



EUROPEAN COMMISSION
Budget

Annual Activity Report 2010

DG BUDGET

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Part 1. Policy achievements

Section 1.1. Achievements for the policy area of DG Budget by ABB Activities (operational)

1.2.1. ABB Activity: Budget execution, control and discharge

Specific Objective 1.

Make sure that budgetary implementation follows forecasts and effective use of resources principles

Main Outputs :

- ❖ Budgetary transfers and carry forward procedures
- ❖ Produce budget implementation reports
- ❖ Monitoring of decentralized agencies (D.A.)
- ❖ Follow up of ECA annual report on budgetary execution, agriculture and structural funds
- ❖ Annual Reporting on allocated expenditure
- ❖ Contribute to the Annual Financial Report for 2009

In 2010, 62 DEC **transfer proposals** have been submitted for decision to the budget authority (BA) for approval 61 of which have been approved. 3 INFO transfer proposals have been submitted to the BA in 2010, all of which have been approved. Decisions for all DEC transfers submitted to the BA for approval have been taken within the time limits set by the FR and authorisations of transfers have been made without any delay. The combination of several major humanitarian crises required the mobilization, through transfers, of the whole Emergency Aid Reserve (EAR) in the course of the year: EUR 112 million following the earthquake in Haiti; EUR 40 million for the drought-related crisis in Africa; EUR 40 million for the Palestinian Authority and the UN Relief and Works Agency for Palestinian Refugees; EUR 57 million for the unprecedented disaster of monsoon floods.

The procedure for the **carry over of implementation from 2009 to 2010** was adopted on 09/02/2010 and transmitted to the Budgetary Authority by the deadline of 15 March 2010. EUR 315 802 858.00 in commitment and EUR 869 548 637.14 in payment appropriations was carried over from 2009 to 2010.

Regarding the **reports and simulations on the implementation of own resources**, the contribution on budgetary and financial management for year n – 1 the contribution for the "Synthèse chiffrée" on the general budget for the European Union for year n were delivered according to the planned schedule.

Throughout 2010, DG Budget continued the **reinforced monitoring of budget implementation**. It kept the Budgetary Authority regularly informed on budget implementation, twice a month since March and on a weekly basis since September 2010. In addition regular reports have been submitted to the Cabinet as well as to the Budgetary Authority.

Three Budget Forecast Alert information notes were presented to the College in 2010, on 25 February, 23 June and 19 October and sent to the Budgetary Authority where they have been discussed as formal agenda points. The Budget Forecast Alert is the process in place since 2006 to monitor and improve budget implementation and the related forecasts minimize budget year-end surpluses.

The **Report on Budgetary and Financial management** was finalised and submitted to the BA and ECA at the same time as the Provisional Annual Accounts.

Two reports on the **budget execution of Pilot Projects (PP)/Preparatory Actions (PA)** have been sent to the budgetary authority: a report on the execution of the new AP/PP sent in February and a working document attached to the draft budget for all AP/PP for which the Commission was requesting appropriations. At the request of the European Parliament and in line with the provisions of the IIA, a working document analysing the draft list of AP/PP for 2011 was also coordinated and sent in July.

The annual report "Analysis of the Budgetary Implementation of the Structural and Cohesion Funds" was published on Europa web-site on 1 June and distributed to Council, EP, ECA and DGs on 31st of May. 4 reports updating on the evolution of payments related to Structural Funds for the 2000-2006 and 2007-2013 programmes were sent to the Budget Authority in the course of 2010. Moreover, 4 other reports on the budgetary execution of the International Fisheries Agreements were sent to the Budget Authority. Also, upon their request, they were sent every month an update on the state of approval of management and control systems and major projects for Heading 1b.

The annual report on allocated expenditure has been incorporated into the annual financial report since the year 2006. The graphic presentation of the allocated expenditure data was significantly modified to increase the user-friendliness. The report was presented by Commissioner Lewandowski at a press conference on 28 September.

Regarding the **monitoring of decentralized agencies**, the working document was delivered with the draft budget 2011 and welcomed by the budgetary authority.

Following the feed-back received from services (difficulty to cover new needs and optimize use of appropriations - especially for staff- because of the delay attached to the transfer procedure before the budget authority), the **Clearing exercise** for decentralised administrative appropriations in the so-called global envelopes of DGs was advanced by two months, and the appropriations made available to services on 17/06/2010 after positive opinion of both Council and European Parliament and communicated to all DGs. **External staff credits** were regularly followed on a monthly basis. This monitoring was made all the more complex and necessary as reorganisations of service had not been anticipated in the 2010 ABB nomenclature at the time the preliminary Draft budget was presented and the final budget adopted.

Establishment plan occupation has risen to ever higher level in the absence of new posts; EU 12 recruitment targets have been reached and only require monitoring in order to ensure that EU 12 temporary staff leaving the Commission is compensated by permanent recruitments. Given the uncertain pace of ongoing enlargement negotiations, possible future enlargements have given rise to precautionary administrative preparation so as to ensure smooth phasing in when necessary.

Specific Objective 2.

Improving other institutions assessment of financial management in the Commission

Main Outputs :

- ❖ Support the discharge Commissioner in developing and implementing his discharge Agenda 2010-2014
- ❖ Managing and following the discharge procedure
- ❖ Providing information on Commission and Member State follow-up to Court/Parliament and Council recommendations
- ❖ Coordination of relations with the Courts of Auditors and the COCOBU
- ❖ Coordinating within deadlines replies to Parliamentary questions

On 31 May, Commissioner Algirdas Šemeta presented his **agenda on discharge, audit and anti-fraud policy for 2010-2014** to the European Parliament's Budgetary Control Committee. The agenda provides for stronger tools in a revised regulatory framework, a new partnership with stakeholders and in particular with Member States, improved information on recoveries and financial corrections as well as specific actions in relation to OLAF and in the area of anti-fraud policy.

The **discharge 2008 discussion in Council** went well, allowing the 'best ever' discharge recommendation, voted in ECOFIN without NL opposing (NL abstained, compared to the last 2 years). The European Parliament, following contacts between EP Rapporteur Liberadzki and the Commission, granted **discharge for the financial year 2008** with large majority on 5 May 2010. The report on the Commission's **follow-up on the 2008 EP discharge** recommendations was adopted on 18 November 2010.

The contradictory procedure of the **Court of Auditors' annual report 2009** took place between 24/6 and 30/9/2010. This procedure was lengthy since additional meetings and/or discussions were required for chapters 1, 3 and 7 in September. On 19/10/2010 Commissioner Šemeta presented to the College the state of play of Commission's replies to the Court of Auditors' Annual Report 2009.

The **procedure for the 2009 Discharge in the EP**: the annual report was published in the OJ on 9/11/2010 and presented to Parliament (COCOBU) on the same date. The presentation to the EP Plenary and to ECOFIN took place at 11/11/2010 and 17/11/2010 respectively. Commissioner Semeta attended the meeting in COCOBU (09/11/2010) and plenary (11/11/2010) when President Caldeira presented the Court's annual report for 2009. These discussions took place in a positive atmosphere and were well received by the MEPs, in particular the Rapporteur. However, as usual, some critical comments were made.

In COCOBU the hearings of "spending" Commissioners started in November with the hearings of Commissioners Hahn, Andor and Ciolos. According to the usual practice, numerous written questions were sent to the Commissioners before the hearings, to which replies were elaborated by the Commission services.

The Annual Meeting between the **College and the Court of Auditors** took place at 14/6/2010 in Luxembourg. The discussion focused on the Financial Regulation proposal and the tolerable risk of error (TRE) concept. Both institutions agreed on the common objective of improved financial management and increased focus on the quality of spending and the ensuing European added value. The next programming

period, as well as, the review of horizontal rules provided by the Financial Regulation, are an opportunity to set clear and measurable objectives.

The number of **special reports** produced by the ECA is on rapid increase, which represents a heavy workload for the DG. For 2010, 19 special reports have been received as compared to 14 in 2009. More emphasis has been put on the quality of the drafting and the presentation of the replies, including editing advice. Except one, replies have been sent within the timeframe agreed with the Court.

Contacts with national Supreme Audit Institutions (SAIs) have been steadily maintained and deepened in 2010. In particular the involvement of DG Budget in working group meetings of the SAI Contact Committee as well as bilateral meetings further increased the cooperation with national audit bodies. Furthermore DG BUDG has provided national SAIs with details of all payments made in their countries which can be used to support national risk assessments and audit work. While fully respecting independence and national sovereignty, an enhanced cooperation with national Supreme Audit Institutions is in the EU stakeholders' interest in order to make best use of existing audit evidence and to obtain more assurance on the use of EU funds in the Member States.

The **Commission report on Member States replies to 2008 annual report** was adopted on 26/02/2010 and transmitted to EP, Council and ECA. The quality and detail of the replies varied significantly from one Member State to another, with certain Member States providing very detailed and structured replies and commentaries. The report reflected the improvements noted by the Court with regard to more efficient management of EU funds. Nonetheless, the report also underlined that whilst this was encouraging, there were still a number of challenges to be faced by both the Member States and the Commission with respect to the attainment of a positive DAS for the legality and regularity of underlying transactions.

DG Budget is running the IT application **RAD - Recommendations/Actions/Discharge to follow-up requests** made by the European Parliament and the Council in the course of the annual budgetary discharge procedure as well as to follow-up the recommendations from the European Court of Auditors (ECA). The database contains 3325 requests and recommendations in total. Every year further 500 requests and recommendations have to be added and to be followed up by the Commission services. In 2010 the system has been updated in order to facilitate the handling of the follow-up tools and response cycles. Training courses for RAD have been organised and monitored in cooperation with DG DIGIT and support has been given to users in order to assure proper utilisation by the Commission services. . A new RAD tool has been further developed in order to be implemented in 2011. It will allow the Commission services to better monitor and exploit information available in the statements of preliminary findings received from the ECA, in particular on the quantifiable DAS errors and on special reports.

Regarding **Parliamentary Questions**: 70 'lead DG questions' and 362 'associated DG questions' were attributed to DG BUDG. Replies were sent within the deadline in 92% of the occurrences. The main subjects addressed were:

- The financing of NGOs,
- The multiannual financial framework,
- The contracts (beneficiaries and amounts)
- The staff costs,
- The effects of the Lisbon Treaty on the EU budget.

The main country on which questions were addressed was Italy, followed by the UK, Poland and Greece.

Specific Objective 3.

Efficiently and effectively manage and control EU own resources

Main Outputs :

- ❖ Efficiently manage EU own resource
- ❖ Managing VAT recovery
- ❖ Control of EU traditional own resources
- ❖ Treatment of Member State's write-off reports
- ❖ Control of EU GNI/GDP resource
- ❖ Control of EU VAT resource
- ❖ Organize ACOR meeting, participating in GNI meetings and reporting

Commission **Communication on the adaptation of the ceilings for commitment appropriation and the own resources ceiling** (COM (2010) 162 final) was adopted on 16 April 2010; following the adoption of the Council decision on FISIM (2010/196/EU, EURATOM) of 16 March 2010.

All monthly call for funds were sent out on time. The **call for funds letters** for the **VAT/GNI balances and the opt-out** were also sent on time (mid November 2010). Follow-up actions were taken promptly were necessary and all associated RO were established on time.

All **Financial and accounting follow-up of own resources control observations** (call for funds letters for interest due for late payment and accounting actions for outstanding amounts of principal/interest, follow-up and reporting of payments) files were processed within applicable regulatory deadlines, a new operational indicator to monitor the workflow has been introduced after one year of testing.

All **budgetary actions for San Marino's reimbursements** were done on time. The **EFTA call for funds** was sent out on time (9 August 2010).

Regarding the **management of infringement cases in the field of own resources**, the deadlines were 100% respected. Two cases for Court application were decided, 2 letters of formal notice were sent, 6 infringement cases stopped and follow-up was given of 11 Court cases in favour of the EU, assistance in 2 pending Court cases.

DG BUDG has been involved concerning the **BoP facility** (e.g. disbursement of BoP loan tranches) and the **EFSM** (e.g. making the mechanism operational) and it manages the potential impact of the two instruments on own resources. Constant monitoring of budgetary risks stemming from existing and new decisions for financial assistance is taking place (including monitoring of BoP loan portfolio as well as current and future transfers/payments by beneficiary Member States). A Service Level Agreement between DG ECFIN and DG BUDG on coordination in case of default by Member State benefitting from a BoP loan is in place, as well as corresponding BUDG internal procedure that will be extended/ complemented accommodate for the-EFSM loans. The Budgetary authority has been kept informed, in particular in the context of adoption and presentation of Draft Amending Budget No 7/2010 which foresees new budget lines to accommodate the creation of the EFSM. Questions from individual Member States and Members of the European Parliament on BoP and EFSM were answered promptly.

The yearly **recovery process** (collect and assess invoices, send the annual requests for reimbursement, pilot the maintenance and development of the dedicated IT programme) was managed. 15 MS requests sent out by mid July, the other requests (DE/GB/GR/NL) were sent out between August and September. First part of claim 2010 already sent to PT.

The application of the PPI was monitored in the Member States, 11 complete refunds (AT, CZ, K, EE, FI, IE, LT NL, PT 1st and 2nd claim, SE, SK) for 2009 received before deadline. 5 partial refusals for 2009 followed-up (FR, HU, LV, MT and PL). The negotiations on PPI application agreements with the candidate country Croatia is underway and is under preparation for Iceland.

All **31 TOR control missions** were carried out in the Member States in conformity with the inspection programme for 2010. In general, the missions showed a satisfactory level of compliance of national provisions and practises with European regulations. However, a number of shortcomings or weaknesses were noticed, in particular as far as the handling of irrecoverable amounts of TOR, the accounting of provisional antidumping duties becoming definitive and the use of automated risk analysis for the control of goods declared in the framework of simplified clearance procedures are concerned. 34 reports were sent to the Member States during the period, all but one produced within the legal 3-month time limit.

One joint audit dealing with Inward Processing was carried out in the Netherlands. As an inspection of the Customs Control Strategy had not been carried out in 2009 in Austria and Denmark, this topic was inspected in these countries in 2010, by means of a normal inspection as it was not considered a suitable theme for a Joint Audit.

End of December 2010, 147 **follow-up actions on the ECA Preliminary Findings letters** have been taken of which 118 (80.27%) within the self-imposed target deadlines.

During 2010 the management of TOR by MS authorities by identifying cases of financial responsibility was further improved:

- Financial responsibility of UK in Chinese garlic case (erroneous binding tariff information) - (€ 27 million) UK refuse to pay, infringement procedure started (2010/2027).
- Infringement case C-442/08 on Hungarian Cars and concerning DE won by the Commission. Amounts involved €408k of TOR and €570k of interest. All paid and closed.
- BE file of €1.5 million for old REM/REC cases still open. Reply to partial BE reply sent. Last reply: Possibly partial closing. Belgium still refuses to pay biggest parts.
- Turkish colour TV (over €35 million); Information requests sent to IT, ES, UK, DE. IT draft prepared. For ES reminder made. DE draft in preparation. UK reply received, indicating they could not find imports.
- DG AGRI has sent 33 cases relating to erroneous agricultural import licences involving 14 MS. 10 letters to MS sent. BUDG proposal for approach of the issue and clarification of legal framework agreed by AGRI and TAXUD.
- Financial Responsibility of the UK for the errors committed by their overseas territory Anguilla (over € 2 million). BUDG assessment agreed by LS Call for funds letter sent. UK replied it will study on its responsibility.
- All 27 MS already replied to B3 to inform the Commission of specific administrative errors in year 2009 ('listing cases'). For 24 MS cases are closed. For 3 MS cases files are still open. Total amount involved in 2009 listing over 250k. Listings up to 2007 all closed. For 2008 for 2 MS open.
- TAXUD cases of possible financial responsibility in years 2007, 2008 and 2009. DK, NL, FR and DE over € 1.7 million. Over 1.3 million paid. Some MS are contesting (PT, DE and PL) PL case on classification might have EU impact.
- IE reply on remission decision involving ca. €10 MLN (classification issue) received. Case to be dealt with in cooperation with DG TAXUD.
- OLAF forwarded UK and ES case on possible financial responsibility (€2.5 MLN). Letters to UK and ES. UK reply implies we have to wait for outcome of a Court case in UK.

- OLAF forwarded IT case on possible financial responsibility (€12.5 MLN, micro-organisms). Letter IT sent for info.

The **Fraud and Irregularities Database OWNRES** was continuously managed throughout 2010; Member States have reported 4080 cases of fraud and irregularity via OWNRES with an estimated impact of € 318 million. (Reporting deadline for the cases of the 4th quarter 2010 is 28.02.11).

The **external financial responsibility in trade agreements** was further developed, the "management of administrative errors" clause has already been successfully introduced in the following signed trade agreements: SAA EU-Albania, SAA EC-Montenegro, SAA EC-Serbia, SAA EC-Bosnia and Herzegovina and EPA EC-Cariforum, Stepping stone EPA EC-Central Africa and in the following negotiated (but still to be signed) agreements: EU-Syria Association Agreement, Interim EPA with East and Southern African countries, stepping stone EPA with Ghana and Framework EPA with East African Countries. These were recently added: Andean countries and Central America. Clause accepted but overall trade negotiations ongoing with Ukraine, South African countries, Central Africa and Pacific countries. Clause in discussion has taken place with India, ASEAN (probably country by country – now Singapore and Malaysia), and Libya. Negotiations with Mercosur have also started recently. Also new negotiations with Central Africa, Moldova and Georgia are planned

Throughout 2010, the **Member States' write-off reports were managed and examined:**

A) Cases received on paper: In 2010 Member States sent for 303 earlier received write-off reports, involving € 150,8 million, the additional information requested by the Commission, To this number is added the 131 cases reported in 2009 and that needed to be treated in 2010. The total number of cases treated in 2010 with letters to Member States was 294 and involving € 122, 8 million as follows:

- 115 cases accepted for € 22,4million
- 73 cases refused for €23,5 million,
- 102 cases – additional information requested for € 76, 6 million
- 4 cases considered as non-appropriate for € 0,376 million.

In addition the following 60 cases involving € 40, 8 million were treated in 2010 and for which the letters to Member States were sent in January 2011:

- 32 cases accepted for € 18, 5 million
- 16 cases refused for €2, 7 million,
- 8 cases – additional information requested for € 7, 9 million
- 3 cases considered as non-appropriate for € 11, 7 million.

Some of the above cases (around 50) were treated 2 times during the year as several additional information requests had to be made before the final decision.

B) Cases communicated via WOMIS: In 2010, 116 cases involving € 42,1 million were received from Member States via WOMIS information system. Altogether 53 cases involving € 16, 6 million were treated (letters being sent) as following:

- 18cases accepted for € 3, 1 million
- 1 case refused for €0,267 million,
- 30 cases – additional information requested for € 12, 8 million
- 4 cases considered as non-appropriate for € 0,437 million

For 2011 the number of cases to be treated remains high: 162 paper cases involving € 59,2 million for which additional information has been received 42 cases involving €71,2 million for which additional information has been requested but not yet received,79 cases communicated via WOMIS and new WOMIS cases that Member States will send.

WOMIS (programme for write-off reports) became operational and its use mandatory as from 1 January 2010. All of the few minor teething problems incurred during the operation of the system could be quickly remedied. WOMIS version 2.0 containing additional non-vital functionalities and improvements was finalised as expected in December 2010 and is currently being tested.

No additions, variations or deletions of **GNI reservations** were notified by ESTAT during 2010 and the database has been kept up to date. There were three **GNI meetings** during 2010, BUDG attended all three and prepared, after each meeting, a report on key issues for internal use.

Eleven **VAT inspections** were undertaken during 2010 in accordance with the revised plan necessitated by a temporary decrease in the staff resources available. Under the revised plan 11 inspection reports were to be produced during 2010, all, but one, of the 11 were issued within the regulatory deadline of 3 months. Ten draft summary reports were also required during the year, 8 of these were produced in advance of the self-imposed deadline of three months from the date of receipt (in a working language) of the Member State's reply to the inspection report.

An **ACOR meeting** took place on 26 October 2010. Ten inspection reports were discussed on the basis of pre-prepared draft summary documents incorporating both key report findings and the Member States' responses.

An effort was made to **reduce the number of outstanding reservations** (covering years prior to 2000) by 33%. The target reduction was exceeded. During 2010 Member States were notified of the lifting of 12 reservations which involved statement years prior to 2000. Of the remaining eight such reservations seven are considered to pose a low risk in materiality terms with the eighth considered as no risk as it is being maintained by the Member State concerned.

Four **ACOR meetings** were arranged during 2010 in accordance with the plan - one for forecasts, one for VAT and two for traditional own resources. (The date of the second TOR meeting was changed to 7 December.)

1.2.2. ABB Activity – Accounting

Specific Objective 1.

Ensure a true and fair view of Commission and EU accounts

Main Outputs :

- ❖ Quality of accounting data improved
- ❖ Completion of ABAC EDF implementation
- ❖ Early opening of budget lines
- ❖ Information and training for staff involved in entering and managing accounting data

The **Accounting Quality Project** continued in 2010 and many of the weaknesses revealed in previous years have been addressed. Nonetheless, improvements are still required for some key topics, the main being the time necessary for encoding invoices, the ageing of invoices at the review stage and the clearing of pre-financing amounts. These weaknesses are essentially the only open issues highlighted by the Court and they will again focus on these during their 2011 audit work. It should be noted that the College of Commissioners gave instruction to the Accounting Officer in May 2010 to take the necessary steps to address one of these main issues, that being the lack of systematic and regular clearing of pre-financing amounts. Following this, the accounting services took the following actions:

- A study involving 5 DGs representing the main expenditure areas in the Commission was launched. The objective was to understand better the treatment of pre-financing amounts, from payment to final clearing, in these DGs and thus identify areas where improvement can be made.
- These DGs were requested to provide specific information on their pre-financing treatment. Based on the replies received, a first assessment of the situation in each DG was made by DG Budget. Each assessment was then transmitted to the DG in question for its review.
- Discussions on the assessment are ongoing and will culminate in final bilateral meetings between DG Budget and each DG in 2011. The purpose will be to develop concrete and workable improvements to the accounting procedures in this area
- Once the study is concluded, the results will be applied, where relevant, to the other DGs in the Commission
- The Accounting Services have also continued to provide DGs with explanatory notes, instructions and guidance in the pre-financing area, both bilaterally and in general.

Despite the efforts made so far, most services have been slow to react to this exercise and many DGs continue to make second pre-financing payments rather than clearing existing amounts and making interim payments. In general DGs appear to have adopted a risk averse approach and so are reluctant to validate expenditure without having received an audit certificate. Certificates are not usually required until the end of the project being financed. Therefore they consider it more appropriate to make further pre-financing payments rather than interim payments (and clearing the initial pre-financing) and they insist that this approach is supported by both the current Financial Regulation and their own sectorial legislation. Interim audit certificates are also not usually foreseen in the underlying grant agreements.

In addition, the analysis of cost claims can be quite time consuming, thus creating resource problems in the DGs. It should also be highlighted in this context, that the Financial Regulation is in the process of being updated and the current draft requires that pre-financing be cleared on a regular basis – this will mean that from 2012 onwards many of the current pre-financing practices will be irregular if they remain as they are now.

It should be highlighted that not only is this approach of keeping pre-financing open until the final audit report not in line with accepted accounting practice (which requires regular clearing so as to reflect the economic reality), but it is also not conducive to sound financial management. This is because it can effectively defer all controls to the end of the project, when it is too late to take preventative measures, rather than ensuring a regular follow-up of the implementation of the underlying project during its life. For example, the practice currently followed in some DGs will lead to expenses reported in a first cost statement being unchecked and so any errors will be missed and likely repeated in subsequent claims. It will be only at the end of the project that all these amounts can be corrected and ineligible amounts will be recovered. By doing regular clearings and eligibility checks throughout the project, ineligible expenditure can be immediately identified and deducted from future payment, meaning that no recovery is needed, thus minimising the risk of non-payments/bad debts.

Given the way in which DGs continue to interpret their sectorial legislation (legislation which in fact does not forbid regular clearing of pre-financing), it seems apparent that without a clear legal requirement for such regular clearings, it will be difficult to make meaningful progress with the DGs on this matter before the updated Financial Regulation comes into force. Present indications are that the current review of the Financial Regulation is expected to be finalised by end 2011 (see European Council conclusions of 4 February 2011, paragraph 25). It is therefore concluded that, at the present time and in view of the above stated resistance by the AOD' services, it would appear to be neither cost-efficient or effective to launch an initiative internal to the Commission before the new Financial Regulation comes into force. The Accounting services in BUDG will of course make the necessary efforts to prepare the DGs for the coming into force of the pre-financing requirements of the updated Financial Regulation. This will include the completion of the ongoing study of pre-financing practices in a number of key DGs, review of the latest Court of Auditors communications on the matter, an update of the EU accounting procedures (considering the modifications of the Financial Regulation and also the recommendations of the Court), general and bilateral meetings with DGs and the issuance of other guidance in this area.

In order to ensure the quality of the accounting data and bank reconciliation of the delegations' imprest a new ABAC functionality has been developed to allow delegations to reconcile the imprest balance with ABAC-ACCT. This reconciliation is verified by the treasury unit before the approval of the delegation's replenishment

A systematic monitoring of the regular **clearing of the imprest related HB accounts** has been done and the situation has improved compared to 2009. A particularly successful extra effort to clear open items was made towards the year-end and before the migration of data to the EEAS.

BUDG implemented monthly and quarterly **accounting controls for all key processes of the EDF**. The Accounting Quality file of the EDF submitted by DG AIDCO was reviewed and the Fiche Diagnostique for the EDF was prepared for the first time. The closure procedures of the EDF were aligned with those of the Commission. The 2009 annual accounts, the first ones produced using ABAC/SAP, were delivered on time and a clean audit opinion for the reliability of the accounts was obtained. All EDF reports have been finalised.

Communication with the accounting correspondents and accounting officers of the Institutions, Agencies and Joint Undertakings was undertaken in an active and appropriate manner.

The **Financial Year Transition (2009 to 2010)** was completed fully respecting the calendar and without major issues. Additionally, most of the debriefing actions were achieved, resulting in a strengthening of the internal control system.

The refusal of the first 2011 draft budget impacted the **Financial Year Transition (2010 to 2011)**, which approach had to shift to provisional 12th conditions. The planned opening of the anticipated appropriations had to be postponed, while the changes required by the provisional 12th approach were identified and implemented. The opening of the 2011 final budget, which was complicated by the need to remove the

provisional 12th changes, was opened for execution by the AODs earlier than ever (i.e. 3 days before the beginning of the Christmas holidays).

The Financial Year Transition (FYT) was also challenged by an early Carry-Over to be executed as a preparation for the migration to the EEAS of the relevant 2010 outstanding transactions. . Furthermore, DG Budget assisted the external entities (Institutions, Agencies, Joint Undertakings) making use of ABAC to prepare and execute their budgetary year transition taking whereby the preparation was more complex under the pressure of provisional twelfths.

The **accounting pages on BudgWeb** (including accounting manual) with a user-friendly presentation including basic explanations of key objectives and terms have been reviewed and updated.

Specific Objective 2.

Appropriate execution of Accountant's tasks

Main Outputs :

- ❖ Management of the Commission's accounting framework and system
- ❖ Draw up the budgetary reporting and annual accounts of the Commission, EU and EDF accounts for 2009 and efficient follow up of the discharge procedure for the accounts
- ❖ Management of the Legal Entities File and the Bank Accounts File
- ❖ Commission's Treasury management
- ❖ Efficient recovery
- ❖ Validation of Local systems
- ❖ Management of EC's EWS and exclusion database
- ❖ Payment Deadlines monitored

In March 2010 DG Budget set up an internal working group, including the participation of RELEX and DIGIT staff, to **implement the budgetary and accounting aspects linked to the creation of the EEAS**. The project was launched in the absence of sufficient information about the EEAS conditions (i.e. only the broad outline of the service had been explored), which rendered progress very difficult and made success most uncertain, in particular given the tight deadlines imposed for the start up of the EEAS. All obstacles were overcome and the EEAS went live beginning of December 2010, when the anticipated 2011 environment was made available. In line with the planning, the full operation of the EEAS was completed end of 2010 (i.e. 04/01/2011) when the 2011 budget and the outstanding 2010 operations were made available to the EEAS. The high degree of achievement of project objectives is a remarkable outcome, which has been possible thanks to our vast experience in the setting up of EU organisations, the high quality of the staff participating in the project, the flexibility and controllability of ABAC accounting system and the support and decisive capacity of senior management of DG BUDG.

With the creation of the EEAS, a **separate accounting system** had to be set up for this stand alone entity - this meant primarily setting up of the accounting nomenclature, the accounting procedures and flows, etc. All outstanding transactions in the Commission's accounting system relating to the delegations' activities at 31/12/2010, including inter-alia some 50.000 accounting transactions, were migrated to EEAS. The Accounting officer of the Commission has been nominated as the Accounting officer of the EEAS.

The setting up of the EEAS also implied the definition of concepts / procedures, system testing and monitoring in production related to:

- Administrative contribution to EEAS from Commission and EDF taking into account specific management needs for Delegations (envelope mechanism).
- 2011 execution structures, inscription of appropriations.
- Migration of outstanding commitments and corresponding appropriations.

The **access rights, both for the Accounting dimension as for the Authoring Officer's** dimension, were set up having regard to the applicable rules on segregation of duties and data and protection of personal data. The massive review/conversion of the rights governing the staff in the Delegations was technically prepared by DG Budget in accordance with the received specifications. As for any DG or External Agency, the management of the access rights per individual staff member is managed directly by the EEAS Local Profile Manager.

Following the request of DG RELEX a migration strategy was defined and a detailed project plan with check list to guarantee that the exhaustive list of activities was correctly executed in the right sequence. The migration to the EEAS was successfully executed during the Christmas holidays. **DG BUDG** has taken part in the configuration of ABAC to accommodate EEAS, notably in the area of the security set-up. The set-up was conducted in close collaboration with RELEX' Local Profile Managers and ABAC Accounting Correspondents.

From the Treasury's point of view, the procedure for the setting up and the **management of imprest related bank accounts for the EEAS**, and for the subsequent closure of the Commission imprest related accounts has been approved by the Accounting Officer. As for the **central "house banks" for the EEAS**, 8 bank accounts were opened with the same banks' of the Commission in order to execute all the central payments of the EEAS. All the delegations' imprest accounts were migrated to the new EEAS ABAC environment; these accounts will execute the local payments.

The procedure to open the **new EEAS bank accounts** and to close the Commission's bank accounts in delegations has started and will continue during the first semester 2011. A new data base "ESIA" has been developed to manage the creation of the EEAS imprest. ESIA will allow the preparation of decisions, setting up the imprest and the letters to be sent to the banks which will all need to be signed by the EEAS Accounting Officer, once appointed.

While work on **updating some accounting rules** is ongoing within DG Budget, due to the fact that the changes will be minor and have little impact on the accounts themselves, the actual adoption of these updates has been postponed until mid-2011, after the closing of the 2010 accounts. The review of approx. 50% of the Commission's accounting manual is ongoing.

Concerning the **2009 Annual Accounts of the Commission, Consolidated EU and EDF**, the provisional accounts were delivered to the CoA according to the Financial Regulation deadline (31 March) and the final accounts were approved before the 31 July and sent to the relevant parties. Concerning the reliability of the Consolidated EU and the EDF accounts, the **Court of Auditors gave a clean opinion** without reservation. The work to prepare the 2010 closure is ongoing. A quarterly reporting to COCOBU on financial corrections for SF has been done during 2010. A procedure with the 4 DGs concerned is in place.

The **coordination of the CoA audit on the reliability of the EU and EDF accounts** was done according to plan. For the EU accounts, monthly meetings were organised with the Head of Unit ARR (DAS-reliability of the accounts), a similar approach will be followed in 2011.

Concerning the **Financial corrections and recoveries following the detection of irregularities**, a big effort has been made to improve the reporting in the final accounts where BUDG worked closely with the DGs concerned on the presentation of this information in Note 6 of the 2009 accounts. It was noted that the Discharge Authority (Parliament) very much appreciated the improvements made. The Court has also introduced a new section in Chapter 1 of its annual report for this area.

Information on claw backs following request from CoA and COCOBU was provided as requested in both the 2009 annual accounts and with the quarterly reporting.

Concerning the **reconciliation of receipts**: some 14.000 receipts (i.e. 13.000 in 2009) for some € 122.000 (i.e. 127.000 in 2009) millions have been reconciled and matched with the corresponding recovery order.

The open items, pending reconciliation, were 1.000 for some € 357 millions, of which 340 older than 6 months. Some € 2.5 millions more than 2 years old as of 31/12/10 will be regularised as universal income

Several **payment runs** have been regularly executed, several times a day, and also over the week-end mainly to deal with payments authorised in the Delegations. No situations have occurred where payments needed to be delayed for reasons of insufficient funds available on the Commission's bank accounts. Around 1.8 millions payments have been successfully executed in 2010 for general budget, EDF and sickness insurance scheme.

Funds available have been managed in accordance with the applicable regulatory framework, without exceptions. In the first months of the year own resources had to be called up in advance from Member States in order to cover for the high amount of payments to be executed. The advance was finally absorbed in the month of July.

The contracts with the four **SEPA compliant banks** (selected as result of the call for tenders launched in 2009) were signed and the Commissions bank accounts opened with them. Payment operations from these new accounts started in Q1. Since then a gradual migration to these accounts of all Commissions payments has been undertaken and it was completed in December 2010. As a result the Commission's payment operations are now fully "SEPA compliant".

The **migration to the new SEPA payment architecture** on the one hand, and the new legislative framework established by the PSD (Payment Services Directive) on the other are also the underlying reason of a higher than usual number of complaints lodged by beneficiaries concerning charges debited by their banks on incoming transfers. All the complaints have been analysed in detail and answered promptly. The explanations and information provided to all complainants have helped to reduce the number of complaints, which has returned to normal levels by the end of the year.

All **Legal Entities Files** requests for which valid supporting documents are received are now validated within 2 to 3 working days. If the documentation received is not valid or incomplete, a "follow up" message is immediately sent to the requester by mail and registered in ABAC. In 2010 the total number of Legal Entity validation requests processed is 56.309.

All **Bank Account Files** requests for which valid supporting documents are received are now validated within 2 to 3 working days. If the documentation received is not valid or incomplete, a "follow up" message is immediately sent to the requester by mail and registered in ABAC. In 2010, the total number of Bank Account validation requests processed is 66.901.

Concerning the **backlog of the RECOVERY ORDERS general budget** (excluding fines and Own resources): 1569 ROs remain open at 31/12/2010. This figure must be compared with 1544 ROs open at the end of December 2009 and 1635 at the end of December 2008. The backlog is stabilizing at around approximately 1600 ROs being actively dealt with and the objective consists in maintaining it below this figure.

Concerning **the backlog of the RECOVERY ORDERS of the EDF**, 159 ROs remain open at the end of 2010. This figure must be compared with 186 ROs open at the end of December 2009 and 210 at the end of December 2008. As is the case for the general budget, the tendency for the EDF ROs is also stabilization of the backlog and the objective consists at maintaining it at a maximum of 200 ROs.

The '**ageing balance**' (general budget and EDF) was transmitted to the DGs concerned within 15 days which follow the end of each quarter and were also published on Budgweb at the same date. The data is henceforth extracted from the single Datawarehouse for the general budget and the EDF.

With regard to the **old RECOVERY ORDERS of more than EUR 100,000** (RO < 2000), there were still 16 open at the end of 2010 whereof three are subject to a waiver, this compared to 18 at the end of 2009.

7 training courses on recovery (3 in English and 4 in French) have been given by the unit in 2010.

Regarding **Fines management**, the total amount of the competition fines decided by the College and not yet closed (pending an appeal) is 13.649.822.278,03 euros at 31.12.2010, of which 11.878.481.473,16 euros have fallen due. 98,09 % of the amount fallen due was covered by a provisional payment or a guarantee at 31/12/2010. The bank guarantees are checked, kept and monitored within DG Budget. The total amount covered by guarantees was 2,585 billions at 31/12/2010. Provisional payments amount to 9,066 billions at the end of 2010 and are kept on bank accounts as far as the fines have been decided before 2010 and in a Fund managed by DG ECFIN when the fine has been decided after 01/01/2010. A total amount of 526.959.095 euros has been deposited with the Ecfin Fund at the end of 2010.

Concerning the **Accountant's validation of recovery orders**, 3 DGs are responsible for 85% of the recovery orders returned for correction in 2010. Contacts have been undertaken with these DGs so as to improve their internal control systems. As a result, a reduction in the recovery orders returned for correction was noted at the end of the year.

In 2010 the **offsetting activity** was in line with the objectives planned but below the 2009 results. Some 1.100 recovery orders (i.e. 1.400 in 2009) were closed and € 200 millions (i.e. € 240 millions in 2009) recovered through offsetting operations or as a result of the preliminary contacts undertaken with debtors subject to special agreements, mainly Member States. The analysis of the reactions of debtors and authorising officers show that the offsetting continues to be very well accepted both by AODs and debtors.

During 2010, the **Global validation report for 2009** was issued. Validations have been completed at four Executive Agencies (EACI, EAHC, ERCEA and TEN TEA). Validations are substantially completed at the JSIS (PMO) and REA. Follow up has been performed for the two DGs with **reserves** (JLS and RELEX) and the reserves will be lifted. 4 revalidations have been concluded (RTD, REGIO, AGRI and EMPL). The revalidation of DEVCO, focusing on the EDF in particular, is currently under way.

Other activities have included an examination of the EWS, a study on payments to experts and the production of draft guidelines to assist the traditional agencies in carrying out a validation of their local systems.

The work programme for 2011 has been prepared and the global report for 2010 is currently under preparation, after the completion of the 2010 follow-up exercise. 8 notifications of changes to local systems have been treated during the year and 6 were closed.

All **requests for EWS-warning** received have been registered immediately in the EWS application in the accounting system. When the EWS warning gave rise to a registration in the Central Exclusion Database, the letters to the excluded entities have been prepared for the signature of the Accounting Officer. This monitoring is taken care of on a regular basis, by cross checks between the two systems (EWS in ABAC/SAP, CED via the internet), and through contacts with EWS Officers in the Commission services and executive agencies. No discrepancies have been detected. Questions concerning legal and procedural aspects of the EWS and CED, have been dealt with mainly by the colleagues from SFC.

The **management of suspended EWS payments** is in line with the upward trend followed in recent years, the application of the EWS has doubled the number of payments preventively suspended in 2010, 720 (i.e. 353 in 2009). Some 50% of the payments suspended are in favour of two organisations with judicial proceedings pending for serious administrative errors/fraud (flag W3b). None of the payments suspended was cancelled and all of them were released within 2 days from the receipt of the reasoned confirmation of the AOD responsible that payments had to be executed.

Payment deadlines have been monitored throughout the year. As well as monthly reporting to the Accounting Officer, two letters were sent to all DGs and the Cabinets, and a number of additional initiatives taken to examine the situation in specific DGs. The final result for 2010 is an average payment delay of 26 days, against 26 days in 2009 and 34 in 2008. Around 22% of payments were made outside the Commission targets in 2010.

Availability of ABAC system is in accordance with service level agreement with user departments (guaranteed availability of 96%), except for June (availability of 94,5% as a consequence of upgrade of ABAC Accounting to SAP ECC6 and impact on interfaces with other parts of ABAC). In November the availability was 96% due to a new release of ABAC Workflow, in April it was 98, 53% due to a general powercut in JMO. In all other months it was above 99%.

Good quality of support by the informatics (IT) helpdesk has been provided throughout 2010. Objectives of 70% of incidents solved within 1 hour and 80% within 4h. Helpdesk statistics for incidents solved within 1 hour and within 4 hours: ABAC all together: Q1 65% & 74%, Q2 idem, Q3 68% & 80%, Q4 69% & 80%. ABAC without SAM: Q1 74% & 84%, Q2 74% & 83%, Q3 74% & 88%, Q4 75% & 86%. Longer time for incidents related to SAM is due to the complexity of the issues which requires more involvement of 2nd level support.

Specific Objective 3.

Corporate financial/accounting system in line with evolving business, planning and priorities

Main Outputs :

- ❖ Enhancement of ABAC system
- ❖ Rollout of ABAC SAM
- ❖ Maintain and improve security in accounting
- ❖ Efficient integration of the institutions/agencies/EEAS/Joint Undertakings in ABAC
- ❖ Information and training for staff using ABAC / SAP
- ❖ Information and training for staff using SAM
- ❖ Approved Business Vision on the review of the architecture enabling for Go/No Go-decision
- ❖ ABAC Project Office

The **Autumn version 6.2 of ABAC** was released in October after a lengthy testing phase - it included the adaptations necessary to allow for the implementation of ABAC at the EEAS. The main change was to adapt the principle of "Authorisation of Expenditure" to make it such that it becomes Company Code dependent, i.e. the Commission could authorise a Delegation, as part of the EEAS, to execute a payment through a local bank account

The 1st semester was marked by the reorganization of various services. There were inter-DG transfers (ENV-ECHO, SANCO-JLS, INFSO-EAC, EAC-COMM, RTD-EAC, ENTR-SG, ENTR-SANCO, ENTR-CLIMA, ENV-SANCO, MOVE (TRAN)-ENTR, MOVE (TRAN)-COMP, SG-IAS, RELEX-CLIMA, TREN SPLIT into MOVE and ENER, ENV-CLIMA, JLS-HOME, JLS-JUST), which were all successfully executed within ABAC.

During 2010 the **Datawarehouse** was continuously updated to better meet user needs, by the:

- Implementation of Data Quality reports, which check coherence between ABAC Accounting, ABAC Workflow and the datawarehouse.
- Adaptation of the Extraction process for commitments, necessary because of the SAP upgrade
- Improvement and monitoring of performances
- Inclusion of new information for the Financial Transparency System
- Integration of ABAC SAM into the DW
- Improvement of the release management process (JIRA)

Regarding the **technical reorganisation of the datawarehouse architecture and infrastructure**, the staging zone is finished (this contains a complete copy of ABAC Workflow and a partial copy of ABAC Accounting). The infrastructure for the ETL zone was made available for development tasks in accordance with planning. The planning for the next steps has been revised after the scope extension which was decided in December 2010.

Elaboration of draft specifications and discussions with DIGIT on the **infrastructure migration** (renewal of outdated ABAC servers, still necessary for current ABAC) have taken place during 2010. The environment is ready for migration of the Coldfusion part. Agreement was reached for migration of production in 2011 of Datawarehouse (BO-XI and BODI) and for most of Weblogic (User interface to ABAC). Further discussions are ongoing for the Oracle and SAP part.

During 2010 there has been continuous improvement in the program for IT Service management : The following processes have been implemented :

- Service catalog: services defined; catalog published on the intranet.
- Incident management: new call categories and cause code defined; systematic follow-up put in place.
- Release management: work on release policy ongoing. Draft version available. Further discussions ongoing to come to version agreed by the involved parties.
- Change management and a Change Advisory Board internally in R4 being setup

Following the migration of ABAC Accounting (SAP) to a new version, the installation of the SAP/GRC-module (**Governance Risk Compliance**) was relaunched and is since 2010 operational on production data. The analysis of potentially risk full combinations of access rights is now applied prior to the use of new roles and the implementation of fire fighter role provisioning has been started.

The security of the financial systems from a technical point of view was ensured:

- Updating DRP and perform tests: failover tests for ABAC performed in context of general powercut in JMO building in April. Job scheduling moved to servers in Luxembourg with site redundancy. In the context of business continuity and remote access, a terminal server operational in another building to allow remote access for more people in case of disaster with the building where the offices of DG Budget are located
- Tests of restore from backup performed in Q1 for ABAC Workflow and for ABAC Accounting.

The **accounting requirements for new developments** is an ongoing activity. The most relevant during 2010 was EEAS, which is ongoing. Specific developments have been made in SAP/ABAC for ITFA (internally developed intangible assets) so that these can be included in the 2010 accounts for the first time.

For **ABAC/SAM**, the Releases 4 and 5 have further developed the solution for OIB and OIL. In total 7600 purchases were made by these Offices in SAM in 2010, for a total of €370m. OIB is currently finalising the overall inventory for the entire Commission in Brussels.

SCIC has begun to use **ABAC/SAM**, the system is open for use by OLAF and TAXUD, if and when they decide to use it. The overall strategy is not to extend the ABAC/SAM functionalities currently available.

Following the various releases **ABAC/SAM** documentation supports and ad hoc supporting documents available to the users have been updated. Training sessions have been organised when necessary. In 2010 (routine phase), 46 courses were delivered and 231 participants were trained. The global satisfaction rate for 2010 is 90%, to be compared with 95% in 2009. There are no particular structural explanations for this variation at this stage, but a close follow-up will be made in 2011.

In 2010, DG Budget unit D4 stayed in close contact with both the training provider and unit C4 in order to meet the specific needs linked to the implementation of SAM. No development of specific courses for small entities was necessary in 2010. All users were trained on time with the existing material, developed in 2009.

The following **Agencies have implemented ABAC** in 2010: ENIAC, FCH, ETF, SESAR, EIT and EIGE. In general terms, the Agencies-calendar for 2010 has been met, despite the consumption of the scarce resources by the EEAS-implementation. It should also be noticed that the roll out was hindered by 2 agencies unilaterally deciding to postpone their go-live, mainly as the agencies were not ready to be granted full financial autonomy.

Support provided for the connection of a local system of ETF to ABAC as well as for the extraction of data from the datawarehouse for the needs of FRA and the CoR.

All candidate Agencies bank data have been imported, checked and eventually validated in the **Bank Account File**. In all, 2.432 requests for bank account validation have been examined and either refused (because already present) or validated. For the Agencies that will join the ABAC community in the autumn, the validation work is underway and concerns approximately 1.800 bank account requests and a corresponding number of **legal entities requests**.

In all, 7 training sessions have been organised during 2010 another one. During the year, a regular support to the agencies's Accounting Officer is given on all these topics. Concerning the training on LEF and BAF, 5 training sessions have been organised during 2010 for the agencies.

DG Budget continues to liaise with the other bodies particularly during the closure process. The annual meeting with the other accounting officers took place in November 2010, and for 2011 it is likely that this meeting will be combined with the ABAC Agencies meeting which also takes place in this period.

Monitoring of ABAC courses is ongoing and continuous. The global satisfaction rate for 2010 raised to 96% (95% in 2009), as far as ABAC courses are concerned, confirming the success of the new series of ABAC courses put in place in October 2009. For ABAC and SAP (excluding SAM), 278 courses were delivered in 2010 and 2259 participants were trained.

A first e-learning module (Level 1 Commitments) is already in place and following the approval by the hierarchy of a **global e-learning strategy**, the development of 10 new modules was ordered in December 2010. These new modules (such as invoices with VAT, internal documents, late interests, guarantees, forecasts of revenue, specific exercises, etc...) should be made available as from mid 2011 and probably launched by Autumn 2011.

The **Business Vision and Case for Change** were adopted by Senior Management in April 2010, following which a Vision Document on the Review of Architecture was adopted by MAP in September 2010. A programme divided in tracks was set up and a technical Proof-of-Concept on using the Commission's service bus was launched in close collaboration with DIGIT. End of 2010, DG Budget's IT Steering Committee embedded SAM's evolution and a solution for ABAC Contracts into the Architecture Programme, thus aligning the scope in a Commission-wide IT-governance and budgetary pressure.

The Governance and programme management for the corporate accounting system, including planning, priority setting, resource allocation and tracking, risk management, methodology has been strengthened. To formalise this approach a new unit 03 was created on 1st May 2010. The ABAC Programme Office Charter and Architecture Board Charter were presented to and discussed with Senior Management. The governance framework is extended beyond ABAC to encompass all DG of Budget's Information Systems. Meanwhile, templates underpinning the governance methodology are under construction or already in use.

The **review of the ABAC architecture is ongoing**, Following the Go-decision, two tracks were launched in parallel. The first one focuses on SoA-governance and should result in an architectural blue print by end of 2011. Upfront awareness raising and harmonisation of views was considered a necessity to mitigate pitfalls as Commission internal experience with corporate systems in a service oriented approach is still scarce. The second track launched actions aiming to standardise the current IT-landscape and to reduce its complexity. From a functional perspective, a pre-study on analytical accounting was conducted by end of 2010.

The **governance framework** is gradually being implemented, giving priority to resources management and to ensure a standardised governance approach for the Review of the Architecture. The ABAC Roadmap is re-assessed on a continuous basis and key topics, projects and risks are discussed in the monthly ABAC Project Management Meeting, final decisions being taken by the Accounting Officer.

1.2.3. ABB Activity – Promotion of sound financial management

Specific Objective 1.

Revision of the Financial Regulation and Implementing rules (FR/IR)

Main Outputs :

- ❖ Draft of legislative texts on the revision of the FR/IR after taking into account the results of the Interservice consultation
- ❖ Adoption of the Commission proposal on FR/IR
- ❖ Follow up of revision of financial regulation for specific agriculture and structural funds matter
- ❖ Negotiations with the European Parliament and the Council
- ❖ Information to Commission staff on progress

The adoption of the Commission proposal on the Triennial revision of the Financial Regulation and its execution modalities was adopted, as foreseen, on 28 May 2010. However, after months of stalemate with the EP due to the recast format of the revision, and in order to facilitate negotiations, it was decided to replace all pending proposals on the revision of the FR (triennial and Lisbon) with a single one, which also took on board the changes already adopted for the creation of the EEAS. The new Commission proposal was adopted on 22.12.2010.

Furthermore, the Lisbon Treaty has introduced the distinction between: "Delegated Rules" (Article 290 TFEU) and "Implementing Rules"(Article 291 TFEU). According to the new provisions, the "MODEX" or "IR" are to be adopted in accordance with Article 290 TFEU. Following the interpretation of the Legal Service: it is no longer possible to use the word "implementing" in the title of a delegated Regulation. We propose therefore to replace the terms 'Implementing Rules' with 'Execution modalities' (EM) concerning this text. The full title could be as follows: 'Proposal for a Delegated Regulation of the Commission on the execution modalities to the Financial Regulation applicable to the Union Budget'

Negotiations with the legislative authority:

- In Council, discussions in the Budgetary Committee were held from September to November on the basis of thematic fiches prepared by the Commission, followed up by questions and answers sessions. This first phase was accounted for in a progress report by the BE Presidency. Article by Article discussions will start in February 2011, in view of adoption of the Council position in April-May.
- In the EP, no substantial discussion took place in 2010, save a Joint COBU/CONT meeting in June, due to the difficulties explained above (recast format). The EP will start to discuss the substance in early 2011. The rapporteurs MEP Graessle and Rivellini intend to present their joint report for adoption in March (COBU/CONT). All support documents prepared by the Commission at the occasion of Council discussion were also transmitted to the EP.
- A Seminar on shared management, which is a key issue in these negotiations, will be held in early March 2011 in the presence of national experts, Council representations and with EP participation.

Through a newly created page in the legislation section of [BudgWeb](#) the thematic fiches prepared and sent to the Budgetary Authority are presented along with detailed information on the discussions that have

taken place in the Council Budget Committee and in particular the questions posed by delegations and the responses provided by the Commission. In addition, regular briefings are made at the monthly RUF meetings of all developments related to the adoption procedure.

Specific Objective 2.

Promote sound financial management and conformity with the financial regulations in the management of the EU Budget

Main Outputs :

- ❖ Accurate, up-to-date, user-friendly guidance and information available on BudgWeb
- ❖ Guidance and information actively communicated to staff managing the EU budget
- ❖ Staff trained with the information and skills necessary to manage the EU budget effectively
- ❖ Effective assistance given to DGs and Agencies in the adoption and application of the financial rules
- ❖ Provide helpful, proactive responses to formal ISC, to direct consultations on procurement contracts and grant agreements / decisions and related issues to helpdesk questions
- ❖ Adoption of a single written procedure for the revision of the internal rules and the attributions of budget lines
- ❖ Adoption of revised guidelines for executive agencies
- ❖ Completing the Financial Transparency System (FTS)

A continuous effort throughout 2010 was made to help staff managing money in the Commission (and on request Agencies and other Institutions) by **providing them accurate, up-to-date user-friendly guidance and information.**

A major effort has been made during the year to **improve ownership of the content of BudgWeb** by the different DG BUDG contributing units. A network of correspondents across all units has been established with a focus on reviewing and updating BudgWeb content in view especially of the need to do so because of the entry into force of the Lisbon treaty. New and more user-friendly updating capabilities have been made available to the correspondents of the different contributing units. Furthermore, a communication window has been inserted in BudgWeb pages which enables users to provide their feedback and which would allow for the identification of specific sections of the site that could be improved.

The **RUF (Finance Units Network)** has been kept regularly informed on new developments. Exchange of best practice is an ongoing practice, they are regularly organized upon needs identified by DG BUDG, by RUF members and DGs in general. Best practice events in financial management have taken place through several presentations, usually jointly given by DGs and members of the RUF during the RUF monthly meetings. A meeting of the Director General of DG Budget with the Heads of Finance Units took place on 17/9 during which several issues have been addressed with regard to the functioning of the RUF and the

role and contribution of DG BUDG that would ultimately contribute to the improvement of financial management across the Commission services.

The **Expenditure Life Cycle course** has been revised using a "storyboard" approach that concentrates on transmitting key messages, improving the learning process, and eventually allowing for improved interaction during training sessions and giving participants a better opportunity to relate the course content to their daily work. The training offer was also diversified by the finalization and quarterly delivery of an advanced practical workshop on grants. A specific workshop was then organized in the fall to discuss opportunities and issues linked to the introduction of lump sums and scales of unit costs in grants management. Two contracts have been signed, one for the preparation of an **e-learning module for the Expenditure Lifecycle Course**, and another for 11 ABAC e-learning modules to start during the first semester of 2011. E-learning on financial training is expected to be launched in autumn 2011.

The final version of the Vademecum on the **Central Exclusion Database** was adopted at the end of an ISC on 6.11.2009 after clarification letters sent to ECHO and AIDCO. Consultation with EDPS for its prior check of the rules for the management of the exclusion database took several months. The EDPS finally gave a positive opinion on 26.5.2010, with an accompanying request to adapt the procedure within 3 months. The modified procedures have yet to be formalised in the Vademecum (early 2011).

To help DGs with **grants management**, five fiches of the practical guide were updated and published on Budgweb, to take into account the entry into force of the Lisbon treaty and develop further guidance, especially on the evaluation and adaptation of proposals. Work on a new fiche on implementation contracts also started, while the one on multibeneficiary grants and application forms was finished. Besides, a plan was developed for a future vade-mecum that would be more complete and more user-friendly than the current practical guide, which would be delivered alongside the revision of the Financial Regulation.

On the **procurement** side, beyond updating the guidance on interinstitutional procedures, to accompany the setting up of the EEAS, new circulars have also been drafted in relation to recurring issues, namely in framework contracts, on selection and award criteria and more especially on the analysis of financial viability; clarifications have also been inserted in the vade mecum as to access by third countries and the scope of the GPA (Agreement on Government Procurement) and a new template for terms of reference has been prepared.

At the crossroads of the two fields, work on a new **IPR clause** progressed significantly and all contracts and grant agreements templates, as published on budgweb, are now fully in line with the regulation on the protection of personal data. To comment upon the new templates for bank guarantees, made available early in the year, a new circular consolidating and complementing previous ones has also been prepared. Most of these new pieces of guidance still need to be presented and discussed within the RUF or ad hoc interservice meetings.

During 2010 the **CFS helpdesk** has provided answers to some 850 questions posed by Commission services, other institutions and agencies, compared to some 890 in 2009. The decrease is attributed exclusively to a lower number of questions posed by Commission services. Responses have been provided by applying agreed standards and 78% of these responses have been provided within the 4-day threshold compared to the 70% set target. As a follow-up to some Helpdesk questions some issues had been identified that had to be addressed through the issuing of interpretative notes by D1 which have been published on BudgWeb. More than 20 DGs have requested and have been granted access to the Helpdesk database towards the end of the year so during the first semester of 2011 the opportunity will be given to assess the effectiveness of this project. Once effectiveness is established interest on behalf of Agencies to be granted access will be investigated along with technological viability.

Concerning the approval of the **draft Financial Regulations and Implementing Rules of the Financial Regulations of agencies and other 185 FR bodies** in order to ensure coherence with FFR and their financial regulations, DG Budget approved the following during 2010:

- FR: ESAs, EASO, EUROPOL (for which a specific decision was adopted approving a derogation from the FFR) and the BEREC office
- IR: OSHA, CDT, ETF, CEDEFOP, EMA, OHMI and FRONTEX

The **Internal Rules for 2010** were adopted on 8 April, C (2010)1858 and C (2010)1861.

The **amendment of the Internal Rules 2010** of the Commission to take into account the creation of the EEAS was adopted on 22.12.2010.

Work already started on the **Internal Rules 2011** by sending two ISC concerning Annex I of, the first ISC was launched on 23.7.2010, the second ISC on 21.12.2010. Another ISC on the provisions and the rest of the annexes was launched on 18.11.2010.

Concerning the completion of the **Financial Transparency System (FTS)**, realizations, such as management of specific AIDCO data (geographical and action location), data correction for JRC and improvements in integration with Abac-contract, have been implemented. Further several quick wins to enhance data quality have also been implemented in October 2010

Upgrade of the search engine (search by action type and by expenditure type) was done in due time for the publication of 2009 data. The information relating to the co-financing rate has been improved in order to correspond to the different options allowed by the FR. The repartition of grants by co-contractant has been published when available in the system. The search results are displayed more clearly, including general information in a list, and more specific information on a second screen.

Specific Objective 3.

Implement the Lisbon Treaty

Main Outputs :

- ❖ Transposition of current IIA to the requirements of the Lisbon Treaty
- ❖ Adoption of the Council Regulation laying down the MFF (MFFR)
- ❖ Adoption of the Commission proposal on the revision of the FR in relation with the creation of the EEAS
- ❖ Adoption of the other Lisbon Treaty related modifications to the FR
- ❖ Information to Commission staff on progress

The **Commission proposal for a Council MFF Council Regulation** was adopted on 3 March 2010 - COM (2010) 72 final. The follow-up of the proposal with a view to adoption by unanimity in Council with consent from the EP is on-going. Council has finalised its position in December 2010 and adopted it on 18 January 2011. It will now be transmitted to the Parliament for consent.

The **new (residual) IIA** has been adopted on 3 March 2010 -COM (2010) 73 final .The follow-up of the proposal with legislative authority is ongoing and runs in parallel with the discussion on the MFFR (package approach). As regards the principles of budgetary cooperation between the institutions which are to be included in the new IIA these have been provisionally agreed in a joint declaration on the functioning of the conciliation committee that has been approved by trilogue on 30 June.

The **Commission proposal on the revision of the Financial Regulation to accommodate for the creation of the European External Action Service** was adopted on 24/3 (COM (2010)85), together with a working document proposing changes to the Implementing Rules (SEC (2010)257). The final adoption of the revised FR by the legislative authority (ordinary legislative procedure) was on 24.11.2010.

Revision of the Implementing Rules was abandoned and partially replaced with the adoption of transitional rules between the EEAS and the Commission, and with the revision of the Commission's Internal Rules to take into account the specificities of EEAS.

The **Commission proposal for the revision of the Financial Regulation following the entry into force of the Lisbon Treaty** was adopted on 3/03 (COM (2010)741). Follow-up negotiations with EP and council : Council reached a common position at Coreper level in April 2010. After months of stalemate with the EP, which opposed the form of recast of the triennial revision of the FR and blocked the Lisbon-related revision, the Commission replaced these two proposals with a single one, as a regular legislative proposal: COM (2010)815 final of 22.12.2010

Information to Commission staff on progress Information on changes in financial management has been published on BudgWeb and has been communicated effectively to staff through the RUF, Newsflashes and information sessions.

Specific Objective 4.

Facilitate the implementation of the internal control framework

Main Outputs :

- ❖ Preparation and adoption of : "Overview" report , synthesis report and conduct the associated Peer Reviews
- ❖ Animation of inter-DG networks to promote good practice
- ❖ Proposals on Tolerable Risk
- ❖ Guidelines/ training on internal control issues
- ❖ Other support for internal control
- ❖ Follow-up of Discharge on internal control matters
- ❖ Review of legislative provisions on control

Input was given throughout the entire **AAR process**. Pre-peer reviews in January 2010 with DGs having reservations in AAR 2008 and Peer reviews and targeted feedback on draft AAR quality to all DGs in March 2010 (in cooperation with the Secretariat-General). The Overview report was finalised on 28 April 2010 and the Synthesis report was adopted by Commission on 25 May (COM (2010) 281).

The lessons learned were fed back into the AAR Instructions for 2010 in the form of minor revisions and into specific training/ information actions aiming at further improving AAR quality. At the end of 2010, an introductory training course took place and a workshop for advanced practitioners was prepared. Participants' feedback was positive.

The **Internal Control Coordinators Network (ICNet)** continued its regular meetings in 2010. One of the main achievements of the network was the proposal of the Model Job Description of the ICC issued in October 2010. The Risk Management Implementation Guide was also thoroughly revised based on feedback received from the members of the ICNet. In addition, two Directorates-General presented their IT tools used for Risk Management and Planning.

The **Ex Post Control Network (EPCnet)** focused its work on a model of notification to the data protection officer and externalisation of audit and controls through framework contracts. In addition, four services shared with all members of the network their experience in the implementation of ex post controls in their specific environment.

The Commission has proposed the **concept of Tolerable Risk of Error** as part of the triennial revision of the Financial Regulation and has made concrete proposals for TRE levels for "research, energy and transport" and "rural development" (COM (2010) 261). Discussion with the Legislative Authority on the Commission's proposals is ongoing. The Commission has also assessed the costs of control and the DAS errors for its administrative expenditure and the external aid area to underlie possible future concrete proposals for TRE in this area. Any future Communication will however depend on the Legislative Authority's conclusions on the inclusion of the concept in the Financial Regulation.

The Commission's proposal on TRE aims at setting out the general concept in the Financial Regulation, whereas the exact implementation is to be decided as a result of the ongoing inter-institutional discussions.

Given the cautious reactions expressed in the ongoing discussions with the other institutions on TRE the Commission is considering the possibility of developing a slightly different approach under which the tolerable risk of error would be presented as a 'operational-level' risk-based management concept aiming at improving the cost-effectiveness of controls rather than a benchmark fixed by the legislative authority per policy area. Whatever the approach adopted in ongoing inter-institutional discussions, the Commission considers there is a need for a shared vision on the impact of legislative complexity on control costs and error rates.

The revision of **Risk Management Implementation guide** allowed for implementation of 26 out of 35 IAS recommendations issued following their audit on Risk Management at the Commission in 2009. The remaining 9 recommendations were either assigned to other auditees or recommendations not accepted by DG BUDG. The Guide was issued in September 2010, after detailed consultations with the stakeholders.

Revised guidelines on financial circuits, following consultation of all DGs were issued end-June 2010 and published on BUDGWeb.

Regarding **training on internal control issues**, some 65 courses were delivered during 2010. A new course on fraud awareness was launched in October 2010. Assessments by participants are very high (92% satisfaction).

Management of the framework contracts for internal control including advice to DGs and processing of specific contracts: some 200 contracts signed under the three lots. The contract is "actively managed" and tight deadlines for comments on services' requests maintained. Regular meetings held with contractors to discuss key issues.

An **interinstitutional framework contract dedicated to internal control and risk management** entered into force end 2010 to replace the previous one that ended in July. This framework contract provides assistance to DGs and services in developing methodology in internal control and risk management and also provides for training in these areas. .

The framework contract for audits and controls ended in December (six months in advance) as the consumption thresholds were reached. This framework contract will be renewed in 2011 and will be interinstitutional as well.

The internal control section of BudgWeb is kept fully up-to-date (new documents are posted immediately) and is permanently being improved. Additionally, it has been further developed with the creation of a full section dedicated to the AAR Standing Instructions.

The **Central Financial Service** continued to give **input to the discharge process** during 2010. This included participation in the contradictory procedure with the European Court of Auditors on its annual report, and an active monitoring and follow-up to discharge recommendations.

Work on the **Integrated Control Framework** now forms part of the ongoing activity of DG Budget, in particular promoting simplification as regards internal control in the context of the revised Financial Regulation and the forthcoming Multi-Annual Financial Framework (MAFF). DG Budget made significant proposals and contributions to the Commission MAFF seminar and discussions in the College regarding the appropriate mechanisms to reduce the administrative burden on beneficiaries while protecting the interests of the European taxpayer. The provisions in the proposed revision of the Financial Regulation provide considerable scope for Commission services to deliver programmes which are better adapted to the needs to each policy area.

In the framework of the **triennial revision of the Financial Regulation**, proposals to strengthen and clarify the **provisions related to control** were included in Commission proposal adopted in May 2010 (COM(2010)260). These included notably the changes to the current provisions on shared management (e.g. introducing management declarations of assurance from the bodies managing the EU funds in the

Member states), the concept of tolerable risk of error and proposals to clarify the control related provisions concerning the Authorising Officer by Delegation. Negotiations with the Legislative Authority are currently ongoing.

Specific Objective 5.

Prepare candidate and potential candidate countries and assist European Neighbourhood countries

Main Outputs :

- ❖ Monitoring progress in OR preparedness (candidate countries)
- ❖ Monitoring OR preparedness (applicant countries)
- ❖ Produce input to periodical monitoring and progress reports
- ❖ Carry out information and monitoring missions regarding Financial Control
- ❖ Benchmarking of internal control environments against international standards in participating countries

A **monitoring mission** was performed in **Croatia** between 3 and 7 May 2010. The monitoring report was sent to Croatia for comments on 26 May. Their comments were received on 11 June and the consolidated report sent to ELARG as input to the 2010 progress report on 28 June 2010. The one-day follow-up visit was carried out on 13 October 2010. . An in-depth examination of the TOR IT accounting application and the results of its trial run took place and considered satisfactory. A country-wide application of the TOR accounting module is scheduled for end 2011. As regards TOR, the requirements of the closing benchmark (sufficient administrative capacity to correctly apply the own resources rules upon accession) appear to be fulfilled.

Input was provided for the **Commission's draft Opinion on EU membership of Iceland on** 5 November 2009 for both chapters 32 +33. Contributions were given to three ISC on the Opinion and analytical documents in January 2010.

Concerning the screening of the Icelandic acquis for CH32-33 :

According to ELARG indicative timetable screening would start in November 2010 and run till June 2011.

- Chapter 33: explanatory meeting scheduled for 7 March 2011 and the bilateral one on 4 April 2011.
- Chapter 32: Explanatory 3 December 2010 and bilateral 28 January 2011.
- Draft PPI application agreement with Iceland prepared, inter-service consultation under preparation. Contribution for questionnaire, checklist and FAQ provided on time.

DG Budget gave its contribution to the **acquis questionnaire (CH32+33) for Serbia** was given on 4 November 2010 and an analysis of the replies and input to the Opinion is scheduled respectively for February and April 2011. The contacts with the Serbian authorities continue. In October 2010 the Council requested the Commission's Opinion on the Serbian application for EU membership. The acquis questionnaire was sent to Serbia at the end of November 2010. A reply is expected by 31 January 2011 when the analysis process will start

During 2010 DG Budget **analysed the replies from Montenegro and Albania** and prepared a draft opinion on Chapter 32. On 17 December 2010, Montenegro became a candidate country. Albania remains a potential candidate country needing to demonstrate further compliance with membership criteria.

As **accession negotiations with FYROM** were not opened no screening activity was appropriate.

Contributions to the **2010 enlargement package** were provided on 1 July 2010 and to the formal ISC launched on 22 September 2010. The Council adopted the Enlargement package in December 2010. In

November 2010 DG RELEX started the preparations for the 2011 progress reports for ENP countries with an Action Plan in force. DG Budget has contributed to the reports (formal inter-service consultations are expected to be launched by 11 March 2011).

Three **monitoring missions regarding Financial Control** took place in **Candidate Countries**; visits were made to FYROM in September and Croatia in October 2010. It was considered there had been insufficient progress in Turkey to justify a visit.

Three **monitoring missions regarding Financial Control** took place in **Potential Candidate Countries**; visits were made to Iceland in June, Montenegro in October, and Serbia in November 2010. In the absence of sufficient tangible progress in Bosnia Herzegovina and Kosovo no further visits were made

Three **fact finding missions to ENP Countries** were made in 2010, visits were made to Moldova in March, Armenia in June, and Lebanon in December 2010. DG Budget visited the internal control services of Romania and Czech Republic after their request for further support.

Concerning the **Benchmarking of internal control environments against international standards in participating countries**, after review a simplified approach has been adopted. Information is being collected via a structured template only. The completed templates will be used to prepare a compendium which will in turn be used to structure a conference in February 2012. Key ingredients of the Conference will be two Commission-produced papers relating to internal control and internal audit. During 2010 the questionnaire was agreed with SIGMA (October 2010) and sent to Member States' Ministries of Finance in December. Willingness to cooperate having been expressed by Counterpart services in Member States, replies are expected by mid March 2011. The evaluation and analysis of replies will be undertaken together with SIGMA during 2011 as will the preparation of the compendium and conference papers

1.2.4. ABB Activity – Financial framework and budget procedure

Specific Objective 1.

Establish a budget of good quality within deadlines respecting the Commission's priorities

Main Outputs :

- ❖ Budget preparation and adoption
- ❖ Results orientated information included in DB
- ❖ Sound budgetary and financial implications in Commission's proposals and decisions
- ❖ Provide a quality IT support for budgetary process
- ❖ Technical adjustment of the MFF for 2011 (including adjustment related to point 17 of the IIA)
- ❖ Financing of the budget
- ❖ Calculation of the UK correction
- ❖ EFTA proportionality factor

After budgetary hearings in February and March, including the necessary work of detailed review of budget lines, and a trilogue on budget priorities in March, the Commission adopted the **Draft Budget for 2011** on schedule and without major difficulties on 27/4/2010 with the official documents in all languages and covering all institutions being adopted on 15 June. All working documents accompanying were also disseminated in due time before the end of May to allow the two arms of the budgetary authority to analyse the Commission's requests.

This **budgetary procedure** was the first procedure to be ruled by the **new provisions of the Lisbon Treaty**, under which each arm of the budgetary authority has only one reading with an equal say on the full budget followed by a 21-day conciliation in case of disagreement. This budgetary procedure also took place with the legal instruments provided for by the Treaty (i.e. the multiannual financial framework regulation being in place). The financial framework attached to the previous IIA remained accordingly in force and the three institutions agreed on a joint statement during a trilogue on 30 June on practical modalities and calendar for the budgetary procedure.

In June and July, work was focused on the presentation, follow up and defense of the Commission's proposals before the **Council**. The Council officially adopted its position on 12 August by written procedure, allowing for the 8-week information process of the national parliaments, in line with the Council's interpretation of protocol 1 of the Lisbon Treaty. The major issue of the Council's reading was the limitation of the growth in payment appropriations to 2.91% compared to 2010 with also some reductions in commitment appropriations.

The **European Parliament**'s work on the draft budget took place in September and October with vote of amendments by the Committee on Budgets at the end of September, followed by a vote in the plenary

session on 20 October, preceded by a trilogue on 11 October. The European Parliament basically restored the Draft Budget both for commitments and payments but also voted some reinforcements in commitments, coupled also with some targeted reductions in commitments in headings 1a and 4 in order to finance priorities while remaining within the ceilings of the financial framework. Follow up of the work of the European Parliament was ensured and the Commission presented before the start of the Conciliation, its "executability letter" on the amendments that covered this year for the first time, not only the

In view of these amendments, a **Conciliation Committee** was convened with a conciliation period starting on 26 October till 15 November. The Conciliation Committee met three times, prepared by three trilogues. The Conciliation Committee failed to reach an agreement on the budget. While there was a near agreement on budget 2011 as such, the two arms of the budgetary authority had too divergent views on other issues (Lisbon regulation, revision of a financial framework for the financing of ITER and political statements of the future work on the EU budget) to be in a position to close the remaining gaps on the budget. The Commission took part in the full conciliation process and took all appropriate initiatives to reconcile the positions of the two arms of the budgetary authority in line with the provisions of the Treaty. It also provided technical support to the other institutions.

In accordance with the provisions of the Treaty, in absence of an agreement during the conciliation, the Commission had to present a new Draft Budget. This **new Draft Budget was adopted on 26 November**, incorporating the near agreement reached during the conciliation. It limited payment increases to 2.91% but restored most of the initial Draft Budget in commitments while incorporating a very large numbers of the European Parliaments in commitments. Accordingly, the Commission also presented a proposal for mobilising the flexibility instrument for headings 1 and 4. This new draft budget, slightly amended during its reading by the Council, mainly to accommodate the impact of the Court's ruling on the salaries' adjustments of 2009, was adopted without amendments by the European Parliament on 15 December.

While the Commission had launched, simultaneously to the preparation of the new Draft Budget, **preparations for provisional twelfths**, the **Budget 2011 was finally adopted** just in time for the beginning of the exercise.

Ten **Draft Amending Budgets** (DABs) were presented in 2010 and the budgetary authority approved 7 ABs unamended and 1 AB substantially amended.

Three amending budgets were focused on the consequences of the Lisbon Treaty on the other institutions: DAB 1 for the European Parliament, DAB 2 for the Economic and Social Committee and the Committee of the Regions and DAB 6 for the creation of the European External Action Service (EEAS) merging resources from the Council and the Commission with some additional resources. While DAB 1 and 6 were adopted, the budgetary authority failed to agree on DAB 2 and only the part of this DAB related to the BEREC-Office was adopted.

Two DABs were focused on the resources side of the budget: DAB 4 and 5, respectively on the surplus of 2009 exercise and the adjustment of the own resources (as well as OLAF's establishment plan). The Commission also presented a DAB 7 on the creation of a budget line for a possible mobilisation of the European Financial Stabilisation Mechanism and two DABs 8 and 9 on the mobilisation of the Solidarity Fund. All these five DABs were adopted without amendments.

Finally, the budgetary authority failed to agree on two DABs: DAB 3 on the financing of the bananas accompanying measures for which each arm of the budgetary authority adopted opposed positions and failed to reach an agreement during the November conciliation and DAB 10 on the excess payment appropriations in 2010, approved by Council but for which the European Parliament did not take a position in due time to be approved in 2010.

The Commission also presented three **Amending Letters** (AL) to its Draft Budget for 2011. AL1, focused on the impact of the creation of the EEAS for 2011, AL 2 for various adjustments to the agencies budgets as well as the creation of a budget line for a possible mobilisation of the European Financial Stabilisation Mechanism, and AL3 for agriculture. All amending letters have been finally included, with other adjustments, in the new Draft budget presented by the Commission on 26 November.

On March 2010 DG BUDG set up an **internal working group**, including the participation of RELEX and DIGIT staff, to implement the budgetary and accounting aspects linked to the creation of the **EEAS**. DG Budget participated in the establishment of a fully separate EEAS section in the Union Budget in a two-step process via the presentation in close cooperation with the services concerned (RELEX, DEV, AIDCO, ELARG, TRADE, ECHO, PMO, DIGIT, OIB, HR, COMM, EAC, SCIC, DGT, OP, Council SG) of an amending budget 2010 and an amending letter to the 2011 budget. DG Budget also participated in a central services working group chaired by the SG, monitoring the process of establishing working relations (including service level agreements) between the Commission and the EEAS. A quality check of service level agreements concluded between the EEAS and various DGs (OIB, PMO, HR, DIGIT, DGT and SCIC) has been performed as well as participation in an interservice groupe chaired by DG RELEX monitoring the conclusion of service level agreements. Finally DG Budget also contributed to the Commission position on the Council decision establishing the EEAS, as well as to the related Commission proposal modifying the Staff Regulations and the Financial Regulation."

With a new Commission taking office and the entry into force of the Lisbon Treaty, a substantial reorganisation of Commission services took place. The **first wave of reorganisations** impacted some 2.200 staff in the 1st semester. The **creation of the European External Action Service** then involved the block transfer to the EEAS of 1114 posts and appropriations for an estimate of some 1600 full time equivalent units of external personnel at year end, together with **related reorganisation of remaining Commission departments** (merge of DG DEV and AIDCO into DEVCO, creation of a Foreign Policy Instrument Service directly attached to the Vice-President/High Representative for Foreign Affairs & Security Policy).

In order to **optimize human resources allocation under a zero growth context**, the Commission imposed synergies on newly created departments through the use of shared resources directorates (Energy/Transport; Environment/Climate Action; Home Affairs/Justice), continued its policy of temporary allocations for time-specific needs and its constant search for rationalisation and redeployment within and between departments to concentrate on priorities needs.

The whole exercise was extremely labour-intensive for the services of DG Budget to ensure continuity of service.

ITER

In response to the Council conclusions of 16 November 2009 the Commission transmitted to the European Parliament and to the Council, on 4 May 2010, a communication entitled "*ITER status and possible way forward*" addressing the financing gap and related governance conditions concerning ITER.

To meet the additional short-term financial needs for ITER (originally € 1.4 billion then reduced to € 1.3 billion over 2012 and 2013), the Commission proposed a mix of financial sources including redeployment of funds from the Seventh Research Framework Programme within Heading 1A (€ 460 million) and of unused funds between headings (€ 840 million) by means of a revision of the multiannual financial framework while keeping the overall ceiling for commitment and payment appropriations over the period 2007-2013 unchanged.

Council adopted a position in December which reflects and completes the Commission proposal. The EP however was not ready to put it to the vote in the December plenary. Accordingly there was no agreement between the two arms of the budgetary authority in 2010.

The DGs' **activity statements** were reviewed during the preparation for the hearings. The discussions with the DGs were mainly focussed on content as a justification of appropriations. The improvement in quality in the Activity Statements was acknowledged in the last Working Group conclusions. The overall quality is now considered sufficient to evolve towards use of the content of the Activity Statements

The appraisal of **Inter-service consultations (ISC) on Legislative proposals and on financing decisions** was done systematically respecting the deadlines. Specific help and technical assistance was provided to DGs for new basic acts in order to use the new financial statement template.

During 2010 DG BUDGET continued the **vetted 11 major ISC concerning real estate** At headquarters and in delegations in third countries, and representation offices in Member States. Counselling work to services on documents to be sent to the BA for information has been significant.

The **BadgeBud** application was adapted following the Lisbon Treaty adoption, concerning notably the creation of the EEAS, the follow-up of the different readings and conciliations by the budgetary authority in the new procedure:

- The procedure 2011 of the Commission has been adapted to use new budgetary steps. The development is completed, testing is in progress.
- The institution EEAS has been created in production with its own budgetary procedure (only the budget 2010 and its budgetary structure).
- Phase-out of the distinction between compulsory and not compulsory expenditure types (in production).
- Better integration allowing to import official labels as well as appropriations from the CIBA information system (previously called SEIBUD) to Badgebud (in production).

Other BadgeBud adaptations during 2010 have included: a new module allowing the management of the administrative expenses' management codes and new reports on expenses by nature; new module to import the execution for the EP; integration of the minutes of the hearings, and DGs' justification for human resources and for global envelope; creation of a FTS report allowing the integration of the programmes in ABAC; Creation of a differential report for the Financial Programming.

CIBA (former SEI-BUD) interinstitutional application was adapted following the entry into force of the Lisbon Treaty to adjust it to the new budget procedure:

- Integration of both former IT systems Sei-Bud and Sei-Amd into CIBA (Common Integrated Budget Application) allowing each institutions as well as the budgetary authority to work in a common system dedicated both to management needs (preparation and follow-up of the budgetary procedure) and editorial needs (complete workflow including translation and publication issues). In production;

- Implementation of new products and functionalities dedicated to specific needs related to the conciliation phase (input package, simulation tool, etc) : in production;
- Better integration between CIBA and Badge-Bud: exchange of data (both figures and labels) in both directions: in production.

The annual Commission Communication on **technical adjustment** has been prepared and adopted by the College on 16 April 2010 - COM (2010) 160 final. In 2010, exceptionally the technical adjustment included an adjustment of the MFF table related to point 17 of the IIA. Heading 1B of the MFF was increased to take into account the need to increase the envelopes of Poland, the Czech republic and the Slovak Republic subject to the criteria foreseen in point 17 of the IIA.

Commission forecast of won resources was prepared within the deadline as well as the ACOR forecast meeting. The ACOR meeting took place as planned on 18 May 2010. Agreement on the financing of the budget was secured. All related budgetary documents were delivered on time.

The **Calculations of the UK correction** were presented at the 18 May ACOR meeting. Follow-up was given to last year's calculation mistake and the Member States were informed. CoA has received explanation and additional control measures were put in place. All related budgetary documents were delivered on time.

The calculation on the **EFTA proportionality factor** was delivered on time.

Specific Objective 2.

Forward budgetary planning: frame spending within short and long term financial perspectives

Main Outputs :

- ❖ Budget Review
- ❖ IIA assessment Report
- ❖ Report on point 19 of the IIA (on post-2013 payment levels)
- ❖ Reach an advanced stage of preparation of the proposal for the next MFF
- ❖ Adjustments on the MFF (Accession negotiations with Croatia /reunification of Cyprus)
- ❖ Budgetary adjustments (Accession negotiations with Iceland)
- ❖ Representation of DG BUDG in the group on delivery modes
- ❖ Monitoring of the MAFF

Various contributions to the finalisation of the **Budget Review** document for which SG is chef de file were delivered to SG and to the Cabinet. The chapter on own resources was drafted by BUDG and substantial comment were provided on all the other chapters. We drafted several of the technical annexes (summary of the public consultations, analysis of the evolution of the EU budget, flexibility, analysis of potential alternative own resources).

The draft version of **IIA assessment Report** was updated and adopted by the Commission Communication on 27/04/2010 (COM (2010) 185). There was a follow-up discussion in Council and EP.

The **Report on point 19 of the IIA (on post-2013 payment levels)** was finalised and transmitted to the budgetary authority under the form of a document of the Commission Services at the very end of the year 2010.

During 2010 DG Budget continued working on reaching an advanced stage of **preparation of the proposal for the next MFF**. A functional model for the period 2014-2020 allowing for simulations is ready and continues to be updated and improved. Various simulations for the post-2013 period were prepared. Input for the meetings of the DG group and the Commissioner's Group is provided as requested: this action continues to be on-going.

Concerning the adjustments on the MFF following Accession negotiations with Croatia /reunification of Cyprus), the agreement on the draft common position for chapter 33 and the negotiations with Croatia on financial package will take place in 2011. On Iceland no action has been required yet from DG Budget.

Budget representatives participated to the inter-service group on eligibility rules - an initiative of DG REGIO aiming to harmonise the **eligibility rules between the different decentralised funds** (ERDF, Cohesion Fund, ESF, EFF, EAFRD) and centralised funds (FP7, CIP, LIFE) with a view to the preparation of the new generation of EU programmes as of 2014.

Budget representatives participated also to the inter-service group initiated by DG REGIO aiming at drawing lessons from **shared management in cohesion, rural development and fisheries policies** as part of their work to prepare delivery mechanisms for the post-2013 programming period. Furthermore, DG Budget followed the discussion and contributed to the reflections of the inter-service group on **incentives to use financial engineering instruments in programmes of the next MFF**. Lastly DG Budget actively participated in the discussion and the possible **strengthening of Cohesion policy and the increased use of innovative financial instruments** (use of loans, Public Private Partnerships, project bonds and cooperation with EIB).

A technical update of the **financial programming 2007-2013** was sent on 1 February in accordance with the provisions of the IIA to take stock of the budgetary procedure for 2010. The Commission adopted its annual financial programming together with the Draft Budget at the end of April.

A technical update for the Secretaries General of all institutions was organised through the inter-institutional group (CPBQF). The **final Report of the Secretaries General on Heading 5** was circulated in November 2010.

Resources

At the establishment plan level one AST post has been converted into an AD post through the allocation of resources for 2010. Moreover, six posts have been upgraded within the AST function group. Following an internal reorganization of the DG, Unit BUDG.A.7 "Monitoring and Reporting on Budget Implementation" was merged with unit BUDG.A.1. Furthermore, a new unit BUDG.03 "Operational Management and Accounting System Development, Coordination of Agencies" was created under the authority of the Accountant. All those movements were done with a constant number of staff.

The average annual vacancy rate has increased (by about 0.4%) to 4, 1%. There was a decrease of (-4) temporary staff on job type 2b. The recruitment of temporary staff has reduced the average duration of vacancies. The recruitment quota of successful EUR10 candidates in 2010 was achieved for 'AD' and well above the fixed target for 'AST'. Internal mobility has slightly decreased (from 7 to 6, 3 %) whilst the net balance (arrivals, departures) is slightly negative (-8). This reflects stability in the organization in 2010.

In 2010, the rate of female representation in AD decreased from 29% to 28%. Moreover, the representation rate in middle management has slightly decreased (from 21, 4 % to 18, 5 %). In terms of mobility, we note that AD internal mobility this year mainly concerned women (5 women compared to 3 men).

External staff resources have not only allowed DG BUDG to respect measures regarding the replacement of absent staff but were also called upon for the execution of administrative and support tasks as well as in the financial and budgetary field. This has allowed the upgrading of certain permanent posts.

In the field of training, the Commission set a target of 7.5 average training days per person (excluding 'on-the-job' training, representing 2.5 days of training). DG BUDGET registered an average of 5.7 training days per person, which represents 2,651 days of training in total (50% general training, 36.5% linguistic training, 10.5% IT training and 3% on-the-job). In 2010 DG BUDGET assured a programme to provide external training for those managers and AD officials with management potential. This programme gave them the opportunity to attend courses in the most famous European business schools. Seven colleagues enrolled in 2010, and a further application was financed by DG HR.

The time management policy in DG Budget states that the carry-over of more than 12 days of annual leave should be an exception and duly justified by undeniable factors relating to service matters. In 2010 the annual leave balance of more than 12 days has increased by 16% compared to 2009. The number of days for which a carry-over has been requested, besides the statutory 12, has increased as well by 12% during this same period. These increases can be explained in particular by the special conditions prevailing at the end of 2010 (delay in the adoption of the budget for 2011 which lead to leave withdrawals) and by a heavier workload for the IT services (R3) due to the creation of the EEAS. On the other hand, the average per person has decreased both for the number of days which exceed the 12 (-10%) and for the registered carry-over requests (-9%).

The use of the flexitime registered a small increase compared to 2009: 67, 7% of the DG BUDG staff applied it at the end of 2010, compared to 64% in 2009. The distribution of the flexitime use between men and women follows the same increase tendency which is perfectly equilibrated: 71% of the women (compared to 68% in 2009) and 64% of the men (compared to 61% in 2009). The percentage of use by category is 55% for the AD and 74% for the AST.

This year again, the financial management of the administrative appropriations of the Directorate General was very sound. The execution rate in commitment appropriations was 99, 44%, excluding the earmarked revenue paid by the Agencies for the use of the ABAC system.

The execution rate of payment appropriations is 41, 8%, which is slightly lower than in 2009.

DG Budget has treated 25.565 registered documents in 2010. This represents an increase of 1% compared to 2009. 2504 replies to Interservice Consultations have been submitted by the DG in 2010 (35, 27% of the total of launched consultations in the Commission). DG Budget launched 47 Interservice Consultations in 2011. At the beginning of 2011, 95, 5% of the total registered mail in ARES had been filed by the unit concerned.

Internal Audit

During 2010 the Internal Audit Capability (IAC) finalised 2 audits that were in progress at the end of the previous year and carried out 4 new audits out of which 2 are at its finalisation stage.

2 follow-up audits of IAC open recommendations as at 30th June and 31st December 2010 were carried out during the year. Finally the IAC delivered 2 advices during 2010. Due to a higher level of vacancies than originally planned, the number of available workdays was 12,5% lower than budgeted which corresponds to a loss of 94 audit days. Nevertheless, 85% of the assurance activities planned in the 2010 Annual Work Plan could be completed and 100% of the planned consulting days were delivered.

Regarding DG Budget IAC recommendations, 100% of the recommendations issued during the year were accepted by the auditees. The follow-up audit of outstanding recommendations at 31 December 2010 indicates that 78% of the 105 recommendations issued in the 12 reports under review were implemented by the end of December 2010 (2009: 66%). There were 23 open recommendations at the end of 2010, 16 of which have implementation dates beyond 1st of January 2011; therefore only 7 recommendations have delays in implementation (30% of the open recommendations, but less than 7% of the 105 recommendations issued in the 12 reports under review).

There were no critical recommendations outstanding as at 31 December 2010.

Information and communication

In 2010 communication activities were heavily influenced by the general negative economic climate. Communication efforts during the budgetary procedure for 2011 budget proposal focused on defending Commission position against fierce opposition from some member states, and on explaining to the media and general public the added value of EU spending. A growing scepticism in some quarters of the public related to EU spending in times of austerity continues to be an important communication challenge. A number of practical improvements were carried out in 2010 to help bridge this gap. Financial Report 2009 (published in 2010), a key publication on how the EU budget was spent, was given a better, more coherent structure, with more data on targets and results of EU spending. The budget and financial programming website was also further modified, with the launch of a dedicated video material section. In October 2010 Commission communicated on its budget review paper that set out options for budget reform. Finally, the Commission's strategy to improve media reporting on the Court of Auditors annual report continued to provide results, with fewer reported misconceptions and better coverage of Commission arguments.

Part 2. Management and internal control systems

Section 2.1. Introduction to DG Budget

The six main areas of activities of DG Budget are to:

1. secure from the budgetary authority the resources needed for the European Union's policies, on the basis of an effective financial programming;
2. manage the budgetary regulatory framework;
3. implement the budget in compliance with the regulatory framework;
4. draw up the annual accounts of the institutions;
5. promote sound financial management within Commission services;
6. Report on the implementation of the budget, progress towards the granting of a positive Declaration of Assurance (DAS) by the Court of Auditors and coordinate the discharge procedure.

Beyond its own operational responsibilities, DG Budget is a horizontal department operating as a service provider, providing support, advice and tools to all other DGs within the Commission and to the Agencies.

2.1.1. –DG Budget in 2010

The DG has around 600 staff members (over and above which a certain number of intra-muros IT consultants are present on the premises) and is structured around five Directorates based in Brussels:

- Expenditure; allocate the budget among Commission departments, contribute to sound financial management of Community funds and monitor budget implementation;
- Own resources and financial programming in charge of three areas of Commission's competence: financial programming; management of the own resources system and preparation of the annual budgetary procedure (revenue side);
- Budget execution; responsible for drawing up the Union's financial statements, the Commission's accounts and the consolidated accounts of the European institutions;
- Central Financial Service, providing support to the different services in the field of financial management, budget implementation and internal control;
- Resources: horizontal Directorate providing support in the field of information and communication, coordination and management of the resources, financial information systems, IT infrastructure and users support.

Expenditure related to DG Budget is exclusively administrative aimed at ensuring the functioning of the DG. To optimize the use of human resources, appropriations are managed centrally and a centralised financial circuit (Model 4, "Centralised") is in place.

DG Budget has a formal role concerning the management of reserves, appropriations which may be unblocked under specific conditions by the Budgetary Authority. DG Budget's role is to ensure that these conditions are met before making appropriations available.

DG Budget had in 2010 appropriate working arrangements agreed with the two Cabinets: the Cabinet of the Commissioner responsible for Budget Planning and Programming and the Cabinet of the Commissioner dealing with Administrative Affairs, Audit and Anti-Fraud. Additionally, a mission statement is in place comprising all the main elements to be followed.

The management and control systems for own resources and for procurement including the key inherent risks are analysed in detail in the Annex 5, internal control templates for Budget Implementation.

Own resources

As delegated authorising officer for own resources, DG Budget manages financial flows with Member States and ensures that own resources are duly collected or made available.

Directorate B monitors the receipt of VAT & GNI own resource base data together with traditional own resource statements from Member States. It monitors proactively that the corresponding amounts of own resources are timely paid. A reasonable assurance concerning the accuracy and completeness of Member State data is provided by two annual inspection programmes – one dealing with TOR, the second with VAT own resources.

The budget is financed, as a principle, from own resources (Art. 311 TFEU). Thus expenditure is directly dependent on their availability and global amount. Despite this close link between own resources and expenditure, own resources transactions are not fully comparable to payment transactions for the following reasons:

- Payment transactions are regularly effected ad hoc, under various legal bases, whereas own resources are determined by the Council Own Resources Decision 2007/436/EC, EURATOM of 7 June 2007 and made available by national administrations as required by Art. 10 of Council Regulation No 1150/2000 implementing the system of the Communities' own resources:
 - For traditional own resources at monthly intervals after fixed delays triggered by the establishment and the recovery of actual amounts by Member States, and
 - For VAT and GNI resources by payments of monthly twelfths of the amounts budgeted, which are based on estimates of the VAT and GNI bases agreed by the Commission and Member States in the Advisory Committee on Own Resources (ACOR).
- Member States are required to make the own resources available without delay. DG BUDG monitors their timely receipt. Should payments be late default interest is payable.
- Equity towards member states and their joint financing of the EU budget being main principles of the own resources system, Member States scrutinise closely the Commission and each other, including in ACOR.
- The Commission, as a guardian of the Treaties, must ensure that all member states are treated equally. If necessary, the Commission launches infringement procedures against member states and brings infringement cases to the European Court of Justice. The Commission's positions have almost always been confirmed by the ECJ. Infringement proceedings take place mainly in the field of custom duties and may concern even relatively small amounts when general principles are at stake.
- The European Court of Auditors also scrutinises closely the legality and regularity of the own resources transactions every year and issues its opinion on the legality and regularity of the transactions, as well as of the underlying systems. Both branches of the Budget Authority provide an additional layer of oversight and reassurance in the context of the discharge procedure.

Member States' control weaknesses in the area of traditional own resources (TOR)

In its 2009 Annual Report the Court of Auditors stated (point 2.32) that the Commission would need to take account the conclusions from the Court's special report (No 1/2010) on simplified customs procedures together with the follow-up of its own inspection findings in its 2010 annual activity report. The Court's special report had highlighted significant weaknesses in Member States' customs controls on simplified procedures which gave ground to the Court to conclude that Member States' control and supervisory systems in the area of TOR are only partly effective (Annex 2.2).

In its TOR controls DG Budget is putting a special emphasis on Member States' customs controls, which can reduce the Commission's revenues from custom duties. In years 2008-2010 it carried out inspections in all Member States concerning their global customs control strategies¹ which also revealed similar control weaknesses as those arising from the Court's audits on simplified procedures. On the basis of these inspections a thematic report has been prepared, the first draft of which was presented to the Member States in the December 2010 Advisory Committee on Own Resources, and the report will be discussed with them again after its finalisation. DG Budget's 2010 inspections on anti-dumping duties focused on Member States' customs controls in a specific and high risk customs area. Finally, in view of the Court's observations on Member States' control weaknesses in relation to simplified procedures, DG Budget has chosen as a general theme for its 2011 TOR inspections Member States' controls of the local clearance procedure, i.e. the most simplified customs procedure.

DG Budget is following-up vis-à-vis the Member States concerned all the findings made during its inspections and the Court's audits. In the course of this follow-up many Member States have already reported on the remedial action they have taken or are in the process of taking to address the control weaknesses observed. This action will be verified in future inspections. Although the follow-up of errors with financial losses indicated in the Court's special report is still on-going in relation to some Member States, it can already be concluded that the overall final error-rate will be significantly lower than that initially reported by the Court and the overall financial impact of these errors will be very limited.

DG Budget is aware that weaknesses exist in Member States customs controls on simplified procedures. However, taking into account its ongoing inspection action in the area of Member States customs controls, the generally positive response by the Member States to the findings made and the overall low financial impact of the errors detected, it considers that there is no need to make a reservation on this issue.

¹In Greece a special inspection on their ex-post controls was carried out already in 2008. In other MS control strategy inspections were carried out in 2009 and 2010.

UK Correction

The Court of Auditors has discovered an error in the calculation of the definitive amount of the 2006 UK correction, which was budgeted in the amending budget 4/2010, published in the Official Journal (337/L of 21/12/2010). The Court will include the error in the annual sector letter addressed to Commissioner Lewandowski. As a result of the error the 2006 UK correction was overestimated by an amount of EUR 189 million. Thus Member States have contributed an excess amount of EUR 189 million to the financing of the 2006 UK correction in 2010.

The error will be corrected as part of the annual updating procedure through an amending budget, together with the normal entry into the budget of the 2007 UK correction definitive amount, the updating of the 2008-2009-2010 UK corrections and the preliminary estimate of the 2011 correction.

Furthermore, the following additional control measures with respect to the calculation and the double-checking of the UK correction have been put in place:

➤ Calculation:

- A first parallel calculation circuit has been set up within the primary unit concerned. Two officials working in parallel perform the calculations independently, thus assuring a first level of full redundancy.
- A second parallel calculation circuit is being set up in another unit, thus assuring a second level of full redundancy in the process.
- Automatic conditional formatting is being introduced in the various spreadsheets to reduce the risk of human manipulation error.

➤ Double-checking

- The checklist was revised a first time last year to oblige the official charged with the verification procedure to scrutinise in detail the various inputs and well as the calculation steps. This checklist is now being further detailed to identify even more points to be checked;
- A second official was appointed last year to the task of double-checking the calculation.

IT environment

Most of DG Budget's activities rely heavily on supporting information systems. DG Budget is the system owner of the Commission's Corporate Financial/Accounting System; ABAC. Since 2007, the Court of Auditors has given an unqualified opinion on the financial accounts, prepared via ABAC.

ABAC is used for the execution and recording of budgetary commitments, invoices, payments, legal entities, bank accounts and general income relating to the Commission's budget and the European Development Fund. A contract database records contracts and grants with a value above a minimum threshold set by the accounting officer, providing links to legal entities and financial transactions in ABAC. ABAC comprises "ABAC Accounting", an "off-the-shelf" corporate system by SAP, the official source of financial information. ABAC Accounting is mainly used by the services of the Accounting Officer of the Commission and is connected to the SWIFT-network, managing inter-banking exchange of information. ABAC Accounting receives most information via interfaced front office applications, in particular "ABAC Workflow" developed by DG Budget and used by some 10,000 users around the world to create and validate financial transactions. The Supply and Assets system "SAM" –based on a standard SAP platform- integrated three new assets management centres in 2010 in addition to OIB and OIL. ABAC also includes a reporting environment ("data warehouse") and information made available to the public via the Financial Transparency System is extracted from ABAC.

Furthermore, based on the mandate given to the Adviser of the Director-General and to the Head of Internal Audit at DG BUDGET by the Director-General and the Accounting Officer, an In-depth assessment of the project "Supply and Assets Management" (SAM) was performed. The objective of the task was to draw conclusions which should substantiate the tactical options and recommendations for SAM's future and DG Budget's internal functioning and mission statement. These conclusions are due to be presented during 2011.

Finally, BadgeBud is an inter-institutional system used for the budgetary preparation. Due to impact induced by the entry-into-force of the Lisbon Treaty, major updates have been applied throughout 2010 and the further alignment of the system is confirmed to be a 2011-priority.

An intensive programme was managed in DG Budget to accommodate the integration of the new European External Action Service in ABAC. The EEAS is operational in ABAC since January 2011.

In relation to the review of the ABAC Architecture, DG Budget's Senior Management adopted a Business Vision and IT-systems assessment. The assessment confirmed the need to strengthen ABAC's foundations in order to ensure IT-to-business alignment, data quality, system stability and efficient maintenance.

As part of its risk management and control arrangements, DG Budget again ran its annual Risk Assessment exercise at the end of 2010, resulting in its main risks and related mitigating measures being listed in the Annex 4 to the BUDG 2011 MP. One of the issues concerns the IT governance aspects in particular in relation to the review of the ABAC architecture. Risk reducing actions have been decided (formalisation of procedures for resource requests and allocation, clarification of the technical architecture, monitoring processes ...), aligned to the Commission's corporate initiatives on IT-governance.

DG Budget had already prioritized in its 2010 MP the internal control standard n° 7 (Operational Structure), which has been maintained as an ICS priority for 2011 (see details below in AAR chapter 2.2.2). Furthermore, DG Budget installed in 2010 a dedicated unit centralising coordination activities on ABAC and reinforced its IT Steering Committee, governing all IT-assets. The IT Steering Committee updated its Information Systems Policy taking into consideration the budgetary boundaries. This policy underpins the "Schema Directeur" 2010-2012 requesting the common funds required for the development of the IT-systems. However, it ought to be mentioned there is a risk as today one cannot guarantee the availability of the budgetary resources required for the review of the architecture over its full life-span. Indeed, the project is expected to run until 2015, for which currently only -limited- appropriations for 2011 and 2012 are secured.

Fines and Guarantees

Competition fines appealed before the Court need to be covered either by a provisional payment or by a bank guarantee. The total amount covered by guarantees was about 2, 5 billions at 31/12/2010.

When provisionally paid, the amounts must be kept off-budget according to Article 74 of the financial regulation, which states that revenues received by way of fines shall not be recorded as budgetary revenue as long as the decisions imposing them may be annulled by the Court of Justice.

Subject to the final judgement, which may take up to eight years, fines provisionally paid are either transferred to the Commission's income account and booked in the budget as miscellaneous revenue or reimbursed to the undertakings.

Fines adopted before 2010 and provisionally cashed are held with commercial banks selected by call for tender. On 31.12.2010, the global volume is about EUR 9 billion.

Further to the Commission decision C(2009) 4264 of 15.6.2009 concerning the reduction in the risks of management of fines provisionally cashed, fines adopted since 2010 and provisionally cashed are held with a special fund (BUFI) managed by DG ECFIN and composed of a portfolio of assets with an exposure limited to high quality sovereign credit risk. On 31.12.2010, the global volume invested in the BUFI is about EUR 0.5 billion.

2.1.2 Major events of the reporting year having a positive impact

Maintaining the green light on the reliability of the Annual Accounts of the European Union from the Court of Auditors for a third consecutive year .

Maintaining the clean opinion on the accounts from the Court of Auditors for the third consecutive time was a major achievement in 2010. In the Court's opinion, the 'Annual Accounts of the European Union present fairly, in all material respects, the financial position of the Union as of 31 December 2009, and the results of their operations and cash flows for the year then ended, in accordance with the provisions of the Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

The Court of Auditors annual report 2009 can be seen as very positive with regard to the reliability of the accounts since it contains only a few minor remarks on these accounts. The Court does however draw attention to weaknesses in the underlying accounting systems and thus data in some DGs, primarily regarding pre-financing and invoices.

The European Parliament granted discharge for the financial year 2008 and approved the closure of the accounts on 5 May 2010 with overwhelming majority (550/48/39).

Section 2.2. The functioning of the entire internal control system

2.2.1. Compliance with the requirements of the control standards

The requirements have been reviewed. This review confirmed that the internal control standards for Effective Management have been successfully implemented. A full report on compliance was produced based on the ICMTTool. It should be noted that ICS14 – evaluation was assessed as not applicable to DG BUDG, since it refers mainly to operational DGs.

Sensitive functions have been analysed and the staff with sensitive functions are below the limit of 5 years in the year 2010 and thus there is no requirement for derogations to be given for mandatory staff mobility.

2.2.2. Effectiveness of implementation of the prioritised control standards

Three internal control standards have been prioritised in the MP 2010 as required by the internal control framework: Operational Structure (ICS 7), Business Continuity (ICS 10), and Information and Communication (ICS 12). The following actions were taken with regard to their effectiveness during the year.

Operational Structure (ICS 7)

Operational structure has been prioritised as regards to the importance of IT governance in DG Budget.

IT Governance

DG Budget made considerable efforts in boosting the overall governance of Information System developments. In 2009 a thorough re-assessment of the ABAC-priorities took place, a study delivered a DG Budget's Business Vision Document, a Case-for-Change document was compiled on the future of the ABAC Architecture and a dedicated Data Quality Supervisor was appointed. In addition, a new unit directly attached to the Commission's Accounting Officer was created with the mission to bring IT-governance to the next level of maturity. The unit hosts the ABAC Programme Office with the objective to maximise the return-on-IT-investment to the business taking into consideration the limited resources available. The newly created unit also pilots the longer-term evolution of the ABAC Architecture. In line with these initiatives to foster transversal quality, the Data Warehouse USM was merged with the other USM's (except for SAM which still is in a project phase).

An Audit has been finalised by IAC on IT governance and Project Management in 2010. With regard to ABAC security management the IAC completed the follow-up on the implementation of recommendations concerning the 2008 Audit on IT Control environment and SAP access profiles, concluding that all recommendation have implemented. This paved the way in closing some open action points such as the finalisation of the ABAC Security Policy and the definition of a standard SAP access form. Further, the annual exercise inviting all Authorising Officers to have their staff's security grants validated was re-launched and completed. Thanks to this recurrent exercise, awareness is clearly rising in operational services.

As a new functional module Supply and Assets Management (SAM) was integrated into the ABAC Landscape, particular attention and considerable effort were put into the configuration of security for OIB and OIL. SAM Security is further developed as SAM's set of offered functionalities expands gradually. Security management for the Guarantee Funds was also completed. Also the outstanding recommendations for the IAS relating to SAM project have been implemented and additional measures are being taken further strengthening the project.

Finally, the integration of 8 agencies into ABAC during 2010 went smoothly and didn't present any major problem, whilst at the same time more SAP-functionalities were made available to the Accounting Officers of the Agencies.

An overview report on IT Procurement Audits across the Commission has been finalised by IAS in 2009, where a number of recommendations have been issued relating to IT sourcing strategies planning, contract management, and governance. An IT task force has been created lead by SG, where DG Budget participates as a member.

Furthermore, ICS n° 7, Operational Structure, has been maintained as an ICS priority for 2011 as explained in paragraph 2.1.1. (Page 47).

Business Continuity (ICS 10)

Detailed testing of the BCP started in June and the process was completed successfully in September. Further, a Business Impact Analysis of the BCP will be completed in the 2011 examining: the impact of the disruption of the DG's activities; the Recovery Time Objective for each activity; the maximum tolerable period of disruption; and the interdependencies within the units of the DG. A member of the IAC team has been nominated as an observer to take part in the Business Continuity corporate exercise of 2010, organised by SG, which took place in October 2010.

Information and Communication (ICS 12)

Being a horizontal DG, information and communication is considered to be one of the most important standards for DG Budget, and in particular external communication.

Communication activities during the first semester 2010 focused mainly on support to the commissioner for his presentation of the DB 2011, the publication of 2009 beneficiary data on the FTS search engine (some 54000 entries worth more than 20 billion euro), including, for the first time, beneficiaries of public procurement expenditure, on the creation of user-friendly and interactive graphs for the budget website, and the launch of a competition on the EU budget for young German-speakers. Furthermore, intensive preparatory work took place regarding the 2009 Financial Report, which was published in September, and on the creation of a webpage presenting videos on the use of EU funds, also launched in September.

With regard to the internal communication the bi-annual results of the new management scoreboards of the performance and risk indicators were presented and reviewed in the management meeting of July 19.

Taking into account the above information, it can be concluded that the internal control system of DG Budget is functioning well. The area needing further improvements in terms of effectiveness is in relation to ICS 7 (Operational Structure). Therefore ICS 7 remains a priority standard in the 2011 Management Plan.

2.2.3. Conclusion

DG Budget has put in place monitoring measures which ensure that the internal control systems are effective. DG Budget has also considered the risks and focuses the control resources on those areas where risks are the greatest, while ensuring adequate control over all activities. Based on all information and the above analysis and the information provided in the building blocks, part 3 of the AAR, it can be stated that DG Budget has an effective, robust and reliable internal control system at its disposal.

Section 2.3. Information to the Commissioners

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Lewandowski and Commissioner Semeta.

Part 3. Building blocks towards the declaration of assurances

Section 3.1. Building block towards reasonable assurance

3.1.1. Building block 1: Assessment by management

Key indicators on legality and sound financial management

The key indicators on legality and regularity and sound financial management for own resources and procurement are provided in the table below.

Legality and regularity indicators of the underlying transactions for Own Resources

VAT

Key indicators supporting the reasonable assurance drawn that Member States' annual VAT statements are accurate.

Indicator	Legality	Regularity	Comments	Target MP2010	Res 2008	Result 2009	Result 2010	Variance analysis/ Comments
Number of VAT Statements communicated by MS within the legal deadline	x		Input indicator. Deadline is 31 st July	27	20	26	23	Pre-deadline reminders continued. MS urged to improve in ACOR meeting of 26 October 2010
Number of VAT statements, checked, processed and communicated to unit B2 in time to calculate the year end balances		X	Output indicator	100%	100%	100%	100%	One MS submitted a correction after that date.
Number of anomalies in VAT statements identified by reception checks: corrective action proposed to MS		x	Result indicator	N/A	5	3	4	
Number of corrections accepted by MS		x	Result indicator	100%	100%	100%	100%	
Number of statements verified during inspections	x		Output indicator.	Target annual inspection plan.	26 ²	22 ³	29	
Number of VAT reservations set versus number of reservations lifted		X	Trend related result indicators.	Ratio decreasing less than 1	2.07	1.06	.0825	
Number of accounting documents generated for potential corrective payments by Member States		X	Output indicator	N/A	71	201	200	

² One control was postponed until February 2009 for organisational reasons

³ One control was postponed until January 2010 to assist MS

<i>Legal management</i>				Target as per MP2010	Result 2008	Result 2009	Result 2010	Variance analysis/ Comments
Number of open infringement files and annual variation	x	X	Output indicator (B2)	N/A	1	1	1	
Number of Commission infringement decisions taken (Art. 258 TFEU)		X	Output indicator (B2)	N/A	1	1	0	

GNI-based own resource

Indicator	Legality	Regularity	Comments	Target as per MP2010	Res 2008	Result 2009	2010	Variance analysis/ Comments
Number of communications received from ESTAT regarding setting of GNI reservations		X	Input indicator	N/A	10	15 ⁴	0	This year ESTAT has not yet converted any general reservations, set in previous years to specific reservations.
Number of communications received from ESTAT regarding lifting of GNI reservations		X	Input indicator	N/A	3	6 ⁵	0	
Number of notifications to MS sent by DG Budget regarding setting of GNI reservations within 2 weeks following ESTAT communication		x	Output indicator.	100%	100% (10 of 10)	0 ⁶	-	
Number of notifications to MS sent by DG Budget regarding lifting of GNI reservations within 2 weeks following ESTAT communication		x	Output indicator.	100%	66.6% (2 of 3)	0	-	

Given the division of operational responsibilities between Eurostat and BUDG in the management of the GNI resource no other indicators for DG BUDG are deemed necessary. These are the remit of Eurostat.

⁴ No request or new reservations – these were for extensions of existing reservations – source as above

⁵ Source as above

⁶ All requests were processed within 4 weeks including time needed for translation.

Traditional Own Resources

Key indicators supporting the reasonable assurance drawn that Member States make all established amounts available on time:

Indicator	Legality	Regularity	Comment	Target as per AMP 2010	Result 2008	Result 2009	Result 2010	Variance analysis / Comments
Number of risk-based selective inspections made of Member States systems and procedures	x	X	Output indicator	Number as per inspection program : 31	34	34	31	
Number of anomalies concerning compliance notified to Member States as a result of those inspections	x	X	Result indicator	N/A	99	115	120	
Number of accounting documents generated for actual/potential corrective payments by Member States of principal or interest ⁷		X	Output indicator	N/A	193 Not reported	240 800	223 649	Number of requests for accounting action Number of accounting documents generated
Legal management								
Number of open infringement files and their annual variation	x	X	Output indicator (B2)	NA	26 (1new/4 closed)	23 (3 closed)	19 (2new, 6 closed)	
Number of Commission infringement decisions taken (Art. 258 TFEU)		X	Output indicator (B2)	NA	12	8	10	

The aim of the indicators above is to give a view of the inspections and other related checks made to provide the evidence on which to base the assurance BUDG/B seeks that Member States comply with the relevant regulations when discharging their own resources responsibilities.

For VAT, all Member States are obliged to administer a value added tax system. The own resources legislation requires the Member States to provide an annual statement of the value of transactions charged with VAT in their jurisdiction. BUDG/B monitors the timely receipt of these annual statements, checks their completeness and coherence with previous years primarily by a programme of inspections. Thus the indicators chosen show whether the Member States' statements were received by the due date and the sufficiency of the checks made on their completeness and accuracy.

⁷ Number generated by all control activities covering TOR

For TOR Member States are responsible for operating an appropriate administrative framework by which they collect customs duties and sugar levies for the financing of EU budget. The indicators refer to the annual inspection programme which covers various customs regimes, control methods, and, the procedures for accounting, recovering and making available of TOR. The programme varies from year to year and is based on risk analysis. The focus of the inspections is the identification of the key procedures and systems in each Member State that ensure correct and timely collection and making available of TOR, and testing their adequacy.

Lastly for GNI, the activity to provide the assurance is undertaken by ESTAT who check (mainly through the GNI Committee) that Member States have compiled their GNI figures in line with the European standards. Where this process raises concerns and ESTAT wishes to prevent a particular year becoming time-barred then it requests DG BUDG to set or lift reservations on its behalf. The indicators for GNI have been chosen to show the timeliness with which this procedure is carried out.

Indicators regarding the efficient use of financial resources: procurement

Below indicators relate to input ex-ante controls, output, and result of controls and support the legality and regularity of underlying transactions

Indicator	Target as per MP2010	Result 2009	Result 2010	Variance analysis/ Comments
<i>Input: Resources devoted to ex ante to ensure legality and regularity of underlying transactions:</i>				
<i>Staff devoted in each ex-ante control;</i>	2	2	2	As per the "four-eyes" principle (art. 60.4 RF)
<i>Financial resources</i>	3	3	3	
<i>Output: Level and nature of controls carried out</i>				
<i>Budget coverage of first level ex-ante control</i>	100%	100%	100%	
<i>Budget execution percentage</i>	95%	99 %	99 %	

Results of controls: What the controls allowed to discover/remedy				
<i>Exception reports</i>	0	7	8	<p>Four exception reports related to the late signature of mission orders. The main reasons were: urgency of the mission, MIPS system error, availability of supervisor and other delays. Reminders have been sent to all units in DG Budget for early submission of their mission orders.</p> <p>One relates to a technical reclassification of budget lines in the ABAC system made by the accounting services.</p> <p>Another one concerns the BCP test manual payment regularization in ABAC.</p> <p>One exception report concerns the execution of a payment in the year N+2 following the initiation of the financial commitment concerning the reimbursement of experts who had participated to a WOMIS conference for the EU Member States. The requested documents for reimbursement were not received in time. A new financial commitment had to be initiated in order to pay the reimbursements of the concerned experts</p> <p>The last exception report of 2010 concerns services provided without a written contract had been signed. No financial commitment had been initiated and validated by the Authorising Office by Sub delegation. The services were adequately delivered. The contractor sent the invoice to the wrong address on 11.10.2010, and it was only when the contractor sent a reminder on 26.01.2011, that it was realised that the contract had never actually been signed. A budgetary and legal commitment are to be made and the contractor will subsequently transmit an invoice in due form, together with the normal supporting documents. This represents a regularisation of an oral decision. The specific contract to sign is part of a framework contract which has been concluded in accordance with the applicable rules and procedures.</p> <p>The few cases referred to above are considered to be minor procedural errors or short comings related to urgencies or unforeseeable circumstances.</p>
<i>Impact :</i>				<p>The above mentioned information indicates that no serious or systematic weakness has been identified. It can therefore be considered that DG Budget's control systems are working as intended.</p> <p>These exceptions were not of a nature or extent to lead either to a reservation or to the identification of a material weakness in the internal control system</p>

Results of controls

ICAT. The iCAT self-assessment on the effectiveness of the internal control system of DG Budget was carried out during last quarter of 2010. The results are satisfactory and indicate a high level of effective implementation of the internal control standards. A detailed report on the analysis of the results has been communicated to all management, together with the responses and comments in the last quarter of 2010. Based on the results, further actions are envisaged in 2011.

Ethical and organizational values

Interaction within the DG on ethical matters is a continuous process and ensures a high level of awareness and compliance for management and staff. Additionally, new material was also posted on the intranet as regards to the ethical requirements of National Experts and 'Stagiaires'. Also, no cases of fraud were identified in DG Budget

Risk management

The action plans for the six critical risks in the Management Plan (MP) 2010 have been incorporated into the MP follow up process and were monitored throughout the year.

The risk assessment exercise for the Management Plan (MP) 2011 has been carried out during the last quarter of 2010 including analysis and assessment of both potential critical and crosscutting risks. Five critical risks have been identified as well as the mitigating actions. The relevant action plans have been included in the MP 2011 follow-up process.

Training has been provided by the Internal Control Coordinator on Risk Management in all units of DG Budget. The objective was to raise awareness of the usefulness of risk management and also involve the staff in the risk management process. As a result of the training, a bi-annual risk follow up of the DG Budget risk register has been made during the months of June and July, which gave a more dynamic approach to the risk management process.

Taking into account the above information it can be concluded that there is satisfactory evidence that DG Budget has put in place all necessary monitoring measures. The procedure put in place control the main risks by providing a reasonable assurance that the key objectives are met and that the activities are carried out as intended, with action underway to address the identified areas for improvement.

3.1.2. Building block 2: Results from audits during the reporting year

IAC Audits 2010

During 2010 the Internal Audit Capability (IAC) finalised the following audits: European Development Fund (Accounting, Treasury and Recovery process / Draft report issued in 2009, final report issued in 2010), Global Envelope (Budgetary Process), IT Governance and project management (IT process), and Business Continuity Plan Phase 2 (Business Continuity procedures and IT process). A number of recommendations were raised concerning the audited processes and agreed with management and action plans for their implementation have been set up accordingly. For two audits, on the Early Warning System and the EDF phase II – Accounting closure, the fieldwork phase was completed. As the reporting phase will only be finalised in the first quarter of 2011 the conclusions have not been taken into account for the opinion below.

IAC's Opinion

Note: This opinion on the state of control does not constitute an opinion on the AAR process in general or on the document itself.

Based on the results of the audits as described in the objectives and scope of the engagements carried out by the IAC of DG *Budget* during 2010⁸, IAC believes that the internal control system in place in DG Budget provides reasonable assurance⁹ regarding the achievement of the business objectives set up for the processes audited except for the following issues:

- The DG Budget Permanent strategic IT steering committee was only re-established on 13 December 2010, meaning that during the year 2010 the DG's IT governance process was not in full conformity with the Commission's IT governance principles.
- Within the budgetary process of the management of the global envelope, the fact that the list of persons in the operational DGs authorised to request transfers was not up to date, means that transfers risk being executed upon unauthorised requests.
- With regards to the budgetary process of the management of the global envelope a potential conflict of interest was identified. The reserve of the global envelope, which belongs to all DGs, is placed in a budget line belonging to the same policy area and budget title as DG Budget's own global envelope appropriations. In theory DG Budget could transfer the credits from the reserve to DG Budget lines without notifying the operational DGs or the Budgetary Authority.

The internal control weaknesses identified during the audit and advice engagements IAC carried out during the year, and which have been documented in the abovementioned reports, do not represent deficiencies that are likely to have a bearing on the content of the annual declaration of the Director General of DG Budget.

IAS Audits 2010

During 2010 the IAS finalised the audit on Risk Management in the Commission. Action plans on the recommendations raised for DG Budget have been set up for their implementation with a number of recommendations already being implemented.

Also an Overview Report on the Executive Agencies (EA) of the Commission was issued by the IAS, with a few recommendations addressed also to DG Budget relating to its horizontal role.

In December 2010 a consolidated overview report on compliance with payment deadlines was issued by the IAS. A detailed action plan was established for the implementation of the recommendations concerning DG Budget.

ECA's Audits 2010

In 2010 ECA finalised the Audit of Simplified customs procedures which is related to DG Budget's area of traditional own resources. In its conclusions the Court recognizes that as from 2009 the Commission has developed a sound approach for controls on simplified procedures and put in place the regulatory framework supported by comprehensive guidelines. At the level of the Member States the Court concludes that simplified procedures are not yet effectively controlled in the majority of the audited Member States.

⁸ See the list of finalised audits in the first paragraph of 3.1.2.

⁹ Even an effective internal control system, no matter how well designed and operated, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only *reasonable assurance* to management regarding the achievement of the business objectives and not *absolute assurance*.

As explained in paragraph 2.1.1. The Commission is following up on the findings of the Court with the Member States and considers that satisfactory remedial measures are being taken.

An audit on the Commission Treasury Management was finalised in 2009. The recommendations raised have been addressed, with exception of one for which actions are underway and their implementation will be completed as a result of:

- the revision of the Financial Regulation and its Implementing Rules,
- the signature of the Financial and Administrative Framework Agreement between the Commission and the EIB.

3.1.3. Building block 3: Follow-up of previous years' reservations and action plans for audits from previous years

Follow-up of previous AAR reservations

There were no reservations in the three previous years' AARs.

Follow-up of previous years IAC reports

The previous years' audit recommendations that are still ongoing following the audits of the IAC (Reconciliation and Clearing of Accounts, Third Party Files, Single Data Warehouse, Business Continuity Management - Phase I, Suspense Accounts and Imprest accounts on ABAC Workflow) are closely monitored as per the action plans set up.

A follow up audit was carried out by the IAC at the end of 2010, beginning of 2011. The objective of the audit was to assess the status of implementation of DG BUDG Internal Audit recommendations as at 31st December 2010; and to evaluate the existence of measures taken, by conducting interviews and collection of documentary evidence. As per 31/12/2010 78% of the recommendations issued in the reports which are under review were implemented. This was a clear improvement compared with the 66% implemented as per 31/12/2009. Out of the 23 recommendations outstanding as per 31/12/2010, 16 concern recent reports and only 7 have delays in implementation, which is a satisfactory result.

The residual risks related to the non implementation of the recommendations raised in audit reports issued prior to 2010, are not of such an importance that they would need to be mentioned in the annual declaration of the Director General of DG Budget.

Follow-up of previous years IAS reports

According to Dg Budget's management, 64 out of 75 accepted IAS recommendations relating to 8 IAS reports which are being followed-up have been implemented. Out of the 11 recommendations which are in progress, only one recommendation has passed its original expected completion date.

Follow-up of previous years ECA reports

The past audit recommendations raised by the ECA relating to own resources are closely monitored and are being implemented.

3.1.4. Building block 4: Assurance received from other Authorizing Officers in cases of crossed sub-delegation

DG Budget has given cross sub delegations to DG DIGIT and RELEX for which assurance letters have been received as per the requirement under article 66(2) of the Financial Regulation.

Another cross sub delegation has been given to DG ECHO. As no budget has been allocated to this cross sub delegated budget line for 2010, no assurance letter was received.

DG Budget has received cross sub delegations from DG HR, DG COMM and DG JRC for which assurance letters have been sent as per the requirement under article 66(2) of the Financial Regulation.

As regards the reasonable assurance received/given from/to other Authorising Officers for cross sub delegation concerning the legality and regularity of the financial operations including sound financial management of funds, no major issues were noted.

3.1.5. Completeness and reliability of the information reported in the building blocks

The information provided under the building blocks is complete and reliable. Consequently this provides a reasonable assurance for the conclusion on the effectiveness of the internal control system.

Section 3.2. Reservations

Taking into account that none of the materiality criteria mentioned in Annex 4 have revealed significant weaknesses in 2010, DG Budget has no reservation for 2010.

Section 3.3. Overall conclusion on the combined impact of the reservations on the declaration as a whole

Not Applicable.

See Section 3.2. above.

Part 4. Declaration of Assurance

I, the undersigned,

Director-General of DG Budget

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view¹⁰.

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

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

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

Brussels, 28/03/2011

Hervé Jouanjean

"signed"

¹⁰ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

Annex 1. Statement of the Resources Director

I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission¹¹, I have reported my advice and recommendations to the Director-General on the overall state of internal control in the DG Budget.

I hereby certify that the information provided in Part 2 and Point 3.1 of the present AAR and in its annexes 2 to 5 is, to the best of my knowledge, accurate and exhaustive.

Brussels, 28/03/2011

Daniela Gheorghe (Resources Director)

"signed"

¹¹ SEC(2003)59 of 21.01.2003.

Annex 2. Human and financial resources by ABB Activity

Code ABB Activity	ABB activity	Human Resources by ABB activity		
		Establishment Plan posts	External personnel	
27 01 12	Accountancy	157	31	188
27 02	Budget implementation, control and discharge	108	16	124
27 AWBL-01	Promotion of good financial management	74	6	80
27 AWBL-02	Administrative support and management of the Directorate-General for the Budget	28	6	34
27 AWBL-03	Financial framework and budgetary procedure	30	4	34
27 AWBL-04	Policy strategy and coordination for the Directorate-General for the Budget	32	3	35
TOTAL		429	66	495

Implementation of decentralised administrative appropriations of the Global envelope as of 31/12/2010

			commitments	payments	% implementation
27.010211.00		6.476.740			
27.010211.00.01.10	missions		316.000	254.616	
27.010211.00.01.30	representation expenses		6.000	325	
27.010211.00.02.20	meetings		1.000	799	
27.010211.00.02.40	conferences		33.781	32.923	
27.010211.00.03	committees		46.500	29.922	
27.010211.00.05	IT	914.000	6.781.234	2.886.981	
27.010211.00.06	training		150.316	57.500	
	total	7.390.740,00	7.334.830,24	3.263.065,80	99,24%
			Commission average:		97,42%



EUROPEAN COMMISSION
Budget

Annex 3. Draft annual accounts and financial reports

Separate documents.

Annex 4. Materiality Criteria

The activities of DG Budget can lead to three types of reservations:

- Materiality criteria related to the **budget executed by DG Budget itself**. As the budget managed directly by DG Budget is rather limited, the main criteria are based on results of ex ante controls, exception reporting, and work done by the IAC as well as feedback during the self-assessment of internal control. Taking into account the low total amount of credits executed, reservations will be made if the risk of error on legality and regularity of the underlying transactions is greater than EUR 300.000. In addition to the management of own credits, DG Budget also covers:
 - Horizontal financial activities such as treasury, guarantees such as those related to competition fines and VAT reimbursement. As these transactions are not directly linked to expenses, reservations will be made if fraud during the processing of these transactions in DG Budget has been observed
 - The gathering of own resources is not subject to the same rules either. The reservations in this domain will be more of a systemic nature (see further) and the results of the yearly audits of the European Court of Auditors will be taken into account in this context.
 - The NO DG profit centre used for amounts that cannot be assigned to any specific DG. It includes, among others, the employee benefit provision and in particular staff pensions of the European Commission. These accounts are dealt with when closing the yearly accounts and eventual problems reported in that context are of a more technical nature.
- Materiality criteria related to **systemic responsibilities for DG Budget**. DG Budget has the responsibility at Commission level for: securing of resources needed to implement the European Union's policies; the management of the budgetary regulatory framework; the implementation of the budget in compliance with the rules; the preparation of the annual accounts of the institutions; and the contributing to sound financial management in Commission departments. Beyond its own operational responsibilities, it is a horizontal department operating as a service provider and thus also bears responsibility for the development and quality of the relevant processes. DG Budget would make a reservation if the review of the relevant processes, including those related to the Accountants responsibilities, identifies important weaknesses in the implementation of the underlying systems and tools or, in case of major changes, if the evidence on the outcome of the change was not yet available.
- Materiality criteria related to **reputation issues**. It concerns issues that could cause lasting damage to the Commission's image due, for example, to financial fraud inside DG Budget or serious breaches on provisions of the Treaty, due to DG Budget's activities.

Annex 5. Internal Control Template(s) for Budget Implementation

Own Resources

<p>1. Characteristics of DG policy environment: Own Resources</p> <p>Summary : <i>Management of the own resources system</i></p> <p>DG Budget is responsible for the legislative framework of own resources.</p> <p>In its day-to-day management of the own resources system, the Directorate prepares monthly calls for funds for VAT and GNI based own resources, the UK correction and the gross reduction for the Netherlands and Sweden and prepares necessary yearly adjustments. It checks also the monthly and quarterly statements of traditional own resources</p> <p>Key inherent risks in this environment :</p> <ul style="list-style-type: none"> ➤ Risk that Member States do not pay or do not pay in time the amounts of OR due. DG Budget's role is to seek reasonable assurance that OR are collected and made available in conformity with EU law. For VAT/GNI own resources, the Directorate(in conjunction with Eurostat) uses a variety of measures including an annual inspection programme to ensure that the calculation of the VAT and GNI own resources bases are performed correctly by Member States, and in full compliance with the provisions in force. For traditional own resources (TOR), its role is to verify how Member States discharge their responsibility for properly establishing, accounting for and making TOR available to the Commission. The Directorate makes on the spot inspections for TOR and for VAT own resources. ➤ Irregularities might remain undetected or not resolved by Member States. The Directorate makes sure detected irregularities are followed up by issuing recovery orders for the amounts due from Member States and, where appropriate, by starting infringement proceedings under Articles 258 and 260 of the TFEU . The Directorate also organises a structured and regular dialogue on the functioning of the own resources system via the Advisory Committee on Own Resources (three sections) in accordance with the rules of procedure of the Committee and the Comitology legislation 	
<p>Management mode:</p> <p><i>Direct centralised management</i></p> <p>Key figures:</p> <p><i>See end of the table</i></p>	<p><i>See end of the table</i></p>
<p>2. Management and control systems – the basis of the declaration of assurance</p>	
<p>Planning process, including preventive controls</p>	<p>The Union's own resources are established, collected, paid and controlled according to the rules laid down in the Own Resources Decision and in its implementing Regulations.</p> <p>Internal procedures exist and are respected.</p>
<p>Communication and information measures to improve the quality of financial management</p>	<ul style="list-style-type: none"> ➤ Contributing to the Commission's annual report on the control of application of EU law. ➤ Control reports of the own resources on-the-spot inspections carried out by the Commission. Correspondence with Member States following-up Commission and European Court of Audit findings concerning own resources. ➤ Preparing and publishing triennial reports on (i) the functioning of the inspection arrangements in the area of TOR and (ii) VAT collection and control procedures. ➤ Contributing to the Commission's annual Report on the Protection of the Union's financial interests.

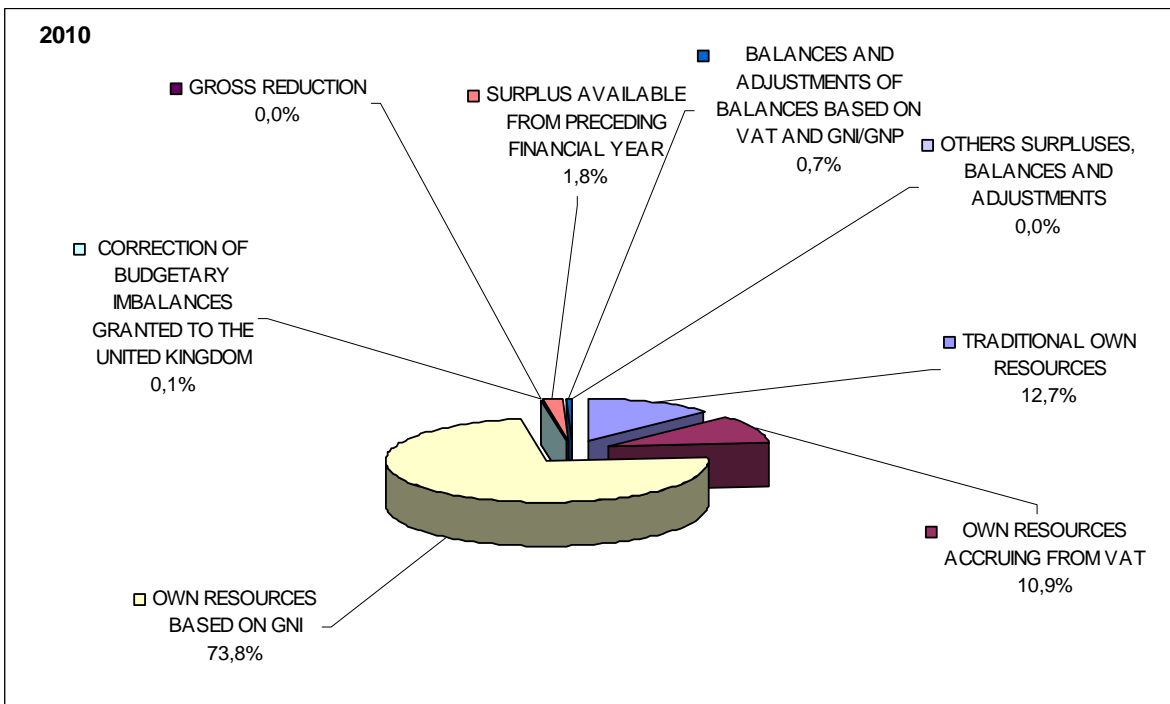
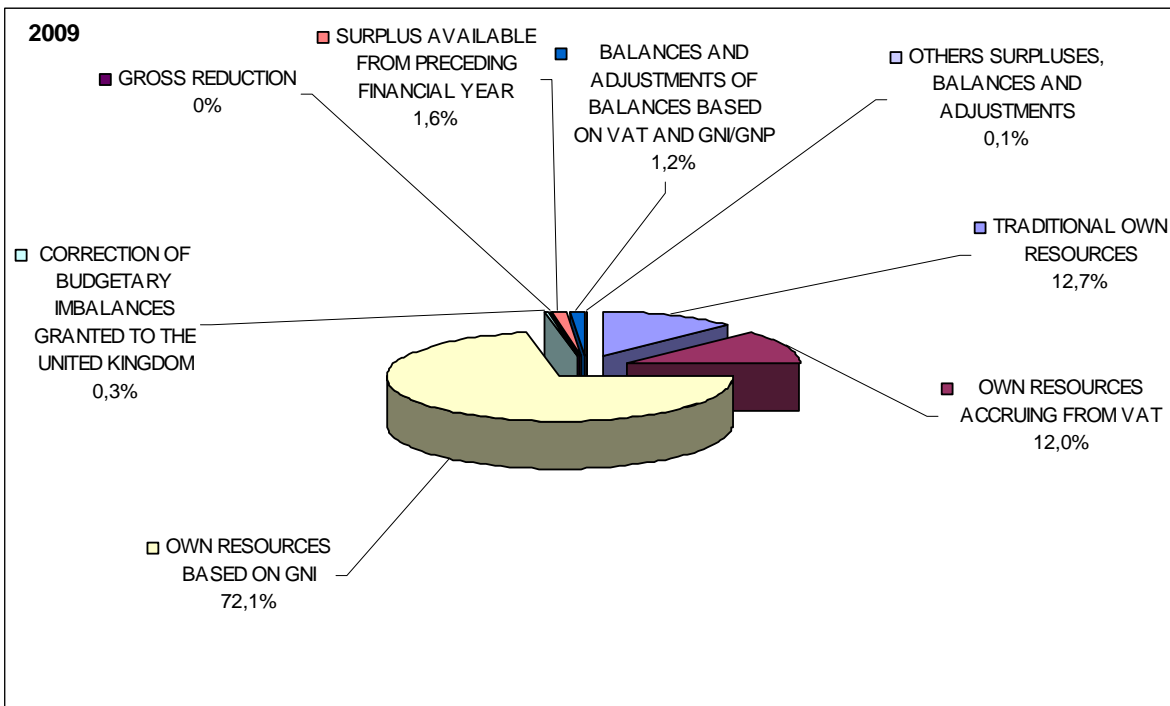
<p>Detective and corrective controls:</p> <p>Checks and monitoring during the initial/ interim/ final phases of the revenue circle</p>	<p>VAT and GNI based own resources, the UK correction and the gross reduction for the Netherlands and Sweden</p> <ul style="list-style-type: none"> ➤ Check of annual statements and entering the data in the unit's VAT statement database ➤ Following-up of anomalies detected by contacting the member state concerned ➤ Control , via double checking, of the amounts included in the calls for funds ➤ Monitoring payments using information received from the treasury: checking the correct amount paid by the due date ➤ For VAT own resources carrying out an annual programme of on-the-spot inspection ensuring that every annual VAT statement furnished by every Member State is subject to checks on its accuracy and completeness. ➤ Where payment is late: belated interest is charged ➤ Following up financial consequences of control missions (suivi database) ➤ Efficiently and effectively manage EU own resources. Equal treatment for all Member States. <p>Traditional own resources</p> <ul style="list-style-type: none"> ➤ Control of the statements and introduction in the unit's database ➤ Follow-up of detected anomalies by contacting the member state concerned ➤ Follow-up of the related payments by using the information received from the treasury: control of the correct amount and the respect of the due date ➤ Follow up of financial consequences as a result of control missions (suivi database) ➤ Controls permit to check if all member states have paid correct amount in due time ➤ In case of late payment: belated interest is charged ➤ Efficiently and effectively management of the EU own resources. Equal treatment for all member states <p>Infringements</p> <ul style="list-style-type: none"> ➤ Legal analysis of the situation and necessary infringement follow-up with letters of formal notice and reasoned opinion, and, if necessary with applications to Court. ➤ Settlement of the cases by Court decision or compliance by the MS confirmed during the infringement proceedings. ➤ Correct application of EU law by member states ➤ Member States' contribute their correct share of the financing of the EU budget ➤ Equal treatment of Member States
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3. Internal and external supervisory and audit controls	
Verification that processes are working as designed	<p>Examples:</p> <ul style="list-style-type: none"> ➤ Given the importance of the related amounts, the procedure is strictly followed. Both the head of unit and the director carry out the required supervision of the correct functioning of the procedure. ➤ Risk Management exercises are made regularly and assessed by DG Management. For the risks identified controls aiming at minimising the risk or mitigating the potential negative impacts are in place.
IAC, IAS, ECA, EP Feedback on adequacy of the system	<p>Examples:</p> <ul style="list-style-type: none"> ➤ Feedback is provided by Internal Audit, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and in the discharge procedure before the European Parliament and subsequent review by the Council. Recommendations made by these bodies are followed up systematically ➤ Risk Assessment process also serves to integrate results of ex post controls and highlight key issues to ensure preventative mitigating action is taken.
High level management reporting and its role in identifying problem issues	<p>Examples:</p> <ul style="list-style-type: none"> ➤ Description of reporting system <ul style="list-style-type: none"> ○ Regular evaluation of the progress in the year's work programme in respect of the relevant targets and indicators appropriate to each action. ➤ The progress made during the year is reported in the Annual Activity Report (AAR), and eventually the synthesis report for the Commission as a whole.

Management mode: *Direct centralised management*

Key figures:

Amounts in €	2009	2010
TRADITIONAL OWN RESOURCES	14 528 223 023	15 659 290 829
OWN RESOURCES ACCRUING FROM VAT	13 742 628 001	13 392 516 750
OWN RESOURCES BASED ON GNI	82 413 255 470	90 947 943 529
CORRECTION OF BUDGETARY IMBALANCES GRANTED TO THE UNITED KINGDOM	-315 228 369	- 128 002 984
GROSS REDUCTION IN THE ANNUAL GNI-BASED CONTRIBUTION GRANTED TO THE NETHERLANDS AND SWEDEN	4 142 308	- 3 247 773
SURPLUS AVAILABLE FROM PRECEDING FINANCIAL YEAR	1 796 151 821	2 253 591 199
BALANCES AND ADJUSTMENTS OF BALANCES BASED ON VAT AND GNI/GNP	-1 377 184 299	- 803 139 453
OTHERS SURPLUSES, BALANCES AND ADJUSTMENTS	-88 889 180	9 541 017
Total Own Resources	110 703 098 775	121 328 493 115



Procurement

1. Inherent nature and characteristics of the DGs policy environment and stakeholders

Summary:

Dg Budget has a limited size of the budget envelope which is repetitive with a limited type of expenditure concerning Office supplies and maintenance, communications and publications, training, missions, bank charges, purchase of financial information, experts and related expenditure and other internal procurement relating to IT and studies. There was one procurement procedures in 2010 concerning the supply of technical assistance services in the field of internal control and risk management

Key inherent risks insofar they impact on reasonable assurance (including limit and extent of its responsibilities and those of other stakeholders):

Examples:

- Procurement is highly regulated. Detailed rules exist and in-depth knowledge is provided via the use of standardised procedures and templates and also through experience
- DG Budget has adopted a centralized model for the management of its administrative expenditure, whereby only the Director General and, within certain limits, the Resources Director and the Head of Unit "Budgetary and Human Resources" may authorize expenditure.

Management mode/s:

Key figures:

Volume of contracts per year: (by supply/service and by type of procedures: open, restricted, negotiated and others)

Value of contracts

Contract period

Procurement

Awarded proc		Open proc.	Negotiated proc.	Restricted
2010	23.499.454	1		
2009	None			
2008	42.935.800	3	2	
2007	20.440.224	6		
2006	51.200.000	3	1	
2005	97.170	3	1	
2004	39.952.927	2	1	2

Framework Contracts are in general in "cascade" with a maximum duration of 4 years. All contracts concern "Services"

2. Management and control systems – the basis of the declaration of assurance	
Planning and selection process of contractors, including preventive controls	<p>Examples:</p> <ul style="list-style-type: none"> ➤ The procedures defined in the Vademecum of DG Budget are strictly followed with the aim of reinforcing sound financial management, promoting accountability and integrity of financial and operational actors. ➤ Before a contract is signed, contractors must show that they are not in one of the situations of exclusion specified in the Financial Regulation (e.g. bankruptcy, failure to pay tax or social security contributions, convicted of an offence concerning their professional conduct). Before each transaction is authorised, staff are automatically alerted by the computerised financial system if the Commission is aware of this or any similar problem. ➤ In general, the Heads of Unit at the origin of the expenditure (contract, invoice payment) give their agreement from a technical point of view, the so-called “conforme aux faits” and the Directors act as Operational Verifying Agents. An official from unit “Budgetary and Human Resources” checks the financial aspects (availability of appropriations, proposed budget item, conformity with legal commitment and recording of the transaction in the accounting system) and gives the “bon à payer”. The Director General or the Resources Director or the Head of Unit “Budgetary and Human Resources” sign both budgetary and legal commitments and payments. ➤ The management of these appropriations implies a certain number of calls for tenders and a fair number of contracts and payments (826 payments were made in 2009).
Communication and information	<p>Examples:</p> <ul style="list-style-type: none"> ➤ DG Budget' open calls for tender are published in its EUROPA website, allowing any interest party to access it. Links to the official journal are also posted on the website. Unsuccessful tenderers may request explanation according to the regulation. ➤ Contracts are registered on ABAC Contracts which is used to record also the related transactions. ➤ The budgetary execution follow up report and the Database envelope global report (technical assistance and administrative expenditure) is regularly prepared and reviewed in the management meetings.
Detective and corrective controls: Performance monitoring, and verification of payments and key milestones	<p>Examples:</p> <ul style="list-style-type: none"> ➤ A financial procedure is in place concerning the financial circuit: Every financial transaction requires at least two people to be involved (the "four eyes" principle). One person must initiate the transaction and a second person must verify it. Each person involved in the transaction has been nominated by the Authorising Officer to carry out the task and their names are recorded in the ABAC system. ➤ The responsible managers review the work of contractors in accordance with their contractual obligations and give the “conforme aux faits” ➤ Payment deadlines are closely monitored and followed.
3. Feedback which enables control activities to be optimized	
Verification that processes are working as designed	<p>Examples:</p> <ul style="list-style-type: none"> ➤ The analysis concerning the accounting risks in 2009 shown that these are very low thanks to the procedures in place, the relatively low number of transactions and the financial circuit. ➤ The results on the accounting quality revision file bi-annual checks, carried out by the accounting correspondent of DG Budget are very satisfactory.
High level management reporting and its role in identifying problem issues	<p>Examples:</p> <ul style="list-style-type: none"> ➤ The budgetary execution follow up report and the Database envelope global report (technical assistance and administrative expenditure) is regularly prepared and reviewed in the management resource meetings.