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

PART ONE

FINANCIAL REGULATION

TITLE II

BUDGET AND BUDGETARY PRINCIPLES

CHAPTER 7

Principle of sound financial management and performance

Article 33

Performance and principles of economy, efficiency and effectiveness

1 Appropriations shall be used in accordance with the principle of sound financial management, and thus be implemented respecting the following principles:

- a the principle of economy which requires that the resources used by the Union institution concerned in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality, and at the best price;
- b the principle of efficiency which concerns the best relationship between the resources employed, the activities undertaken and the achievement of objectives;
- c the principle of effectiveness which concerns the extent to which the objectives pursued are achieved through the activities undertaken.

2 In line with the principle of sound financial management, the use of appropriations shall focus on performance and for that purpose:

- a objectives for programmes and activities shall be established *ex ante*;
- b progress in the achievement of objectives shall be monitored with performance indicators;
- c progress in, and problems with, the achievement of objectives shall be reported to the European Parliament and to the Council in accordance with point (h) of the first subparagraph of Article 41(3) and with point (e) of Article 247(1).

3 Specific, measurable, attainable, relevant and time-bound objectives as referred to in paragraphs 1 and 2 and relevant, accepted, credible, easy and robust indicators shall be defined where relevant.

Article 34

Evaluations

1 Programmes and activities which entail significant spending shall be subject to *ex ante* and retrospective evaluations, which shall be proportionate to the objectives and expenditure.

2 Ex ante evaluations supporting the preparation of programmes and activities shall be based on evidence on the performance of related programmes or activities and shall identify and analyse the issues to be addressed, the added value of Union involvement, objectives, expected effects of different options and monitoring and evaluation arrangements.

For major programmes or activities that are expected to have significant economic, environmental or social impacts, the *ex ante* evaluation may take the form of an impact assessment that, in addition to meeting the requirements set out in the first subparagraph, analyses the various options concerning the methods of implementation.

3 Retrospective evaluations shall assess the performance of the programme or activity, including aspects such as effectiveness, efficiency, coherence, relevance and EU added value. Retrospective evaluations shall be based on the information generated by the monitoring arrangements and indicators established for the action concerned. They shall be undertaken at least once during the term of every multiannual financial framework and where possible in sufficient time for the findings to be taken into account in *ex ante* evaluations or impact assessments which support the preparation of related programmes and activities.

Article 35

Compulsory financial statement

1 Any proposal or initiative submitted to the legislative authority by the Commission, the High Representative of the Union for Foreign Affairs and Security Policy (the 'High Representative') or by a Member State, which may have an impact on the budget, including changes in the number of posts, shall be accompanied by a financial statement showing the estimates in terms of payment and commitment appropriations, by an assessment of the different financing options available, and by an *ex ante* evaluation or impact assessment as provided for in Article 34.

Any amendment to a proposal or initiative submitted to the legislative authority which may have an appreciable impact on the budget, including changes in the number of posts, shall be accompanied by a financial statement prepared by the Union institution proposing the amendment.

The financial statement shall contain the financial and economic data necessary for the assessment by the legislative authority of the need for Union action. It shall provide appropriate information as regards coherence with other activities of the Union and any possible synergy.

In the case of multiannual operations, the financial statement shall contain the foreseeable schedule of annual requirements in terms of commitment and payment appropriations and posts, including for external personnel, and an evaluation of their medium-term and, where possible, long-term financial impact.

2 During the budgetary procedure, the Commission shall provide the necessary information for a comparison between changes in the appropriations required and the initial forecasts made in the financial statement in the light of the progress of deliberations on the proposal or initiative submitted to the legislative authority.

3 In order to reduce the risk of fraud, irregularities and non-achievement of objectives, the financial statement shall provide information on the internal control system set up, an estimate of the costs and benefits of the controls implied by such a system and an assessment of the expected level of risk of error, as well as information on existing and planned fraud prevention and protection measures.

Such assessment shall take into account the likely scale and type of errors, as well as the specific conditions of the policy area concerned and the rules applicable thereto.

4 When presenting revised or new spending proposals, the Commission shall estimate the costs and benefits of control systems, as well as the expected level of risk of error as referred to in paragraph 3.

Article 36

Internal control of budget implementation

1 Pursuant to the principle of sound financial management, the budget shall be implemented in compliance with the effective and efficient internal control appropriate to each method of implementation, and in accordance with the relevant sector-specific rules.

2 For the purposes of budget implementation, internal control shall be applied at all levels of management and shall be designed to provide reasonable assurance of achieving the following objectives:

- a effectiveness, efficiency and economy of operations;
- b reliability of reporting;
- c safeguarding of assets and information;
- d prevention, detection, correction and follow-up of fraud and irregularities;
- e adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

3 Effective internal control shall be based on best international practices and include, in particular, the following elements:

- a segregation of tasks;
- b an appropriate risk management and control strategy that includes control at recipient level;
- c avoidance of conflict of interests;
- d adequate audit trails and data integrity in data systems;
- e procedures for monitoring effectiveness and efficiency;
- f procedures for follow-up of identified internal control weaknesses and exceptions;
- g periodic assessment of the sound functioning of the internal control system.

4 Efficient internal control shall be based on the following elements:

- a the implementation of an appropriate risk management and control strategy coordinated among appropriate actors involved in the control chain;

b the accessibility for all appropriate actors in the control chain of the results of controls carried out;
c reliance, where appropriate, on management declarations of implementation partners and on independent audit opinions, provided that the quality of the underlying work is adequate and acceptable and that it was performed in accordance with agreed standards;
d the timely application of corrective measures including, where appropriate, dissuasive penalties;
e clear and unambiguous legislation underlying the policies concerned, including basic acts on the elements of the internal control;
f the elimination of multiple controls;
g the improvement of the cost benefit ratio of controls.

5 If, during implementation, the level of error is persistently high, the Commission shall identify the weaknesses in the control systems, analyse the costs and benefits of possible corrective measures and take or propose appropriate action, such as simplification of the applicable provisions, improvement of the control systems and redesign of the programme or delivery systems.