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

Annual Management and Performance Report for the EU Budget - 2023 financial year

European Commission

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Volume III
Technical annexes

#EUBUDGET

FINANCIAL YEAR
2023

2023 INTEGRATED FINANCIAL AND ACCOUNTABILITY REPORTING

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Annual Management and Performance Report for the EU Budget

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Annex 5 – Multiannual control cycle and control results

Annex 5 – Multiannual control cycle and control results

This annex describes the preventive and corrective measures taken by the European Commission and the Member States for expenditure under shared management, to protect the EU budget from illegal or irregular expenditure. More specifically, the annex presents:

- **Section 5.1**: the preventive and corrective measures to protect the EU budget and related concepts;
- **Section 5.2:** the risk at payment/closure reported in the 2023 annual activity reports, which measure the effectiveness of the controls;
- **Section 5.3**: the reservations qualifying the assurance provided by the authorising officers by delegation;
- **Section 5.4**: the quantification of the preventive and corrective measures implemented in 2023.

5.1. Preventive and corrective measures to protect the EU budget and related concepts

The Commission has put in place multiannual control strategies to ensure the sound financial management of EU funds (see figure below). These control strategies aim to prevent errors before payments are made and, when errors could not be avoided, to correct them after the payments and until the closure of the programmes. Therefore, the control results are reported at two points in the programme cycle through the estimated **risk at payment** and the estimated **risk at closure.**

Main features of the Commission's control strategies

CONTROL OBJECTIVES

1. Ensure legality and regularity of transactions
2. Prevent, detect, correct and follow up on fraud
3. Ensure economy, efficiency and effectiveness
4. Safeguard assets and information
5. Produce reliable reporting

CONTROLS

Preventive measures *Ex ante*	Corrective measures *Ex post*
Simplification of programmes (based on lessons learnt from previous programmes)	**Ex post verifications** (e.g. audits of cost statements, system and compliance audits, on-the-spot checks)
Prevention of double funding (e.g. each beneficiary cannot receive more than one grant for the same expenditure)	**Fraud investigations** (e.g. fraud cases pursued by the European Anti-fraud Office)
Ex ante assessments and checks (e.g. desk reviews, compliance checks, authorisation of payments)	**Financial recoveries and corrections**
Funding suspensions and corrections (e.g. recovery of unused pre-financing, rejection of costs claimed, financial corrections and deductions made by Member States)	
Fraud proofing (e.g. European Anti-Fraud Office reviewing programmes)	
Awareness-raising actions	

Source: European Commission.

5.1.1. Preventive measures

Preventive measures take place before the Commission makes payments. They result from *ex ante* controls (mostly desk reviews) carried out by the Member States and entrusted entities before submitting expenditure/annual accounts to the Commission, and by the Commission itself before accepting and reimbursing expenditure, clearing pre-financing (i.e. transferring its ownership to the beneficiary) and making interim/final payments. As required by Article 74(5) of the financial regulation ([1]), all financial operations are subject to controls before payment, under all management modes.

The amounts corrected at the Member State level may be reused under certain circumstances, which serves as an incentive for Member States to carry out the necessary verifications and audits and correct irregular expenditure before submitting their cost claims to the Commission.

5.1.2. Corrective measures

Corrective measures take place after the Commission has made the payment or accepted the expenditure. In line with Article 74(6) of the financial regulation, they result from *ex post* controls typically performed on-site, on a sample basis, and are either statistically representative or based on a risk assessment. In shared management, the Commission also performs risk-based, system audits of Member States' controls and/or the work of their audit bodies. The errors found may lead to financial corrections ([2]) implemented by the Commission during the same or subsequent years, by way of recoveries or offsetting from final recipients under direct and indirect management, or from the Member States under shared management.

The Commission improves its processes and internal control systems on a continuous basis by addressing detected weaknesses. For shared and indirect management, the Member States and implementing partners are mainly responsible for improving their management and control systems. The root causes of errors are taken into account when preparing future (simplified) legislation and when (re)designing controls to further reduce the level of error in the next generation of funding programmes.

The **quantification** of the preventive and corrective measures implemented as a result of Member States and EU controls during the 2023 reporting year is presented in Section 5.4 of this annex.

5.1.2. Risk at payment

The risk at payment quantifies the errors that remain after applying preventive controls and processing payments ([3]), but before applying corrective measures. These errors are typically detected by Commission departments through *ex post* audits and assessments of the results of audits carried out by Member State authorities for shared management. Measurement at this stage enables the Commission to correct the errors, to take additional preventive measures (e.g. additional guidance for Member States, entrusted entities or beneficiaries), and to assess the effectiveness of the *ex ante* controls and adapt them, if necessary.

([1]) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012, OJ L 193, 30.7.2018, p. 1, ELI: http://data.europa.eu/eli/reg/2018/1046/oj (financial regulation).

([2]) Such corrections are not sanctions and do not include penalties and fines.

([3]) Or equivalent, such as after the expenditure is accepted (i.e. registered in the Commission's accounting system) or after the pre-financing is cleared.

Each Commission department estimates its **detected error rates** per programme or other payment segment. Some departments may use different terminology in their annual activity reports to reflect the specificity of their internal control system ([4]). Nevertheless, the departments use a consistent methodology to assess the risk of error in their financial operations, based on an institutional framework.

For low-risk expenditure, where there are indications that the error rate might be close to zero (e.g. administrative expenditure or operating subsidies for agencies), some Commission departments use a conservative error rate of 0.5%.

The Commission calculates the actual financial impact of the errors on the EU budget. This is obtained by aggregating the financial impact of errors determined per programme or segment of expenditure at the level of the department, the policy area and the Commission. This results in the overall risk at payment as a value, which is the sum of all the amounts of risk at payment, and as a percentage, which is the overall weighted average of the risk at payment.

5.1.3. Estimated future corrections

A detected error is corrected either via a recovery or by offsetting against future payments. As both detection and remedy may not be immediate, corrections resulting from *ex post* controls rarely take place within the same financial year as the payment. As a result, the risk at payment may provide an incomplete picture, as errors can still be corrected during subsequent years, up to the closure of the programme.

Therefore, Commission departments estimate the percentage of future corrections that could still be implemented until the closure of the programme. These are conservative and forward-looking estimates of the corrections that will be implemented in subsequent years. They are based on the average of corrections implemented during the last 7 years, adjusted to exclude exceptional recoveries, taking into account the incidence of the implementation of new programmes (simples rules leading to less corrections) and possible trends (decrease of increase in the last years).

For programmes with no set closure point (e.g. the European Agricultural Guarantee Fund) and for some multiannual programmes for which corrections are still possible after the end of the programmes (e.g. the European structural and investment funds, including the European Agricultural Fund for Rural Development), all possible corrections are considered for this estimate.

The future corrections can never be fully equal to the risk at payment, because some errors, although deserving of attention, do not always result from undue payments and, therefore, do not always give rise to financial corrections or recovery orders: when the risk at payment is based on statistical estimation, it cannot lead to corrections (no flat-rate correction may be applied to all beneficiaries, only a correction where an error has been found). In addition, for cohesion policy funds, only programmes with residual total error rates above 2% are subject to corrections to reach at least the 2% threshold, and not all the cases used to determine the upper value of the range of the risk at payment (i.e. the worst-case scenario) materialise after the contradictory procedure of the audit/control is finalised.

Estimated future corrections must not be confused with the actual corrective measures implemented during 2023 (detailed in Section 5.4). The estimated future corrections relate to the corrections that will happen in the future until the closure, whereas the corrections implemented correspond to the recovery orders, withdrawals by Member States and net financial corrections implemented in 2023.

([4]) For example, 'adjusted error rates' is used by DG Agriculture and Rural Development and 'residual total error rates' is used by DG Employment, Social Affairs and Inclusion, DG Maritime Affairs and Fisheries and DG Regional and Urban Policy.

5.1.4. Risk at closure

This risk is estimated at programme closure ([5]) ([6]), meaning when all *ex post* controls are completed, all corrections are applied and no further action may legally be taken. The risk at closure is obtained by deducting the estimated future corrections from the risk at payment, as a value and as a percentage. These amounts and percentages represent the most up-to-date estimations of the outcome expected by the closure of each programme. As such, the risk at closure is more representative of the real risk to the expenditure than the risk at payment.

Similarly to the risk at payment, the results per programme or segment are aggregated to provide – at the level of the department, the policy area and the Commission – the overall risk at closure as a value, which is the sum of all the amounts of risk at closure, and as a percentage, which is the overall weighted average of the risk at closure.

5.1.5. A bottom-up approach that fits the Commission's management context

To be able to provide bottom-up management assurance and to identify and address issues in specific areas, the Commission calculates the error rates per programme or other relevant segment. Moreover, the Commission's methodology takes into account the multiannual nature of the spending programmes for the risk at closure. In this sense, the Commission's approach differs from that of the European Court of Auditors, as it comes from a management perspective and provides more detailed information. Even if these approaches can lead to differences between the error rates reported by the Court of Auditors and those reported by the Commission, there is a convergence regarding key concepts and the riskiest areas or types of expenditure (i.e. cohesion, research, some programmes in natural resources).

The risk at payment is conceptually closer ([7]) to the Court of Auditors' 'estimated level of error'. In 2022, the main differences in the error rates determined by the Court of Auditors and the risk at payment determined by the Commission concern the cohesion policy programmes. For the programmes related to international relations, the Court does not determine a specific error rate but considers that these expenditures are high risk.

In general, the differences with the Court may be explained by: differences in approach and methodology; divergences in interpreting rules and regulations, including national rules; timing differences between the Commission's checks and the Court's audits (in particular in the external relations area); and differences in the error rates applied for procedural errors in procurements.

As a basis for calculating the amount(s) at risk, 'relevant expenditure' corresponds to the payments made, minus new pre-financing paid (still owned by the Commission), plus pre-financing paid in previous years and cleared (ownership transferred to the beneficiaries) during the current financial year. This is fully in line with the Court approach ([8]).

([5]) In the case of the common agricultural policy, the term 'estimated final amount at risk' is used instead, to better reflect the fact that there is no set closure point for European Agricultural Guarantee Fund measures.

([6]) For cohesion policy funds, after the final assessment of legality and regularity of the programmes.

([7]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2021 financial year*, paragraph 1.35.

([8]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2022 financial year*, Annex 1.1 (on methodology), paragraph 18.

The 'materiality threshold' set, in most cases, at 2% of the relevant expenditure ([9]) is also in line with the Court methodology ([10]).

5.2. Risk at payment/closure reported in the 2023 annual activity reports

The risk at payment and risk at closure are determined against the **relevant expenditure** of the year, in line with the approach of the European Court of Auditors.

5.2.1. Relevant expenditure

The amount of the Commission's relevant expenditure is established in line with the Court of Auditors' scope of transactions reviewed ([11]). In this approach, pre-financing and retentions are only taken into account when the final recipient of EU funds has provided evidence of their use and the Commission (or another body managing EU funds) has accepted the final use of the funds (by clearing the pre-financing or releasing the amount retained), because this is where errors of legality or regularity may occur (see overall calculation in Table A). Therefore, the risks at payment and at closure are determined against this amount.

Furthermore, to show a complete picture of the funds for which the Commission is responsible ([12]), the expenditures made under the **European Development Fund** and those related to the **four EU trust funds have been added** (see overall calculation in Table A).

- **European Development Fund.** Until 2020, this budget was separate from the EU budget, and it is currently co-managed by five departments. In Tables B and C, the corresponding European Development Fund expenditure is included in the policy areas and the departments concerned (DG Education, Youth, Sport and Culture, DG International Partnerships, DG European Civil Protection and Humanitarian Aid Operations and the European Education and Culture Executive Agency).
- **EU trust funds.** These are the EU Trust Fund for the Central African Republic, the EU Regional Trust Fund in Response to the Syrian Crisis, the EU Emergency Trust Fund for Africa and the EU Trust Fund for Colombia (see also Volume III, Annex 11). In Table B, this expenditure is included in the external relations policy area. In Table C, it is included in DG Neighbourhood and Enlargement Negotiations, DG International Partnerships and DG European Civil Protection and Humanitarian Aid Operations. These three departments ensure the transparent and complete coverage of the relevant trust fund(s) in their annual activity reports, based on the reports from the trust fund managers. They make a distinction between their accountability for the contributions from the EU budget and/or the European Development Fund paid into the trust funds, on the one hand, and for the transactions made from the trust funds, i.e. with the funds collected from the EU budget, the European Development Fund and other donors, as a trust fund manager, on the other hand.

For the relevant expenditure of 2023 for policy area of the EU budget, please refer to **Table A** below.

([9]) The only exceptions are: (i) 1% for revenue, which is stricter than the Court, in view of the very large amounts; and (ii) the range of 2-5% for the Horizon 2020 programme (see details in Section 2.1.2, Annex II, Volume II of this report).

([10]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2022 financial year*, Annex 1.1 (on methodology), paragraph 35.

([11]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2022 financial year*, Annex 1.1 (on methodology), paragraph 18.

([12]) In line with Volume II Annex 2, this does not include the payments made under the Resilience and Recovery Facility, which are presented separately in Volume II, Annex 3.

5.2.2. Overview of the Commission's risk at payment and at closure

Table A presents an overview of the Commission's risk at payment/closure, by policy area. The splitting of the budget into these headings does not fully correspond to the budget as allocated to the 51 managing Commission departments, and thus as accounted for in their annual activity reports. For the purposes of this report, each department is allocated entirely to only one of the seven policy areas, except for DG Defence Industry and Space.

Table A – Risk at payment/closure by policy area for the whole Commission in 2023 (in million EUR)

Policy area	Total relevant expenditure (f)	Estimated risk at payment		Estimated future corrections		Estimated risk at closure	
		(g)		(h)		(i) = (g) – (h)	
		Value	Percent	Value	Percent	Value	Percent
Single market, innovation and digital	**19 082.7**	265.2	1.4%	69.8	0.4%	195.4	1.0%
Cohesion, resilience and values	**67 291.7**	1 749.2	2.6%	941.0	1.4%	808.2	1.2%
Natural resources and environment (*)	**58 090.4**	1 077.0	1.9%	763.9	1.3%	313.1	0.5%
Migration and border management	**3 045.9**	34.4	1.1%	3.5	0.1%	30.9	1.0%
Security and defence	**136.7**	0.7	0.5%	0	0.0%	0.7	0.5%
Neighbourhood and the world	**14 243.9**	118.8	0.8%	18.8	0.1%	100.0	0.7%
European public administration	**8 860.7**	48.1	0.5%	0	0.0%	48.1	0.5%
Natural resources and environment – performance based	**215.5**						
Total 2023	**170 752.2**	**3 293.4**	**1.9%**	**1 796.9**	**1.0%**	**1 496.5**	**0.9%**
Total 2022	169 396.0	3 275.8	1.9%	1 767.1	1.0%	1 508.6	0.9%

Source: European Commission annual activity reports.

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

(*) Without segments of expenditure which are performance based, for which no error rate can be determined.
Together with segments of expenditure which are performance based, the total of relevant expenditure for natural resources and the environment amounts to EUR 58 305.9 million.

Specifications of columns in Table A

(a) Estimated risk at payment (as value and as percentage). Only the cohesion policy departments (see Table B below) and a few other departments use a range of 'minimum–maximum' rates/amounts for their estimated risk at payment, but with rather minor variances between the two values.

(b) Estimated future corrections (as a value and a percentage).

(c) Estimated risk at closure (as a value and a percentage).

Cohesion

The two cohesion-related departments present a range of values:

- the lower value corresponds to the departments' risk at payment for the 2023 relevant expenditure based on their confirmed residual total error rate for the 2021/2022 accounting year;
- the upper value corresponds to a worst-case scenario (i.e. maximum risk), taking into account possible additional risks in parts of expenditure not reviewed under EU audits that indicate the possibility for higher error rates for some programmes.

Table B – Risk at payment for cohesion policy funds in 2023

		Lower value	Upper value
DG Employment, Social Affairs and Inclusion	Entire DG	1.6%	2.5%
	European Social Fund, Youth Employment Initiative, Fund for European Aid to the Most Deprived	1.6%	2.6%
DG Regional and Urban Policy	Entire DG	2.0%	2.8%
	European Regional Development Fund and Cohesion Fund	2.0%	2.9%
Total	**Two DGs cumulated**	**1.9%**	**2.7%**
	Cohesion policy funds altogether	**1.9%**	**2.8%**

Source: European Commission departments' annual activity reports.

5.3. Reservations reported in the 2023 annual activity reports

Each annual activity report includes a declaration of assurance, signed by the authorising officer by delegation and qualified by one more reservations, if necessary, which ensures transparency concerning any challenges or weaknesses encountered and their potential financial impact. Reservations preserve the principle of sound financial management by being a tool to address weaknesses and prevent them in future, through the development of action plans to mitigate risks and to strengthen control systems.

To conclude on their assurance, at the end of each financial year, the authorising officers by delegation perform a detailed analysis for each segment of expenditure of their portfolio and determine the **residual error rate** for each programme. This residual error rate is based on the (gross) detected error rate but takes into account any corrections made until the end of 2023. It is a snapshot of the level of error still affecting the 2023 expenditure at the year-end. Where this residual error rate is above the materiality threshold of 2%, the authorising officers duly qualify their declarations of assurance with a reservation. This is in line with the materiality threshold used by the European Court of Auditors ([13]) to form their opinion. A reservation may or may not have a quantifiable financial impact ([14]). The authorising officers may also issue a reservation in other situations, such as significant weaknesses in the management of funds or an event creating reputational damage to their department and/or the entire Commission.

([13]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2022 financial year*, Chapter 1, Annex 1.1 – Audit approach and methodology, paragraph 35.

([14]) Reservations are non-quantified when the financial impact is zero, when it is not possible to assess the financial impact accurately or when the consequences are only reputational.

5.3.1. 2023 reservations

For the 2023 reporting year, all 51 authorising officers by delegation declared in their annual activity reports ([15]) **that they had reasonable assurance.** The majority, 41 authorising officers by delegation, issued unqualified declarations of assurance, while 10 qualified their declarations with a total of 14 reservations. These reservations concern mainly the expenditure side of the budget and relate to a programme or a specific portfolio area affected by a weakness (see figure below). In all these cases, the authorising officers by delegation adopted action plans to address the underlying weaknesses and mitigate the resulting risks. The situation regarding reservations can be summarised as follows.

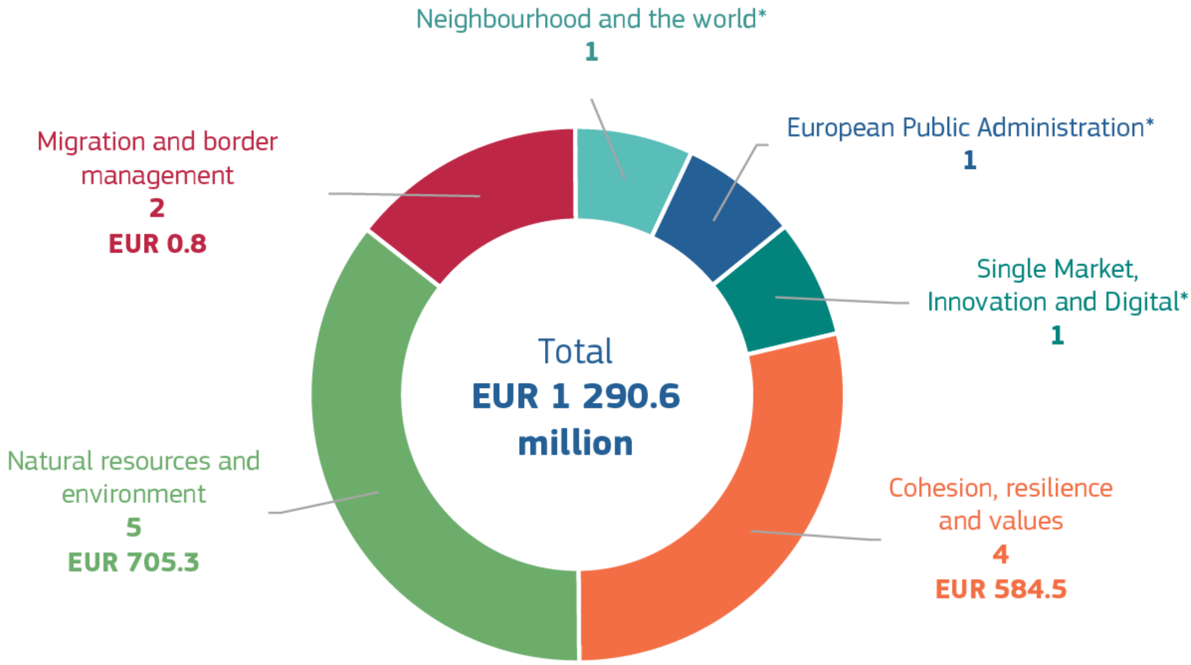
- **Ten reservations are recurrent** from previous year(s), of which four are entirely or partially non-quantified. Most of the recurrent reservations concern programmes under shared management, with weaknesses identified at the level of individual Member State, paying agency or programme, that vary every year and rarely persist thanks to the action plans in place. The root causes of the material level of error can be partially mitigated but not fully eradicated.
- **Four reservations are new**, but only one is quantified. One reservation is related to the programme for the promotion of agricultural products, regarding issues of conflict of interest and underperformance in the multi-beneficiary grant part. The other three concern programmes of the 2021-2027 multiannual financial framework: one reservation has a rather administrative content, and it is related to issues encountered with the launch of a new online testing procedure for the recruitment of EU staff, whilst the other two reservations concern weaknesses identified at the level of individual Member States.
- **Five reservations** from 2022 were lifted. Two of them concerned non-quantified reservations of the 2007-2013 multiannual financial framework, where the implementation of the programmes' multiannual corrective capacity has come to a closure with a residual error rate close to 0%. Three reservations concerned the 2014-2020 multiannual financial framework, out of which two were issued on reputational grounds in 2022 and related to the investment component of the European Innovation Council programme within Horizon Europe. The identified causes were the late implementation and weaknesses affecting the governance and control systems; however, corrective actions were immediately adopted, and, in both cases, the underlying issues have been addressed. The third reservation was issued in 2022 for the weaknesses identified in grants under EU actions and emergency assistance, however the decrease of the errors in 2023 led to the lifting of the reservation.

According to the *de minimis* rule, a financial quantified reservation is deemed not to be substantial and will not be issued ([16]) for residual error rates above 2% if the financial impact is less than EUR 5 million and the related segment represents less than 5% of the department's total payments. In 2023, eleven cases with a residual error rate above the 2% were found not to exceed the two thresholds of the *de minimis* rule, and therefore were deemed as not substantial for issuing a financial quantified reservation. The total financial impact amounted to EUR 6.4 million.

([15]) European Commission (n.d.), 'Annual activity reports', https://commission.europa.eu/strategy-and-policy/strategy-documents/annual-activity-reports_en.

([16]) Without prejudice to issuing a reservation for reputational reasons, if applicable.

Number of reservations and financial impact (in million EUR) by policy area in 2023



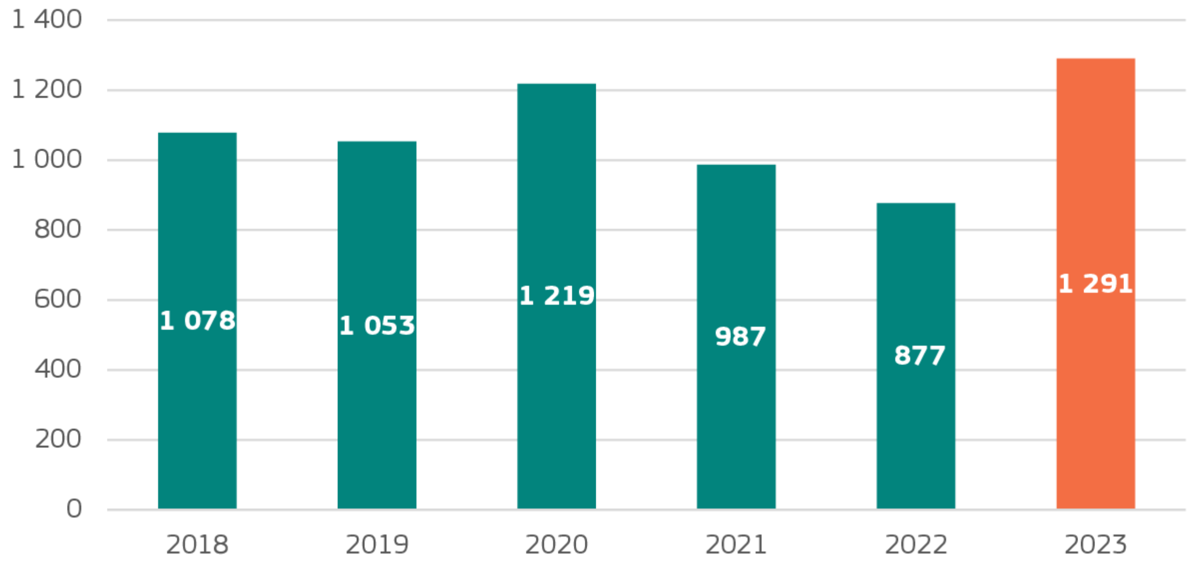
(*) Non-quantified reservation.
Source: European Commission annual activity reports.

5.3.2. Financial impact of reservations

The financial impact of reservations is obtained by multiplying the relevant programme or segment expenditure by the residual error rate. The total financial impact from all reservations was EUR 1 291 million for 2023, representing 0.8% of the total expenditure, and has increased by 47% compared to 2022 (EUR 877 million). This is attributed to the higher financial impact in the policy areas of cohesion, resilience and values, and natural resources and the environment.

The composition and evolution of the financial impact over the years are presented in the following figure below and Table C.

Financial impact of quantified reservations for the years 2018-2023 (in million EUR)



Source: European Commission annual activity reports.

Table C – Financial impact of quantified reservations 2023 by heading (million EUR)

Policy area	Payments in 2023	Relevant expenditure in 2023	Financial impact of the reservations	
			in 2023	in 2022
Single market, innovation and digital	28 055.7	19 082.7	0	0
Cohesion, resilience, and values	71 789.0	67 291.7	584.5	312.1
Natural resources and environment	57 999.4	58 090.4	705.3	555.6
Migration and border management	3 062.9	3 045.9	0.8	9.5
Security and defence	527.0	136.7	0	0
Neighbourhood and the world	16 993.6	14 243.9	0	0
European public administration	8 862.2	8 860.7	0	0
Total	**187 289.9**	**170 752.2**	**1 290.6**	**877.2**
2021-2027 programmes			0.6	0
2014-2020 programmes			1 290.0	877.2

Source: European Commission annual activity reports.

The tables below present the detailed situation concerning the reservations for 2023.

- Table D presents the 14 reservations for 2023 affecting the expenditure, divided according to the 2021-2027 and 2014-2020 programme periods.
- Table E presents all the reservations from 2022 that were lifted, because the underlying issues were addressed.
- Table F presents all the cases where the *de minimis* rule applied and were deemed as not substantial for issuing a quantified reservation.

5.3.3. Full list of reservations

Table D – 2023 list of reservations (million EUR)

Policy areas	Description of reservation	Department	Impact on legality and regularity	Financial impact
Programmes of the 2021-2027 multiannual financial framework				
Cohesion, resilience and values	European Regional Development Fund / Cohesion Fund / Just Transition Fund (5 programmes in 4 Member States)	DG Regional and Urban Policy	Reservation issued in 2023 Non-quantified	
Migration and border management	Financial support for Border Management and Visa policy Instrument (in 1 Member State)	DG Migration and Home Affairs	Reservation issued in 2023 Quantified	0.6
European public administration	Reputational reservation for the issues encountered when implementing the new selection procedures and competitions for EU staff	European Personnel Selection Office	Reservation issued in 2023 Non-quantified	
Total	**3 reservations**	**3 departments**		**0.6**
Programmes of the 2014-2020 multiannual financial framework				
Single market, innovation and digital	Promotion of agricultural products – direct management: multi-beneficiary grants scheme	European Research Executive Agency	Reservation issued in 2023 Non-quantified	
Cohesion, resilience, and values	European Social Fund, the Youth Employment Initiative and Fund for European Aid to the Most Deprived (15 programmes in 7 Member States)	DG Employment, Social Affairs and Inclusion	Quantified	**440.0**
	Programme for citizens, equality, rights and values and programme for justice – direct grants	DG Justice and Consumers	Quantified	**1.6**
	European Regional Development Fund / Cohesion Fund (38 programmes in 16 Member States and the United Kingdom, out of which 9 European territorial cooperation programmes)	DG Regional and Urban Policy	Quantified	**142.8**

Policy areas	Description of reservation	Department	Impact on legality and regularity	Financial impact
Natural resources and environment	European Agricultural Guarantee Fund - market measures (4 reservations in 3 Member States)	DG Agriculture and Rural Development	Quantified	**38.4**
	European Agricultural Guarantee Fund - direct payments (12 paying agencies in 11 Member States)	DG Agriculture and Rural Development	Quantified	**305.2**
	European Agricultural Fund for Rural Development (21 paying agencies in 17 Member States and the United Kingdom)	DG Agriculture and Rural Development	Quantified	**361.6**
	EU emissions trading system registry – security weakness	DG Climate Action	Non-quantified	
	European Maritime and Fisheries Fund (in 1 Member State)	DG Maritime Affairs and Fisheries	Non-quantified	
Migration and border management	Management and control systems for the Asylum, Migration and Integration Fund (in 3 Member States) and for the Internal Security Fund (in 6 Member States and Iceland)	DG Migration and Home Affairs	Non-quantified (6 Member States) Quantified (Iceland)	**0.2**
Neighbourhood and the world	External restrictions to control financial programmes in Libya, Syria and Ukraine.	DG Neighbourhood and Enlargement Negotiations	Non-quantified	
Total	**11 reservations**	**9 departments**		**1 290.0**
Total for 2023	**14 reservations**	**10 departments**		**1 290.6**

Source: European Commission annual activity reports.

Table E – 2022 reservations lifted during 2023 because the underlying issues had been resolved (million EUR)

Policy area	Description of reservation	Department	Financial impact in 2022	Financial impact in 2023	Assessment result
Programmes of the 2014-2020 multiannual financial framework					
Single market, innovation and digital	European Innovation Council – late implementation and weaknesses in the governance and control systems of the investment component	European Innovation Council and SMEs Executive Agency	Non-quantified	Non-quantified	Lifted (mitigated)
	European Innovation Council – weaknesses in the governance and control systems of the investment component delegated to European Innovation Council and SMEs Executive Agency	DG Research and Innovation	Non-quantified	Non-quantified	Lifted (mitigated)
Migration and border management	Centralised direct management – EU actions and emergency assistance grants	DG Migration and Home Affairs	7.0	Non-quantified	Lifted (mitigated)
Programmes of the 2007-2013 multiannual financial framework					
Cohesion, resilience and values	European Social Fund (1 programme in 1 Member State)	DG Employment, Social Affairs and Inclusion	Non-quantified	Non-quantified	Lifted (mitigated)
	European Regional Development Fund / Cohesion Fund (6 programmes in 3 Member States)	DG Regional and Urban Policy	Non-quantified	Non-quantified	Lifted (mitigated)
Total for 2023	**5 reservations**	**5 departments**	**7.0**		

Source: European Commission annual activity reports.

Table F – Application of the *de minimis* rule – reservations not issued during 2023 (million EUR)

Policy area	Description of reservation	Department	Impact on legality and regularity	Financial impact in 2023
Single market, innovation and digital	Programme for the competitiveness of small and medium-sized enterprises	European Innovation Council and SMEs Executive Agency	Quantified	0.71
	Consumer programme 2014-2020, grants segment	European Innovation Council and SMEs Executive Agency	Quantified	0.05
	Emergency Support Instrument	DG Communications Networks, Content and Technology	Quantified	0.03
	Pilot projects and preparatory actions	DG Communications Networks, Content and Technology	Quantified	0.63
	Connecting Europe Facility Telecom sector – digital service infrastructure	European Health and Digital Executive Agency	Quantified	1.48
	Seventh framework programme	DG Energy	Quantified	0.72
	Seventh framework programme	European Research Executive Agency	Quantified	0.00 ([17])
	Seventh framework programme	DG Research and Innovation	Quantified	0.01
Natural Resources and Environment	Instrument for Pre-accession Assistance Rural Development programmes (IPARD II) - Indirect management (1 reservation for Albania)	DG Agriculture and Rural Development	Quantified	1.43
Cohesion, Resilience and Values	Technical Support Instrument – Non-pillar assessed grants	DG Structural Reform Support	Quantified	0.11
Recovery and Resilience Facility	Recovery procedure not correctly applied by the MS	DG Economic and Financial Affairs	Quantified	1.23
Total for 2023	**11 reservations**	**9 departments**		**6.4**

Source: European Commission annual activity reports.

([17]) The financial impact amounts to EUR 167.03.

5.4. Preventive and corrective measures implemented in 2023

This subsection presents the preventive and corrective measures implemented in 2023, which mainly relate to expenditure from previous years. They result from both the Commission and the Member States' audits and controls.

Under shared management, the Member States are primarily responsible for identifying any amounts unduly paid and recovering them from beneficiaries. Controls carried out by Member States represent an essential layer of control in the activities to protect the EU budget. These controls lead to corrections implemented by the Member States before and after they submit their payment claims or annual accounts to the Commission. As such, they are a key component of the preventive and corrective mechanisms. The Commission can apply preventive measures and/or financial corrections due to: irregularities or serious deficiencies identified but not corrected by Member State authorities; its own verifications and audits; investigations by the European Anti-Fraud Office; and audits by the European Court of Auditors.

Table G provides a complete overview of all the preventive and corrective measures implemented ([18]) in 2023 by the Commission and the Member States to protect the EU budget, irrespective of the year in which the initial expenditure was made.

([18]) In general, for corrective measures we use corrections implemented as booked in the accounting system of the Commission.

For agriculture, this includes financial corrections applied by the Commission and Member States' recoveries reported to and booked into the Commission's accounting system:

- a financial correction is implemented when: (i) it is recorded in the Commission's accounts; (ii) it is deducted from the amounts declared by the Member State in an interim, final payment claim or the annual accounts; and (iii) the commitment appropriations corresponding to the financial correction amount have been cancelled.
- for the Member State recoveries, corrections are implemented when the Member States have issued the recovery orders (or equivalent) to the final beneficiaries and reported them accordingly to the Commission (DG Agriculture and Rural Development) in the updated 'debtors ledger' of year *n* (usually in February *n* + 1).

For cohesion, the situation differs depending on the programming periods in question and not all the data comes from the Commission's accounting system.

- **Pre-2014 programmes.** In case no financial transaction will take place at the closure of the programme, a correction is implemented by the Commission when it has been applied and included in the pre-closure / closure letter accepted by the Member State.
- **Post-2014 programmes.** All corrections are implemented by Member States. The amounts are obtained from the assurance packages submitted to the Commission.

Table G – Overview of the preventive and corrective measures resulting from the controls of the Commission and of the Member States, amounts implemented in 2023 (million EUR)

Multiannual financial framework heading	Preventive			Relevant expenditure	Corrective			% of relevant expenditure	Total preventive and corrective
	Member State controls	EU controls	Total		Member State controls	EU controls	Total		
	(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f)	(g) = (e) + (f)	(h) = (g) / (d)	(i) = (c) + (g)
1. Single market, innovation and digital		121.1	**121.1**	19 082.7		28.6	**28.6**	**0.15%**	**149.8**
2. Cohesion, resilience and values	1 631.6	12.1	**1 643.7**	67 291.7	565.9	161.3	**727.2**	**1.08%**	**2 370.9**
3. Natural resources and environment	489.9	0.3	**490.3**	58 090.4	428.9	238.5	**667.4**	**1.15%**	**1 157.6**
4. Migration and border management	0.1	1.2	**1.3**	3 045.9		1.1	**1.1**	**0.04%**	**2.5**
5. Security and defence		1.9	**1.9**	136.7				**0.00%**	**1.9**
6. Neighbourhood and the world		138.1	**138.1**	14 243.9		12.4	**12.4**	**0.09%**	**150.5**
7. European public administration		2.7	**2.7**	8 860.7		0.8	**0.8**	**0.01%**	**3.5**
Total	**2 121.6**	**277.5**	**2 399.1**	**170 752.2**	**994.8**	**442.7**	**1 437.6**	**0.84% ([19])**	**3 836.7**

Source: European Commission and the annual activity reports of the DGs.

(a) For shared management, details for each Member State are provided in the annual activity reports of DG Employment, Social Affairs and Inclusion, DG Agriculture and Rural Development, DG Maritime Affairs and Fisheries and DG Regional and Urban Policy.

(b) For cohesion, under corrective EU controls, part of the corrections corresponds to the results of the audits of the Commission, the Court of Auditors, and the European Anti-fraud Office, as decided and agreed with the Member States in 2023, and are implemented directly by the Member States (EUR 32 million). The remainder corresponds to corrections related to the previous programming period (EUR 126 million).

(d) Relevant expenditure without performance-based expenditure for DG Agriculture and Rural Development.

(f) The total of EUR 442.7 million is composed of: (i) the amounts booked in the Commission's accounting system: recovery orders issued by the Commission in all headings and the financial corrections in the agriculture sector; and (ii) amounts decided and agreed following the Commission's audits (and the follow-up of European Anti-Fraud Office investigations and Court of Auditors audits) in cohesion.

NB: due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

5.4.1. Cohesion, resilience and values

Under this heading, the **preventive measures** (EUR 1 644 million) implemented in 2023 are lower than in 2022 (EUR 2 317 million), which is consistent with the decrease of around 40% of the expenditure declared in the Member State accounts. The **corrective measures** implemented in 2023 (EUR 727 million) have slightly decreased compared to 2022 (EUR 789 million). Most of this amount, EUR 598 million, is related to the 2014-2020 programming period cohesion policy funds and corresponds to withdrawals and recoveries deducted in the 2022-2023 annual accounts, out of which EUR 566 million) ([20]) is attributed to Member State audits and controls and EUR 32 million corresponds to the results of the audits of the Commission, along with the follow-up of European Anti-Fraud Office investigations and Court of Auditors audits. The decrease compared to 2022 (EUR 138 million) is due to the fact that significant amounts of corrections resulting from Commission audits and controls were accepted by the Member States in 2022. Other corrections might be

([19]) This is in line with the overall estimated future corrections for 2023, in the range of 0.7% to 1.1%.

([20]) This amount includes the corrections made to ensure a risk at closure below 2% for all programmes.

linked to the Commission's work [21]. However, given the difficulty to trace them and the risk of overlap with the results of the audits, the Commission conservatively only reports this minimum amount.

In addition to systematic controls of all operations by management authorities, there is also a wide coverage of the expenditure through the audit operations carried out by the national audit authorities, around 10% of the expenditure declared in 2023. The Commission relies on all this work and takes it into account to plan its own audits in a cost-effective manner. This explains why the share of corrections attributed to the Commission is lower than that of the Member States.

For cohesion policy funds, the **assurance model for the 2014-2020 programming period** has been designed to reduce the risk of a material level of error in the annual accounts submitted by the Member States. This is evidenced by the significant decrease, over the years and in comparison with the 2007-2013 programming period, of the risk at payment determined by the Commission, after the deductions and withdrawals made by the Member States. During the accounting year, the Commission retains 10% of all interim payments until the national control cycle is finalised.

So far, the Commission has not decided to implement net financial corrections for cases where Member States have not appropriately addressed serious deficiencies before submitting their annual accounts. The co-legislators have set restrictive conditions, which in practice limits the application of net financial corrections. The regulation for the 2021-2027 programming period aims to bring simplification in this area.

In 2023, no preventive or corrective measures were implemented for the 2021-2027 programming period. For 2007-2013 and previous programming periods, the Commission applied corrective measures of EUR 126 million, which is comparable to EUR 130 million in 2022.

5.4.2. Natural resources and environment

The **corrective measures** applied in 2023 amounted to **EUR 667 million**, which is a decrease compared to 2022 at EUR 956 million. Most of these corrections, **EUR 660.7 million, concern agriculture and rural development**. In this area, **Member States controls** resulted in **EUR 425 million** of corrective measures [22], whereas the **Commission's net financial corrections amounted to EUR 235 million**, a decrease compared to 2022 (EUR 613 million).

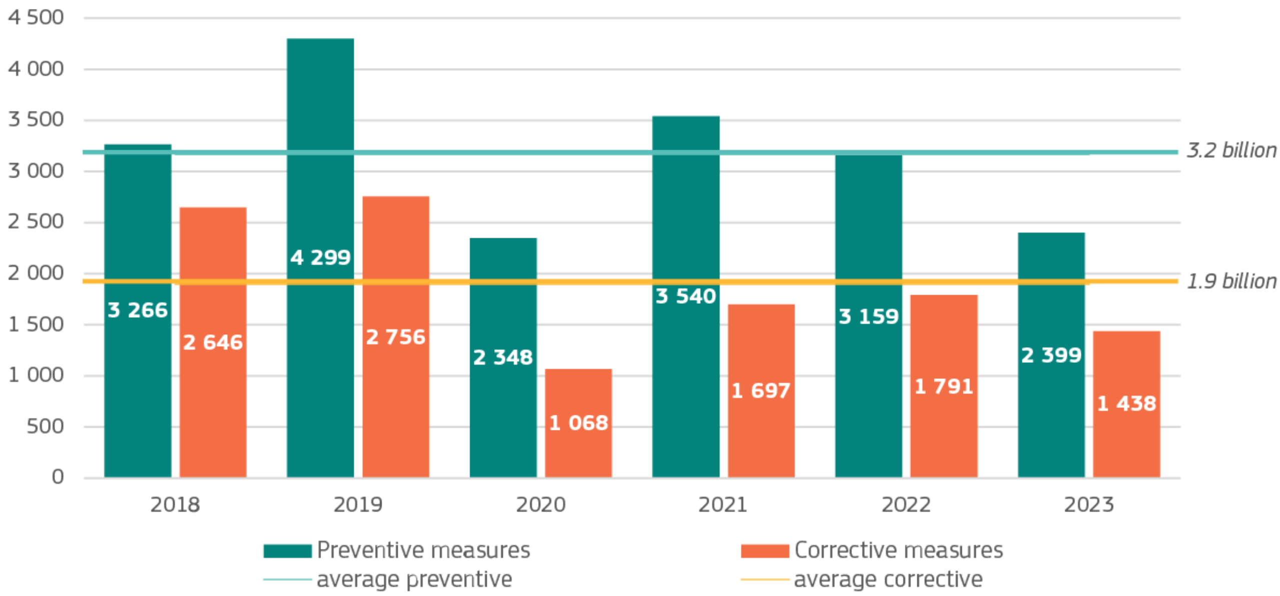
Net financial corrections are characteristic of the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The decrease in the amount of the Commission's net financial corrections in 2023 compared to 2022 is mostly explained by the fact that these corrections are not linear and may be higher some years and lower in others. While the overall trend is a decrease, as the programming period for the European Agricultural Guarantee Fund nears its conclusion (the last implementation years are claim years 2021-2022, i.e. financial years 2022 and 2023) and Member States have improved their systems by learning from experience, there may still be significant net financial corrections for previous financial years. In 2023, these net financial corrections related notably to weaknesses in on-the-spot checks, insufficient control procedures for checking eligibility, public procurement verifications or deficiencies in the administrative checks for reasonableness of costs.

(21) For example, for the assurance packages received in 2023, DG Employment, Social Affairs and Inclusion and DG Regional and Urban Policy adjusted the reported residual error rate for 168 programmes following desk reviews of the Commission and audits of the European Court of Auditors.

(22) Out of the EUR 425 million: EUR 230 million were penalties/reductions imposed on final beneficiaries by the Member States, recovered and reimbursed to the EU budget and EUR 195 million were penalties/reductions applied by the Member States, recovered and reused as regular expenditure to other final beneficiaries without reimbursement to the EU budget.

5.4.4. Multiannual overview

Preventive and corrective measures implemented for the years 2018-2023 (in million EUR)



Source: European Commission – 2018-2023 annual activity reports and annual management and performance reports.

For 2018-2023, the preventive and corrective measures amounted to EUR 30.4 billion. The highest amounts of preventive and corrective measures are under heading 2 (Cohesion, resilience, and values) and heading 3 (Natural resources and environment), which is consistent with the high level of expenditure under these headings.

Preventive measures amounted to EUR 19 billion for the period, which substantiates the important role of the Member States in protecting the EU budget through their controls before the Commission accepts and reimburses expenditure. **Corrective measures amounted to EUR 11.4 billion**; the evolution over time of corrective measures in shared management is to be interpreted considering the significant backlog in their implementation according to the applicable legislation. Especially for cohesion policy funds, significant corrective measures were applied during the first years analysed. These corrections still referred mostly to expenditure declared in previous programming periods (for which the risk at payment determined at the Commission level was significantly higher), while corrective measures applied for the 2014-2020 programming period have increased, in line with the maturity of the expenditure implementation.

5.4.5. Net financial corrections implemented by the Commission in 2023

The following table presents the types of net financial corrections applied by the Commission as corrective measures in shared management in 2023.

Table H – 2023 net financial corrections implemented by the Commission (corrective measures in shared management) (in million EUR)

Multiannual financial framework heading/fund	Net financial corrections						
	2014-2020 multiannual financial framework and previous frameworks			2021-2027 multiannual financial framework			Total net financial corrections
	Recovery order	Decommitment	Total	Recovery order	Decommitment	Total	
	(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (d) + (e)	(g) = (c) + (f)
2. Cohesion, resilience and values (*)	**55.3**	**43.6**	**98.9**				**98.9**
European Regional Development Fund and Cohesion Fund	47.6	43.6	91.2				91.2
European Social Fund / Youth Employment Initiative and Fund for European Aid to the Most Deprived	7.7		7.7				7.7
3. Natural resources and environment (**)	**181.8**		**181.8**	**53.7**		**53.7**	**235.5**
European Agricultural Guarantee Fund	99.6		99.6	23.6		23.6	123.2
European Agricultural Fund for Rural Development	82.2		82.2	30.0		30.0	112.2
European Maritime and Fisheries Fund / European Fisheries Fund / Financial Instrument for Fisheries Guidance	0.0		0.0				0.0
4. Migration and border management							
Total	**237.2**	**43.6**	**280.7**	**53.7**		**53.7**	**334.4**
European Globalisation Fund (special instruments)	0.0		0.0				0.0
Total, including special instruments	**237.2**	**43.6**	**280.7**	**53.7**		**53.7**	**334.4**

Source: European Commission.

NB: due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

(*) For cohesion funds, all the amounts presented in the table above concern **net financial corrections applied in respect of pre-2014 programmes.**

During the 2000-2006 and 2007-2013 programming periods, the applicable legislation allowed Member States to replace irregular expenditure with new expenditure if they took the necessary corrective actions and applied the related financial corrections (confirmed financial corrections). However, if the Member States did not have such additional expenditure to declare, the financial corrections became (at least in part) net corrections.

Net financial corrections also originate from Commission decisions ('decided' financial corrections), which always had a direct and net impact on the Member State, as it was not possible to reuse the corrected amount for other eligible operations and the Member States had to return the financial corrections amounts to the EU budget.

In both cases of net financial corrections, the operational programmes' envelopes were reduced, and the Member States had to pay the amounts back to the EU budget (**implementation by recovery order issued by the Commission** – column a) and/or at closure they got a lower overall funding envelope (**implementation by decommitment** – column b).

(**) For the purposes of calculating its corrective capacity in the annual activity report, DG Agriculture and Rural Development only takes into account the executed amounts that relate to conformity clearance decisions adopted by the Commission and published in the *Official Journal of the European Union* and deducts the corrections in respect of cross-compliance infringements.

Annex 6 – Assurance provided by the Internal Audit Service

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The work of the Internal Audit Service, its audit findings and recommendations, along with the results of the oversight provided by the Audit Progress Committee, contribute to the overall assurance-building process at the Commission level. For the 2023 reporting year, the Internal Audit Service produced an annual internal audit report, in line with Article 118(4) of the financial regulation ([23]), which: (i) summarised the performance audits completed in 2023; (ii) presented the overall opinion on financial management for the year 2023; (iii) recalled the contribution of the Internal Audit Service to the annual activity reporting of the Commission's directorates-general and the executive agencies; and (iv) reported on progress in implementing its audit recommendations.

Financial management: Internal Auditor's overall opinion

Based on:

- the work done by the Internal Audit Service covering the years 2021-2023, the principal findings and recommendations of which are summarised in its reports and annexes submitted under Article 118(4) of the Financial Regulation issued in parallel to the annual overall opinion,
- reviews of the related accountability reports provided by management and the assurances given by management in their annual activity reports and annexed declarations of assurance,
- information presented in the draft Annual Management and Performance Report for the EU Budget – financial year 2023 (Volume II, Annexes 2 and 3, and Volume III, Annex 5), the Annual Management and Performance Report for the EU Budget – financial year 2022 (Annexes 2 and 3 in Volume II, and Annex 5 in Volume III), and the Annual Management and Performance Reports for the EU Budget – financial year 2021 (section 2 and annex 5) as part of the integrated set of financial and accountability reports (Article 247 of the Financial Regulation),
- information from other sources, the European Court of Auditors' reports,

and taking into account that:

- management has adopted plans which the Internal Audit Service considers are adequate to address the residual risks identified by auditors, and to implement the accepted recommendations made by the Internal Audit Service, and
- the implementation of these plans is monitored through reports by management and through follow-up audits by the Internal Audit Service,

([23]) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012, OJ L 193, 30.7.2018, p. 1, ELI: http://data.europa.eu/eli/reg/2018/1046/oj (financial regulation).

the Internal Auditor considers that in 2023 the Commission put into place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance over the achievement of its financial objectives, with the exception of those areas of financial management over which authorising officers by delegation have expressed reservations in their declaration of assurance.

Without further qualifying the overall opinion on the year 2023, the Internal Auditor issues an emphasis of matter by drawing the attention of the Members of the College and the authorising officers by delegation to the need to build on the lessons from managing its financial resources in a challenging context.

The response to challenges over the past few years has underlined the strengths and flexibility of the EU budget and NextGenerationEU to react to crises. However, new high risks that may affect assurance and performance have arisen due to the fast-paced and volatile environment, where responding to crises is becoming the norm, coupled with the unprecedented amounts mobilised, the creation of innovative and complex instruments and new approaches to existing programmes.

To ensure that the budget is duly protected over time, it is important to keep the focus on measures to mitigate these risks. In addition to collaboration with Member States and with third parties, areas that will continue to require particular attention include performance-based programmes and financial instruments. This is against a backdrop of extraordinary pressure on human resources, already identified within the Commission as a crosscutting risk, which makes the achievement of policy and financial management objectives even more challenging.

Furthermore, the Commission needs to ensure that adequate governance, risk management and internal control arrangements are designed for the programmes and instruments conceived for the next Multiannual Financial Framework.

The IAS will continue to monitor the impact of the risks on the soundness of the Commission's financial management.

Performance: results of audits by the Internal Audit Service

With a view to contributing to the Commission's performance-based culture and greater focus on value for money, the Internal Audit Service carried out performance audits and audits that included important performance elements (comprehensive audits) in 2023 as part of its 2021-2024 strategic audit plan. The Internal Audit Service made recommendations to help improve the overall performance of several key processes. The need for significant improvements was identified in the following audits.

Performance management

Political stakeholders and the public increasingly require clear evidence of the Commission's delivery on its political and operational objectives.

The Commission uses evaluations as an important tool for the effective and efficient management of interventions. The Internal Audit Service assessed the adequacy of the process in the Directorates-General for International Partnerships, and for Neighbourhood and Enlargement Negotiations and the Service for Foreign Policy Instruments, along with the effectiveness and efficiency of evaluations in achieving their main objectives. Although the audited directorates-general and the Service for Foreign Policy Instruments put in place an evaluation framework, the process to evaluate interventions requires further improvements for the efficient and effective achievement of the main evaluation objectives.

Horizon Europe is the key instrument to steer and support the European Union's research and innovation for the 2021-2027 period. The Internal Audit Service assessed its governance and found that although the governance arrangements and the processes to prepare the work programmes and the budget planning are, overall, adequately designed and effectively implemented, further improvement is needed regarding the specific governance arrangements for EU missions.

Internal control systems: legality and regularity

Providing reassurance to the College and the directorates-general and services on the efficient and effective implementation of the internal controls as regards financial management remains one of the priorities of the Internal Audit Service.

The Internal Audit Service conducted a thematic review of the Commission's risk at payment in the Directorate-General for Budget and a sample of directorates-general and services. The Internal Audit Service recognised that the Commission has made efforts to improve the quality and clarity of the reporting on the risk at payment both at the directorate-general/service level (in the annual activity reports) and at the corporate level (in the annual management and performance report). The corporate instructions for the reporting on the risk at payment and risk categorisation are overall well-designed and effectively implemented by the sampled directorates-general and services. However, further improvement is required in the Commission's analysis and reporting of the root causes of errors in relation with the European Court of Auditor's findings.

In addition, an audit was conducted to assess the adequacy of the design of the management and control systems put in place by the Joint Audit Directorate for Cohesion to ensure the efficient and effective implementation of its mandate. The structure of the Joint Audit Directorate for Cohesion presents several challenges, relating to managing corporate administrative processes, some of which are not under the direct control of the directorates-generals and the Joint Audit Directorate. Although the Joint Audit Directorate for Cohesion has put in place adequately designed management and control systems to implement its mandate effectively, there remains a need for further improvement in the internal efficiency of its activities due to its complex organisational structure. In addition, the Joint Audit Directorate has not made a documented comprehensive assessment of the efficiency gains achieved from its creation. Furthermore, the Joint Audit Directorate continues to use different information technology systems and tools to support its processes, which are not fully integrated, and which impacts on the efficiency of operations.

The Internal Audit Service also carried out an audit on the implementation of the Innovation Fund, up to the signature of the grant agreements, in the Directorate-General for Climate Action and the European Climate, Infrastructure and Environment Executive Agency. While overall the audited services have designed and put in place adequate controls and processes for the implementation of the Innovation Fund, there is a need for further improvement in the efficiency and effectiveness of the process for the evaluation of proposals.

As a performance-based instrument, payments from the Recovery and Resilience Facility are solely linked to the satisfactory achievement by the Member States of the pre-defined milestones and targets set in the national recovery and resilience plans. The Internal Audit Service conducted an audit on *ex ante* controls of the Recovery and Resilience Facility payment requests in the Directorate-General for Economic and Financial Affairs and in the Recovery and Resilience Task Force, and concluded that the design and implementation of the *ex ante* controls for the assessment of the Member States' payment requests need to be further enhanced, both in the assessment of the audit and control milestones and in the protection of sensitive non-classified information.

Information security and technology

In view of increased information security concerns, legal obligations, Member States' expectations, new user requirements and a corporate approach to information management, the Commission adopted (i) in 2018, a digital strategy aiming to bring new innovative digital solutions to support its policies and activities, and (ii) in 2022, a proposal for a regulation on information security, which proposes common information security rules for all EU institutions and agencies.

The European Commission is exposed to high inherent information security risks, including the risk to confidentiality of information. In this context, the audit on protection of confidentiality of information was conducted in the three key actors responsible for information security at the corporate level – the Secretariat-General, the Directorate-General for Human Resources and Security and the Directorate-General for Digital Services. The Commission has progressed in putting in place an adequate corporate framework and effective corporate controls, including effective risk management, for protecting the confidentiality of information. However, significant actions are still required at the corporate level, to more effectively support the Commission services in their responsibility to protect the confidentiality of information. These relate to external service providers, information technology controls and the process for managing information security incidents.

The 'Case management rationalisation' project is the flagship of the Commission's information systems rationalisation exercise in the case management area. Based on its audit work, the Internal Audit Service concluded that, although the Directorate-General for Competition has made progress in designing and implementing governance and internal control processes for the project, there is a need for further improvement as regards the way in which certain information technology security controls have been designed, applied or documented.

The EU Emissions Trading System is a cornerstone of the EU's policy to combat climate change as a key tool for reducing greenhouse gas emissions cost-effectively. The Internal Audit Service conducted the limited review of the security plan and associated security measures of the system, which is managed by the Directorate-General for Climate Action. While the security processes of the system have gradually become more mature, further improvement is required in the design of the 2022 information technology security plan for the system and the governance framework for its implementation.

Internal Audit Service limited conclusions

The Internal Audit Service issued limited conclusions on the state of internal control to all DGs and services ([24]) in February 2024. These limited conclusions contributed to the 2023 annual activity reports of the directorates-general and services concerned. They drew on the audit work carried out in the last 5 years and cover all open recommendations issued by the Internal Audit Service. The Internal Audit Service's conclusions on the state of internal control in the directorates-general are limited to the management and control systems that were audited in the past 5 years.

Follow-up of previous Internal Audit Service recommendations

The Internal Audit Service's follow-up work on its previous recommendations confirmed that, overall, these are being implemented satisfactorily by the Commission's directorates-general, services and executive agencies and that the control systems in the audited departments are improving.

([24]) No audits were carried out in the advisory service Inspire, Debate, Engage and Accelerate Action during the 2019-2023 period, as no high risks were identified, and therefore no limited conclusion was provided.

Over the 2019-2023 period, 70% (i.e. 557 out of a total of 791) of the (partially) accepted recommendations ([25]) made by the Internal Audit Service to the Commission departments were assessed by the auditees as implemented, while 30% (234 recommendations) were still in progress (stemming notably from recently completed audits for which the action plans are ongoing) at the cut-off date of 31 January 2024. Out of these 234 recommendations in progress, none are rated as critical and 64 are rated as very important. A further 38 recommendations still in progress are overdue and only three (very important) are long overdue (i.e. still open more than 6 months after the original implementation date), representing 0.4% of the total number of (partially) accepted recommendations of the past 5 years.

Once management reports that the recommendations have been completed, the Internal Audit Service conducts follow-up audits to assess the effectiveness of their implementation. The Internal Audit Service concluded that 97% of the recommendations followed up in 2019-2023 had been adequately and effectively implemented by the auditees.

([25]) Out of 795 recommendations issued in 2019-2023, 789 recommendations were fully accepted, two were partially accepted and four were rejected.

Annex 7 – Summary of the work and conclusions of the Audit Progress Committee

Annex 7 – Summary of the work and conclusions of the Audit Progress Committee

The Audit Progress Committee held four ([26]) rounds of meetings between June 2023 and May 2024. The committee's work was structured around the four key objectives set out in the 2023 and 2024 work programmes. During this reporting period, the committee also considered a number of other issues.

Considering the very significant impact of the Russian invasion of Ukraine, the ensuing energy crisis and the COVID-19 pandemic, the Commission formulated unprecedented response initiatives and took measures to ensure its own business continuity. At various occasions in 2023 and 2024, the committee took stock of the potential impact of these events on the internal audit work and capacity, and was informed about the risks on performance, control, audit and assurance-building aspects of the implementation of the EU budget. This occurred especially when considering the internal and external audit planning for 2023 and 2024, the list of critical risks identified by management for 2024 and the Internal Auditor's overall opinion on financial management for 2023.

The majority of the committee's work between June 2023 and May 2024 related to the four main objectives of its annual work programme: (i) considering the **audit planning**; (ii) analysing **audit reports** and other relevant communications to identify potentially significant risks, including where appropriate in a thematic manner; (iii) monitoring the **follow-up to significant residual risks** identified by internal or external audit work, including where appropriate in a thematic manner; and (iv) ensuring the **independence and objectivity** of the Internal Auditor and monitoring the quality of internal audit work.

When considering the Internal Audit Service's audit plan for 2024, the committee welcomed the fact that it takes due account of the **high risks that were identified in key areas for the Commission**, such as performance, legality, regularity and NextGenerationEU, along with evolving topics such as geopolitical and external risks. It also took note of the important reassurances provided by the Internal Auditor that the audit plan will provide **sufficient coverage** for delivering the overall opinion on the Commission's financial management, along with the limited conclusions on internal control, notwithstanding the challenges which the Internal Audit Services faces in an ever-more complex audit environment.

The committee also welcomed the convergence between the critical risks identified by management and the high risks identified by the Internal Audit Service as translated by the audit topics included in the audit plan, which continues to illustrate the robustness of the institution's approach to risk management.

The committee took note of the **draft annual internal audit report and the draft overall opinion for 2023**, which was only qualified by the reservations set out by the Directors-General in their annual activity reports. It welcomed the reassurance provided by the Internal Auditor that the risks identified through the audit work were properly reported by the Commission services and, where appropriate, the subject of reservations. The committee took note of the emphasis of matter raised by the Internal Auditor, which does not qualify the overall opinion, but require the attention of the College and the authorising officers by delegation. This concerned the need to build on the lessons from managing its financial resources in a challenging context, in particular the new emerging high risks that may affect assurance and performance due to the fast-paced and volatile environment. The committee underlined the importance of the elements raised by the Internal Auditor under the emphasis of matter and called on the Commission's Directorates-

([26]) The 111th, 112th, 113th and 114th rounds of the Audit Progress Committee. Each round comprised two to three meetings of the Preparatory Group to prepare the committee meeting.

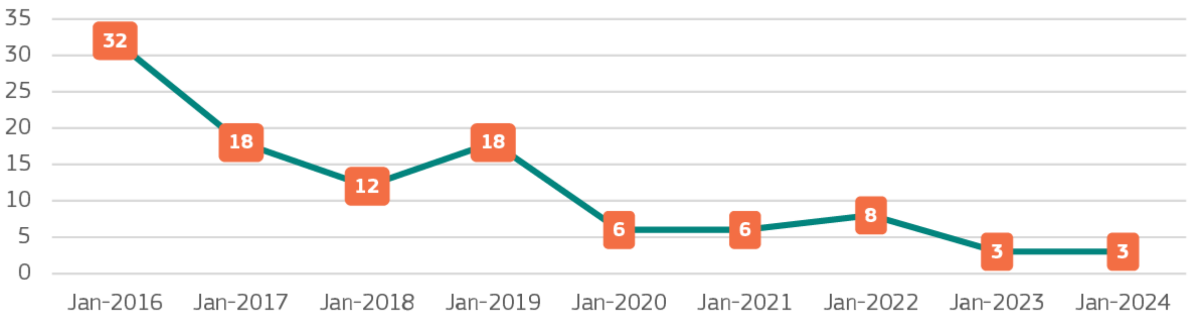
General and services to continue to pay due attention to these matters in view of ensuring the sound financial management of EU funds and the effective protection of the EU budget over time.

During the reporting period, the committee examined audit reports on an individual or thematic basis according to the seriousness or significance of the findings. It examined 10 final audit reports from the Internal Audit Service in the presence of the auditees. The committee held discussions on important topics such as the Commission's risk at payment and the controls of the Recovery and Resilience Facility given their importance in ensuring and demonstrating the Commission's capacity in the protection of the EU budget. It also held discussions on information technology security-related topics, which are especially relevant in the current cybersecurity environment.

During the reporting period, the committee monitored the effective implementation of internal audit recommendations by reviewing and discussing the quarterly reports on long-overdue recommendations. Almost all 'very important' recommendations ([27]) issued by the Internal Audit Service and discussed during the reporting period were accepted by the auditees, and management established action plans to address the risks identified. Overall, **the situation for the implementation of the recommendations was very satisfactory.**

The rate of the Internal Auditor's recommendations issued between 2019 and 2023 that were found to have been effectively implemented in an Internal Audit Service follow-up audit was 97%. Based on the information provided by the Internal Audit Service, overall, the number of 'very important' audit recommendations that are more than 6 months overdue has fallen considerably over recent years, as shown in the chart below.

Number of critical and very important Internal Audit Service recommendations overdue for more than 6 months



Source: European Commission.

During the reporting period, the Audit Progress Committee also continued its exchanges with the European Court of Auditors and held a discussion with the external auditor on its 2024 annual work programme. It also continued to scrutinise the state of play of implementation of the Court's recommendations, which improved and remained satisfactory, along with the Commission's follow-up to the Court's 16th consecutive unqualified opinion on the reliability of the consolidated EU accounts.

The Audit Progress Committee remains an effective player in the Commission's governance structures and continues to play an important role in enhancing governance, organisational performance and accountability across the entire organisation.

([27]) For one 'very important' finding, the services rejected the associated recommendations but developed alternative measures to address the high risks.

Annex 8 – Compliance with payment time limits

Annex 8 – Compliance with payment time limits

The **statutory time limits** for payments are laid down in the financial regulation on the financial rules applicable to the general budget of the EU ([28]). There are also some exceptionally applied time limits, which are detailed in sector-specific regulations.

Article 116 of the financial regulation foresees that payments to creditors must be made within the deadlines of 30, 60 or 90 days, depending on how demanding and complex it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days; this represents a global average of 86% of the total annual payments in the last five years (2019 to 2023) and a global average of 85% of the total annual payments in the current multiannual financial framework (2021 to 2023). For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the purposes of the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of 2 months remains valid for payments under Article 93 of the common provisions regulation ([29]) laying down the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

Compliance with payment time limits has been reported by the services in their annual activity reports since 2007. In accordance with the applicable rules, the payment times reported in this annex have been calculated based on the data available in the Commission's corporate accounting system, ABAC, as follows.

For payments relating to contracts and grant agreements signed before 2013, the time limits specified in the 2007 financial regulation are applied:

- where the payment is contingent upon the approval of a report, the time from approval of the report until payment;
- where no report is required, the time from reception of the payment request until payment.

For payments relating to contracts and grant agreements signed as from 2013, the 2018 financial regulation is applied:

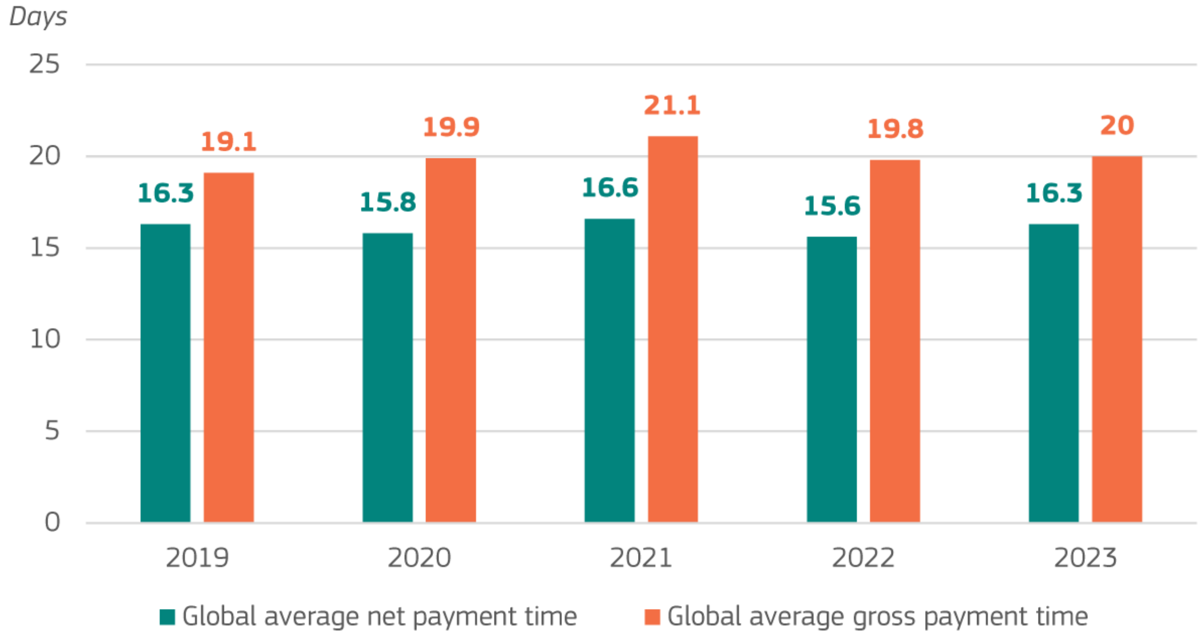
- where no report is required and where the payment is contingent upon the approval of a report, the time from reception of the payment request until payment.

([28]) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012, OJ L 193, 30.7.2018, p 1, ELI: http://data.europa.eu/eli/reg/2018/1046/oj (financial regulation).

([29]) Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy, OJ L 231, 30.6.2021, p. 159, ELI: http://data.europa.eu/eli/reg/2021/1060/oj.

The Commission's global average payment time is monitored by the Accounting Officer. It evolved as follows in the last 5 monitored years.

Global average payment time in days

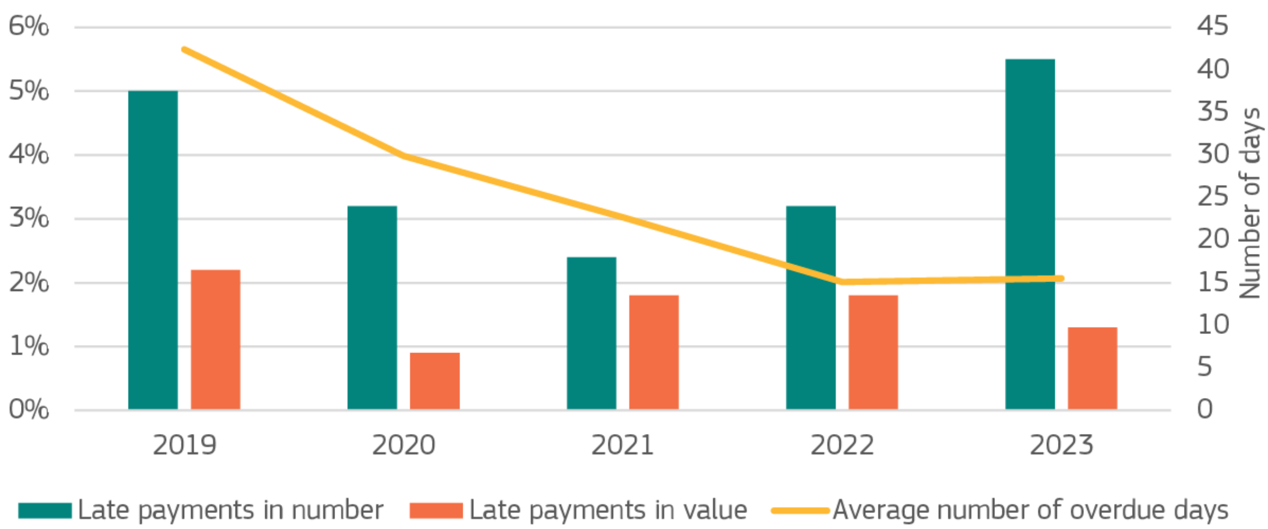


Source: European Commission.

The data shows that the global average net payment time of the Commission services, i.e. including the time of suspensions, and the global average gross payment time, i.e., excluding the time of suspensions, was below 30 days in the last 5 years for all time limits combined. The average payment time with and without suspensions improved in comparison with the previous year. Services are encouraged to continue their efforts in this regard and to implement follow-up measures whenever payment time challenges are identified.

The table below illustrates the evolution of '**late payments**', i.e. payments made after expiry of the statutory time limit in recent years for all payments combined.

Late payments evolution (2018-2022)



Source: European Commission.

Even though the share of late payments in numbers increased compared to the previous year, it decreased when looking at the values. An overall improvement of late payment results, taking 2019 as a basis year, is believed to be linked to the more stringent requirements associated with the financial regulation and regular monitoring. Another reason is associated with the sufficient availability of payment appropriations.

Concerning the **interest paid for late payments** ([30]), **the total amount paid by the Commission in 2023 increased compared to 2021 and 2022 but remain lower compared to 2019 and 2020**.

	2019	2020	2021	2022	2023
Interest paid for late payments (in EUR)	**380 653**	**341 495**	**235 456**	**164 535**	**327 473**

Source: European Commission.

In general, the **causes of late payments** include the complexities of evaluating the supporting documents that are a prerequisite for all payments. This is particularly onerous when the supporting documents are reports of a technical nature that sometimes have to be assessed by external experts. Other causes are associated with difficulties in coordinating the financial and operational checks of payment requests, issues with the management of payment suspensions and a temporary lack of payment appropriations.

The 2009 communication establishing Commission-internal payment targets provided a clear incentive to services to reduce their payment times. Despite the results achieved, there is scope for decreasing payment times even more. When setting up action plans in this area, services should focus on further reducing late payments from their current levels of 5.5% of payments in terms of their number and 1.3% in terms of their value. **The aim is to meet the statutory payment time for every payment.**

The table below shows the number of suspensions of payments over the last 5 years.

	2019	2020	2021	2022	2023
Total number of suspensions	**24 765**	**22 095**	**20 552**	**23 856**	**23 015**

Source: European Commission.

Suspensions are a tool that allows the responsible authorising officer to withhold temporarily the execution of a payment because the amount is not due, because of the absence of appropriate supporting documentation or because there are doubts on the eligibility of the expenditure concerned. It is a basic tool for the authorising officer in the payment process towards avoiding irregular or erroneous payments and fundamental towards ensuring sound financial management and protecting the EU’s financial interest.

([30]) In other words, no longer conditional upon the presentation of a request for payment (with the exception of amounts below EUR 200).

Annex 9 – Summary of waivers of recoveries of established amounts receivable

Annex 9 – Summary of waivers of recoveries of established amounts receivable

In accordance with Article 101(5) of the financial regulation [31], the Commission reports to the budgetary authority each year on the waivers it has granted in an annex to the summary of the annual activity reports. The table below shows the total value and the number of waivers above and below EUR 60 000 in 2023. The individual annual activity reports of the Commission's departments provide more details on the individual waivers above EUR 60 000.

EU budget area	Total value of waivers	Waivers above EUR 60 000		Waivers below EUR 60 000	
		in number	in value (EUR)	in number	in value (EUR)
European Commission					
Legal Service	705	0	0	1	705
DG Human Resources and Security	1 700	0	0	1	1 700
DG Agriculture and Rural Development	3 997			1	3 997
DG Mobility and Transport	26 793	0	0	1	26 793
DG Energy	119 314	1	119 314	0	0
DG Environment	1 827 397	4	1 827 397	0	0
DG Research and Innovation	1 756 165	8	1 688 266	5	67 899
DG Communications Networks, Content and Technology	3 532 320	12	3 071 025	19	461 295
DG for Structural Reform Support	134 630	1	134 630	0	0
DG Health and Food Safety	47 124	0	0		

(31) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012, OJ L 193, 30.7.2018, p. 1, ELI: http://data.europa.eu/eli/reg/2018/1046/oj (financial regulation).

EU budget area	Total value of waivers	Waivers above EUR 60 000		Waivers below EUR 60 000	
		in number	in value (EUR)	in number	in value (EUR)
DG Migration and Home Affairs	287 457	1	277 072	2	60 386
DG Justice and Consumers	69 372	1	69 372	0	0
DG Neighbourhood and Enlargement Negotiations	5 471 770	27	5 223 543	15	248 227
DG International Partnerships	2 133 391	10	1 823 320	12	310 071
DG European Civil Protection and Humanitarian Aid Operations	113 248	1	106 213	1	7 035
Service for Foreign Policy Instruments	136 178	1	110 460	3	25 717
Office for the Administration and Payment of Individual Entitlements	272 758	2	272 758	0	0
Office for Infrastructure and Logistics in Luxembourg	200	0	0	1	200
European Innovation Council and SMEs Executive Agency	8 799	0	0	1	8 799
European Education and Culture Executive Agency	3 650 511	14	2 904 027	34	746 484
European Climate, Infrastructure and Environment Executive Agency	620 813	3	577 538	3	43 275

EU budget area	Total value of waivers	Waivers above EUR 60 000		Waivers below EUR 60 000	
		in number	in value (EUR)	in number	in value (EUR)
European Research Executive Agency	1 174 123	8	953 545	13	220 578
European Health and Digital Executive Agency	183 797	1	183 797	0	0
European Commission Total	**21 572 562**	**95**	**19 292 277**	**114**	**2 280 285**
European Development Fund	431 042	2	256 487	17	174 554
Mutual Insurance Mechanism	23 259 758	117	22 102 904	48	1 156 880
Total	**45 263 388**	**214**	**41 651 669**	**179**	**3 611 719**

Source: European Commission.

Annex 10 – Report on negotiated procedures

Annex 10 – Report on negotiated procedures

This annex presents the overall results of negotiated procedures recorded during the year under reporting, together with the analysis of the justifications and corrective measures taken to redress the use of negotiated procedures when other alternatives could be available.

10.1. Legal basis

Article 74(10) of the financial regulation ([32]) requires authorising officers by delegation to record contracts concluded under negotiated procedures. Furthermore, the European Commission is required to annex a report on negotiated procedures to the summary of the annual activity reports referred to in Article 74(9) of the financial regulation.

10.2. Methodology

A distinction has been made between the 48 departments that normally do not provide external aid and those three departments (Directorates-General for International Partnerships and for Neighbourhood and Enlargement Negotiations, and Service for Foreign Policy Instruments) that conclude procurement contracts in the area of external relations ([33]) or award contracts on their own account but outside of the territory of the European Union.

These three departments have special characteristics as regards data collection (decentralised services, etc.), the total number of contracts concluded and thresholds to be applied for the recording of negotiated procedures (EUR 20 000), along with the possibility of having recourse to negotiated procedures in the framework of the Rapid Reaction Mechanism (extreme urgency). For these reasons, a separate approach has been used for procurement contracts awarded by these three departments and the number of their negotiated procedures is compared to each other instead of being compared with the rest 48 departments..

10.3. Overall results of negotiated procedures recorded

10.3.1. The 48 departments, excluding 'external relations'

Concerning the 48 departments, excluding 'external relations' departments, there were 85 negotiated procedures with a total value of EUR 593 million processed out of a total of 635 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000 with a total value of EUR 9.26 billion.

([32]) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, pp. 1, ELI: http://data.europa.eu/eli/reg/2018/1046/oj.

([33]) They have a different legal basis, see Articles 178 and 179 of the financial regulation.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounted to **13.4%** in number (14.2% in 2022), which represented **6.4%** of all procedures in value (8.6% in 2022). The assessment of negotiated procedures compared with the previous year showed a decrease in the order of **0.8** percentage points in terms of relative number and a decrease of **2.2** percentage points in terms of relative value.

An authorising department shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is 'distinctly higher than the average recorded for the institution' ([34]) (i.e. if it exceeds the average proportion by 50% or if the increase from one year to the next is over 10% in proportion). Thus, the reference threshold for 2023 was **20.1%** (21.3% in 2022).

In total, 14 departments exceeded the reference threshold, and 14 increased their number of negotiated procedures by more than 10% in proportion when compared to last year, with 11 of them exceeding the reference threshold as well. It should be noted that, among these 14 departments, 11 departments concluded between one to two negotiated procedures, and the low total number of procedures conducted (below or equal to six) makes their average high; consequently, their respective results are to be considered non-significant. Three departments, although not exceeding the reference threshold, increased their number of negotiated procedures by more than 10% in proportion when compared to last year.

It should be noted that 17 departments did not use any negotiated procedure.

10.3.2. The 'external relations' departments

Concerning the 'external relations' departments, there were 115 negotiated procedures for a total value of contracts of EUR 196.6 million processed out of a total of 325 procedures for contracts over EUR 20 000 with a total value of about EUR 1.3 billion.

For the three 'external relations' departments, the average proportion of negotiated procedures in relation to all procedures amounted to **35.4%** in number (37.4% in 2022), which represented **15.1%** of all procedures in value (35.8% in 2022). Compared with the previous year, these departments registered a decrease of **2** percentage points in number of negotiated procedures in relation to all procedures and a decrease of **20.7** percentage points in terms of relative value.

An authorising service shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is 'distinctly higher than the average recorded for the Institution' ([35]) (i.e. if it exceeds the average proportion by 50%, or if the increase from one year to the next is over 10% in the proportion). Thus, the reference threshold for 2023 was fixed at **53.1%** (56.2% in 2022); one of the three departments exceeded it.

([34]) The average proportion for the Commission of the number of negotiated procedures in relation to the total number of contracts they awarded in 2023 was 13.4% for all directorates-general (excluding the three 'external relations' departments). Thus, a percentage higher than 20.3% is to be considered distinctly higher than the average recorded for the institution.

([35]) The average proportion for the three 'external relations' departments of the number of negotiated procedures in relation to the total number of contracts they awarded in 2023 was 35.4%. Thus, a percentage higher than 53.1% is to be considered distinctly higher than the average recorded for those departments.

10.4. Analysis of the justifications and corrective measures

The number of negotiated procedures in 2023 compared to 2022 decreased (from 90 to 85), however the total number of procurement procedures stayed the same (635 for both years).

The following categories of justifications for the use of a negotiated procedure were presented by the departments exceeding the thresholds.

- **Similar services/works as provided for in the initial tender specifications.** Some services in charge of large interinstitutional procurement procedures realised during the implementation of the contract (most likely in framework contract procedures) that the needs initially foreseen did not often match with the consumption trend during the execution of the contract. Therefore, the leading service needed to start a negotiated procedure on behalf of all institutions to increase the ceiling of the framework contract in question.
- **Objective situations of the economic activity sector.** This occurs when the number of operators may be very limited or in a monopoly situation (for reasons of specific technical expertise/reasons, exclusivity rights, highly specialised markets, where competition is limited to very few economic operators or is even completely absent, limited choice of financial software for trading systems and of the rating agencies, etc.). Monopoly situations related to technical compatibility requirements of previous purchases of scientific equipment, for example, maintenance and upgrades that the Commission cannot give to any other organisation aside from the original equipment contractor, which holds intellectual property rights. Situations of technical captivity may also arise, especially in the IT domain (absence of competition for technical reasons and/or because of the protection of exclusive rights related to the purchase of proprietary licenses or the maintenance and continuity of existing applications (i.e. upgrades). For instance, the Joint Research Centre frequently needs to do maintenance and upgrades requiring services from the original contractor, which holds exclusive intellectual property rights. A similar example was raised by the Directorate-General for Digital Services as it operates in areas where services or supplies can only be provided by a single economic operator, either because competition is absent for technical reasons and/or because of the protection of exclusive rights, including the protection of intellectual property rights. Another example was described by the Directorate-General for Structural Reform Support, which, due to the peculiarity of the specificities of the aid programme, led to negotiated procedures with a specific entity having exclusive rights in phytosanitary control and protected designation of origin control.
- **Unsuccessful open or restricted procedures.** These led to a negotiated procedure, as described by several services.
- **Additional services.** These were not included in the initial contract but became necessary due to extreme urgency brought by unforeseen circumstances.

Regularly available measures were proposed or implemented by the budget department and other departments concerned to redress the use of negotiated procedures when other alternatives are available, including:

- an **improved programming** of procurement procedures;
- **improving the system of evaluation of needs**: the Commission's central services will continue their active communication and consultation policy with the other Commission departments, institutions, agencies and other bodies along the following axes:
  - permanent exchange of information via regular meetings with user services and agencies in appropriate fora,
  - ad hoc detailed surveys prior to the initiation of (interinstitutional) procurement procedures for the evaluation of needs,

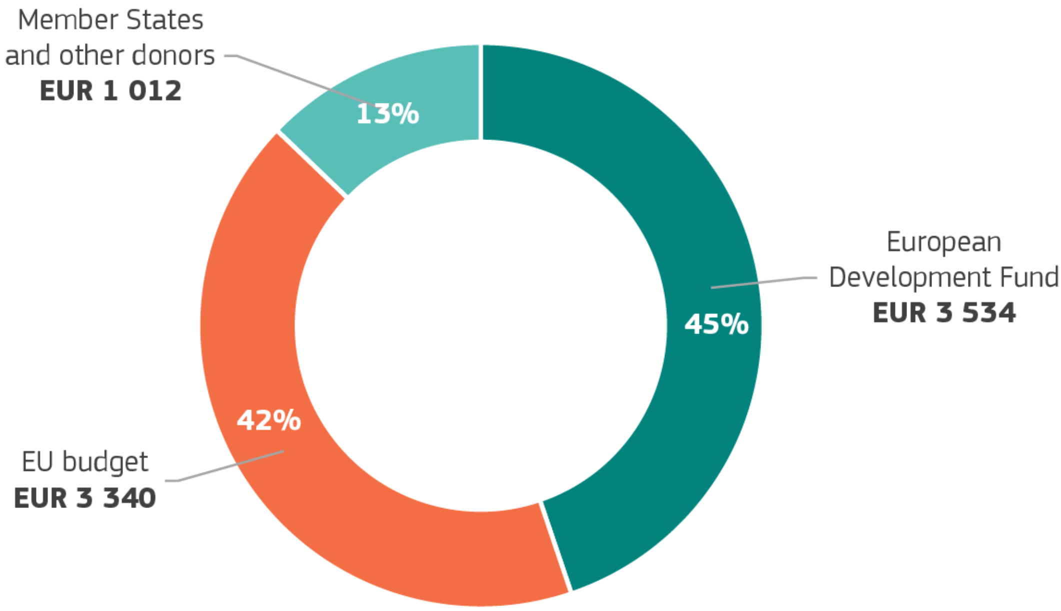
  - better estimating of needs of interinstitutional framework contracts and better monitoring with semester consumption reports from user services or agencies,
  - requirement of a positive *ex ante* visa by the financial legal services when an exceptional negotiated procedure is launched;
- **training and improved interservice communication**: the budget department's Central Financial Service provides regular practical training sessions on procurement and community of practice sessions;
- **presenting alternative approaches**, such as open-source solutions;
- ***ex post*** **analysis and review** of launched exceptional negotiated procedures by public procurement advisory groups of the services, before the contracts' signatures;
- regular updating of **standard corporate model documents and guidance documents** on procurement;
- rolling out the **corporate e-procurement solution** process from end to end for all Commission departments;
- **encoding the budgetary ceiling of the framework contracts** to ensure closer monitoring and help prevent the depletion of the budgetary ceiling too fast after the contract signature and the need to resort to negotiated procedures for ceiling increases.

Annex 11 – EU trust funds

Annex 11 – EU trust funds

The European Commission, with several external donors, established four EU trust funds between 2014 and 2016. During their life cycle, up to the end of 2023, the four EU trust funds have received approximately EUR 7.9 billion in contributions from the EU budget, the European Development Fund, EU Member States and other external donors.

Source of financing of EU trust funds (in million EUR)



Source: European Commission

The EU trust funds' annual reports set out, in accordance with Article 252 of the financial regulation [36], the activities they supported, their implementation and performance and their accounts. These reports are annexed to the annual activity reports of the Commission's Directorate-General for Neighbourhood and Enlargement Negotiations and Directorate-General for International Partnerships as follows.

[36] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012, OJ L 193, 30.7.2018, p. 1, ELI: http://data.europa.eu/eli/reg/2018/1046/oj (financial regulation).

Established in	EU trust funds	Annual report annexed to the annual activity report of
2014	**Bêkou Trust Fund** – EU Trust Fund for the Central African Republic	DG International Partnerships
2014	**EU Regional Trust Fund in Response to the Syrian Crisis Trust Fund** – EU Regional Trust Fund in Response to the Syrian Crisis	DG Neighbourhood and Enlargement Negotiations
2015	**Africa Trust Fund** – European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa. This EU trust fund involves three regions: the Horn of Africa, the Sahel and Lake Chad, and the North of Africa (management cross-sub-delegated to DG Neighbourhood and Enlargement Negotiations)	DG International Partnerships
2016	**Colombia Trust Fund** – European Union Trust Fund for Colombia	DG International Partnerships

The constitutive act of the EU trust funds signed by the Commission and donors details the main features of each EU trust fund, including its specific objectives, the rules for its composition and the internal rules of its board, and the duration of the trust fund, which is always limited in time.

The EU trust funds were set up for an initial 60 months (5 years), apart from the Colombia Trust Fund, which was set up for 4 years. Before their end date, they were all subject to a 1-year extension that was adopted after consultation with the European Parliament and the European Council. This 1-year extension allowed the EU trust funds to adapt their activities in order to address the COVID-19 challenges in the countries within their scope. This also gave the EU trust funds the necessary time to adapt to the ongoing actions to the new challenges and to finalise their contracting by the end of 2021. The implementation of the existing projects will, however, continue until 2025.

11.1. The Bêkou Trust Fund

The total contributions from external donors, the European Development Fund and the EU budget reached over EUR 310 million. France, Germany, Italy, the Netherlands and Switzerland have contributed to this EU trust fund. By 31 December 2023, the Bêkou Trust Fund had funded actions for a total value of EUR 307 million in commitments and contracted EUR 306 million in total, corresponding to an implementation rate of 98%.

The priority sectors that the trust fund supports include basic services, notably in health, agriculture development, the restoration of national and local administrations, economic recovery and reconciliation within the Central African Republic's society.

11.2. The EU Regional Trust Fund in Response to the Syrian Crisis

By the end of 2023, the contributions from the EU budget amounted to more than EUR 2.1 billion, while the contributions received from Member States and other donors amounted to EUR 262 million, including EUR 24.7 million from Turkey. By 31 December 2023, the following donors had contributed to the trust fund:

the EU budget, 22 Member States and Turkey, with total contributions available reaching more than EUR 2.3 billion.

Projects mainly focus on education, livelihoods and health, of which more than EUR 2.3 billion have been contracted to the trust fund's implementing partners on the ground. The benefiting region is the Middle East, mainly Lebanon, Jordan, Iraq and Turkey.

These programmes support refugees and host communities with their needs for basic education and child protection, training and higher education, better access to healthcare, improved water, and wastewater infrastructure, along with support for projects promoting resilience, economic opportunities and social inclusion.

11.3. The Africa Trust Fund

In total, the 27 EU Member States and Norway, Switzerland and the United Kingdom had, by the end of 2023, contributed EUR 623 million to this EU trust fund. The contributions through EU instruments and the European Development Fund amount to EUR 4 438 million.

As of 31 December 2023, EUR 5 billion was made available for commitments, of which nearly 100% was committed: the split was EUR 2 218 million (45%) for the Sahel and Lake Chad region, EUR 1 810 million (37%) for the Horn of Africa and EUR 907 million (18%) for the North of Africa region. Contracts were signed with implementing partners for a total amount of more than EUR 5 billion.

The trust fund aims to help foster stability and contribute to better migration management. In line with the EU development-led approach to forced displacement, it also helps address the root causes of destabilisation, forced displacement and irregular migration by promoting economic and equal opportunities, security and development. The EU Trust Fund for Africa has addressed a comprehensive group of African countries crossed by the major migration routes.

11.4. The Colombia Trust Fund

By the end of 2023, the contributions from the EU budget amounted to EUR 94 million, while the contributions from 21 Member States, along with a contribution by Chile, amounted to EUR 37 million.

The Colombia Trust Fund committed a total amount of EUR 133 million, and the full amount was contracted.

The trust fund helps to support the implementation of the peace agreement in the early recovery and stabilisation phases of the post-conflict environment. The overall objective is to help Colombia to secure stable and lasting peace, to rebuild its social and economic fabric and to give new hope to the people of Colombia.

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