present its annual report earlier, with the ultimate result of

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

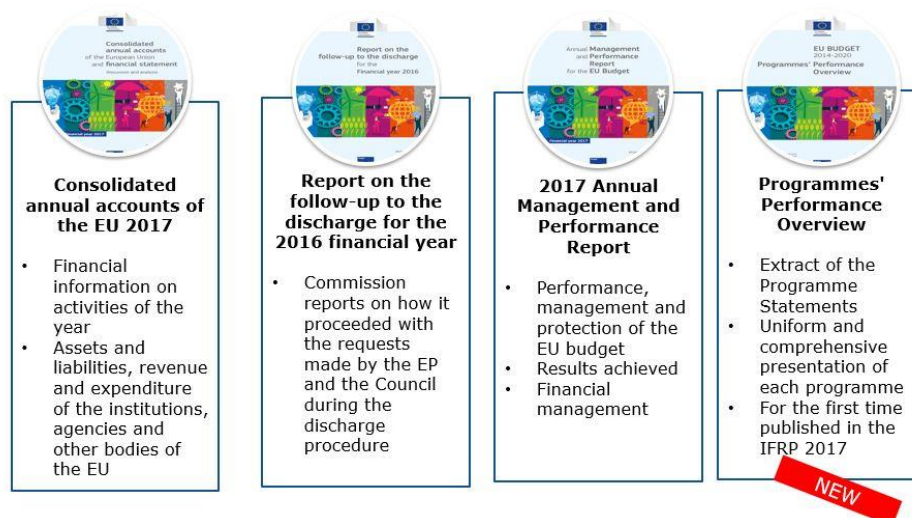
¹⁸ Using the resources and expertise at its disposal, BUDG's accounting services are already providing high quality services to, amongst others, 2 institutions, 14 EU agencies and joint undertakings, the EDF and 4 trust funds. This allows the agencies and joint undertakings in particular to reduce their headcount while maintaining (and often improving) their performance in this area. As the number of entities availing of this option grows, so should the cost savings and efficiency gains.

starting the discharge procedure 6 weeks in advance of the legal deadline. All other entities' accounts also received clean opinions.

In line with the highest standards of transparency and accountability, the Commission published **the Integrated Financial Reporting Package 2017 (IFRP)**, which included four reports, providing key and detailed information for the reporting year on revenue, expenditure, management and performance. The package provides a comprehensive overview of how the EU budget is supporting the Union's political priorities, while being spent in line with EU rules. It puts **special emphasis on performance** making a big step forward in **transparency and accountability** and achieving one of the concrete outcomes of this **Commission's focus on European added value**.

The IFRP 2017 included:

- The 2017 **Annual Management and Performance Report** that provides an overview of the performance, management and protection of the EU budget. It explains how the EU budget supports the EU political priorities and describes both the results achieved and the role of the Commission in ensuring the highest standards of financial management.
- The **Consolidated annual accounts of the European Union 2017** contain financial information on the activities of the year, the assets and liabilities, the revenue and expenditure of the institutions, agencies and other bodies of the EU. They are produced in accordance with International Public Sector Accounting Standards.
- In the **Report on the follow-up to the discharge for the 2016** financial year the Commission reports on how it proceeded with the requests made by the Parliament and the Council during the discharge procedure. They cover wide-ranging topics and help the Commission to further improve the way it manages and implements the EU budget.
- The **Programmes' Performance Overview** is an extract of the Programme Statements. It provides a uniform and comprehensive presentation of each of the spending programmes, their performance framework, benefits for EU citizens, implementation status and highlights key achievements.



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



The Financial Report on the Implementation of funding raised for the migration and refugee crisis (2015-2017) was sent on Monday 25 February 2019 by the Commissioner to the budgetary authority.

A mechanism to track migration related commitments has also been implemented in the Commission's general financial system (ABAC) and related local systems in the beginning of this year, so that the reporting on migration related expenditure could be performed.

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

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

BUDG also extended again its client base in 2018 with regard to providing central accounting services for other EU entities – on 1 July 2018 the Commission's Accounting Officer became the accounting officer of the ECSEL Joint Undertaking, and likewise for the European Institute of Innovation & Technology (EIT) in 1 October 2018. Currently these services are provided to a total of 14 entities.

With regard to Brexit, the accounting services in BUDG, working with the IT units and the other EU entities, have put in place all the necessary elements to ensure that a closure of the accounting system and subsequent preparation of EU consolidated accounts can be done at the withdrawal date if needed. Detailed instructions were sent out to all DGs and EU entities. Furthermore, the accounting services have also been working with DG ECFIN as well as the EIB and EIF to have the reporting on financial instruments required by the draft withdrawal agreement available if needed in mid-2019.

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

During 2018 BUDG has continued to support other DGs in the implementation of the annual budget, via an efficient **execution of payments and revenues** and the correct management of the **corporate information and accounting IT tool (ABAC)**.

BUDG implemented and **further developed its new strategy to the validation of local systems** during 2018. It has simplified the process, reducing the administrative burden on authorising departments and disseminating best practices beyond the departments examined. The strategy involves the assessment of accounting risks for each authorising department by means of a desk review of all relevant information available.

The methodology used for assessing risks in Commission departments is not suitable for the various Traditional Agencies and Joint Undertakings under the responsibility of the Accounting Officer of the Commission, due to differences on the available sources of information in corporate governance. To address this, BUDG has implemented an alternative approach based on (1) a review of changes in the local systems and in the control environment; (2) the evaluation of internal control deficiencies identified by audits and supervisory controls; and (3) the verification of a sample of transactions. The work is designed to provide reasonable assurance that the internal control systems are

working as intended. If weaknesses are found, BUDG would carry out additional supervisory controls or an in-depth assessment.

In 2018 and for the first time, BUDG has validated nine Traditional Agencies and Joint Undertakings. The exercise will be repeated annually for all these bodies (a total of eleven at present).

Treasury management has continued to be **particularly challenging** in the course of

Treasury managed effectively despite challenges and the negative interest environment

2018 due also to the persistence of a negative interest rate environment. In this context, The safeguards provided by the Making Available Regulation and the European Development Fund (EDF), together with the specific treasury management procedures put in place have ensured that impact of negative interest on the EU and EDF budgets could be minimised in 2018, and for the EU Trust

Funds even completely avoided. Monitoring of payment needs and cash flows also remained important to ensure proper and timely execution of payments, which is key to the EU budget. An effective treasury management and safeguarding of EU assets has become increasingly critical over the past years.

In 2018, the **Commission has recovered all amounts due as efficiently and effectively as possible**, using all the initiatives available to avoid unnecessary losses and applying an appropriate risk management for provisional fines and bank guarantees. The risk management policy for financial guarantees has been reviewed during the year to take into account the macro-economic situation in the EU characterised by steady economic recovery and consequently lower risks, the experience with the current procedure over the last five years and the (expected) evolution of the amounts of fines being imposed and covered by financial guarantees.

ABAC is the Commission's **corporate finance and accounting system** managing the financial transactions, accounts and disclosure of the Commission and of 50 External Entities. ABAC's availability and reliability is essential, both from a daily business as well as from a political point of view. Throughout 2018 ABAC ran in **compliance to the provisions of the Service Level Agreement**, letting a user community of over 12.700 users to operate EUR 160 billion in appropriations and over one million payments.

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

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

The security high standards of BUDG IT systems was maintained through sustained actions such as the renewal of the SWIFT annual self-attestation, the migration of SWIFT to the most recent version on a more secure Linux platform, the quarterly update of the IT security action plan of the DG and several security awareness campaigns for the DG staff. Additional critical technological updates have been performed in the context of ABAC and SWIFT to ensure the highest security standards.

Three major releases of ABAC were successfully deployed during 2018 one of them including the last part of the LCK module which is now fully integrated in ABAC.

These achievements fit into a roadmap which must lead to **a new Corporate Finance Platform** which is the successor of ABAC (**SUMMA**). SUMMA will be the next generation corporate platform for any financial process within the EC and other EU entities.

In October 2017 a "business case" with the proposal to build SUMMA on SAP's latest technology ("S/4 HANA") was approved by the IT Board, leading to the formal launch of the SUMMA programme in January 2018.

*Important IT
achievements and
challenges in view of
the new corporate
Finance Platform
SUMMA*

SUMMA will not only bring additional business benefits, but will also solve some technical constraints. Indeed, SAP will stop introducing upgrades to the software that is at the core of ABAC by the end of 2025. By launching the SUMMA project in January 2018 BUDG is anticipating a solution well in advance of the 2025 deadline.

SUMMA will also be compliant with the current legal framework, fitting into the Commission's IT landscape and its Digital Strategy and be flexible enough to incorporate future political priorities (e.g. next MFF).

The year 2018 was marked by some major achievements to build strong foundations for the programme:

- A unit specifically dedicated to SUMMA was created. The programme was also broken down in smaller sub-projects, covering the different business processes (e.g. accounting, treasury, expenditure flow...) as well as other dimensions having a horizontal nature (e.g. data migration, IT infrastructure...)
- The support around the new unit was also put in place to involve the relevant BUDG business and IT units, as well as the external assistance of three external implementing partners.
- The programme's Charter, which provides key information on the programme, was approved by the IT Board in June 2018.
- The successful completion of the first phase of the project, which intended to identify the high-level business requirements as well as the main issues and gaps.
- Boundaries between SUMMA and other IT corporate systems (e.g. SYGMA, eProcurement...) are being defined to ensure an efficient integration within the Commission's IT landscape.

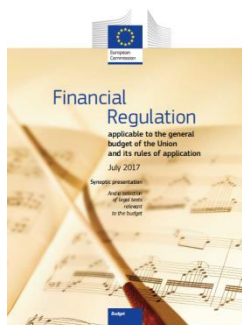
The experience from 2018 and its close monitoring reveals the need to review the planning established at the beginning of the project and the first cost and resources estimation. Indeed, following the high level screening of the needs carried out during the first phase of the project, the requirements identified have resulted to be more complex to analyse and implement than initially assumed at the beginning of 2018 with our external partners and advisors. Moreover, IT projects in the Commission (including SUMMA) might face budgetary cuts in Heading V as from 2019, even more with BREXIT, with the consequent potential risk to further delay some of the project activities, hence impacting the project delivery time. Although additional human resources will be assigned to the project, an extension of the project's timeframe and an increase of its total cost is anticipated.

At this juncture, the implementation of the SUMMA project is not likely to be delayed beyond the 2025 deadline. In the meantime, ABAC can still be relied upon, as the necessary resources to make changes and developments in the current system to support the DGs, to guarantee its availability, reliability and security are maintained. On this basis, the objective of ensuring the continuity and reliability of the Commission's budgetary and accounting operations is not jeopardised, and therefore a reservation is not required. The management and monitoring of the project has been further reinforced and a reassessment of the impact of the delays will be performed and reported in next year's annual activity report.

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

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

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



BUDG achieved the challenge of **reaching an agreement** on its proposal **to simplify the Financial regulation and 15 other sectoral legal acts** providing the DGs with a simplified basis for the preparation of the post-2020 generation of funding programs. The new Financial Regulation entered into force on August 2nd, 2018. Revised Internal Rules were adopted by the College and entered into force in parallel. Other secondary acts had to be aligned to the new Financial Regulation such as the financial

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

framework regulation for Union bodies or the framework agreements with international institutions, in particular with the World Bank Group, UN, OECD and others. DG BUDG also led work on the implementation of the reinforced rules on **conflict of interest** of the new Financial Regulation in the area of shared management in close coordination with shared management DGs. A survey of national legislation in this area was launched with a view to give guidance to Member States' authorities on how to apply the new rules. Negotiations started on the proposal for Protection of the Union's budget in case of generalised deficiencies as regards the **rule of law**.

In order to facilitate the preparation of the new spending rules for the post 2020 multiannual financial framework BUDG together with the LS and SG has provided all DGs with a template regulation for the post-2020 funding programmes. This led to a substantial simplification of the proposals (notably by avoiding the repetition of rules already covered by the new Financial Regulation). The template has also ensured increased flexibility and interoperability of the future funding programmes and facilitates the development of corporate IT solutions for management of eGrants and eProcurement.

BUDG participated in the work led by the Article 50 Task Force on preparing and finalising the Draft Agreement on the United Kingdom's withdrawal from the Union (with regard to the financial provisions of that Agreement). In close consultation with the Secretariat-General's Brexit Preparedness team, the Article 50 Task Force, and other horizontal services as appropriate, BUDG also initiated Brexit preparedness measures covering all possible scenarios and which included for example guidelines to services on the implications of "no deal" on the implementation of programmes and contracts.

In 2018, BUDG also intensified its **cooperation on fraud prevention with the OLAF**: BUDG completed a fraud-proofing of future spending programmes, actively contributed to the new Commission Antifraud policy and worked closely with the OLAF on strategic issues related to Anti-Fraud policy for the "Expenditure" part of the EU budget. Such issues were discussed within the Steering Group "Anti-Fraud Policy" and included OLAF Instructions on Financial Recommendations and Guidelines on Financial Monitoring to the spending DGs as well as improving reporting on the amounts actually recovered following OLAF's financial recommendations. Fraud prevention action also continued through the **Early Detection and Exclusion System (EDES)** which allows the early detection and exclusion of unreliable economic operators from EU funds.

Following entry into force of the New Financial Regulation, the EDES panel has been merged with the Financial Irregularities Panel allowing harmonised decision making where officials are concerned. Internal rules of the merged Panel were adopted just after entry into force of the Financial Regulation and an IAS audit has positively assessed the role of the Panel since creation in 2016 while encouraging raising awareness among other services and Institutions to make sure that all possible cases are referred to the EDES panel.

The new internal control framework adopted in April 2017 became fully applicable as from the 1st January 2018. All 50 Commission services have to conduct their 2018 internal control assessment on this basis and report on it in their 2018 Annual Activity Reports. In order to further support services as well as agencies with its implementation, DG BUDG has organised in 2018 a series of workshops on best practices and on the annual assessment methodology.

Following audits by the European Court of Auditors and the Internal Audit Service, the review of potential crosscutting risks has been enhanced to cover all critical risks. Whereas the AODs remain fully responsible for the risk assessment and management within their services, this new approach has led to a strengthened oversight of critical risks. Moreover, Peer Review meetings have been organised to give services an opportunity to exchange views and to promote a more coherent approach to the identification, description and **assessment of critical risks across the services**. This first exercise has been recognised by all stakeholders as very useful.

Following an IAS audit in 2017, the corporate methodology for the **estimation, assessment and reporting on the cost-effectiveness of controls** was revisited and issued in September 2018, two months ahead of the target date set. BUDG kept the Commission services regularly informed on the developments throughout 2018. Two workshops were also organised to further disseminate the new guidelines, which are applied for the first time in the 2018 Annual Activity Reports. The aim of this guidance is to have a harmonised approach to estimate the cost of controls across Commission services. This should also lead to a better assessment of the cost effectiveness of the existing control strategies.

Revised methodology for the estimation, assessment and cost-effectiveness of controls

Beginning of 2018, BUDG prepared **the first reporting on charge back for the Corporate Management Board**. In the course of the year, BUDG provided advice and support to the services preparing their new Sector Level Agreements for the provision of services, to other Commission services or to external entities, to be implemented as from 2019.

Finally, BUDG reviewed the DGs' draft AARs 2017, in particular how conservative the estimations of error rates, amounts at risk at payment and future financial corrections were. On this basis, the Commission has produced the Annual Management and Performance Report. Alongside information on the results achieved with the EU Budget, this report contains an assessment of the Commission's financial management of the EU budget. It presents **the amount at risk at closure**; i.e. the remaining risk after all corrective mechanisms have been activated. In so doing, the **Commission demonstrates that it manages the risks related to the legality and regularity** of expenditure in a multi-annual perspective.

Peer reviews on AARs and Critical risks to ensure coherent assessment of internal control and risks

As regards **synergies and efficiencies in financial management**, the entry into force of the revised Financial Regulation created the opportunity for the update and simplification of guidance at central and DG level. In the framework of the **preparation of the next Multi-Annual Financial Framework**, BUDG and the SG are leading an exercise of preparation of the next generation of spending programmes in which further simplification and harmonisation are considered a priority. Opportunities for further

externalisation will also be explored in this framework. In other areas, BUDG continued to **support the new eGovernance** notably the development of the single entry point for recipients and corporate support services (SEDIA), and continued to actively participate in the Grant and Procurement Steering Board (GPSB) and the OPSYS Steering committee in the field of external relations.

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

The Central Financial Service continues to pay a great attention to the quality of its services, and regularly collects feedback from its customers. The overall satisfaction rate of the Central Financial Services' clients continues to be very high.

S07. Driving the strategy of an EU budget focused on added value

The current Multiannual Financial Framework (MFF) introduced a number of elements to strengthen performance focus whilst ensuring continued compliance. **The focus on European value added** aims at improvements to this performance framework for the future MFF in parallel with a high level of performance reporting to inform the budgetary authority, ECA and stakeholders. In 2018, the strategy focused on:

Performance reporting

In 2018, the Commission released for the third time the so-called **Integrated Financial Reporting Package**. The package brings together comprehensive information on the implementation, performance, results, sound financial management and protection of the EU budget in 2017. Further actions carried out to improve the reporting on the performance of the EU Budget were the following:

- **The 2017 Annual Management and Performance Report** provides information on the performance, management and protection of the EU budget. It explains how the EU budget supports the EU political priorities and describes both the results achieved and the role of the Commission in ensuring the highest standards of financial management.
- **Programme Statements** are prepared by the Commission in relation to the funding requested for each of the EU spending programmes in the annual budget procedure. They include information on the rationale and EU added value of each programme, actual and forthcoming implementation, progress on performance (objectives, indicators, milestones and targets), contribution to the main EU policies and objectives and highlight recent key achievements.
- The **Programmes' Performance Overview** is a document added to the Commission's suite of performance reporting tools in 2018. It provides a uniform and comprehensive presentation of each of the spending programmes, their performance framework, benefits for EU citizens, implementation status and highlights key achievements. It was published for the first time in the IFRP 2017 and offers concise, uniform, ease to grasp information for all EU spending programmes.



Developing a new performance framework

The work on the performance framework was very demanding in 2018. The focus was on continuous efforts to promote the performance culture across the EC services based on the overall 'Budget focused on Results' initiative launched in 2015 and to operationalise it by developing a common approach on performance for the next MFF.

The activities in 2018 mainly focused on gathering and structuring performance information for annual reporting and designing the architecture for the performance framework of the next generation of spending programmes. Guidance was provided to the Commission services for selecting a coherent set of indicators relevant to specific objectives, aligned with EU priorities, of high quality and with a minimum burden for collection. The first important result of proposing a limited set of corporate indicators (core performance indicators) has been delivered. Those indicators will serve as "pointers" for reporting on programme performance in a coherent and consistent way.

Each spending programme basic act includes a set of core performance indicators for annual reporting on performance. It will serve as the basis for further expanding and refining a performance informed budgeting at the Commission that will be ready for the start of the next MFF in 2021. This being developed, in collaboration with SG, central services and DGs in, among other fora, the Monitoring & Evaluation network. As part of the budget focussed on added value, BUDG has continued to dedicate significant efforts to **outreach**, including discussions with Council, EP, Member States and stakeholders.

On 12 October a **conference on the Multiannual Financial Framework** took place, gathering high-level speakers who addressed the state of play of the negotiations on the future MFF in the frame of three panel discussions: i) new challenges, ii) long-standing priorities and iii) the future of the EU Budget. Vice President KATAINEN, Commissioner OETTINGER and ministers and distinguished guests from government, international organizations and academia provided their insight on the future role the EU budget should play to help strengthen the EU.

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

With a very large majority, the **European Parliament granted discharge to the Commission for the 2016** financial year on 18 April 2018. Throughout the 2016 discharge procedure, discussions among key stakeholders in the European Parliament, Council, the European Court of Auditors (ECA) and the Commission centred around the need to increase the focus on results delivered by the EU budget while continuing to further improve compliance with rules. The European Parliament focused on issues linked to the next Multiannual Financial Framework, further simplification of rules, improving performance reporting, and further strengthening transparency and accountability of EU funds. The discharge for one agency (European Asylum Support Office) was refused by the European Parliament in October 2018.



The Commission adopted its report on the **follow-up to the discharge for the 2016 financial year**¹⁹ already in July 2018²⁰. The Commission committed to take action on a vast majority of requests made, inter alia by:

¹⁹ See COM(2018) 545 of 17 July 2018.

²⁰ Detailed replies on the 286 specific requests made by the European Parliament and the 100 specific requests made by Council were made available in September 2018.

- examining to what extent the European Parliament's requests were addressed in the Commission's proposals for the next Multiannual Financial Framework,

Discharge granted for year 2016; focus on performance and further improving compliance with rules

- following up on issues concerning budgetary and financial management, including the request to assist Member States encountering difficulties with a timely and smooth absorption of EU funds, and
- analysing how to further improve reporting in the Annual Management and Performance Report.

The report was part of the Commission's **Integrated Financial Reporting Package**, which brought together comprehensive information on the implementation, performance, results, sound financial management and protection of the EU budget in 2017. Commissioner OETTINGER presented the package to the European Parliament's Committee on Budgetary Control in October 2018, highlighting examples of good performance and that the **Commission's estimate for the amount at risk at closure was 0.6%**.

The discharge procedure for the 2017 financial year was launched in October 2018 with the ECA's publication of its **Annual report for the financial year 2017**. **For the second time** since the ECA started providing a statement of assurance in 1994, it issued **a qualified opinion** on the legality and regularity of the payments from the EU budget. The overall **level of error was the lowest ever**, continuing its downward trend from **3.1% in 2016 to 2.4% in 2017**. Over half of expenditure was free from material error, and no error was found in revenue. The Annual report also contained a **clean opinion on the EU accounts for the 11th year in a row**.

The ECA confirmed that **the Commission's estimate of error is at the lower of the ECA's range**. The ECA also announced that, in line with its 2018-2020 strategy, it would strive to make better use of the auditee's legality and regularity information in areas where this is feasible. Thus, in its 2017 Annual report, **the ECA amended its audit approach for 'Economic, social and territorial cohesion'** to take account of changes in the design of the control systems for the 2014-2020 programming period.

As part of the political agreement on the review of the Financial Regulation, the European Parliament, the Council, and the Commission – in cooperation with the ECA – indicated their intention to **shorten the discharge procedure**. For the 2017 discharge procedure, the European Parliament shortened the period for the Commissioners' hearings by one month and brought forward the vote in the plenary (from April to March 2019). BUDG coordinated the Commission's efforts to respect the tighter deadlines and contribute in a constructive manner to the debate in the European Parliament.

BUDG also coordinated the Commission replies to the 30 **ECA special reports** passing through the adversarial procedure in 2018. These covered a broad range of issues directly relating to the EU budget, e.g. agricultural policy (Basic Payment Scheme for farmers, renewable energy for sustainable rural development), cohesion policy (EU support for productive investments in businesses), transport policy (European high-speed rail network, EU passenger rights), external actions (EU assistance to Myanmar/Burma, EU pre-accession assistance to Turkey), as well as other issues, (free movement of workers, broadband in the MS, air pollution, animal welfare).

BUDG undertook **regular reporting to the Audit Progress Committee** on the Commission **follow-up of ECA recommendations**. The ECA had announced that it would follow up all relevant performance audit recommendations made to the Commission 3 years earlier and reports on it in its annual report. For 2017, the ECA found that the Commission implemented a high proportion of the ECA's recommendations²¹.

²¹ The ECA found that, of the 100 recommendations followed up by the ECA, the Commission had implemented 75% fully or in most respects, 19% in some respects, and 6% were not implemented (the Commission had not accepted any of the six recommendations which were not implemented).

In 2018, the **ECA published a range of other products** (briefing papers, rapid case reviews, landscape reviews, as well as opinions on legislative proposals related to the next Multiannual Financial Framework). While these products should not be based on new audits, and therefore not subject to a formal adversarial procedure with the Commission, BUDG coordinated the Commission reaction whenever necessary or supported other DGs in these new processes.

In 2018, a **comprehensive review** of the proposed future scope and functioning of the **Public Internal Control (PIC) Network** was undertaken and a questionnaire was sent to Member States seeking their input. Member State responses received by the end of 2018 were positive and made useful comments and proposals, which will feed into the future strategic approach for the Network as well as a conference which will be organised in 2019.

BUDG continued to promote and monitor the implementation of **public internal financial control (PIFC), including through fact-finding missions**, with particular efforts on the principle of Managerial Accountability and on national quality reviews of existing reforms. It provided technical advice on PIFC and External Audit matters to various candidate and potential candidate countries and some countries benefit from the European Neighbourhood Programme. Input was provided to annual Commission review meetings with the candidate and potential candidate countries and to the formal Commission Enlargement reports.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains how the DG delivered the achievements described in the previous section. It is divided into two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives²². It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant to the DG.

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

2.1 Financial management and internal control

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

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

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

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of BUDG.

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

²² Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives²³. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks when processing BUDG main resources and controls aimed to mitigate them as well as the indicators used to measure the performance of the control systems.

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

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

Activity	Results of Indicators				
	Legality & regularity	Cost-Effectiveness of controls	Anti-Fraud Strategy	Reliability of information and reporting	Safeguard of Assets
Collection and control of Own resources	Error rate below 1 % on Total Own Resources (but with a reservation on TOR)	Positive conclusion (Costs/funds = 0.003%)	Area covered by the AFS	Positive conclusion	Positive conclusion: Treasury and Recoveries management (at corporate level)
Management of administrative expenditure	Error rate below 2 %	Positive conclusion (Costs/funds = 0.52%)	Area covered by the AFS	Positive conclusion	

As requested in the new financial regulation, BUDG would like to disclose that during 2018 there were no cases as described in art.92.3 of Financial Regulation (receiving binding instructions in writing considered by the Authorising Officer irregular or contrary to the principle of sound financial management). In addition, as BUDG does not manage operational expenditure there were no cases as described in the following articles:

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

²³ Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (Art 32 FR).

A) Own resources (OR)

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

Amounts in €	2016	2017	2018
TRADITIONAL OWN RESOURCES	20 094 118 220	20 459 059 160	20 231 629 937
OWN RESOURCES ACCRUING FROM VAT	15 895 098 431	16 947 265 370	17 624 815 831
OWN RESOURCES BASED ON GNI	96 185 062 177	78 021 354 126	104 498 917 271
SURPLUS AVAILABLE FROM PRECEDING FINANCIAL YEAR	1 349 116 814	6 404 529 791	555 542 325
Total Own Resources	133 523 395 642	121 832 208 447	142 910 905 364

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

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

The management arrangements for each own resource vary. The Relevant Control System(RCS) for own resources in annex 5 demonstrates how the control system in place in the DG addresses the risks related to own resources as well as the indicators used to measure the effectiveness, efficiency and economy of these controls

Traditional Own Resources (TOR) – 14 % of Total OR

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

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

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

VAT own resource - 12 % of Total OR

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

As VAT OR data is only available annually and in arrears VAT own resource payments during any particular year are based on forecasts (each month the Commission requests each Member State to pay one twelfth of the budgeted forecast amounts). Adjustments are made in the year $n+2$ ²⁴ (and in future years if corrections to the data first supplied are necessary) to adapt payments to reflect the actual VAT data.

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

GNI-based own resources – 73% of Total OR

GNI OR has a particular role to play as the balancing resource. Once the amount of agreed EU expenditure that will be funded by the TOR and VAT OR is known then GNI contributions are fixed to fund the remainder within the ceiling of no more than 1.20 % of total EU GNI. Member States provide the Commission with their GNI figures annually accompanied by a quality report and supplemented after each five-year verification cycle with a new inventory. As GNI own resources data is only available annually and in arrears the own resources payments during that year are based on the amounts entered in the budget for the year concerned (i.e. each month the Commission - BUDG - requests each Member State to pay one twelfth of the budgeted forecast amounts). Adjustments are made in subsequent years²⁵ by BUDG to adapt payments to reflect the GNI data. BUDG monitors proactively that GNI own resource contributions are paid promptly. Any delay in paying own resources gives rise to payment of interest by the Member State concerned.

ESTAT – Verification of GNI data

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

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

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

Reasonable assurance on the accuracy and completeness of Member State data is provided by the opinion of the GNI Committee, and the results of ESTAT's verification activities²⁶ to which Member States contribute by taking part in controls in other Member States. The annual opinion of the GNI committee is a key element of assurance since it refers to the appropriateness of using the GNI data provided by Member States for own resources purposes and it means the acceptance of the data by all the Member States

²⁴ In June of the second year following the financial year

²⁵ Same modalities as for the VAT-based own resource.

²⁶ [See ICT on Verification of GNI data by ESTAT in annexe 5.](#)

together with the Commission.

1. Effectiveness = the control results and benefits

• Legality and regularity of the transactions

BUDG has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

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

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

A – MS statements and collection of resources

During 2018, 100 % of national contributions were made available on time²⁷. The customs duties amounts reported in Traditional Own Resources A-statements by Member States were also made available to the EU budget two months later as required by the EU legislation. Verification of the amounts declared in the A Statements is ensured through on the spot inspections by BUDG. As a consequence, some adjustments are made to the initial statements and the corresponding documents are issued to adjust the due amounts. During 2018, 240 requests for accounting actions were made by the inspection units representing an adjustment of EUR 14 million in principal and EUR 17 million in late payment interest. 496 accounting documents were issued in order to enter these adjustments in the EU accounts²⁸. Forecasts of Revenue were issued as appropriate.

At the end of the year, there were eight open TOR infringement files. Two new infringement procedures were initiated during 2018.

BUDG has set a reservation on TOR amounts collected in view of the final report of OLAF's investigation (OF/2014/1274/B1) of 1 March 2017, confirmed by the conclusions arising from BUDG controls in terms of the lack of appropriate measures in the UK to prevent the systematic undervaluation of textiles and footwear from the People's Republic of China imported into the EU. As a consequence, BUDG and OLAF, estimate the loss of Traditional Own Resources at EUR 2 679.6 million (gross)²⁹ between November 2011 and 11 October 2017. For further details, see [section 2.1.5](#).

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

Traditional Own Resources (TOR)

For TOR, Member States are responsible for operating an appropriate administrative framework by which they collect customs duties and sugar levies to finance the EU budget. BUDG assesses this administrative framework by carrying out an annual inspection programme which covers various customs regimes, control methods, plus the

²⁷ Cyprus had exceptionally a short delay of one day in making available own resources. This delays does not affect the overall result as it is less than 0,01% of the total

²⁸ Global figures representing all accounting activities for all the kind of own resources (TOR, VAT and GNI).

²⁹ In compliance with Article 12 of Regulation No 609/2014, interest for late-payment are also due and will be calculated and requested when the relevant dates are known.

procedures for accounting, recovering and making available of TOR. The programme varies from year to year and is based on a risk analysis. The focus of the inspections is to collect evidence of the adequacy of the key procedures and systems in each Member State that ensure correct and timely collection of TOR and that the funds are duly made available to the Commission.

During 2018, the annual inspection programme was changed during the course of the year to include an additional inspection deemed necessary because of new risks identified so that as a whole 26 inspections were planned. Out of 26 inspections 22 were carried out in 2018 and 4 were postponed to 2019. Hence, inspection programme 2018 was implemented at 84.61%. In addition, one inspection visit from inspection programme 2017 was carried out in January 2018. All anomalies identified during the inspections are being closely followed up by BUDG in collaboration with the Member States. The partial implementation of the 2018 inspection programme does not have significant implications on the assurance building, because the MS concerned will be inspected in any case the following year.

Inspections and controls conducted in UK by BUDG have detected significant weaknesses in Her Majesty's Revenue and Customs management and control of undervalued imports of textiles and footwear in the traditional own resources. The inspections carried out in April and October 2018 concluded that undervaluation of textiles and footwear from the People's Republic of China entering the EU through the UK was still ongoing at least until October 2017. The Commission has launched an infringement procedure on 8 March 2018 and has sent a Reasoned Opinion to the UK on 24 September 2018. On 19 December 2018, the Commission decided to refer the case to the European Court of Justice. (see section 2.1.5. for further details).

For the 2017 reporting year, the financial impact of these ineffective controls was estimated at EUR 396.8 million³⁰ (net). Although this represents 0.3% on total Own Resources, it amounts to 1.9 % of TOR. This explained the need for a qualification of the assurance and the immediate actions undertaken by BUDG for the protection of the EU budget. For 2018, the amounts of TOR losses incurred in the UK in relation to this undervaluation were significantly lower (<1% of TOR).

Member States issue write-off reports stating the TOR amounts assessed by them as irrecoverable. During 2018, a total of 234 write-off reports involving an amount of EUR 113.2 million were evaluated by the Commission (BUDG in co-operation with the legal service, TAXUD and OLAF) within the legal six-month deadline in 100 % of the reports. As a result of this evaluation, it was found that an amount of EUR 20.3 million (18%) could have been indeed recovered by Member States and the amounts were claimed, for an amount of EUR 76.9 million (68%) additional information was sought from the respective Member State to reach a conclusion and for a total of EUR 14.9 million (14%) write-offs were considered justified.

Another source of assurance is the ECA's annual report. In its financial year 2017, ECA concluded that the examined systems were overall effective for TOR. In addition, no errors were found in the transactions tested. The key internal controls in Member States visited by ECA however were assessed as partially effective.

VAT- based Own Resource

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

³⁰ In compliance with Article 12 of Regulation No 609/2014, interest for late-payment are also due and will be calculated and requested when the relevant dates are known.

During 2018, the annual inspection programme was executed as planned (12 inspections in total)³¹. The results of inspections also show that 100 % of statements have been subject to verification prior to becoming time-barred. It is usual practice not to inspect all Member States in a given year but to do so by inspecting several financial years before time-barring. A risk-based approach is used when deciding on a year's work programme.

GNI

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

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

The results show that the activity to notify reservations in the year 2018 (28 process specific reservations, 1 general reservation, and 1 transaction specific reservation) was carried out promptly, since 100% of the 30 notifications were sent within the deadlines.

In the control cycle of the ESA 95 GNI Inventories, there were in total 124 country specific GNI and 216 ESA 95 transversal reservations. All but one ESA 95 reservations have now been lifted. The one pending country specific reservation concerns Greece. Seven country specific reservations have been placed, so far, in the current ESA 2010 verification cycle: four for Greece, two for Croatia and one for Bulgaria. There is one general reservation concerning France. Furthermore, process specific reservations have been placed for the years 2010-2014 for all of the EU-27 Member States and for 2013-2014 for Croatia.

Assurance is also obtained from the annual opinion of the GNI committee since it represents the acceptance of GNI data by both all Member States and by the Commission. Following its examination during the year, the GNI Committee, at its 37th meeting in November 2018 concluded that, in its opinion, the GNI data transmitted through the GNP/GNI Questionnaire 2018 are appropriate for use for own resource purposes with respect to reliability, comparability and exhaustiveness, in accordance with article 5(2)(b) of the GNI Regulation.

During 2018, the main focus of ESTAT control activity was the continuation of the verification cycle for the new GNI inventories, and several GNI information visits to the Member States took place. A significant number of action points and reservations were placed during the year and the verification of the work done by the Member States on the action points and reservations was progressing. A number of the cross-country analyses of transversal issues have been concluded or advanced. Also during 2018, good progress was made in covering an extensive number of ongoing issues in relation to the globalisation and the implementation of the Multinational Enterprises (MNE) pilot exercise.

The existence of one specific GNI reservation for Greece provides assurance that revisions to that item for the period 2002-2009 will still be taken into account for own resources purposes, to avoid that the rule of GNI becoming time-barred after 4 years.

The latest ECA's annual report on financial year 2017 concluded that the examined revenue systems were effective for GNI and VAT-based own resources, and that no material errors were found in the transactions tested.

³¹ One element of a 2017 inspection was carried over into the 2017 work programme owing to staff issues.

³² See RCS on Verification of GNI data by ESTAT in annex 5.

C – Follow-up of verification results

The 2018 TOR control activity allowed recovery orders (ROs) both for principal and belated interest for a total amount of EUR 68 million, including cashed amounts in 2018 for which a recovery order still has to be issued (end of year payments). Out of this amount, 83.6% was already paid in 2018 (higher than the payment rate of 76 % in 2017). The average recovery rate since 2010 of ROs issued following inspection work is 87.5 %³³ (similar to last year – 88.4%). The recovery rate on global TOR³⁴ is 99.9% (same rate as last year).

The proportion of VAT reservations set by the Commission and in place for more than 5 years is 17%, which is considered a reasonable percentage. A total of 27% of these reservations are related to on-going infringement cases.

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

Currently all 28 Member States are subject to a GNI reservation due to the transition in the Member States' National Accounts from the system ESA 95 to ESA 2010. These reservations were extended to cover the year 2014 to avoid that they become time-barred, and will be active until the end of the ongoing verification cycle scheduled for the end of 2019.

D- UK correction calculation

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

Benefits of those controls have also been identified. When possible they have been quantified. In some other cases, benefits have been expressed through the corresponding relevant non-quantifiable indicator as indicated in the OR [Relevant Control Systems for budget implementation \(Annex 5\)](#).

The controls performed in the area of Own Resources have allowed to obtain assurance on the legality and regularity of the figures as detailed in the previous section, i.e. 85% of TOR and 100% of VAT inspection programmes respectively have been implemented, 100% of TOR inspection reports have been sent on time, 100 % of VAT statements have been inspected before they become time barred, 100 % of GNI notifications have been sent within the legal deadlines and the UK correction was made on time. 100 % of GNI reservation changes (setting, variation of lifting) were communicated to Member States in their national language within four working weeks. It can also be concluded that compliant and timely management of GNI reservations has been achieved with a reasonable cost.

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

- Timely and comprehensive collection of Own Resources and the compliance with relevant regulatory provisions and internal rules has been ensured;
- Improvements on Member States Internal control systems have been identified and best practices have been shared amongst Member States during ACOR meetings (i.e. Common audit tools have been provided);
- Controls continue to have a deterrent effect;
- Transparency of the control activity has been delivered and Member States have been reassured that they have all been measured against agreed standards and received equal treatment when controls have been performed;

³³ Total amounts recovered up to the end of 2018 out of the recovery orders issued since 2010.

³⁴ The global TOR includes the monthly payments made by the MS and the payments made following our inspections.

- Commission fulfilment of its obligation under regulation 1553/89;
- Assurance gained concerning the correct and compliant distribution of Member States share of GNI;
- VAT and GNI data used for calculations do not become time-barred in case corrective action should be applied.

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

Globally, for all Own resources, the most recent ECA's opinion (ECA's annual report for financial year 2017) concluded that revenue collected is not affected by a material level of error and that control systems are effective for VAT and GNI and overall effective for TOR. Nevertheless, in view of the already mentioned BUDG investigations and the recent OLAF report on the undervaluation of textiles and footwear imported in the UK on the inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011. This AAR is therefore qualified by a reservation ([see section 2.1.5.](#)).

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

2. Efficiency = Time indicators and other efficiency indicators

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

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

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

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

As detailed above, verification of GNI data is carried out by ESTAT and therefore other indicators on the verification of GNI data are reported in ESTAT AAR and in annex 5 of this report³⁵. This annex has been also included in BUDG AAR (annex 5) for information and completeness.

3. Economy = the cost of controls

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

BUDG has quantified the costs of the resources and inputs required to carry out the relevant controls on Own Resources for the four stages described above (A to D).

The total cost of controls performed in all the stages described in [Annex 5](#) amounts to 4.3 EUR Mio and represent 0.003 %³⁶ of Own resources collected in 2018 (EUR 142 910 905 364). See table in Annex 10.

The cost of controls carried out to verify the amounts collected in 2018 , the latest figures validated by ECA in their most recent annual report, amounts to EUR 1.9 Mio and

³⁵ See Relevant Internal Control System on Verification of GNI data by ESTAT in annexe 5

³⁶ This percentage does not include figures of costs of controls by Member States as these are not part of the relevant internal control system.

EUR 1.3 Mio and represent 0.01 % both for TOR (EUR 20 459 059 160) and VAT-based OR collected (16 947 265 370). The costs of controls are considered to remain steady and can thus be also applied to calculate cost-effectiveness on this year 2018 TOR and VAT-based OR collection (EUR 20 231 629 937 and EUR 17 624 815 831)

The cost of controls in place related for the follow-up of results of the verification stage amounts to EUR 0.6 Mio and represents 0.002 % of TOR and VAT-base resources collected in 2018 37 856 445 768). These include administrative, legal or financial deficiencies detected in Member States local systems, submission of TOR and VAT inspection reports to ACOR meetings, initiation of infringement procedures and management of VAT reservations

The controls to recover the TOR amounts due to the EU budget derived from irregularities detected represent a cost of EUR 1.9 Mio and a 3.31 % of the amounts cashed in 2018 amounting to EUR 56 938 million³⁷. The absolute cost of controls has remained stable compared to last year, however the lower amount of amount cashed from last year (101 404³⁸ million) explains the higher percentage of cost of controls in comparison with 2018 – 1.69%).

The costs of controls in place to mitigate the risk of errors when calculating the UK correction amount to EUR 0.04 Mio and represent 0.0008 % of the amount calculated and paid.

Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, BUDG has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls. The control strategy is considered adequate as with a reasonable cost of controls the main objectives have been achieved on time as described above, mainly they provide a reasonable assurance for 2018 that the OR contributions made by Member States comply with the requirements of the Union's own resources legislation and control systems on own resources are effective, albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011. Please refer to sections [2.1.1.A.](#) and [2.1.5.](#) for further details.

B) Earmarked revenues for the use of Financial Information Systems by External Entities³⁹

Earmarked revenues in BUDG derives from the charge back to external entities of services such as the use of financial information systems, the annual Accounting Officer services and treasury services managed by BUDG. The intrinsic risk is considered low because of the limited revenues (EUR 3.7 million representing 20% of BUDG commitment appropriations). In addition, an amount of EUR 95.000 is internally charged back for the same type of services. Since this activity is much less significant than the other two, described in sections [2.1.1.A.](#) and [2.1.1.C.](#), neither a Relevant Control System nor indicators are presented for this area. However, it is presented in this section for completeness purposes.

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

³⁷ This figure relates to all payments received in 2018 following recovery orders issued as of 2009. Recoveries in 2018 are considered stable in comparison with 2015 and 2016.

³⁸ Recoveries in 2017 were exceptionally high as some big amounts were paid by some Member States due to write-offs of irrecoverable amounts for which they were kept as financially responsible

³⁹ External Entities: general term used to indicate EU Institutions, Committees, Regulatory Agencies, Joint Undertakings or Executive Agencies.

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

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

C) Procurement and administrative expenditure

The intrinsic risk for administrative expenditure managed by BUDG including procurement is considered relatively low because of the limited budget as well as the centralised and direct mode of budget implementation. The Relevant Control System for Procurement and Administrative expenditure in annex 5 demonstrates how the control systems in place address the related risks which consist mainly in ex ante verifications covering 100 % of transactions.

The complete renewal of the financial cell in BUDG in the last quarter of 2018 has prompted a major rethinking and update of the financial procedures and flows in BUDG, aiming to modernise, simplify and harmonise the financial management of the DG. Concrete objectives are to:

- Review the main procedures, workflows and checklists to further ensure clarity, consistency and simplification;
- Switch to electronic flows and e-Prior for procurement procedures, simplifying and improving procedures and monitoring of the annual budget and providing effective and timely guidance to operational units in BUDG;
- Improve communication with the concerned units within the DG to ensure harmonised implementation, better anticipation of risks and more effective procedures and financial control.

Tender documents are approved by the Financial Cell of BUDG before they are published. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured.

The total amount of 2018 commitment appropriations⁴⁰ represents EUR 20.62 million. The execution rate for 2018 is 90.8% (EUR 18.72 million – higher than the rate of 89.8% in 2017). The remaining appropriations will be executed in 2019.

During 2018 no negotiated procedures under Point 14.2 of Annex 1 of the Financial Regulation was launched.

As regards open procedures, an award decision was issued concerning a call for tenders launched in 2017 (BUDG17/PO/01) for the management of bank deposits. Moreover, two open procedures were launched (BUDG18/PO/02 and BUDG18/PO/03) for the Connectivity to the SWIFT Interbank Network and the execution of payments in European currencies. These two open procedures will be finalised in 2019.

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

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

financial transactions twice per year by the accountant correspondent in BUDG.

The analysis of the risks concerning the related processes in 2018 has shown that these are very low thanks to the control procedures in place (verification of 100% of operations), the relatively low number of transactions and the nature of the financial circuit.

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

1. Effectiveness = the control results and benefits

• Legality and regularity of the transactions

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

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

The authorized payment appropriations⁴¹, including the amounts carried over from 2017, represent EUR 33.71 million. Payments made during the financial year amount to EUR 18.62⁴² million, which represents an execution rate of 54.17%. While this is a higher execution rate compared to last year (41%), its level can be explained by the fact that 48% of the IT budget appropriations were received during the 3rd and 4th quarter of the year (both commitment and payment appropriations). These appropriations were committed but have to be paid in 2019.

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

Ex-post controls of BUDG's administrative expenditure resulted in no financial errors detected. Other non-financial errors were found representing around 1% of the value of the transactions checked. These errors consisted in the booking of various invoices related to IT expenditure in the wrong account number (registered as development of intangible assets when their nature was of research of IT solutions). Controls have been intensified in 2019 to ensure that the correct account is selected before authorising the payment. A review of the mechanisms to register the correct account are also being reinforced as well as a regular monitoring and reporting.

The results of the accounting quality revisions carried out in 2018 have been satisfactory since none of these controls unveiled material errors with financial or non-financial impact on compliance.

BUDG also reviews the reporting of exceptions and non-compliance events, defined as control overrides or deviations from policies and procedures, and the results of the ex post controls and supervisory activities. During 2018, no exception nor non-compliance report was brought to the attention of BUDG Director on Risk Management and Internal Control.

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

⁴¹ This amount includes the payments made from the co-delegated lines but not the reserves (budget line 40) and neither the appropriations allocated to other services.

⁴² This amount does not include the amounts allocated to other services (EUR 0.36 Mio)

control objective as regards legality and regularity has been achieved.

In 2018 and over the past years the implementation of ex-ante and ex-post controls has not resulted in any financial correction/recovery order after payment. This is because no financial error has been detected and administrative errors were corrected before payments were made. These results are expected to continue, having as a result no estimated future financial corrections (0%). See table at the end of this section.

Yet, in order to avoid any potential underestimation, as ex-post controls are based on a sample of transactions, BUDG uses an estimated Error rate for the Commission's administrative expenditure (0.5%) as a conservative estimate in order to allow the consolidation of data when determining the amount at risk at payment at Commission level. This percentage corresponds to an estimated overall amount at risk at payment⁴³ for 2018 of EUR 93 123. This is the AOD's best, conservative estimation of the amount of relevant expenditure⁴⁴ during the year (EUR 18.62 million) potentially not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

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

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

Benefits of those controls have also been identified. When possible they have been quantified. In some other cases benefits have been expressed through the corresponding relevant non-quantifiable indicator. The criteria for the calculation and the indicators used to assess the efficiency of controls are shown in the relevant control systems in annex 5.

The controls performed in this are considered adequate and have allowed complying with the legality and regularity control objective as detailed previously. No relevant irregularities have been detected by ex-post controls.

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

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

⁴³ In order to calculate the weighted average error rate (AER) for the total relevant expenditure in the reporting year, the detected, estimated or other equivalent error rates have been used.

⁴⁴ "relevant expenditure" during the year = payments made, minus new pre-financing paid out, plus previous pre-financing cleared

Table X - Estimated overall amount at risk at closure

DG BUDG	"payments made" (FY; m€)	<i>minus</i> new prefinancing [<i>plus</i> retentions made*] (in FY; m€)	<i>plus</i> cleared prefinancing [<i>minus</i> retentions released* and deductions of expenditure made by MS] (in FY; m€)	= "relevant expenditure" (for the FY; m€)	Average Error Rate (<i>weighted</i> AER; %)	estimated overall amount at risk <i>at payment</i> (FY; m€)	Average Recoveries and Corrections (<i>adjusted</i> ARC ; %)	estimated future corrections [and deductions] (for FY; m€)	estimated overall amount at risk at closure (m€)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing	= (2) -/+ (3) +/- (4)	Detected error rates, or equivalent estimates	= (5) x (6)	H-ARC (as per ABAC DWH BO report on corrective capacity), <u>but</u> adjusted	= (5) x (8)	= (7) - (9)
BUDG Administrative expenditure	18.62	0	0	18.62	0.5%	0.093	0%	0	0.093
Total	18.62	0	0	18.62	0.5%	0.093	0%	0	0.093

(8) the Amount at Risk at Closure for BUDG in the AAR corporate reporting -1.9%- includes Recovery Orders which do not fall under the scope of BUDG as they are mainly of a corporate nature or corrections before the payment is made, therefore the adjusted recovery rate for BUDG is 0% (as all the corrections are made before the payment is made)

2. Efficiency = Time indicators and other efficiency indicators

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

During 2018 a total of 667 payments⁴⁵ amounting EUR 18.62 million were made, 92.05 % of them executed on time, with an average payment deadline of 21 days which is quite below the maximum of 30 days allowed.

3. Economy = the cost of controls

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

BUDG has made an estimation of the costs of the three main control processes on Procurement and administrative expenditure: Procurement, execution of financial transactions and ex-post supervisory measures.

The cost of ex-ante controls performed by the DG on the verification of financial transactions amounts to EUR 0.2 Mio and represent 0.47% of commitments and payments made in 2018. Cost of controls of ex-post verifications amount to EUR 0.02 Mio and represent 0.05%. This represents a total costs of controls of 0.52% See table in Annex 10.

4. Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, BUDG has assessed the effectiveness, efficiency and economy of the control system on administrative expenditure and reached a positive conclusion on the cost-effectiveness of controls. The control strategy is considered adequate as with a reasonable cost of controls the main objectives have been achieved on time as described above, mainly they provide a reasonable assurance for 2018 that administrative budget in BUDG has been effectively implemented, on time and complying with the rules.

⁴⁵ This amount includes the payments made from the co-delegated lines but not the reserves (budget line 40).

Fraud prevention, detection and correction

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

The controls aim at preventing and detecting fraud do not necessarily differ from those intended to ensure the legality and regularity of the transactions. The BUDG fraud risk register is integrated in the risk management exercise, which is performed twice a year. The fraud risk register has remained stable in comparison with 2017 and no new risks have been identified in 2018 other than the cases of undervaluation detected by OLAF and BUDG inspections, which continues to be followed up closely.

The cooperation with OLAF and TAXUD was intensified especially on these cases of undervaluation, but also to deal with risk management and other fraud related issues. The High Level Steering Group BUDG-OLAF-TAXUD at directors' level was established in 2017 with the objective to discuss regularly strategic policy issues in the Traditional Own Resources area. Undervaluation remained high on the agenda as well as the measures necessary to improve customs controls, the monitoring of the functioning of the Customs Union and the way to face new challenges like e-commerce. The possibility to have Joint Analysis of Customs data at EU level to be able to identify unusual trade patterns and act early upon them was also thoroughly discussed (see also Specific Objective 3 in PART I) .

In addition to the measures already in place, and as stated in PART I (Specific Objective 6), it must be highlighted that the Early Detection and Exclusion System (EDES) Panel responsible for the assessment of cases of intended sanctions on unreliable economic operators has become fully operational and its recommendations have led, where appropriate, to exclusion decisions by authorising officers from EU funds. This has represented an important step forward in the fight against fraud. The entry into force of the Financial Regulation has reinforced EDES. BUDG is investing in raising awareness amongst the stakeholders in the Commission and outside to make sure that all potential cases are brought to the attention of the EDES panel.

The update of the Anti-Fraud Strategy, planned for 2018, has been postponed to integrate the new approach and objectives of the future revised Commission Anti-Fraud Strategy (currently in the final stage of consultation). DG BUDG's Anti-Fraud Strategy will ensure coherence with the corporate level by (i) referring to the actions where BUDG is involved in the Commission Action Plan, (ii) reinforcing the description of the fight against fraud in the area of revenue and (iii) referring to the cooperation with other services and the different roles they play. The revised BUDG Anti-Fraud Strategy is expected to be finalised during the first half of 2019.

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

In order to raise awareness amongst staff, one lunchtime seminar was organised in the beginning of 2019 addressed all staff in BUDG on the fight against fraud coinciding with the first inter-service consultation on the revision of Commission Anti-Fraud Strategy and its proposed action plan. Some meetings with different concerned units to prepare the update of BUDG Anti-Fraud strategy have also served to raise awareness on the fight against fraud actions at Commission level.

Other control objectives: safeguarding of assets and information, reliability of reporting (if applicable)

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

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

The validation of local systems is also an important element of assurance to the Accounting Officer of the reliability of the information entered by the various authorising departments in the financial systems. The validation team evaluates the systems set up or modified by each of the 61 Directorate Generals, Agencies and other EU bodies covered over a multiannual cycle. Additional details are provided in PART I (specific objective 5)

Commission's treasury resources are managed in accordance with the rules and principles laid down in the Council Regulation 609/2014 (amended by Council Regulation 804/2016) and in the Financial Regulation and its rules of application.

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

In accordance with the Regulations referred to above, cash resources are kept in the own resources accounts and are transferred to Commission's accounts with commercial banks only when needed to cover the payments execution needs.

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

A written set of guidelines and procedures regulates the management of the Commission's treasury and payment operations with the objective of limiting operational and financial risk and ensuring an adequate level of control. They cover the different areas of operation (for example: payment execution and cash

management, cashflow forecasting, business continuity, etc.), and compliance with the guidelines and procedures is checked regularly. Additionally, information is exchanged between Directorate General for the Budget (BUDG) and Directorate-General for Economic and Financial Affairs (ECFIN) on risk management and best practices.

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

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

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

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

The main components of the cash balance at the end of 2018 are related to:

1. Payment appropriations and assigned revenue that were not executed by the end of the year
2. Competition fines definitively cashed in 2018

Regarding the contingent liabilities (OB.2.4) in annex 3 - table 5bis, this amount is considered correct⁴⁶ and concerns fines imposed by the Commission for infringement of competition rules that have been provisionally paid and where either an appeal has been lodged or where it is unknown if an appeal will be made. The contingent liability will be maintained until a decision by the Court of Justice on the case is final.

⁴⁶ At the date of the report.

2.1.2 Audit observations and recommendations

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

The internal audit service (IAS)

The following audits remain open:

Audit on the Management of Intra-muros contractors

The final audit report was issued on 13 July 2016 (Ares (2016)3376572). The overall objective of the audit was to assess if the Commission uses the external contractors working intra-muros in an effective and efficient way. The audit covered the overall framework put in place by HR, which is responsible for coordinating the personnel and administrative policy of the Commission, as well as by BUDG, responsible for laying down the procurement procedures and contract templates. The audit also focused on DIGIT given that a large number of intra-muros contractors work in the IT domain.

The IAS recognised the efforts of the Commission to effectively manage intra-muros contractors so that it obtains value for money and mitigates the risks associated with their use. However, the IAS concluded that, in the absence of a corporate framework to provide guidance to DGs, the Commission was exposed to significant risks in ensuring an efficient and effective use of intra-muros contractors.

BUDG sent its contribution on time to the new guidance on this matter, which is coordinated by HR. Therefore, **the recommendation is considered implemented by BUDG.**

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

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

After a recent follow-up by the IAS, all the recommendations are considered implemented and will be closed. As a result, database OWNRES was improved in consultation with the other DGs dealing with traditional own resources and new fields have been included in the application to improve data analysis (see more details in PART I – specific objective 3).

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

Derived from this audit there is a sole very important recommendation concerning the design and implementation of the corporate framework to estimate, assess and report on the cost-effectiveness of controls. BUDG should redesign the existing framework for estimating, assessing and reporting on the cost-effectiveness of controls by better distinguishing between its annual activity reporting and the reporting on the cost to control EU spending when presenting revised or new spending proposals. The recommendation was implemented. BUDG sent to all services a new guidance to calculate the cost-effectiveness of controls, which is now part of the 2018 Annual Activity Report.

Audit on the corporate Governance/Oversight arrangements concerning Risk Management, Financial Reporting and the Ex-post verification/audit function

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

This audit contained four recommendations (two very important and two important) related to the need for more effective overall governance and oversight. The recommendations addressed to BUDG have been timely implemented and sent to IAS for review.

Limited review on the reporting on the corrective capacity (in particular the amounts at risk at closure)

The "estimated overall amount at risk at closure"⁴⁷ is key in the discharge debate and therefore it is vital that it is based on a solid reasoning and on suitable assumptions. This was the focus of the IAS audit, which concluded with two important and 1 very important recommendations. As a result BUDG has updated the corporate instructions for estimating the future corrective capacity and has reviewed the presentation of these concepts in the 2018 Annual Activity Reports (Rec 1- very important and Rec-2 important). These instructions are part of the 2018 Annual Activity exercise. The remaining important recommendation is due in March-19 and is expected to be implemented on time.

ONGOING AUDITS

The IAS has just finalised two reports on the following audits:

- 1) Audit on the effectiveness and efficiency of the new **Early Detection and Exclusion system (EDES)** in protecting the EU financial interests (carry-over from 2017). The objective was to assess whether this new system, in place as of 1 January 2016, ensures the early detection and prevention of financial and reputational risks. Two very important recommendations were issued related to i) the need for providing guidance and raise awareness and ii) to ensuring

⁴⁷ best, conservative estimation of the expenditure authorised during the year in breach of applicable regulatory and contractual provisions by the end of implementation of the programme, in value terms

the application of EDES in practice.

An action plan has been agreed in February with IAS to implement the related recommendations.

- 2) **Audit on Synergies and efficiencies review (SER):** The main objective of the audit was to assess whether the Commission has put in place a clear framework and methodology, as well as sound processes and controls to ensure that the objectives of the SER Communication are met and to assess the state of play of the SER Communication approximately two years after its adoption. A very important recommendation derived from this audit aiming at embedding the synergies and efficiencies review culture Commission wide.

An action plan is currently being developed. The horizontal nature of this audit means that the implementation of a number of recommendations will require the input from different services together with BUDG.

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

- Management has adopted action plans to implement all the accepted recommendations⁴⁸. The IAS considers that these action plans are adequate to address the residual risks identified by the auditors, except for the audit on synergies and efficiencies review (SER) where management has not yet adopted an action plan;
- The implementation of these action plans is monitored through reports by management and follow-up audits by the IAS;
- Management has assessed a number of action plans as implemented which have not yet been followed up by the IAS.

Conclusion on the state of internal control by IAS

Based on the above, the Internal Audit Service concludes that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations on the audits on the effectiveness and efficiency of the new Early detection and exclusion system (EDES) and on the synergies and efficiencies review as described above.

The European Court of Auditors (ECA)

The Court's Annual Report

The European Court of Auditors maintained the green light on the reliability of the accounts and furthermore no very important recommendations were raised. In its Annual Report 2017, the Court concluded that the Annual accounts of the European Union were reliable for the 11th consecutive year and were not affected by material misstatement. It also concluded that the revenue of the EU is not affected by a material level of error in 2017.

⁴⁸ At the date of the IAS opinion -15 February 2019- the action plan on EDES audit suggested by BUDG was still pending the agreement by IAS; however on 01 March 2019 the IAS agreed on this action plan - ARES (2019) 1391720.

The European Court of Auditors reviewed BUDG 2017 Annual Activity Report and gave a favourable conclusion. It stated that the 2017 Annual Activity Reports of BUDG and EUROSTAT provide a fair assessment of financial management in relation to the legality and regularity of underlying transactions concerning own resources and other revenue and that the information provided corroborates Court's observations and conclusions. The Annual report also shows the progress in addressing recommendations made in previous annual reports.

Follow-up of ECA recommendations

The following recommendations remained opened:

- Annual report on the financial year 2016: the recommendation remaining for BUDG concerning the definition of reporting of all funding related to migration is considered implemented as the "Financial Report on the Implementation of funding raised for the migration and refugee crisis (2015-2017)" was sent in February 2019 by the Commissioner to the budgetary authority. In addition, a mechanism to track migration related commitments is in place in the Commission's general financial system (ABAC) and related local systems since the beginning of 2019 so that the reporting on migration related expenditure could be performed.
- Special Report 02 2016 "2014 report on the follow-up of the European Court of Auditors' Special Reports": one recommendation remaining related to the improvement of the revision of the actions of Member States and agencies in addressing the ECA audit recommendations.
- Annual report on the financial year 2017 resulting in 2 recommendations for BUDG in order to i) invite the European Parliament and Council, in the context of the debate on the MFF post- 2020, to provide for mechanisms to better manage the risk of payment backlogs, given the high level of outstanding commitments in the current and previous MFFs and ii) disclose an overall residual error rate for MFF sub- heading 1b for each accounting year.
- Special report No 01 2019 Fighting fraud in EU spending action resulting in 2 recommendations for BUDG in order to i) ensure that Commission services use the Early Detection and Exclusion Data Base in direct and indirect management and to ii) call on Member States to identify and flag fraudulent economic operators.

2.1.3 Assessment of the effectiveness of the internal control systems

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

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

Internal Control Assessment

The year 2018 was quite intense in BUDG as big efforts were devoted to:

- improve the performance of internal control principles; thorough the follow-up of actions agreed in the management seminar devoted to internal control in January 2018 (mainly focussed on enhancing internal communication and effective knowledge sharing)
- and to further assess the areas of concern and need for improvements; in this sense the Director General launched an internal control survey followed by dedicated interviews with the purpose of taking the pulse of staff and identifying those areas to be improved.

BUDG Staff Survey and Focus group

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

Conclusions of Focus Group report issued in January 2019 confirmed (as in previous surveys where BUDG working environment is positively assessed by its staff) that the starting point of the action was rather positive: **overall positive mood in the DG**. This conclusion is also reinforced by BUDG Staff engagement index set at 75% in 2018⁴⁹ (higher than in 2017-70%) and the fact in 2018 53% of BUDG staff feel that the Commission cares about their well-being (much higher than in 2017-40%- and slightly above Commission average-52%). Last year internal control survey also concluded with an overall positive assessment of 83 % which was higher than 2017 (80%) and above the benchmark established of 75%.

The feedback collected in the context of the Focus Group report also showed that there is still scope for improvement in some areas. These have been structured in five pillars:

- 1) **Vision** (mission, strategy and leadership): the need to define a more clear strategic direction and mission and that this is well communicated to and known by all staff.
- 2) **Corporate culture** (values and internal communication): the organisational culture influences the way people interact, the context within which knowledge is created, the resistance they will have towards certain changes, and ultimately the way they share.
- 3) **Know-how** (business processes and intelligence): the need to enhance the use of existing tools and high quality and varied expertise in BUDG.
- 4) **People** (visibility, recognition and life/work balance): staff is at the center of what BUDG does and is its biggest asset.
- 5) **Work environment** (wellbeing, infrastructure and logistics): many studies indicates a positive relationship between working environment and staff job satisfaction.

⁴⁹ Source: 2018 Commission Staff survey (preliminary results).

The analysis carried in this context has been used as a very important input to report on the effectiveness of BUDG internal control systems. It has fed the results of part of the agreed internal control monitoring criteria. As a matter of fact, no internal control survey (ICAT) has been launched this year as the survey in September 2018 covered most of the aspects that were planned.

Other sources of evidence used were the Commission Staff survey⁵⁰ results, audit reports, risk assessment, control activities and monitoring, meetings with colleagues to clarify roles and procedures in certain cases and other supervisory reports.

The overall evidence collected show that actions for the improvement of the areas identified will contribute to reinforce the effectiveness of mainly two Internal Control Components and five principles:

- I-Control environment: in particular principles 1- Demonstrates commitment to integrity and ethical values; 3 -establish structure, authority and responsibility 4-Demonstrates commitment to competence.
- IV-information and Communication: in particular principles 13-Uses relevant information and 14-Communicates effectively.

Some actions are also being carried out in BUDG to reinforce the principles related to the component III. Control activities and in particular the principle 10. Selects and develops control activities:

- in the area of Traditional Own resources to mitigated the risk of undervaluation as described in specific objective 3 in PART 1 and in the reservation described in section 2.1.5;
- BUDG Anti-Fraud Strategy: Upcoming update following the additional actions taken to strengthen the fight against fraud in the area of Traditional Own Resources and the imminent finalisation of Commission Anti-Fraud Strategy and its action plan where BUDG participation is substantial;
- Business Continuity: finalisation of the update of BUDG Business continuity plan and organisation of raising awareness sessions amongst management and duty officers to clarify roles and procedures. Also ensure a regular update of critical staff in related IT systems. Finally, the organisation of testing is foreseen during the second quarter of 2019.

Conclusion

BUDG has assessed its internal control system during the reporting year and has concluded that it is effective and that the components and principles are present and functioning as intended. Nevertheless further improvements are needed for certain standards as described above. Considering that these improvements, although they are very important to improve the functioning of the DG and the engagement and motivation of staff, do not undermine the assurance as the global feedback received by staff and analysis carried out by the Focus Group was overall positive.

⁵⁰ Complete results of 2018 Commission Staff survey will be available on 28/02/2019

2.1.4 Conclusions on the impact as regards assurance

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

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

In the area of Own Resources, the key indicators presented in [section 2.1.1.A. Own Resources](#) support the reasonable assurance drawn that Member States comply with the relevant regulations for TOR, VAT and GNI own resources when discharging their responsibilities albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK since November 2011. As described in the corresponding section, BUDG, in cooperation with OLAF and TAXUD is following-up very closely this matter. Also, according to Article 8 of Council Decision of 26 May 2014 on the system of own resources of the European Union, the responsibility for collecting and making available TOR falls on Member States and therefore the responsibility of the Commission to mitigate the risk is limited.

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

Further assurance is obtained from the risk management process put in place, by the limited number of exception and non-compliance reports (none in 2018).

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

Management has obtained satisfactory evidence that overall there are no major deficiencies in the Internal Control Systems of BUDG, notwithstanding areas for further improvements have been identified and will be addressed through an agreed action plan endorsed by BUDG Senior Management and staff.

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the administrative expenditure authorised during the reporting year (EUR 18.62 million) is below 0.5 % which implies an amount at risk below EUR 93 123.

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in her capacity as AOD has signed the Declaration of Assurance albeit qualified by a reservation on the accuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK.

2.1.5 Declaration of Assurance and reservation

Declaration of Assurance

I, the undersigned,

Director-General of BUDG

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁵¹.

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls and the work of the Internal Audit Service

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

However the following reservation should be noted due to the Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget

Place, date

.....

(signature)

Gert Jan KOOPMAN

⁵¹ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

Reservation

DG	BUDG																				
Title of the reservation, including its scope	Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget Losses of traditional own resources (TOR) between November 2011 and 12 October 2017 estimated at EUR 2 679 637 088.86 (gross) and unquantified potential TOR losses in other Member States due to the undervaluation of textile and shoes imported from China																				
Domain	Direct centralized management. According to Article 8 of Council Decision of 26 May 2014 on the system of own resources of the European Union, the responsibility for collecting and making available TOR falls on Member States. On behalf of the Commission, BUDG's role is to seek reasonable assurance that traditional own resources are collected and made available to the EU budget in conformity with EU law. It does so by carrying out on-the-spot TOR inspections and documentary checks and also by following on findings from investigations and audits conducted by the European Court of Auditors (ECA) and OLAF namely when the actions taken autonomously by Member States does not protect satisfactorily the EU financial interests.																				
Programme in which the reservation is made and total (annual) amount of this programme	The revenue part of the budget is concerned. Directly, the scope is limited to the TOR. Chapter 12, article 1.2.0 Customs duties and other duties referred to in Article 2(1)(a) of Decision 2014/335/EU, Euratom. Indirectly, the VAT-basis in the destination Member States as well as the correctness of the GNI-related resources are also affected. The amounts of TOR affected by the losses are the following: <table> <tr> <th>Year</th><th>Traditional Own Resources EUR millions (net)</th></tr> <tr> <td>2011</td><td>16 777.7</td></tr> <tr> <td>2012</td><td>16 453.4</td></tr> <tr> <td>2013</td><td>15 365.3</td></tr> <tr> <td>2014</td><td>16 429.5</td></tr> <tr> <td>2015</td><td>18 730.4</td></tr> <tr> <td>2016</td><td>20 094.1</td></tr> <tr> <td>2017</td><td>20 459.1</td></tr> <tr> <td>2018</td><td>20 231.6</td></tr> <tr> <td>Total 2011-2018</td><td>144 541,1</td></tr> </table>	Year	Traditional Own Resources EUR millions (net)	2011	16 777.7	2012	16 453.4	2013	15 365.3	2014	16 429.5	2015	18 730.4	2016	20 094.1	2017	20 459.1	2018	20 231.6	Total 2011-2018	144 541,1
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2017	20 459.1																				
2018	20 231.6																				
Total 2011-2018	144 541,1																				
Reason for the reservation	The OLAF investigation report on the undervaluation of textiles and footwear imported in the UK concluded that the UK had failed, even after repeated warnings and requests to that effect by OLAF, to apply the appropriate measures to prevent systematically undervalued imports of textiles and footwear from the People's Republic of China from entering the EU through the UK. As from October 2017, the UK gradually implemented the measures requested by the Commission and the estimated TOR losses for the UK are below the																				

	materiality threshold for 2018 (as shown in the table below). However, the undervaluation fraud could also concern other Member States for amounts that cannot be quantified yet. The five inspections of traditional own resources carried out by BUDG in the UK between 2016-2018 confirmed the existence of significant weaknesses in Her Majesty Revenues and Customs (HMRC)'s control of undervalued imports of textiles and footwear.
Materiality criterion/criteria	- The seriousness of the weakness: the ineffective or inexistent controls to detect and stop the undervaluation fraud, uncovered by a report of the European Anti-Fraud Office and by BUDG traditional own resources inspections; - The period concerned of around six years, from November 2011 to October 2017 (the amounts at stake are quantified below). This explains the need for a qualification of the assurance in 2017 and the immediate actions undertaken by BUDG for the protection of the EU budget. As of 12 October 2017, the UK started implementing the measures recommended by the Commission, including checking the imports of textile and shoes declared at extremely low values at clearance, and taking guarantees for the customs duties due. This led to a dramatic reduction of TOR losses (error rate below 1% for TOR). For that reason, the materiality for the reservation does not persist in 2018. Therefore, figures for 2018 are not included in the reservation. Nevertheless, the UK still refuses to make available to the EU budget the TOR amounts lost during the period 2011 – 2017. The Commission decided to refer the case to the Court of Justice of the European Union (CJEU) on 19 December 2018. Following the Commission's decision, the UK authorities indicated that they still intended to provide a formal reply which was received on 11 February 2019. After analysing the UK' reply, the Commission confirmed on 6 March 2019 their decision to refer the case to the CJEU and so the Commission did on 7 March 2019. Besides, the Commission services consider that after the UK gradually implemented measures, the undervaluation fraud may have moved to other Member States, which could affect the collection of traditional own resources to an extent that cannot yet be quantified. For these reasons, a non-quantifiable reservation is maintained for 2018.
Quantification of the impact (= actual exposure")	According to OLAF and BUDG, between November 2011 and October 2017, the UK should have made available an estimated amount of additional traditional own resources of EUR 2,679,637,088.86 (gross). The quantification of the possible loss (in net terms, after the deduction of collection costs) compared to the total own resources and traditional own resources actually made available by the EU-28 during the same period can be found below:

	Years	Estimated traditional own resources losses in EUR millions (net) ⁵²	Own Resources made available by EU-28 EUR mill	Traditional Own Resources (net) made available by EU-28 EUR mill	Estimated Loss in % of Own Resources made available by EU-28	Estimated loss in % of TOR made available by EU-28
	2011	18.2 ^[1]	119 994.7	16 777.7	0.02%	0.1%
	2012	138.7	129 429.8	16 453.4	0.1%	0.8%
	2013	260.2	139 743.6	15 365.3	0.2%	1.7%
	2014	384.1	132 961.3	16 429.5	0.3%	2.1%
	2015	428.2	137 334.7	18 730.4	0.3%	2.1%
	2016	517.4	132 174.3	20 094.1	0.4%	2.5%
	2017	396.8	115 427.7	20 459.1	0.3%	1.9%
	2018	Estimated below 50	142 355.4	20 231.6	0.03%	< 1%
	Total	2 143.7	907 066.1	124 309.5		
	In compliance with Article 12 of Regulation No 609/2014, interest for late-payment are also due and will be calculated and requested when the relevant dates are known. As from October 2017, the UK gradually took control measures to address the import of undervalued textile and shoes from China and the estimated loss in % of TOR made available by EU-28 for 2018 is less than 1%. The process for the recovery of the 2011-2017 TOR losses is pending as the case has been referred to the CJEU. However, the undervaluation fraud potentially also affects other Member States to an extent that cannot be quantified. To address this risk, inspections of traditional own resources took place in 2018 in 16 Member States and 12 inspections will take place in 2019 in the remaining Member States. For the time being, the follow-up procedures of these inspections assessing the impact on the EU budget are ongoing. BUDG therefore modifies its existing quantified reservation for the Traditional Own Resources into a non-quantified one for the 2018 revenue, given that there is no new 'material' exposure from the UK and the amounts concerned in other Member States for the 2018 reporting year are not yet known.					
Impact on the assurance	As a result of the fraud and the serious control and management weaknesses regarding the importation of undervalued textiles and footwear from the People's Republic of China through the UK, uncovered by the OLAF report and by BUDG inspection activities, it is estimated that EUR 2,679,637,088.86 (gross) of traditional own resources have not been made available to the EU budget between November 2011 and October 2017. Although the responsibility for collecting and making available TOR falls on Member States, the management of the system of own resources is a direct competence of the Commission.					

⁵² 80% for the entire period since the administrative error was committed in 2015 (cancellation of C18s and not implementing request of 2015/013. 2017 only until 11 October 2017

^[1] Only for November and December 2011

	Although the UK's customs controls further improved in 2018, the UK still refuses to make available the TOR lost due to its lack of effective action on the period 2011-2017 to the EU budget. Therefore, and in view of the financial impact, a reservation was considered necessary for 2017. Finally, the undervaluation of textile and shoes imported from China may affect other Member States, for amounts of traditional own resources that cannot yet be quantified. Therefore, an unquantified reservation is set for year 2018.
Responsibility for the weakness	The possible losses for the EU budget resulted from the failure of the UK to act in a timely manner. OLAF and BUDG had repeatedly informed the UK about the extent of the fraud and requested the UK to take measures to tackle it, in particular through the implementation of value thresholds as risk profiles, physical checks of targeted consignments at clearance, and taking securities payments for additional duties likely to be due before releasing the goods for free circulation in the EU. The TOR losses reduced after 12 of October when UK started to implement the requested measures. In accordance with Article 8 of the Council Decision of 26 May 2014 on the system of own resources of the European Union and with Article 2(2) of Regulation No 608/2014, Member States are responsible for collecting the Union's own resources and for taking all measures that are necessary to ensure that the own resources are made available to the Commission. As a consequence, the UK is held responsible for the traditional own resources lost and is requested to make them available to the EU budget.
Responsibility for the corrective action	Corrective actions to be taken by the UK Member States are responsible for collecting and making available timely and in full the traditional own resources to the EU. They are also required to put in place effective management and risk-based control systems to that effect. Therefore, the UK must take the necessary action to overcome the failures identified and make available to the EU budget any TOR lost, including interest due for belated payment if applicable. To that effect, OLAF has sent the UK several recommendations. The UK is now responsible for giving them an appropriate follow-up. OLAF will monitor the progress made regarding its recommendations. For what regards the UK's obligations towards the EU budget, it should take action to reassure the Commission that all amounts due to the EU budget are made available without delay. Since the UK failed to take appropriate and timely action to make available all amounts due to the EU budget, the Commission referred the case to the CJEU on 7 March 2019. Follow-up action by the Commission BUDG performed two TOR inspections in the UK, in April and October 2018. During these inspections, samples of import declarations declared at suspiciously low values were checked. The findings obtained confirmed that the measures taken by the UK, although limited in scope, had a positive impact on the undervaluation fraud. Inspection reports 18-11-1 and 18-11-2 were sent on 17

	July 2018 and 14 December 2018, respectively. The Commission decided on 8 March 2018 to start a formal infringement procedure by sending to the UK a Letter of Formal Notice under Article 258 TFEU concerning this case. The UK replied on 22 June 2018. On 24 September the Commission decided to send a Reasoned Opinion to the UK because of its failure to make the TOR amounts due available to the EU budget, as required by EU law. The UK did not reply to the Reasoned Opinion within the deadline of two months. On 19 December 2018, the Commission decided to refer the case to the Court of Justice of the European Union (CJEU). On 11 February 2019, the UK replied belatedly to the Reasoned Opinion of the Commission. On 7 March 2019 the Commission referred the case to the CJEU.
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2.2 Other organisational management dimensions

2.2.1 Human resource management

In line with the objectives outlined in the Management Plan 2018, BUDG's main achievements in the area of human resource management are as follows:

- **Representation of women in middle management positions**

By the end of 2018, the female representation rate in middle management in BUDG was 38%. The revised objective set in the Commission's Decision of 19th July 2017⁵³ for the DG was to nominate three new female managers by November 2019. In 2018, DG BUDG already met the targets set. The DG paid special attention to women applicants to middle management positions, and encouraged proactively female potential candidates to apply for the two heads of unit posts that had to be filled in 2018.

Notwithstanding, monitoring of gender balance in management posts remains a top priority for DG BUDG in 2019 and efforts will continue to prepare women for future management posts in line with the Commission's renewed approach to reaching its target of 40% of female managers by the end of 2019. In this sense, the talent management programmes will continue.

- **Address the results of the 2016 Staff Survey.**

BUDG continued to invest in actions addressing the core issues that contribute to the staff engagement index.

A DG-wide Focus Group was established in September 2018 with the objective of analysing the results of a locally launched survey that aimed at collecting staff's feedback and their suggestions for improvement. The Group worked on a proposal that served as basis for a Management Action Plan that was presented to staff during a DG Away Day in February 2019.

The Action Plan proposes 15 actions structured around five pillars: Vision and strategy, Corporate culture, Know-how, People and Work environment. These actions will now be followed up. At management level, a more regular feedback process to staff continues with regular communication and video appearances by the Director General and Senior Management.

- **Mobility & career development**

The DG job-shadowing programme "Working together" continued to be promoted with the aim of better sharing of information, improving networking and increasing internal mobility. There were 13 agreements concluded in 2018.

- **Well-being**

Beyond these activities, the DG continued the "fit@work" activities and increased its offer with Pilates, massage and mindfulness meditation. An activity fair was organised in February 2018 to present the different actions on offer in the DG and the Commission. The number of parking spaces for bicycles was increased and electrical plugs were installed in their reserved areas.

In addition, the following developments are important to mention in the HR area:

- **HR Modernisation**

The implementation of the HR Modernisation pilot continued in 2018 with further

⁵³ SEC(2017)359

analysis of the roles and responsibilities of the Account Management Centers and the HR Business Correspondents in view of improving workflows and service.

- **BUDG senior management changes**

A new Director General joined the DG in 2018 and one new Director joined the Senior Management team. The gender balance in senior management stood at 43% by the end of 2018.

- **Corporate policy of middle management mobility**

In 2018, BUDG had no middle managers in mandatory mobility.

2.2.2 Information management aspects

Document management

All incoming and outgoing documents are registered and filed in Nomcom files. Procedures are in place to follow up on the **correct and timely attribution and filing. 91% of BUDG files are readable by all units**; the other 9 % have a more restrictive nature (human resources, bank related information) and are only accessible by the concerned stakeholders.

On the basis of a screening of the existing files by the responsible units, BUDG has decided to open the **visibility at Commission level of 36% of files in 2018** (higher percentage than in 2017-19.34%). **100% of BUDG files have a retention code**, as requested by the document management rules, which allow the correct follow up of the files in terms of archiving and accessibility in the long term in the Commission.

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

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

Internal communication

Internal communication focused on providing timely information on BUDG and Commission priorities and activities. **Much importance was given to improving knowledge sharing and interactive communication** between staff and management. Managers shared information and provided feedback to staff for example through weekly BUDG management meeting video readouts, regular all-staff meetings, and Director-General gatherings with different staff groups.

The MFF was a focus topic also in terms of internal communication. BUDG brought external and internal expertise on specific subjects underpinning the design of the new programmes (e.g. defence, migration, financial instruments...) and organised a series of seminars. The senior management and the "MFF team" including colleagues from SG and ECFIN attended the seminars.

BUDGnet continued to provide relevant information for BUDG staff, e.g. on major events as well as outside work events. It also promoted communication and cooperation among BUDG directorates and units in order to break silos and

understand better the work done by other units and directorates.

Moreover, lunchtime presentations were organised about issues concerning BUDG directly or indirectly (e.g. the annual budgetary negotiations or social media). A daily review of the media (major EU headlines and budget related news) was another source of information. The list of recipients was expanded from management only to all BUDG staff. These channels combined with regular directorate or unit level meetings kept staff informed of any upcoming issues or challenges as well as key achievements of BUDG or the Commission.

In September, Director-General Gert-Jan KOOPMAN launched a staff survey and a staff interview exercise to gather views on how the DG is operating in order to explore ways to further improve working together. See more details on section **2.1.3.** on the assessment of BUDG internal control systems.

Data protection

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

In BUDG, a stocktaking exercise took place and an exhaustive inventory of personal data processing within BUDG is now available. BUDG has assessed the actions to be taken to ensure full compliance with the regulation. As a result, BUDG can now affirm that the most relevant processing operations involving personal data are documented in the corresponding notification that was communicated and validated at the time by the Data Protection Officer.

However, work still needs to be done in some cases to refining some processes and privacy statements. There is also room for simplification of the current documentation of the processing operations by merging some documents and by using a clearer language.

In addition, BUDG should ensure that the data subjects concerned are systematically informed of their rights and therefore systematically send them, whenever it is required, a privacy statement with the necessary information presented in a visible and clear way. In this context, BUDG is working with other services (in several working groups at Commission level) to make sure that the information provided to data subjects about their registration in the financial systems (mainly the IT ABAC system - through the legal entity and bank account files) is effectively placed in the process. The establishment of these working groups is helping to harmonise and streamline the approach to several horizontal issues such as the organisation of internal and external meetings and conferences (including the management of videos and photos), the reception of external candidates' CVs or the organisation of surveys.

There are two main actions being currently implemented in BUDG which aim on the one hand, at improving the security of data in testing environments and on the other at ensuring that data is deleted when it is no longer necessary for carrying out BUDG tasks.

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

Several actions of raising awareness amongst management and staff have been carried out during 2018 (June and December) and in several (management and all staff). Further sessions are envisaged during 2019.

2.2.3 External communication activities

In 2018, external communication activities of BUDG focused on three main themes: the proposals for the post 2020 Multiannual Financial Framework (MFF), the results and added value of the EU budget, and the financial management of the EU budget.

Throughout 2018, BUDG worked closely with DG COMM to align all communication activities on the MFF and the sectorial acts into a corporate approach in order to maintain unity of messages and derive synergies. BUDG produced MFF visuals and a PPT presentation, which was translated into all EU languages and is used by Commission employees to present the MFF in public.

Additionally, BUDG lead the effort to provide integrated brochures gathering all published documents of each proposed MFF cluster. The Commission's internal and external stakeholders deemed this as useful. BUDG also worked with COMM to produce a MFF video that was widely used on social media. Finally, BUDG prepared country-specific info sheets about all Member States that are used by senior management in negotiations and missions abroad.

In parallel to the communication on the MFF proposal, BUDG cooperated with COMM on defining and introducing legally binding and coherent common minimum requirements for communication and visibility across all programmes and management modes. The substance of the requirements comprises the correct and effective use of the European emblem (as opposed to programme-specific logos), proportionate communication efforts, licences to be granted to the EU to use communication material produced by managing authorities or beneficiaries, the use of factually correct information and financial corrections/grant reductions in case of non-respect where legally possible. It also encompassed the requirements on data collection about the projects results.

The 2018 annual EU budget conference "EU budget for the future" was also dedicated to the MFF. Next to bringing together a variety of stakeholders from Member States, think tanks and EU institutions to exchange views on the challenges ahead for the EU budget and the ways to address them, BUDG organised a media seminar for journalist from the Member States. 67 % of the journalists published at least one article about the event and of the participants who provided feedback, all rated the seminar as either very useful or rather useful. Furthermore, the conference was the 10th most followed individual event hosted on ec.europa.eu in 2018. However, views of content on Twitter decreased by 25 % compared to 2017.

As another way to bring the EU budget closer to citizens and other stakeholders, BUDG management participated in various public conferences and events. For example, two Facebook and Twitter online live chats were organised. In January, Director-General Nadia CALVIÑO participated in a live chat about the EU budget as part of a MOOC by the Committee of the Regions and in May, Commissioner Guenther OETTINGER answered live questions about the MFF proposals. Together, these live chats attracted around 47,000 views, 384 shares and 298 comments.

Moreover, BUDG participated at the EU Open Day 2018. More than 2600 people participated in our voting game for their preferred spending categories for EU funds. Visitors could also listen to presentations and ask questions about the EU budget, as well as test their knowledge via an interactive quiz. Guests could also suggest their own ideas of EU-funded projects and indicate them on an 'EU Results' map.

BUDG communication activities continued stressing the added value of the EU budget. The EU results web project database demonstrates concrete results in EU member states and third countries achieved with the EU budget. With this public database, citizens can identify concrete achievements in their immediate environment. The look and feel of the database was improved, as well as the possibility to locate the projects on the map of Europe. Besides using the database for communication activities, BUDG cooperated with other services to expand EU Results into a comprehensive repository of EU-financed projects. Throughout the year, the database was expanded to include more projects, not only from direct management but also from shared management in cooperation with other DGs. In addition, in line with the corporate Digital Strategy published in November 2018, BUDG is now leading the discussions on the corporate approach to the project data collection and use.

With the Integrated Financial Reporting Package (IFRP), BUDG reported on the implementation, performance, results, financial management and protection of the EU budget in 2017. The package included three reports and one new publication, the "Programmes' Performance Overview". This is an extract of the Programme Statements and provides a uniform and comprehensive presentation of each of the spending programmes, their performance framework, benefits for EU citizens, implementation status and highlights key achievements. Additionally, a dedicated brochure summarised and visualised the key messages of all reports. The approach to summarize information in an integrated brochure received positive feedback from several stakeholders.

As regards the EU budget website migration to a corporate domain, BUDG engaged in thorough preparations during 2018 in order to be able to migrate in the beginning of 2019. The new BUDG website will be part of the Europa Info site and contribute to the establishment of a coherent and strengthened corporate web presence of the Commission. Its structure and content are based on an extensive user survey launched by DG COMM in 2016, which aimed to align the Commission's online communication to the needs of the people interacting with it.

According to a Eurobarometer survey from autumn 2018, there is still a gap between where Europeans think the EU spends most of its budget and their expectations as to where it should be spent. Respondents were most likely to think that the EU spends most of its budget on administrative and personnel costs and buildings (29% in 2018 vs 34% in April 2017). In reality, the EU spends less than 7% of its annual budget on administration.

To sum up, BUDG produced high-quality information for various stakeholder groups. Although there are still improvements to be made with regards to educating the public about the EU budget, BUDG helped increase the understanding of how the EU budget works, promoted the results achieved with the EU budget, and communicated about priorities and challenges for the next MFF.