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## **PART 1: POLICY ACHIEVEMENTS**

The European Union comprises 27 Member States and 271 regions, covering an area with more than 490 million citizens, with still considerable differences in development and standards of living. European Cohesion policy helps tackling these disparities through promoting economic and social cohesion and supports all regions to increase competitiveness.

### ***1.1. Level of the policy area***

#### ***1.1.1. Main policy results in 2008***

2008 was a year of full action for Cohesion policy to stimulate growth and development of the regions. Member States and their regions had the formidable challenge to use up in the best possible way the last year of funding available for the 2000-2006 programmes, while at the same time get ready on the ground for the launch of the projects funded under the new financial package that runs from 2007 to 2013 with a total of EUR 270 billion for the European Regional Development Fund (ERDF) and the Cohesion Fund.

The programmes that had been running for several years have seen **very good disbursing**: from an initial forecast for 2008 of EUR 9.2 billion for the European Regional Development Fund (ERDF) and 1.9 billion for the Cohesion Fund, a much higher amount of EUR 15.1 billion (ERDF) and 2.5 billion (Cohesion Fund) was actually disbursed.

This means that, with the help of the EU Regional Funds programmes, enterprises have been helped to innovate, infrastructures have been built or modernised, some climate change problems have been tackled, and the attainment of the EC environmental standards has been made more feasible. At the same time Cohesion policy supported interventions related to education, health, rehabilitation of social infrastructure and urban development, which have a strong impact on development and modernisation of regions and countries. This would not have been possible without a strong involvement of Directorate General (DG) Regional Policy on a daily basis with its partners.

In addition of completing past programmes, in 2008 the Member States and their regions, in close cooperation with DG Regional Policy, also **put in place the management structures** necessary to implement the ambitious new programming period funded under the financial package 2007-2013. Results of an independent study show that in most Member States in 2008 there was a very significant improvement in the institutional capacity necessary to run programmes, in particular in the Member States which adhered in 2004.<sup>1</sup> In concrete terms this means that Member States are more equipped than ever before to plan ahead structural interventions, evaluate and communicate the results, and to support worthwhile projects. This improvement is also a proof of the success of the efforts deployed over the years to prepare the former candidate countries, which are now full members, to benefit from Cohesion policy. Of course, there are still big differences between countries and regions and much will still need to be done in this area, including Bulgaria and Romania which joined in 2007 and are still catching up. However it is encouraging to be able to report that the administrative capacity to run structural programmes has globally stepped up.

This is very encouraging because it makes it possible to go from words to concrete actions: a recent study confirms that the 2007-2013 programmes have significant potential to contribute to achieving the Lisbon and Gothenburg objectives for **growth, jobs and sustainable**

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<sup>1</sup> Ex-post evaluation of 2000-2006 programming period (Objectives 1 and 2)

**development**<sup>2</sup>. With the adequate structures in place, these strategies can now be put into action.

These developments were very important as the EU was confronted as from the second half of 2008 with the worst **financial and economic crisis** affecting the world for decades. The existence of a stable financial and policy framework for Cohesion Policy has been an anchor in the turmoil of the crisis. The Commission was quick to act in November 2008. The Cohesion policy represented, financially speaking, the most important tool of the EU budget to provide support. Measures were quickly taken to propose to adapt its legal framework to provide more cash-flow to be paid up-front, to simplify the cycle of payments and the conditions to fund complex projects generating revenues, and to show openness to programme changes when these are necessary to better combat the crisis. For example, the new legislation will expand the possibilities to fund investments in energy efficiency and renewable energy in housing. Even though acting under pressure and under a sense of urgency imposed by the crisis, the Commission when proposing these new arrangements, has also paid the utmost attention to evaluate that such changes do not undermine in any way the respect of sound financial management and the achievement of the overall objectives for growth, jobs and sustainable development agreed with each Member State.<sup>3</sup>

2008 was also a very significant year for **improving the Commission's supervisory role** over programmes under shared management with Member States. The entire DG Regional Policy devoted much time and resources to reinforce actions to address the high level of errors in reimbursements for Cohesion Policy and weaknesses in the Member States' management and control systems. In response to the Action Plan to strengthen the Commission's supervisory role under shared management, 28 out of the 37 actions foreseen were carried out as planned in 2008. Progress was regularly reported to the Budgetary Control Committee of the European Parliament, the Council and the Court of Auditors. The Parliament expressed its satisfaction with the progress made and with the commitment of the Commission to achieve planned targets on schedule. The Court of Auditors has recognised the positive evolution in the quality of the Annual Activity Reports of DG Regional Policy and the usefulness of the evidence these reports provide.

Good flow of payments on 2000-2006 programmes, the preparation of the institutional set up necessary to manage the greatest effort ever in terms of Cohesion policy for 27 Member States, and addressing the most critical aspects of reducing errors when executing the EU budget are very important steps. All of this was underpinned in 2008 by continuous efforts to **evaluate the impact of EU interventions** on the real economy, and to measure value added. DG Regional Policy was very active in all these areas in 2008.

An important policy development in 2008 was to prepare the ground for the **Cohesion policy of the future**. The main achievements were the launch of the wide debate after the adoption

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<sup>2</sup> Commission Communication on the results of the negotiations concerning Cohesion policy strategies and programmes for the period 2007-2013 (COM(2008) 301 of 14.05.2008) and "The potential for regional policy instruments, 2007-2013, to contribute to the Lisbon and Göteborg objectives for growth, jobs and sustainable development", Final report to the European Commission, Nordregio (2009).

<sup>3</sup> DG Regional Policy was actively involved in the preparation of the European Economic Recovery Plan. The Communication "Cohesion Policy: Investing in the real economy" (COM(2008) 876 of 16.12.2008) highlighted the contribution of Cohesion Policy to the Recovery Plan and its support for the real economy, in particular by providing a secure and stable source of funding which is focused on Lisbon growth and jobs priorities. To ensure that targeted assistance can be delivered to address priority needs and to accelerate spending in the areas with most growth potential, Cohesion Policy has proposed a number of legislative and non-legislative measures (COM(2008) 803 of 26.11.2008 and COM(2008) 837 of 3.12.2008).

of the Green Paper on territorial cohesion<sup>4</sup>, the 5<sup>th</sup> Progress Report on Economic and Social Cohesion<sup>5</sup>, the Commission report on Regions 2020, which gives a first analysis of the likely regional impact of the main challenges facing Europe (i.e. globalisation, demographic trends, climate change and energy use and supply), and the design of an EU strategy for the Baltic Sea region in cooperation with the Member States. The Green Paper reflects the challenges facing the EU and the different impact these can have depending on the geographical situation, it being cities, regions or rural areas. The EU strategy for the Baltic Sea region, represents a new approach in cross-border and transnational cooperation, aiming to take it one step further, towards greater integration. The strategy represents an excellent "test case" for this type of enhanced cooperation, facilitating the efforts of various key players in the area.

Even though there is no escaping the difficulties facing the EU economy, the work accomplished in 2008 by DG Regional Policy can significantly contribute to support the regions most hit by the crisis to lay the foundations for a sustainable recovery.

### *1.1.2. Impact indicators*

Cohesion policy can have an impact on the real GDP, the GDP per capita, the employment rate, the labour productivity and the Gross Fixed Capital Formation in the Member States. As regards **results** from the programming period 2000-2006<sup>6</sup>, both Objective 1 and Objective 2 regions performed very well on the growth and convergence targets. An estimated 730,000 gross jobs were created in Objective 2 regions<sup>7</sup> and the average GDP<sup>8</sup> of Objective 1 regions (EU15) grew from 68.5 % of the average in 2000 to 72 % in 2005. The average annual change in GDP 2000-2005 was 2.2 % for Objective 1 regions, compared to 1.7 % for all EU15. Cohesion policy has supported the development of basic infrastructure, particularly in Objective 1 regions.<sup>9</sup> For example, over 44,000 km of roads were built or improved<sup>10</sup> while over 17,000 km of water supply networks were constructed<sup>11</sup>. With regard to results for investments in transport and environment infrastructure, most of the targets have been achieved and substantial progress has been made in respect of the contribution of RTD spending to the innovative capacity of regions. The Structural Funds have clearly played an important role in helping SMEs to overcome market failures in terms of risk and access to capital and knowledge. The governance of Structural Funds programmes has also had several positive spillovers for other sectors of public intervention.

The table below highlights some impacts of the policy under each of the four general objectives of Cohesion policy. It should be noted that **Cohesion policy is only one of the policies contributing to the impact**. In the context of shared management responsibilities for Cohesion policy, the data in the table relate to activity which is primarily the responsibility of the Member States. Furthermore, there is a time-lag to obtaining such information.

As from 2007, the Cohesion Fund has been brought into the programming process of Cohesion policy. Therefore operational programmes can now be funded by both the ERDF

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<sup>4</sup> As a response to an invitation by the Informal Ministerial meeting of May 2007, the Green paper on Territorial cohesion launched a public debate with a view to clarify the concept and its implications for policy and cooperation. (COM(2008) 616 of 6.10.2008)

<sup>5</sup> COM(2008) 371 of 18.06.2008

<sup>6</sup> "Report on the updated mid term evaluations of the Structural Funds 2000-2006", DG Regional Policy, November 2006

<sup>7</sup> Ex post evaluation of Objectives 1 and 2, 2000-2006: Work package 2: Data feasibility study. It should be noted that gross jobs are those counted from the various projects supported and do not take account of deadweight, displacement or substitution.

<sup>8</sup> Adjusted for purchasing power

<sup>9</sup> Ex post evaluation of Objectives 1 and 2, 2000-2006, Work Package 2. Data feasibility study

<sup>10</sup> In 15 countries for which data is available

<sup>11</sup> In 9 countries for which data is available

and the Cohesion Fund under the same set of rules and there will be no more management by single project. Therefore the impacts relate to both funds.

**Table 1: Impact indicators for the 2007-2013 period**

POLICY AREA – COHESION POLICY				
Impact indicators for the period 2007-2013				
General objective	Indicator	Long term target	Milestone (if any)	Current situation
<i>Convergence</i> : stimulate the growth potential and employment of the least-developed Member States and regions <sup>12</sup>	Real GDP growth	Average increase by 2015 in the recently acceded Member States of 6% compared to a scenario without Cohesion policy		EUR 747 billion (2006) <sup>13</sup>
	Jobs created (net)	Overall increase by 2015 by 2 million <sup>14</sup>		612,000 net jobs were created during 2000-2006 <sup>15</sup>
	Labour productivity	Increase by 2013 in the recently acceded Member States <sup>16</sup> by between 2% and 7% depending on the country		Index 100 in 2006
	Total fixed capital formation	Average increase by 2013 of 20-25%		
	Regional competitiveness synthetic index <sup>17</sup>	0.50 in 2013		Baseline (2005-2007): 0.40
<i>Regional competitiveness and employment</i> : strengthen regions' competitiveness and attractiveness as well as employment by helping them to anticipate economic and social changes	Jobs created (gross)	Increase		730,000 gross jobs created in Objective 2 regions during the 2000-2006 period <sup>18</sup> 450,000 gross jobs created in the Objective 2 regions of DK, FR, SE, UK, ES and NL <sup>19</sup>
	Regional competitiveness synthetic index	0.75 in 2013		Baseline (2005-2007): 0.68
<i>European territorial cooperation</i> : promote stronger integration of the EU to support balanced and sustainable development	Disparities in GDP on border regions	1.40 in 2013 along the borders between the EU-15 and recently acceded Member States		1.54 (2004)

<sup>12</sup> The first three indicators are based on estimates produced by the HERMIN model run by DG Regional Policy. Unless specified otherwise, the three indicators cover all the Member States eligible to the Cohesion Fund (including Spain), Eastern Germany, and Southern Italy.

<sup>13</sup> All new Member States (EU12)

<sup>14</sup> EU12, PT, ES, EL, of which 1.5 million for EU12

<sup>15</sup> Source: HERMIN estimation for 18 Member States (BG, CZ, EE, IR, EL, ES, CY, LV, LT, HU, MT, PL, PT, RO, SK, SI, DE, IT)

<sup>16</sup> Excluding Cyprus and Malta

<sup>17</sup> See Fourth Report on Economic and Social cohesion, May 2007

<sup>18</sup> Ex-post evaluation 2000-2006 (Work Package 2: Data feasibility study)

<sup>19</sup> Synthesis report of the up-date of the mid-term evaluations (2005)

<i>Pre-accession</i> : assist candidate countries as well as potential candidate countries in their progressive alignment with the standards and policies of the European Union, including cross-border cooperation	Improved capacity of candidate countries; monitoring of the recommendations of the reports	Progress as reported in the annual progress reports of the Commission on candidate countries		Situation of each country as assessed in the 2007 progress reports published in November 2008.
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Source: EUROSTAT and DG Regional Policy calculations

**Table 2: Context indicators for the Convergence objective**

<b>POLICY AREA – COHESION POLICY</b> Context indicators for the Convergence objective		
<b>Indicator</b>	<b>Long term target</b>	<b>Current situation in the Convergence regions</b>
Regional GDP per capita	75% of the EU27	61.1% (2005)
Regional unemployment rate	Moving toward the EU27 average (7.2% in 2007)	9.2% (2007)
Regional employment rate	70% (Lisbon target)	59.3% (2007)
Regional gross expenditure on R&D (GERD)	3% of GDP (Lisbon target)	0.9% (2005)

Source: EUROSTAT

**Table 3: Work in partnership with Member States and regions**

<b>Indicator</b>	<b>As of 31.12.2008</b>
Number of ERDF/CF operational programmes approved by the Commission	316 programmes
Number of major projects approved by the Commission	13 major projects

## **1.2. Level of the operational activities**

### **1.2.1. Management of the European Regional Development Fund and other regional interventions**

*The specific objectives for ERDF are the following:*

*Redress the main regional imbalances through support for the development and structural adjustment of regional economies, including the conversion of declining industrial regions and regions lagging behind, and support for cross-border, transnational and interregional cooperation by:*

- 1. financing productive investments which contribute to creating and safeguarding sustainable jobs, primarily through direct aid to investment primarily in small and medium-sized enterprises;*
- 2. improving the access to and the quality of infrastructure by financing investments in infrastructure;*
- 3. developing the endogenous potential by measures which support regional and local development including support for and services to enterprises, in particular SMEs by creating and developing financing instruments such as venture capital, loan and guarantee funds, local development funds, interest subsidies, networking, cooperation and exchange of experience between regions, towns and relevant social, economic and environmental actors.*

2008 was a full year of implementation for Regional Policy. It has achieved results by ensuring the launch and effective implementation of the 2007-2013 operational programmes and by continuing the implementation of the programmes and projects of the 2000-2006 period.

#### **1.2.1.1. Implementation of the 2007-2013 programming period**

2008 was the first year of effective implementation of the 2007-2013 programmes, meaning all the organisational efforts and the first important decisions were to be taken. In particular, the agreement of selection criteria, the adoption of communication plans, the adoption of compliance assessment reports and audit strategies, the effective start on the ground with the launch of calls for projects and the selection of projects. An **assessment of the preparatory works** for implementation in Member States and regions indicates that 60% of the Community support (representing 56% of the programmes) show satisfactory progress, whereas 25% and 16% of Community support respectively show signs of delayed or strongly delayed level of preparedness for implementation (representing 28% and 16% of the programmes)<sup>20</sup>. It is estimated that around **40,000 projects** have been selected already in the Member States. For **major projects** a total of 13 projects<sup>21</sup> were adopted in 2008; these projects relate to water treatment and waste water, motorways, clean urban transport, broadband networks and productive investment. Apart from these, DG Regional Policy has received applications for 60 major projects for which the appraisal is on-going. For the descriptions of the set up of **management and control systems** (compliance assessment), DG Regional policy has approved 37% of the received reports on management and control systems and 63% of the submitted audit strategies.

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<sup>20</sup> See section 2.3.1.1 and Table 10 for an explanation of the criteria used for the assessment.

<sup>21</sup> 11 supported by the Cohesion Fund and 2 by ERDF

With the enlargements of 2004 and 2007 the EU was faced with important challenges, with a 20% increase of the population but only a 5% increase in the Union's GDP. Cohesion policy is playing an important role in integrating the new Member States by bridging the gap in levels of development. DG Regional Policy has taken a number of steps towards a **successful integration process**. For Member States having acceded in 2004, an additional challenge for the 2007-2013 period is that these programmes do not correspond to the previous period (neither in number nor in the internal organisation). This is an element of additional complexity that has required more efforts to the monitoring and the supervision by DG Regional Policy. A close follow-up was also done of the programmes 2007-2013 for the recently acceded Member States (Bulgaria and Romania).

Several **meetings, seminars and visits** to the regions and Member States have been carried out by the DG during 2008 with the objective to ensure an effective start of the programmes and ensure that the objectives of Cohesion policy set out in regional operational programmes contribute to the Lisbon growth and jobs objectives.

Thanks to its revolving nature, **financial engineering** can achieve more than traditional grants when delivering Cohesion policy on the ground. With this in mind the European Commission has designed the financial engineering instruments JEREMIE (Joint European Resources for Micro to Medium Enterprises) and JESSICA (Joint European Support for Sustainable Investment in City Areas) and the initiatives JASMINE (Joint Action to Support Micro-finance Institutions in Europe) and JASPERS (Joint Assistance to Support Projects in European Regions) providing technical assistance. JEREMIE and JESSICA help transforming grants into recyclable forms of finance, for instance loans, equity investments, guarantees and their combination. 2008 was a year of strengthened cooperation between the Commission and International Financing Institutions with the objective of putting into practice JEREMIE and develop further JESSICA, JASMINE and JASPERS. In 2008 many Member States and regions have set up JEREMIE through the use of holding funds: as of early December 2008 at least EUR 600 million was already available in holding funds which were likely to rise to more than 1 billion EUR by the end of the year.<sup>22</sup>

**Territorial cooperation** has high visibility on the ground, and thereby contributes to strong local and regional involvement in EU-wide cooperation. 2008 saw the effective launch of the territorial cooperation programmes and around 1000 individual projects have been selected so far, representing 12% of the Community support for these programmes for the period 2007-2013. As a part of the ongoing work on territorial cohesion during 2008, DG Regional Policy carried out a set of activities in the area of **urban-rural linkages**. The aim was to launch a debate and to take stock of, disseminate and learn from already existing experience and studies in this field. Based on the analysis of all the operational programmes 2007-2013, a Working Paper draw a first full picture of how Member States and regions have mainstreamed urban dimensions in these programmes.<sup>23</sup>

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<sup>22</sup> For the JEREMIE initiative six new agreements were signed in 2008. Another ten similar funding agreements are under negotiations. 53 evaluation studies have been completed at national or regional level. For JESSICA, in 2008 kick-off meetings were held in 20 Member States and 23 evaluation studies in 14 Member States were launched. Six Memoranda of Understanding were signed. JASMINE was launched in 2008. So far, 11 studies were launched to assess the existing supply of micro-credit versus the potential demand. 2008 was the first full year of operation of JASPERS, with 82 assignments, compared to 22 in 2007. KfW, the German publicly-owned development bank, became the fourth partner of JASPERS. As part of the Economic Recovery Package the resources available to JASPERS were decided to be increased by 25% as from 2009.

<sup>23</sup> 25.11.2008

### 1.2.1.2. Implementation of the 2000-2006 programming period

DG Regional Policy continued to closely monitor the implementation of the 2000-2006 programmes, to promote the best quality of projects and management methods, and to help the Member States to **prepare for the closure** of the programming period. DG Regional Policy was actively involved in assisting Member States' national and regional authorities to ensure the sufficient knowledge of the closure methodology. Closure guidelines for the Structural Funds and for the Cohesion Fund were adopted, a closure seminar for Member States' authorities was organised and the Cohesion Fund closure Task Force finalised its work. 38 regional programmes for Innovative Actions were closed in 2008<sup>24</sup>. The decision in 2008 to extend the eligibility period for the 2000-2006 programmes, in the context of the Recovery Package, will further delay some of the closures, but should at the same time ensure a full absorption rate of the funds.

There was a continued effort during 2008 to raise the quality of programmes and projects which are co-financed by EU Cohesion Policy, in particular to promote a **sound financial management**. Through the successful completion of the DG's Audit Strategy and the implementation of the *"Action Plan to strengthen the Commission's supervisory role under shared management of Structural actions"*<sup>25</sup> good progress was made. A new contract of confidence was signed in 2008 (with Cyprus).

In terms of promotion of good practice, the DG has been active in identifying projects in the different fields of economic modernisation and disseminating them as examples-to-follow. Exchange of experience was promoted, notably through interregional and urban networks and the conference **"Regions for Economic Change"** in February 2008, where for the first time "RegioStars" were awarded to good practice innovation projects. As the biggest event ever organised on European Cohesion Policy, with more than 7,500 participants, the **OPEN DAYS** "European week of regions and cities", was held together with the Committee of the Regions and 216 regions and cities across the EU with the headline "Regions and cities in a challenging world". 12 **"Fast Track" networks** were confirmed for full financing under the Regions for Economic Change initiative in 2008, covering more than 100 regions, and a public database of case studies of regional development projects was launched.

Given the fact that European Cohesion Policy operates in a multi-annual framework, the achievement of objectives and targets laid down at the beginning of the programming period can only be studied in a multi-annual context. In terms of the **evaluation** of the 2000-2006 programming period, DG Regional Policy has gathered data and launched specific evaluations to get an overview on policy results and outputs.

The **Northern Ireland Task Force**, chaired by DG Regional Policy, produced a report containing suggestions and recommendations on how the region can become more actively involved in EU policies<sup>26</sup>. The Northern Ireland authorities responded by drafting an Action Plan which will be implemented from 2009.

### 1.2.1.3. Related outputs and result indicators

It should be noted that the outputs and results in the table below (see section 1.2.2) relate to activity which is primarily the responsibility of the Member States, given the shared management responsibilities of Cohesion policy. It is not a direct measure of the performance

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<sup>24</sup> With closed is meant that either the final payment was paid and/or the decommitment done.

<sup>25</sup> COM(2008) 97 of 19.02.2008

<sup>26</sup> A Communication on the Northern Ireland Task Force Report and annexed Commission staff working document (COM(2008)186 and SEC(2008)447 of 07.04.2008)

of DG Regional Policy. In addition, there is a time-lag to obtaining such information. In the table, core indicator targets are from selected countries and operational programmes (2007-2013). The latest known results are taken from the 2007 annual reports related to ERDF in the 2000-2006 programming period (expenditures on these programmes will continue in some cases until the end of 2008) and first results of the ex-post evaluation of that period. In relation to the 2007-2013 period, given that there was very little expenditure in 2007, very few outputs were reported by Member States to DG Regional Policy in mid 2008; it will take some years before results are known.

It should also be noted that the Cohesion Fund has been brought into the programming process of Cohesion policy. Both funds are represented within the programmes which are managed and implemented by the Member States. Therefore the outputs and results which will be reported for the 2007-2013 period will relate both to the ERDF and the Cohesion Fund. The main results, outputs and targets of ERDF and Cohesion Fund are detailed in the table at the end of section 1.2.2 of this report.

### 1.2.2. Management of the Cohesion Fund

*The specific objectives for Cohesion Fund are the following:*

*Strengthen the economic and social cohesion of the Community in the interests of promoting sustainable development by:*

- 1. To ensure an adequate framework for the day to day management of ERDF and Cohesion fund for the Instrument of pre-accession.*
- 2. To manage the risks associated with the execution of a significant proportion of the EU budget (27.6 billion EUR paid in 2008, see section 2.1.2) mainly through shared management with the Member States, and through decentralised management with the beneficiary countries for the Instrument for Pre-Accession (IPA).*
- 3. To make the best use of the data's for the evaluation of the objectives to be achieved, the results expected and obtained, together with a clear identification of the added value of Community involvement.*

#### 1.2.2.1. Implementation of the 2007-2013 programming period

As regards **the period 2007-2013**, the Cohesion Fund is integrated in the multi-annual programming with the ERDF in 24 operational programmes in the 15 eligible Member States including a specific phasing out Cohesion Fund programme in Spain. In 2008, EUR 2.8 billion were paid as pre-financing for the Cohesion Fund 2007-2013. *Please refer to section 1.2.1 on the ERDF for more details of the programming period 2007-2013 of the Cohesion Fund.*

#### 1.2.2.2. Implementation of the 2000-2006 programming period

The Cohesion Fund helps to lay the foundations for growth in Member States with a GDP per capita below 90% of the Community average. Expenditure under the Cohesion Fund was **equally distributed over the period 2000-2006 between environment and transport infrastructures**: 50.3 % of funds supported environment (37.5% of which for sewerage and purification and 15.9% for drinking water) and 48.8 % for transport (44.9% of which for rail and 27.2 for roads)<sup>27</sup>.

Co-financed transport projects generated substantial economic benefits in terms of improved accessibility which reduces transport costs. Environmental projects raised environmental standards in the regions, with particular regard to water supply, waste water treatment and solid waste treatment. All projects are subject to a cost-benefit analysis in order to ensure their financial and economic viability in the long run. The Commission adopted 156 decisions in 2008 on Cohesion Fund projects under the 2000-2006 period, including those on modifying the final deadlines for projects.

143 Cohesion Fund projects were closed in 2008. There are still 956 open projects<sup>28</sup>, which will be closed in the coming years. With a view to ensure a smooth closure process of the Cohesion Fund projects 2000-2006, DG Regional Policy adopted closure guidelines for the Cohesion Fund in 2008 as well as finalised the work of the Cohesion Fund closure Task Force.

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<sup>27</sup> Source: 4<sup>th</sup> Report on Cohesion (2007)

<sup>28</sup> This figure includes all former ISPA projects which have been transformed into Cohesion Fund projects.

**Table 4: European Regional Development Fund and the Cohesion Fund – results, outputs, targets**

ACTIVITIES: European Regional Development Fund (ERDF) and the Cohesion Fund				
SPECIFIC OBJECTIVES	Result (output) indicators <sup>29</sup>			Main outputs <sup>30</sup> to meet the objective
	Indicator	Target (mid-term)	Latest known result	
Address the regional imbalances, assist the development and structural adjustment of regional economies and contribute to reducing natural, economic, social and administrative obstacles by:				
1) Supporting the generation of sustainable growth and jobs through investments and services, including development of financing instruments, raising productivity, competitiveness and innovation capacities of enterprises, in particular of SMEs;  (specific objective of ERDF)	<p><b>SMEs</b></p> <p>Volume and leverage of financing schemes to SMEs</p> <p>Number of start-ups to be supported</p> <p><b>JOBS</b></p> <p>Expected gross jobs created 2007-2013</p>	<p>EUR 24.445 billion ERDF funds<sup>31</sup> foreseen 2007-2013 to support RTD, innovation, information society actions and entrepreneurship in SMEs</p> <p><b>Start-ups: 4,000</b> in BE, CY, DK, EL, NL</p> <p><b>775,000 gross jobs</b> to be created (2007-13 period) in AT, BE, BG, CY, CZ, DE, FI, FR, GR, HU, IT, MT, NL, PL, PT, RO, SE, SI, SK and UK<sup>32</sup></p> <p><b>2 million net jobs</b> to be created by 2015 in 15 Member States<sup>33</sup></p>	<p>2007-13 allocations represent annually some 1.4% of gross fixed capital formation in the private sector in the EU-25 in 2004 (in current prices)</p> <p>7,500 enterprises provided with investment support (to a total of EUR 16.8 billion) in Germany</p> <p>In Spain, EUR 13.6 billion new private investment induced</p> <p>40,000 micro-enterprises created in Germany with the support of Structural Funds in 2000-2005, with 85 % of these enterprises surviving after two years<sup>34</sup></p> <p><b>730,000 gross jobs</b> were created in Objective 2 regions (2000-2006)<sup>35</sup> <b>450,000 gross jobs</b> created in Objective 2 regions in DK, FR, SDE, UK, ES and NL<sup>36</sup></p> <p><b>612,000 jobs</b> created (net) for 18 MS 2000-2006<sup>37</sup></p>	<p><i>Number of SMEs expected to be supported 2007-2013</i></p> <p><i>Number of SMEs created</i></p>
2) Improving accessibility and attractiveness of the regions and cities, through development of RTDI, communication and transport,	<p><b>TRANSPORT</b></p> <p>Time savings for road/rail for</p>	<p>Average speed of interregional road trips: + 13 % (scenario 2031 with EU transport</p>	<p>Spain: road time savings of nearly 1.2 million hours of travel time per year. 1.8 million additional population served by the new and/or conventional railways.</p>	<p><i>Transport:</i></p> <p><i>Number of projects</i></p> <p><i>Km of new roads, -of which TEN</i></p>

<sup>29</sup> Data will be available in the medium term at the level of each individual programme through the monitoring systems established by the relevant managing authorities. The nature of the Structural Fund interventions with complex and tailor made (national, regional or sectoral) development programmes involving a wide range of stakeholders makes it difficult and sometimes irrelevant to aggregate the multiplicity of the data available. The choice in terms of definition and content of the priority axes is given to each managing authority (national or regional level) makes the aggregation of the data difficult or impossible. At the Commission level, core data will be gathered, organised and presented in the form of summary sheets for selected Member States on the basis of the annual reports to be submitted. The work of the Commission on this issue depends clearly on the availability of the data from the Member States and on the quality of the information provided by the Member States.

<sup>30</sup> The output indicators provided here refer to both outputs for the 2000-2006 period as well as expected outputs for the 2007-2013 programming period

<sup>31</sup> Based on codes 03, 04, 06, 09, 14, 15 and 68 of categorisation 2007-2013 and on 190 (ERDF-Cohesion Fund) adopted Operational Programmes as at 28.11.2007

<sup>32</sup> Based on 100 operational programmes

<sup>33</sup> Source: HERMIN estimation for EU12, PT, ES, and EL

<sup>34</sup> Source: 4<sup>th</sup> Report on Economic and Social Cohesion

<sup>35</sup> Ex-post evaluation 2000-2006, Work package 2 (Data feasibility study)

<sup>36</sup> Synthesis report of the up-date of the mid-term evaluations (2005)

<sup>37</sup> Source: HERMIN estimation for 18 Member States (BG, CZ, EE, IR, EL, ES, CY, LV, LT, HU, MT, PL, PT, RO, SK, SI, DE, IT)

<p>environmental and social infrastructure; (specific objective of ERDF)</p> <p><u>Cohesion fund:</u> (2 specific objectives):</p> <p>1. Developing the trans-European transport networks and in particular priority projects of common interest as identified by Decision No 1692/96/EC;</p> <p>2. Supporting actions of Member States related to the environment and sustainable development clearly presenting environmental benefits (renewable energy, clean urban transport...).</p>	<p>selected countries</p> <p>Accessibility gain</p> <p>Km of road (new or reconstructed)</p> <p>Km of rail (new or reconstructed)</p> <p><b>ENVIRONMENT</b> Additional population served by new/renovated: -Water projects  -Wastewater projects</p> <p>Additional population served with improved urban transport</p> <p><b>INFORMATION SOCIETY</b> Number of additional population covered by broadband access</p> <p>Research jobs created</p> <p><b>SOCIAL INFRASTRUCTURES</b></p>	<p>investment for the EU12 new Member States; increase as % of 2006)<sup>38</sup></p> <p>Average speed of interregional rail trips: + 8.8 % (scenario 2031 with EU transport investment for the EU12 new Member States; increase as % of 2006)<sup>39</sup></p> <p><b>Road: 25,000</b> (2007-2013) (in BG, CY, CZ, DE, ES, EL, LT, PL, RO, SI, SK)</p> <p><b>Rail: 7,700</b> (2007-2013) (in AT, BG, CZ, DE, ES, FR, EL, HU, IT, LT, PL, PT, RO, SK, SI, UK)</p> <p><b>Water:</b> Additional population served <b>9,500,000</b> (2007-2013) (in CZ, EE, ES, FR, EL, HU, LV, PL, PT, RO, SI, SK)</p> <p><b>Wastewater:</b> Additional population served <b>31,500,000</b> (2007-2013) (in EE, ES, FR, EL, HU, PL, PT, SI, SK)</p> <p><b>Urban transport: 82,500,000</b> (2007-2013) (for CZ, FR, GR, IT, PL, SK)</p> <p><b>Information society:</b> SI and LT = 100% PL: 6,650,000 ES: 350,000 AT: 10,000</p> <p><b>Research jobs: 72,700</b> (2007-2013) (in AT, BE, BG, CZ, CY, DE, EE, ES, FR, FI, HU, IT, IRL, LT, PL, RO, SI, SK, UK)</p>	<p>Portugal: rail time savings are a 20-minute reduction by 100 km, up to 70 minutes in the principal national railway lines. Modernisation and a 50 % increase of capacity of international ports and airports in Portugal.</p> <p>Czech Republic: travel time savings of 23 % of the roads which have received support.</p> <p>Density of motorways in Greece and Portugal (km/surface area) has increased threefold between 1995 and 2004<sup>40</sup></p> <p><b>Road: 44,386</b> (2000-2006) (in CY, CZ, DE, EE, EL, ES, FR, HU, IRL, IT, LV, MT, PL, PT,SK)</p> <p><b>Rail: 11,685</b> (2000-2006) (in CZ, DE, EL, ES, IT, LT, SK, UK)</p> <p>Length of water supply network <b>17,174</b> Km (2000-2006) (in CZ, DE, EL, ES, IT, MT, PL, PT, SK) Spain (2000-2006): 2.6 Million additional people connected to water network</p> <p>Length of wastewater network <b>9,060</b> Km (2000-2006) (in CZ, DE, EL, ES, PL, PT) Spain (2000-2006): 57 new water treatment works serving 1.8 Million inhabitants</p> <p>Greece (2000-2006): Athens metro expansion: by mid-2005, 17 200 passengers using 4 new transit stations</p> <p>Number of Information Society projects : <b>2,545</b> (2000-2006) (in CZ, DE, EE, FIN, FR, HU, LT, PL, PT, SE)</p>	<p><i>Km of reconstructed roads</i> <i>Km of new railroads -of which TEN</i> <i>Km of reconstructed railroads</i></p> <p><i>Czech Republic: travel time savings of 23 % of the roads which have received support.</i></p> <p><i>Density of motorways in Greece and Portugal (km/surface area) has increased threefold between 1995 and 2004<sup>40</sup></i></p> <p><b>Road: 44,386</b> (2000-2006) (in CY, CZ, DE, EE, EL, ES, FR, HU, IRL, IT, LV, MT, PL, PT,SK)</p> <p><b>Rail: 11,685</b> (2000-2006) (in CZ, DE, EL, ES, IT, LT, SK, UK)</p> <p>Length of water supply network <b>17,174</b> Km (2000-2006) (in CZ, DE, EL, ES, IT, MT, PL, PT, SK) Spain (2000-2006): 2.6 Million additional people connected to water network</p> <p>Length of wastewater network <b>9,060</b> Km (2000-2006) (in CZ, DE, EL, ES, PL, PT) Spain (2000-2006): 57 new water treatment works serving 1.8 Million inhabitants</p> <p>Greece (2000-2006): Athens metro expansion: by mid-2005, 17 200 passengers using 4 new transit stations</p> <p>Number of Information Society projects : <b>2,545</b> (2000-2006) (in CZ, DE, EE, FIN, FR, HU, LT, PL, PT, SE)</p> <p><i>Environment:</i> <i>Number of waste projects</i> <i>Number of projects on improvement of air quality</i> <i>Area rehabilitated (km2)</i> <i>Number of km of new and/or renovated water supply networks constructed</i> <i>Number of km of sewerage network built</i> <i>Number of waste treatment plants supported</i>  <i>Number of km of new water pipelines constructed</i>  <i>Number of km of wastewater pipelines constructed</i>  <i>Number of water treatment plants supported</i>  <i>Clean urban transports, for example:</i>  <i>Number of new metro lines</i>  <i>Number of km of new cycle lane</i></p> <p><i>Information society:</i> <i>Number of projects</i></p>
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<sup>38</sup> Source: 4th Report on Economic and Social Cohesion

<sup>39</sup> Source: 4th Report on Economic and Social Cohesion

<sup>40</sup> Source: 4th Report on Economic and Social Cohesion

	<p>Number of benefiting students</p> <p><b>RENEWABLE ENERGY</b> Additional capacity of renewable energy production (MW)</p>	<p><b>Students: 2,360,000</b> (2007-2013) (in selected countries)</p> <p><b>Renewable energy: 1,950,000</b> (2007-2013) (for AT, CZ, DE, FR, GR, IT, MT, PL, SK, UK )</p>		
<p>3) Developing regional and local potential through encouraging integrated development approach, capacity building, cross border and international cooperation and supporting networking, exchange of experience and cooperation between regions, towns and relevant social, economic and environmental actors.</p> <p>(specific objective of ERDF)</p>	<p>Proportion of ERDF expenditure for Research / Innovation</p> <p>Number of action plans generated as a result of participating in networks</p> <p>Number of RTD cooperation projects</p>	<p>Increase to average ratio of Structural Funds RTDI investment to GERD (by objective); 19 % of the global ERDF 2007-2013 envelope to support RTD and innovation investments<sup>41</sup></p> <p>Develop Regions for Economic Changes themes in the framework of OPs</p> <p><b>RTD cooperation projects: 7,700</b> (2007-2013) (in AT, BE, BG, CY, CZ, DE, DK, EE,NL, PL, RO, SK)</p>	<p>Structural Funds RTDI investment account for 5% to more than 18% of gross expenditure on R&amp;D (GERD) in Objective 1 countries<sup>42</sup></p> <p><b>RTD cooperation projects: 25.114</b> (2000-2006) (in AT, DE, EL, ES, FR, HU, IRL, IT, PT, SE)</p>	<p><i>Number of RTD projects</i></p> <p><i>Number of cooperation projects enterprises-research institutions</i></p> <p><i>Number of projects</i></p>
<p>4) Supporting cross-border, transnational and interregional cooperation (European territorial cooperation) including cross-border cooperation between Member States and candidate or potential candidate countries</p> <p>(specific objective of ERDF)</p>	<p>Number of people getting employment on the other side of the border as a result of a CBC project</p>	<p>500 at the end of period 2007-2013</p>	<p>Baseline 2007: 0</p>	<p><i>Number of cooperation projects improving transport links across national borders</i></p> <p><i>Number of cooperation projects on risk prevention</i></p> <p><i>Number of cooperation projects encouraging the development of cross-border trade</i></p>

<sup>41</sup> Based on expenditure codes (2007-2013): 01,02,03,04,05,06,07 and 09

<sup>42</sup> Source: Strategic Evaluation on innovation and knowledge, DG Regional Policy, 2006

### 1.2.3. *Management of the pre-accession interventions related to structural policies (IPA and ISPA)*

*The specific objectives for IPA-ISPA are the following:*

- 1. Ensure support for the beneficiary countries to policy development as well as the preparation for the implementation and management of the Community's Cohesion Policy; in particular for the preparation for the European Regional Development Fund and the Cohesion Fund ('IPA')*
- 2. Provide assistance to contribute to the preparation for accession to the European Union of the beneficiary countries in the area of economic and social cohesion, concerning environment and transport policies ('ISPA')*

DG Regional Policy is closely involved in assisting **candidate countries** (Croatia, Turkey and FYROM) for the introduction of the regional development and cross-border cooperation components of the Pre-Accession Instrument (IPA). The Commission adopted a Draft Common Position on "Chapter 22" (for Cohesion policy) of the enlargement negotiations with Croatia.

For **potential candidate countries**<sup>43</sup>, the DG continued to assist in their progressive alignment with the standards and policies of the EU in the fields of Regional Policy through advice and guidance to national authorities in the beneficiary countries.

#### 1.2.3.1. Implementation of IPA – 2007-2013 programming period

The focus in 2008 in the three candidate countries (Croatia, Turkey, former Yugoslav Republic of Macedonia) was on assisting the national authorities in preparing internal management systems for accreditation and the conferral of decentralised management powers by the Commission. In one candidate country (Croatia) this process was accomplished in 2008. This enabled **signature of the financing agreements** for the three operational programmes in Croatia, which resulted in the first IPA payments. For the two other candidate countries process of accreditation was completed at the end of 2008 with a view to confer the management powers on these countries in 2009.

A special emphasis was placed in the three candidate countries on preparation and appraisal of projects, and the launch of operations. In 2008 **eleven major project applications** were submitted to DG Regional Policy for appraisal. This appraisal revealed insufficient quality so project revisions were requested. For the five revised applications funding decisions are expected early 2009. Modalities for the selection of operations in all operational programmes have been agreed and the launch of technical assistance operation in one operational programme has been approved.

#### 1.2.3.2. Implementation of ISPA – 2000-2006 programming period

Croatia is the only country which receives ISPA funds in 2008. Within ISPA funds committed in Croatia in 2005 and 2006 (Croatia received ISPA only for two years) six projects are being implemented. In the implementation of ISPA there has been a **significant acceleration**

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<sup>43</sup> Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo under UN Security Council Resolution 1244

compared with 2007. The first interim payments in 2008 indicate actual physical implementation and as such it is a significant milestone in ISPA implementation.

**Table 5: IPA/ISPA – results, outputs, targets**

ACTIVITY : IPA- ISPA (IPA: Instrument for Pre-Accession assistance) (ISPA : Instrument Structurel de Pré-Adhésion)				
SPECIFIC OBJECTIVES	Result indicators			Main outputs to meet the objective
	Indicator	Target (mid-term)	Latest known result	
<b>IPA (Instrument for Pre-Accession Assistance):</b> Ensure support to beneficiary countries in policy development as well as the preparation for the implementation and management of the Community's Cohesion policy, in particular:				
1. for the preparation of the European Regional Development Fund and the Cohesion Fund ( <b>IPA regional development component</b> )	<p>Progress made by Turkey, Croatia and the former Yugoslav Republic of Macedonia in:</p> <ul style="list-style-type: none"> <li>developing long-term (2007-2013) strategic planning and in preparing and implementing multi-annual operational programmes, covering sectoral (environment and transport) and regional interventions;</li> <li>setting-up necessary decentralised management structures.</li> </ul> <p>Progress made by <b>potential</b> candidate countries in enhancing their capacity for planning, programming and project management in the sectors concerned.</p>	<p>Candidate countries show readiness to participate in EU Cohesion policy and its instruments</p> <p><b>Potential</b> candidate countries improve planning, programming and project management capacity</p>	<p>Candidate countries prepared strategic coherence frameworks and multi-annual programmes of sufficient quality to meet the Commission's approval</p> <p>Conferral of management for Croatia, signature of 3 Financing Agreements</p>	<ul style="list-style-type: none"> <li>Decision of conferral of decentralised management for TR and MK and the operating structures for the four OPs</li> <li>Financing agreements signed for each of these OPs</li> <li>Quality applications for major projects submitted to Commission</li> <li>Programme Monitoring committees functioning effectively</li> <li>Reporting required by operating structures and audit and control authorities submitted in a timely manner and with acceptable quality</li> <li>Number of infrastructure projects prepared in transport and environment</li> </ul>
2. through Cross-Border Cooperation programmes ( <b>IPA-cross-border cooperation component</b> )	<p>Number of programme level first level control systems established in non-MS</p> <p>Number of IPA-CBC programmes with an integrated approach (as if internal border)</p>	<p>5</p> <p>8</p>	<p>0</p> <p>8</p>	<p><i>Number of adopted programmes</i></p> <p><i>Number of expected projects</i></p>

**ISPA (Instrument Structurel de Pré-Adhésion):**

Provide assistance to the preparation for accession to the EU of Croatia in the area of economic and social cohesion, concerning environment and transport policies

	<p><i>Environment:</i> Population connected to water and wastewater networks (Croatia)</p> <p>Population benefitting from new regional waste management centre (in Bakarac)</p>	<p>For the town Karlovac only: 100% of the waste water collected will be biologically and chemically treated and the connection rate to the sewerage system will increase from 75% to 95%-98%. The drinking water component will reduce the current 43% losses to 35% or 2% overall increase in water quality levels from the current 93% to 95%</p> <p>Target population</p>	<p>Water: 76% (2006) Wastewater: 40% (2006)</p>	<p><i>Number of km of drinking water pipelines</i> <i>Number of km of waster-water pipeline</i></p> <p><i>Construction of a regional waste management centre</i></p>
	<p><i>Transport:</i> -Railway average speed (Croatia)</p>	<p>Reduction in average passenger journey times of 20-40 minutes from Zagreb to Belgrade (from currently 6h45 to between 6h05 and 6h25)</p> <p>The reduction in average freight times from Zagreb to Belgrade will be about 30 minutes from the current 14h00 to 13h30.</p>	<p>48 km/h (passengers) (2005) 26 km/h (freight) (2005)</p>	<p><i>Number of km of upgraded railways</i></p>

#### 1.2.4. *Management of the European Union Solidarity Fund*

*The specific objective for the European Union Solidarity Fund is the following:*

*Mobilise assistance from the European Union Solidarity Fund when a major natural disaster with serious repercussions on living conditions, the natural environment or the economy in one or more regions or one or more countries occurs on the territory of that State in order to be able to respond in an efficient and flexible manner.*

**The European Union Solidarity Fund (EUSF)** is one of the most concrete demonstrations of solidarity between Member states in acute times of need in the event of a major natural disaster. Since 2004 the Fund has intervened 34 times in 18 Member States.

In 2008, the Commission received two new applications from Cyprus (drought) and Romania (flooding). In the meantime, three applications received in 2007 were rejected from Spain (flooding in La Mancha and forest fires in Canary Islands) and from Cyprus (forest fires). **Four grant decisions** were adopted by the Commission for United Kingdom (flooding), France (storm), Greece (forest fires) and Slovenia (flooding). As a consequence, for these cases, implementing agreements were signed with the Member States concerned after the grant decisions being adopted by the Commission. In 2008, altogether **EUR 273,19 million** were paid out as EUSF grants. In addition, ten final implementation reports and closures were treated during the year and one monitoring mission was done in France (La Réunion).

2008 was also marked by the **performance audit** carried out by the European Court of Auditors. The observations were presented in a special report, which was adopted on 13 April 2008. The report examines the question whether the Fund has achieved the objectives of being rapid, efficient and flexible in providing assistance and whether the recipient states were satisfied with the Fund. To this end, the Court reviewed all applications up to the end of 2006 and carried out a survey by addressing questionnaires to the applicant states. In the report, the Court states that all applicants that replied to its survey are satisfied and that the Fund has met its underlying objective of demonstrating solidarity in times of disaster. The Court also concludes that the Fund is managed efficiently by the Commission and that administrative procedures have been reduced to a level which ensures that the procedures are efficient for beneficiary states as well. As regards flexibility, the Court notes that conditions for a successful application for 'regional disasters' (as opposed to 'major disasters') are more difficult to meet. It indicates however that there were no cases where the Fund showed a lack of flexibility in the treatment of applications.

At this occasion, the discussion on the **need for a new Regulation** was re-opened within the European Parliament. A report taking stock of achievements of the Solidarity Fund from its creation is foreseen towards the end of the first quarter of 2009.

**Table 6: European Union Solidarity Fund – results, outputs, targets**

<b>ACTIVITY : EUSF</b>				
<b>(European Union Solidarity Fund)</b>				
<b>SPECIFIC OBJECTIVES</b>	<b>Result indicators</b>			<b>Main outputs <sup>44</sup> to meet the objective</b>
	<b>Indicator</b>	<b>Target (mid-term)</b>	<b>Latest known result</b>	
Mobilise assistance from the European Union Solidarity Fund when a major natural disaster with serious repercussions on living conditions, the natural environment or the economy in one or more regions or one or more countries occurs on the territory of that State in order to be able to respond in an efficient and flexible manner	Number of population helped in overcoming a crisis situation where their living conditions have been affected	100% of population affected and eligible under the EUSF Regulation <sup>45</sup> upon the Member States' request	Inhabitants helped by the EUSF interventions in 2008: France/Martinique (680,000), Greece (extensive part of the whole territory), Slovenia (extensive part of the whole territory), Germany (the whole territory), United Kingdom (England, Northern Ireland and Wales)	273.19 million EUR paid out in 2008
	Number of hectares of disaster-stricken area where rehabilitation has been assisted	100% of areas affected by the disaster and eligible under the EUSF Regulation <sup>31</sup> upon the Member States' request	Aid available for 100% of affected areas (choice of supported operations up to the beneficiary state)	

<sup>44</sup> These outputs, however, depend on the number and size of disasters for which the Commission receives applications in 2008 and 2009.

<sup>45</sup> Council Regulation (EC) No 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund

### 1.2.5. *Other activities*

A **Simplification Task Force** was set up by DG Regional Policy in 2008 in view of the need to identify measures at short, medium and long term in the simplification debate of Cohesion policy. An **Experts Group** with external experts from the national and regional Audit authorities as well as national representatives from Managing authorities was also established to formulate proposals to simplify Cohesion policy.<sup>46</sup>

DG Regional Policy's **external relations** strategy contributes to the Commission's overall relationship with third countries. As well as promoting an exchange of experience and practice, it promotes and projects the EU model of economic and social development. Features of EU Cohesion policy of interest to third countries and to international organizations, such as MERCOSUR, are the financial dimension and the geographical targeting of resources between Member States and regions, the geographical and strategic objectives, and its implementation. In parallel, these demands provide an opportunity to project key values such as solidarity amongst EU Member States and regions. Main partners are China, Russia and Brazil. Exchanges have also taken place with UEMOA<sup>47</sup>, African Union, Ukraine, Central America, Canada, Korea and Japan.

A particular obstacle to greater territorial cohesion, and a priority for the Union as a whole, is to ensure that the opportunities of the single market are extended to its most distant regions. Following the completion in 2008 of the public consultation on the future of the strategy for the **Outermost Regions**, the Commission adopted a Communication "The Outermost Regions: an asset for Europe"<sup>48</sup>. It proposes a change of approach for the development of the strategy, emphasising the contribution these regions can make in different fields such as climate change, the protection of biodiversity and in relations with third countries.

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<sup>46</sup> In this context, an amendment to the 2007-2013 General Regulation was made concerning revenue-generating projects (Council Regulation (EC) no 1341/2008 of 18.12.2008 amending article 55 of Regulation (EC) no 1083/2006).

<sup>47</sup> Union Economique et Monétaire Ouest Africaine

<sup>48</sup> COM(2008) 642 of 17.10.2008

## **PART 2: MANAGEMENT AND INTERNAL CONTROL SYSTEMS**

### ***2.1. Inherent nature and characteristics of the Directorate General's management and control environment***

#### *2.1.1 DG Regional Policy in 2008*

Structural actions represent one of the core policies of the Union and are supported by up to one-third of the budget of the EU. It is therefore essential that the resources devoted to structural actions should be used to best effect, and that the principles of sound financial management are rigorously applied.

The DG's management and control environment is therefore designed:

- To ensure an adequate framework for the day to day management of ERDF, the Cohesion fund and the Instrument for pre-accession.
- To manage the risks associated with the execution of a significant proportion of the EU budget (EUR 27,6 billion paid in 2008, see section 2.1.2) mainly through shared management with the Member States, and through decentralised management with the beneficiary countries for the Instrument for Pre-Accession (IPA).
- To make the best use of the data available for the evaluation of the results expected and obtained, together with a clear identification of the added value of Community involvement.

#### **Shared management and the specificity of 2008**

The major risks in shared management are related to the **particular distribution of responsibilities between the Commission and the Member States**, whereby the legislative authority has delegated to Member States certain implementation tasks as laid out in the Financial Regulation and the Structural Funds Regulations, while the Commission maintains overall responsibility for the final execution of the budget.

Specific inherent risks for the Structural Funds and Cohesion Fund relate to the complexity and diversity of the operations and activities financed, which range from large infrastructure projects (including some public/private partnerships) to small-scale support services for SMEs from grants to co-funding of more sophisticated financial engineering instruments and also to the multiplicity and diversity of management organisations and beneficiaries involved.

DG Regional Policy therefore exercises its supervisory controls, mainly by audit of the Member States' management and control systems, with the follow-up of deficiencies detected through monitoring of remedial action plans and the application of financial corrections where necessary. The multi-annual nature of the system helps to offset the risk of national controls not functioning effectively to prevent errors, allowing corrections to be made some years after the disbursement of funds by the Member State to the beneficiaries and by the Commission to the Member State.

**2008 was a year of overlap** between the management of the last year of the 2000-2006 programming including the preparation for its closure, and the opening of the 2007-13 programming period. The management and control environment in place in 2008 was therefore meant to address both risks related to the preparation for programme closure of AAR 2008 Regio - final

past programmes and the risks of set up of management and control systems in the new programmes.

Preparation for a sound closure of the 2000-2006 programmes was crucial to ensure that at closure, as from 2010, the Commission is well-prepared to proceed to a rigorous examination of the documents submitted by Member States including the declaration by winding up bodies. In addition, it is essential to reduce the risks that at closure Member States may not be fully aware of and prepared to fulfil their obligations.

**For the 2007-2013 programming period**, new legislative provisions strengthen the control environment for the Commission: (a) the clearer definition of the control responsibilities of the Member States; (b) the requirement for the Member States to provide, and the Commission to assess, the ex ante compliance assessments on systems before a first interim payment to a Member State is made; (c) the requirement on Member States to designate for each programme an audit authority working under an agreed audit strategy, which reports audit results, and submits an annual audit opinion on the functioning of the systems to the Commission; (d) the power of the sub-delegated authorising officer to interrupt payments without a Commission decision; (e) the option of partial closure.

### **Decentralised management**

In the programming period 2007-2013 DG Regional Policy is in charge of a new financial instrument, IPA – Regional Development and Cross-border components. This fund is managed in a decentralised way but with strong similarities to the approach used for the structural and cohesion funds. In addition to the risks for structural actions, an additional inherent risk is related to the capacity of the candidate countries to set up and operate the systems and controls necessary for sound management of the appropriations allocated.

### **Centralised management**

0,1% of the DG expenditure is under **centralised management**. In relative terms this is small, but in absolute terms it still represented around EUR 35,4 million (out of which EUR 28,9 million under indirect centralised management for support of Innovative actions) and poses different risks which require different risk management routines accordingly.

The Internal Committee on public procurement and grants set up in 2005 has played an important role in 2008 which has resulted in high level assurance to the Director General on the compliance of public procurement and grant procedures with the Financial Regulation and other internal rules. In 2008 the Committee issued 35 positive opinions, 2 suspended opinions and 2 negative opinions. The files which received negative opinions were corrected and received a positive opinion subsequently and within a short delay.

In 2008 less than 0,01% of the budget was executed by **cross-sub delegation** to the Directors General of DG RELEX, ESTAT, ENTR and DIGIT and three delegations in Croatia, FYROM and Turkey. Co-delegation applied to OPOCE. The risks associated with this mode of execution is not much different than direct management in DG Regional Policy, with the exception that the internal control systems which supervise its execution are not DG Regional Policy's own but are owned and monitored by the respective Directorate General. Each authorising officer by sub-delegation is therefore required to sign annually a declaration of assurance.

## **Control environment within the Directorate General**

Internal controls within the Directorate General rely on a structured system of risk reducing strategy and strong internal control standards. This is based on risk identification at each level of activity and an assessment and definition of appropriate responses. The implementation of action plans and corrective measures are followed, in order to identify the reduction of the risks and the level of residual risk.

In terms of financial management internal controls is based on a clear definition and separation of roles in the financial circuits involved in order to ensure the legality and regularity of commitments and payments. In DG Regional Policy the four-eye principle is implemented by full separation of both the initiation and verification roles and the financial and operational actors. The compliance and the effective functioning of these circuits are audited regularly by the internal audit capabilities unit and are audited by external auditors (IAS and European Court of Auditors-ECA).

Internal controls within the Directorate General in 2008 also aimed specifically at managing three critical risks which lead to a revised set of measures at each level of activity to reduce the risks identified:

1. Strengthening the Commission's supervisory role under shared management (see COM (2008) 97 and the Commission report on the implementation of the action plan COM (2009) 42).
2. Further developing tools and indicators for evaluation.
3. Reaching agreements among the Directorates General concerned on closure procedures and guidelines and holding wide-ranging awareness raising actions with the Member States and regions.

In accordance with **the Code of Conduct for Commissioners** of August 2004, the working arrangements between the Commissioner and DG Regional Policy have been put in place. Regular meetings have been held between the Commissioner and the senior management of the Directorate General (Director General and Directors) in order to discuss issues of major importance and to decide about all main initiatives and strategic initiatives such as the Baltic Sea Strategy, the Recovery package, the future of European Cohesion Policy, etc.

**The Mid-Term Review** of the Annual Management Plan (AMP) 2008, which was carried out in July-September 2008, reported on the achievement of the objectives of the year as laid down in the AMP, the follow-up of the risk assessment exercise, the implementation of the internal control standards, the follow-up of the 2006 and 2007 Annual Activity Reports reservations and the follow-up of audit reports and actions being taken on them.

### *2.1.2 Budgetary execution in 2008*

- In terms of commitments, overall in 2008 EUR 37,2 billion were committed by DG Regional Policy. These commitments represent 99,9% of Regional Policy's allocation to ERDF, Cohesion Fund, ISPA and EUSF;
- In terms of payments, overall in 2008 EUR 27,6 billion was paid by DG Regional Policy on ERDF, Cohesion Fund, ISPA ("Instrument Structurel de Pré-Adhésion") and EUSF (European Union Solidarity Fund). Even though the performance of the DG reached 99,9% for ERDF and the Cohesion Fund, 99,9% for ISPA, 21,3% for IPA and 97,3% for the EUSF thereby giving an

overall figure of 99,3% for all Funds together, this has to be seen against the background of a reduction of payment appropriations in October 2008 to adjust the budget to real execution in the Member States.<sup>49</sup>

- Payments in the new Member States represented EUR 4,2 billion. As at the end of 2008, EU12 had been reimbursed 71% of their 2004-2006 envelopes (including ERDF, CF and ISPA), with 25% paid in 2008. As far as EU15 countries are concerned, by the end of 2008, 88% of their total allocation 2000-2006 was used (ERDF and CF) where 11% was paid in 2008;
- The RAL (Reste A Liquider, i.e. commitment still outstanding), concerning 1994-1999 programmes was further reduced by 57% to EUR 103 million (0,1 % of the decided amount for the period);
- The payment execution within the regulatory deadline slightly declined in 2008 and reached the level of 93,2% to compare with 95,3% of payment claims processed within the deadline in 2007.

A closer look at the figures shows that it was a very good year for payments related to the execution of the 2000-2006 ERDF funded programmes. As illustrated hereafter, a much higher than expected amount was paid in 2008 from ERDF for 2000-2006 programmes: EUR 15,1 billion, rather than EUR 9,18 billion originally scheduled. On the other hand, payments for the 2007-13 programmes was lower than expected and accounted for the reduction of nearly EUR 3 billion of the payment allocation which the Commission had to decide in October 2008.

**Table 7: 2008 payments (in billion EUR)**

	Total	2000/2006	2007/2013
ERDF	21,4	15,1	6,3
CF / ISPA	5,8	3,0	2,8
<b>TOTAL</b>	<b>27,2</b>	<b>18,1</b>	<b>9,1</b>

The reasons for the slower start of the payment flow for the new programmes 2007-2013 are due to a variety of factors, whose relative intensity varied in the Member States. Generally one can say that 2008 was a year where the overlap of the two programming periods had significant consequences for management: managing authorities have in some cases concentrated their efforts in maximising absorption under 2000-2006 programmes. Also, starting the new programmes meant setting up new management and control systems, adapting to new rules, preparing new large projects (technical feasibility, funding arrangements, etc.) and finally designing a new generation of more innovative projects which are by definition more difficult to set up.

**Table 8: 2008 payments – targets and achievements**

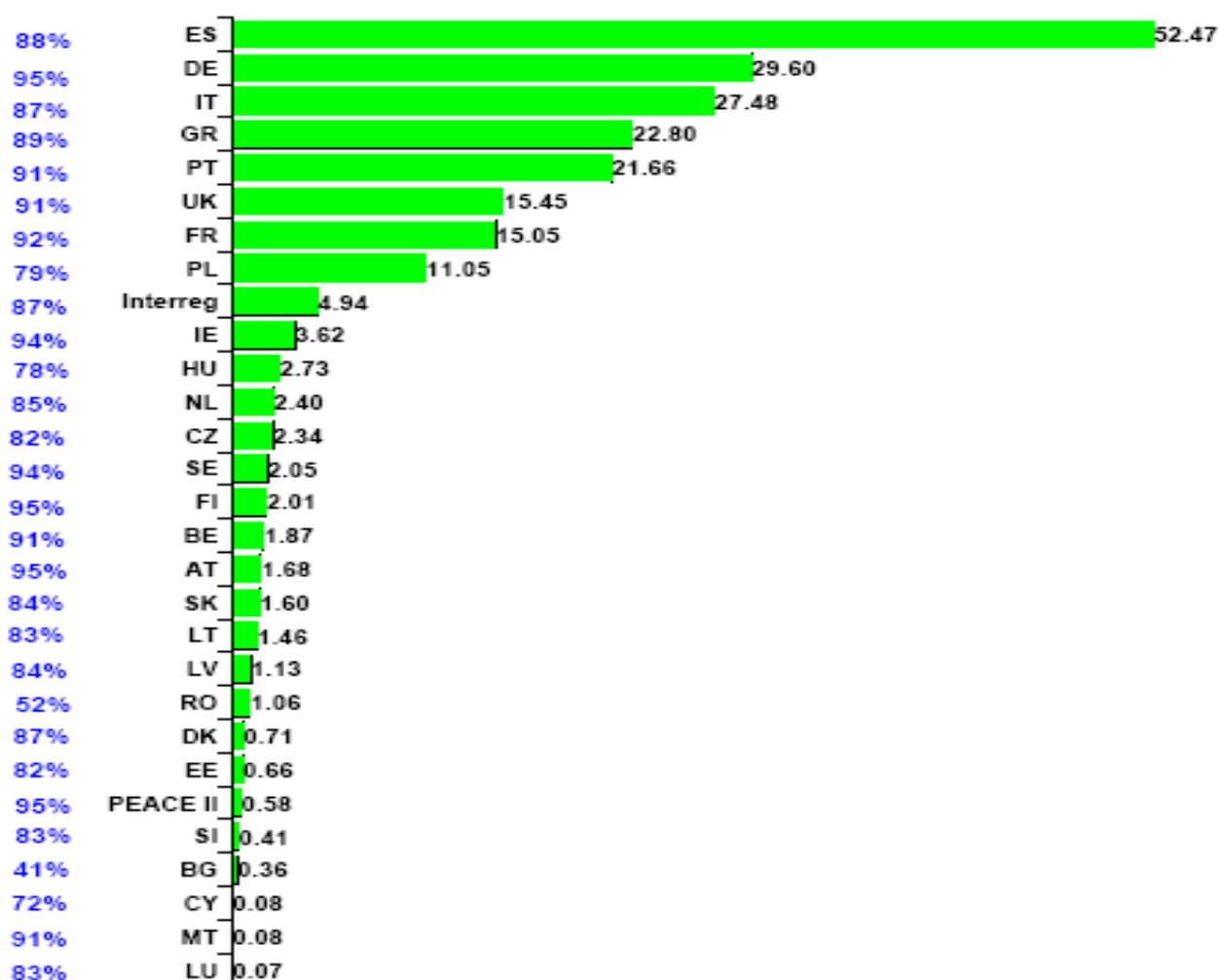
Indicator	Target	As of 31.12.2008	Comments
Commitment credits executed	100%	99,9%	ERDF – 99,9% (EUR 28,4 billion) Cohesion Fund – 99,9% (EUR 8,1 billion) IPA – 100% (EUR 234 million)
Payment credits executed	100%	99,3%	ERDF – 99,9% (EUR 21,4 billion) Cohesion Fund – 99,9% (EUR 5,3 billion)

<sup>49</sup> The level of 2008 payment appropriations for ERDF and CF has been reduced by EUR 2.9 billion and for ISPA by EUR 0.1 billion from the figures originally estimated.

			ISPA – 99,9% (EUR 539 million) IPA – 21% (EUR 43 million)
Payment claims processed within the deadline of 60 days	95%	93,2%	
Overall amount of EUSF grant payments in 2008		EUR 273 million	Payments are related to 4 cases (UK, GR, SI, and FR). The remaining credits of EUR 7 605 445 for Cyprus have been requested to be carried-over to the budget 2009.

**Graph 1: Total payments (in EUR billion) and payments against decided amounts (in %) for Structural Funds<sup>50</sup> and Cohesion Fund for programming period 2000-2006**

*Situation as at 30 March 2009*



*Note: The lower level of payments for Bulgaria (41%) and Romania (52%) is due to the fact that they were only eligible for Cohesion Policy since 2007. As a general rule, the outstanding balance to be paid at closure for the Cohesion Fund projects is 20%. However this percentage amounts only to 5% for the Structural Funds programmes. Furthermore, Cohesion Fund projects can last until 2010 and have thus more time to spread payments. As a result, the execution rate for Member States with Cohesion Fund projects might be lower compared to Member States with only Structural Funds interventions. Countries eligible for the Cohesion Fund are: Bulgaria,*

<sup>50</sup> ERDF, ESF, EAGGF and FIFG

*Cyprus, Czech Republic, Estonia, Greece, Hungary, Ireland (until 2003), Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.*

### *2.1.3 Major events of 2008 having an impact on reputation*

During 2008, DG Regional Policy has identified one case in Bulgaria where the irregularities had a negative impact on the programme implementation and on the capacity of the national institutions involved to manage the EU funds.

In 2008, the Executive Director of the National Road Infrastructure Fund (NRIF-road sector) resigned due to a conflict of interest involving the award of contracts to related parties and two officials of the NRIF were convicted for taking bribes. The national authorities failed to investigate and adequately follow up these issues.

The continuing problems in the NRIF (now National Road Infrastructure Agency NRIA) in 2008 together with the insufficient investigation and follow up of these issues at national level led to the suspension of payments in July 2008 to two Cohesion Fund projects being implemented by the NRIA.

Furthermore, a special report as part of the Cooperation and Verification Mechanism was presented in 2008, concerning programmes managed by accredited agencies and identifying major irregularities.

## *2.2 Reporting on the functioning and effectiveness of internal control systems*

The Communication of the Commission of 16 October 2007 about the revision of the Internal Control Standards and Underlying Framework (SEC (2007)1341), invites Commission's services to assess the level of compliance with the requirements of each of the 16 Internal Control Standards (hereafter referred as ICS), and the effectiveness of the internal control system in its entirety. For DG Regional Policy, this assessment for the year 2008 has been developed on the basis of:

- An assessment developed at the level of the Resources Directorate, supported by two internal consultations (consultation of the members of the SPP network about effectiveness of ICS 5 concerning "Objectives and Performance Indicators" and a consultation of a representative panel of DG Regional Policy units about the compliance with the requirements for each ICS and the effectiveness of the Internal Control System.
- The results of IAA and IAS audit reports, as well as the conclusions of the Court of Auditors (ECA).

### *2.2.1 Reporting on compliance with the requirements*

DG Regional Policy is generally compliant with the requirements of each of the 16 ICS.

**The requirements on which particularly positive results were achieved in terms of compliance as listed below. For other ICS the compliance is globally achieved.**

- Ethical and Organisational Values (ICS 2). Several actions taken in 2008 reinforce the set of measures already taken to meet the requirements of this ICS: in addition to existing information on Ethical Guidance, a dedicated webpage has been put online in the Directorate General's intranet, a manual on Relations between DG Regional Policy and OLAF has been developed by Audit Directorate and efforts between DG

Regional Policy and DG Employment have been done in order to launch a Joint Fraud Prevention Strategy.

- Operational Structure (ICS 7). In 2008 DG Regional Policy has set up an advisory group which has carried out a Risk Assessment on Sensitive Functions and has evaluated the residual risks after application of mitigation measures.
- Business Continuity (ICS 10). In 2008, the Commission carried out a test about the effective functioning of business continuity plan. The results for DG Regional Policy were very positive.
- Accounting and Financial Reporting (ICS 13): IAA, IAS and ECA recent report confirmed that DG Regional Policy financial reporting is up to the required standards.

**The requirements with which the Directorate General does not comply (if any), the reason for this and the planned actions to address the situation:**

None

**Summary information on derogations to the mandatory staff mobility in relation to sensitive functions:**

In 2008, DG Regional Policy has implemented an internal reorganisation. This reorganisation has integrated the mandatory staff mobility for the year 2008. Based on a justified evaluation of the context of the post and the need of the service concerned, a few cases of mobility were delayed.

#### *2.2.2 Reporting on effectiveness of the implementation of the Internal Control Standards for Effective Management*

##### *2.2.2.1 Results of the action taken on each priority standard identified in the AMP 2008*

Three ICS were identified as priority by DG Regional Policy for 2008.

- ICS 3. Staff Allocation and Mobility: *"The allocation and recruitment of staff is based on the DG's objectives and priorities. Management promote and plan staff mobility so as to strike the right balance between continuity and renewal"*.
- ICS 5. Objectives and Performance Indicators: *"The DG's objectives are clearly defined and updated when necessary. These are formulated in a way that makes it possible to monitor their achievement. Key performance indicators are established to help management evaluate and report on progress made in relation to their objectives"*.
- ICS 8. Processes and Procedures: *"The DG's processes and procedures used for the implementation and control of its activities are effective and efficient, adequately documented and compliant with applicable provisions. They include arrangements to ensure segregation of duties and to track and give prior approval to control overrides or deviations from policies and procedures"*.

The results about the assessment of the effectiveness of the implementation of these standards are **good**. The analysis of the several sources leads however to identify further actions to improve it (see section 2.2.2.2)

**Concerning ICS 3 - Staff Allocation and Mobility** – specific actions were taken by DG Regional Policy in 2008. The main actions concern information, training and workshops to assist services, a specific assistance from the Unit Human Resources to recruitment for the operational Units, a follow up system of the use of resources in external staff, a working group to implement the new mobility rules on the basis of an evaluation of the sensitive function and the new policy of mobility in 2009, the improvement of the Human Resources communication tool and the awareness campaign on Ethics and Integrity through the DG Regional Policy Website. These actions lead to the following results: more transparency in the staff allocation and good level of recruitment process, good score for the fulfilment of post ratio of human resources at about 92.6% (which is 1.6% better than the average of the Commission), better perception of mobility inside the DG and its efficiency as shown by the results of a DG Administration survey on the level of job satisfaction which in DG Regional Policy is 76%.

It is nevertheless necessary to add that the mobility process raises generally risks and difficulties for geographical desks regarding more specifically the linguistic capacity.

**Concerning ICS 5 - Objectives and Performance Indicators** - specific actions were taken by DG Regional Policy in 2008 which lead to the following results: a higher understanding by hierarchy and staff of the AMP 2009 due to a more participative way of writing the document and trainings by the Strategic Planning Unit, a higher score for AAR 2007 than the previous year, in particular about the assurance process and identification of reservation to the declaration of assurance, a higher assessment of the Activity Statements for the Preliminary Draft Budget 2009 by DG Budget and the Budgetary Committee of the Council. And as a conclusive result it can be added that the level of effectiveness of ICS 5 has been positively assessed by an IAA survey of 2009.

**Concerning ICS 8 - Processes and Procedures** - specific actions were taken by DG Regional Policy in 2008. The main actions concern: REGIO Vista which is maintained as the main repository for guidance and notes in DG Regional Policy and is kept up to date on a regular basis, data protection which has been strengthened through awareness, the procedure for the Register of Exceptions<sup>51</sup> which has been reinforced and explained, and the procedure for reporting on financial corrections has been designed and applied successfully through the year 2008. These actions lead to the positive following appreciation in an IAA survey of 2009, although with some areas for improvement:

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<sup>51</sup> Exceptions registered in 2008 are the following: Dégagement d'office FEDER - programme national informatique France. Application de l'Article 31.2 du règlement 1260/1999 / Paiement intermédiaire pour le projet "Labe – Loucua: WWTP and sewerage finalisation". Article D 2 (a) deuxième paragraphe du règlement du Fonds de Cohésion /Programme Interreg III A Espanà – Portugal 2000 – 2006. Dégagement d'office Application de l'article 31.2 du règlement 1260/1999 / Application of N+2 rule for South and East-Netherlands CCI / 2000NL162PO003 and CCI 2000NL162PO004.

A report about 2008 exceptions has been submitted by the Resources Director to the management of DG REGIO on 11/12/2008 and discussed by the management on 15/01/2009. It concluded to the necessity to reinforce the process of control of exceptions. The main recommendations are the following (in original language of the report): "les exceptions accordées en 2008 par l'AOD ont fait l'objet d'une assurance suffisante, la consultation des services financiers, juridiques et des ressources humaines de la Direction générale est un élément obligatoire et utile, la motivation des services consultés doit permettre d'éclairer l'AOD quant au risque juridique et financier de la dérogation qui lui est soumise."

adequate and up dated documentation for processes and procedures, good understanding of the procedures related to the work, adequate control in place to ensure compliance with internal procedure, adequate segregation of duties to avoid material error and fraud, confidence in the system in place to avoid deviations from established processes, overall well designed processes and procedures with appropriate control points.

#### 2.2.2.2 Effective implementation of the Internal Control System

The internal control system in place in DG Regional Policy adequately contributes to obtain a reasonable assurance that "the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions". This means that in general terms the overall internal control system is effective.

The table below summarizes the assessment of the analysis of the effectiveness of implementation of controls by Building Blocks:

**Table 9: Building blocks for the effectiveness of implementation of Internal Control Systems**

<b>Building Block</b>	<b>Assessment of the level of control (Major improvement needed/Improvement needed/ Minor/no improvement needed)</b>	<b>Argumentation</b>
1. Mission and values (ICS n° 1, 2)	Minor improvements	Some Directorates' missions are not published yet.
2. Human Resources (ICS 3, 4)	Minor improvements	It is still necessary to finalize adoption of about 10% job descriptions, b) 5% of job objectives for the year 2008.
3. Planning and Risk Management Processes (ICS 5, 6)	Minor improvements	It is still necessary to increase the ownership and the understanding by staff of the tools of strategic planning and to increase the effectiveness of the reporting structure to alert management when the achievement of the objective is at risk. Additional efforts are needed to improve the quality and effectiveness of performance indicators established at Unit, Directorate and DG levels (especially those related to policy achievements) and their link with the objectives established through the AMP. Information obtained via the performance indicators is not always considered meaningful at the operational management side and at the horizontal management side not always analysed on a regular basis. As well, to follow up strictly the several action plans decided at the level of the services during the 2008 risk assessment exercise in order to mitigate the critical risks identified in the AMP 2009.
4. Operations and Control Activities (ICS 7, 8, 9, 10,11)	Minor improvements	It is still necessary to continue the efforts to document in a user friendly way the main processes and procedures and to improve their up dated character as well as their accessibility. It is recommended to pursue with the implementation of actions plans adopted as follow up of audit reports, like for example the actions planned in the field of document management. It is also necessary to improve guidance, feedback and supervision to the staff.

<b>Building Block</b>	<b>Assessment of the level of control (Major improvement needed/Improvement needed/ Minor/no improvement needed)</b>	<b>Argumentation</b>
5. Information and Financial Reporting (ICS 12, 13)	Minor Improvements	It is still necessary to improve the system in place to ensure that all staff is encouraged to inform of potential internal control weaknesses, the use of the monitoring table of achievements of the objectives, the information and communication about projects, initiatives and decisions in the work environment, to progressively develop over the years IT systems to support knowledge management and country intelligence systems. Regarding the effectiveness of information at management level, it is necessary to ensure that management meetings are leading to effective decision making process, and that an appropriate level of accuracy and timeliness of management data is provided by the IT systems. For what concerns financial reporting there is a need to pursue with the efforts to speed up and demonstrate the effectiveness of multi-annual corrective mechanisms.
6. Evaluation and audit (ICS 14, 15, 16)	Improvements needed in Evaluation Minor improvements needed in Audit	Improvement is needed in the field of evaluation more specifically the management of the demand for evaluation inside DG Regional Policy, data reliability, the use of evaluation results and the overall effectiveness in monitoring policy achievements

### 2.2.3 Conclusion

For the year 2008, it can be concluded that the internal management and control system set up in DG Regional Policy is in place and is well suited to the specific DG environment and duties.

This conclusion is based on two key facts:

- a) DG Regional Policy has achieved overall compliance of the requirements of the 16 Internal Control Standards.
- b) the level of effectiveness of the internal control system is globally satisfactory.

It is worth mentioning that the selection in 2008 of the DG Regional Policy critical Internal Control Standards for 2009 is based on an appropriate risk assessment exercise which is well understood in the Directorate General as shown by the fact that it is undertaken for the third year in a row by all units who fully share its objectives and that the final risk assessment process undertaken by the top management does rely heavily on the grass root exercise.

For the year 2009 DG Regional Policy will have to concentrate its efforts to ensure the effective implementation of the priority internal control standards identified in the AMP 2009.

## 2.3 *Building blocks towards reasonable assurance of the AOD for the legality and regularity of underlying transactions for the activities assigned to him.*

### 2.3.1 Assessment by management

#### 2.3.1.1 Management opinions

As mentioned earlier in this report, expenditure managed under **direct management** (mainly for operational and administrative technical assistance for ERDF and the Cohesion Fund) represented less than 0.1% of all expenditure managed by the Directorate General. The specific difficulties of this type of management were addressed and risks mitigated by several steps. Firstly, the Internal Committee on public procurement and grants checks the regularity of the public procurement process. Secondly, the Resources Directorate and the legal unit train as appropriate and advice staff on the most appropriate procedure to follow for specific, or particularly complex public procurement contracts or grants. Thirdly, payments are approved only upon completion of appropriately designed financial circuits.

The Directorate General also manages and monitors a series of 181 regional programmes of Innovative actions in EU 15 Member States. These programmes have **indirect centralised management** but some of their management methods were conceived by analogy with the mainstream ERDF programmes 2000-2006. At end 2008, a total of 123 out of the 181 programmes were closed. For the closure of these programmes, DG Regional Policy requests specific documentation and has developed a specific closure checklist to ensure that the actions are delivered as foreseen in the programme. A financial checklist has also been developed to ensure that all the financial issues are checked in a homogeneous way. On the spot checks of innovative actions are undertaken by the responsible operational unit where there are serious doubts on the quality of the file in support of the final claim submitted to the Commission. DG Regional Policy has

also launched an external study to evaluate the residual risk and degree of reliability of control systems in the Member States; final results are expected end of April 2009.

**For the 2000-2006 programmes under shared management**, the process of assurance is built on the one hand on an *audit opinion* from the Audit Directorate of DG Regional Policy on the functioning of management and control systems in the Member States. On the other hand, assurance is established on a *management opinion* from the Authorising Officers by Sub-delegation within the Directorate General. Based on these two opinions DG Regional Policy establishes a final opinion on the assurance (see further sections 3.1 and 3.2).

**For the 2007-2013 programmes under shared management**, the Directorate General has assessed the compliance assessments and audit strategies submitted by Member States (as described in section 2.3.3.1). For those programmes for which both sets of documents have been accepted, there is reasonable assurance that the set up of the management and control systems is compliant with the regulatory requirements. In view of the state of advancement of execution of programmes and the focus of efforts on the compliance assessment process, no audit work has yet been carried out to verify the functioning of the systems.

However, DG Regional Policy completed during the last quarter of 2008 an overview for each programme of the programming period 2007/2013 of the state of play of the preparatory works for a number of important aspects of the management and control systems in order to be ready for full implementation. The Authorising officers by Sub-delegation were asked by the Director General to provide their *management opinion* about these preparatory works, based on country fiches containing comments for each programme.

The criteria on which the management opinion was based to measure progress in the preparatory works were: number of projects selected, number of projects started, number of calls for tender or calls for grants launched, payments to beneficiaries, number of communication and information plans approved and implemented, state of preparation of the major projects identified in the programmes, level of implementation of financial engineering instruments, compliance assessment and audit strategy approved. The assessment should give an indication of the progress we can expect in the near future. It gives an overall picture of the state of play of the preparedness for implementation of the 2007/2013 programmes:

**Table 10: Level of preparedness for implementation of 2007-2013 operational programmes**

<b>Level of preparedness for implementation</b>	<b>Number of programmes</b>	<b>Share of total number of programmes</b>	<b>ERDF and Cohesion Fund resources available (million EUR)</b>	<b>Share of total available ERDF and Cohesion Fund resources</b>
Satisfactory	178	56 %	158 882	60 %
Delayed	89	28 %	66 444	25 %
Strongly delayed	49	16 %	43 011	16 %
<b>Total</b>	<b>316</b>	<b>100 %</b>	<b>268 337</b>	<b>100 %</b>

### 2.3.1.2 **Role of the Audit Directorate of DG Regional Policy** in assessing the Members States' management and control systems and the progress to conferral of management for the candidate countries (IPA)

The Audit Directorate's principal task is to enable the Directorate General to perform its supervisory role under shared management by verifying the reliance which can be obtained from the management and control systems in the Member States and beneficiary countries. The audit work of the Directorate-General in the Member States and candidate countries is carried out in the framework of the three year audit strategy approved by DG Regional Policy and reviewed annually. The main objective of the strategy is to obtain assurance on the effective set up and functioning of the management and control systems. During 2008, auditors of the Directorate General carried out 64 audit missions in 24 countries. 12 further missions were performed by contracted private auditors.

The focus of the audit work changes according to the stage of the programme cycle. The principal elements are verifying initially that the design of the systems meets the requirements of the relevant regulations, checking during the implementation period that the systems function as described so as to give satisfactory assurance on the legality and regularity of the underlying operations, and auditing at closure to verify the reliability of the closure process. On the basis of specific risks identified, thematic audits are also carried out as for example in the area of public procurement, where special emphasis is given to verify compliance with public procurement rules. In 2008 the main focus for the programming period 2000-2006 was the audit of remaining high risk management bodies and the follow-up of reservations and the review of the winding up bodies. For the programming period 2007-2013, the focus was on the review of the compliance assessments and audit strategies submitted by Member States. All the actions were carried out within the framework of the "Action Plan to strengthen the supervisory role of the Commission for structural actions" adopted by the Commission in February 2008 (COM(2008)97) (see section 2.3.3.5 below).

For the candidate countries, the audit work takes account of the need for active monitoring of progress to conferral of management for IPA by the respective national authorities as this is the pre-condition for any payments from the European Union. Specific audit assignments are carried out to provide a formal opinion on the readiness for such decisions.

The main audit tools to achieve these objectives comprise desk reviews of management and control systems, on the spot systems audits including verification of compliance with relevant rules and regulations and tests of key controls, and substantive tests involving on the spot audits of individual operations. These tools are adapted for the purpose of review of the work of national audit bodies and for closure audits. In case of detected irregularities or systems deficiencies, where the Member State does not take itself the requisite corrective measures, interim payments are suspended by Commission decision and financial corrections are applied following established procedures.

The audit coverage of projects, programmes and systems each year is necessarily limited and, under shared management, the Commission can expect to obtain a significant degree of assurance from the fulfilment by Member States of their control responsibilities on which they report annually. Accordingly, substantial resources of the Directorate are devoted to the task of co-ordination with national audit bodies in order to develop and promote the reliance which can be placed on their work and assess the reports received.

**Table 11: Key indicators supporting reasonable assurance**

**ERDF 1994-1999 period:**

INDICATORS FOR LEGALITY AND REGULARITY - European Regional Development Fund (ERDF) 1994 – 1999				
INDICATORS	Cumulative information since beginning of programme period (when applicable)			
Closure programmes		Actual	As % of Programmes	As % of EU contribution
°Commission closure audits - number of audit missions		150		
°Commission closure audits - number of programmes		57	14%	35%
	Number of programmes	Estimated amount in million EUR		
OUTPUTS: °Pre-suspension letter issued/ Financial correction procedures launched in framework of closure <sup>52</sup>	50	48 procedures amounting to an estimated financial correction of EUR 1 233 million		
RESULTS:	Amount (millions EUR) in 2008 (see Table 11 bis)		Cumulative Amount (millions EUR) since beginning of the period	
Financial corrections resulting from procedures launched by the Commission <sup>53</sup>	330 <sup>54</sup>		1 188	

**ERDF 2000-2006 period:**

INDICATORS FOR LEGALITY AND REGULARITY – ERDF 2000-2006						
INDICATORS	Year: (n) 2008			Cumulative information since beginning of programme period (when applicable)		
INPUTS (at DG level)	Actual			Actual - Prior year		
* <u>Human resources</u> - Commission audit activity	61 <sup>55</sup>			55 <sup>56</sup>		
* <u>Financial resources</u> - outsourced audits	168			245 days		
OUTPUTS - by <u>process</u>	<u>Intensity</u>	<u>Coverage</u>		<u>Intensity</u>	<u>Coverage</u>	
<i>Set-up of systems</i>		as % of		Number of Programmes	as % of	
°Compliance assessment – review of set-up of systems	System descriptions for all Member States were reviewed through desk checks and a positive assessment was given for all.					
* <i>Functioning of systems</i>		as % of			as % of	
	Actual	Number of Programmes	EU Contribution	Actual	Number of Programmes	EU contribution

<sup>52</sup> Transmission of Article 24 letter (final position letter) to the Member State following closure audits.

<sup>53</sup> Includes corrections made by Member States, following agreement under the relevant procedure or as a result of implementation of action plans (which may cover many programmes), and formal Commission decisions.

<sup>54</sup> In addition in relation to Cohesion Fund in the period 1994-1999 financial corrections amounting to 38 m EUR have been made in 2008.

<sup>55</sup> The human resources reflected here deal with all 5 Funds, furthermore deal with all the periods 1994-1999, 2000-2006 and 2007-2013 as well and reflect the number of auditors in Directorate J of DG REGIO at the end of 2008. This figure includes management posts but does not include administrative posts.

<sup>56</sup> The human resources reflected here deal with all 5 Funds, furthermore deal with all the periods 1994-1999, 2000-2006 and 2007-2013 as well and reflect the number of auditors in Directorate J of DG REGIO at the end of 2007. This figure includes management posts but does not include administrative posts.

Commission audits - number of audit missions	52 <sup>57</sup>		266	
Commission audits - number of programmes	ERDF <sup>58</sup> -	33	14%	ERDF-
	INTERREG-	15	19%	INTERREG-
Pre-suspension letter issued/financial correction procedures launched (2000-2006)	Number of programmes	Estimated amount in million EUR		
	71	783		
Suspension decisions issued	27	N/A		
<b>RESULTS</b>	Amount (millions EUR) in 2008 (see Table 11 bis)	Cumulative Amount (millions EUR) since beginning of the period		
° Financial corrections resulting from procedures launched by the Commission <sup>59</sup>	619	2 180		

### Cohesion Fund 2000-2006 period:

INDICATORS FOR LEGALITY AND REGULARITY - Cohesion Fund 2000-2006			
INDICATORS	Year: 2008		Cumulative information since beginning of programme period (when applicable)
<b>OUTPUTS</b> - by <u>process</u>			
* <i>Functioning of systems</i>	Number of Missions		Number of Missions
° Commission audits - number of audit missions	9		160
° Commission closure audits - number of audit missions	0		8
	Number of projects		Estimated amount in million EUR
Pre-suspension letter issued/financial correction procedures launched (2000-2006)	74		167
Suspension decisions issued	2		N/A
<b>RESULTS</b>	Amount (millions EUR) in 2008 (see Table 11bis)	Cumulative Amount (millions EUR) since beginning of the period	
° Financial corrections resulting from procedures launched by the Commission <sup>60</sup>	54	157	

<sup>57</sup> Including missions on INTERREG and also on Winding up Body reviews

<sup>58</sup> Only system audits for ERDF (so missions on INTERREG and also on Winding up Body reviews are not counted)

<sup>59</sup> Includes corrections made by Member States, following agreement under the relevant procedure or as a result of implementation of action plans (which may cover many programmes), and formal Commission decisions.

<sup>60</sup> Includes corrections made by Member States, following agreement under the relevant procedure or as a result of implementation of action plans (which may cover many programmes), and formal Commission decisions.

## **Impact of controls**

In the exercise of its supervisory role, DG Regional Policy has implemented a policy of launching a procedure for suspension of interim payments and the application of financial corrections as soon as it is established that there are serious deficiencies which put at risk the reimbursements of Funds made to Member States. It also established a revised manual of procedures to streamline the internal arrangements for the adoption of suspension and correction decisions.

## **Interrupted payments**

The AOSD are applying reinforced preventive actions for a rigorous financial management. The aim is to ensure that all the irregular expenditure detected by the AOSD before authorising a payment is followed up within a reasonable deadline and deducted from the statements of expenditure submitted to the Commission. This rigorous approach avoids the unnecessary delays resulting from the formal suspension of payments procedure.

## **Suspension procedures**

Where, after due verifications, the Commission finds that the expenditure certified in an interim payment application is linked to a serious irregularity and not immediate remedial action is taken by the Member State, the formal suspension of payments procedure is launched.

In this context, during 2008 the Directorate General launched 34 procedures for the suspension of payments. For ERDF, five Commission decisions were adopted in relation to three INTERREG programmes (France/UK, Medoc and Italy/Albania), Operational programme Puglia and nine Intermediate Bodies in Spain affecting 23 programmes. For the Cohesion Fund there was one suspension decision for Bulgaria in relation to two projects in the road sector.

## **Financial corrections**

As regards the ERDF the control and audit work of the Directorate General during 2008 resulted in twelve financial correction decisions related to the 1994-1999 programming period for an amount of EUR 319 million and one financial correction decision for the 2000-2006 programming period for EUR 25 million.

As for the Cohesion Fund, four financial correction decisions related to the 1994-1999 programming period were adopted in 2008 for an amount of EUR 31 million and nine decisions were adopted for the 2000-2006 programming period for an amount of EUR 35 million.

In addition, as a result of the actions on financial corrections taken by the Directorate General, EUR 605 million for ERDF (EUR 11 million for 1994-1999 and EUR 594 for 2000-2006) and EUR 26 million for Cohesion Fund (EUR 7 million for 1994-1999 and EUR 19 million for 2000-2006) was accepted as irregular by the Member States which have or will exclude the amounts from the statements of expenditure.

As a result, for both programming periods together the financial corrections resulting from the control activity of the Directorate General amounted to EUR 1 041 million.

The table below illustrates the amount of financial corrections by country, Fund and programming period:

**Table 11 bis: Financial corrections in 2008 by period, fund, country (in EUR)**

Member State	Cohesion Fund		Structural Funds		TOTAL
	Period 2000-2006	Period 1994-1999	Period 2000-2006	Period 1994-1999	
Austria			24 525		24 525
Belgium			3 080 953	131 360	3 212 313
Bulgaria	6 156				6 156
Cyprus					
Czech Republic					
Germany			10 411	252 294 121	252 304 532
Denmark				1 337 650	1 337 650
Estonia	125 073				125 073
Greece	23 405 436	5 674 477		30 104 470	59 184 383
Spain	19 927 164	32 483 151	353 063 277	3 153 499	408 627 091
Finland				444 338	444 338
France			7 510 165	4 418 377	11 928 542
Hungary					
Ireland					
Italy			192 550 688		192 550 688
Latvia			67 876		67 876
Lithuania	65 833				65 833
Luxembourg				73 063	73 063
Malta					
Netherlands				4 621 219	4 621 219
Poland	123		7 952 512		7 952 635
Portugal	11 062 188		26 086 276	7 434 942	44 583 406
Romania					
Sweden				376 739	376 739
Slovenia					
Slovakia					
UK			28 274 855	25 738 276	54 013 131
<b>TOTAL</b>	<b>54 591 973</b>	<b>38 157 628</b>	<b>618 621 538</b>	<b>330 128 054</b>	<b>1 041 499 193</b>

## Suspension and correction procedures in the pipeline

As at end of 2008, 103 procedures (covering approximately 145 programmes) were in progress for the 2000-2006 programming period for which the estimated amount of financial corrections is approximately EUR 950 million, and 55 procedures (covering approximately 58 programmes) were in progress for the 1994-1999 programming period for which the estimated amount of financial corrections is approximately EUR 1,2 billion.

**Table 12: Source of suspension/correction procedures in the pipeline**

Period/Fund	Number of procedures in the pipeline	Estimated amount in EUR million	Commission audit work	Closure process	OLAF	ECA
<b>1994-1999</b>						
CF	7	4,7	2	4		1
ERDF	48	1233,2	17	9	20	2
<b>Total</b>	<b>55</b>	<b>1237,9</b>	<b>19</b>	<b>13</b>	<b>20</b>	<b>3</b>
<b>2000-2006</b>						
CF	52	167,1	31	20		1
ERDF	51	783,2	39		10	2
<b>Total</b>	<b>103</b>	<b>950,3</b>	<b>70</b>	<b>20</b>	<b>10</b>	<b>3</b>

## Annual summaries of Member States' audit activities for the year 2008

The Commission has completed its first assessment of the annual summaries submitted and is finalising the letters to 23 Member States. For four Member States, the documents are still under review.

**Table 13: Commission's assessment of Member States' Annual summaries (2008)**

Member State	Annual summary submitted	Compliance with minimum requirements of Financial Regulation	Has the template of the guidance note been followed or has the minimum information been submitted in another format	Overall Analysis provided	Overall level of assurance statement provided	Action by Commission <sup>61</sup>
Austria	Yes					Under review
Belgium	Yes	Yes	Yes	No	No	Accepted with follow up
Bulgaria	Yes	Yes	Yes	Yes	Yes	Accepted with follow up

<sup>61</sup> All Member States will receive a letter from the Commission, whether there are observations or not.  
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Cyprus	Yes	Yes	Yes	Yes	Yes	Accepted
Czech Republic	Yes	Yes	Yes	Yes	Yes	Accepted with follow up
Germany	Yes					Under review
Denmark	Yes	Yes	Yes	No	No	Accepted with follow up
Estonia	Yes	Yes	Yes	Yes	No	Accepted with follow up
Greece	Yes	Yes	Yes	Yes	No	Accepted
Spain	Yes	Yes	Yes	No	No	Accepted with follow up
Finland	Yes	No				Non compliance letter
France	Yes	Yes	Yes	No	No	Accepted with follow up
Hungary	Yes	Yes	Yes	Yes	Yes	Accepted with follow up
Ireland	Yes	Yes	Yes	No	No	Accepted with follow up
Italy	Yes	No				Non compliance letter sent
Latvia	Yes	No				Non compliance letter
Lithuania	Yes	Yes	Yes	Yes	Yes	Accepted with follow up
Luxembourg	Yes	Yes	Yes	No	No	Accepted with follow up
Malta	Yes	Yes	Yes	Yes	No	Accepted
Netherlands	Yes					Under review
Poland	Yes	Yes	Yes	Yes	No	Accepted with follow up
Portugal	Yes	Yes	Yes	No	No	Accepted with follow up
Romania	Yes	Yes	Yes	Yes	Yes	Accepted with follow up
Sweden	Yes	Yes	Yes	No	No	Accepted with follow up
Slovenia	Yes	Yes	Yes	Yes	No	Accepted with follow up
Slovakia	Yes	Yes	Yes	Yes	Yes	Accepted with follow up
UK	Yes					Under review

Twenty Member States have complied or mainly complied with the minimum requirements of the Financial Regulation regarding information to be provided, and as set out in the Commission's guidance note. Where necessary, Member States, which have not completely followed the recommendations in the Commission's guidance note, have

been requested to provide the additional information. For 3 Member States, there were non-compliance issues and the Member States have been requested to send a revised annual summary.

The annual summaries for 4 Member States are still under review because they raise issues of legal interpretation under Article 53 (b) (3) of the amended Financial Regulation.

Twelve Member States out of the 20 which are compliant, followed the Commission recommendations to maximise the value of the annual summaries by providing an overall analysis. Seven Member States out of the 20 have provided a declaration of overall assurance. For those Member States that have not provided either an overall analysis (8) or an assurance (13), even though these elements do not form a legal requirement, the Commission has taken further action to encourage them to follow best practice in its assessment letters.

In the cases where the Member State has provided a conclusion or declaration of assurance, the Directorate General has used this to corroborate its own assessment of the national systems. In two cases (Bulgaria and Czech Republic), the results of this examination revealed some inconsistencies between the Commission's conclusions, reached following the procedures for the systems evaluation set out in section 3.2, and the Member State conclusions, which have been communicated to the authorities concerned.

### **National Management Declarations**

Certain Member States have started preparing national management declarations on a voluntary basis. The Commission supports the initiatives and encourages these Member States to discuss the process they follow with the Commission in order for the Commission to be able to draw assurance from their declarations.

The Netherlands has submitted to the Commission their national declaration on EU-expenditure for the year 2008, incorporating for the first time structural actions for the programming period 2007-2013. The Directorate General believes this is a valuable step forward and will work with the Netherlands to optimize the value of future national declarations. For the year 2008, there was no certified expenditure and consequently there were no EU reimbursements for the 2007-2013 programmes and hence an opinion on the functioning of the systems was not given. Other Member States which have issued national declarations include Denmark and the United Kingdom, but for the prior year.

#### *2.3.2 Results from independent audits during the reporting year*

### **Internal Audit Capability (IAC)'s opinion and its contribution for building the assurance:**

Internal Audit and Advice (IAA) believes that it provides a reasonable basis and sufficient audit work for expressing its opinion as regards the state of control within DG Regional Policy for the activities and processes audited.

This assurance does not cover all activities and transactions, in particular payments made in the Member States. IAA considers that assuring the effectiveness of the Management and Control Systems in the Member States is a key challenge for DG Regional Policy as well as assessing the Cohesion Policy achievements and preparing the future.

Based on the results of the audit and advice assignments completed by IAA up to 31 March 2009 IAA believe that the internal control system in place in DG Regional Policy adequately contributes with reasonable assurance to the achievement of the objectives set-up for the activities and processes audited. IAA observes that processes and operations are in general in compliance with the relevant Commission's policies, procedures, guidance and applicable laws and regulations.

While IAA considers that processes and procedures are usually effective and payments and direct management operations properly authorized and accounted for, key improvements are to be done in certain areas and on which actions have been or/and are being taken or/and reflected upon. Following issues have to be considered as key points in this perspective.

- DG Regional Policy needs to continue its action to further reinforce, speed-up and demonstrate the effectiveness of multi-annual corrective mechanisms (both internally and in the Member States) in order to hold the legality and regularity risks on expenditure down to an acceptable level. The tolerable level of risk in the structural funds should be reflected upon and set in proportion with the costs of control / administrative burden / inherent complexity of shared management and operations.
- Certain factors currently restrict the overall capacity of DG Regional Policy to assess the achievements and added value of the policy, notably through the evaluation activities and relevance and quality of indicators. Governance and coherence of approaches could be further reinforced inside the DG. An improved knowledge management system within the geographical units and more globally at the DG level could help in this respect, and can be built based on a more effective monitoring of implementation of Cohesion Policy in the regions.
- Increasing further the effectiveness and efficient implementation of the recently revised internal control standards is an area deserving some attention.
- The pioneering and complex financial engineering initiatives (4 Js) implemented through a not always easy partnerships requires very careful attention (level of expertise, involvement of senior management in the negotiation / monitoring processes, clarification of future objectives and avoidance of any perception of providing undue competitive edges to a partner).

#### **Relevant Internal Audit Service (IAS) audit reports:**

During 2008, the IAS carried out two audits in DG Regional Policy with the following main results:

- *IAS Review of DG Regional Policy Financial Corrections and Recoveries in the Structural Funds Area*

In this report the IAS acknowledged that significant efforts have been made already by DG Regional Policy to deliver the relevant actions set out in the

Action Plan by the deadlines, more specifically with respect to the development of written procedures and training, to adaptation of the existing IT applications, quarterly reporting to DG Budget, the monitoring of the timeliness of financial corrections and the Member State reporting. Certain observations and issues for consideration were issued by the IAS which are being taken into account by the Directorate General.

- *IAS Audit on Internal Control System for managing the new Structural Funds programming period-Phase I, DG Regional Policy*

The audit included the DG's controls exercised at each of the key stages leading up to the point at which payment to Member States are triggered, namely the National Strategic Reference Frameworks, Operational Programmes, Compliance Assessment Reports and Audit Strategies.

Based on the results of this audit, IAS indicates that the internal control system put in place by DG Regional Policy relating to the NSRF and OP approval processes provides reasonable assurance on the compliance with the existing regulatory framework.

Concerning the Compliance Assessment and Member States' Audit Strategies, no issues were identified by the IAS at the time of the audit with regard to DG Regional Policy's compliance with the Regulatory Framework. However some issues linked to concerns on the quality of the information received from Member States should be taken into account in the control strategy as the programmes are implemented in practise.

DG Regional Policy has implemented during 2008 a follow up of all recommendations issued in the IAS previous years' audits. The result is that most of the recommendations are now in the status of ready for review by IAS.

### **Relevant findings of European Court of Auditors (ECA):**

In its Annual Report for 2007, the European Court of Auditors again concluded from its audit work that the reimbursement of expenditure to Cohesion Policy projects was affected by a material level of error. It estimated that at least 11% of the total amount reimbursed should not have been reimbursed because it did not meet the required conditions. The corresponding figure in 2006 had been 12%. The Court assessed both the supervisory and control systems in the Member States and the supervisory systems in the Commission as "partially effective" in ensuring the legality and regularity of reimbursements of expenditure.

In several respects, the assessments of the Court showed an improvement on those of 2006. Among the 16 systems audited in Member States under the Court's sample of payments, three were rated as "ineffective" (one EAGGF and two ESF), two as "effective" (both ESF) and the other 11 (including all the nine ERDF programmes) as "partially effective". In 2006 the corresponding figures had been 13 of 19 ineffective and the rest partially effective, with none classed as effective. The proportion of the 180 projects audited in which no errors of any kind were found were up from 31% to 46% and there was also a small increase (from 56% to 61%) in the proportion of projects not affected by "reimbursement errors" rendering part of their expenditure ineligible and contributing to the 11% error rate referred to above.

Further improvements were the "B" rating given by the Court to the Structural Funds DGs' Annual Activity Reports for their usefulness as a source of information for the Court's annual Statement of Assurance (DAS) and the overall assessment of the functioning of the supervisory and control system for structural actions - Member States and Commission together - as "partially effective".

The main recommendations of the Court to tackle the key problem of high error rates in expenditure declared for interim payments were similar to last year. Action should be concentrated on beneficiaries and primary controls:

- Member States' authorities should reinforce the prevention of errors by working with project promoters to familiarise them with the requirements (point 6.33 and 6.33(a) of the Court's 2007 Report);
- they should make first-level controls more effective through better training of the staff responsible and improved organization (point 6.33 (b));
- the Commission should focus its supervision on ensuring effective primary controls by Member States(point 6.33(c));
- finally, both Commission and Member States should pay greater attention to the operation of the feedback mechanisms for circulating information between managing authorities/intermediate bodies, paying authorities and audit bodies, and between them and beneficiaries, in order to eliminate systemic errors. (point 6.33(d)).

The Commission has been acting on these recommendations. The first two are covered by the guidance document on management verifications issued by the Commission in June 2008, which underlines the importance of preventive measures by the managing authorities through an effective communication strategy with beneficiaries, and gives detailed guidance with good practice examples on the administrative and on-the-spot verifications to be carried out by managing authorities and intermediate bodies. With regard to the third recommendation, the Commission focused its 2008 audit programme on high-risk management bodies. Finally, effective reporting and feedback mechanisms are built into the requirements of the regulations for the 2007-2013 period through the work of the audit authority, and are specifically referred to in the guidance document on management verifications and in that on the functions of the certifying authority issued in May 2008. Further details are given in the report on the Action Plan adopted by the Commission on 3 February 2009<sup>62</sup>, which incorporated similar recommendations of the Court from its 2006 Annual Report.

In its 2007 Report the Court also recommended to the Commission to use the simplifications provided for in the new regulations, which can reduce the risk of errors (point 6.34 of the 2007 Report), and to make maximum use of the work of audit authorities in the 2007-2013 period, while monitoring the work to ensure that it is up to standard (point 6.35). With regard to simplification, actions to encourage the take up of these provisions such as flat rates for overheads in ESF and partial closure have been implemented as part of the Action Plan (action 4.3). The Commission has also proposed further far-reaching simplifications in proposals for amendments to the 2007-2013 regulations which will be adopted in the first half of 2009.

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<sup>62</sup> COM(2009) 42  
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The Court also made recommendations in its 2007 Report of wider application but of particular concern to Cohesion Policy, including improvement of the data on financial corrections and recoveries, particularly those effected by Member States (point 3.29), ensuring that annual activity reports and declarations present a consistent assessment of supervisory and control systems (point 2.41(a)), collaborating with Member States to improve the information provided in Annual Summaries (point 2.4.1(b)), and making progress in taking forward the concept of tolerable risk (point 2.42 (c)). These recommendations, too, are all being implemented and reported in the Commission report on the Action Plan.

### *2.3.3 Follow up of action plans in reply to audit work performed in previous years and previous year's reservations*

#### 2.3.3.1. Audit work by the Directorate General

##### ***A) Audit in the context of shared management***

##### ***Programming period 1994-1999***

##### **European Regional Development Fund (ERDF)**

##### Closure of programmes

Closure audits were carried out on a sample of 57 programmes (including one INTERREG programme, and 2 Objective 2 1994-96 programmes) covering all EU-15. The programmes audited give coverage of 20-60% of the ERDF contribution in all Member States, with one exception, and an overall coverage of 35% of ERDF contribution for mainstream programmes. By the end of 2008, 40 out of the 55 procedures had been completed and financial corrections of an amount of approximately EUR 258 million have been applied. For the remaining 17 cases, 11 financial correction decisions are under preparation and 6 hearings are scheduled for early 2009, so that a decision will be taken by mid-2009.

##### **Cohesion Fund**

EU 4 (Greece, Ireland, Portugal, Spain)

Financial correction procedures resulting from the closure enquiry were concluded during 2008, except for 3 remaining projects (2 Spain, 1 Portugal) which will be finalised in the first quarter of 2009.

##### ***Programming period 2000-2006***

##### *Statistics on audit missions*

During 2008, the auditors of the Directorate General carried out 64 audit missions in 24 countries. For 32 of these audits the audit report had been sent to the Member State and the follow-up of the audit was ongoing at the end of year 2008. 7 audit missions launched in 2008 had been already closed by the end of the year.

As a result of the improved monitoring process inside the Audit Directorate, the number of non-closed missions from 2004-2006 related to the programme period 2000-2006 decreased in 2008 from 115 to 59. A further 41 audit missions which were carried out in 2007 had been closed in 2008. The closing of the remaining audit missions carried out before 2008 depends on the results of the follow-up with the Member States concerned. It is planned to close these audits by mid 2009.

## European Regional Development Fund (ERDF)

For the ERDF, an audit enquiry was started in mid-2004 to examine the effective functioning of key elements of the management and control systems in Member States for mainstream programmes. The audits comprise two phases, a systems review and an audit of a sample of projects selected on a representative basis. The on-the-spot audit work initially planned was concluded by end 2006 for EU 15 and end 2007 for EU 10. Additional audits on EU 15 programmes were carried out in 2007 and 2008 to extend coverage or address specific risks where this need had been identified from audit results, or to follow up implementation of action plans.

At the end of 2008, in total 207 audit missions (excluding INTERREG) had been carried out examining the functioning of key elements of management and control systems in Member States, out of which 22 were performed in 2008. The programmes audited, represent 43% of the number of the mainstream programmes and 76% of the planned ERDF contribution.

Additionally in 2008, 21 missions for the reviews of winding-up bodies were performed in relation to ERDF in order to verify the preparation of Member States for closure and to identify and mitigate related risks. The 35 audits carried out under this enquiry together with work done on the winding-up body as part of systems audits, result in a coverage of winding-up bodies of approximately 83% of the decided amount of the 2000-2006 programmes at the end of 2008.

As regards INTERREG, a separate audit enquiry was launched in 2006 and further implemented in 2007 and 2008. The particular challenge is that for most of the 81 INTERREG III programmes the management and control systems are distinct. The audit approach has been to select on a risk basis from the three strands the programmes to be audited on-the-spot, following a similar methodology to the mainstream programmes. This has been supplemented in 2007 by a self-assessment exercise and by a detailed assessment of the annual control reports in order to get an opinion on non-audited programmes. In 2008, following the reservations made in AAR 2007 on 51 INTERREG III programmes, an intensive audit plan has been carried out, raising the number of audited programmes from eight at the end of 2007 to 23 at the end of 2008, corresponding to 54.1% coverage of the decided amount. The follow-up work continued through desk review of replies prepared by the Member States to the audit reports, of reports submitted by the programme authorities on the execution of five agreed action plans, and of the annual control reports. Six suspension procedures were launched and led to the adoption of three formal Commission decisions<sup>63</sup>. Through closure seminars carried out by the operational Directorate with the support of the Audit Directorate, all programmes received detailed guidance on the financial and audit requirements to be fulfilled before closure.

**In conclusion**, there has been intensive audit work over the last four years achieving a high audit coverage, and with the follow-up of action plans and the application of corrections. The risk remains that some management and control systems for the ERDF programmes are still affected by material weaknesses in certain Member States. However, where identified deficiencies in the systems remain, the Directorate General is in the process of concluding the follow-up of remedial action plans or has launched suspension and/or financial correction procedures which will be finalised in 2009.

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<sup>63</sup> A further decision for Interreg IIIA Greece-Italy was adopted in January 2009.  
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Other audit work for the programming period 2000-2006 included the examination of the 150 annual control reports received under Article 13 of Regulation No. 438/2001 (and Article 12 of Regulation No. 1386/2002). By the end of 2008, the majority of reports had been analysed, and replies sent to the Member States with observations and, where necessary, requests for additional information in order to be able to draw as much assurance as possible from the results of national audit work. Furthermore, 165 national system audit reports were received in 2008.

The last of the annual bilateral coordination meetings for the year 2007 was held in February 2008. As 2008 was a transitional year, falling between two programming periods, it was decided to reschedule the bilateral coordination meetings for 2008 to the first half of 2009. Bilateral meetings are held annually with national audit authorities to exchange information on the implementation of audit work and to discuss progress on sample checks and follow-up of audit findings. The meetings in 2009 will cover issues concerning both programming periods 2000-2006 and 2007-2013.

## **Cohesion Fund**

EU 14 (EU 10 + EU 4)

For EU-14 Member States, 4 audit missions were carried out which focused on the follow-up of previous audit recommendations. In addition, 5 missions for the review of winding-up bodies were performed in order to verify the preparation of Member States for closure and to identify and mitigate related risks.

In 2008, DG Regional Policy examined winding up declarations submitted for the closure of 2000-2006 Cohesion Fund projects, of which 60 related to Spanish projects.

### ***Programming period 2007-2013***

#### **1. Compliance assessment**

In line with Article 71 (1) (2) of Regulation (EC) No 1083/2006, the Member State shall submit to the Commission a description of the systems, a report setting out the results of an assessment of the systems set up and an opinion on their compliance with Articles 58 to 62 of this Regulation.

According to Article 71 (2), the Commission has two months from the date of receipt to provide any observations. In the absence of any observations from the Commission, the report will be deemed to be accepted when the opinion included is without reservations or a reservation concerns a single priority axis. Where the opinion contains reservations, the Commission will expect to receive an action plan, i.e. the corrective measures and the timetable for their implementation.

In 2007, the Commission provided a Guidance Note on the Compliance Assessment exercise to the Member States in order to give practical guidance on their responsibilities with regard to the compliance assessment and the preparation of the report and opinion required under Article 71 above mentioned. This guidance note included a model report and a checklist which could be used by the Member State. It should be noted that in practice the Member States are using this model report and the checklists, which have assisted in speeding up the approval process.

DG Regional Policy together with DG Employment have jointly developed a procedure for the treatment of the compliance assessment documents.

**Table 14: State of play of compliance assessments as of 31/12/2008**

Number of programmes	CA received	CA accepted	CA rejected	CA interrupted	CA in analysis
316	210	77	59	13	61 (45 admissible)
100 %	66% received	37% of CA received (77 / 210)	28% of CA received	6% of CA received	29% of CA received

For 15 Member States all compliance assessment documents had been received. Only three Member States had not submitted documents for any programmes, namely Spain, Denmark and Lithuania.

For 4 countries, all compliance assessment procedures for all ERDF/CF programmes had been accepted, namely for Greece, Sweden, Slovenia and Malta. For Austria, France, Hungary and Poland, compliance assessments for the majority of programmes submitted had been accepted (more than 80%).

The main reasons for rejecting/interrupting can be summarized as follows: failure to provide the eligibility rules (not yet decided by the Member State), inconsistencies identified between the weaknesses noted in the conclusions of the report and the unqualified opinion by the Compliance Assessment Body, incomplete information on the management systems, no clear confirmation on the segregation of duties, no written agreements to describe the tasks among the bodies, IT systems not yet available/operational, descriptions not covering all the authorities involved and quality concerns regarding the audit strategy.

## 2. Audit Strategies

In line with Article 62 (1) (c) of Regulation (EC) No 1083/2006, the Member State shall submit to the Commission an audit strategy covering the bodies which will perform the audits, the methods to be used, the sampling method for audits of operations and the indicative planning of the audits. According to Article 62 (4), the Commission has three months from the date of receipt to provide any comments.

In 2007, the Commission provided a Guidance Note on the Audit Strategy to the Member States in order to clarify the expectations from the Commission.

DG Regional Policy together with DG Employment developed a procedure for the assessment of the audit strategy.

**Table 15: State of play of audit strategies as of 31/12/2008**

Number of programmes	Audit Strategies (AS) received	AS accepted	AS rejected	AS interrupted	AS in analysis
316	258	166	58	2	32
100%	82%	65% of AS received (166/258)	22% of AS received	1% of the AS received	12% of AS received

The main reasons for rejecting/interrupting can be summarized as follows: failure to guarantee the independence of the audit authority from the managing authorities or certifying authorities, incomplete information on the audit approach and priorities, no description of the risk assessment model used and missing information related to the extent of reliance, human resources and reporting.

### ***B) Audit in the context of decentralised management***

#### **ISPA**

Due to focus on IPA conferral of management audits and still slow progress of ISPA projects in Croatia, the audit work in 2008 consisted of desk work in relation to the annual audit report submitted by the national authorities.

#### **IPA**

In 2007, the new instrument for pre-accession assistance (IPA) replaced ISPA, PHARE and SAPARD. The new pre-accession instrument is accession-driven and split into five components of which three – regional development, human resources development and cross border cooperation – are the main concerns for the Cohesion policy.

The audit work in 2008 consisted mainly of two conferral of management missions in Croatia and Turkey. Following missions in Croatia, management powers were conferred by Commission Decision on Croatia on a conditional basis with reference, in particular, to the strengthening of the internal audit and external audit functions which is currently subject to regular monitoring. In Turkey, the overall result of the conferral of management audit mission was that the national authorities were not yet fully ready to assume their responsibilities under the decentralized regime. Weaknesses in the area of payments and certification of expenditure have been identified. A follow-up mission to verify that recommended actions have been implemented is therefore foreseen for the end of first quarter 2009. In FYROM (Former Yugoslav Republic Of Macedonia) the accreditation process has been delayed due to the need to adapt the institutional framework to the strict requirements of IPA regulations, namely in relation to designing and implementing sound financial management systems. FYROM has submitted the request for conferral of management in January 2009; this will allow the conferral of management audit mission to take place in March 2009.

### ***C) Audit in the context of the Solidarity Fund***

A total of seven validity statements were reviewed and approved in 2008. These validity statements related to six Solidarity Fund grants for Bulgaria (floods of 2005), Romania (floods of 2005), Estonia (storms of 2005), Latvia (storms of 2005), Lithuania (storms of 2005), Sweden (storms of 2005) and Slovakia (storms of 2004).

2.3.3.2. Follow-up of previous years' reservations

**Table 16: Follow-up in 2008 of 2007 and 2006 AAR reservations for ERDF**

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of program mes covered	N° of proce- dures to suspend/ correct underway and n° of program mes covered	N° of financial correction decisions and n° of programmes covered	Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reser- vation to maintain /lift for 2008
Czech Republic	Art. 4, Art. 9 and Art.10 of Regulation 438/2001 not respected	4	0.986					MS will apply corrections under action plan.	At Commission services' request, the Czech authorities carried out in 2008 retrospective verifications of the ERDF co-financed projects to assess the extent of potentially systemic errors on public procurement (action plan). The retrospective verifications were finalised and a report sent to Commission in mid-November 2008, and MS proposes to make corrections. DG Regional Policy follow-up mission carried out in January 2009. As the exercise is nearly finalised and all issues identified, the remaining risk is considered low and therefore the audit opinion given is qualified- with moderate impact.	<b>to lift</b>
Finland	Art. 4, Art. 9 and Art.10 of	4	0.906						At request of DG Regional Policy, the Finnish authorities	<b>to lift</b>

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered	N° of procedures to suspend/correct underway and n° of programmes covered	N° of financial correction decisions and n° of programmes covered	Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
	Regulation 438/2001 not respected								implemented an action plan in 2007 and 2008. A report of additional audits carried out by national auditors was received by Commission services in 2008. A follow-up audit mission was carried out by EC auditors in November 2008 to verify the quality of work done. In view of low error rate identified by the national auditors and positive evaluation of the quality of their audit work by the EC auditors, the qualifications have been lifted for the 4 programmes in question and an unqualified opinion is given.	
Germany	Art.10 of Regulation 438/2001 not respected	4	1.435						The analysis of additional information and the audit missions relating to Mecklenburg-Vorpommern, Hamburg and Neubrandenburg (Urban II) confirmed a substantial improvement as regards the detected weaknesses (particularly as regards assurance provided by the winding up bodies in view of the closure).	<b>to lift</b> for 3 OPs (Mecklenburg-Vorpommern-Hamburg-Neubrandenburg) and <b>to maintain for 1 OP</b> (Saarland)

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered	N° of procedures to suspend/correct underway and n° of programmes covered	N° of financial correction decisions and n° of programmes covered	Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
									For Saarland, the agreed action plan has not been satisfactorily implemented to date.	Note that a new reservation is proposed for the programme Baden-Wuerttemberg.
Greece	Systemic weakness of control of state aid schemes	15	8.803						Further to the identification of potential irregularities in state aid rules, a follow-up audit has been carried out and some remedial actions have been proposed. In the meantime, managing authorities of two large programmes have carried out cross checks on aid recipients for the identified risks (cumulation of aid) and found that risks were limited. Furthermore, an action plan on EDEL, the winding up body, has been launched to improve the closure process and gain better assurance on expenditure declared. Evidence of reliability of the work of Paying Authority is a mitigating	<b>to lift</b>

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered	N° of procedures to suspend/correct underway and n° of programmes covered		N° of financial correction decisions and n° of programmes covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
											factor, which together with the positive results of ECA's audits indicates that the deficiency presents a reduced risk for payments in 2008.	
Ireland	Art. 4 and Art.8 of Regulation 438/2001 not respected	4	1.941		1	4				Possible corrections after finalising action plan at national level.	A "look-back" exercise (a review of all previously declared payment claims in order to identify irregular expenditure) is being performed by the Irish authorities since 2007. In October 2008, they submitted an interim report with preliminary results. In February 2009, DG REGIO auditors carried out an on-the-spot mission to review the work, and concluded that the setup and scope of the look-back exercise allows identifying previously unjustly declared expenditure related to overheads and purchases of land and obtaining assurance that after the errors detected are corrected, the risk will be mitigated. As for public procurement issues, the Irish authorities will be requested to provide a summary of	<b>to lift</b>

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered		N° of procedures to suspend/correct underway and n° of programmes covered		N° of financial correction decisions and n° of programmes covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
												all the contracts and related complementary works with a justification of their legality under European procurement directives and the Commission will apply adequate financial corrections where the contracts do not comply with public procurement rules.	
Italy	Art. 4, Art.8, Art. 9 and Art.10 of Regulation 438/2001 not respected and deficiencies in compliance with public procurement rules	17	13.887	1	1	7	7			181	Further corrections to be applied in the follow-up of the audits.	Eight procedures for suspension of interim payments launched (of which 6 covered OPs in the reserve). 2 formal decisions adopted in July 2008 and January 2009 (of which one concerns an OP in the reserve). For 7 programmes covered by the reserve, the results of the audit work in 2008 are satisfactory and the audits will be closed without any financial correction. In addition, the audit work carried out in 2008 has identified material deficiencies in the control systems for 5 other programmes <sup>64</sup> .	<b>to lift</b> the reserve for 8 programmes <sup>65</sup> and <b>to maintain</b> a reserve for 9 programmes. Note that a new reservation is proposed for 5 programmes

<sup>64</sup> These programmes were not included in the reserve but showed major deficiencies: OP Sviluppo Locale, Basilicata, Abruzzo, Veneto, Urban-Genova

<sup>65</sup> These programmes are: Ricerca, Molise, Campania, Friuli-Venezia-Giulia, Liguria, Urban- Mola di Bari et Urban Pescara

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered		N° of procedures to suspend/correct underway and n° of programmes covered		N° of financial correction decisions and n° of programmes covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
Luxembourg	Art. 4 and Art.10 of Regulation 438/2001 not respected and deficiencies in compliance with public procurement rules	1	0.044									Follow-up of risks identified on public procurement and one case on State aids. Financial corrections were already made by MS for a number of contracts.	to lift
Poland	Art. 4 and Art.10 of Regulation 438/2001 not respected	4	4.944			1	4				Financial corrections possible at the end of the action plan process.	The Polish authorities have implemented an action plan in 2007 and 2008 and follow-up of audits have been carried out by the DG. A new report from Poland has been received in early 2009. Following the analysis of this new report DG REGIO auditors concluded that the issues identified have been satisfactorily addressed by the Polish authorities, which resulted in a correction of <u>211.472.610,03 PLN</u> followed by confirmation that the Paying and Managing Authorities will proceed with corresponding financial corrections in their next statements	to lift

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered	N° of procedures to suspend/correct underway and n° of programmes covered	N° of financial correction decisions and n° of programmes covered	Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008	
									of expenditure to the Commission. The auditors of DG REGIO are of the opinion that after this correction is applied, the Action plan is concluded.		
Slovakia	Art. 4 and Art.10 of Regulation 438/2001 not respected	2	0.573					Financial corrections possible after finalisation of action plan.	At DG Regional Policy request Slovak Authorities carried out a retrospective review of public procurement procedures in ERDF and CF (action plan) in 2008 and DG Regional Policy carried out a follow-up audit to review the quality of work done. Although final results are still under contradictory procedure, the exercise is for a large part finished.	<b>to lift</b>	
Spain	Art. 4, Art. 9 and Art.10 of Regulation 438/2001 not respected and deficiencies in compliance with public procurement	31	24.935	1	14 <sup>66</sup>	1 1	5 All OPs	353 (MS accepted)	5-10% of expenditure declared by 6 + 5 I.B concerned by suspension and pre-suspension procedures	An action plan initiated in April 2006 and concluded successfully for 9 IB's. A suspension decision adopted on 11/11/2008 for 9 IB's. DG Regional Policy was able to lift the suspension for 3 intermediate bodies after analysing evidence received on 12 February 2009 from	<b>to maintain for 6 IBs</b>  <b>Note that a new reservation is proposed for another 5 IBs.</b>

<sup>66</sup> 9 Intermediate Bodies are covered

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered	N° of procedures to suspend/correct underway and n° of programmes covered	N° of financial correction decisions and n° of programmes covered	Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
	rules								<p>the Spanish authorities that the management and control systems were operating effectively.</p> <p>A pre-suspension letter sent on 20/01/2009 covering 5 IBs.</p> <p>With regard to the irregularities on public procurement, DG Regional Policy sent a pre-suspension letter to the Spanish Authorities in February 2008 requiring them to deduct the irregular expenditure certified from 2000 to 2005. After analyzing the information received from the ES authorities in September 2008 it appears that not all the irregular amounts related to additional contracts have been withdrawn.</p> <p>DG Regional Policy sent in January 2009 a pre-suspension letter to the ES authorities requesting them to withdraw all the outstanding irregular amounts relating to additional works (modificados and complementarios) awarded by negotiated procedure without</p>	

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered		N° of procedures to suspend/correct underway and n° of programmes covered		N° of financial correction decisions and n° of programmes covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
												publicity and not in compliance with the EC Directives provisions.	
UK <sup>67</sup>	Art. 4 of Regulation 438/2001 not respected	12 for England and 4 for Scotland	1.553					1	2	25		<p>England - Adoption of financial correction decision for North West, Objective 2 and URBAN programmes.</p> <p>Information received from the national authorities indicated error rates for 2007 and 2008 for some English operational programmes which were substantially above 2%. Given that this could call into question the effectiveness of the remedial actions implemented under the action plan concluded in 2007, this issue was followed up at a meeting with the English authorities at the beginning of March 2009. After further analysis of the information received at and after the meeting, it appeared that the risk was limited to four programmes in 3 regions (North</p>	<b>N/A No reservation in 2007</b>

<sup>67</sup> Follow-up of reservation of AAR for year 2006

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered	N° of procedures to suspend/correct underway and n° of programmes covered	N° of financial correction decisions and n° of programmes covered	Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
									<p>East Objective2, Yorkshire Obj 2/urban and London Objective2). For the rest of the programmes, the error level reported as a result of random checks for 2007 and 2008, after the implementation of the action plan, was below the 2% threshold. For the four programmes mentioned additional information was subsequently provided at the Commission's request, which explains the provisional nature of the figures as the audit findings are still under follow up with the beneficiaries. It was concluded that there is no evidence to change the current assessment of the systems, but the Commission will continue to monitor closely the data on error rates, in particular at the forthcoming annual meeting, and will take corrective action if evidence of continuing problems is detected</p> <p>Scotland - Audit mission for the</p>	

Member State	Deficiencies noted	N° of OPs in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered		N° of procedures to suspend/correct underway and n° of programmes covered		N° of financial correction decisions and n° of programmes covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 and state of play	Reservation to maintain /lift for 2008
												follow-up of the (Art.4) action plan for 4 Scottish programmes was carried out and the auditors concluded that results are satisfactory.	
INTERREG (81 programmes)	Art.4, 9 and 10 of Regulation 438/2001 not respected (sample checks and systems audit)	51	3.632	4	4	1				-	Corrections to be applied in procedures underway.	Extended coverage through further audit work (54% of ERDF allocation covered). Launch of 7 suspension procedures (of which 4 formal decisions to date and one discontinued) <sup>68</sup> . Follow-up of Action Plan for Spain-Portugal. Close monitoring of non-audited programmes through review of Art.13 reports (which gave rise to 2 of the suspension decisions mentioned above).	<b>to maintain</b> the reserve for 21 programmes

<sup>68</sup> The suspension procedures concern the following programmes: Interreg III-B Medoc (decision adopted in July 2008), Interreg IIIA FR-UK (decision adopted in August 2008), Interreg III B CADSES (suspension procedure discontinued), Interreg IIIA IT-ALB (decision adopted in December 2008), Interreg IIA- Øresund (pre-suspension letter). A further decision was adopted in January 2009 (Interreg IIIA GR-IT) and for Interreg IIIB ARCHIMED the suspension procedure is under way.

**Table 17: Follow-up in 2008 of reservations in 2007 and 2006 AAR for the COHESION FUND**

Member State	Deficiencies noted	N° of projects <sup>69</sup> in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of projects covered		N° of procedures to suspend/correct underway and n° of projects covered		N° of financial correction decisions and n° of projects covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 And state of play	Reservation to maintain /lift for 2008
Bulgaria	At the National Roads Infrastructure Agency: Art.4 of Regulation 1386/2002 concerning control of public procurement and risk linked to allegations of bribery of officials	4	0.517	1	2					0.6		Follow-up of audit mission, suspension decision adopted.  Following the suspension decision, on 17 November 2008, Bulgaria replied and submitted a report on the action plan for restructuring the NRIA. The Bulgarian authorities also propose a financial correction of approximately EUR600,000. A joint mission (GU/Audit unit) was carried out on 28-30 January 2009. The decision on lifting the suspension will be taken after follow-up of outstanding issues.	<b>to maintain</b>
Czech Republic	Art.4, Art.6, Art.8 and Art.9 of Regulation 1386/2002 not respected	All projects (58)	1.234								Corrections possible after finalising action plan.	At Commission services' request, the Czech authorities carried out in 2008 retrospective verifications of the Cohesion Fund projects to assess the extent of potentially systemic errors on public procurement (action plan). The retrospective verifications were	<b>to lift</b>

<sup>69</sup> Number of projects covered (not programmes)

Member State	Deficiencies noted	N° of projects <sup>69</sup> in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of projects covered	N° of procedures to suspend/correct underway and n° of projects covered		N° of financial correction decisions and n° of projects covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 And state of play	Reservation to maintain /lift for 2008
											<p>finalised and a report sent to Commission in mid-January 2009. No major issues were identified for CF.</p> <p>Follow-up audit mission by DG Regional Policy planned for April 2009 to verify the quality of work done by the CZ authorities.</p> <p>Winding up Declarations of the remaining projects to be closed will be individually assessed by DG Regional Policy, focusing on the public procurement and other issues deemed risky. Additional information will be requested in case insufficient level of detail is provided in the Winding up Declaration.</p>	
Slovakia	Art.4 and Art.9 of Regulation 1386/2002 not respected	All projects (39)	0.767		2	4				23.85 Further corrections possible after finalising action plan.	At DG Regional Policy's request Slovak Authorities carried out a retrospective review of public procurement procedures in ERDF and CF (action plan) in 2008 and DG Regional Policy carried out a follow-up audit to review the quality of work done. Although final results are still under	<b>to lift</b>

Member State	Deficiencies noted	N° of projects <sup>69</sup> in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of projects covered		N° of procedures to suspend/correct underway and n° of projects covered		N° of financial correction decisions and n° of projects covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 And state of play	Reservation to maintain /lift for 2008
												contradictory procedure, the exercise is for a large part finished and impact is classified as moderate. Winding up Declarations of the remaining projects to be closed will be individually assessed by DG Regional Policy, focusing on the public procurement and other issues deemed risky. Additional information will be requested in case insufficient level of detail is provided in the Winding up Declaration.	
Hungary	In the environmental sector: Art.4 of Regulation 1386/2002 not respected and weakness in relation to respect of public procurement rules	All projects (29)	1.483			1	1				40.5	Follow-up audit mission was carried out in July 2008 focusing on public procurement, which revealed no other irregularities	<b>to lift</b>
Poland	Art.4 and Art.9 of Regulation 1386/2002 not respected and	All projects (159)	5.635								Corrections possible after finalising action plan.	The Polish authorities implemented an action plan in 2007 and 2008. Given that the systemic deficiencies in the area of	<b>to lift</b>

Member State	Deficiencies noted	N° of projects <sup>69</sup> in reserve in 2007	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of projects covered		N° of procedures to suspend/correct underway and n° of projects covered		N° of financial correction decisions and n° of projects covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway (in million EUR)	Actions taken in 2008 And state of play	Reservation to maintain /lift for 2008
	weakness in relation to respect of public procurement rules											public procurement have been identified during audit work and the Commission services are in a position to check whether ineligible expenditure resulting from these deficiencies is identified and corrected under the assessment of individual winding-up declarations, DG Regional Policy auditors changed their opinion (from 2007) to qualified opinion with moderate impact.	

2.3.3.3. Follow-up of other action plans and/or other significant remedial measures

**Table 18: Follow-up of other action plans and/or other significant remedial measures**

Member State	Deficiencies noted	Action plan : start date	N° of OPs covered	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered		N° of procedures to suspend/ correct underway and n° of programmes covered		N° of financial correction decisions and n° of programmes covered		Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway ( in million EUR)	Actions taken in 2008 and state of play (Commission's analysis and conclusions)
Netherlands	Deficiencies in functioning of the systems of the managing authority, paying authority and audit bodies	End of 2006	5 (+ 3 Urban II)	0.94			1	5 (+ 3 Urban II)				MS will apply corrections to be determined based on the results of the action plan.	Audit mission carried out in 2008 with re-performance of work carried out by the national authorities on a sample of projects. EC report of 23 July 2008 concluded that the error rate determined by the national authorities is underestimated. Suspension of payments and/or financial correction procedures will be applied, depending on the final position of the national authorities in the follow-up of the action plan.
Portugal	Deficient first level management checks and sample controls for audit in relation to verification of public procurement	April 2005	23 (all)	13.25 (ERDF) 3.15 (CF)			2 (ERDF)	9 programmes			46 (ERDF); 27 (CF)	Financial corrections are ongoing in regard to non-systemic irregularities detected in	In 2008, the Commission followed-up the situation in the three programmes (PRIME, POSC and POCI) for which some systemic deficiencies still persisted. There is reasonable assurance that

Member State	Deficiencies noted	Action plan : start date	N° of OPs covered	Decided amounts covered in Billion EUR	N° of suspension decisions adopted and n° of programmes covered	N° of procedures to suspend/ correct underway and n° of programmes covered	N° of financial correction decisions and n° of programmes covered	Amount of financial corrections decided or accepted (in million EUR)	Estimation of amount of financial corrections for procedures underway ( in million EUR)	Actions taken in 2008 and state of play (Commission's analysis and conclusions)
	rules as regards ERDF and CF					CF	jects		some projects. These procedures might lead to an estimated correction of 10 (ERDF) and 1 (CF).	the risk associated with the deficiencies noted has been mitigated to an acceptable level.
Lithuania	No active role performed by the winding-up body; Insufficient quality review of the audit work performed by the IAUs; The IAU of the ministry of economy is understaffed. Its work can not be relied on (sample checks were not done on the spot).	October 2007 <sup>70</sup>	1 (SPD)							After examining the reply of the national authorities in 2008, the auditors concluded that the appropriate remedial actions had been taken. Therefore, the audit opinion for 2008 is unqualified.

<sup>70</sup> The date mentioned does not refer to the date of a formalised action plan but to the date of the sending of the audit report in Lithuanian.

#### 2.3.3.4. Follow-up of Court of Auditors' annual report 2007

A comparison between the Court of Auditors' assessment of programmes audited for the 2007 DAS ("Déclaration d'assurance") and the action taken by the Commission on the same programmes is set out below. In all cases the Commission had audited the systems or similar systems prior to the Court's audit and actions had been taken. There are no significant differences between the assessments of the Court and those of the Directorate General.

**Table 19: Assessment by the European Court of Auditors and the actions taken by the Commission**

Member State/Region/ Programme/ Fund	ECA assessment	Action taken by Commission		Assessment in 2007 AAR
		Action prior to Court's audit	Actions underway	
ERDF – Spain Competitivity	Partially effective	Audits of System in Spain 2005-2008, reservation 2005 AAR for ERDF, action plan on all programmes 2005-2008. Audit of OP in Nov. 2006.	Implementation of action plan verified, decision on suspension of payments for 9 IBs and launch of suspension procedure for 5 IBs.	Qualified
ERDF- Czech Republic – Industry	Partially effective	Audit of common bodies with other programmes i.e. Paying Authority and Winding-Up Body in 2006.	Implementation of action plan verified during 2008 and beginning of 2009.	Qualified
ERDF – Germany Mecklenburg-Vorpommern	Partially effective	Audit of OP in 2004/2005, follow-up of recommendations.	Implementation of recommendations satisfactory.	Qualified
ERDF- Greece – Information Society	Partially effective	Audit of system in Greece in 2003-2007, reservation in 2005 AAR, action plan for all of Greece 2003-2005, launch of payments suspension in 2005 with financial correction of EUR518 million decided	Targeted audit on the winding up body and horizontal issues relating to State aid.	Qualified

		in 2005.		
ERDF - France - Martinique	Partially effective	Joint audit of OP with French audit body in 2006. Audit of other programmes covered by common system.	Implementation of recommendations satisfactory. Audit of other OPs in France in relation to remaining risks identified revealed no significant deficiencies.	Unqualified <sup>71</sup>
ERDF – UK/Ireland PEACE II	Partially effective	Audits of systems in Northern Ireland (U.K.) and Ireland.	Audit of winding-up body for Northern Ireland in 2008. Follow-up of recommendations.	Qualified
ERDF – Italy Research	Partially effective	Audit of OP in 2007.	Financial corrections accepted by Member State.	Qualified
ERDF – Czech Republic - Infrastructure	Partially effective	Audits of OP in 2006.	Implementation of action plan verified during 2008 and beginning of 2009.	Qualified
ERDF – Slovakia - Infrastructure	Partially effective	Audit of system in November 2006 and March 2007.	Implementation of action plan verified in 2008 and continues in 2009.	Qualified

### 2.3.3.5. "Action Plan to strengthen the Commission's supervisory role under shared management of structural actions"

#### **Action Plan**

The Action Plan to strengthen the Commission's supervisory role under shared management of structural actions was adopted on 19 February 2008 – COM (2008)97 ("the Action Plan"). The objective of the Action Plan is to reinforce actions by the Commission to address the high level of errors in reimbursements for structural actions and weaknesses in the Member States management and control systems. The Action Plan set out 37 actions under 10 main headings to be carried out by DG Regional Policy and DG Employment, Social Affairs and Equal Opportunities. The actions took account of the recommendations of the European Court of Auditors in its Annual Report for 2006, its Opinion No 6/2007, the recommendations during the discharge process for the financial year 2006 and ongoing actions under the DGs audit strategies.

The Commission has reported on a quarterly basis to the European Parliament on progress on the Action Plan by the transmission of monitoring tables. An interim progress report on the results of the first three quarters was presented to the Commission in November 2008 – SEC (2008) 2756. A report on the achievements for the year 2008 was adopted by the

<sup>71</sup> The opinion for France is common to all programmes due to the fact that there is one common management and control system.

Commission in February 2009 – COM (2009) 42. Both reports were sent to the European Parliament, the Council and the European Court of Auditors.

By the end of 2008, 28 out of the 37 actions in the Action Plan had been completed. A summary of the results of the work done under the main headings is set out in Annex 6. Included in the Annex are the revised figures on withdrawals and recoveries reported by Member States in 2008 for the 2007 year, resulting from the Directorate General's follow-up work under Action 6.

The execution of the Action Plan has absorbed a substantial part of the resources of the Audit Directorate during 2008. The results have enabled the two Directorates General to demonstrate real progress in strengthening their supervision of structural actions expenditure.

### **Cooperation with Member States**

Cooperation between the Commission and the Member States in relation to audit activities is stipulated in both Council Regulations (EC) No 1260/1999 and No 1083/2006. Effective cooperation is a condition for the application of the single audit model and the creation of an integrated internal control framework, as proposed by the Court of Auditors in its Opinion No 2/2004.

One of the main conditions for this framework to be effective is for all audit bodies to follow common standards in order to be able to rely on each other's work. In 2008, DG Regional Policy in cooperation with the other structural actions DGs completed the remaining guidance notes that will be incorporated in **the Audit Reference Manual (ARM)** for the 2007-2013 programming period, which will act as a point of reference for all Member States authorities and the Commission services.

The **annual bilateral coordination meetings** provide the opportunity to share information on specific audit issues with each Member State individually. For the new cycle of bilateral meetings for 2008/2009, the meetings will be organised in the first part of 2009, so as to also allow discussion on the results/progress for the new programming period.

Further cooperation with the Member States, in order to promote an improved financial control culture and exchange ideas on best practices, is provided through **the annual Homologues Group meeting**, which, for 2008, took place in Cardiff, Wales on 20-21 October. A total of 137 participants were present, representing the Member States, the Commission services and the European Court of Auditors. The Commissioner for Regional Policy and the First Minister of Wales opened the meeting.

### **Cooperation with the Court of Auditors**

The main contacts with the Court and its staff in 2008 thus concerned the 2006 discharge and the 2007 annual report, including the findings of the Court from its audits underlying the DAS. For the discussion of the DAS findings with the Court a new procedure was started for the 2007 report which is considered to make this discussion much more effective in reducing the areas of disagreement with the Court on findings. The procedure involves three-way discussions between the Court, the Commission and the Member State at meetings arranged in Luxembourg or Brussels (or, if a face-to-face meeting is not possible, by videoconference) after the Member State has sent its reply. Eight such tripartite meetings were held on the 13 ERDF programmes or Cohesion Fund projects audited for the 2007 report; in the other five

cases a meeting was not considered necessary as there was agreement between the Court and the Commission on the findings. The Directorate General and the Court have agreed to continue this procedure for the 2008 report.

#### 2.3.3.6. Relations with OLAF

The main activities in 2008 were the following:

##### **1. Joint Fraud Prevention Strategy (JFPS) 2008-2009**

In reply to the IAS audit on "Fraud Prevention and Detection in the Structural Funds" in 2007, DG Regional Policy has developed a "*Joint Fraud Prevention Strategy for ERDF, ESF and CF 2008-2009*" together with DG EMPL and OLAF, which was adopted in December 2008.

The strategic objectives of the JFPS are as follows and will be implemented through the five main action groups during 2008-2009:

- reinforcing fraud risk assessment;
- introducing more proactive guidance for Member States for fraud detection;
- providing more support to Member States' authorities for fraud prevention and detection work;
- raising the level of fraud awareness in DG Regional Policy and DG Employment;
- raising the level of fraud awareness in the Member States.

DG Regional Policy and DG Employment have started to implement the strategy in 2008 and the main actions already undertaken are listed below.

Reinforcing fraud risk assessment:

A first draft of a document titled "analysis of fraud cases" has been produced and will be finalised before end of March 2009. The aim is to examine the type of fraud perpetrated in known cases for which OLAF has provided a final case report, and the modus operandi behind them, in order to draw any relevant conclusions for fraud prevention and detection.

Introducing more proactive guidance for Member States for fraud detection:

On 5 December a draft information note titled "*Fraud indicators for ERDF, ESF and CF*" was presented at the Technical Meeting with the Member States' Audit Authorities. The note will be adopted by COCOF (Coordination Committee of the Funds) in the first half of 2009.

Raising the level of fraud awareness in DG Regional Policy:

A manual on relations between DG Regional Policy and OLAF was adopted in September. It is posted on the Intranet of DG Regional Policy and REGIO VISTA. DG Regional Policy participated in COCOLAF meetings organised by OLAF in May and October and reported from these to the Directorates in separate information notes. Training on relations with OLAF, including the manual on relations with OLAF and the JFPS, was provided in December to desk officers, newcomers and auditors.

Raising the level of fraud awareness in the Member States:

Presentations on fraud prevention were made by OLAF in the June seminar for Managing and Certifying Authorities, at the closure seminar in September as well as at the Homologues Group meeting in Cardiff in October. A presentation on reporting of management of irregularities was made in Bucharest in December at the occasion of the annual meeting between the Commission and the Romanian Managing Authorities.

## **2. Commission Communication C(2007)5709 of 27 November 2007 on the division of responsibilities concerning financial follow-up between OLAF and the Authorising Officers by delegation**

DG Regional Policy and OLAF have started to implement a series of actions and practical working arrangements under the working guidelines of the Commission, e.g. a clearing exercise of the backlog of "old" UCLAF/OLAF cases is underway based on a kick-off meeting held in April (seven cases concern DG Regional Policy).

## **3. Cooperation with OLAF on fraud cases concerning ERDF and Cohesion Fund**

DG Regional Policy is currently working with OLAF in the framework of a feasibility study on the setting up of an electronic database (an interface to OLAF's Case Management System) in which the operational units will be able to update information on the follow-up action they are taking vis-à-vis OLAF final case reports. The electronic database will include uploading of the OLAF final case report and ensuing correspondence. Two reconciliation meetings were held with OLAF in 2008 in order to update the information on: a) cases in evaluation in OLAF; b) on-going investigations; and c) cases in financial follow-up.

## **4. Publication of the Annual Report 2007 concerning the protection of the financial interests of the Communities and the fight against fraud**

According to the Commission's (OLAF) Annual Report on the fight against fraud of 22 July 2008, in 2007 Member States communicated for the ERDF and the Cohesion Fund a total number of 1,906 and 92 irregularity cases amounting to EUR 534 and EUR 110 million respectively.

In general, the number of cases reported for the Structural and Cohesion Funds is a 19% increase on 2006 (3,216 cases) and the amount reported at risk in these cases is a 17% increase on 2006 (EUR 703 million).

The impact on the budget varies from country to country – there seems to be a correlation between the funds available and the amount of irregularities reported. Nevertheless, any statistics should be treated with caution as the reason for a higher rate of reporting in a given Member State might also relate to an increase in controls, more effective controls or better reporting.

### **2.3.3.7 Follow-up of Internal Audit Service (IAS)'s recommendations**

In 2008, DG Regional Policy has implemented the follow up of those IAS recommendations which were still open from previous year's audits and also has prepared an action plan to address the new 2008 IAS audits reports:

- The IAS recommendations open in 2008 referred to the following Audits: a) IAS 2007 REGIO 001 on Prevention and detection of fraud in Structural Funds, an in particular to management responsibilities, collaboration between OLAF and DG Regional Policy, role of DG Regional Policy Audit Directorate, information system, corrective actions, b) IAS 2007 REGIO 002 on Implementation of Programmes in the New Member States and in particular human resources, mobility and linguistic capabilities within the DG and planning coordination with DGT, and improve budget absorption rates in the New Member States and c) IAS 2007 Y COMM 002 on Assurance Process and specially AAR mainly Reporting from the AOSD.

Most of open recommendations from the previous years' audits have been implemented and are ready for review by IAS. Only the following recommendations are still open since actions are still in progress: a) Prevention and Detection of fraud in Structural Funds related to management responsibilities and information system and b) Implementation of Programmes in the New Member States related to human resources in DG REGIO, mobility and linguistic capabilities within REGIO and planning coordination with DGT.

- Besides that, in 2008 the IAS has undertaken two new audits in DG Regional Policy for which and action plan has been prepared in order to follow up the proposed recommendations: a) IAS.B-2008-REGIO-002: Internal control system for managing the new programming period - Part I Design, in particular the evaluation of compliance assessment report evaluation of Member States Audit Strategies and b) IAS.B-2008-REGIO-003 Audit on recoveries in particular Audit on Recoveries.

#### 2.3.3.8 Follow-up of Internal Audit capability (IAC) recommendations

IAA (Internal Audit and Advice) have issued the following recommendations:

- In the period (2004-2007): IAA issued 39 very important recommendations of which 38,5 were accepted (98%) and 32 implemented in the defined delay (82%) and 102 important recommendations from which 101 recommendations were accepted (98%) and 91 recommendations implemented in the defined delay (90%).
- In the year 2008: IAA issued 41 very important recommendations of which 39 were accepted (95%) and 83 important recommendations from which 74 were accepted and 4 partly accepted (90%). It is still too early to assess at this stage the number of recommendations implemented in the defined delay.

We might conclude that the level of follow up of the IAA recommendations is very high in terms of acceptance and that DG Regional Policy is doing its best to implement in the defined delays the proposed recommendations. Action Plans are developed by the services concerned in order to follow up these recommendations and feed back on the state of play is given every semester to IAA.

The 2008 recommendations addresses different issues linked to the following IAA audits: ex post controls on payments, review of DG Regional Policy Accounts for the year 2007, audit of the compliance assessment process, audit of the review process of audit strategies submitted by the Member States, audit of evaluation and indicators, audit of the Croatian

Delegation, audit of the closure of innovative action programmes, audit of SFC2007 (front-office and back-office), follow-up of the audit of WFS/SYSFIN, two surveys on the effectiveness of internal control standards as well as advice tasks on document management and the audit strategy.

#### *2.3.4 Assurance received from other Authorising Officers in cases of cross subdelegation*

For the year 2008, the Director General of DG Regional Policy (as Authorising Officer by Delegation-AOD) has delegated some powers to the Directors General of DG ESTAT, RELEX, DIGIT as well as to the Heads of the EU Delegations in Croatia, the Former Yugoslav Republic Of Macedonia (FYROM) and Turkey (see above section 2.1.1).

Authorising officers by cross or sub-delegation have reported to the Director General of DG Regional Policy for their management of the delegated funds covering the year 2008. These reports did not give rise to any reservations and gave assurance as to the legality and regularity of the financial operations, including sound financial management of funds.

However, some key issues were brought to the attention of the AOD, like the very low start of IPA component III in Croatia (delay regarding approval of applications) where conferral of decentralised management powers was granted in 2008; this situation could lead to loss of funds in the future, due to the "n+3" rule and may have negative impact on the accession negotiations regarding chapter 22 (structural funds). The situation is also critical in Turkey and in the former Yugoslav Republic of Macedonia where the conferral of decentralised management did not take place yet and where the risk of losing funds is even higher. Corrective actions should be taken in 2009 to mitigate these risks, like emphasizing at political level the need for better staffing capacity of the operating structures, or following up on audits on conferral of management.

## **PART 3: RESERVATIONS AND THEIR IMPACT ON THE DECLARATION**

### **3.1 *Materiality criteria used***

The term “significant deficiencies” as defined in the “Guidelines for assessment of materiality” of December 2005 means that deficiencies detected in the management and control systems concern key control elements and, having regard to relevant factors such as the number and duration of the deficiencies, the importance of the systems affected and whether or not there have been compensatory measures or corrective actions, it is concluded that they are systemic and wide-ranging.

**In line with the approach taken for the AAR 2007 and with the recommendations of the ECA, the Directorate General has considered that for all programmes or systems for which the opinion is "qualified with significant impact" or "no assurance", the deficiencies should be considered as "significant deficiencies" as defined in the Guidelines, unless there is reliable audit evidence that an action plan to remedy the weaknesses and correct the risk of irregular expenditure is being implemented effectively by the national authorities and first results have been produced.**

In addition DG Regional Policy assesses whether the deficiencies give rise to special factors which put at risk the reputation of Community institutions (e.g. the fundamental incapacity of a Member State to deliver remedial measures, risk of widespread fraud).

If the assessment leads to the conclusion that a deficiency is significant, a quantification of the risk is carried out. The approach DG Regional Policy follows to ensure a consistent and defensible result is as follows:

- 1) Identify the expenditure “*population*” in which the risk occurs. For the Structural Funds and Cohesion Fund this will normally be payments made by the Directorate General in the year covered by the AAR to the programmes or projects in the Member State managed under the systems in which the deficiencies have been identified;
- 2) Estimate the maximum percentage of the expenditure in that “*population*” which might finally be determined to be irregular. This will normally be the application of the scales for flat rate corrections fixed in the Commission guidelines of 2001 (Structural Funds) and 2002 (Cohesion Fund) relevant for the seriousness of the deficiencies identified.
- 3) Quantify the actual amount of payments for the Fund and year concerned which are estimated to be at risk;
- 4) Relate the sum of such amounts for all instances of significant deficiencies to the total payments under the ABB activity for the year concerned.

In quantifying the risk DG Regional Policy also examines whether the deficiencies had an impact on previous years’ expenditure and estimation is made of the total amount at risk, following the same procedure for the calculation. This is relevant in relation to the consideration of reputational risk for the Community institutions. For the purpose of quantification it should be noted that where the Commission has taken action to suspend payments to the Member State or has taken a financial correction decision, or where the Member State has taken actions to prevent irregular expenditure being certified to the Commission, this is taken into account in the quantification.

**Reservations should be made in respect of significant deficiencies in the systems in the Member States where the resulting risk to the Community budget is material.** Following the approach set out, this means reservations are made in the following cases:

- Where examination of the qualitative aspects leads to a finding of a significant deficiency and the sum of the amounts quantified as “*at risk*” from the cases examined exceeds 2 % of the total payments made for the year in question under the ABB activity.
- Where there are special factors in relation to the qualitative aspects of the deficiencies or a high level of risk for the budget for a number of preceding years, which give rise to a high reputational risk for the Community institutions.

### *3.2 Making the reservations*

#### **Assessment of management and control systems in the Member States and candidate countries**

The process used to establish the final opinion of the Directorate General on the assurance provided by the management and control systems in the Member States is based on an *audit opinion* from the Audit Directorate of the Directorate General and on a *management opinion* from the Authorising Officers by Sub-delegation.

The Audit Directorate has prepared assessment fiches and issued an *audit opinion* on the functioning of the systems for all Member States and beneficiary countries. For ERDF they cover mainstream and URBAN programmes with a separate fiche for INTERREG programmes. These fiches indicate for each system whether any deficiencies have been found (and if so whether they were significant) and give an overall audit assessment.

This assessment is based on the audit work of the Audit Directorate, the results of the analysis of the annual control reports of the Member States, information from audit reports received from the national audit bodies, and from audits of the European Court of Auditors and other Directorates General in charge of Structural Funds, up-to-date information obtained from the most recent bilateral meetings with national audit authorities, and in certain cases the results of the follow-up of action plans agreed with Member States. The Audit Directorate has taken into account in its evaluation information on error rates where available as reported by the national audit bodies or resulting from its own project audits. In general error rates reported by national audit bodies are not based on statistically representative samples, but frequently result from a risk-based selection of operations. They are therefore taken into account as one of the indicators of the effective functioning of systems and high error rates are followed up.

The assessment methodology is aligned to that used by the European Court of Auditors in its Annual Report, but takes account of the revised approach resulting from the joint working group (European Court of Auditors and Directorates General Regional Policy and Employment). The assessment has first been made at the level of the key control elements of the system according to the following four categories: works well – minor improvements required; works, some improvements required; works, substantial improvements required; does not work. An overall assessment of the system has then been made using the same four categories and taking account of any compensating controls or mitigating factors. There is a disclaimer (i.e. no audit opinion) in the very few cases where there is no reliable audit evidence. This concerns systems which have not been audited by DG Regional Policy, or by other audit bodies on whose work it is possible to rely. The completed fiches and audit opinions for each country were transmitted to the Authorising Officers by Sub-delegation.

Each operational Head of unit prepared a country fiche taking into account the examination of the results of audits of the European Court of Auditors, the annual reports from the Member States, the annual meetings, new information in the annual summaries, payment requests, the Monitoring Committee meetings and the contacts with regional and national programme managers. Based on the fiches from the Audit Directorate and audit opinions, the country fiches from the operational heads of unit, and other information from the management activities, the Authorising Officers by Sub-delegation have issued a *management opinion* for all Member States and beneficiary countries in the framework of article 4.8 of the Charter of Authorising Officers by Sub-delegation. This opinion contains their own judgement on the appropriateness of management and control systems in the Member States and any identified risk which ought to be disclosed in the Annual Activity Report or give rise to a reservation to the declaration of assurance.

The final stage of the evaluation process was a detailed review of each Member State and beneficiary country by the Annual Activity Report Board of the Directorate General in order to ensure the quality and consistency of the management opinions, to resolve any cases of discrepancy between the audit opinions and management opinions, to agree on any modifications required as a result of developments during the first quarter of 2009, and to identify the systems for which a reservation should be made.

**The final assessment of the systems led to the classification of all programmes in the following four categories: *unqualified, qualified with moderate impact, qualified with significant impact, and adverse.***

**An unqualified opinion** signifies that there are no material deficiencies in key elements of the systems.

**A qualified opinion** signifies the existence of material deficiencies in key elements of the systems. Where it has been concluded that the impact is **moderate**, it means that the risk for payments in 2008 is low. Where it has been concluded that the impact is **significant**, this indicates a medium risk for payments in 2008.

**An adverse opinion** signifies that there are material deficiencies in key elements of the systems so that no reasonable assurance has been obtained on the functioning of those systems, and the risk for payments in 2008 is high.

For cases where **no audit opinion** (disclaimer) was given because of an absence of reliable audit evidence on the functioning of the systems, it has been taken into account that the set up of the systems has been considered as satisfactory, that each payment claim is certified by the paying authority as containing expenditure which is legal and regular, and that in some cases there are other sources of information on the functioning of the systems. They have therefore been classified in the final assessment under **qualified opinion** (either **significant** impact or **moderate** impact).

## **ERDF (1994-1999)**

### ***Results of closure audits***

The table below summarises the results of the closure audit enquiry. The total amount of the corrections (or anticipated corrections) is EUR 1,061 billion and represents 3,9% of the total ERDF amount of the programmes audited. In 15 cases the correction procedure has not been

finalised, but except for 2 programmes (Nordrhein-Westfalen Objective 2 and LEADER), significant changes in the figures indicated are unlikely as the procedures are well advanced.

	Error rate < 2%	Error rate 2% < 5%	Error rate 5% < 10%	Error rate 10% >
Number of programmes	22	11	9	13
Extrapolated correction		1	8	11

The programmes in which it was concluded from the level of error that there were systemic deficiencies are concentrated in 3 Member States – Germany, Spain and UK. 16 out of the 20 programmes for which extrapolated (or flat rate) corrections were applied are in these Member States. The remaining 4 programmes where an extrapolation has been applied are 1 in France, 1 in Netherlands, 1 in Italy and 1 INTERREG.

The irregularities detected concern mainly cases of non compliance with public procurement rules, absence of supporting documents, incomplete audit trail, expenditure incurred out of the eligibility period and non compliance with other eligibility rules.

For the programmes audited in 12 out of 15 Member States, there is evidence that the residual risk after programme closure was generally low, and that therefore the process of programme closure at Member State level (and in particular the work of the Article 8 body) and at Commission level largely achieved its intended objective.

The amount of the financial corrections applied in the 3 Member States with high levels of error address the risk of error for the programmes audited, which represent a high percentage of the total ERDF (28% in Spain and UK; 41% in Germany).

There is a risk that the non-audited programmes were affected by similar systemic errors which have not been corrected. However, given the concentration of systemic deficiencies in a small number of Member States, and the risk-based selection of programmes to be audited, the residual risk for reimbursements made for the 1994-99 programmes is likely to be lower than the overall error rate of 3,9% in the programmes audited.

## **ERDF (2000-2006)**

### ***Assurance on the functioning of the systems***

The table below summarises the systems for which the different categories of the overall opinion (unqualified, qualified – moderate impact, qualified – significant impact, adverse) are given and the percentage of payments made in 2008 for each category as a proportion of total payments for **ERDF**.

**Table 20: Final assessment of ERDF programmes 2000-2006 by categories<sup>72</sup>**

No material deficiencies – reasonable assurance	Material deficiencies – qualified assurance: moderate impact	Material deficiencies – qualified assurance: significant impact	Material deficiencies – no assurance
<ul style="list-style-type: none"> <li>▪ AUSTRIA (11 OPS OF WHICH 2 URBAN)</li> <li>▪ BELGIUM (4 OPS OF WHICH 1 URBAN)</li> <li>▪ CYPRUS (1 OP)</li> <li>▪ DENMARK (2 OPS OF WHICH 1 URBAN)</li> <li>▪ ESTONIA (1 OP)</li> <li>▪ FINLAND (6 OPS OF WHICH 1 URBAN)</li> <li>▪ FRANCE (40 OPS OF WHICH 9 URBAN)</li> <li>▪ GERMANY (12 OPS)</li> <li>▪ HUNGARY (3 OPS)</li> <li>▪ ITALY (7 OPS)</li> <li>▪ LATVIA (1 OP)</li> <li>▪ LITHUANIA (1 OP)</li> <li>▪ MALTA (1 OP)</li> <li>▪ PORTUGAL (22 OPS OF WHICH 3 URBAN)</li> <li>▪ SLOVENIA (1 OP)</li> <li>▪ SWEDEN (7 OPS OF WHICH 1 URBAN)</li> <li>▪ UK-ENGLAND (4 OPS OF WHICH 2 URBAN)</li> <li>▪ UK-WALES (3 OPS OF WHICH 1 URBAN)</li> <li>▪ UK-SCOTLAND (1 OP)</li> <li>▪ INTERREG (29 OPS)</li> </ul>	<ul style="list-style-type: none"> <li>▪ BELGIUM (2 OPS OF WHICH 1 URBAN)</li> <li>▪ CZECH REPUBLIC (4 OPS)</li> <li>▪ GERMANY (14 OPS OF WHICH 10 URBAN)*</li> <li>▪ HUNGARY (1 OP)</li> <li>▪ IRELAND (6 OPS OF WHICH 1 URBAN)</li> <li>▪ ITALY (13 OPS OF WHICH 8 URBAN)*</li> <li>▪ LUXEMBURG (1 OP)</li> <li>▪ NETHERLANDS (8 OPS OF WHICH 3 URBAN)*</li> <li>▪ POLAND (4 OPS)*</li> <li>▪ SLOVAKIA (3 OPS)*</li> <li>▪ SPAIN (22 OPS OF WHICH 10 URBAN)</li> <li>▪ UK-ENGLAND (17 OPS OF WHICH 6 URBAN)*</li> <li>▪ UK-SCOTLAND (4 OPS OF WHICH 1 URBAN)</li> <li>▪ UK-NORTHERN IRELAND (3 OPS, OF WHICH PEACE AND 1 URBAN)</li> <li>▪ INTERREG (30 OPS)</li> <li>▪ URBACT (1 OP)</li> </ul>	<ul style="list-style-type: none"> <li>▪ GERMANY (3 OPS OF WHICH 2 URBAN)*</li> <li>▪ GREECE (27 OPS OF WHICH 3 URBAN)</li> <li>▪ ITALY (14 OPS OF WHICH 2 URBAN)*</li> <li>▪ PORTUGAL (1 OP)</li> <li>▪ SPAIN (13 OPS)</li> <li>▪ INTERREG (15 OPS)</li> </ul>	<ul style="list-style-type: none"> <li>▪ BELGIUM (5 OPS OF WHICH 1 URBAN)</li> <li>▪ GERMANY (1 OP)</li> <li>▪ ITALY (3 OPS)</li> <li>▪ INTERREG (7 OPS)</li> </ul>
<b>27,61%</b>	<b>32,90%</b>	<b>34,56%</b>	<b>4,93%</b>
<b>60,51%</b>			

\* among which 23 OPs for which there is a disclaimer: 12 DE URBAN, 3 NL URBAN, 5 IT OPs, 1 PL OP, 1 SK OP and 1 UK-Gibraltar OP.

### **Assessment of risk**

For the assessment of risk, the Directorate General makes a judgment based on the estimated level of financial correction which would be applicable for the systems deficiencies identified. For this purpose, reference is made to the Commission guidelines on the principles, criteria and indicative scales to be applied by Commission departments in determining financial corrections under Article 39(3) of Regulation (EC) N° 1260/99 (C(2001)476), and the equivalent guidelines for the Cohesion Fund. The indicative scales of flat rate corrections are linked to the non-functioning or partial functioning of key elements of the system.

For programmes or systems where the final opinion is *unqualified*, the risk for payments made in 2008 is estimated at less than 2% (very low risk).

For programmes or systems where the final opinion is qualified with moderate impact, the risk for payments made in 2008 is estimated at less than 5% (low risk). This level of risk is considered acceptable during programme implementation since payments cannot exceed 95% of committed funds prior to programme closure (80% for Cohesion Fund) and it can be managed by the national and Commission procedures for programme closure.

<sup>72</sup> In case of a disclaimer the OP is reclassified as a general rule to "qualified assurance with significant impact", unless other information exists which justifies another classification.

For programmes or systems where the final opinion is qualified with significant impact, the risk for payments made in 2008 is estimated at 5% (medium risk).

For programmes or systems where the final opinion is no assurance, the risk for payments made in 2008 is estimated at 10% or above (high risk).

**Table 21: Impact on the Declaration of Assurance (ERDF)**

IMPACT on the Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)	ERDF - Coverage				Estimated impact
	Number of programmes	as % of programmes	Payments to programmes in million EUR	as % of total payments in 2008	Risk from system deficiencies (where appropriate as % of total payments in 2008)
<b>Reasonable assurance</b>	157	41,4%	4 163,7	27,61%	Risk inherent to business
<b>Qualified assurance with moderate impact</b>	133	35,1%	4 961,2	32,90%	Level of risk manageable due to the fact that payments cannot exceed 95% of the committed funds before closure
<b>Qualified assurance with significant impact</b>	73	19,3%	5 211,6	34,56%	0,69%
<b>No assurance</b>	16	4,2%	743,6	4,93%	0,49%
<b>Total</b>	<b>379</b>	<b>100%</b>	<b>15 080,1</b>	<b>100%</b>	<b>1,18 %</b>

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 274 of the EC Treaty. Over the last five years, the Commission has put in place a series of steps with the goal of improving its supervisory role for structural actions. However, these measures have not yet been sufficient to have a measurable impact on the reliability of the certification of expenditure by Member States to the Commission.

All cases in the categories "qualified with significant impact" or "adverse" lead to a reservation except in the case of Germany (2 URBAN programmes), Greece (all operational programmes), Italy (OPs Valle d'Aosta, Trento, Marche and Scuola), Italy (URBAN Taranto), Portugal (OP Prime), and INTERREG (Greece-Turkey) as indicated and explained below:

**Table 22: Explanations for not issuing a reservation in some cases**

Member State	Number of OPs	Estimated risk % + (EUR million)	Main deficiencies and justification of risk estimation	Actions to be carried out	Explanation for not issuing a reservation
DE	2	5% of EUR 3 million, i.e. EUR 0,15 million	For these 2 programmes, although there is a positive management assessment, the AOD decided to keep it in this category for the following reasons : - Disclaimer of opinion. These programmes have not been audited and there is no other source of reliable audit information.	N/A	There is no audit evidence to indicate irregularities affecting payments in 2008.

			<p>- In addition, for URBAN II programme Saarbrücken, the winding up body is the same as the one for the objective 2 programme Saarland which is subject to a reservation.</p> <p>- For URBAN II Mannheim-Ludwigshafen, the winding up body for the Mannheim part is the same as the one of the objective 2 programme Baden-Württemberg, which is also subject to a reservation.</p>		
GR	27	5% of EUR 2 767 million, i.e. EUR 138 million	Inadequate execution of systems audits by the audit body (EDEL) as it does not check all elements of the system. Accordingly, there is a risk that the Commission may not be able to rely on the winding up declaration at closure.	DG Regional Policy has required the implementation of an action plan which will be followed up in 2009 to check whether remedial actions have been satisfactorily carried out.	Evidence of reliability of the work of Paying Authority is a mitigating factor, which together with the positive results of ECA's audits indicates that the deficiency presents a reduced risk for payments in 2008.
IT	4	5% of EUR 19,8 million, i.e. EUR 1 million	Disclaimer of opinion - Programmes have not been audited and there is no other source of reliable information.	N/A	There is no audit evidence to indicate irregularities affecting payments in 2008.
IT	1	0	Specific risk due to the bankruptcy of the Municipality.	The Italian authorities have been asked to provide evidence of sound financial procedures before further reimbursements can be made by the Commission.	No financial risk for 2008.
PT	1	5% of EUR 2 418 million, i.e. EUR 120 million	Risk of lack of detection and correction of systemic irregularities by the sample controls, under Article 10 of Regulation (EC) No 438/2001 done for PRIME.	The relevant national authorities (namely the Managing Authority of PRIME and the Paying Authority) should confirm that the errors detected by IGF (and all the	The Paying Authority has withheld about EUR 120 million, i.e. this amount has not been certified to the Commission due to the systemic deficiencies detected by DG Regional Policy.

				expenditure affected by the systemic errors) will be corrected and that the evidence of such correction will be sent to the Commission.	
INTERREG	1	0	Weaknesses found in an audit of the Winding-up Body responsible for this programme.	Recommendations given.	Programme was never implemented – no financial risk for 2008.

For the 4 Member States and the INTERREG programmes set out below, and in line with the criteria set out in point 3.1, in view of the material deficiencies to the systems which give rise to an unacceptable risk for payments in 2008, the Directorate General is making a reservation.

The situation for those cases is set out in the table below.

**Table 23: Reservations (ERDF)**

Country	Number of programmes affected (fully or partly)	Estimated risk (in million EUR)	State of play
<b>Belgium</b>	5	2,4	<p><b>Reason for reservation:</b> Deficiencies in the systems regarding key control elements (Art.4 and Art. 10 of Regulation 438/2001) in relation to Flanders. Limited progress has been reported following recommendations made regarding the implementation of remedial actions.</p> <p>Programmes concerned: Objective 2 Limburg, Objective 2 Antwerpen, Objective 2 Kustgebied-Westhoek, Objective 2 Oost-Vlaanderen, URBAN Antwerpen.</p> <p><b>Corrective actions:</b> A pre-suspension letter has been sent in December 2008. An assessment of the progress made will be done in the first half of 2009, and a suspension decision adopted, if justified.</p>
<b>Germany</b>	2	2,1	<p><b>Reason for reservation:</b> Deficiencies, in the system affecting key control elements, in the case of Saarland in particular the audit function (Art.10-13 of Regulation 438/2001), in the case of Baden Wuerttemberg, in particular the management verifications, the audit function and the winding-up body (Art. 4, Art.10-13 and Art.15-17 of Regulation 438/2001).</p> <p><b>Corrective actions:</b> In the case of Saarland the audit report issued in February 2008 by DG Regional Policy recommended substantial improvements in the area of system audits, sample checks and the preparation for the closure of the programme. The regional authorities initiated mitigating measures by submitting a detailed planning of the audit work to be carried out until the winding-up of the programme as well as the related resource planning. The implementation of the corrective actions has been the subject of close monitoring by the Commission services during 2008. As the follow up</p>

			<p>revealed delays in the execution of the action plan, insufficient progress made with regard to the quality of the system audit reports and insufficient follow up of audit work, a mission on spot has taken place from 23-25 March 2009. The Commission, in the light of the results is considering the application of a correction.</p> <p>For Baden Wuerttemberg the audit report issued in July 2008 by DG Regional Policy requested that an action plan be set up including:</p> <p>* checks by the MA on a sample of operations with a minimum of 10% of total eligible expenditure declared since the beginning of the programming</p> <p>* execution of the system audits covering all parts of the management and control system and a timetable for the completion of this work.</p> <p>As the follow up by the Land is unsatisfactory a pre-suspension is being prepared and will be sent in April. This will lead to a correction being applied in the absence of evidence of implementation of remedial measures.</p>
<b>Italy</b>	12	102,1	<p><b><u>Reason for reservation:</u></b> 7 out of the 12 programmes were subject of a reservation in 2007. For all these programmes, the main common issues are deficiencies in the systems regarding one or more key control elements (Article 4, Article 9 and Article 10 of Regulation 438/2001). Additional issues are:</p> <p>-deficiencies in compliance with public procurement rules; -high error rates in projects audited; -non-respect of Article 8 of Regulation 438/2001.</p> <p>The three programmes where the most serious deficiencies occur at all levels of the control system are Puglia, Sardinia and Calabria. It should be noted that the seriousness of the deficiencies should be differentiated between programmes. For the other programmes, there are weaknesses in different elements for which the follow-up of the audits is under way and which will enable a final conclusion to be reached.</p> <p><b><u>Corrective actions:</u></b> the 12 programmes covered by the reservation have been audited by the Directorate General. DG Regional Policy has taken the necessary actions in cases where satisfactory evidence of corrective actions was not obtained. For one programme (Puglia) a decision for suspension of payments was adopted in July 2008. A suspension procedure was also launched for five programmes: Abruzzo (adopted in January 2009), Sicily, Calabria, Sardinia and Basilicata. For the other programmes (Lazio, Sviluppo Locale, Assistenza Tecnica, Trasporti, Bolzano, Urban-Genoa), there are weaknesses in different elements for which the follow-up of the audits is under way and which will enable a final conclusion to be reached in 2009, so that a suspension and correction can be applied, if justified.</p>
<b>Spain</b>	11 Intermediate	43,3	<p><b><u>Reason for reservation:</u></b> deficiencies in the system regarding key control elements (Article 4 and Article 9 of</p>

	Bodies (affecting 13 programmes)		<p>Regulation 438/2001) of 11 Intermediate Bodies affecting 13 operational programmes. The deficiencies permitted the occurrence of irregularities such as: non compliance with public procurement law in co-financed projects, the non respect of eligibility rules, and the absence of a sufficient audit trail for declared expenditure. Furthermore, there has been an insufficient follow-up by the responsible bodies to remedy these deficiencies (Managing Authority and Paying Authority).</p> <p>Intermediate Bodies affected by the reservation:</p> <p>Gobierno Vasco, Gobierno de Baleares, Gobierno de Canarias, Xunta de Galicia, Junta de Extremadura, Dirección General Investigación, Junta de Andalucía, Gobierno de Asturias, Gobierno de la Comunidad de Madrid, Generalitat de Catalunya and Generalitat de la Comunidad Valenciana.</p> <p><b>Corrective actions:</b> An Action Plan was initiated in April 2006 in order to remedy the systemic deficiencies in the management and control system in Spain.</p> <p>The Commission adopted on 11.11.2008 a suspension decision for 9 intermediate bodies. For 5 other intermediate bodies (not covered by the reservation made in 2007), DG Regional Policy sent a pre-suspension letter on 20.01.2009. DG Regional Policy was able to lift the suspension for 3 intermediate bodies following evidence that the management and control systems were operating effectively.</p> <p>As regards the issue of non compliance with public procurement directives, a significant part of the amount relating to irregular additional works has already been withdrawn by Spain. On 27.01.2009 DG Regional Policy sent a pre-suspension letter requesting the Spanish authorities to withdraw the remaining irregular amounts. In the absence of assurance that all necessary corrections have been made, the DG will proceed with the suspension and correction process.</p>
<b>INTERREG</b>	21	28,7	<p><b>Reason for reservation:</b> Audit work has shown significant deficiencies for <u>sixteen programmes</u> which affect key elements of the systems regarding Articles 4, 9, 10, and 19 of Regulation 438/2001. Furthermore, the analysis of annual control reports received according to Article 13 of Regulation 438/2001 has shown that for some programmes, the quality of the control reports is not satisfactory, as they do not provide sufficient details nor conclusions from the results of the audit work (information on error rates, amounts/percentages of checked expenditure, proper functioning of systems). In addition, they indicate that there are frequently serious delays in carrying out the audit work. Therefore, in addition to the 16 programmes mentioned above, it is considered that there is a potentially high risk for expenditure for <u>6 programmes</u> which have not been audited. However, one programme (Greece-Turkey) has</p>

			not been implemented and therefore does not entail any financial risk. <b>Corrective actions:</b> 1) Actions to suspend payments and apply financial corrections have been taken where appropriate. Procedures have been launched in 2008 to suspend payments for 7 programmes, of which 3 have been adopted through a formal Commission decision in 2008 and another one in January 2009. 2) For those programmes where audits have already been carried out, a detailed follow-up to the on-going action plans will be carried out to verify that outstanding problems have been corrected. Action to suspend and correct payments will be taken, if justified. 3) Additional audit work will be carried out in 2009 to check the ability of national auditors to fulfil their obligations.
<b>TOTAL</b>	<b>53 programmes</b>	<b>EUR 178,6 million</b>	

### COHESION FUND (2000-2006)

#### *Assurance on the functioning of the systems*

The table below summarises the systems for which the different categories of the overall opinion (unqualified, qualified – moderate impact, qualified – significant impact and adverse) are given and the percentage of payments made in 2008 for each category as a proportion of total payments for the Cohesion Fund.

**Table 24: Final assessment of Cohesion Fund 2000-2006 by categories**

NO MATERIAL DEFICIENCIES – REASONABLE ASSURANCE	MATERIAL DEFICIENCIES – QUALIFIED ASSURANCE – MODERATE IMPACT	MATERIAL DEFICIENCIES – QUALIFIED ASSURANCE – SIGNIFICANT IMPACT
<ul style="list-style-type: none"> <li>▪ CYPRUS</li> <li>▪ ESTONIA</li> <li>▪ HUNGARY (TRANSPORT SECTOR AND TECHNICAL ASSISTANCE)</li> <li>▪ LATVIA</li> <li>▪ MALTA</li> <li>▪ PORTUGAL</li> <li>▪ SLOVENIA</li> </ul>	<ul style="list-style-type: none"> <li>▪ BULGARIA (EXCEPT ROAD SECTOR)</li> <li>▪ CZECH REPUBLIC</li> <li>▪ GREECE</li> <li>▪ HUNGARY (ENVIRONMENT SECTOR)</li> <li>▪ IRELAND</li> <li>▪ LITHUANIA</li> <li>▪ POLAND</li> <li>▪ ROMANIA</li> <li>▪ SLOVAKIA</li> <li>▪ SPAIN</li> </ul>	<ul style="list-style-type: none"> <li>▪ BULGARIA (ROAD SECTOR)</li> </ul>
<b>15,45 %</b>	<b>84,55 %</b>	<b>0 %</b>

#### *Assessment of risk (see explanations before Table 21 above)*

**Table 25: Impact on the Declaration of Assurance (Cohesion Fund)**

IMPACT on the Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)	Cohesion Fund - coverage				Estimated impact (Risk from system deficiencies (where appropriate as % of total payments in 2008))
	Number of systems	as % of systems	Payments to projects in million EUR	as % of total payments in 2008	

Reasonable assurance	8	42,1%	467	15,45%	Risk inherent to business
Qualified assurance with moderate impact	10	52,6%	2 554	84,55%	Level of risk manageable due to the fact that payments cannot exceed 80 % of the committed funds before closure
Qualified assurance with significant impact	1	5,3%	0	0%	0
No assurance	-	-	-	-	-
<b>Total</b>	<b>19</b>	<b>100%</b>	<b>3 021</b>	<b>100%</b>	<b>0</b>

In the case of Greece and Spain, the Directorate General has concluded that it has a higher level of assurance for Cohesion Fund payments than for ERDF payments, despite similar systems deficiencies, because it is able to exercise a closer management of each project and check in detail the risk areas at closure, and because the maximum interim payments prior to closure are capped at 80% of the Community contribution.

**Table 26: Reservations (Cohesion Fund)**

Country	Estimated risk in Million EUR	State of play
Bulgaria	0	<p><b><u>Reason for reservation:</u></b></p> <p>The reservation for Bulgaria is made on the basis of serious events which occurred in 2008. The Executive Director of the National Road Infrastructure Fund (NRIF-road sector) resigned due to a conflict of interest involving the award of contracts to related parties and two officials of the NRIF were convicted for taking bribes.</p> <p>As the national authorities initially failed to adequately investigate and follow up these issues, in July 2008 the Commission suspended payments to two Cohesion Fund projects being implemented by the NRIF. As the Directorate General had interrupted payments immediately following the event, prior to the suspension decision, there is limited financial risk to the EU budget.</p> <p>However, these events have a reputational impact for the Commission, in view of the sensitivity of the issue of the capacity of Bulgaria to manage adequately EU funds, and given that the NRIF is a significant beneficiary for the programming period 2007-2013.</p> <p><b><u>Corrective actions:</u></b></p> <p>In order to address the issues set out in the suspension decision, further audit work was carried out at national level and, on 17 November 2008, Bulgaria submitted a report on the action plan for restructuring the NRIF (now the NRIA – National Roads Infrastructure Agency). Bulgaria also proposed itself to apply a financial correction of approximately EUR 600 000.</p> <p>A DG Regional Policy verification mission was carried out from 28 to 30 January 2009 to review the corrective action taken. Additional information is still required to be submitted by Bulgaria in order to determine whether</p>

		the actions taken to date are sufficient to address the identified weaknesses. The decision on whether to lift the suspension will be taken after analysis of this information.
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## **ISPA (2000-2006)**

### ***Assurance on the functioning of the systems***

Since 2007, only Croatia benefits from ISPA assistance. No audit activity has been carried out in Croatia during 2008 because priority has been given to the accreditation process and the subsequent conferral of management on a decentralised basis to the IPA system.

Nevertheless, based on:

- the information included in the annual control report of the State Audit Office which has not identified fundamental weaknesses in the ISPA management and control system;
- the fact that Central Financing and Contracting Agency within the Ministry of Finance, which has been subject to a positive accreditation and conferral of management under IPA, is also the main responsible body for the implementation of ISPA assistance;
- the fact that payments made in 2008 represented a relatively low amount;
- the existence of the ex-ante control conducted by the EC Delegation, especially in relation to compliance with the applicable public procurement rules;

it can be concluded that the overall risk is not significant (qualified assurance with moderate impact).

## **IPA (2007-2013)**

### ***Assurance on the functioning of the systems***

#### **IPA - Regional development component:**

Directorate General Regional Policy is responsible for the Regional Development Component of IPA. The IPA assistance is granted to the three candidate countries, Croatia, FyRoM and Turkey.

A prerequisite for payments to be made under IPA is that the national accreditation is completed, that the Commission has carried out its own audit and that a decision on conferral of management has been adopted.

As regards FyRoM, the request for conferral of management has been submitted only at the beginning of 2009. Therefore, no opinion can be expressed as at 31/12/2008 either on the set up or on the effective functioning of the management and control systems in place.

As regards Turkey, the conferral of management audit was carried out in December 2008. Material deficiencies were identified in relation to the set up of the IPA system and a follow up mission to verify the implementation of remedial actions has been foreseen for the end of first quarter 2009. Consequently, a qualified opinion with significant impact can be expressed as at 31/12/2008.

Consequently, having in mind that the Commission has not yet adopted the Decisions to grant management powers on a decentralised basis to FyRoM and Turkey, no risk exists for the Directorate General.

As regards Croatia, the Commission Decisions to grant management powers on a decentralised basis for the three Operational Programmes were adopted in October and in November 2008. Therefore, Directorate General for Regional Policy has obtained reasonable assurance on the set up of the IPA system in Croatia. It must also be underlined that the granting of management powers was done on a limited decentralised basis with the EC Delegation still responsible for ex-ante control on projects selection, tendering and contracting.

#### IPA - Cross-Border component:

Directorate General Regional Policy is responsible for part of the Cross-Border component of IPA (cross-border programmes involving Member States). IPA assistance in this component is granted to 7 Member States and 7 candidate or potential candidate countries.

None of the management and control systems for the 10 programmes concerned have been submitted to the Commission in 2008. No payments at all (even advance payments) are possible to these programmes prior to the acceptance by the Commission of the relevant management and control system. Therefore, there is no risk to the EU budget for the year 2008 under this component.

#### **Programming period 2007-2013 (ERDF and Cohesion Fund):**

For all programmes for which interim payments have been made in 2008, the Directorate General has obtained assurance on the compliance of the set up of the systems for management and control through the compliance assessment procedure and through the examination of the national audit strategies as described in section 2.3.3.1. Since there were only limited interim payments made in 2008, it is concluded that there is no material risk to the EU budget for the year 2008.

As regards more specifically **Bulgaria**, for the 2007-2013 programming period, only advance payments have been made in relation to the ERDF and Cohesion Fund Operational programmes. Interim payments to these programmes are subject to a positive opinion by the Commission on the compliance assessment reports. This approval has not yet been given for any of the five ERDF/Cohesion Fund operational programmes. Regarding the information provided above in table 26, the situation described in the NRIF (National Road Infrastructure Fund) is a cause for particular concern for the 2007-2013 programming period where this body is a significant beneficiary of the ERDF/Cohesion Fund funding. The absence of substantial progress in addressing the identified weaknesses could impact the effective implementation of the Structural Funds Operational Programmes. Should this occur it could have a significant negative effect on the reputation of the Commission in 2009. The Directorate General Regional Policy will continue monitoring the situation and following up on its findings, providing advice and assistance to the Bulgarian authorities as appropriate.

**Table 27: List of reservations (ERDF)**

<u>DG</u>	<b>Regional Policy</b>
<u>Title of the reservation</u>	<p>Reservation concerning the <b>ERDF management and control systems</b> for the period 2000-2006 in:</p> <ol style="list-style-type: none"> <li><b>1. BELGIUM</b> (for 5 programmes Flanders)</li> <li><b>2. GERMANY</b> (for 2 programmes: Objective 2 Saarland and Objective 2 Baden-Württemberg)</li> <li><b>3. ITALY</b> (for 12 programmes: Puglia, Sardegna, Calabria, Sicilia, Basilicata, Abruzzo, Lazio, Bolzano, Sviluppo Locale, Trasporti, Assistenza Technica, Urban Genova)</li> <li><b>4. SPAIN</b> (for 11 Intermediate Bodies with an impact on 13 programmes)</li> <li><b>5. INTERREG</b> (for 21 programmes).</li> </ol>
<u>Domain</u>	Structural Funds carried out under 'Shared Management Responsibility'
<u>ABB activity</u>	<p>13.03 ERDF and other regional interventions.</p> <p>Payments in 2008 linked to period 2000-2006: EUR 15,080 billion</p>
<u>Reason for the reservation</u>	<p>Significant deficiencies exist in the management and control systems for these programmes, in particular as regards one or several of the following key elements:</p> <ul style="list-style-type: none"> <li>– Article 4 of Regulation 438/2001 (implementation of first level controls; management verifications);</li> <li>– Article 8 of Regulation 438/2001 (arrangements for the recovery procedure);</li> <li>– Article 9 of Regulation 438/2001 (certification process);</li> <li>– Article 10 of Regulation 438/2001 (adequate sample checks and systems audits)</li> </ul> <p>In addition, the following issues affect certain programmes: insufficient follow up by bodies in charge to remedy deficiencies, issues of compliance with public procurement rules, weaknesses in the quantity or quality of work of audit authorities/winding up bodies.</p>
<u>Materiality criterion/criteria</u>	Significant deficiencies at the level of the key elements of the management and control systems.
<u>Quantification</u>	In accordance with the 'Guidelines on the Principles, Criteria and Indicative Scales to be Applied by Commission Departments in Determining Financial Corrections' (C(2001)476 of 2/3/2001), the risk has been quantified by applying a flat rate correction of 5 or 10% of payments made in 2008 to the programmes (or parts of programmes) concerned.

	<b>Total quantification: EUR 178,6 million (or 1,18 % of the ABB activity)</b>
<b><u>Impact on the assurance</u></b>	DG Regional Policy has not been able to obtain reasonable assurance that key elements of the management and control systems of the concerned programmes functioned effectively, so as to provide reasonable assurance that statements of expenditure are correct and that the underlying transactions are legal and regular.
<b><u>Responsibility for the weakness and its remedy</u></b>	<p>The expenditure concerned is under shared management, in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures.</p> <p>The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).</p>
<b><u>Corrective action</u></b>	<p>In each case, the Directorate General has undertaken or planned specific actions which include follow up audits and/or monitoring of remedial action plans and/or the launch of suspension and correction procedures. The objective in all cases is either to obtain assurance that the required corrective measures have been completed or to have taken action leading to the application of financial corrections.</p> <p>Specific actions for each programme concerned are described in section 3.2 above.</p>

**Table 28: List of reservations (Cohesion Fund)**

<b><u>DG</u></b>	<b>Regional Policy</b>
<b><u>Title of the reservation</u></b>	Reservation concerning the management and control system for the road sector in <b>BULGARIA</b> in 2008.
<b><u>Domain</u></b>	Shared management of the Cohesion Fund
<b><u>ABB activity</u></b>	13.04 : Cohesion Fund 13.05.01.01 / 13.05.01.02 : ex-ISPA projects
<b><u>Reason for the reservation</u></b>	<p>The reservation for Bulgaria is made on the basis of serious events which occurred in 2008. The Executive Director of the National Road Infrastructure Fund (NRIF-road sector) resigned due to a conflict of interest involving the award of contracts to related parties and two officials of the NRIF were convicted for taking bribes.</p> <p>As the national authorities initially failed to adequately investigate and follow up these issues, in July 2008 the Commission suspended payments to two Cohesion Fund projects being implemented by the NRIF. As the Directorate General had interrupted payments immediately following the event, prior to the suspension decision, there is limited financial risk to the EU budget.</p> <p>However, these events have a reputational impact for the Commission, in view of the sensitivity of the issue of the capacity of Bulgaria to manage adequately EU funds.</p>
<b><u>Materiality criterion/criteria</u></b>	Events affecting the reputation of the Commission.
<b><u>Quantification</u></b>	N/A
<b><u>Impact on the assurance</u></b>	The Directorate General has not been able to obtain reasonable assurance that key elements of the management and control systems of the concerned programmes functioned effectively, so as to provide reasonable assurance that statements of expenditure are correct and that the underlying transactions are legal and regular.
<b><u>Responsibility for the weakness and its remedy</u></b>	<p>The expenditure concerned is under shared management, in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures.</p> <p>The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).</p>
<b><u>Corrective action</u></b>	The reorganisation of the National Road Infrastructure Fund at the end of 2008 and the application of corrections by the national authorities will be closely monitored by the Directorate General.

### **3.3 Overall conclusions on the combined impact of the reservations on the declaration as a whole**

For 2008, the results of the combined audit and management opinions concerning the assessment of the operation of the systems in the Member States and beneficiary countries have led to an evaluation of the risk in relation to payments made in the course of the year. Account has been taken of mitigating factors and compensatory controls. For the purposes of the declaration of the Authorising Officer by Delegation, DG Regional Policy must take full account of the fact that the control arrangements for structural actions as fixed by the applicable regulations operate on a multi-annual basis as explained in point 2.1.1 and in annex 5. Accordingly, DG Regional Policy has to be satisfied that the exercise of the supervisory functions of the Directorate General under the shared management system is adequate to ensure the correction of possible irregularities in expenditure from those systems for which an unqualified opinion cannot at this stage be given. Having regard to the actions which are underway or which are planned, DG Regional Policy is satisfied that this is the case.

In application of the approach set out in point 3.1, there is one reservation concerning expenditure in 2008 as regards ERDF and one reservation concerning the Cohesion Fund. All the reservations concern deficiencies in systems of management and control at the national level and not within the Directorate General. The amount of expenditure considered to be at risk is quantified where possible. The total amount quantified as "at risk" from the reservations is 1,18 % of ERDF payments in 2008 relating to the 2000-2006 period. For the Cohesion Fund, the reservation is based on reputational events and is not quantified.

However, DG Regional Policy is satisfied that only a limited part of payments made in 2008 for the programmes and projects covered by the reservations is likely to be found to be irregular when the procedures underway are concluded. The Authorising Officer by Delegation is satisfied also that the Directorate General has taken, and is continuing to take, appropriate actions to address the risk resulting from the systems covered by the reservations, and that they are adequate to ensure the correction of irregularities in expenditure which has been reimbursed so as to reduce the risk to an acceptable level as at the closure of programmes and projects.

#### **PART 4: DECLARATION OF ASSURANCE**

I, the undersigned,

Director-General of DG Regional Policy

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view<sup>73</sup>.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

I confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However the following reservations should be noted:

For ERDF, there are significant deficiencies prejudicing the effective functioning of the management and control systems of certain programmes 2000-2006 in Belgium, Germany, Italy, Spain and together with 21 INTERREG programmes.

For the Cohesion Fund, serious events occurred which put into question the effective functioning of the management and control systems for projects in the road sector in Bulgaria.

The systems concerned have not been subject to sufficient corrective measures by the national authorities and accordingly the Directorate General does not have reasonable assurance on the legality and regularity of the underlying transactions in relation to reimbursements of expenditure declared.

Brussels, 31 March 2009

*Signed*

Dirk Ahner  
Director-General

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<sup>73</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.