



Brussels, 3.6.2015  
COM(2015) 279 final

**REPORT FROM THE COMMISSION**  
**TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF**  
**AUDITORS**

**Synthesis of the Commission's management achievements in 2014**

## **1. INTRODUCTION**

This is the first Synthesis Report to be presented by the Commission which took up office on 1 November 2014. In line with the political priorities set out by President Juncker, the new Commission is pursuing a more focused agenda, which attaches particular importance to the principles of sound financial management.

In his mission letters to the Members of the Commission, President Juncker stressed strongly the need to ensure the sound financial management of the programmes under their responsibility and insisted that all necessary measures be put in place to protect the EU budget. He also called for a reinforced performance culture and a renewed focus on demonstrating the added value of the EU budget.

Against this background, this report describes the Commission's management achievements in 2014, analysing and summarising the information contained in the annual activity reports produced by each Commission service.

**By adopting this Synthesis Report, the Commission takes overall political responsibility for the management of the EU budget.**

## **2. 1 A STRENGTHENED PERFORMANCE FRAMEWORK**

The strengthened performance management framework promised by the Commission in last year's Synthesis Report has yielded its first results. The sharper emphasis on performance is taking shape through improved reporting on policy achievements and on their impact and added value for EU citizens. The new Commission renewed this commitment and further initiatives to put a greater emphasis on results are being encouraged.

### **1.1 Policy achievements**

The strategic planning and programming cycle relies on two key instruments — annual management plans and annual activity reports (AARs) — to provide detailed management information on the performance of the services of the Commission. In recent years, the Authorising Officers by Delegation have provided more detailed submissions on how they have used the financial and human resources allocated to them in order to achieve the policy objectives set by the College, and on how their implementation of policies has generated added value for EU society. The Commission points to significant progress in recent years in reporting on policy achievements, in addition to its programme management achievements. Furthermore, each year's portfolio of AARs now contains a wealth of useful information on policy objectives, results attained and their direct and indirect impacts on European society.

**A summary of the key performance indicators is presented in Annex 1 to demonstrate the delivery of the Commission's goals. For most indicators, the Commission is well on track to reach its multi-annual objectives.**

Several additional measures have been taken to ensure better performance:

- i. the inclusion of more exhaustive performance information from various sources, e.g. evaluations, studies, audits and impact assessments;
- ii. the addition of illustrative examples demonstrating the EU added value of the various EU programmes;
- iii. a closer alignment of management plans with AARs (e.g. by using the same templates for reporting on objectives and indicators in both cases); and
- iv. the requirement that AARs contain examples of efforts to improve management efficiency and economy.

**Examples of efforts to improve management efficiency and economy:**

- ✓ The Directorate-General for Agriculture and Rural Development (DG AGRI) completely revamped the farm accountancy data network legislation in 2014. This resulted in significant simplification as it consolidated five implementing acts into one and cut out duplication and the need for cross references.
- ✓ In the Paymasters Office (PMO), the negotiation of the new framework contract covering accident insurance for staff in a number of institutions resulted in a substantial decrease in premiums paid. The new contract showed a 23% decrease as compared with 2011, down to EUR 23 million in 2013.

## **1.2 Initiatives to strengthen the performance framework yet further**

### *1.2.1 An EU budget focused on results*

The new Commission aims to develop a stronger performance culture in relation to the EU budget. One of its top priorities is to ensure that the budget focuses on the delivery of tangible results for the benefit of citizens and a network of Commissioners has been established to this end ('an EU budget focused on results'). This network provides the political steer, leadership and coordination for action to improve the performance of the budget and ensure value for money.

In its first meeting held on 4 March 2015, the network endorsed a common approach to analyse and improve the budget implementation cycle, through determining the areas where the budget is spent (budget allocation), how funds are spent (budget implementation) and how the Commission is assessed (the discharge process). It identifies six main work streams on which the services of the Commission will work during the mandate of the College in order to implement the strategy:

- i. **simplification:** reduce administrative burden and streamline compliance requirements across policy areas to help focus programme implementation on results, while maintaining legality and regularity;
- ii. **budget procedure:** provide performance information that is useful for budget allocation and enables decision-making based on programme implementation rates as a measure of the efficiency of spending operations and the achievement of results;

- iii. **cost-effectiveness of controls:** rationalise and streamline controls and reallocate resources to controls deemed most appropriate for managing legality and regularity risks within the regulatory framework;
- iv. **declaration of assurance and discharge:** combine budget protection mechanisms such as recoveries and financial corrections with simplification and cost-effective controls, in order to manage the risk and establish a better balance between the achievement of policy results, the cost of controls and compliance with the financial rules;
- v. **project database:** improve citizens' access to project results in key areas to improve the transparency and comparability of EU-financed initiatives and help demonstrate the diverse ways in which EU spending contributes to society; and
- vi. **communication:** improve communication and cooperation between actors involved in budget planning, implementation and discharge, and with the wider public, by aligning expectations, sharing experiences on implementation and reporting on the attainment of results.

One of the actions to be pursued is the creation of an Interinstitutional Working Group on Performance-Based Budgeting, which will bring together the Institutions involved in the budgetary process (Commission, European Parliament, Council, and Court of Auditors) with the objective of creating a shared understanding of the performance-based budget concept, its key features, the role and responsibilities of EU Institutions and Member States in ensuring effective EU budget implementation. Building on the existing legal and regulatory framework, the Working Group will identify improvements to the performance budgeting model currently being applied to the EU budget and appropriate timing for their implementation.

### *1.2.2 Aligning control intensity with risk*

Ensuring the cost-effectiveness of management and control systems is one of the objectives of the 'budget focused on results' strategy. Inefficient control systems absorb significant resources which could otherwise contribute to the achievement of results. They also impose a significant administrative burden on beneficiaries and may discourage participation in programmes.

The revised Financial Regulation<sup>1</sup> requires Authorising Officers by Delegation to take account of risk and cost-effectiveness when setting up internal control systems (Article 66(2) Financial Regulation) and to report on the cost and benefits of the controls in the AAR (Article 66(9) Financial Regulation). The primary purpose of assessing the cost-effectiveness of controls is to

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<sup>1</sup> The revised Financial Regulation entered into application in January 2013.  
Financial Regulation: Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the General budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).  
Rules of application: Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).

support management in the design of control systems and the associated resources. Control strategies and systems should consider a higher level of scrutiny and frequency in riskier areas and ensure that controls consistently add value.

Reporting on cost-effectiveness improved in 2014. 42 of the 49 services reached a conclusion on the cost-efficiency of their management and control systems. The others were unable to do so, mostly due to lack of past data or benchmarks and to difficulties in estimating the benefits of controls. More DGs were able to report richer sets of ratios, distinguishing between either all or some of the various stages of the control strategy.

Two initiatives were taken in 2014 to address the main problems identified by the services:

- the development of a functionality in ABAC<sup>2</sup> for registering the results of controls;
- the establishment of a simplified set of indicators to measure the costs and benefits of controls.

All services that reached a conclusion stated that their internal control systems are cost-effective because quantifiable benefits exceed costs or on the basis of non-quantifiable benefits and/or a stable or a positive trend in efficiency indicators.

**The Commission instructs its services to develop a common calculation for their cost of control so as to improve consistency across the Commission and produce a set of reliable results which can be used to determine the relative cost-effectiveness of the control system in place in the context of the relevant policy objectives.**

### *1.2.3 Mapping performance reporting*

The 2013 Synthesis Report called for central services to analyse, in future AAR exercises, the various forms of reporting on achievements. For 2014, it was found that:

- performance reporting is done in Part I of the AAR;
- the annual evaluation report (Article 318 Report) provides performance information on how the main financial programmes have contributed to the key EU policy objectives, including Europe 2020 where relevant;
- the Synthesis Report should list a selection of key performance indicators to cover reporting on non-spending programmes and refer to the AARs for further analysis;
- additional reporting on Europe 2020 is available through dedicated channels; and
- reporting on flagship initiatives should be streamlined and channelled through main policies. Separate reporting is not recommended because the monitoring and reporting arrangements for programmes under the new multiannual financial framework do not allow for it.

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<sup>2</sup> ABAC is the accrual-based accounting system used in the Commission.

**The Commission instructs its services to continue their efforts to improve reporting on performance in the AARs.**

### **3. 2 SPECIFIC CHALLENGES FOR RESOURCES MANAGEMENT**

The efficient and effective management of resources underpins performance in the delivery of Commission policy. In 2014, the Commission faced major challenges in this area. In some cases, the problems confronted were circumstantial, e.g. the services of the Commission suffered from a shortage of payment appropriations; in other cases, recurrent issues emerged. The increased delegation of tasks to Agencies, Joint Undertakings and other entrusted entities led the Commission to review the applicable supervision mechanisms. Another area requiring attention concerned the reliability of data provided by Member States. For each challenge, the Commission took mitigating action or corrective measures to reduce the risks identified.

#### **2.1 Shortage of payment appropriations**

The 2014-2020 multiannual financial framework is the first to make fewer budgetary means available than its predecessors. Pressure on the payment ceilings is much greater than in previous multiannual financial frameworks, as a result of two factors:

- unpaid commitments from the 2007-2013 programmes weigh heavily at the start of the 2014-2020 framework (21.7% of the payment ceilings for the period); and
- a particularly sharp reduction in the payments ceiling in 2014 (almost EUR 9 billion lower than the amount budgeted in 2013) and 2015.

Against this background, the challenge for the Commission (particularly in 2014) was to honour the legal obligations stemming from past commitments while launching the new generation of programmes.

The services of the Commission monitored budget implementation closely. They took measures to ensure prudent use of the scarce payment appropriations while minimising late payment interest and taking on board the negative impact on third parties, giving priority, for example, to financially fragile recipients, such as Member States under financial assistance, SMEs and NGOs<sup>3</sup>.

The Commission kept the European Parliament and Council informed on the state of budget implementation. As early as May 2014, it proposed a draft amending budget to address the unprecedented level of payment claims for the 2007-2013 Cohesion programmes received in the final weeks of 2013. Agreement was reached on 17 December 2014 on the amending budget reinforcing the level of payment appropriations in the 2014 budget, notably through the use of the Contingency Margin for payments. This meant that a very large volume of payments

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<sup>3</sup> SMEs: small and medium-sized enterprises;  
NGOs: non-governmental organisations.

could be executed in the last four working days of the year and the backlog of unpaid bills could be contained at the year-end 2014.

However, despite the measures taken and the additional payment appropriations that arrived late in the year, the Commission could not avoid certain delays in payments and contracting activities, and a consequent knock-on effect regarding payments under new programmes.

The Commission has assessed the impact that these problems had on the achievement of objectives and concluded that, taking into account the active management of the available payment appropriations during the reporting year, both the financial and the reputational impact of this situation were sufficiently mitigated.

As regards financial impact, a number of the services of the Commission faced major management and operational challenges; some spending programmes ran out of payment appropriations several months before the end of the year. For these programmes, the possibilities for re-allocations between budget lines were exhausted pending approval of the request for additional payment appropriations in the amending budget.

Late payment interests increased almost five-fold in 2014, to some EUR 3 million for the budget as a whole. Despite this increase, the absolute amount of interest is relatively contained as compared with the level of unpaid bills at the end of 2014. These were largely concentrated (EUR 24.7 billion) in the area of cohesion policy, where the reimbursement of claims to public entities in Member States is conditional on budget availability and no interest is applied for late reimbursement, thus considerably limiting the financial impact on the EU budget. There was no reported litigation resulting from late payment.

As regards reputational impact, the services endeavoured to manage the available appropriations actively, in a number of ways:

- pro-actively recovering any undue amounts;
- reducing the pre-financing percentage;
- making best use of payment deadlines; and
- postponing calls for proposals/tenders and related contracting activities, resulting in a number of payment due-dates being shifted into 2015; while this limited the negative impact on the EU budget, it had implications for the legitimate expectations of stakeholders, who may have had to postpone the start of their project and/or temporarily find a bigger proportion of co-financing. Nevertheless, the reputational damage has been contained so far, by careful assessment, in order to limit the impact on key activities.

**The Commission instructs its services to continue to manage budget implementation and take measures where appropriate to mitigate the risks resulting from any shortfall in appropriations.**

## 2.2 Impact of entrusted entities on the chain of assurance

In an increasing number of cases, the Commission entrusts the management of EU funds to other entities (see Annex 4), some of which are subject to a specific discharge procedure distinct from that for the Commission. Under this procedure, the management of the entrusted body must give account of the actual implementation of the funds and, in turn, the Authorising Officer by Delegation is required to ensure proportionate but effective supervision of the body. As the expenditure falls under the scope of the declaration of assurance, the Authorising Officers by Delegation must report in the AARs the results of the supervisory controls and, where applicable, any material weaknesses that could give rise to reservations.

In the 2014-2020 programming period, entrusted entities are expected to play an increasingly important role in budgetary management. This became clear in 2014, the first year of implementation of the new programmes, and the trend is reflected in the 2014 AARs. The Directorate-General for Education and Culture (DG EAC) and the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW formerly DG ENTR), for instance, implement 95% and 89% of their respective budget by entrusting management tasks to other entities. For the Directorate-General for Mobility and Transport (DG MOVE) and the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA formerly DG MARKT), the percentage exceeds 50%.

The ability of the Authorising Officers by Delegation to supervise the entrusted entities and obtain reasonable assurance is largely conditioned by the accountability structures and the transparency arrangements in the delegation agreements with each entrusted entity. In essence, the control strategy involves ensuring that the delegation agreements contain provisions requiring:

- i. that the entities report their control results reliably and transparently; and
- ii. appropriate supervision of the entities' accountability structures.

For the 2014-2020 programmes, each DG has been made accountable for the financial instruments in its policy area. The Commission has concluded financial and administrative framework agreements with the European Investment Bank (EIB) and the European Investment Fund which are expected to reduce administrative costs, reinforce accountability and ensure consistency. The Commission has developed a template to ensure that key governance, control and reporting requirements are included in each delegation agreement concluded with the relevant services.

For 2014, the design of AARs was improved to ensure that all forms and instances of funds management with entrusted entities are covered, including where necessary in the scope of the reservations.

**The Commission instructs its services that entrust budget implementation tasks to other entities to ensure that delegation agreements contain the necessary proportionate provisions and practical arrangements for timely and transparent reporting by these entities on their control results, and appropriate supervisory measures that will provide reasonable assurance on the reliability of information being reported.**



**The Commission instructs the relevant services to report in their AARs on their supervision of these entities, together with any elements relevant to the conclusions on assurance. Particular attention is to be given to ensuring there are no significant gaps in the assurance chain.**

### **2.3 Reliability of control results reported by Member States**

The reliability of Member States' control reports remains a challenge. Under shared management, the Member States are responsible for establishing and maintaining reliable management and control systems.

The regulations allow the Commission, under certain conditions, to rely for its assurance on the work carried out by Member States' audit authorities. In the area of cohesion policy, the audit authorities provide the Commission with assurance on the effective functioning of management and control systems and the legality and regularity of the certified expenditure. For the common agricultural policy (CAP), the independent certification bodies deliver an opinion on the quality of the on-the-spot checks carried out and the accuracy of the control statistics provided by each paying agency.

In addition, the net corrections system that the Commission applies in the event of errors<sup>4</sup> (see Section 2.4) is an incentive for Member States to step up efforts to detect errors. This system should encourage Member States to demonstrate their commitment to improving accountability and transparency by strengthening control measures, where necessary, in particular as regards first-level management checks, before certifying expenditure to the Commission, and by adopting clear eligibility rules to reduce the risk of error.

The Commission refers in this context to the Common Provisions Regulation for the 2014-2020 programming period for the ESI funds,<sup>5</sup> which includes a series of improvements to management systems and reporting requirements. Though the legislative process brought in further exceptions and added more stringent conditions which means that the Commission has to mitigate the related risks, these are expected to improve Member States' accountability so as to address errors better and ensure the legality and regularity of the transactions controlled or managed by them. In particular, they include *ex ante* conditions, harmonised and simplified eligibility rules, extended possibilities to use simplified ways to declare eligible costs and a new annual assurance package which comprises the annual accounts, a management declaration and annual summary, and an audit opinion and control report.

The relevant Directorates-General have defined a single audit strategy and common audit plan to obtain reasonable assurance on compliance and the effective functioning of the control systems. The overall assurance process is built on a control structure following the single audit

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<sup>4</sup> Net financial corrections for Cohesion policy only concern 2014-2020.

<sup>5</sup> European structural and investment (ESI) funds, comprising the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

concept, through which control at the Commission level can rely on the work of controls already performed by other bodies (programme audit authorities in the Member States).

For agriculture, the changes brought about by the new separate Horizontal Regulation<sup>6</sup> also require the independent certification bodies to verify, as from 2015, the results of on-the-spot checks carried out by the paying agencies by re-performing them on the basis of a representative sample and delivering an audit opinion on the legality and regularity of the expenditure. While this is expected to lead to improvements in the quality of the Member States' on-the-spot checks, the objective is actually to use the error rate validated by the independent certification bodies.

The services in charge of cohesion policy expenditure verified the accuracy of the data provided by Member States<sup>7</sup>, carrying out an assessment of first-level checks for 2007-2013 through targeted audits on high-risk programmes notably to identify the root causes of the insufficient reliability of the management verifications. The Directorates-General for Regional and Urban Policy (DG REGIO) and Employment, Social Affairs and Inclusion (DG EMPL) also decided to widen the audit coverage of data on withdrawals and recoveries reported by Member States in the coming years and to use all available results from audit authorities, in order to increase their assurance on reported data used for the calculation of the cumulative residual risk<sup>8</sup>.

The results of this assessment for the 2014 financial year are as follows:

- ERDF and cohesion expenditure relating to 2007-2013: DG REGIO assessed 96% of reported error rates as a reliable source of information and so increased the average error rate of 1.8% reported by the national audit authorities to 2.6%;
- European Social Fund (ESF) 2007-2013: DG EMPL assessed 88.1% of reported error rates as a reliable source of information and so increased the average error rate reported by the national audit authorities by 0.9% from 1.9% to 2.8%; and
- CAP: the adjustments made by the Directorate-General for Agriculture and Rural Development (DG AGRI) to the error rates resulting from the reported paying agency data resulted in an increase of 1.99% for direct payments (from 0.55% to 2.54%) and 3.57% for rural development (from 1.52% to 5.09%).

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<sup>6</sup> Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008 (OJ L 347, 20.12.2013, p. 549–607).

<sup>7</sup> As regards DG REGIO, the audit work notably aimed at assessing the reliability of national audit results and reported error rates (through the enquiry 'Review of the audit authorities' and through desk assessment), as well as reliability of reported amounts on withdrawals and recoveries (based on risk-based on-the-spot audits as well as on consistency desk checks).

<sup>8</sup> As a result of this work, DG REGIO considered that around 15% of withdrawals and recoveries reported by Member States were not reliable and were therefore not included in the calculation of the CRR for the 2014 AAR.

The 2014 AARs report the results of the Commission's assessment of the accuracy and reliability of the audit information and results reported by the national authorities. They include detailed quantitative results of the assessment for each operational programme or paying agency, including any subsequent adjustment or estimate by the Commission on the reported error rates. For operational programmes or paying agencies under reservation, the AARs also reflect the action plans adopted to remedy detected systemic weaknesses.

It is important to underline that:

- i. the majority of the audit control reports of the Member States are reliable; and
- ii. the Commission does not only rely on the results, but it assesses them to draw conclusions for its assurance.

Where necessary, the Authorising Officers by Delegation adjust the reported error rates or control statistics on the basis of any additional information or apply a flat-rate correction if the information from the Member State is considered insufficiently reliable.

**Given that the management, reporting and accountability provisions have been subject to a substantial overhaul, the Commission instructs its services managing the budget in shared management to adapt as necessary the methodology for the new programming period for assessing the effectiveness of the management and control systems implemented by the relevant bodies and agencies in the Member States, for all ESI funds and, as far as possible, for the EAGF. This will take into account the changes introduced to the legal framework resulting from the revised Financial Regulation.**

## **2.4 Amount at risk and corrective capacity of the control systems**

The Court of Auditors (in its 2013 annual report) and the European Parliament (in its discharge resolution) considered that some AARs may underestimate 'amounts at risk' and suggested to clarify the calculation of such amounts and estimate the impact of corrective mechanisms on these amounts.

In order to address these observations, Authorising Officers by Delegation included in their 2014 AARs, for the first time, their best estimate of the overall amount at risk<sup>9</sup> for the entire budget under their responsibility. In previous years, this was done only for the part of the expenditure subject to reservations. This best estimate concerns expenditure that may not comply with the applicable regulatory and contractual requirements at the time the payment is made, i.e. after application of *ex ante* controls, which are intended to *prevent* errors and irregularities.

In addition, Authorising Officers by Delegation reported the estimated future corrections, i.e. their estimation of the financial corrections and recoveries expected to result from the controls they will implement in the future. The estimates were based on the average amount of

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<sup>9</sup> See definitions in Annex 3.

corrections<sup>10</sup> since 2009, as this is the best available indication of the corrective capacity of the *ex post* control.

The Authorising Officers by Delegation reported the overall amount at risk for the year alongside their best estimate of the volume of errors and irregularities that could be corrected in the future. This provides a reasonable, quantified snapshot of the performance of the control systems at the end of the financial year, taking into account the fact that the control cycle is multiannual and that further corrective measures will be implemented in the future. It is important to understand that the amount at risk refers to non-compliance with regulatory and contractual provisions. A sizeable number of such cases do not result in undue payments and therefore do not give rise to recovery orders or financial corrections<sup>11</sup>.

In the peer reviews of the AARs and in order to ensure consistency, special attention was paid to any potential under-estimate of the amount at risk and overestimation of the corrective capacity, and to ensuring consistent use of error-related concepts. The definitions used are set out in Annex 3 and the detailed data in Annex 2. Table 1 below shows the data aggregated by family of services.

A number of services adjusted their estimates in view of their specific circumstances. This consistently resulted in more conservative estimates being disclosed in the AARs.

**Table 1: Overall amount at risk and estimated future corrections in 2014 (EUR million)**

Area <sup>12</sup>	Total expenditure	Amount at risk <sup>13</sup>		Estimated future corrections
		Lowest value	Highest value	
Agriculture	55 650	1 727	1 727	863
Cohesion <sup>14</sup>	56 770	1 395	2 693	1 574
External aid <sup>15</sup>	10 288	289	302	91

<sup>10</sup> These are based on data reported in note 6 to the financial statements ("Protection of the EU Budget"). To ensure that the estimated future corrections refer only to the controls implemented after the time of payment, a number of services adjusted these data by reducing the corrections and recoveries which were not the result of *ex post* controls. For agriculture, a three-year basis excluding cross-compliance was used, as this was deemed to be the most relevant reference period.

<sup>11</sup> For instance in case a beneficiary declares expenditure in the wrong accounting period or when the beneficiary declares ineligible expenditure while the total of the eligible declared costs still exceeds the ceiling of the EU contribution (and therefore there is no financial effect).

<sup>12</sup> The tables of Annex 2 provide for the list of services included in each area and the respective amounts. Total expenditure is based on 'payments made' in 2014, as reported in Annex 3 (Table 2) to the AARs. These figures result from provisional 2014 accounting data as available on 31 March 2015, which may be revised. The allocation of expenditure among the services is aligned with the responsibilities as allocated to the Authorising Officers by Delegation in the Commission internal rules.

<sup>13</sup> A number of services have estimated their overall amount at risk for the year in terms of a range, depending on the methodology used at the data availability. Please refer to the various AARs.

<sup>14</sup> Including DG HOME.

Research	10 560	210	245	152
Other internal policies	3 587	31	36	21
Administration	5 583	0	34	2
<b>Total</b>	<b>142 439</b>	<b>3 651</b>	<b>5 036</b>	<b>2 703</b>

For the Directorates-General for Employment, Social Affairs and Inclusion (DG EMPL), Regional and Urban Policy (DG REGIO), Maritime Affairs and Fisheries (DG MARE), Migration and Home Affairs (DG HOME), Neighbourhood and Enlargement (DG NEAR, formerly DG ELARG), Humanitarian Aid and Civil Protection (DG ECHO), Environment (DG ENV), Internal Market, Industry, Entrepreneurship and SMEs (DG GROW, formerly DG ENTR), Mobility and Transport (DG MOVE) and Energy (DG ENER) and for the Innovation and Networks Executive Agency (INEA), the estimated corrective capacity exceeds the lowest value of the overall amount at risk. In the area of cohesion policy, this is mostly due to the fact that the corrective capacity is based on a six-year average, while the amount at risk refers to the estimated level of error assessed in 2014, which is lower than in previous years. In other cases, this is due to the high level of corrections resulting from activities under past programmes.

In conclusion, the data show that the best estimate of the 2014 overall amount at risk for the Commission as a whole is between EUR 3 651 and 5 036 million. Based on past experience, the Commission estimates that the controls it will implement in successive years will identify and correct errors for a total amount of approximately EUR 2 700 million.

In 2014, the Commission also improved the quality of Member States' data on financial corrections and recoveries. It promoted the use of best practices so as to improve recovery mechanisms at Member State and EU level.

The provisional consolidated financial statements (see note 6 on 'protection of the EU budget') show financial corrections and recoveries confirmed/decided and implemented across all policy areas in 2014. These amounted to EUR 2 980 million (as compared with EUR 3 362, 4 419 and 1 840 million in 2013, 2012 and 2011 respectively) and are shown by policy area in Table 2 and 3.

**Table 2. Financial corrections and recoveries confirmed/decided in 2014 (EUR million)**

<b>Policy area</b>	<b>Financial corrections</b>	<b>Recoveries</b>	<b>Total</b>
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<sup>15</sup> For DG DEVCO, total expenditure includes EU budget (EUR 3 844 million) and EDF spending (EUR 3 671 million). DG DEVCO reported that the estimate of the amount at risk and corrective capacity were corrected upwards as a result of applying the average corrective capacity since 2009 to 2014 expenditure.

Agriculture			
EAGF	1 649	213	1 862
Rural Development	220	165	385
Cohesion policy			
ERDF	1 330	-	1 330
Cohesion Fund	292	-	292
ESF	342	1	343
FIFG/EFF	39	29	67
EAGGF Guidance	13	5	18
Other	-	-	-
Internal policies	5	293	298
External policies	N/A	127	127
Administration	N/A	5	5
<b>Total confirmed/decided in 2014</b>	<b>3 890</b>	<b>838</b>	<b>4 728</b>

**Table 3: Financial corrections and recoveries implemented in 2014 (EUR million)**

<b>Policy area</b>	<b>Financial corrections</b>	<b>Recoveries</b>	<b>Total</b>
Agriculture			
EAGF	796	150	946
Rural development	86	167	252
Cohesion policy			
ERDF	823	1	824
Cohesion Fund	191	-	191
ESF	289	1	290
FIFG/EFF	41	25	66
EAGGF Guidance	13	5	18
Other	-	-	-
Internal policies	5	274	279
External policies	N/A	108	108
Administration	N/A	5	5
<b>Total implemented in 2014</b>	<b>2 244</b>	<b>736</b>	<b>2 980</b>

Correcting amounts unduly paid is an important aspect of sound financial management. The Commission will take every opportunity to encourage Member State authorities to make maximum use of available instruments to prevent errors and fulfil their responsibilities and obligations for all programmes under shared management, in order to protect the EU budget and tackle remaining deficiencies in their management and control systems.

In addition, as far as fraud is concerned, all the services of the Commission made efforts to strengthen their internal controls systems to better address the risk of fraud. They have all

adopted an anti-fraud strategy and are in compliance with this requirement of the Commission Anti-Fraud Strategy (CAFS).

#### **4. 3 MANAGEMENT ASSURANCE**

Sections 1 and 2 explained how the services of the Commission have improved reporting on policy performance and resource-management challenges. This section covers the Directors'-General declarations of assurance and the overall opinion of the Internal Audit Service (IAS), which are the basis on which the Commission takes political responsibility for the management of the budget.

##### **3.1 Assurance obtained through the annual activity reports**

The Authorising Officers by Delegation assessed the control results and all other relevant elements supporting their assurance on the achievement of the control objectives. They considered any significant weaknesses identified and assessed their cumulative impact on overall assurance, in both quantitative and qualitative terms, with a view to determining whether it was material. As a result, they qualified their declarations of assurance with a total of 25 reservations, of which 20 were quantifiable and five were not quantifiable but based on reputational grounds. The Authorising Officers by Delegation provide unqualified assurance for revenue operations.

The number of reservations in the AARs increased from 21 in 2013. There were four<sup>16</sup> new reservations, while one<sup>17</sup> was lifted<sup>18</sup>. One recurrent reservation was split<sup>19</sup> into two separate reservations, each with a specific action plan.

Despite this increase in the number of reservations, the expenditure affected by the quantifiable reservations has decreased by EUR 6 856 million (from EUR 51 248 million in 2013 to EUR 44 392 million), or close to 31% of the total expenditure managed<sup>20</sup> in 2014. This is due to the decrease in the scope of existing reservations made by DG AGRI, DG REGIO, DG EMPL and those in the Research policy area. New reservations do not concern the largest spending programmes and therefore did not translate into a major increase in scope. The amount at risk for the expenditure under reservation,<sup>21</sup> taking account of recoveries and

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<sup>16</sup> The new reservations concern the Common Foreign and Security Policy (managed by the Foreign Policy Instrument – FPI), IPA/CARDS/PHARE – Indirect Management by Beneficiary Countries (IMBC) and the Indirect Management by other Entrusted Entities (IMEE) (both managed by DG ELARG) and the CIP-ICT Policy Support Programme (managed by DG CNECT).

<sup>17</sup> DG SANCO lifted its reservation on the animal disease eradication and monitoring programmes in the food and feed policy area.

<sup>18</sup> To lift a reservation, Authorising Officers by Delegation were asked to demonstrate that the weaknesses had been addressed effectively.

<sup>19</sup> DG REGIO split its recurrent reservation on ERDF/Cohesion/IPA into two for clarity: one on ERDF/Cohesion and one on IPA.

<sup>20</sup> Including the EDF.

<sup>21</sup> Except for shared management, where the reported amounts do not include financial corrections and recoveries.

financial corrections to date, is estimated at EUR 2 285 million. The results by policy area are shown in Table 4. Detailed results by service are set out in Annex 2.

**Table 4: Scope and amount at risk of the 2014 reservations (EUR million).**

Policy area <sup>22</sup>	Total expenditure	Scope: expenditure under reservation <sup>23</sup>	Amount at risk under reservation <sup>24</sup>
Agriculture	55 650	27 255 <sup>25</sup>	1 447
Cohesion <sup>26</sup>	56 770	5 650	418
External aid	10 288	7 940	216
Research <sup>27</sup>	10 560	3 489	200
Other internal policies	3 587	58	4
Administration	5 583	-	-
<b>Total</b>	<b>142 439</b>	<b>44 392</b>	<b>2 285</b>

These reservations affect all main expenditure areas (agriculture, structural and cohesion funds, external relations, and research and other internal policies). In all cases, the relevant Authorising Officers by Delegation have adopted action plans to address the underlying weaknesses and mitigate the resulting risks.

Where error levels are persistently high, the Financial Regulation provides for the Commission to identify the weaknesses in the legal provisions and/or the control system, analyse the costs and benefits of possible corrective measures and take or propose suitable action. Management and control systems have been changed significantly in the 2014-2020 programmes.

<sup>22</sup> The tables of Annex 2 provide for the list of services included in each area and the respective amounts. Total expenditure is based on ‘payments made’ in 2014 as reported in Annex 3 (Table 2) to each AAR. These figures result from provisional 2014 accounting data as available on 31 March 2015, which may be revised. The expenditure is allocated among the services in line with the responsibilities of the Authorising Officers by Delegation under the Commission’s internal rules.

<sup>23</sup> The scope of the reservations covers the expenditure implemented through the management and controls system concerned by the reported weaknesses.

<sup>24</sup> The overall amount at risk is an estimation of the amount at risk for the whole expenditure. It includes the amount at risk under reservation and an estimation of the error for the expenditure not affected by the reservations, which is a figure up to 2% depending on the specific situation or programme.

<sup>25</sup> The amount of EUR 27 255 million indicated represents the expenditure managed by control systems for which a reservation has been issued and for which the management and control system has been placed under close scrutiny by DG AGRI. This means that conformity clearance procedures are on-going in order to protect the EU budget as well as monitoring by DG AGRI of the remedial actions to be taken by the Member States where appropriate.

<sup>26</sup> Including DG HOME.

<sup>27</sup> For DG DEVCO, total expenditure includes EU budget (EUR 3 844 million) and EDF spending (EUR 3 671 million).



Implementation of these has only just started and the Commission will be able to determine the effects of the new measures on the level of error only over time.

The Authorising Officers by Delegation identified the main reasons for their reservations and set out remedial actions to address them.

**The Commission instructs its services to pursue their efforts to identify further simplification measures and to work towards improvements to the control systems so as to reduce the risk of error having regard to the cost and the resulting administrative burden.**

### 3.1.1 *Competitiveness for growth and jobs*

**As in 2013, the four DGs and the two executive agencies implementing the Seventh Research Framework Programme (FP7) maintained their reservation related to the legality and regularity of the grants paid out in reimbursement of cost claims.** The detected error rate from the common representative audit sample remains at approximately 5% for 2014 (in line with 2013), with a residual error rate at around 3%.

The European Research Council Executive Agency (ERCEA) and the Research Executive Agency (REA) did not have a reservation for two specific sub-populations (the Ideas project and the People projects) where there was sufficient additional evidence that the error rates for these programmes were lower than the materiality threshold.

The Director of the REA **maintained the reservation on the specific sub-population of the small and medium-sized enterprises scheme (SME projects)**, due to the relatively higher risk profile and specific risks in the accounting of SMEs for the grant. A specific action plan has been put in place to mitigate these risks.

The **Education, Audiovisual and Culture Executive Agency (EACEA) maintained its reservation on the Lifelong Learning Programme (LLP)** in view of the residual error rate (4.1%). The errors concern mainly the difficulty for some beneficiaries of producing adequate supporting documents and non-compliance with some eligibility rules. The EACEA is analysing the most frequent errors and will take further corrective action, if necessary, taking into account the cost and benefits. The mandatory use of audit certificates by beneficiaries, together with improved communication on financial obligations, should reduce the residual error rate further.

The Director-General for Communication Networks, Content and Technology issued a **new reservation on the residual error rate (2.94% in 2014) with regard to the accuracy of cost claims in the ICT policy support programme (PSP) under the Competitiveness and Innovation framework programme (CIP)**. Given the low number of audits used to determine the cumulative and residual error rates (18 *ex post* audits covering EUR 10.9 million, representing 1.6% of the requested EU contribution), the results should be treated with caution. Nevertheless, the error rates detected in recent years (5.29% in 2014, 2.82% in 2013) are increasing and it is expected that the 2% residual error rate target at the end of the CIP programming period will not be achieved. In order to reduce the residual error rate of the ICT PSP further, the DG will continue to carry out *ex post* audits in line with its *ex post*

control strategy for non-research expenditure (42 audits launched in 2014) and to give guidance and feedback to participants and certifying auditors to prevent errors occurring.

### *3.1.2 Economic, social and territorial cohesion*

The Director-General for Regional and Urban Policy issued reservations for serious deficiencies in key aspects of the management and control systems in specific operational programmes.

- A financial reservation for the **2007-2013 ERDF and Cohesion Fund for 77 operational programmes in 12 Member States management and control systems. The quantification of the reservation corresponds to 0.5% of ERDF/Cohesion Fund interim payments in 2014**
- Another financial reservation for two Instrument for Pre-accession Assistance (IPA) programmes (for Turkey and the Adriatic) and corresponds to 7% of interim payments in 2014; and
- A reputational reservation for the **2000-2006 ERDF/CF** management and control systems in 2014 for three programmes (two in Italy and one in Ireland) and for two Cohesion Fund transport sectors (in Romania and in Bulgaria), but with no financial impact.

In each case, specific action has been taken or planned to obtain assurance that the required corrective measures have been implemented. These corrective measures consist of a strict policy of interruptions and suspensions to protect EU funds. The payments will be resumed only based on evidence that the corrective actions, including financial corrections where necessary, were fully implemented. As regards the 2000-2006 programming period, specific action has been taken in each case, and the financial correction procedure are on-going as part of the closure process.

The **Director-General for Employment, Social Affairs and Inclusion maintained two reservations** for serious deficiencies in key aspects of the management and control systems in specific operational programmes:

- the main one is a financial reservation for the 2007-2013 ESF in 2014 for 36 operational programmes in 11 Member States (Belgium, the Czech Republic, France, Germany, Greece, Hungary, Italy, Romania, Slovakia, Spain and the UK). The amount at risk for the 2007-2013 reservation is estimated to be 1.7% of ESF 2007-2013 interim payments in 2014; and
- the other concerns a reputational reservation for the 2000-2006 ESF in 2014 for seven operational programmes in France, Italy and Spain.

As regards the 2000-2006 programming period, there is no financial risk, as final payments will not be executed until all issues are resolved and agreement has been reached with the Member States on the level of financial correction to be applied. The Commission has taken specific action for each programme to obtain assurance that the required corrective measures will be implemented. These actions are based on a strict policy of interruptions and suspensions to protect EU funds and the implementation of the necessary financial corrections,

but the Commission will also continue actively to promote the benefits of using simplified cost options for the ESF.

The main **new issue in 2014 concerns Greece**, where the error rate for the four ESF operating programmes is provisionally estimated at 5%. All Greek programmes are currently included in the reservation list and no payments are being made on a precautionary basis pending ongoing discussions with the European Court of Auditors and the Greek authorities.

### *3.1.3 Sustainable growth: natural resources*

The Director-General for Agriculture and Rural Development (DG AGRI) maintained reservations on:

- **certain EAGF market measures** for aid schemes in six Member States (Austria, France, the Netherlands, Poland, Spain, and the UK) while new reservation were introduced in respect of France (for further measure) and Romania. The amount at risk corresponds to 3.13% of the expenditure disbursed. For the majority of the measures, the Commission identified the deficiencies in the course of on-the-spot audits. For the school milk schemes in France, the reservation was triggered by the high level of error reported by the Member State authority. In all cases, the necessary corrective action has been identified and the Member States have been notified;
- **direct EAGF payments** through 15 paying agencies in six Member States (Spain (10), France, the UK (England), Greece, Hungary and Portugal). The amount at risk corresponds to 2% of the expenditure disbursed. As the deficiencies were detected by the Commission itself, the necessary corrective action has already been identified and the Member States have been notified;
- **EAFRD expenditure in respect of 22 paying agencies in 14 Member States** while six new reservations were introduced. In total there are 28 reservations in 16 Member States in 2014 (Bulgaria, Germany (3), Denmark, Spain (6), France (2), the UK (2), Greece, Hungary, Italy (4), Lithuania, Latvia, the Netherlands, Poland, Portugal, Romania and Sweden). The amount at risk corresponds to 4.76% of the expenditure disbursed. As the deficiencies were detected by the Commission itself, the necessary corrective action has already been identified and the Member States have been notified; and
- **expenditure in Turkey from the Instrument for Pre-Accession Assistance in Rural Development (IPARD)**. The amount at risk corresponds to 3.2% of total IPARD expenditure. The necessary corrective action has already been identified and the Turkish authorities have been notified. DG AGRI will take remedial action where necessary by imposing net financial corrections to recover ineligible expenditure.

The Director-General for Maritime Affairs and Fisheries **maintained her reservation on the European Fisheries Fund (EFF) management and control systems** (eligibility of declared expenditure for Germany (Mecklenburg-Vorpommern), Italy, the Netherlands, Poland, and Romania). **Payments in respect of the five programmes in question have been interrupted**. An action plan is being developed for each case, specifying measures and timeframes for rectifying the weaknesses that gave rise to the errors. Payments will resume only when these

issues have been addressed satisfactorily. The amount at risk for these programmes represents only 1.26% of total EFF payments in 2014.

**The Director-General for Climate Action (DG CLIMA) maintained his reputational reservation relating to remaining significant security weaknesses identified in the EU Emissions Trading System (EU ETS) Registry.** Following the organised cyber-attacks on some national registries between November 2010 and January 2011, one operator lodged a European Court of Justice complaint against the Commission regarding the theft of allowances. This led to record a contingent liability of EUR 16.2 million in DG CLIMA's accounts. The court proceedings are ongoing.

The security measures identified by DGs CLIMA, DIGIT and HR following a preliminary risk assessment of the EU ETS Registry are currently only partially implemented. A formal in-depth risk assessment completed in 2014 identified complementary security measures to reduce risk to an acceptable level. By 2016 the timely and successful roll-out of the action plan following the IAS audit report on the governance and security of the EU ETS system would provide reasonable assurance that the residual risk of any successful cyber-attack will be reduced to an acceptable level.

#### *3.1.4 Security and Citizenship*

The Director-General for Health and Food Safety was able to lift his reservation on **the accuracy of Member States' costs claims under the animal disease eradication and monitoring programmes in the food and feed area.** The Director-General had already taken a number of mitigating measures to reduce the error rate in that area. The cumulative effect of all measures brought the error rate below the 2% threshold.

#### *3.1.5 Global Europe*

**The Service for Foreign Policy Instruments (FPI) issued a new reservation regarding the 2.13% residual error rate for the common foreign and security policy (CFSP).** Based on the *ex post* controls carried out, the CFSP budget for non-proliferation and disarmament was found to be affected by a high percentage of error.

The FPI is analysing the possibility of recovering the ineligible amount from two beneficiaries in view of the fact that the projects were otherwise successfully completed. It is also analysing how it can avoid similar errors in the future, e.g. by improving the templates for grant agreements, in particular as regards the requirements for supporting documents and boarding passes as proof of travel.

**The Director-General for Development and Cooperation - EuropeAid (DG DEVCO) maintained his overall reservation, i.e. covering all activities and management cycles, since the overall residual error rate in terms of legality and regularity of underlying transactions was 2.81% in 2014 (3.35 % in 2013 and 3.63% in 2012).** DG DEVCO manages the European Development Fund (EDF) and six different instruments with various legal bases,

reference acts and management arrangements: direct (from headquarters or delegations) and indirect (with international organisations or other agencies and bodies). Operations involve grants, procurement, trust funds and administrative and support expenditure. Combined with the geographical factor (operations in countries and regions with a low level of development, deficient infrastructure and weak governance), this results in a complex matrix that determines the risk profile of each subset of financial operations and the need to implement effective preventive controls.

Although DG DEVCO adapts its control strategy to the general characteristics of the operations and exploits the results of controls in order to obtain more detailed error-related data on the various instruments and areas, it does not provide a differentiated assurance. The consequence of this state of affairs is that, for the past three years, DG DEVCO has issued a reservation covering all its operations.

The Commission is concerned that the broad scope of this overall reservation may impact the overall assurance in DG DEVCO's declaration of assurance.

**The Commission instructs DG DEVCO to look for ways to increase the extent to which it takes the result of its controls into account to provide a more risk differentiated assurance and to subsequently direct more of its control resources towards areas covered by specific reservations, taking into consideration the relative cost-effectiveness of the various controls. Tangible improvements are to be expected by the end 2015.**

The Director-General for Neighbourhood and Enlargement issued two new reservations, regarding:

- the **residual error rate for indirect management by beneficiary countries (IBMC)**, which exceeded the 2% materiality level (2.67%). The Directorate-General is proceeding with recoveries relating to errors and irregularities. As recommended by the Court of Auditors, the Directorate-General has reduced significantly the level of pre-financing to beneficiary countries. This applies in particular for indirect management mode and will reduce financial exposure; and
- the damage to the Commission's reputation due to a weakness identified in the procedures for recognising interim costs under indirect management by entrusted entities (IMEE) other than beneficiary countries. Internal checks showed that in certain cases costs reported by the contractors for contracts under indirect management by entrusted entities were not systematically recorded as costs in ABAC. Due to the weakness in the internal control system, there is a material understatement of interim cost in the accounting records. As corrective action, training will be made available in 2015 to all authorising officers by subdelegation and their staff to explain the rules for interim cost recognition and clearing of pre-financing. The amount concerned is estimated at EUR 150 million. However, there was no impact on the reliability of the accounts since the necessary adjustments had been made to the accounts via the year-end closure (cut-off) entries.

### 3.1.6 Administration

The Director-General for Human Resources and Security (DG HR) maintained her reputational reservation following the Court of Auditors' findings on the European Schools' annual accounts for 2012 and the detection of irregularities linked to potential fraud in relation to one of the schools.

DG HR has already taken measures, under the existing governance framework, including continued insistence on immediate implementation of the Court of Auditors' and IAS's recommendations.

Specific action undertaken in 2014 includes:

- advice to the European Schools on the required amendments to the Financial Regulation to establish the regulatory framework for the implementation of accrual-based accounting, updating procurement and payment rules, enhancing the internal control system and ensuring that the European Anti-Fraud Office (OLAF) has jurisdiction in the European School system; and
- secondment of a Commission official to support the implementation of sound financial management and effective accounting systems.

**The Commission instructs DG HR to continue to insist, via the Board of Governors, that the European Schools further strengthen control procedures and improve the overall control environment. The Schools must follow up on the Court of Auditors' and IAS's recommendations, implement an accrual-based accounting system and strengthen their internal control systems.**

### 3.2 Assurance obtained through the internal audit work

The Commission also based its assurance on the work done by the Internal Audit Service (IAS) and the Internal Audit Capabilities, their principal findings and recommendations, and information from the Audit Progress Committee (APC). The APC supports the Commission in ensuring the independence of the internal auditor and that audit recommendations are properly taken into account and receive appropriate follow-up.

The IAS has provided in its 2014 Internal Audit Report according to Article 99 (3) of the Financial Regulation conclusions on performance audits completed in 2014, made reference to the overall opinion on financial management for the year 2014 and reported on progress in implementing its audit recommendations.

By the end of 2014, auditees considered 689 (78%) of the accepted recommendations made in 2010-2014 to have been implemented. Of the 195 recommendations (22%) still in progress, none are classified as critical but 87 as very important. Out of the 87 recommendations rated very important, 17 were overdue by more than six months at the end of 2014, representing 2% of the total number of accepted recommendations of the past five years. The IAS's follow-up work confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited services are improving. The IAS concluded that 95% of the recommendations followed up during this period had been effectively implemented by the auditees.

The IAS also performed audits in terms of performance for the 2014-2020 Multi-annual financial framework<sup>28</sup>, the new economic governance (within the services of the Commission)<sup>29</sup>, the external aid and on Information Technologies (IT)<sup>30</sup>.

The Commission's internal auditor also submitted an Overall Opinion, based mainly on its own work and that of the Internal Audit Capabilities, and focusing on financial management. It considered that, in 2014, 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 respect to the reservations expressed by the Authorising Officers by Delegation in their AARs.

In arriving at this opinion, the IAS considered the combined impact of amounts estimated to be at risk as disclosed in the AARs in the light of the corrective capacity as evidenced by financial corrections and recoveries of the past. Given the magnitude of financial corrections and recoveries of the past and assuming that corrections on 2014 payments will be made at a comparable level, the EU Budget is adequately protected as a whole (not necessarily individual policy areas) and over time (sometimes several years later).

The internal auditor added an 'emphasis of matter' paragraph highlighting three issues that require particular attention as follows:

- i. The internal control systems regarding budget implementation of the Research Framework Programmes (2007-2013) need to be reinforced, notably to better address the challenges of supervising Joint Undertakings and Article 185 TFEU bodies, and more effectively prevent and detect potential fraud. This should be seen against the backdrop of FP7 payments in the coming years but also in view of the implementation of Horizon 2020 under the MFF 2014-2020 with an increased budget entrusted to Joint Undertakings and Article 185 TFEU bodies, for which the Commission remains ultimately responsible, and the Commission's continued priority to fight against fraud.
- ii. In the new legislation under the 2014-2020 multiannual financial framework the rules for eligibility remain complex and multi-layered in nature, all of which could in turn lead to problems of interpretation on the part of Member States and ultimately increase the risk of errors. The IAS has already identified key areas for improvement in the DGs' control and supervisory systems this early in the new Programming Period and will be tracking progress very carefully through targeted audits in 2015 and beyond.

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<sup>28</sup> The IAS concluded there are risks in the legislative texts of the various programmes that were brought in through the legislative process and that need to be mitigated in the design and implementation of management and control systems by the DGs.

<sup>29</sup> The IAS concluded positively on the audits conducted highlighting only some scope for further improvement.

<sup>30</sup> The IAS concluded that the services of the Commission need to ensure that user needs are correctly identified, adequately satisfied, on time and within budget and that the Commission is getting the best value for money from its IT investments

- iii. Financial instruments are complex tools and for them to be attractive to Member States there need to be extensive capacity building efforts to build technical knowledge at both Commission and Member State levels. The DGs also need to address the risks related to the practical application of certain legal provisions which are open to interpretation through guidance to staff and Member States, and through their audit and control strategies.

A summary report of the internal auditor's work will be forwarded to the discharge authority in accordance with Article 99(5) of the revised Financial Regulation.

#### **5. 4 CONCLUSION**

**The new Commission's emphasis on performance is reflected in improved reporting on policy achievements and on their impact and value added for citizens. The Commission will continue to monitor and report on progress and the 'EU budget focused on results' will strengthen the performance framework further. The future focus in resource management will be on simplification measures, cost effective controls and the chain of assurance. For the first time, this report contains a best estimate of the overall amount at risk, presented together with estimated future corrections.**

**All AARs give reasonable assurance as to the use of resources for their intended purpose; they cover observance of the principles of sound financial management and the fact that control procedures give the necessary guarantees of the legality and regularity of the underlying transactions. Authorising Officers by Delegation have qualified their declarations of assurance with a total number of 25 reservations, 20 of which were quantifiable. The relevant Authorising Officers by Delegation have outlined the measures they have taken and planned to address the underlying weaknesses and mitigate the resulting risks.**

**The Internal Auditor has provided an Overall Opinion.**

**On the basis of the assurances and reservations in the AAR, the College adopts this Synthesis Report and takes overall political responsibility for the management of the EU budget.**