## GLOSSARY OF DEFINITIONS FOR USE WITH THE ECA'S ANNUAL REPORT

***Introduction***

This glossary is designed to help readers by setting out clear and simple definitions of technical terms used in the report. For official legal definitions readers should consult the relevant legal texts.

More detailed definitions and explanations of the EU institutions and the EU's legislation, accounts and policies can be found:

- on the website of the EU Publications Office:

  http://eur-lex.europa.eu/browse/summaries.html

  http://eur-lex.europa.eu/summary/glossary.html

- on the websites of the Commission Directorates-General (DGs), for example:

  http://ec.europa.eu/budget/explained/glossary/glossary_en.cfm

  https://ec.europa.eu/agriculture/glossary_en

  http://ec.europa.eu/regional_policy/en/policy/what/glossary

  https://ec.europa.eu/research/participants/portal/desktop/en/support/reference_terms.html

***A***

**Absorption of EU funds:**

The proportion of granted EU subsidies that has actually been paid to a beneficiary or group of beneficiaries and that the Commission has accepted as having been spent in accordance with the conditions and rules attached to these subsidies. It is expressed as a percentage of planned EU spending and can relate to either a year or an entire *programming period*.

**Annual activity report (AAR):**

An internal management report submitted to the Commissioners by the director-general of each Commission DG. Each AAR covers the relevant DG's management and internal control, and its performance in relation to the key objectives and activities identified in its management plan. The AAR includes a declaration by the relevant director-general or head of department on the financial information provided in the AAR.

**Appropriation:**

An amount authorised for a specific purpose in the budget.

**Assigned revenue:**

Revenue which, because of its origin, is assigned to specific expenditure (e.g. contributions of Member States or third countries to specific research programmes). This is an exception to the budgetary principle that total revenue should cover total expenditure.

**Audit authority:**

An entity, such as a department of a state chancellery or ministry of finance, which conducts system audits and audits of the operations under an *operational programme* and reports its findings to the relevant *managing and certifying authorities*. It submits an annual report to the Commission providing assurance on the proper functioning of management and control systems and, as a consequence, on the legality and regularity of the certified expenditure. This authority must be independent from the bodies managing the funds.

**(Responsible) authorising officer:**

Person responsible for implementing revenue and expenditure in accordance with the Financial Regulation and the principles of sound financial management, and for ensuring compliance with legality and regularity requirements.

***B***

**Basic payment scheme (BPS):**

Replacing the single payment, this scheme came into effect in 2015, following the 2013 reform of the *common agricultural policy*. It operates on the basis of payment entitlements allocated for eligible land declared by the applicant in 2015. Each payment entitlement activated together with one hectare of eligible land generates a BPS payment equal to the value of the payment entitlement. The BPS is in operation in 18 Member States, 2016 was the first year payments were made on the basis of these new rules.

**Beneficiary:**

A natural or legal person receiving a subsidy from the EU budget.

**Budget support:**

A means of providing development aid (MFF heading 4 – 'Global Europe', EDFs). It involves payments to the national treasury account of a partner country, a performance assessment, capacity development and a dialogue with the partner country. The Commission distinguishes three types of budget support: 'good governance and development', 'sector reform', and 'state building' contracts.

**Budgetary authority:**

The institutions empowered to set the EU budget, i.e. the European Parliament and the Council of Ministers.

***C***

**Carryover:**

The transfer of authorised but unused *appropriations* from one year to the next for justified reasons as specified in the *Financial Regulation*. Expenditure and revenue are normally only planned and authorised for one year at a time (the 'principle of annuality'). For operational expenditure, the carryover of appropriations is an exception to this principle. For administrative expenditure, however, appropriations are routinely carried over automatically to pay invoices received the year after the activity in question.

**Ceiling:**

Limits of expenditure or revenue fixed by law or by agreement, such as in the own resources decision or the *multi-annual financial framework*. For commitments, the MFF sets an individual annual ceiling for each expenditure heading, whereas one overall annual ceiling applies to payment appropriations.

**Certification body:**

The agricultural sector's equivalent of the *audit authority*, this is a public or private entity designated by the Member State to certify the truthfulness, completeness and accuracy of the accounts of the accredited *paying agency*.

**Certifying authority:**

An entity which carries out checks on the expenditure declared by *managing authorities* to verify its legality and regularity in order to then provide assurance to the Commission to that effect.

**Commitment:**

Earmarking of an amount from the budget to finance specific items of expenditure if certain conditions are fulfilled. Having these amounts earmarked allows the EU to sign contracts and grant agreements and take other decisions with a financial impact.

**Common agricultural policy (CAP):**

A mechanism created in 1962 to guarantee, among other things, food security while ensuring a fair standard of living for the EU's farmers. The CAP underwent major reforms in 1992, 2003 and 2013.

**Confidence interval:**

The real level of error can only be known if all transactions are tested. With a sample-based approach, we instead calculate a 95 % confidence interval, meaning we consider there to be a 95 % chance that the actual level of error lies within that interval.

**Conformity clearance procedure:**

A Commission procedure seeking to recover EU funds disbursed irregularly by a Member State.

**Conformity decision:**

A formal Commission decision quantifying the amounts which Member States must reimburse following a conformity clearance procedure.

**(EU) Consolidated accounts:**

The aggregate accounts of all EU institutions and agencies, presented by the Commission in a single summary document, excluding any amounts that they have paid or owe to one another.

**Contingent liability:**

In accounting, this is a liability that may occur, depending on the outcome of an uncertain future event. It is recorded in the accounts if it is probable and the amount can be reasonably estimated.

**Coordination Committee for the Funds (COCOF):**

The Coordination Committee for the Funds was a permanent monitoring committee at the Commission. Its function was to discuss issues relating to the implementation of the regulations governing certain EU funds, and to issue guidance notes with practical examples and information, without being legally binding or limitative. For the 2014-2020 *programming period* it was replaced by the Coordination Committee for the European Structural and Investment Funds (COESIF).

**Corrective capacity:**

Estimated amount of expenditure involved in breaches of legal and contractual provisions identified and corrected by the relevant Commission DG/authorities after payment has been authorised. The term also refers to the ability of an authority in the Member State or a Commission DG to identify and correct irregular spending.

**Coupled support:**

Support tied to the production of a specific agricultural product.

**Cross-compliance:**

Mechanism under the *common agricultural policy* whereby farmers are obliged, in order to receive the full amount of their payments, to follow a set of rules on environmental, public and animal health, animal welfare and land management.

**Cumulative residual risk:**

The remaining share of expenditure, since the start of the *programming period*, which is not legal and regular once all corrective measures have been taken into account (see also *residual error/risk rate*).

***D***

**'De minimis' aid:**

Amounts of state aid up to a certain ceiling (per recipient, over a three-year period), which are deemed to be compatible with the single market and therefore exempt from the requirement to have them approved by the Commission.

**De-commitment:**

An act whereby an existing *commitment* (or part of it) is cancelled.

**De-commitment rules:**

These are applied when the full value of a *commitment* is not used within set time limits. The maximum time for using commitments under *shared management* is three years (the 'N+3 rule'), after which EU legislation requires *de-commitment*, i.e. the cancellation of *commitments*. However, this period can be extended in times of crisis.

**Decoupled support:**

Support which is not tied to the production of a specific agricultural product.

**Direct aid/direct support:**

Income support payments made to farmers in accordance with the *common agricultural policy*, including coupled aid and decoupled area-related aid.

**Direct management**

Management (selecting contractors, awarding grants, transferring funds, monitoring activities, etc.) of a fund or programme directly by the Commission itself, in contrast to *shared management*.

**Discharge:**

Decision by the European Parliament releasing the Commission from its responsibility for managing a given budget and closing it on the basis of a recommendation from the Council and the ECA's annual report and *statement of assurance*.

**Draft amending budget:**

Proposal made by the Commission to amend certain aspects of the adopted budget for the year concerned.

***E***

**Economic result:**

The difference, in the EU consolidated accounts, between total revenue and total expenses. The purpose of this 'accrual-based' result is to present the financial impact of events on the accounts of the year concerned. Hence, the economic result differs from the budget outturn which presents the difference between revenue (cash received) and payments made.

**Equity investment:**

The provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm, and where the equity investor may assume some management control of the firm and may share the firm's profits. Investors recover their equity investment only when they sell their ownership or when the (net) assets of the firm are liquidated. Also known as an 'equity contribution'.

**Error:**

An *irregularity* arising from non-compliance with legal and contractual requirements.

**Estimated level of error:**

Our annual best estimate of the error affecting a class of payments. It is calculated based on the results of tests carried out on a representative sample of transactions. It is expressed as a percentage of erroneous payments in the total value of payments. This percentage lies, with 95 % probability, within a *confidence interval* defined by a lower and an upper limit.

**Europe 2020 strategy:**

The European Union's ten-year jobs and growth strategy launched in 2010 to create the conditions for smart, sustainable and inclusive growth.

**European Fund for Strategic Investments (EFSI):**

An investment support mechanism based on a Regulation of the European Parliament and of the Council and implemented through an agreement between the EIB and the European Commission to mobilise finance for strategic projects around the EU.

**European Structural and Investment Funds (ESIF or ESI funds):**

The European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development, and the European Maritime and

Fisheries Fund, which were brought together for the 2014-2020 *multiannual financial framework* under common rules (Regulation (EU) No 1303/2013 - the 'Common Provisions Regulation'). Between them, these five *shared management* funds currently account for over half of EU spending. Their overall aim is to reduce regional imbalances across the EU.

**Ex-post evaluation:**

An assessment of the effectiveness, efficiency, coherence, relevance and EU added value of an individual EU intervention.

***F***

**(Final) recipient:**

Term used in the Financial Regulation to refer to a natural or legal person receiving a loan or guarantee from, or an investment by, an EU-funded financial instrument. The term is also used for a natural or legal person who does not actually receive a subsidy payment but nonetheless benefits from a specific EU-funded activity such as a person receiving training on an EU-funded course or a participant in an employment initiative (see also *beneficiary*).

**Financial instrument:**

A form of financial support from the EU budget (formerly known as a 'financial engineering instrument') that may take the form of 'equity or quasi-*equity investments*, loans or guarantees, or other risk-sharing instruments' (see Article 2(p) of the *Financial Regulation*). Compared with grants, the main advantages of financial instruments are the potential to leverage additional capital and the possibility of re-using, or 'revolving', funding.

**Financial Regulation:**

Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the EU. The Financial Regulation is the main point of reference for the principles and procedures governing the establishment and implementation of the EU budget and control of the EU's finances.

**Financial statement discussion and analysis:**

An explanation of the significant items, transactions and events presented in an entity's financial statements and the factors that influenced them.

***G***

**General Block Exemption Regulation (GBER):**

Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market. Categories of *state aid* named in the GBER are exempt from the requirement to have them approved by the Commission.

**Grants:**

Direct financial contributions from the budget to finance action to help implement a specific part of an EU policy or support the functioning of a body which pursues an aim of general European interest or has an objective forming part of an EU policy.

**Greening:**

A direct aid scheme introduced under the 2013 CAP reform to promote environmentally friendly farming practices. Farmers receiving *direct support* under the *basic payment scheme (BPS)* or the *single area payment scheme (SAPS)* are obliged to diversify crops, maintain existing *permanent grassland* and establish 'ecological focus areas'; if these conditions are met, they may also benefit from greening aid.

**Gross national income (GNI):**

The sum of all the incomes of the residents of an economy in a given period. GNI is used to determine the upper limit for EU payments in any given year: they should not exceed 1,20 % of the EU's GNI. A Member State's contribution to EU revenue is largely determined by its GNI as a proportion of the sum of all GNIs in the EU.

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**Impact:**

In *performance* assessment, the longer-term socio-economic consequences that can be observed after a certain time following completion of a project or programme.

**Indirect costs:**

Expenses, also referred to as 'overheads', that contribute to an EU project or action, but also to other activities by the *beneficiary*. These costs are not directly linked or attributed to the EU project or action; rather, they are apportioned among the beneficiary's different activities by means of various parameters (cost drivers).

**Input:**

In *performance* assessment, the financial, human, material, organisational or regulatory means needed to implement a policy, project or programme.

**Integrated administration and control system (IACS):**

A system used by Member States to manage and check payments made to farmers under the *common agricultural policy.* It consists of databases storing the details of farmers, aid applications, animals and payment entitlements, and the LPIS database.

**Interim payment:**

A payment made by the EU to a *beneficiary*, based on a claim, before the relevant project or action has been completed. In general, interim payments are made if there has been sufficient progress in the project or action as specified in the contract or grant agreement.

**Intervention logic:**

Conceptual framework showing how assessed needs and the objectives pursued tie in with EU action taken, as well as its expected *result*.

**Irregularity:**

An action or omission which leads to non-compliance with EU (or other relevant) rules, and which has a potentially negative impact on the EU's financial interests. Irregularities may be the result of genuine mistakes made by beneficiaries or by the authorities responsible for making payments. A deliberate irregularity may constitute fraud.
(see also *error*)

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**Land parcel identification system (LPIS):**

A database containing all the agricultural areas (including aerial or satellite photographs) that are eligible for *direct aid* under the *common agricultural policy.* Used to check the parcels for which farmers have claimed payment, to ensure that they are paid for the correct area, thus preventing overpayments.

***M***

**Major project:**

A large-scale operation comprising a series of works, activities or services and intended to accomplish an indivisible task of a precise economic or technical nature with clearly identified goals. The regulations set financial thresholds above which operations are to be considered major projects, making them subject to specific approval by the Commission on the basis of an independent quality review. For the 2007-2013 and 2014-2020 *programming periods* the usual threshold is 50 million euro.

**Managing authority:**

The national, regional or local public (or private) authority designated by a Member State to manage an operational programme. Its tasks include selecting projects for funding, monitoring their implementation and reporting to the Commission on financial aspects and results achieved. The managing authority also imposes any financial corrections on beneficiaries following audits carried out by the Commission, the European Court of Auditors or any authority in the Member State (e.g. audit authorities).

**Market measures:**

Public intervention in the agricultural markets to mitigate the effects of any price drops and to address structural difficulties on the market and sector-specific support (for example for fruit and vegetables, wine and school schemes).

**Materiality threshold:**

The level of erroneous or *irregular* expenditure, in relation to the EU spending audited, beyond which the error is considered to be significant, or material, for auditing purposes and likely to influence the user of the *EU consolidated accounts*. The ECA uses a 2 % materiality threshold for its opinion, also taking account of the nature and context of the *error* found.

**Maximum aid intensity:**

Total amount of aid that can be paid under the rules applicable to a funding area, expressed as a percentage of eligible costs. The maximum aid intensity varies by programme and by other factors such as the geographical location of a project.

**Mid-term review:**

A review of the main aspects of implementation to date of the *multiannual financial framework*, taking account of the economic situation at the time of the review and the economic outlook (last one published in 2016).

**Monetary unit sampling (MUS):**

A statistical sampling method where every euro spent has an equal chance of being selected for examination. In terms of transactions, using MUS guarantees that the probability of selecting a transaction is proportional to its size. The statistical nature of MUS allows the results to be extrapolated from the sample to the whole population.

**Multiannual financial framework (MFF):**

The EU's long-term spending plan. The MFF establishes spending priorities and maximum amounts that the EU may spend in particular areas over a fixed period of several years. The current MFF covers 2014-2020, while the previous ones covered 2007-2013 and 2000-2006. The MFF is divided in six parts, or headings.

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**Omnibus regulation proposal:**

A proposal for a regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the EU, and on amendments to the rules for various sectors of EU expenditure. This is a Commission document (COM(2016) 605 final) which seeks to amend and simplify many regulations currently applicable to the *European Structural and Investment Funds.*

**Operational programme:**

A Commission-approved programme of EU-funded investments by a Member State. It takes the form of a coherent set of priorities comprising measures under which projects are to be co-financed for the duration of the seven-year *multiannual financial framework*.

**Output:**

In *performance* assessment, this is something that is produced or accomplished with the resources allocated to a project or programme (e.g. training courses delivered to unemployed young people, number of sewage plants, km of road built, etc.).

**Own resources:**

Revenue flowing to the EU budget pursuant to the Treaties, the relevant implementing legislation and the annual budget. Customs duties are the most significant source of 'traditional' own resources; there is also an own resource based on VAT and another based on *GNI*.

***P***

**Partnership agreements:**

Agreements between the Commission and each Member State designed to ensure that funds are used in line with the Europe 2020 strategy.

**Paying agency:**

The agricultural field's equivalent of the managing and certifying authorities, this body is appointed by the national authorities to administer and control *direct support* and *market measures*.

**Payment entitlement:**

Right to benefit from *basic payment scheme* payment equal to the value of the entitlement for each entitlement activated together with one hectare of eligible land.

**Performance:**

The extent to which projects or programmes adhere to the principles of *sound financial management*.

**Performance reserve:**

An amount representing 6 % of the funds allocated, for certain goals or measures, to the European Regional Development Fund, the European Social Fund and the Cohesion Fund or the European Agricultural Fund for Rural Development, to be made available after the 2019 performance review if certain targets are met or exceeded.

**Permanent grassland:**

Land used to grow grasses or other herbaceous forage crops (whether sown or self-seeded) for more than five consecutive years and not included in a farm's crop rotation scheme.

**Programme estimate:**

A document, drawn up by a partner country and endorsed by the European Commission, containing a work programme. It sets out the activities to be carried out, the financial, human and material resources required for their implementation, and the procedures to be followed.

**Programming period:**

The multiannual framework within which expenditure is planned and implemented. The duration of a programming period may extend well beyond the years of the *multiannual financial framework* heading under which funds are spent. This is mainly due to the rules governing the final accounts and the closure of *operational programmes*. For example, the final accounting year for 2014-2020 agriculture and Cohesion programmes will end in mid-2024.

**Provision:**

In accounting, this is a liability of uncertain timing or amount recorded in the balance sheet.

**Public procurement:**

The process by which the EU, national, regional and local public authorities, or bodies governed by public law, purchase products, services and works. Private undertakings are also subject to public procurement rules and/or principles whenever they carry out procurements which are predominantly publicly funded.

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***R***

**Regularity:**

The extent to which *transactions* have been conducted in accordance with the relevant laws and contracts.

**Reservation:**

In the context of the *annual activity report,* a director-general issues a reservation where he or she is either unable to confirm the regularity of a significant part of the DG's payments or where there are potentially serious implications for the Commission's reputation.

**Residual error/risk rate:**

It is the remaining share of expenditure which is not legal and regular once all corrective measures have been taken into account. The terms 'risk' and 'error' are applied synonymously, but in different areas of spending.

**Result:**

In *performance* assessment, this is the measurable immediate effect of a project or a programme.

***S***

**Shared management:**

A method of implementing the EU budget in which, in contrast to *direct management,* the Commission delegates the implementation of tasks to the Member States while retaining final responsibility. The Member State channels funds to *beneficiaries* and *(final) recipients* (via *paying agencies* in the case of agricultural and rural development and via *managing authorities* for other shared management payments). The Member State has primary responsibility for setting up a management and control system which complies with the requirements of the regulations, ensuring that this system functions effectively and prevents, detects, and corrects irregularities.

**Simplified cost option:**

A means of calculating grant amounts independently of the costs actually incurred. The main forms of simplified costs are standard unit costs, flat-rate financing (calculated as a percentage of other categories of eligible costs) and lump sums (tied to specific *output* or *result*).

**Single area payment scheme:**

Area-related aid scheme applied in 10 Member States, under which equal amounts of aid are granted per hectare.

**Sound financial management:**

A concept comprising the principles of economy, efficiency and effectiveness and defined in Article 30(2) of the *Financial Regulation*: 'The principle of economy requires that the resources used by the institution for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency is concerned with the best relationship between resources employed and results achieved. The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.'

**Specific assessment:**

An assessment of each specific major area of EU activity, supplementing the ECA's *statement of assurance* pursuant to the Treaty on the Functioning of the European Union. The ECA regards chapters in its annual report with an assessment on regularity of a *multiannual financial framework* heading, financial and budgetary management and performance as specific assessments.

**State aid:**

Any form of direct or indirect financial support provided by national public authorities to undertakings, which distorts, or threatens to distort, competition by favouring certain undertakings or the production of certain goods. The Treaty on the Functioning of the European Union generally prohibits state aid within the common market unless it is duly justified. The EU's state aid rules clarify when support is deemed to distort (or threatens to distort) competition. The Commission has exclusive competence to assess the compatibility of state aid with the rules – subject to review by the European Court of Justice.

**Statement of assurance:**

A statement provided annually by the European Court of Auditors to the European Parliament and Council. It contains the Court's audit opinion on the reliability of the accounts of all EU revenue and expenditure and the legality and regularity of the underlying *transaction.* Otherwise known as the 'DAS', from the French equivalent *Déclaration d'assurance*.

***T***

**Transaction:**

A receipt, payment or demonstrated use of an advance payment, accepted by the Commission and recorded in the accounts.

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