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PART 2/2

# REPORT FROM THE COMMISSION

## TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS

## 2017 Annual Management and Performance Report for the EU Budget

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# Section 2
# Internal control and financial management

## Introduction

The second section of this report focuses on the Commission's management of the EU budget, as well as of the European Development Fund and the EU Trust Funds, in 2017.

The Commission has further strengthened its internal control framework, based on international standards and best practices. The purpose is to move from a compliance-based system to a principle-based system so as to ensure a robust internal control while giving the Commission departments the necessary flexibility to adapt to their specific needs and circumstances.

**The financial management and control systems for the EU budget have improved considerably over time, which has also been recognised by the European Court of Auditors.** The main feature of the 2016 discharge process was that for the first time the European Court of Auditors, in its most recent statement of assurance[97], gave **a qualified rather than an adverse opinion on the legality and regularity** of the EU budget payments. The level of error dropped in all policy areas, enabling the overall level of estimated error to continue its downward trend. **The level of error was below 2% for about half of EU spending, and no material error was found in revenue.**

In addition, for the 10th consecutive year, the European Court of Auditors also gave a **positive ('clean') opinion on the EU annual accounts**.

Still, the Commission continues to improve its control systems. The ultimate goal is **cost-effective financial management** – protecting the EU budget by taking preventive and corrective action against errors and fraud, and keeping a proportionate balance between the costs and benefits of controls (including by simplifying procedures).

## Main achievements in 2017

Although 2017 was a transition year for the **implementation of the new internal control framework** as from 2018, **already one third of the Commission departments** have successfully done so already for the 2017 reporting year.

**Overall, all departments concluded that the internal control standards/principles were working well and implemented effectively**. However, the more nuanced assessment enabled flagging some needs to improve effectiveness in the implementation of specific principles or standards.

In terms of control efficiency, the **global average payment time** of the Commission departments has **steadily decreased** over the years and is now significantly **below 30 days**. The 2017 global average net payment time is 20.4 days.

The Commission is confident that the overall amount at risk **remains below 2 %**. In fact, the overall level of estimated error continues its downward trend in 2017, with **the estimated overall amount at risk at payment now even down to 1.7 % and the estimated overall amount at risk at closure down to 0.6 %.**

In terms of financial corrections and recoveries in 2017, the departments' **multi-annual control systems** enabled them to detect and correct EUR 897 million before payments and EUR 1 949 million after payments.

> *Both the overall amounts at risk at payment (1.7 %) and at closure (0.6 %) are estimated to be less than 2 % of the total relevant expenditure.*
>
> *The Commission departments' multiannual control mechanisms ensure an adequate management of the risks related to the legality and regularity of the transactions.*
>
> *The financial corrections and recoveries made over the subsequent years protect the EU budget overall.*

**All Authorising Officers by Delegation have provided reasonable assurance** on their control systems and financial management although, where appropriate, these were qualified with reservations. These reservations are a keystone in the accountability chain: they provide transparency on the challenges and weaknesses encountered, and on the measures to address them, while also providing an estimation of their financial impact.

Regarding the departments' 2017 Annual Activity Reports, the **financial impact of the reservations** on the management assurance **decreased** to EUR 1 053 million for expenditure (EUR 1 621 million in 2016) and to EUR 431 million for revenue (EUR 517 million in 2016).



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*On the basis of the assurances and reservations in the Annual Activity Reports, the College adopts this 2017 Annual Management and Performance Report for the EU budget and takes overall political responsibility for the management of the EU budget.*

The European Court of Auditors also monitors the Commission's **implementation of its recommendations.** The percentage of fully implemented recommendations was the **highest since** it started publishing these figures.

For details, see the following sections 2.1-2.8.

## The Commission's assurance model

The Commission has a strong financial governance set-up in place. The assurance chain as regards legality and regularity and sound financial management is represented in an integrated internal control and risk management model, where each governance level builds its assurance on previous levels (e.g. the three lines of defence).

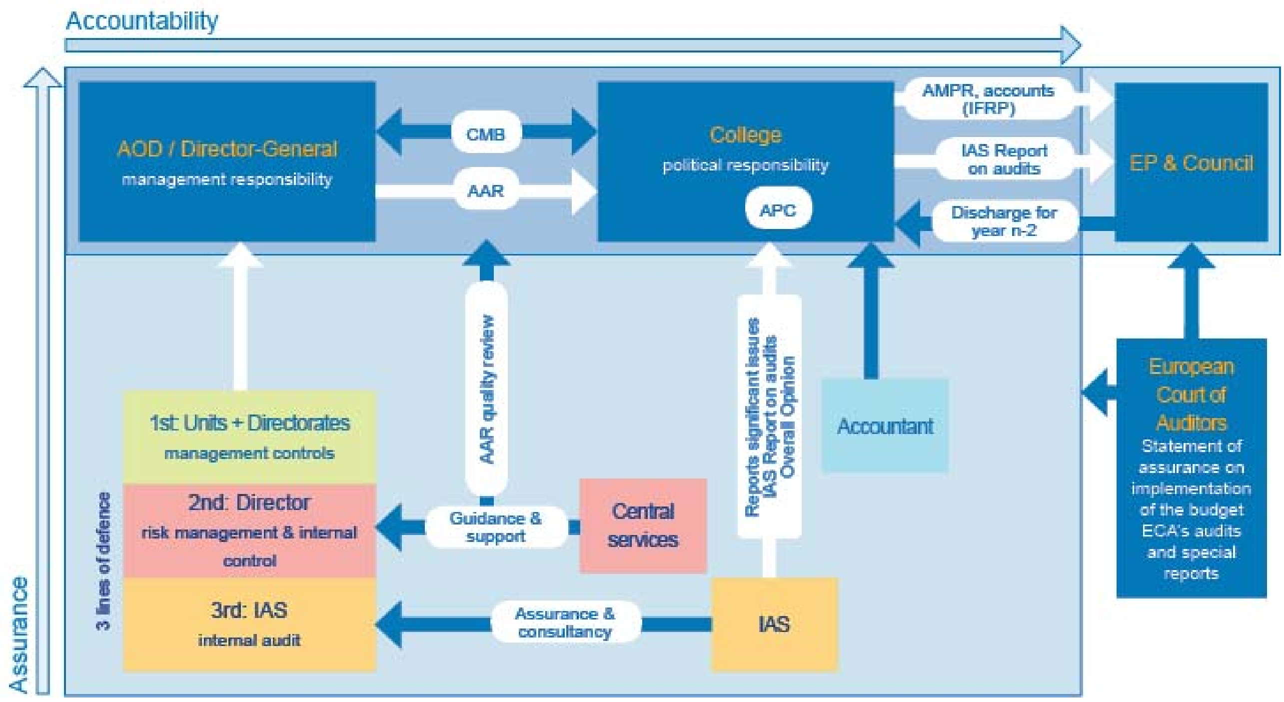



*Chart: European Commission assurance model*

## The Commission's control environment

Like the programmes themselves, the control model is also multi-annual. It ensures sound financial management through pursuing the five internal control objectives – including control effectiveness, efficiency and economy. In terms of effectiveness, the primary aim is to prevent errors (by implementing ex ante controls) while the complementary secondary aim is to detect and correct any errors that have remained (e.g. implementing results from ex post controls). Furthermore, lessons learned are used for adjusting future programmes (e.g. simplification of legislation) and/or control systems (e.g. making controls more risk-differentiated). During the course of the programmes' lifecycles, management reporting is done on a yearly basis, by the departments in their Annual Activity Reports and by the Commission as a whole in the Annual Management and Performance Report. This structure provides the College with reasonable assurance about the achievement of the internal control objectives. The illustration shows the relationship between the five internal control objectives and the types of controls.

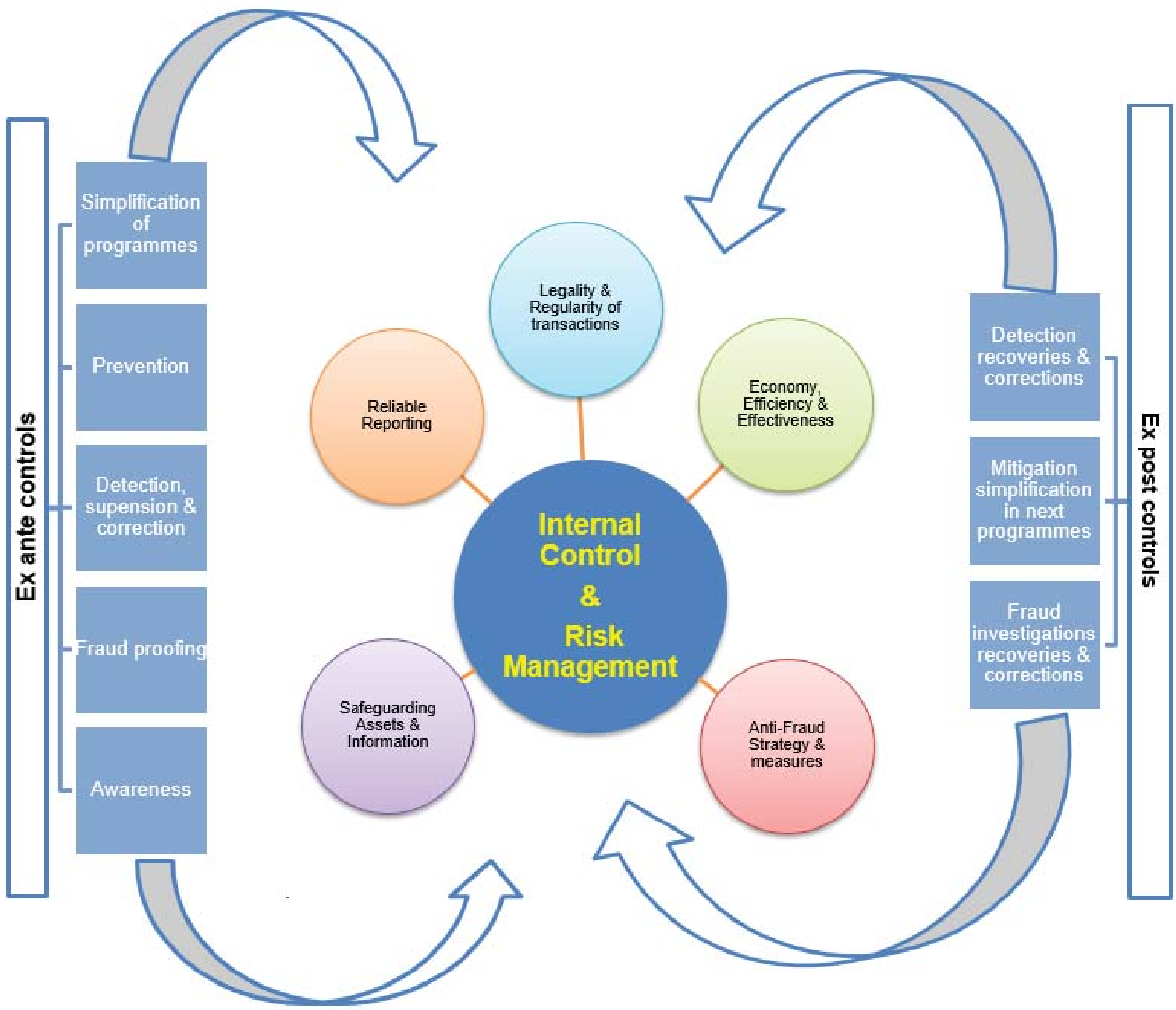



*Chart: Internal control and risk management activities*

## 2.1. Assessment of the internal control framework

The Commission applies a **decentralised model** of financial management. According to the Financial Regulation, the College of Commissioners acts as the Authorising Officer. The College delegates financial management tasks to the **Authorising Officers by Delegation,** who become responsible for their Commission department. These 50 departments comprise 6 'types' of entities: Directorates-General, Executive Agencies, Offices, Services, a Centre and a Task Force.

> *Within this framework and in accordance with the regulatory responsibility of the Authorising Officers by Delegation, each Commission department puts in place the organisational structure and internal control systems best suited to ensuring the achievement of its policy and operational objectives.*

At corporate level, the Commission has laid down an internal control framework which specifies the main principles for an effective internal control that should be in place in the respective Commission departments.

This internal control framework is based on the framework proposed by the Committee of Sponsoring Organisations of the Treadway Commission (**COSO**)[98].

The latter model has been revised to **move from a compliance-based system to a principle-based system**. **In 2017, the Commission updated its internal control framework accordingly[99]**. The purpose of this revision was to continue ensuring robust internal control while providing the necessary flexibility allowing departments to adapt their internal control environment in line with their specific characteristics and circumstances. This will be especially useful as it will facilitate making control systems more risk-based and cost-effective.

The management of each Commission department assesses at least once a year the effectiveness of the internal control systems and analyses the findings resulting from this assessment.

2017 was a transitional year for which the departments could opt to report either on the previous framework, based on internal control standards, or on the new internal control principles.

**In 2017, one third of the Commission departments[100] reported on the basis of the new internal control principles**.

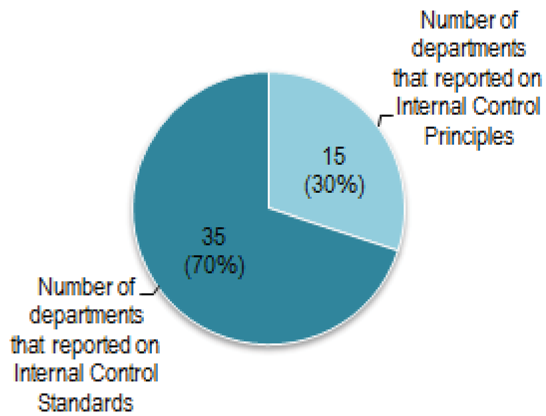



*Chart: Reporting on internal control in 2017*

**From 2018 onwards, all the departments will report on the new internal control principles**. The Commission has developed a specific methodology to ensure its consistent and effective implementation, in particular in the areas of monitoring, assessment and reporting[101]. The methodology is included in the 'Internal Control Framework Implementation Guide'. Further workshops will be organised in 2018.

### Conclusion

As shown in the graph below, the new internal control framework allows for **a more nuanced assessment**, i.e. being more transparent about possible further improvements even if the overall conclusion is positive. While in general the Commission departments concluded that their internal control systems are functioning effectively, 16 of them reported a need to improve effectiveness in the implementation of some specific principles or standards (or their underlying requirements/characteristics).

The main (sub) areas for improvement reported are ethics, staff allocation and mobility, control over IT and IT security, internal communication, and processes and procedures. Moreover, Commission departments which started to implement the new internal control framework feel that further improvement is needed concerning the internal control assessment.

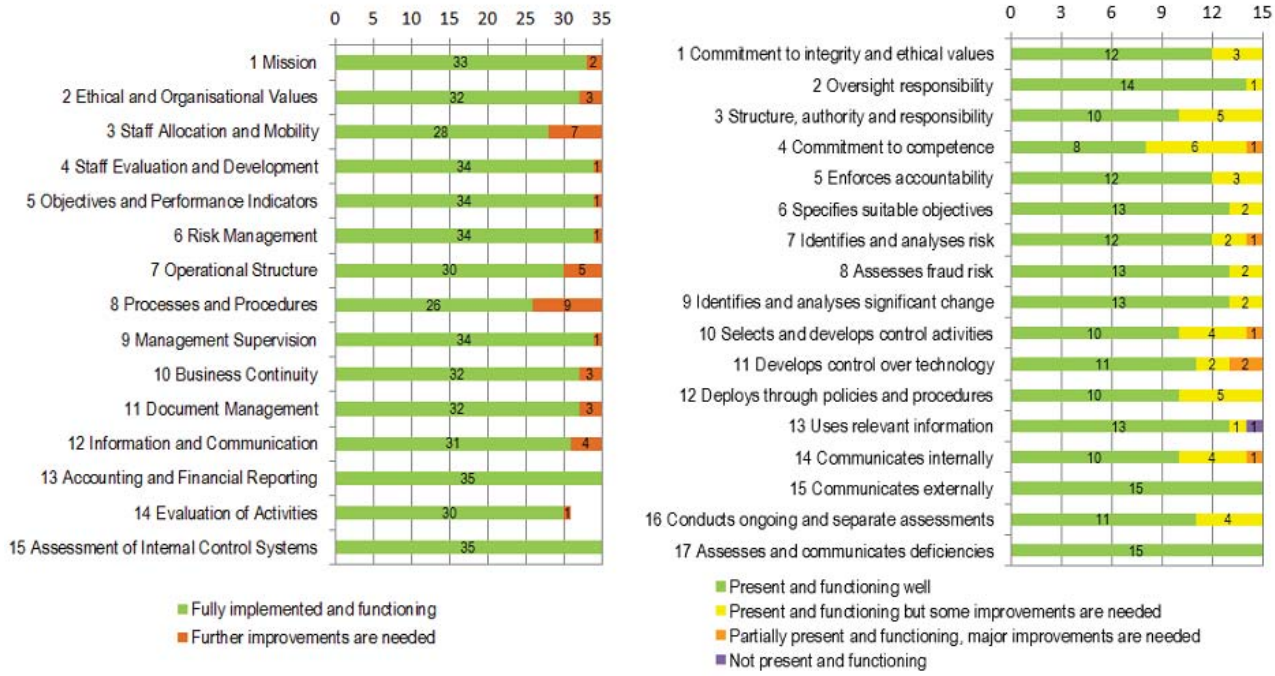



*Chart: assessment of the effectiveness of the internal control standards (on the left) and of the internal control principles (on the right*)

***<u>Validation of local systems</u>***

*The accuracy of the local financial systems, which feed the Commission's corporate financial and accounting system, is key to ensuring the overall reliability of the annual accounts. Therefore, in addition to the Commission departments' management assessment of their internal control system(s), the Accounting Officer validates their local financial systems.*

*Based on the analysis work done during 2017[102], <u>no weaknesses were identified in the design or implementation of the local systems that would indicate that they do not meet the validation criteria</u>. Furthermore, none of the weaknesses detected are likely to have a material impact on the annual accounts. There are no critical open recommendations or recommendations in this context whose implementation is delayed for more than 3 years[103].*

*The analysis has nonetheless resulted in a number of <u>recommendations</u> intended to improve the control environment in the authorising departments[104] and the accounting quality – which should address risks to the accuracy of the financial and regulatory management reporting[105].*

### 2.1.1 Efficiency of financial management

During 2017, the Commission continued its actions to generate **synergies and efficiencies** in financial management. The legislator, based on a proposal from the Commission, has agreed to **simplify the Financial Regulation** and 15 other sectoral legal acts starting in 2018-2019. This provides a simplified basis for preparing the post-2020 generation of funding programmes. In addition, a working group on simplification and flexibility gave all Commission departments the opportunity to share lessons learned from current financial rules, thereby further facilitating the preparation of the new spending rules for the post-2020 Multiannual Financial Framework (e.g. a simplified template regulation for the post-2020 funding programmes to increase their flexibility and interoperability).

Further progress was also made towards harmonising and **simplifying contractual and financial circuits.** Best practices in terms of setting up more efficient circuits were identified and a platform for exchange of practice among procurement experts was created.

A **significant progress** has been achieved in the field of **eProcurement, eGrants and SEDIA** (Single Electronic Data Interchange Area). The new governance headed by the Grants Procurement Steering Board now recognises specifically the role of the Budget department's Central Financial Service in providing legal support on eProcurement related issues and sharing this responsibility for eGrants with the Legal Service. The joint coordinated efforts with the business process owners and business domain owners during 2017 enabled launching the first stage of SEDIA already in the beginning of 2018. The central validation services in the Research Executive Agency are now available to all interested departments. The second phase is expected by mid-2018 with the launch of the new portal serving as a common single entry point for all tenderers/applicants.

While new programmes keep joining the eGrants domain, a promising progress has been booked in the field of the compliance track for eProcurement (in particular eSubmission) – with the Budget department continuing to push for maximum efficiency gains through coordinated development of workflows, business processes models and legal alignment. This should allow **efficient use of funds allocated to big IT projects,** such as the one for the external actions programmes (working name 'OPSYS'), and the **possibility to reuse IT solutions on a corporate scale**.

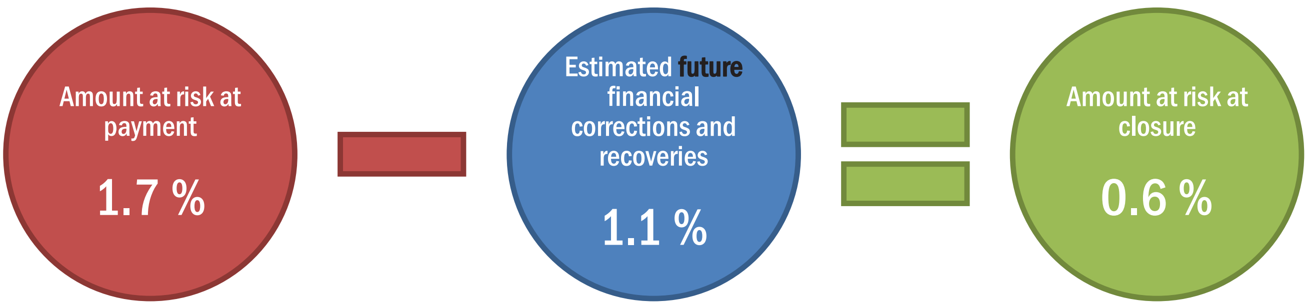
In terms of accounting transparency, guidance on the charge-back of services provided to other Institutions and bodies was adopted on 30 March 2017.

In terms of efficiency, the detailed data in Annex 6 shows that the global **average payment time** of the Commission departments **has steadily decreased** over the years and is below 30 days. The 2017 global average net payment time is 20.4 days. The share of the late payments has decreased as well, to 10.4 % in number and only 3.1 % in value for 2017.

### 2.1.2 Effectiveness of managing the legality and regularity risks

*Note: Definitions and underlying terminology referred to in this subsection are defined in Annex 3*

The Commission's spending programmes are multi-annual by design and, by implication, so are the related control systems and management cycles. While errors may be detected in any given year, they are corrected in subsequent years until after the end of the programmes' lifecycles.



## Control systems: preventive and corrective measures

The Commission is ultimately responsible for ensuring that the EU budget[106] is properly spent, regardless of whether the funds are implemented by the Commission departments[107] themselves (direct management; approx. 24 %), entrusted to entities (indirect management; approx. 8 %) or executed by Member State authorities (shared management; approx. 68 %)[108].

For 76 % of the budget, the Commission is predominantly dependent on the reliability of the management and control information as reported by Member States and other entrusted bodies based on their own control systems. At a secondary level, but without duplicating control layers, the Commission may perform audits to verify the reliability of the control systems, the control results and/or the management reports of those entities.

In all management modes, the Commission departments' control models involve both preventive and corrective measures:

- ***Preventive measures*** are taken *before* the payment. They typically consist of 'at source'[109] and other **ex ante**[110] controls carried out by the Commission before making a payment[111] by itself or before accepting the expenditure made by the Member State or other entrusted body. Also, possible interruptions/suspensions of payments to Member States in the event of serious deficiencies in the management and control systems have a preventive character. In addition, the Commission provides training and guidance to Member State authorities and to grant beneficiaries. For 2017, the amount of *preventive* financial corrections and recoveries was EUR 836 million confirmed and EUR 897 million implemented (see details in Section 2.3).
- ***Corrective measures*** are taken *after* the payment. They typically include **ex post**[112] controls carried out by the Commission such as financial corrections and recoveries of irregular expenditure declared by Member States or beneficiaries, after having made a payment or after having accepted the expenditure made by the Member State or other entrusted body. For 2017, the amount of *corrective* financial corrections and recoveries was EUR 1 826 million confirmed and EUR 1 949 million implemented (see details in Section 2.3).

While all financial operations are subject to controls before payment[113] (i.e. ex ante), the intensity in terms of frequency and/or depth of these controls depends on the risks and costs involved. Consequently, risk-differentiated ex ante controls usually take the form of desk reviews rather than on-the-spot controls (prohibitive costs/benefits balance for a full coverage). By contrast, ex post controls typically are performed on-the-spot (on a representative sample basis, or based on a risk assessment).

Sources and root causes of errors detected by the Commission or Member States through audit work are also taken into account when preparing future (simplified) legislation and when (re)designing controls in order to further reduce the level of error in the future. *See the point on the 'Preparation of the Next MFF Programmes' at the end of Section 2.2.*

## Control results for 2017: 'gross error – estimated corrections = net error' [114]

### Estimated amount at risk at payment

Due to the inherent limitations of the ex ante controls performed before the payments, it is possible that some errors[115] can only be detected by the ex post controls (e.g. some ineligible costs reimbursed through grants can only be verified in-depth by on-the-spot audits performed on the premises of the beneficiary). This implies that the Commission's payments may be affected by errors.

The Commission's overall amount at risk at the moment of payment, based on **the ('gross') detected[116] error rates**, is estimated to be **1.7 % of the 2017 expenditure** (see summary table and graph(s) below[117]) – which is even below 2 % already this year.

As a concept, the overall amount at risk at payment corresponds to the European Court of Auditors' estimated level of error. The Court has recognised that the Commission figures were in most cases broadly in line with its own estimates last year[118].

Compared to 2016, the main change is the **significant decrease in Cohesion, Migration and**



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**Fisheries**. In this policy area, the current 2014-2020 programmes are coming up to speed, which have an inherent lower risk given the newly introduced annual clearance of accounts and the 10 % retention mechanism on interim payments until all controls and corrective measures are implemented (see under 'progress made' in Section 2.2). Furthermore, in absolute terms, the 2017 relevant expenditure in Cohesion is some EUR 13 billion lower than in 2016. This is mainly due to less clearing of pre-financing compared to last year (which saw a high level of catching up and closure-related certifications and clearings for the 2007-2013 programmes) and a lower start of implementation for the Regional Development and Cohesion Funds compared to the same period of the previous programming period.

## Estimated future corrections

A sizeable proportion[119] of the errors detected will subsequently be corrected either by recoveries or by offsetting against future payments. As this may take some time, those corrections will often not be made in the same financial year as the related payment. Instead, the multi-annual control systems ensure that the corrections will take place during the subsequent year(s) in the programmes lifecycles.

*The **Research and Innovation family** as a whole had a multi-annual target of 4 056 audits of expenditure under the 7th Framework Programme, which has already been exceeded (4 324 audits completed by the end of 2017). The expenditure covered by the audits amounts to 64.2 % cumulatively[120]).*

*The **Humanitarian department**'s multi-annual audit strategy provides for ex-ante and/or ex-post financial audits: field audits are conducted during implementation of the projects while headquarters audits are carried out after the finalisation of the actions. The audit strategy ensures that every partner organisation is selected on average every 4 years, when a broad sample of grant and contribution agreements with each selected partner is audited.*

*For the activities under shared management with the Member States, the Commission cannot on its own reduce the level of error: the detection and correction of errors is first and foremost in the hands of the Member States. However, the Commission departments concerned also assume their share of the responsibilities. For example, in 2017 the **Agriculture department** carried out 128 audit missions and opened 31 desk audits in order to check that EU rules are complied with by the Paying Agencies when making payments to beneficiaries or recovering undue payments. Also 15 Certification Bodies were audited, to check the quality of their audit work and consequently consolidate assurance on the reliability of their opinion on legality and regularity of the expenditure. As a result of the conformity clearance procedure, the Commission imposes net financial corrections on the Member States by which they reimburse the EU budget the amounts corresponding to those corrections. These remedial actions are elements of the multi-annual control system which protects the EU's financial interests.*

*In the meantime, i.e. at the end of each financial year during the multi-annual management cycles, the Commission's Authorising Officers by Delegation duly disclose for full transparency each programme for which the residual error rate up to that time of reporting would not (yet) be lower than the materiality threshold (in most cases set at 2 %). See Section 2.2 on management assurance and possible reservations.*

The Commission departments have estimated the future corrections that they will be able to make for the 2017 expenditure. To some extent, these estimates are based on the average actual corrections made in previous years. However, this historical basis is not always relevant for the estimation of future corrections. In particular, the historic data may be affected by one-off events or related to previous programmes with different risk profiles than the current ones (which may have been simplified and have become less error-prone). For these reasons, the historical basis is adjusted or replaced as needed. In any case, the resulting estimates are conservative in order to avoid any possible overestimation of the corrective capacity.

The Commission's overall future corrections are estimated to be **1.1 % of the 2017 expenditure** (see summary table below[121]).

Compared to 2016, the decrease here is also mainly due to Cohesion's lower estimated amount at risk at payment (see above), hence lower estimated corrections as well.

*For an analysis of the actual financial corrections and recoveries made during the 2017 reporting year, see Section 2.3 on the protection of the EU budget.*

## Estimated amount at risk at closure

After deduction of the future corrections from the amount at risk at payment, the amount at risk at closure provides a forward-looking conservative estimate of the **('net') error** that could remain after all projected corrections will have been made by the end of the programmes' lifecycles.

The Commission's overall amount at risk at closure is estimated to be **0.6 % of the 2017 expenditure** (see summary table and graph(s) below[122]).

Compared to 2016, the decrease here is also mainly due to Cohesion's inbuilt mechanism for annual residual risks below 2% through required financial corrections in the annual assurance packages prepared by Member States (see above), plus to a lesser extent a reduction of the estimated amount at risk at payment in Agriculture as well (which has now even lower figures).

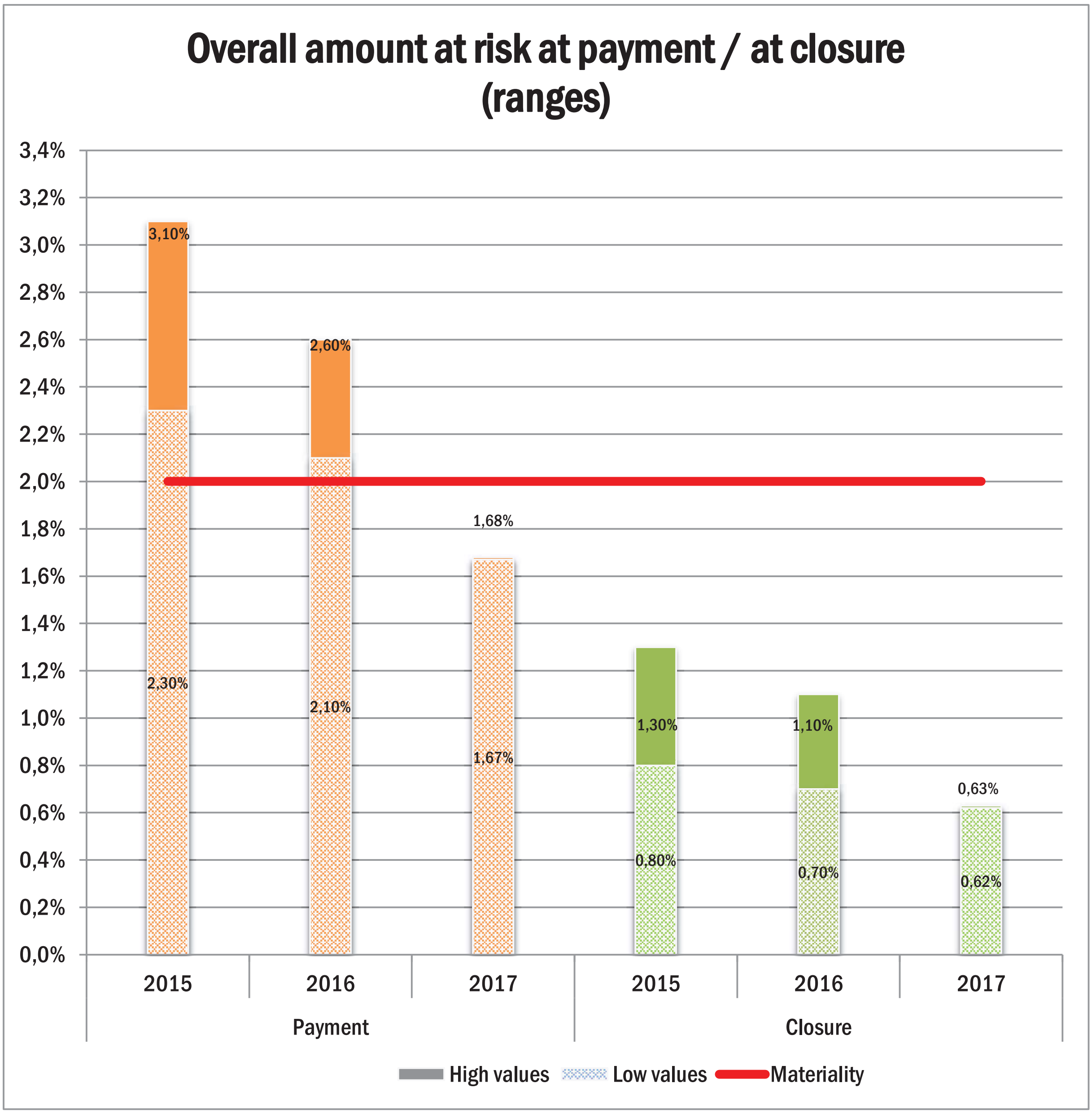
## Conclusion

**Over the last few years, the overall amount at risk at closure has decreased from 1.3 % to 0.6 %. See the graph(s) below.**

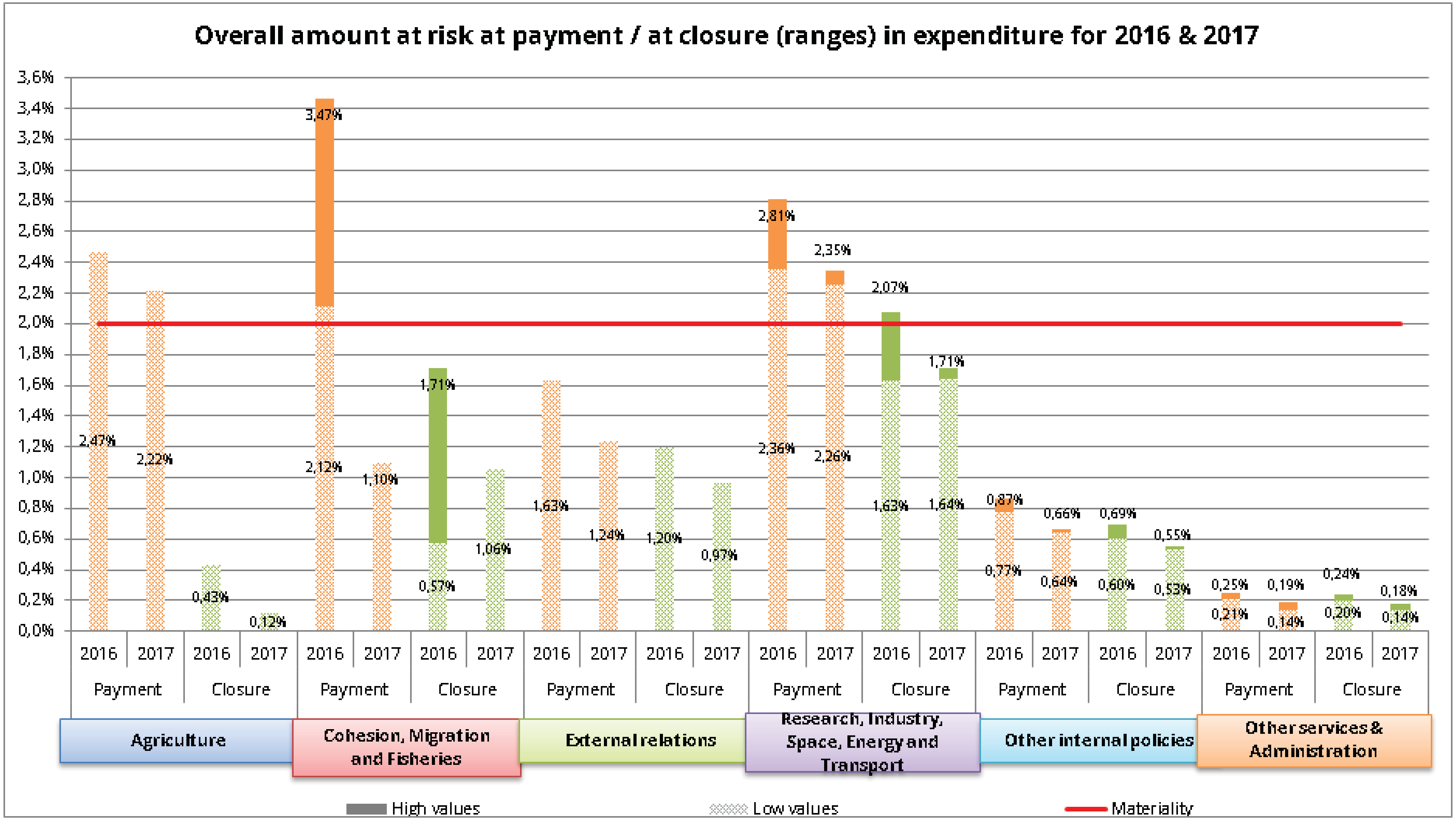
Given that the overall amount at risk at closure is estimated to be less than 2 % of the total relevant expenditure, the Commission departments' multiannual control mechanisms in general ensure an adequate management of risks relating to the legality and regularity of the transactions and ensure that the financial corrections and recoveries made over the subsequent years do protect the EU budget overall.

| Policy area | Total relevant expenditure (EUR millions) | Estimated amount at risk at payment | | Estimated future corrections | | Estimated amount at risk at closure taking into account future corrections | |
|---|---|---|---|---|---|---|---|
| | | lowest value | highest value | lowest value | highest value | lowest value | highest value |
| Agriculture | 55 957.0 | 2.22 % | 2.22 % | 2.10 % | 2.10 % | 0.12 % | 0.12 % |
| Cohesion, Migration and Fisheries | 32 533.8 | 1.10 % | 1.10 % | 0.04 % | 0.04 % | 1.06 % | 1.06 % |
| External Relations | 10 633.5 | 1.24 % | 1.24 % | 0.27 % | 0.27 % | 0.97 % | 0.97 % |
| Research, Industry, Space, Energy and Transport | 13 348.1 | 2.26 % | 2.35 % | 0.63 % | 0.64 % | 1.64 % | 1.71 % |
| Other Internal Policies | 6 065.0 | 0.64 % | 0.66 % | 0.11 % | 0.11 % | 0.53 % | 0.55 % |
| Other Services & Administration | 6 590.4 | 0.14 % | 0.19 % | 0.01 % | 0.01 % | 0.14 % | 0.18 % |
| Reconciliations | -116.4 | | | | | | |
| **TOTAL 2017** | **125 011.4** | **1.67 %** | **1.68 %** | **1.05 %** | **1.05 %** | **0.62 %** | **0.63 %** |
| *TOTAL 2016* | *137 127.9* | *2.13 %* | *2.62 %* | *1.48 %* | *1.55 %* | *0.65 %* | *1.07 %* |

*Table: Overall estimated amount at risk at payment / at closure (ranges, in % of relevant expenditure). See details in Annex 2-A and definitions in Annex 3*




*Graph: Overall estimated amount at risk at payment / at closure (ranges, in % of relevant expenditure). See details in Annex 2-A and definitions in Annex 3.*




*Graph: Overall estimated amount at risk at payment / at closure (ranges, in % of relevant expenditure) – per policy area. See details in Annex 2-A and definitions in Annex 3.*

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## 2.1.3 Cost effectiveness of controls

One of the objectives of the Commission is to ensure cost effectiveness when designing and implementing the management and control systems. The departments' control systems are aimed at preventing, identifying and correcting errors, but should also have a **reasonable cost** compared to the funds managed. Therefore, control strategies should be **risk-differentiated**, in other words they consider a higher level of scrutiny and/or frequency in riskier areas, and a lower level in low-risk areas.

In 2017, all 50 Commission departments have duly[123] assessed the cost effectiveness and the efficiency of their own control systems. **For the second year, all Commission departments concluded affirmatively that overall their controls are cost-effective and efficient.**

In addition, where the funds are managed by the Member States' authorities or entrusted to other entities, the available information on the cost of controls borne by those authorities and entities has been reported separately by the departments concerned[124].

Besides the costs of control, nearly all departments reported also on benefits of controls. Some of them were able to quantify them in monetary terms on the basis of rejections of ineligible costs, corrections, recoveries. Beyond contributing to lowering the net error rates, other benefits of well-designed control systems include better value for money and reduced risk of fraud.

Leaner, less burdensome and less costly controls were achieved, in particular through more automated reporting, elimination of redundant workflows, more proportionate controls for low-risk transactions and more extensive use of simplified cost options[125].

The Commission's reported costs and benefits of controls vary quite substantially between departments. This can be explained by a number of factors, in particular: (i) the different degrees of complexity of the programmes managed; (ii) the volumes and amounts to be processed (i.e. processing a high number of low-value transactions is more labour-intensive); (iii) the specific risk profiles of the programmes managed; and (iv) possible diseconomies of scale for certain smaller programmes. Therefore, a simple comparison between the quantifiable aspects reported by the departments would be of limited value.

To ensure that controls remain cost-effective over time, the vast majority of departments have reviewed their control systems at least once during the past 3 years. As a result of such reviews in 2017, 22 departments have adapted or will adapt them by re-directing the control resources towards more stringent controls where needed while having leaner and less burdensome controls where appropriate. 11 departments concluded that no control changes were needed. Of the 17 departments that did not do a system review in 2017, 12 had nevertheless reviewed it already in 2016.

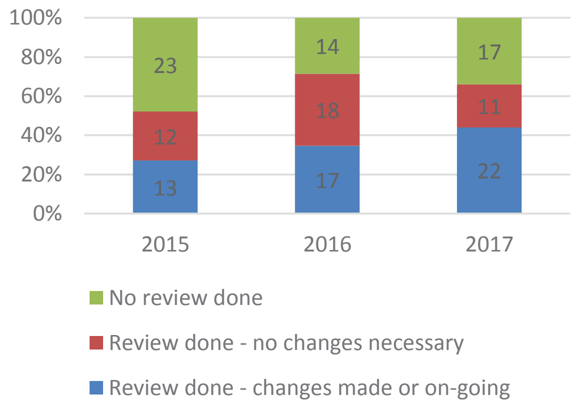


*Chart: Review of control strategies in 2015-2017. Source: 2015-2016 Annual Management and Performance Reports for the EU budget*

The Commission continues its efforts to further improve the cost effectiveness of controls. In this respect, following a 2017 audit by the Internal Audit Service, the Budget department is reviewing its guidance for the estimation, assessment and reporting on the cost effectiveness of controls with a view to simplify them.

Moreover, for the **next spending programmes**, the legislative financial statements (annexed to the legislative proposals) will justify why the proposed management mode(s), funding implementation mechanism(s) and payment methods are considered to be the most appropriate solutions – not only in terms of the policy/programme objectives but also in terms of **balancing three of the internal control objectives, i.e. fast payments, low errors and low cost of control**.

### 2.1.4 Anti-fraud strategies

The EU and the Member States have a mandate to counter fraud and any other illegal activities affecting the financial interests of the Union[126]. The Commission implements the EU budget in cooperation with the Member States, in compliance with relevant Union legislation and the principles of sound financial management[127]. The budget is implemented in compliance with effective and efficient internal control, which includes the objective of prevention, detection, correction and follow-up of fraud and irregularities[128].

Within this legal framework, the **European Anti-Fraud Office (OLAF)** plays a key role in protecting the EU's financial interests from fraud. In 2011 the Commission adopted its current anti-fraud strategy under the lead of the **European Anti-Fraud Office**. The **Commission Anti-Fraud Strategy** provides a policy framework for the prevention, detection, investigation and reparation of fraud at the level of the Commission and for the good functioning of the Commission departments in their management responsibilities for the protection of the financial interests of the EU.

**The Commission Anti-Fraud Strategy requires every Commission department to develop, implement and regularly update when necessary its own anti-fraud strategy for the policy area that they are responsible for. They have fulfilled this task as presented in the table below.**

The Commission has used the opportunity of its proposals for the Union's long-term spending plan after 2020 to examine anti-fraud approaches across different EU policies and to boost anti-fraud measures where appropriate, so as to protect the European taxpayer in the best way possible.

To that end, the **European Anti-Fraud Office** is working in cooperation with other Commission departments on an evaluation and an update of the Commission Anti-Fraud Strategy. In preparation, all departments have been asked for a fresh fraud risk assessment. Several have used that occasion to update their own anti-fraud strategies; that way, the update exercise at the corporate level has already benefitted the Commission's fight against fraud. New actions likely to be included in the update of the Anti-Fraud Strategy at Commission level will aim at:

- stronger coordination of Commission-wide anti-fraud policies;
- gathering more ample information on fraud patterns threatening the Union's financial interests, for instance through improving information technology tools and databases;
- strengthened anti-fraud controls in the areas of customs and value-added tax.

The department services concerns took immediate action to address the weaknesses identified by the Internal Audit Service as regards the planning, management and coordination of fraud prevention and detection activities in the traditional own resources. These departments set up improved cooperation mechanisms, notably a strategic steering function of the European Anti-Fraud Office (OLAF), the Taxation and the Budget departments to ensure enhanced prevention and detection of fraud regarding traditional own resources.

*The **Structural Reform Support Service** is a recently created service within the Secretariat-General. Its mission is to help Member States to address the implementation of structural reforms by offering tailor-made expertise and practical technical support.*

*Since April 2016, the Structural Reform Support Service has a formal administrative organization; in July 2017, it adopted its **first Anti-Fraud Strategy**, based on the methodology provided by **the European Anti-Fraud Office**. The Service works in difficult funding conditions, characterised by geographic decentralisation and a complex legal and political working environment, as well as time pressure and reliance on technically specialised staff. With its Anti-Fraud Strategy, geared to spreading and deepening anti-fraud know-how among staff, the Service ensures that tax-payers' money is spent strictly on the pressing needs served by it.*

| Year of latest update of the departments' anti-fraud strategies | 2017 | 2016 | 2015 | 2014 or before | Total |
|---|---|---|---|---|---|
| Number of Commission departments | 20 | 11 | 11 | 8 | 50 |

*Table: Anti-Fraud Strategies updates by Commission departments. Information from the Annual Activity Reports*.

In the context of the protection of the Union's financial interest, the European Anti-Fraud Office (OLAF) has a unique role to conduct independent investigations into fraud and corruption involving EU funds and to develop EU policies to counter fraud.

EU funds are not only spent by the EU institutions, bodies, offices and agencies, but to about 74 % through shared management, i.e. at local, regional and national levels in the Member States. This raises the level of complexity substantially. The EU programmes and projects often involve actors – contractors and subcontractors and their staff – from EU, Member States, third countries and international organisations. This makes the prevention and early detection of fraud a significant challenge, also because the applicable rules on financial management are numerous and often complicated.

Regulation (EU, EURATOM) No 883/2013 concerning investigations conducted by the European Anti-Fraud Office empowers the Office to conduct external administrative investigations at national level and internal administrative investigations within the EU institutions and bodies, wherever the EU's financial interests are at stake, as well as internal investigations concerning the discharge of professional duties. In that respect, the European Anti-Fraud Office plays an important role in guaranteeing the integrity of EU staff, a necessary precondition for the EU institutions to function efficiently.

At the conclusion of an investigation, the Office may issue recommendations to be followed-up by the relevant EU or national authorities. Such recommendations may be of different nature: financial, to seek the recovery of defrauded EU funds or to prevent additional amounts from being disbursed, judicial, to take judicial action, disciplinary, to take disciplinary action against a specific staff member or administrative, to address any weaknesses in administrative procedures.

**The European Anti-Fraud Office (OLAF) is able to detect and investigate complex fraud schemes across Europe and beyond. A number of large scale investigations have been closed in 2017.**

OLAF investigations ranged from major undervaluation fraud cases where fraudsters made profit from declaring falsely low values for goods at import in the EU, to cases where OLAF tackled organised crime groups defrauding funds destined for agriculture, or cases where investigators uncovered fraud in large infrastructure projects.

**OLAF'S investigative performance in 2017:**

- OLAF concluded 197 investigations, issuing 309 recommendations to the relevant national and EU authorities;
- OLAF recommended the recovery of over EUR 3 billion to the EU budget;
- OLAF opened 215 new investigations, following 1111 preliminary analyses carried out by OLAF experts

On 2 October 2017, the Commission adopted the evaluation report on Regulation 883/2013 governing the investigative activities of the European Anti-Fraud Office. The added value of the European Anti-Fraud Office's investigations and their continued relevance in the context of the establishment of the European Public Prosecutor's Office were confirmed by the evaluation. The Commission has proposed in 2018 further improvements to the legal framework for the European Anti-Fraud Office's investigations, driven by the on-going steps to establish the European Public Prosecutor's Office by the end of 2020 (at the earliest) and by the findings of the evaluation of Regulation 883/2013.

## Early Detection and Exclusion System (EDES)

The Early Detection and Exclusion System (EDES), set-up to strengthen the protection of the EU's financial interests, aims at ensuring:

- the early detection of economic operators representing risks to the EU's financial interests;
- the exclusion of unreliable economic operators from obtaining EU funds and/or the imposition of a financial penalty;
- the publication, in the most severe cases, on the Commission's website of information related to the exclusion and/or the financial penalty, in order to strengthen the deterrent effect.

EU institutions, agencies and bodies can only decide to impose sanctions on unreliable economic operators after obtaining a recommendation from a centralised panel. The Early Detection and Exclusion System (EDES) Panel assesses cases where there is no final judgment or final administrative decision. It has no investigative powers. In principle, the panel bases its assessment on facts and findings resulting from audits performed under the responsibility of the competent Commission department or investigations conducted by the **European Anti-Fraud Office**.

The cases brought to this **Panel** are selected based on the exclusion situations listed under Article 106(1) c) to f) of the Financial Regulation, which are:

- grave professional misconduct;
- fraud, corruption, participation in a criminal organisation, money laundering or terrorist financing, terrorist-related offences or offences linked to terrorist activities;
- significant deficiencies in complying with main obligations in the performance of a contract financed by the budget;
- irregularity.

This does not take into account the cases of Article 106(1) (a) and (b) which corresponds to cases of bankruptcies and non-payment of taxes and social security contributions which are however included in the EDES database (around 300 cases a year).

Since 1/1/2016, 37 cases have been sent to the secretariat of the Panel of which:

- 27 recommendations adopted by the Panel (included 3 for non-exclusion);
- 6 replies of the Panel;
- 3 withdrawal of cases by the requesting authorising officer concerned;
- 1 case suspended.

So far, 19 decisions have been taken by authorising officers (included 3 decisions not to exclude).

In 12 cases, the publication of the exclusion was decided (2 publications are suspended due to the lodging of an action before the Court of Justice).

More particularly, in 2017, 11 Panel cases, each involving one economic operator, were referred to it through its permanent secretariat by authorising officers. In addition, 4 cases sent to the permanent secretariat in 2016 were referred to the Panel in 2017, once the respective files had been completed.

Out of these 15 cases, the Panel issued a recommendation to exclude economic operators from EU funds in 9 occurrences. This was based on various legal grounds, including fraud and significant breaches with complying with main obligations in the implementation of a contract. The exclusion decisions taken so far by the authorising officers concerned follow in full the recommendation of the Panel. In all of these decisions, the sanctions were published. The publication was justified by e.g. the refusal of audits, the refusal to reimburse the misused EU funds, the non-replacement of a guarantee issued by a non-authorised guarantor, or the inherent the gravity of the violations.

In 3 cases, the Panel also recommended to register in the EDES database "*a person with power of representation, decision-making or control*" over the excluded operator, as linked to the exclusion. The purpose of this registration is to inform all authorising officers that these persons were personally involved in the related situations of exclusion of the economic operators concerned.

## 2.2. Management assurance and reservations

### Annual Activity Report reservations

In their 2017 Annual Activity Reports[129], **all 50[130] Authorising Officers by Delegation declared having reasonable assurance that: (i) the information contained in their report presents a true and fair view; (ii) the resources assigned to the activities have been used for their intended purpose and in accordance with the principle of sound financial management; and (iii) the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.**

The Authorising Officers by Delegation assessed the control objectives using all available information, in particular the control results. They considered any significant weaknesses identified and assessed their cumulative impact on the assurance, in both quantitative and qualitative terms, with a view to determining whether it was material. As a result, **30 Authorising Officers by Delegation declared unqualified assurance, while 20 declarations were qualified with a total of 38 reservations for 2017**. *See detailed tables in Annex 2-B.* These reservations affect each of the six expenditure areas but only the Traditional Own Resources segment of revenue. In all cases, the Authorising Officers by Delegation concerned have adopted action plans to address the underlying weaknesses and mitigate the resulting risks.

**Reservations are keystones in the accountability construction**. The qualification of the declarations of assurance in the Annual Activity Reports is an element of sound financial management. Reservations are – if possible – always accompanied by an action plan identifying actions to improve the internal control environment furthermore. Although most reservations are prompted by findings regarding the management and control of past payments, they have a positive preventive effect as well, as the action plans developed in relation to reservations aim to mitigate future risks and to strengthen the control systems. Reservations are also integral to accountability because they provide transparency as regards the challenges or weaknesses encountered, and an estimation of their financial impact.

Furthermore, **the number of reservations is not an indicator of the quality of financial management.** This is partly because there is no direct link between the number of reservations and the amounts at risk but also because some weaknesses trigger multiple reservations. For instance because they relate to programmes which are implemented by more than one department but also because the related weakness in 'new' reservations are a continuation of previous 'legacy' ones for the next programming period (e.g. in Cohesion, Migration and Fisheries, albeit now for fewer programmes in fewer Member States than in the previous period) and/or they cover several segments of the same programmes managed by several departments. This provides more precision and transparency.

When comparing the 38 reservations for 2017 to the 37 in 2016, 34 reservations are recurrent. However, **half of them concern the 'legacy' generation of the 2007-2013 programmes, which are phasing out by now**. Three previous reservations were lifted and four reservations are newly introduced. In addition, four recurrent reservations are maintained but have been reduced in scope and/or exposure. Also the Cohesion, Migration and Fisheries 'legacy' programmes have by now fewer programmes in fewer Member States under reservations. Five recurrent and three new reservations are entirely or partially 'non-quantified'[131]; i.e. with no financial impact for 2017.



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For the 34 **recurrent reservations**, that affect the 2017 expenditure or revenue, see the complete list in annex 2-B.

For the **reservations that have changed compared to 2016**, see the box below:

***Two reservations have been lifted***

- *The Human Resources department no longer qualified its declaration with the (reputational) reservation on the European Schools as the treasury management weakness is sufficiently mitigated.*
- *The Regional and Employment departments each lifted their 2000-2006 related (non-quantified) reservation, taking into account the reduced scope of the financial corrections or that the remaining pending court case has been ruled in favour of the Commission decision on the amounts of the financial corrections to be applied (case to be followed up as the Member State has appealed the decision).*

***Four new reservations have been introduced***

- *The Structural Reform Support Service made a new (non-quantified) reservation on non-assurance for the part its portfolio dispensed through grants.*
- *The Education, Audiovisual and Culture Executive Agency made a new (non-quantified) reservation related to the internal control weaknesses identified by the Internal Audit Service and the corresponding recommendations (one rated critical[132] and eight very important).*
- *The department for Home Affairs made a new (non-quantified) reservation referring to the weakness(es) in the internal control system of the European Asylum Support Office, which also appeared following the European Court of Auditors' qualified opinion and the decision of the European Parliament to postpone the discharge decision on this agency.*
- *The Neighbourhood department: new reservation on their high-risk segment of 'direct management grants' (similar as for the Development department, see below, and in line with the European Court of Auditors' recommendations).*

***Four recurrent reservations have been maintained, but with a reduced coverage (because of fewer segments with a Residual Error Rate above 2%)***

- *The Development department maintained its reservation, but reduced its coverage from four segments to one (regarding 'direct management grants').*
- *The Development department maintained its reservation on the programmes managed by the African Union Commission, but reduced its scope to the programmes involving a significant level of procurement.*
- *The Service for Foreign Policy Instruments narrowed the scope of its reservation to the Instrument for Cooperation with Industrialised countries only, i.e. excluding the Common Foreign and Security Policy.*
- *The Maritime department changed its quantified reservation on the European Fisheries Fund for 2007-2013*

*into a non-quantified reservation because there was no financial exposure in 2017.*

## Exposure (financial impact) from reservations for current and 'legacy' programmes

To ensure full transparency, the Authorising Officers by Delegation issue a reservation for each programme for which the Residual Error Rate up to the time of reporting would not (yet) be lower than the materiality threshold (in most cases set at 2 %).

This applies not only to the current programmes (2014-2020 generation), but also to the 'legacy' generation of programmes (2007-2013). Departments do not lift the 19 reservations of the latter even when the amounts at risk for these legacy programmes have decreased significantly.

This concerns four reservations covering six funds/programmes in shared management (the European Regional Development Fund, the Cohesion Fund, European Territorial Cooperation, the European Social Fund, the European Fisheries Fund, the Solidarity and Migration general programme), the Seventh Framework Programme for Research (eight reservations), the Competitiveness and Innovation Programme (four reservations), and Education, Culture & Youth programmes (three reservations) – which are all phasing out.

*The 'legacy' generation of the 2007-2013 programmes, which are phasing out by now, accounts for half of the number of reservations.*

Although the 'legacy' programmes account for half[133] of the number of reservations, their share in terms of actual financial impact is merely an eighth (12 %) of the overall exposure. See table below.

| Policy area | Total 2017 payments | Amount at risk at reporting = exposure |
|---|---|---|
| Agriculture | 55 872.0 | 769.7 |
| Cohesion, Migration and Fisheries | 39 234.0 | 134.6 |
| External Relations | 13 609.5 | 43.4 |
| Research, Industry, Space, Energy and Transport | 15 526.2 | 94.7 |
| Other Internal Policies | 6 983.5 | 10.4 |
| Other Services & Administration | 6 612.8 | 0.0 |
| Reconciliations | -39.2 | |
| Total | **137 798.8** | **1052.9** |
| *of which: current programmes* | | *924.3* |
| *of which: 'legacy' programmes* | | *128.6* |
| **Policy area** | **Total 2017 own resources** | **Amount at risk at reporting = exposure** |
| Own Resources | 121 832.2 | 430.7 |
| Total | **121 832.2** | **430.7** |

*Table: Amount at risk of the 2017 reservations (EUR millions). See details in Annex 2-B.*

**The Commission's overall exposure in terms of amount at risk at reporting for the 2017 expenditure under reservations is estimated at EUR 1.1 billion. The decrease compared to 2016 (EUR 1.6 billion – see graph below) is mainly due to lower exposure from the Agricultural and Cohesion funds.**

Among the reservations maintained for the current 2014-2020 programmes, four reservations were reduced in coverage (see box above). In Cohesion, Migration and Fisheries (three reservations), as the implementation of the current programmes is coming up to speed, the number of Member States and/or Operational Programmes under reservations



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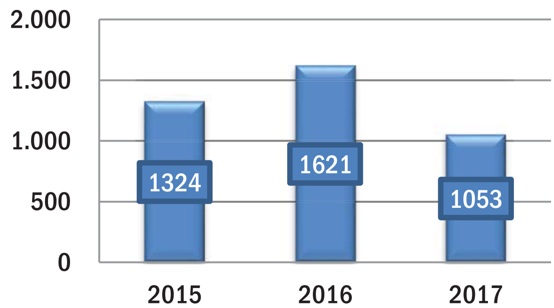
increased compared to last year, but appears to be lower than for the previous programming periods.

**The amount at risk at reporting for the Traditional Own Resources under reservation is estimated at EUR 0.4 billion (EUR 0.5 billion in 2016).** This decrease in exposure is due to the actions by the Budget department and the measures introduced on the UK imports since 12 October 2017 (Operation Swift Arrow), due to which the imports of undervalued textiles dropped significantly. This has led to a significant reduction of Traditional Own Resources losses in the UK in last months of 2017.




*Graph: Financial impact from quantified reservations (Amounts of expenditure in EUR millions).*

## Progress made in assurance building during 2017

Also during 2017, the Commission departments continued their efforts to strengthen their assurance building in the Annual Activity Reports. Some examples of achievements are:

- The **External Relations** departments for Development and Neighbourhood have further improved their 'segmented' assurance building for their portfolios, thereby better focussing their reservation on the relevant higher-risk segment (direct grants). Both departments thereby duly responded to the observations by the European Court of Auditors on their 2016 Annual Activity Reports.
- The departments concerned[134] now cover in a transparent and complete manner the **EU Trust Funds**[135] in their management reporting. They distinguish better between accountability for contributions from the EU budget and the European Development Fund paid into the EU Trust Funds, and for the transactions made as fund managers out of the EU Trust Funds (i.e. using the EU budget, European Development Fund and other donors' funds). See also in Annex 9.
- The **Research departments and executive agencies** are duly applying the specific (risk-adjusted) 2 to 5 % materiality threshold[136] provided for in the legislative financial statement accompanying the Commission's proposal for the Horizon 2020 sectoral legislation. Consequently, their declarations of assurance are not qualified with Horizon 2020 related reservations. This strategy has been recognised by the Legislative Authority[137] from the outset of this multiannual programme, in recognition of: (i) the inherent programme risks retained (e.g. grant delivery mechanism still predominantly based on reimbursements of eligible costs, targeting of riskier beneficiaries such as newcomers and small and medium-sized enterprises); and (ii) the control limitations set (ceiling on ex post controls, time-limit for extending systemic audit findings to the same beneficiary's other projects)[138].
- The **Cohesion Regional, Employment and Maritime departments** introduced an annual clearance of accounts and a 10 % retention from each interim payment by the Commission, which guarantees the effective 'recovery' (upfront) of any potential errors detected (up to 10 %) at the time of the acceptance of the accounts. This feature is now fully and consistently reflected in the calculation of their relevant expenditure and the related amounts at risk.
- Since its autonomy in 2016, the **Structural Reform Support Service** has made significant progress in setting up a mature system for internal control and management reporting which will enable appropriate management of its expanding budget. The action plan made in the light of the reservation in its Annual Activity Report (non-assurance for grants) and following an internal audit provided the way forward.

## The Internal Audit Service's overall opinion and emphasis of matter

In the context of its 2016 overall opinion, the Internal Audit Service had reiterated its emphasis of matter that departments relying on entrusted entities to implement parts of their policy and/or budget should strengthen their monitoring and supervision strategies and activities, while also duly taking into account the different nature, origins and (sometimes limited) mandates in this context.

Given inter alia the two reservations that concern issues in agencies (Education, Audiovisual and Culture Executive Agency, European Asylum Support Office), this remains a point of particular attention in the 2017 overall opinion as well. See more details in Subsection 2.4 and/or Annex 5. See also under developments for 2018 below.



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## Developments for 2018

Oversight on executive agencies (e.g. the Education, Audiovisual and Culture Executive Agency) and entrusted entities (e.g. European Asylum Support Office, African Union Commission) is challenging. Commission central services and departments will set up joint working groups to clarify and delineate the role of the parent departments' in supervising such bodies.

## Looking forward beyond 2018 and/or 2020

The new Financial Regulation will enter into force as from 2019 (some provisions even already in the second half of 2018). This provides a simplified basis for preparing the post-2020 generation of funding programmes.

In fact, the preparation of the post-2020 sectoral programmes is currently ongoing. Special attention is being given to maximising simplifications, synergies and efficiencies, risk-differentiated and cost-effective control systems. The aim is to achieve the policy/programme objectives and the internal control objectives, i.e. fast payments, low errors and low cost of control.

The European Court of Auditors announced in its 2018-2020 Strategy ('Fostering trust through independent audit')[139] its intention to benefit from the positive developments in the EU financial management and increase the added value of its annual statement of assurance. The ECA in particular wants to make better use of the work of other auditors and the information provided by its auditee on the legality and regularity of spending. In that context, the ECA published a background paper on a modified approach to the Statement of Assurance audits in the field of Cohesion policy[140]. The audit work is currently ongoing and its results will be reported in the ECA next annual report in 2018.



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## 2.3. Protection of the EU budget: financial corrections and recoveries

### Financial corrections and recoveries

An important consideration in implementing the EU budget is the need to ensure proper prevention or detection and subsequent correction of system weaknesses leading to errors, irregularities or fraud.

The Commission takes preventive and corrective actions as provided for in EU legislation to protect the EU budget from illegal or irregular expenditure.

Where preventive mechanisms are not effective, the Commission, as part of its supervisory role, is required to apply corrective mechanisms as a last resort.

**The primary objective of financial corrections and recoveries is to ensure that only expenditure in accordance with the legal framework is financed by the EU budget.**

The workflow of corrective actions is as follows:


A financial correction is confirmed as soon as it is accepted by the Member State or decided by the Commission. A financial correction is considered implemented when the correction has been applied and recorded in the Commission accounts, which means the financial transaction was validated by the responsible authorising officer in the following cases: deduction from the interim or final payment claim, recovery order and/or a de-commitment transaction[141].

| Fund | Total EU budget payments in 2017 | Financial corrections and recoveries confirmed in 2017 | | | % of payments of the EU budget | Financial corrections and recoveries implemented in 2017 | | | % of payments of the EU budget |
|---|---|---|---|---|---|---|---|---|---|
| | | Preventive | Corrective | TOTAL | | Preventive | Corrective | TOTAL | |
| ***Agriculture:*** | ***55 808*** | ***277*** | ***1 241*** | ***1 518*** | ***2.7%*** | ***275*** | ***1 404*** | ***1 679*** | ***3.0%*** |
| *EAGF* | 44 695 | 277 | 903 | **1 180** | *2.6%* | 275 | 1 073 | **1 348** | *3.0%* |
| *Rural Development* | 11 113 | - | 338 | **338** | *3.0%* | - | 331 | **331** | *3.0%* |
| ***Cohesion Policy:*** | ***35 417*** | ***9*** | ***505*** | ***515*** | ***1.5%*** | ***73*** | ***467*** | ***539*** | ***1.5%*** |
| *ERDF* | 16 853 | 9 | 237 | **246** | *1.5%* | 70 | 100 | **170** | *1.0%* |
| *Cohesion Fund* | 8 366 | - | 198 | **198** | *2.4%* | - | 250 | **250** | *3.0%* |
| *ESF* | 9 797 | - | 65 | **65** | *0.7%* | 2 | 21 | **23** | *0.2%* |
| *FIFG/EFF* | 401 | 0 | 4 | **5** | *1.2%* | 1 | 95 | **96** | *23.9%* |
| *EAGGF Guidance* | 0 | - | 1 | **1** | *n/a* | - | 1 | **1** | *n/a* |
| ***Internal policy areas*** | ***25 415*** | ***334*** | ***58*** | ***391*** | ***1.5%*** | ***334*** | ***46*** | ***380*** | ***1.5%*** |
| ***External policy areas*** | ***9 793*** | ***212*** | ***22*** | ***234*** | ***2.4%*** | ***212*** | ***31*** | ***244*** | ***2.5%*** |
| Administration | 9 656 | 3 | **0** | **3** | *0.0%* | 3 | **0** | **3** | *0.0%* |
| **TOTAL** | **136 089*** | **836** | **1 826** | **2 662** | ***2.0%*** | **897** | **1 949** | **2 845** | ***2.1%*** |

| Fund | Total EU budget payments in 2017 | Financial corrections and recoveries confirmed in 2017 | | | % of payments of the EU budget | Financial corrections and recoveries implemented in 2017 | | | % of payments of the EU budget |
|---|---|---|---|---|---|---|---|---|---|
| | | Preventive | Corrective | TOTAL | | Preventive | Corrective | TOTAL | |
| ***Agriculture:*** | ***55 808*** | ***277*** | ***1 109*** | ***1 386*** | ***2.5%*** | ***275*** | ***1 404*** | ***1 679*** | ***3.0%*** |
| *EAGF* | 44 695 | 277 | 896 | **1 173** | *2.6%* | 275 | 1 073 | **1 348** | *3.0%* |
| *Rural Development* | 11 113 | - | 213 | **213** | *1.9%* | - | 331 | **331** | *3.0%* |
| ***Cohesion Policy:*** | ***35 417*** | ***9*** | ***505*** | ***515*** | ***1.5%*** | ***73*** | ***467*** | ***539*** | ***1.5%*** |
| *ERDF* | 16 853 | 9 | 237 | **246** | *1.5%* | 70 | **100** | **170** | *1.0%* |
| *Cohesion Fund* | 8 366 | - | 198 | **198** | *2.4%* | - | **250** | **250** | *3.0%* |
| *ESF* | 9 797 | - | 65 | **65** | *0.7%* | 2 | **21** | **23** | *0.2%* |
| *FIFG/EFF* | 401 | 0 | 4 | **5** | *1.2%* | 1 | **95** | **96** | *23.9%* |
| *EAGGF Guidance* | 0 | - | 1 | **1** | *n/a* | - | **1** | **1** | *n/a* |
| ***Internal policy areas*** | ***25 415*** | ***404*** | ***58*** | ***462*** | ***1.8%*** | ***404*** | ***47*** | ***452*** | ***1.8%*** |
| ***External policy areas*** | ***9 793*** | ***210*** | ***22*** | ***231*** | ***2.4%*** | ***210*** | ***30*** | ***240*** | ***2.5%*** |
| Administration | 9 656 | 3 | 0 | 3 | *0.0%* | 3 | 0 | 3 | *0.0%* |
| TOTAL | 136 089* | 904 | 1 694 | 2 598 | *1.9%* | 965 | 1 949 | 2 914 | *2.1%* |

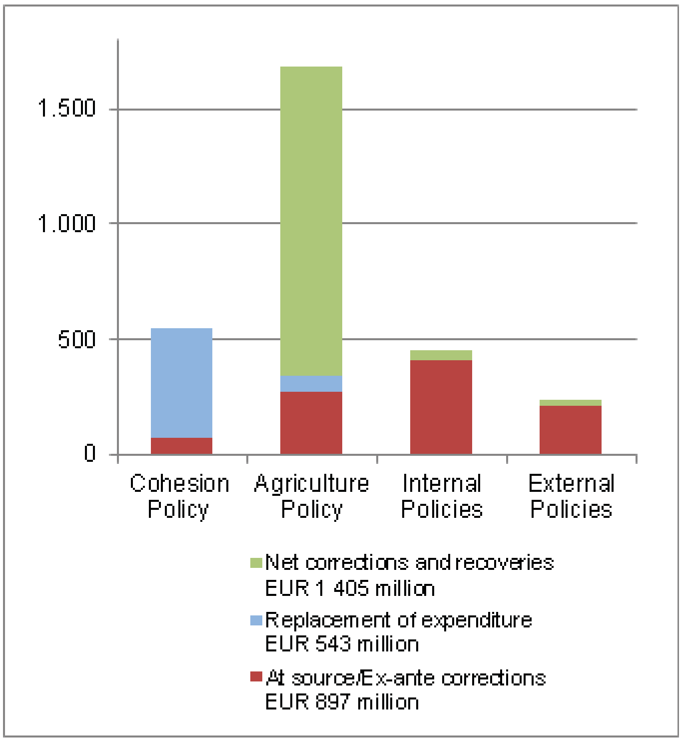
*Table: Financial corrections and recoveries overview for 2017[142] (EUR million); the preventive measures include the ex ante deductions and at source financial corrections, while the corrective measures cover the ex post recoveries, financial corrections and withdrawals.*

*It should be noted that due to the rounding of figures into EUR millions, some financial data in the table above may appear not to add up.*

** Excludes EUR 1 291 million paid out under the 'Special Instruments' heading.*

In 2017, the total financial corrections and recoveries amounted to EUR 2.7 billion confirmed or EUR 2.8 billion implemented. This amount covers corrections and recoveries made during 2017 irrespective of the year during which the initial expenditure had been made. More details can be found in Annex 4 'Protection on the EU Budget'.

## Types of financial corrections and recoveries in 2017 and cumulative results 2011-2017



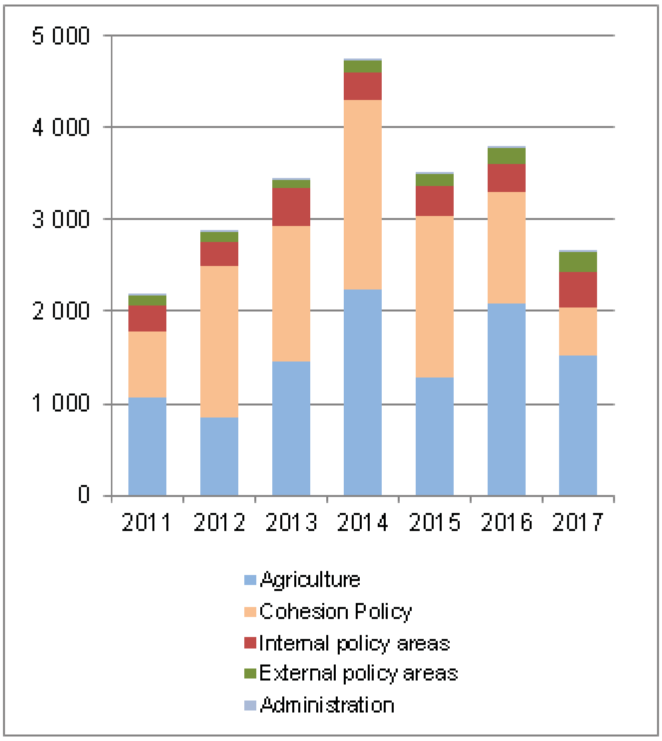



*Chart: Types of financial corrections and recoveries implemented in 2017 (EUR millions).*

*Chart: Financial corrections and recoveries confirmed 2011-2017 cumulative (EUR millions.)*

The Commission focuses more and more on preventive measures such as interruptions and suspensions with a view to better protecting the EU budget. This also serves as an incentive for the Member States to reduce irregular payments and apply corrections only as a last resort.

Net corrections leading to a reimbursement to the EU budget are characteristic for agriculture and rural development and for direct and indirect management.

For cohesion policy, net corrections are, up to the 2007-2013 programming period, the exception. They were applied in cases where Member States were not able to replace irregular expenditure with new expenditure. Under the legal framework for 2014-2020, the Commission shall apply net financial corrections, even if the Member State agrees to the corrections, if EU audits detect that a serious deficiency leading to a material level of risk in reimbursed expenditure remained undetected, uncorrected and unreported by the Member State. Otherwise if any of the regulatory conditions is fulfilled the Commission must apply financial corrections in the traditional way, meaning the Member State can re-use the funds if it accepts the corrections.

Cumulative figures provide more useful information on the significance of corrective mechanisms used by the Commission because they take into account the multi-annual character of most EU spending and neutralise the impact of one-off events.

For the European Agricultural Guarantee Fund (EAGF), the average correction rate for Commission financial corrections under conformity clearance of accounts for the period 1999 to end 2017 was 1.8 % of expenditure (all of which are net financial corrections) - see Annex 4, Section 2.4.

For the 2007-2013 European Regional Development Fund and European Social Fund, at the end of 2017 the combined rate of financial corrections, based on Commission supervision work only, was 1.9 % of the allocations made - see Annex 4, Section 3.4.2.

Overall, during the 2011-2017 period, the two average amounts (total financial corrections and recoveries confirmed and total financial corrections and recoveries implemented) were EUR 3.3 billion or 2.4 % of the average amount of payments made from the EU budget.



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## 2.4. Assurance obtained through the work of the Internal Audit Service (IAS)

The Commission departments also based their assurance on the work done by the Internal Audit Service (IAS). Annex 5 to this report includes more information on the assurance provided by the Internal Audit Service. A summary report of the internal auditor's work will be forwarded by the Commission to the discharge authority in accordance with Article 99(5) of the Financial Regulation.

The Internal Audit Service concluded that 95 % of the recommendations followed up during 2013-2017 had been effectively implemented by the auditees. Of the 359 recommendations still in progress at the cut-off date of 31 January 2018 (representing 20 % of the total number of accepted recommendations over the past 5 years), one was classified as critical and 133 as very important. Out of these 134 recommendations, 12 very important ones were overdue by more than 6 months at the end of 2017, representing 0.7 % of the total number of accepted recommendations of the past 5 years. The follow-up work by the Internal Audit Service confirmed that recommendations are overall being implemented satisfactorily and the control systems in the audited departments are improving.

The Internal Audit Service continued to carry out performance audits in 2017 as part of its work programme in response to the Commission's move towards a performance-based culture and greater focus on value for money.

(i) As regards governance and oversight arrangements, following the administrative reform of 2000, the Commission made significant advances in strengthening its accountability, responsibility and assurance building processes. The decentralised model of financial management is well understood and embedded in the culture of the organisation and clear accountability instruments are in place together with a robust assurance building process. Furthermore, in October 2017 the Commission adopted a Communication on governance in the European Commission. Nevertheless, the IAS identified the need for proportionate improvements at the corporate level, in particular as regards risk management and more general aspects of the current governance arrangements, including IT governance.

As regards performance in other areas:

- on human resources management, the IAS concluded that the DGs and Executive Agencies have taken adequate measures to manage the human resources challenges they face, but also identified significant areas for improvement as regards strategic human resources management (DG HOME and EACEA) or the allocation of human resources (DG HOME and DG JUST);
- on IT management processes, several IT audits concluded that there is room for improving the effectiveness of IT security in the Commission in specific areas at corporate or operational (DG ENER, OLAF) level.
- on the production process and the quality of statistics not produced by Eurostat, the Internal Audit Service concluded that the framework currently in place in the Commission is not robust enough to ensure that the quality of statistics not produced by Eurostat used by the departments to support their key policies and report on their performance is of a satisfactory quality overall.

(ii) Concerning performance in implementing budget operational and administrative appropriations, the Internal Audit Service did not identify significant performance weaknesses in the area of directly managed funds. However, for indirectly managed funds, several audits focused on the supervision arrangements in place in the departments revealed significant performance issues (e.g. lack of a clearly defined supervision strategy for Shift2Rail (S2R) by DG MOVE, DG DEVCO's monitoring and supervision of the operational performance of the international financial institution's (IFIs) entrusted with the management of investment facilities)). On shared management, several audits assessed programme and project management processes and revealed several significant performance weaknesses some of which may endanger the achievement of the policy objectives (e.g. the consistency, effectiveness and timeliness of the operational programmes amendment process by DGs REGIO, EMPL and MARE, through which Member States can re-direct the delivery mechanisms for implementing the operational programmes).

In addition, the Internal Audit Service issued limited conclusions on the state of internal control to every department in February 2018 based on its audit work undertaken between 2015 and 2017. These conclusions were intended to contribute to the 2017 Annual Activity Reports of the departments concerned. The conclusions draw particular attention to all open recommendations rated 'critical' or the combined effect of a number of recommendations rated 'very important'. In four cases (DG CLIMA, DG DEVCO, SRSS and EACEA) the Internal Audit Service stated that the department concerned should duly assess if they require the issuing of a reservation in the respective Annual Activity Report. In three cases (DG CLIMA, DG DEVCO and EACEA) the department issued such reservations in line with Internal Audit Service limited conclusions. In the case of the Structural Reform Support Service, the Internal Audit Service drew particular attention to the public procurement issues identified in an audit on financial management and indicated that the service should duly assess if these require a reservation in the Annual Activity Report. The service concluded that there was no basis for a financial reservation and no need for a reservation in the Annual Activity Report on reputational grounds as the reputational risks identified did not materialise. The Internal Audit Service agreed with this assessment.

As required by its mission charter, the Commission's internal auditor also submitted an overall opinion, which is based on the audit work in the area of financial management in the Commission carried out by the Internal Audit Service during the previous 3 years (2015-2017) and also takes into account information from other sources, namely the reports from the European Court of Auditors. Based on this audit information, the internal auditor considered that, in 2017, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the Authorising Officer by Delegation's Declarations of Assurance issued in their respective Annual Activity Reports.

In arriving at the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as these go beyond the amounts put under reservation. The overall amounts at risk are the Authorising Officers by Delegation's best estimation of the amount of the expenditure authorised not in conformity with the applicable contractual and regulatory provisions at the time of the payment in 2017. In their 2017 AARs, the DGs estimate the amounts at risk at payment. Taken together, these correspond to an overall amount below the materiality of 2 %, as defined in the instructions for the preparation of the 2017 Annual Activity Reports, of all executed payments in the Commission budget, the European Development Fund and the EU Trust Funds in 2017. These amounts at risk at payment in 2017 do not yet include any financial corrections and recoveries related to deficiencies and errors the DGs will detect and correct in the next years due to the multi-annual corrective mechanisms built into the Commission's internal control systems. Given these elements, the IAS considers that the EU budget is therefore adequately protected in total and over time.

**Without further qualifying the opinion, the internal auditor added an 'emphasis of matter', relating to the supervision strategies regarding third parties implementing policies and programmes, which is described in Annex 5 to this report.**



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## 2.5. Summary of conclusions on the work carried out by the Audit Progress Committee

The Audit Progress Committee (APC) has focussed its work on four key objectives set out in its 2017 and 2018 work programmes, namely: considering the IAS's audit planning; analysing the results of internal and external audit work to identify potentially significant risks, including where appropriate in a thematic manner; monitoring the follow-up to significant residual risks identified by audit work; ensuring the independence of the Internal Auditor and monitoring the quality of internal audit work.

The APC is satisfied as to the independence and quality of internal audit work and that the audit planning adequately covers the financial universe and continues to cover the key risk areas. In its Annual Report 2017-2018 it has drawn the attention of the College to the following issues in particular:

The Internal Auditor's overall opinion for 2017 is positive but qualified with regard to the management reservations as expressed in the DGs' AARs. It contains one emphasis of matter on 'supervision strategies regarding third parties implementing policies and programmes' which has already appeared in two successive Overall Opinions (2015 and 2016). The APC stressed that externalisation remains a key concern which the APC has highlighted on numerous occasions (see below).

The key cross-cutting issues highlighted in the Annual Internal Audit Report relate to governance, including IT governance, IT and HR management processes as well as supervision arrangements in the area of indirectly managed funds. Most of these findings have been discussed by the APC.

One critical recommendation was issued during the reporting period, addressed to the Education, Audiovisual and Culture Executive Agency (EACEA)[143]. Due to the criticality of the findings (one critical and eight very important recommendations) the APC has ensured that the follow-up on the recommendations is satisfactory and on track. Discussions have taken place with EACEA and its parent DGs as well as with DG BUDG and the Secretariat-General in three Preparatory Group meetings throughout January and February 2018 and at the APC on 7 March. The APC welcomed the substantial progress made towards implementation of the action plan but stressed that a cultural change is needed within the Agency to fully address the issues. The APC was informed that based on the IAS follow-up conducted between mid-February and mid-March 2018, sufficient progress has been made to partially mitigate the underlying risks and therefore the rating of the critical recommendation was downgraded to very important. The APC also encouraged the central services to continue and where appropriate further strengthen their role in providing guidance and support to executive agencies and their parent DGs, both in this specific case and more generally.

The IAS audit on the Commission's Governance/Oversight arrangements concerning Risk Management, Financial Reporting and the Ex-post verification/audit function, which was performed in response to the European Court of Auditors' recommendation issued in the context of its Special Report on Commission governance and at the invitation of the College, confirmed the robustness of the design of the decentralised accountability and assurance building process. The IAS has however flagged a series of incremental targeted improvements in particular in the areas of risk management and some aspects of the governance set-up. A dialogue between the Internal Auditor and the Secretariat-General and DG BUDG as auditees with regard to the finalisation of the action plan is ongoing. By its nature this audit report affects the institution as a whole and requires attention at the highest political level. The APC discussed the audit findings overall as well as several recommendations touching directly on the role and work of the APC. In this context the Internal Auditor confirmed that the APC Charter is fully compliant with the provisions of the new Financial Regulation. The APC's advice should help to contribute to the decision-making process leading to the finalisation of the action plan.

The IAS audit on performance of anti-fraud activities in the own resources and taxation areas identified significant weaknesses related to the planning, management and coordination of fraud prevention and detection activities in the traditional own resources area, which may lead to ineffective prevention and detection of fraud. In addition, issues of cross-cutting relevance related to the availability and management of anti-plagiarism tools were raised by the IAS audit report on H2020 project management in DG CNECT.

The APC followed-up the issues raised in its Annual Report 2016-2017 and continued to pay particular attention to the externalisation and performance themes:



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- in addition to the *externalisation*-related cross-cutting issues discussed in the context of the above-mentioned IAS audit report addressed to EACEA, the APC also discussed the IAS audit on DG MOVE's monitoring of the aviation and maritime security policies, including related working arrangements with the European Maritime Safety Regulatory Agency. The IAS concluded that there are significant weaknesses in DG MOVE's current system to monitor both aviation and maritime security policy (three very important recommendations). The APC was satisfied that DG MOVE has accepted all the recommendations and has prepared an action plan which the IAS considers satisfactory in addressing the identified risks. Concerning the IAS audit of the supervision on ITER in DG ENER which raised two very important issues and which the APC brought to the attention of the College in its last Annual Report, the IAS conducted a follow-up and concluded that one recommendation had been adequately and effectively implemented and for the second sufficient progress had been made to partially mitigate the risk and therefore the rating of the recommendation was downgraded to important;
- the APC continued to prioritise *performance related issues* in its work and discussed the IAS findings stemming from the audit on the production process and the quality of statistics not produced by Eurostat. The IAS concluded that the current framework for monitoring the quality of these statistics is not sufficiently robust to ensure that they are of a satisfactory standard. The APC was concerned about the lack of a complete picture of statistical production in the institution and stressed the importance of quality of data due to the increasing focus on performance issues both in the Commission and in the Parliament and the ECA. The APC noted the cross-cutting nature of the issues raised and decided to bring the report to the attention of the Corporate Management Board for further follow up;
- furthermore the APC followed-up on the implementation of the recommendations addressed to PMO[144] concerning roles and responsibilities, planning, monitoring and execution of the budget line of the OLAF Supervisory Committee which were flagged in the last APC annual report due to the residual financial and reputational risks. The recent IAS follow-up concluded that whilst one recommendation could be downgraded to important neither of the two very important recommendations has been fully and/or adequately implemented. The APC noted the ongoing detailed work by the PMO to implement the recommendations and that the remaining actions for both recommendations are expected to be completed by end of June2018. The APC welcomed that improved financial procedures and guidance have now been provided to OLAF Supervisory Committee members.

The Commission's management has drawn up satisfactory action plans to address the risks identified in the IAS's reports while for the audits concerning the Commission's governance and corporate IT governance the finalisation of the action plan is ongoing. All IAS recommendations issued in 2017 were accepted by the auditees except for 10 recommendations which were accepted only partially. These include one important recommendation on workload indicators relating to the audit on HR management in Innovation and Networks Executive Agency (INEA)[145], one important recommendation on the establishment of control plans relating to the audit on procurement under Instrument for Pre-Accession (IPA)[146] as well as the recommendations relating to the audit on the Commission's Governance/Oversight arrangements concerning Risk Management, Financial Reporting and the Ex-post verification/audit function (see above).

The number of long-overdue actions to address very important recommendations, which are the subject of close APC monitoring and where needed discussion with the auditees, has decreased over the reporting period (i.e. 12 at the cut-off date of 31 January 2018 compared to 18 at the same cut-off date in 2017).

The APC strengthened its follow-up to the recommendations of the European Court of Auditors. The first report on the state of play on the Court's recommendations was prepared by DG BUDG in June 2017 and a more detailed report in September 2017. On this basis the APC followed-up the Court's recommendations in a similar way as it does for the IAS's recommendations. The APC noted the added value of this follow-up work, and that the exercise undertaken as concerns recommendations issued in 2014 had contributed to ensuring the Commission is well-prepared for the Court's own follow-up exercise.



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## 2.6. Follow-up of discharge and external audit recommendations

The European Parliament adopted its discharge resolution for the financial year 2016 on 18 April 2018 after having examined in particular the Council's discharge recommendation and the reports of the European Court of Auditors'. The European Parliament also examined the Commission's 2016 Annual Management and Performance Report for the EU Budget, including information on the protection of the EU budget, the Annual Report on internal audits carried out in 2016, and the report on the follow-up of the discharge recommendations/requests for the financial year 2015. The Parliament also invited selected Commissioners and Directors-General for exchanges of views during the discharge procedure.

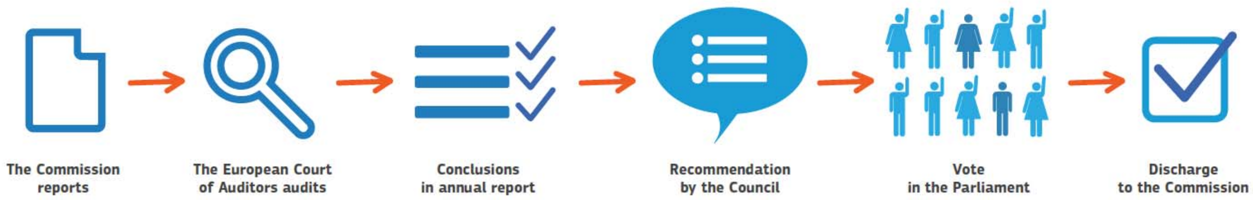
**In its discharge recommendation adopted on 20 February 2018, the Council welcomed the gradual reduction of the estimated level of error reported by the European Court of Auditors in its Statement of Assurance from 4.4 % in 2014 to 3.1 % in 2016 and the fact that the Court gave for the first time a qualified opinion rather than an adverse one.** However, the Council regretted that the overall error rate remained above the materiality threshold of 2 %. As has been the case for the last 9 years, the Council appreciated the clean opinion given by the European Court of Auditors on the reliability of the annual accounts.

The Parliament addressed concrete requests to the Commission on specific policy areas as well as on horizontal aspects such as performance and performance reporting, the use of financial instruments and related accountability issues, budgetary and financial management, and financial mechanisms supporting Union policies. In this context, Parliament especially highlighted the need for better aligning policy objectives, financial cycles and the legislative periods, of presenting the EU budget according to political objectives and priorities of the Multiannual Financial Framework (Budget Focused on Added Value Initiative) and of speeding up the delivery of programmes in various policy areas.

The Commission will, like every year, adopt a comprehensive report in 2018 on the follow-up of requests addressed by the European Parliament and the Council to the Commission in due time for the start of the discharge procedure for the financial year 2017.

The European Court of Auditors has also increased the number and scope of its Special Reports during the past few years. While the Court adopted 23 Special Reports in 2017, compared to 36 in 2016, the Commission is facing, overall, an increasing number of recommendations. It will continue to ensure an adequate follow-up of these recommendations, and report on the measures taken in its Annual Activity Reports. Moreover, the Commission is further improving its reporting on the implementation of recommendations to the Audit Progress Committee which performs certain monitoring activities under its mandate.

The European Court of Auditors monitors the Commission's implementation of its recommendations and provides feedback, helping the Commission to enhance its follow-up activities. In its 2016 Annual Report, the European Court of Auditors assessed the quality of the Commission's follow-up measures on the basis of a sample of 108 audit recommendations from 13 Special Reports published during the period 2010-2013. The European Court of Auditors noted that the Commission had implemented 67 % of the recommendations fully, 17 % were implemented in most respects and 11 % in some respects, while 5 % were not implemented. This outcome is broadly in line with previous years. However, the percentage of fully implemented recommendations was the highest since the European Court of Auditors started to publish these consolidated figures.



## 2.7. Conclusions on internal control and financial management achievements

All Authorising Officers by Delegation have provided reasonable assurance on their control systems and financial management although, where appropriate, qualified with reservations. These reservations are a keystone in the accountability chain: they provide transparency on the challenges and weaknesses encountered and on the measures to address them, while also providing an estimation of their financial impact.

*The 2017 Annual Activity Reports demonstrate that all Commission departments have put in place solid internal controls and provide evidence of the efforts undertaken to improve control efficiency and cost-effectiveness, further simplify the rules and adequately protect the budget from fraud, errors and irregularities.*

The Commission has produced a consolidated estimation of the amount at risk at closure, presenting the Commission management's view on the performance of both preventive (ex ante – before payment) and corrective (ex post – after payment) controls, over the multiannual control cycle.

Following ex ante and ex post controls, financial corrections and recoveries in 2017 amounted to EUR 897 million before payments and EUR 1 949 million after payments.

*On the basis of the assurances and reservations in the Annual Activity Reports, the College adopts this 2017 Annual Management and Performance Report for the EU budget and takes overall political responsibility for the management of the EU budget.*



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## 2.8. Organisational management

### 2.8.1 Robust governance arrangements

The Commission's governance system is characterised by a clear distinction between the operational responsibility of the Commission's managers for the day-to-day management of the budget and the overall political responsibility of the College of Commissioners for the management of the budget.

This decentralised system is supported by guidance and support from the central services and oversight from number of senior-level corporate governance bodies such as the Corporate Management Board and steering boards dedicated to IT governance, IT security and information management.

This system is based on a number of key principles underpinning good governance: a clear division of roles and responsibilities, a strong commitment to performance management, compliance with the legal framework, clear accountability mechanisms, a high quality and inclusive regulatory framework, openness and transparency, and high standards of ethical behaviour.

*In the Commission, the roles and responsibilities in financial management are clearly defined and applied. This is a decentralised approach with clear responsibilities with the aim of creating an administrative culture that encourages civil servants to take responsibility for activities over which they have control and to give them control over the activities for which they are responsible.*

The decentralised model was introduced as part of the administrative reform of 2000. The model is now well-established and has proved to be a robust approach, well adapted to the Commission's role and structure. It has evolved over time to adapt to a changing environment[147].

The Commission continues to keep the system under review and to make targeted improvements where justified. For instance, during 2017, **risk management has been stepped up through revised guidance to services and by greater oversight at the** corporate level (via the Corporate Management Board) and involvement of the IAS.

A number of other steps to strengthen its governance arrangements have been taken following the Special Report of the Court of the European Court of Auditors on 'Governance at the European Commission – best practice?'[148]. For instance,

- The Commission has **updated its internal control framework**/ to bring it in line with the 2013 framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) ; (see section 2.1 above).
- In October 2017, the Commission published an **updated statement of its governance arrangements.**[149]. This statement provides a clear and comprehensive description of the Commission's governance system.
- The Commission makes its **financial reporting more accessible** for citizens. For instance, the Integrated Financial Reporting Package provides a comprehensive overview of how the EU budget is supporting the Union's political priorities, and how it is spent in line with EU rules.
- The Commission's **Internal Audit Service has conducted its own audit on the Commission's governance and oversight arrangements and** has made a number of recommendations. The Commission is now following up on these recommendations, for example by clarifying the functions and responsibilities of the corporate bodies that play an increasingly important role in the Commission's corporate governance.
- **The Charter of the Audit Progress Committee (APC) was updated in April 2017**, to change the composition of the Audit Progress Committee, to simplify certain of its procedures and to improve the structure and readability of the document. The Charter establishes the role, purpose, responsibilities, membership and composition, values and operational principles, and reporting arrangements of the APC. One of the changes to the composition is the addition of a third external member.to provide fresh insights on audit and financial control issues.



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## 2.8.2 Reinforced Code of Conduct for Commissioners

All Members of the European Commission are required to follow the rules regarding ethics and integrity contained in the treaties and the Code of Conduct for Commissioners while carrying out their duties.

On the occasion of his 2017 State of the Union address, President Juncker announced a new Code of Conduct for Members of the Commission. The new Code entered into force on 1 February 2018. It puts the Commission at the forefront of ethics in public sector organisations. The modernised rules set new standards in Europe. The new Code of Conduct continues President Juncker's push for greater transparency since the beginning of his mandate and **extends the 'cooling-off' period for former Commissioners from 18 months to two years and to three years for the President of the Commission**. The modernisation goes further by setting clearer rules and higher ethical standards as well as introducing greater transparency in a number of areas.

## 2.8.3 Strengthened performance framework

A robust performance framework is essential for ensuring a strong focus on results. EU added value and the sound management of EU programmes. The performance framework of the EU budget is highly specified, scoring higher than any country of the Organisation for Economic Co-operation and Development (OECD) (measured using the standardised index for performance budgeting frameworks.)

The performance framework for the EU budget includes well-specified objectives and indicators **based on the Europe 2020 strategy and other political priorities**. It also takes into account the complementarity and mainstreaming of policies and programmes and the key role of the Member States in implementing the EU Budget.

**Objectives, indicators and targets are embedded in the legal bases of the financial programmes** and every year the Commission reports on them through the Programme Statements that accompany the draft budget. They provide key necessary for programme scrutiny and performance measurement.

To ensure resources are allocated to priorities and that every action brings high performance and added value, the Commission continues to implement its EU Budget Focused on Added Value initiative. Building on the 2014–2020 performance framework, it promotes a better balance between compliance and performance.

The performance reports produced by the Commission, including the Annual Activity Reports, the programme statements, evaluations and this Annual Management and Performance Report, together provide a wealth of information on the performance, management and protection of the EU budget. They explain how the EU budget supports the European Union's political priorities, the results achieved with the EU budget, and the role the Commission plays in ensuring and promoting the highest standards of budgetary and financial management.

The main vehicle of EU financial reporting is the Integrated Financial Reporting Package of the EU which comprises the consolidated annual accounts of the EU, the Annual Management and Reporting Package for the budget and the report on the follow-up to the discharge. The Integrated Financial Reporting Package provides the public with a comprehensive view of the financial and operational situation of the EU each year.

These reports allow the budgetary authority – the European Parliament and the Council - to take performance into account as a significant factor in deciding on the annual budget.

The Commission is proposing a significant reinforcement of the performance framework as part of the proposals for the programmes under the future Multiannual Financial Framework. For example, the indicators will be streamlined and improved.

In addition to implementing the performance framework for the EU budget, the Commission has also reformed and reinforced its own internal performance management framework – the Strategic Planning and Programming Cycle. As a result, **there is strengthened focus on results and better alignment between the Commission's activities and the political priorities.**

Under the new system, all Commission departments have produced Strategic Plans for the period 2016-2020, setting out how they contribute to the Commission's ten political priorities. Through these plans, departments define specific objectives and indicators against which their performance will be



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measured over a five-year period.

Annex 1 to this report provides a snap-shot of the current status for the impact indicators defined in the strategic plans.

The Strategic Plans also introduce a harmonised approach to measuring organisational performance in areas such as human resource management, financial management and internal control, and communication.

These strategic plans are supplemented by annual Management Plans setting out the outputs for the year and explaining how these contribute to the objectives.

The 2017 Annual Activity Reports have reported on the set of objectives and related indicators defined in the Strategic Plans and the outputs for 2017 in the Management Plans.

| | |
|---|---|
| Integrated Financial Reporting Package | • Consolidated Annual Accounts of the EU<br>• Annual Management and Performance Report for the budget<br>• Report on the follow up to the discharge |
| Other Reports | • General Report on the activities of the EU<br>• Annual Activity Reports of the Directorates-General<br>• Report on Budgetary and Financial Management |

*Table: Reporting and accountability chain in the Commission:*

## 2.8.4 Synergies and efficiencies

As explained above in section 2.1, the Commission continues to improve the efficiency of its operations and to harness the benefits from synergies between different parts of the organisation.

Major progress has been made in the area of financial management. The revised Financial Regulation will bring a considerable number of simplifications. Contractual and financial circuits are being simplified and harmonised, for example through a new platform establishing a single entry point for recipients and corporate support services (SEDIA). The Commission's proposals for the future Multiannual Financial Framework will also bring about a significant simplification of the rules for the EU financial programmes, reducing administrative burdening while still providing a high level of control.

The Commission's efforts to improve its organisational management go beyond financial management. The Court has reviewed[150] how the European Union institutions, bodies and agencies implemented the commitment made in the Interinstitutional Agreement of 2 December 2013 to cut 5 % of the staff in their establishment plans during the period 2013-2017. **The Court concluded that the Commission has succeeded in hitting the target of a 5 % staff reduction.**

This reduction has made it all the more necessary for the Commission to work efficiently given the wide range of challenges the EU is currently facing and the new tasks being given to the Union. The Commission's sustained efforts to improve efficiency and working methods in areas such as human resource management, information and communication technology, communication, logistics and events management will help to ensure that efficient use is made of scarce resources.