2016

Annual Activity Report

DG Regional and Urban Policy

Final Version, 25 April 2017
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THE DG IN BRIEF

DG Regional and Urban Policy reports to Commissioner Creţu, responsible for Regional Policy. With approximately 700 staff members, the DG is composed of seven directorates, a resources directorate, an audit directorate, a policy directorate and four implementing directorates. The Director-General Mr Marc Lemaître took over from Mr Walter Deffaa on 1 September 2016. The DG’s structure and its matrix organisation facilitate internal coordination. The Resources Director is the Internal Control Coordinator for the DG.

The activities of the Directorate General are framed by the Treaties on the European Union and on the Functioning of the European Union.

Article 174 of the Treaty on the Functioning of the European Union (TFEU) provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, and that particular attention is to be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps.

DG Regional and Urban Policy activities contribute in various ways to most of the Commission priorities. The funds directly support the delivery of key priorities, the implementation of country-specific recommendations issued in the context of the European Semester and ensure the necessary investment enabling conditions through the follow-up of ex-ante conditionalities for the 2014-2020 programmes.

DG REGIO’s contribution is particularly significant for the delivery of five of the Juncker Commission’s priorities:

(1) A New Boost for Jobs, Growth and Investment;
(2) A Connected Digital Single Market;
(3) A Resilient Energy Union with a Forward-Looking Climate Change Policy;
(4) A Deeper and Fairer Internal Market with a Strengthened Industrial Base;
(8) Towards a New Policy on Migration.

The EU is committed to creating more and better jobs and a socially inclusive society. These goals are also at the core of the Europe 2020 strategy, which sets the overarching strategic framework for the 2014-2020 period.

DG Regional and Urban Policy provides support to deliver these objectives, notably through the interventions financed under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) which, together with the other European Structural and Investment (ESI) Funds¹, are the European Union’s main instruments for investment. Through the ERDF and CF, a critical mass of investment is delivered in key EU priority areas, to deliver structural change and respond to the needs of the real economy by supporting job creation, business competitiveness, economic growth, sustainable development, and by improving citizens’ quality of life, thus contributing to the goals of the Europe 2020 Strategy for smart, sustainable and inclusive growth and the objectives of Cohesion Policy enshrined in the Treaty.

In addition, REGIO is also involved in the management of the following instruments:

1 European social fund (ESF), European agricultural fund for rural development (EAFRD) and European maritime and fisheries fund (EMFF).
• The **Instrument for Pre-accession Assistance (IPA)**, which is the means by which the EU supports reforms in the 'enlargement countries' with financial and technical help. REGIO's involvement in the accession process is twofold: REGIO monitors developments under chapter 22 of the EU acquis ("regional policy and coordination of structural instruments") and participates in the consequent accession negotiations on the said chapter, while also managing the Interreg-IPA programmes with beneficiary countries.

• The **European Union Solidarity Fund (EUSF)**, which was set up in 2002 to grant financial assistance to Member States and to countries negotiating their accession to the EU, mainly in the event of major national or regional natural disasters.

These instruments are implemented under different management modes:

**Shared management (ERDF and CF; EUSF)**

Under the shared management mode, the co-legislators fixe the legal framework and the overall funding and determine the allocations by MS and category of region. The Commission adopts the programmes. As regards implementation, the Commission cooperates with Member States' administrations (at national, regional and local level), who are in charge of the operational implementation. As regards the EUSF, the Commission is responsible for assessing the applications received and - if the applications are accepted - for proposing an amount of aid to the European Parliament and the Council who have to approve it. Once the budget appropriations become available, the aid is paid after the adoption of a decision awarding the financial contribution from the Fund. For non-Member States, the signing of an agreement between the Commission and the beneficiary State is mandatory. Once the financial contribution has been paid out, the beneficiary State is responsible for the implementation including the selection of operations and their audit and control.

**Indirect management (IPA)**

DG REGIO is involved in IPA through the management of an envelope of external aid under the instrument's Components II (regional cooperation) and III (regional development) in 2007-2013 and under policy area "regional cooperation" in 2014-2020. In addition, an envelope of EUR 370 million over the 2014-2020 period implemented under indirect management is devoted to Urban Innovative Actions, the objective of which is to identify and test new solutions through pilot projects in cities.
EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Regional and Urban Policy to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties.\(^2\)

a) Key results and progress towards the achievement of general and specific objectives of the DG

The performance information reported by the Member States for the 2007-2013 (final implementation reports submitted in March 2017), as well as for the 2014-2020 programmes (annual implementation reports submitted in May 2016), reflecting the situation at end 2015, suggests that ERDF and Cohesion Fund programmes are delivering across many policy areas and Member States. As the largest source of EU funds to regions, localities and enterprises - representing a substantial share of the total EU budget in 2016 – and a major source of public investment in many Member States during the crisis period, Cohesion Policy has continued to play a pivotal role in helping Member States to conciliate their fiscal consolidation constraints with the support to long-term investments strategies which are necessary to sustain the recovery of the European economy and the increasing rhythm of jobs creation noted since 2013.

In doing so, Cohesion Policy interventions are effectively supporting the delivery of many of the Juncker Commission priorities, in line with the Investment Plan for Europe, and exploiting complementarities with the European Fund for Strategic Investments (EFSI). Overall, thanks to the interventions co-financed by ERDF and CF, Cohesion Policy contributed to the EU2020 objectives and to the 10 priorities of the Juncker Commission:

1. Through the implementation of the 2007-2013 programmes, which have invested heavily in areas directly supporting the Europe 2020 priorities such as R&D and innovation, ICT networks, SME support, renewable energy, energy efficiency, environment protection and key infrastructure. This produces a short term impact on GDP, as a result of the induced economic activity, as well as a long term impact (expected after closure of the programmes in 2018 and onwards) thanks to the structural improvements in the economies of the EU, as demonstrated through the results of the ex post evaluation.

2. Through the implementation of 2014-2020 programmes, which concentrate resources on a limited number of policy areas directly contributing to the pursuit of the Europe 2020 strategy and in line with the priorities of the Juncker Commission, thus maximising the impact of EU investments. While the first stages of implementation of the 2014-2020 programmes are not yet adequately captured by the performance indicators reported by Member States, reflecting the situation at end 2015, the implementation is progressing on the ground as the overall selection rate reached 26.1% at end 2016.

In addition, Cohesion Policy provided throughout 2016 a significant impetus for Member States to implement structural changes and policy reforms, including those linked to Country-Specific Recommendations issued in the context of the European Semester. Ex-ante conditionalities also provided incentives to enact policy reforms, triggering strategic, regulatory and institutional changes and improved the overall investment

\(^2\) Article 17(1) of the Treaty on European Union.
environment. Their inclusion into the ESIF regulations and the increased result orientation ensure that the 2014-2020 programmes are more effective in delivering the Commission priorities set for Europe. In particular, this has led in 2016 to the drawing up of 121 official smart specialisation strategies in Member States and regions, mobilising more than EUR 120 billion of ESI Funds and national/regional resources, and aiming to leverage considerably more private investment.

As regards particularly Jobs, growth and investment, more than 1,200,000 jobs were created through Cohesion Policy interventions up to end 2015, thus sustaining the employment rate in many Member States. More than 410,000 projects to support investment in SMEs were undertaken across the EU in the period (more than 36,000 of which supported by 2014-2020 programmes), thus improving business environment and sustaining investment.

Cohesion Policy has also supported close to 120,000 research and innovation projects, thus ensuring a significant level of investment in this area and positively influencing the gross EU domestic expenditure on R&D.

A wide range of interventions in the area of education (more than 30,000 investments in infrastructure) and of social inclusion have also been carried out with the support of ERDF and CF, thus contributing towards the achievement of the related headline targets.

Cohesion Policy contribution to the Digital Single Market is also noteworthy. Up to end 2016, around 1,200 projects financed through the 2014-2020 programmes were selected on the ground to support the achievement of a connected Digital Single Market, corresponding to EUR 2.6 billion of total investment (ERDF plus national co-financing). Achievement data reported by 2007-2013 programmes notably point to an estimate of 15 million additional population covered by broadband access, which helps create the right conditions for digital networks and services to flourish, giving consumers and businesses better access to digital goods and services across Europe, in particular in rural areas.

Significant achievements in the area of energy efficiency and renewables also resulted directly from supported interventions: close to 5,000 MW of reported additional capacity of renewable energy production; reported reduction of greenhouse emissions of more than 420,000kt of CO₂ equivalents.

Cohesion Policy is also enhancing the effectiveness of the Single Market by delivering support in key investment areas through the programmes of both programming periods. These investments are notably helping SMEs and start-ups and supporting research and innovation, thus contributing directly to the strengthening of the European industrial base. A significant number of large-scale infrastructure projects have also been delivered through the 2007-2013 programmes, which are essential for the proper functioning of the internal market.

Cohesion Policy has also actively contributed to the Commission efforts towards effective integration of migrants, through investments on social, health, education, housing and childcare infrastructure, thanks to some 1,000 projects already selected and being implemented. In order to give further prominence and increase the focus of investments in support to migrants and refugees, a new investment priority to this effect was proposed for inclusion in the ERDF regulation.

Evidence of the benefits resulting from the implementation of Cohesion Policy was provided by the ERDF-CF ex-post evaluation, which showed that every region and country

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4 Reported achievements of 2007-2013 programmes

in the European Union benefits from Cohesion Policy, even the net payers. Overall, the ERDF-CF ex-post evaluation showed that **1 euro of investment in the period 2007-13 is estimated to generate 2.74 euros of additional GDP by 2023**. Cohesion Policy in the period 2007-13 will be responsible for nearly EUR 1 trillion of additional GDP by 2023. This GDP effect is of a similar scale to the entire EU budgets for 2007-13 (€975.8 billion) and 2014-2020 (€908.4 billion).

Overall, the positive long-term trends registered in previous years as regards most of ERDF/CF specific objectives are confirmed, with further acceleration of reported achievements in many of the investment areas in the final year of implementation of 2007-2013 programmes. No conclusions can however be drawn yet as regards performance against targets for most of the 2007-2013 indicators, as this will require a more comprehensive review of performance data reported by 2007-2013 programmes, which will be finalised by August 2017. According to the first estimates resulting from the available information, however, the final level of achievements is projected to be very close to the set targets or to exceed them (Section 1). Information regarding performance against targets is however already available for the key performance indicators, as illustrated below.

b) Key Performance Indicators (KPIs)

Progress continues to be registered also in relation to the 4 key policy performance indicators, for which reported global achievements have progressed on average by 33% compared to the previous year. In particular, reported job creation has increased by 35% compared to 2014, confirming the steady progress registered in previous years. This is illustrated in the bar charts below (2nd column).

As regards reported achievements against targets (only taking into account achievements for areas where a target was set by Member States), the figures presented in the 3rd and 4th columns below show that achievements have met or exceeded the set targets in all investment areas.

<table>
<thead>
<tr>
<th>Key Performance Indicator</th>
<th>Progression of global achievements (latest known results)</th>
<th>Total targets (end 2015)</th>
<th>Achievements/targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI 1: Jobs created^8</td>
<td>765,918</td>
<td>1,265,678</td>
<td>1,122,833 (97%)</td>
</tr>
<tr>
<td>Source: 2007-2013 Aggregate core indicators 00, Final Implementation Reports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Also presented:</td>
<td>940,039</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value captured by 2014-2020 common indicator 8 (Employment increase in supported enterprises), Annual Implementation Reports =&gt; 2015 value: 2,537 (target: 423,066)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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^6 Under "global achievements", we present the sum of all achievements linked to the relevant indicator reported by each operational programme, regardless of whether or not targets had been set. It therefore expresses the most recent available estimate of the total achievements.

^7 No conclusions can be drawn as regards KPI4, as reported target values are considered unreliable.

^8 The value associated with this indicator results from the aggregation of all indicators related to jobs creation (employment increase resulting from SME support, jobs created in research, tourism, etc.)
### Key Performance Indicator: Specific objective 1.1 - Strengthening research, technological development and innovation

**KPI 2: Number of enterprises cooperating with supported research institutions**

Source: 2007-2013 Final Implementation Reports Core indicator 05, Annual Implementation Reports

*Also presented:*
Value captured by 2014-2020 common indicator 5 (Number of cooperation projects enterprises-research institutions) => 2015 value: 16 (target: 72,958)

<table>
<thead>
<tr>
<th>Year</th>
<th>Latest known results</th>
<th>Target values</th>
<th>(end 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>28,395</td>
<td>38,435</td>
<td>(135%)</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Key Performance Indicator: Specific objective 1.2 - Enhancing the competitiveness of small and medium-sized enterprises

**KPI 3: Number of enterprises receiving support**

Source: 2007-2013 Core indicator 07, Final Implementation Reports

*Also presented:*
Value captured by 2014-2020 common indicator 1 (Number of enterprises receiving support), Annual Implementation Reports => 2015 value: 36,379 (target: 1,098,128)

<table>
<thead>
<tr>
<th>Year</th>
<th>Latest known results</th>
<th>Target values</th>
<th>(end 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>208,706</td>
<td>318,239</td>
<td>(152%)</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Key Performance Indicator: Specific objective 3.1 – Supporting the shift towards a low-carbon economy in all sectors

**KPI 4: Additional capacity of renewable energy production (MW)**

Source: 2007-2013 Core indicator 24, Final Implementation Reports

*Also presented:*
Value captured by 2014-2020 common indicator 30 (Additional capacity of renewable energy production (MW)), Annual Implementation Reports => 2015 value: 0 (target: 7,670)

<table>
<thead>
<tr>
<th>Year</th>
<th>Latest known results</th>
<th>Target values</th>
<th>(end 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>0</td>
<td>N.A.</td>
<td></td>
</tr>
</tbody>
</table>

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9 Target values for this indicator are unreliable, due to errors in measurement units in some Member States.

10 The rate for 2016 is not directly comparable to the previous ones. In fact, the residual risk rates for 2016 were provided by the audit authorities as part of their closure packages, whilst for previous years, the Commission had estimated its own residual risk rates.
Beyond supervising and steering the implementation of programmes in the Member States, DG Regional and Urban Policy also carried out significant policy work in many areas throughout 2016, notably the Urban Agenda of the EU, obstacles to growth affecting border regions (in the framework of the on-going Cross-Border Review) and bottlenecks to growth and development in lagging regions (in the framework of the initiative launched in 2015).

c) Key conclusions on Management and Internal control

In accordance with the governance statement of the European Commission and in line with its own mission statement, DG Regional and Urban Policy conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG Regional and Urban Policy has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented.

In addition, DG Regional and Urban Policy has systematically examined the available control results and indicators, including those aimed to supervise Member States and entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and by the European Court of Auditors. These elements have been assessed to determine their impact on the management’s assurance as regards the achievement of control objectives (Section 2.1).

In conclusion, management has reasonable assurance that, overall, for direct management, the Solidarity Fund and indirect management, suitable controls are in place and work as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

As regards shared management, management has also assurance that suitable controls are in place and work as intended as regards ERDF/CF and IPA-CBC. The internal control system allowed detecting deficiencies in the Management and Control Systems of:

- 2 programmes of the 2014-2020 programming period

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11 Based on 2007-2013 programming period.
- 66 programmes of the 2007-2013 programming period (period for which the Directorate general is currently analysing the closure declarations submitted by 31 March 2017 to verify whether these deficiencies have been correctly addressed at closure by the Member States in first instance. If not, appropriate additional financial corrections will be applied by the Commission before making payments of the respective balances, thus closing the programmes).

- 2 sectors of the Cohesion Fund of the 2000-2006 programming period. There is no financial risk in 2016 as no final payments was made and will be executed only when an appropriate financial correction, including through a Commission decision if necessary, will be applied to the affected projects.

The estimated overall amount at risk at payment for the 2016 expenditure paid for all management modes is in the range of **1.9% to 3.7%**. This is less than in previous year and could be explained by the new control architecture set up for the 2014-2020 period which further protects the EU budget. The risk at closure is estimated in the range of **0.5% to 2%**, mainly as a result of the closure process for 2007-2013 that aimed at ensuring that any remaining material irregularities have been appropriately corrected before sending closure declarations to the Commission, and as a result of the new provisions for an annual residual error rate for each 2014-2020 programme to be below materiality.

**On this basis, the Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by the above-mentioned three reservations:**

**A reservation for the 2014-2020 programming period concerning 2 ERDF/CF programmes (on a reputational basis as no expenditure was affected in 2016),**

**A reservation for the 2007-2013 programming period concerning 66 ERDF/CF programmes as a measure of prudence and despite information provided by the Member States that the residual risk rate for all programmes is below materiality, since a thorough assessment of the closure documents received on 31 March 2017 will only be carried out within the regulatory five-month period provided to the Commission, i.e. after the issuance of the 2016 AAR; and**

**A reservation for the programming period 2000-2006 concerning Cohesion Fund Transport projects in two Member States (pending the implementation of the required financial corrections).**

d) **Information to the Commissioner**

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Crețu, responsible for Regional and Urban Policy.
1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

1.1 Achievement of general and specific objectives

Cohesion Policy programmes are delivered through shared management. Operational Programmes are agreed with the European Commission once every seven years; they are implemented by Member State authorities who report annually on progress. Policy achievements are the result of a combination of factors - the policy, the quality of implementation by the implementing bodies, the regulatory context, the economic context, etc. It should be noted that the implementation of 2007-2013 programmes and the launching of the 2014-2020 ones have taken place during an unprecedented economic crisis, which still affect the investment capacities of many Member States.

Achievement of general objectives:

There are a number of positive developments in the EU, signalling the resilience and recovery of the European economy, despite the broader uncertainty worldwide. All Member States are growing again and investment has started to pick up. The rhythm of jobs creation is notable since 2013 and the employment rate has also increased. If current trends continue, the Europe 2020 employment rate target of 75% could in fact be reached.

The convergence process which was halted by the crisis seems to regain momentum. In particular, regional disparities in terms of employment rate which had dramatically increased after the outburst of the economic and financial crisis are decreasing again, even though they remain at a much higher level than before the crisis. Disparities in terms of GDP per head remained stable but as EU economies progressively recover from the crisis, the long run convergence process is expected to resume.

The recovery remains however fragile. Growth, employment and investment are still held back by legacies inherited from the crisis, as well as by structural deficiencies dating back to the pre-crisis years. Despite recent improvements, unemployment remains far too high in many parts of Europe and the prolonged period of high unemployment is taking its social toll on many Member States. Moreover, GDP and productivity growth rates remain below full potential and investment levels remain below pre-crisis levels. In such a context, Cohesion Policy continues to provide a critical support for achieving the priorities of the Juncker Commission priorities and Europe 2020 objectives.

Cohesion Policy continues to provide the basis for a sustainable increase in investment in Member States

Against this scenario, Cohesion Policy has proven a useful tool for encouraging a sustainable increase in investment in Member States, actively supporting the Investment Plan for Europe and exploiting complementarities with the European Fund for Strategic Investments (EFSI).

The new programming period of the ESIF, which contribute 454 billion euro to investment in the Member States over the period 2014-2020, has increased focus on the effective and efficient use of EU resources, notably through the introduction of multi-fund programmes and by requiring programmes to clearly identify the intended results and translate them into quantifiable targets. Furthermore, Member States are required to work towards the creation of the legislative and structural conditions enabling the sectors receiving the funds to effectively achieve the targets. For the future, the Commission has proposed to increase the possibilities for blending between the EFSI and the ESIF, as well as with the Connecting Europe Facility.
While the first stages of implementation of the 2014-2020 programmes are not yet adequately captured by the performance indicators reported by Member States, which reflect the situation at end 2015, available information reported by 2007-2013 programmes, as well as evidence resulting from the 2007-2013 ex-post evaluation\(^{12}\) shows that Cohesion Policy interventions are actively and significantly contributing to the achievement of the Commission objectives in many key areas.

The ERDF-CF ex-post evaluation showed that every region and country in the European Union benefits from Cohesion Policy, even the net payers. For instance, it is estimated that, in the EU12, the spending led to increased GDP in 2015 by 4% above what it otherwise would have been, and in Hungary, by over 5%. This impact is sustained (and in some cases even increases) in the longer term. In Poland, for instance, by 2023, GDP is estimated to be almost 6% above what it would be without Cohesion Policy investment in the 2007-13 period. In regions of more developed Member States, the impact is smaller but remains positive even taking into account the fact that these Member States are net contributors to the policy.

Overall, the ERDF-CF ex-post evaluation showed that \textbf{1 euro of investment in the period 2007-13 is estimated to generate 2.74 euros of additional GDP by 2023.} Cohesion Policy in the period 2007-13 will be responsible for nearly EUR 1 trillion of additional GDP by 2023. This GDP effect is of a similar scale to the entire EU budgets for 2007-13 (€975.8 billion) and 2014-2020 (€908.4 billion).

In previous programming periods (notably 1994-99 and 2000-2006), Cohesion Policy contributed to a steady process of convergence (a reduction in regional disparities in GDP/head) in the EU, in a context where other developed countries generally experienced no convergence (or even divergence). The financial crisis of 2007-2008 came at the beginning of the 2007-2013 programming period, and created a poor climate for investment and convergence. The result is that regional convergence over the period was very small but the econometric work carried out as part of the ERDF-CF ex-post evaluation indicates that there would have been divergence without Cohesion Policy.

\textbf{A significant level of achievements reported by Member States resulting from the implementation of 2007-2013 programmes}

As regards the achievements directly resulting from programme implementation, by 31 March 2017 the national and regional programmes presented their final reports on the period 2007-2013. For the purpose of this AAR exercise DG REGIO has done a first preliminary aggregation of the most significant core indicators and presents those preliminary values for the main core indicators in this report. More detailed quality checks of the final reports are still to be conducted by DG REGIO until end August 2017 including comparing the values reported in 2014 with the final values and with the narratives provided. Subject to prompt replies from the Managing authorities to any quality issues raised by DG REGIO, the final values for the core indicators are likely to become available towards end 2017.

As regards \textbf{Jobs, growth and investment} priority in particular, \textbf{more than 1,200,000 jobs} were created through Cohesion Policy interventions up to end 2015, thus sustaining the employment rate in many Member States. \textbf{More than 410,000 projects to support investment in SMEs} were undertaken across the EU in the period (more than 36,000 of which supported by 2014-2020 programmes), thus improving business environment and sustaining investment.

Cohesion Policy has also supported close to 120,000 \textbf{research and innovation projects}, thus ensuring a \textbf{significant level of investment in this area} and positively influencing the gross EU domestic expenditure on R&D.

\(^{12}\) SWD(2016) 318 final -
A wide range of interventions in the area of education (more than 30,000 investments in infrastructure) and of social inclusion have also been carried out with the support of ERDF and CF, thus contributing towards the achievement of the related headline targets.

Cohesion Policy contribution to the Digital Single Market is also noteworthy. Up to end 2016, around 1,200 projects were selected on the ground to support the achievement of a connected Digital Single Market, corresponding to EUR 2.6 billion of total investment (ERDF plus national co-financing). Achievement data reported by 2007-2013 programmes notably point to an estimate of 15 million additional households covered by broadband access, which helps create the right conditions for digital networks and services to flourish, giving consumers and businesses better access to digital goods and services across Europe, in particular in rural areas.

Significant achievements in the area of energy efficiency and renewables also resulted directly from supported interventions: close to 5,000 MW of reported additional capacity of renewable energy production; reported reduction of greenhouse emissions of more than 420,000kt of CO₂ equivalents.

Cohesion Policy is also enhancing the effectiveness of the Single Market by delivering support in key investment areas through the programmes of both programming periods. These investments are notably helping SMEs and start-ups and supporting research and innovation, thus contributing directly to the strengthening of the European industrial base. A significant number of large-scale infrastructure projects have also been delivered through the 2007-2013 programmes, which are essential for the proper functioning of the internal market.

Achievement of specific objectives

DG REGIO's 2016 detailed achievements are presented below under the relevant specific objectives. In line with DG REGIO's Strategic Plan 2016-2020, information concerning achievements is clustered around the 10 priorities of the Juncker Commission towards which DG Regional and Urban Policy is providing the most significant contributions:

(1) A New Boost for Jobs, Growth and Investment;
(2) A Connected Digital Single Market;
(3) A Resilient Energy Union with a Forward-Looking Climate Change Policy;
(4) A Deeper and Fairer Internal Market with a Strengthened Industrial Base;
(8) Towards a New Policy on Migration.

The analysis and performance information presented in the sections below mainly result from the reporting on common indicators, which are an important tool for assessing the achievement of objectives associated with ERDF/CF operational programmes, as well as from the assessment of policy achievements contained in the management declarations provided by the relevant Authorising Officers by Sub-Delegation, which take into account all the available evidence regarding programme performance. It is however to be noted that the most recent available information in relation to programmes achievements reflects the situation at end 2015. In order to provide a more accurate picture of the state of programme implementation on the ground, the comments in relation to policy performance below take also into account the financial information at end 2016, reflecting the state of programmes' execution.

The mapping of the corresponding specific objectives and details about all the related performance information are provided in Annex 11.

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13 Annual Implementation Reports submitted by Member States in 2016
The achievement values presented in the sections below result from data reported by the Member States reflecting the implementation of the 2014-2020 programmes, in line with the performance framework embedded in REGIO's Strategic Plan for 2016-2020.

However, it is to be noted that significant achievements were also delivered in 2016 through the 2007-2013 programmes. Information reflecting their final achievements was provided by the Member States by March 2017 and is also reflected in the following sections. While their last year of implementation on the ground was 2015, the impact of the 2007-2013 programmes on the real economy will continue to be felt several years after closure, as also reported through the ex post evaluation.

It is however to be noted that performance data reported by the 2007-2013 programmes has not yet undergone a comprehensive quality review by DG Regional and Urban Policy. The resulting values should therefore provisionally be considered as estimates. Final 2007-2013 achievements and performance against target values will be available in the second half of 2017.

1.1.1 Achievement of specific objectives linked to EC priority 1 - Jobs, Growth and Investment

DG Regional and Urban Policy is contributing significantly to the Juncker Commission’s top priority to create jobs, enhance growth and stimulate investment in Europe. This is being done notably by investing a critical mass of funding into the real economy and enacting structural change to remove obstacles to investment. In order to maximize the impact of the funds, resources concentrate on key investment areas and growth bottlenecks. As a result, the policy is now focused more on smart growth, including research and innovation, information and communication technologies, Small and Medium-sized Enterprise (SME) development and the low-carbon economy, while ensuring that basic infrastructure in less developed regions is also supported where needed.

Contribution resulting from the implementation of 2014-2020 programmes

In 2016, more than 50,000 projects were selected on the ground for kick-starting growth and job creation, corresponding to EUR 64.1 billion of total investment (ERDF and CF plus national co-financing). These projects are notably expected to produce benefits in many of the key areas with the greatest growth potential. This will be done by supporting more than 110,000 enterprises, improving research infrastructure for more than 5,000 researchers, reconstructing or upgrading more than 400 km of railway lines ensuring a better conservation status for habitats extending over 580,000 hectares, providing improved health services for more than 550,000 people.

While the most recent available information (Member States’ Annual Implementation Reports submitted in 2016) reflects the state of play at end 2015, reported achievements already include 36,379 supported enterprises and more than 2,500 direct jobs created.

Furthermore, in line with the objectives of the Investment Plan and the Commission’s Work Programme, access to funding notably for SMEs and investors has been reinforced. Important progress has been made towards doubling the amount of investments delivered

<table>
<thead>
<tr>
<th>Number of SMEs having received support from 2014-2020 Cohesion funding</th>
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<td>36,379</td>
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More than 50,000 projects selected on the ground for kick-starting growth and job creation corresponding to EUR 64.1 billion of total investment (ERDF/CF plus national co-financing).
through **financial instruments** compared to 2007-2013. Current planning shows that EUR 20.1 billion of ERDF and Cohesion Fund, equivalent to 8% of the total allocations, is planned to go to financial instruments. The ERDF is increasingly implemented via financial instruments that obtain high leverage effects on public and private investments. Not only **SMEs** started benefitting from this (around 50% of the ERDF support to SMEs will be delivered via financial instruments), but also transport and energy and circular economy related projects. The Investment Plan for Europe therefore set indicative targets for key areas to deliver via financial instruments; namely, 20% of the allocations in the field of CO2 reduction measures, 10% in the field of Information and Communication Technology, 10% in the field of sustainable transport, 5% in the field of support for Research Development and Innovation and 5% in the field of environmental and resource efficiency.

**Supporting structural reforms, investment conditions and effective implementation**

DG Regional and Urban Policy’s contribution towards the achievement of jobs, growth and investment in 2016 also included important non-financial contributions, in line with the policy framework introduced as part of the reforms for the 2014-2020 period.

To this end, the policy provides substantial resources to undertake **structural reforms and address structural challenges** linked to investment-relevant country specific recommendations (CSRs). CSRs were notably a focal point for effective programming and are reflected in the adopted Partnership Agreements and programmes. The major bulk of challenges identified in the 2016 CSRs (relevant to the ERDF and CF) are already addressed by targeted investment in the 2014-2020 programmes.

Significant benefits also resulted from the implementation of **ex-ante conditionalities (ExAC)**, which set out sector-specific and horizontal conditions to ensure effective spending. Pre-conditions in this area related in particular to (1) Research and Innovation/Smart specialisation strategies; (2) SME/Small Business Act; (3) Water, waste and EIA/SEA legislation.

The implementation of ex-ante conditionalities in 2016 allowed to tackle bottlenecks to investment, and contributed to deliver the third pillar of the Investment Plan for Europe. ExAC provided an impetus for Member States to implement structural changes and policy reforms, including those linked to **Country-Specific Recommendations** issued in the context of the European Semester for some Member States. They effectively addressed delays and shortcomings in transposition of the EU acquis in some Member States (e.g. in the energy, water and waste sectors), thereby improving the quality and legality of public and private investments in general, not only those co-financed by ESI Funds.

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**Using ExACs to implement structural reforms, including those linked to Country-Specific Recommendations:**

In **Poland**, improving the business environment via the reduction of administrative burden related to delivery of permits for infrastructure projects (CSR 2013-14) reducing obstacles to investment in railway by improving the administrative and technical capacities of the railway sector.

In **Latvia**, consolidation of research institutions by linking financing to performance and in higher education to focus better education to the needs of the economy; incentivising innovation and private investments (target = share of innovative enterprises up to 40%); improve quality of vocational education and training through consolidating the school network, updating the curricula and expanding the work-based learning components; and improving efficiency of the judicial system by strengthening the capacity of law enforcement agencies and development of e-justice.

In **Slovenia**, in the framework of ExAC Research and innovation, strategic innovation partnerships were established. Their main role is to support stakeholders in the R&D and innovation process, inter alia, through administrative procedures. The processes used by the public administration which have impact on businesses have been simplified. This responded to the 2016 CSR: “Take measures to modernise public administration and reduce the administrative burden on business. Improve the governance and the performance of state-owned enterprises”.

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**regio_oar_2016 13**
As a result of the work carried out in 2016, 121 official **smart specialisation** strategies have been drawn up in Member States and regions, mobilising more than EUR 120 billion of ESI Funds and national/regional resources, and aiming to leverage considerably more private investment. Over 1,200 priorities have been identified in these strategies to help create new industries and jobs, tackle societal and environmental challenges and improve people's lives. To facilitate complementarities and cooperation among regions with related smart specialisation priorities, three thematic smart specialisation platforms have been set up (on energy, agri-food and industrial modernisation). They integrate other policies such as energy, industry, rural development, digital growth, circular economy, research, education, health and maritime.

Establishing smart specialisation strategies as a precondition for funding has allowed the Commission to shape their development through concrete support through the Smart Specialisation Platform. This should result, if well implemented – among other things – in an estimated 15,000 new products to market and 140,000 start-ups, giving rise to 350,000 new jobs. Many projects are underway (over 10,000 projects leading to expenditure of more than EUR 10 billion to date). These include testing facilities, incubators, research infrastructures, pilot plants, crowd-sourcing platforms, cluster services, collaborative spaces and platforms.

Special support for the shaping and launch of implementation, including synergies with Horizon 2020, was provided to the EU-13 countries and lagging regions providing proactive assistance and advice to help businesses and researchers be involved in potentially successful projects in the EU.

Cohesion Policy is also instrumental for the realisation of the **Circular Economy** Action Plan by providing financial support as well as the key enabling instruments and conditions (e.g. ex-ante conditionality 6.2 on waste management). For the 2014-2020 period, the ERDF and the Cohesion Fund will invest 5.5 billion EUR in this area. The funds will be used, for example, for improved waste management in the regions where this is particularly needed, to develop new production processes, and to support resource efficiency and innovative technologies in SMEs. Throughout 2016, REGIO has undertaken targeted outreach activities to assist Member States and regions for the uptake of the funds. Circular economy was one of the topics of the "Urban Innovative Actions" call launched in December 2016. Circular economy was chosen as one of the categories for the RegioStars Awards in 2016.

In the 2014-2020 period, around EUR 92 billion EU support are also available for **transport** projects, of which cohesion policy will account for approximately EUR 70 billion and the Connecting Europe Facility for around EUR 22 billion. DG REGIO cooperates closely with DG MOVE to ensure the complementarity of the investments. After initial bottlenecks with preparing the comprehensive transport plans that were required as ex ante conditionality, by the end of 2016 all but 4 such plans have been presented.

**Contribution to jobs and growth resulting from the implementation of 2007-2013 programmes**

With projects of the 2007-2013 programming period reaching the end of their implementation in 2015, significant progress towards targets set in the programmes is reported by Member States in the closure documents. Main outcomes reported by Member States up to 2015 are set out below.

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15 RegioStars Awards identify good practices in regional development and highlight original and innovative projects that are attractive and inspiring to other regions.
Research, technological development and innovation

More than 45,000 projects were co-financed across the EU to support cooperation between businesses and research centres through the 2007-2013 programmes. These were mainly in Competitiveness regions in the EU15, reflecting the significant share of funding allocated to this in the concerned programmes. The rhythm of reported achievements continued to grow steadily up to the final stages of implementation (+28% compared to achievements at end 2014).

Close to 120,000 research and development projects carried out by enterprises received support from Cohesion funding, most of them in Competitiveness regions. Through these projects more than 46,000 research jobs have been created (in FTE terms).

Many of these projects provided funding for RTD infrastructures and centres of competence throughout the 2007-2013 programming period, contributing to improve research facilities across Member States.

Enterprise support (including access to finance)

A substantial share of 2007-2013 Cohesion Policy funding was devoted to improving the business environment and supporting entrepreneurship. Enterprises are supported across the funds to increase their competitiveness, develop products, find new markets and create new jobs, with particular emphasis on innovation and high growth firms and programmes aimed at supporting the innovative capacity of SMEs. The wide range of support on offer to SMEs is also crucial to achieving a deeper and fairer internal market with a solid industrial base.

As the main source of job creation among all interventions co-financed by the ERDF, these interventions have been key in contrasting the effect of the crisis in recent years and in kick-starting jobs and growth throughout Europe. More than 380,000 projects to support investment in SMEs were undertaken across the EU in the period, notably thanks to the notable progress registered in the final year of implementation (+49% compared to achievements at end 2014).

More than 1,100,000 jobs have been created up to 2015. If achievements reported across the European Union are satisfactory, some programmes still fall short of their targets due mainly to the economic context and to challenges faced on some region’s job markets during the 2007-2013 programming period.

In addition, more than 130,000 new firms across the EU were helped to start up by the financial assistance received from the ERDF as well as by the advice and guidance provided by business support centres also funded by the ERDF.

Sustainable transport
Significant achievements were also reported by Member States in the final year of 2007-2013 implementation in the area of sustainable transport.

Remarkable progress was notably registered in relation to railway infrastructure, with increases respectively of 61% for new railway lines (including TEN-T) and of 42% for reconstructed railway lines. Overall, thanks to ERDF and CF support, the 2007-2013 programmes notably delivered some 36,000 km of reconstructed roads, close to 5,800 km of new roads, as well as more than 5,600 km of reconstructed railways.

Member States has also progressed significantly, confirming the trends registered last year. The most notable increases have been noted in relation to the additional population served by waste water (more than 4.3 million) and water projects (more than 3.7 million) compared to 2014. Overall, this represents an increase of reported achievements of 63% in the final year of implementation.

**Lessons learnt from the ex-post evaluation in the 2007-2013 programming period:**

**SME support:**

The major result of support was helping SMEs withstand the effects of the crisis by providing credit when other sources of finance had dried up. It enabled SMEs to invest in modernising or expanding plant and equipment. In addition, and as part of Cohesion Policy’s response to the economic crisis, eligibility rules were changed to allow the financing of working capital, which enabled firms to remain in business and to maintain employment. Beyond that, the ERDF also provided support for innovation and for the adoption of more technologically advanced methods of production as well as for the development of new products. It also led to observable behavioural changes, such as SME owners and managers being more willing to take risks and to innovate. The use of financial instruments (FIs) increased considerably, going from EUR 1 billion in 2000-2006 to EUR 11.5 billion of ERDF allocated in 2007-2013. Although the firms directly supported represented just 2% of firms in the EU, evidence shows that support focussed on the more strategic enterprises in a region. Monitoring data also indicates that this support led directly to the creation of more than 1 million jobs - to put this into perspective, a net total of 3 million jobs were created in the EU economy over the 2007-13 period.

Lessons: The SMEs which responded best to support were those which already had the necessary managerial capacity to grow and innovate. The evidence also showed a lack of a "result orientation" of support. Measures of support need to be based on sounder explicit theories of change. Such theories of change should take explicit and detailed account of the local context. The support measures should then be tailored to both the local context and the change that they are designed to bring about. The need to improve the monitoring system - rather limited, with indicators which gave a very partial view of achievements - was also stressed. These areas for improvement were successfully addressed by the 2014-2020 framework, which further strengthened the result orientation of support and introduced more stringent requirements for the setting up of the monitoring systems.

**Sustainable transport:**

Public transport projects supported had the effect of reducing congestion in cities and improving the urban environment, as well as reducing travel times. By encouraging investment in rail and in urban transport, cohesion policy has contributed to environmentally friendly transport. Evidence showed that investment in rail had the second highest share, while urban transport received the third highest allocation. Member States highlighted the important role of cohesion policy funding in supporting large, complex projects that were particularly evident in the rail sector. In their opinion, such projects may not have been undertaken in the absence of cohesion policy funding. With regard to the development of sustainable transport measures, Cohesion policy was viewed by stakeholders as a key enabler, notably promoting alternatives to motorised transport in line with the EU’s Action
Lessons: Continuing issues were found regarding the capacity of some Member States to plan and develop major infrastructure projects, difficulties in combining cohesion policy funding with private finance in PPP structures, and a need for greater clarity for Member States on the application of State Aid rules to transport investments. Some weaknesses were also noted in the reporting of output indicators by some Member States, resulting in data inconsistencies. The structures for gathering this information have now improved and this issue is not expected to recur in 2014-2020. The partition of programming periods was also cited by some stakeholders, including JASPERS, as generating political pressure lowering the quality of project preparation and increasing the risks of contractors submitting low and unsustainable tender prices, notably in newer Member States. Longer experience in cohesion policy programming periods and improvements in the strategic planning of transport in Member States will address these issues in the current programming period. In particular the preparation of a national transport strategy is now an ex-ante conditionality for cohesion policy funding of transport.

Environment protection and infrastructure:

Environment has been an important focus for support from Cohesion Policy since 1989, as one of the policy areas eligible for financing from the Cohesion Fund on the grounds that it is important to have common environmental standards across the EU - both for the health of people and to protect the eco-system. The accession of the EU 12 countries further increased the need for environmental investments. Thanks primarily to ERDF/CF, convergence countries in particular (e.g. Bulgaria and Poland) saw a significant shift in the disposal of waste away from landfill towards recycling. Likewise, the ERDF/CF greatly contributed to improving water and waste water treatments primarily in convergence regions.

Lessons: Many environmental projects are complex and require a high level of competence in the authorities concerned, which may not exist in smaller authorities which only undertake such projects occasionally. Since waste management projects in smaller local authority areas are likely to become more important in future years (in line with the Waste Framework Directive), this is an issue deserving attention. Projects need to be carefully prepared before being implemented to minimise problems and reduce maintenance costs. Managing authorities should be encouraged to allow sufficient time for this and the procurement process needs to give proper weight to the quality of proposals. REGIO is already addressing this need for improved capacity at MA level by widening the scope of Jaspers support, as well as through awareness-raising and information dissemination activities linked to the new cost/benefit guidelines.

Examples of EU added value

Several countries - The SME Initiative

The Spanish SME Initiative consists of uncapped guarantees for loans to SMEs. The total ERDF contribution amounts to EUR 800 million (EUR 666 million from 15 regions and the rest from the central administration). The allocations poured by the regions are ring-fenced so as to be invested in their territory. Horizon2020 also contributes with EUR 14 million. Thanks to its leverage effect, it was estimated at the outset that at least EUR 3.2 billion could be channelled to 32,000 SMEs, which would create 6,400 new jobs. The implementation of this OP managed by the EIF is progressing quickly. In November 2016 contracts with financial institutions had already been signed for 96% of the total ERDF allocation for guarantees and the financial intermediaries had already provided loans to some 22,000 SMEs for a total amount of more than EUR 2 billion. This represents 85% of the minimum leverage effect expected (a multiplier of 4). The Spanish SME Initiative is the largest and the first instrument of this type that was set up in the EU. The specific added value of this instrument lies notably in its leverage effect, allowing supporting a higher number of SMEs at more beneficial terms, thanks to risk-sharing with the EU and EIB Group.

Poland - EU invests in strategic road connections for better territorial cohesion

Over EUR 530 million from the Cohesion Fund will be invested in strategic road sections in Northern Poland as part of two “major projects”. The first one involves modernization works on the Gdańsk-Elblag section on the DK7 national road on the Baltic-Adriatic corridor of the Trans-European Transport Network (TEN-T) which connects the North to the South of Europe. The second one
consists in renovating the section between Wyszków and Białystok on the international road E67 which, anchored on the TEN-T North Sea-Baltic corridor, connects the West of Europe to the North-East through Prague, Warsaw, Riga, Tallinn and Helsinki. Thanks to these projects, travel times will be reduced and more comfort and safety for drivers will be guaranteed. They will also have a positive impact on tourism and trade with neighbouring countries, benefitting the entire European economy. As other similar TEN-T interventions, these projects bring coordinated improvements to road networks included in European strategic corridors, thus creating an efficient transport infrastructure encompassing all Member States.

Pan-European project "Extreme Light Infrastructure – nuclear physics"

Phase II of the pan-European project "Extreme Light Infrastructure – nuclear physics" in Magurele, Romania has been selected for EUR 140 million support from the ERDF. This research project on high intensity lasers is open to researchers from public and private bodies worldwide with 100 researchers already working there and a further 100 researchers expected to join on completion. The project also brings socio-economic benefits and creates added value for the region (new jobs, modern infrastructure, business development and increased the visibility and development potential). Romania is implementing this project with two other Member States – Hungary and the Czech Republic. The ERDF played a key role to make this project possible, by providing decisive financial support as well as a cooperation framework for the involvement of research and academic institutions from several Member States and members of the business sector.

Maximising the impact of public investments through ESIF/EFSI combination

- Greece - Facilitating access to finance for entrepreneurs. Approximately EUR 260 million will be available to EQUIFUND, a new financial instrument which aims to facilitate access to finance for entrepreneurs in the whole territory of Greece. This new initiative will kick-start investments into accelerator funds and support early stage start-up companies to mature growth companies and technology. EUR 200 million come from the Operational Programme Competitiveness, Entrepreneurship and Innovation 2014-2020, supported by the European Regional Development Fund. This amount will be complemented by EUR 60 million co-invested by EIF, which includes up to EUR 10 million from EFSI supported resources. By attracting private capitals, the Fund will help them turn their ideas into concrete projects with high value added, for the direct benefit of the Greek real economy.

Lapland - North of Finland image marketing-project

This project has been significant in opening doors for joint tourism-related image marketing by Lapland and Northern Ostrobothnia. The project produced innovative solutions and methods for carrying out tourism-related image marketing in international markets. Examples of this include the concept of image marketing, and the channels and solutions that were used. In order to increase the attractiveness of tourism in Lapland, the innovative Laplication app was designed, and the campaigns that were carried out under the programme were commended and awarded prizes in several national and international competitions. The project has been described as a pioneering project in tourism marketing. The project highlighted Finnish Lapland as a real destination of contrasts and of genuine, unique experiences. On the basis of numerous measured results, it may verifiably be said that Finnish Lapland is now a more visible, more famous and also more desirable tourist destination in the project’s target countries than ever before. Among other things, international bed nights in the region increased by 14 % in total over the 2011-2014 period, despite the recession. According to the final report, Lapland is now identified most strongly with Finland rather than Sweden or Norway, the strongest competitors. The project is also one of the largest projects to have received public aid throughout the entire ERDF programme for Northern Finland. Long-term work on tourism in Lapland will continue after the project, funded by the tourism areas and municipalities, Finavia and Visit Finland.

1.1.2 Achievement of specific objectives linked to EC priority 2 - A Connected Digital Single Market

ERDF is the biggest EU funding source for making the Digital Single Market happen and deliver on its economic and societal potential. Cohesion Policy provides overall EUR 20 billion in the current programming period. In particular reaping the benefits of the digital economy, better addressing societal needs through e-government solutions and providing affordable access to high-speed broadband and ensuring e-inclusion are the focus of ESIF
programmes. The aim is also to achieve efficiency gains thanks to e-government solutions, smart energy and transport solutions. ESIF delivers tailored DSM support on the ground matching local needs and opportunities. There are in total 209 ERDF operational programmes with DSM related allocations (including 36 Interreg programmes).

**Contribution resulting from the implementation of 2014-2020 programmes**

Project selection in the areas contributing to the Digital Single Market is in full swing. Up to end 2016, around 1,200 projects were selected on the ground to support the achievement of a connected Digital Single Market, corresponding to EUR 2.6 billion of total investment (ERDF plus national co-financing). Through these projects, close to 80,000 additional households will obtain broadband coverage, thereby contributing to increasing the competitiveness and economic growth of concerned areas. Overall, interventions that will be co-financed through the available funds will extend the broadband coverage to 14,564,260 additional households.

**A shift from a classic ICT sector approach to comprehensive digital strategies stimulated by targeted ex-ante conditionalities**

The application of targeted ex-ante conditionalities has encouraged the shift from a classic ICT sector approach to a comprehensive local/regional/national ‘digital agenda’, requiring regions to identify ICT investment priorities relevant for their territory. In order to optimise the impact of ICT investments under the ESI Funds, Member States and regions were obliged to develop two strategies before making any digital investments using the Funds:

- For 2014-2020, national and regional authorities devised a strategic policy framework for digital growth within their broader research and innovation strategies in order to receive funding for investments in ICT products and services.
- Each Member State planning to use the Funds for broadband investments also developed a Next Generation Network Plan that identified where public intervention was necessary to provide broadband access.

This work has produced significant results in several Member States, as shown by the examples below.

**Strengthening digital strategic governance in Member States:**

In **Greece**, this ExAC triggered a number of key reforms: 1) creation of a General Secretariat for ICT, which was transformed into a Ministry in charge of the Next Generation Access plan, e-government and all matters linked to digital investments; 2) the adoption of a new framework for prioritisation of needs and actions in view of developing a mechanism for the selection, evaluation and approval of projects, which leads to better prioritisation of ICT projects, as well as simplification and streamlining of the ICT project cycle and the related procedures; and 3) the adoption of a revised digital growth strategy for the country.

**Italy** has improved its relative position but still lags behind many of the other Member States in fast broadband (at least 30Mbps) coverage, with 72% of households covered, compared with an EU average of 76% and leading EU countries reaching close to 100%. Through the ex-ante conditionality Next Generation Network Infrastructure/Broadband, Italy increased the involvement of the central government to address the lack of expertise and improved the strategic vision with the development of an ambitious national broadband strategy which greatly improved coordination of all broadband investments of EU, national and regional importance.

In addition, targeted actions aimed at improving the administrative capacity of programme authorities in this area have been implemented. Among other initiatives, a network of Broadband Competence Centres was created across Member States, supported by a
Brussels-based facility which will provide information and/or advice to any public authority wishing to roll-out high-speed broadband, as well as any potential broadband project promoter enquiring about the EU/national/regional funding available for broadband.

All these actions are expected to help improve the digital performance of regions and Member States, thus positively contributing to the attainment of the target set for the impact indicator capturing digital competitiveness of Member States.

**Contribution to jobs and growth resulting from the implementation of 2007-2013 programmes**

Information and communication technologies have continued to be a key area of investment for Cohesion funding, with more than 43,000 projects having been co-financed between 2007 and 2015. Thanks greatly to ERDF investment, particularly in less developed regions, the extent of broadband coverage has increased significantly in the EU in recent years, thereby contributing to increasing the competitiveness and economic growth of concerned regions. More than 15 million additional citizens have gained access to broadband as a result of ERDF support up to 2015. Significant achievements in terms of additional citizens connected thanks to investments made up to 2015 are notably reported in Poland (+4.4 million), Italy (+3.9 million), Spain (+2.4 million), Bulgaria (+1.5 million) and France (+1.4 million).

**Examples of EU added value**

**Slovenia – Addressing the market interest in a wider broadband coverage**

Slovenia aims to contribute to the Digital Agenda goals by equipping 70% of households with 100 Mbps broadband connections by 2020 and improving the IT services for its citizens. In 2016 strategic documents providing basis for these investments were adopted, including the SI Digital Agenda 2020 and the Next Generation Access (NGA) plan. The Commission services worked closely with Slovenia in preparation of the documents and the analysis linked to them in the context of the implementation of the action plan for fulfilment of the thematic ex ante conditionality. The NGA document showed that the market interest for deploying broadband in Slovenia is far greater than anticipated during the programming phase and therefore, there is a high potential to refocus the funds into other areas and ensure contribution to the objectives of the EU. This more effective alignment between market interest and the scope of the support provided, directly resulting from the work in relation to the ex-ante conditionality, constitutes a clear added value compared to a purely national approach. The implementation has made some progress with 26% of project selection rate.

**Estonia – Broadband development**

Estonian Broadband Development Project "EstWin" was implemented by The Estonian Broadband Development Foundation, what is the PPP vehicle to deliver open access network in rural areas with passive dark-fibre service. The dark fibre backbone network is public-owned and many operators are working on it. This is an example of a large scale investment providing the backbone of the future-proof fibre-based network to which ERDF provided a pivotal support. Total financing of projects (phases) has been EUR 51.2 million, ERDF EUR 40.1 million. More than 4,000 km optical cable for fast and ultra-fast internet connections (minimum 100 Mbit/s) has been installed. 1,700 connection points were built, covering 150 municipalities across the Estonia, to increase ICT accessibility for citizens, businesses and public institutions.

**Sweden – DIG Broadband project in Västernorrlan**

The objective of the Dig project is that 90 per cent of all companies in the region shall have access to fast broadband by 2020. The project is co-financed by the region and by all its municipalities and it has received EUR 116.6 million from ERDF. Dig is Sweden's biggest digitalisation and broadband project so far and is in line with the government’s broadband objective: 9 out of 10 households shall have access to fast broadband by 2020 at the latest. People are dependent on good broadband connection to be able to live and work in rural areas in Sweden. Before the project, only about half of the region's population had access to broadband of at least 100 megabytes per second. The project owners view the expansion as not only being about the short-term effects to get a faster network. There is also the long-term, regional effect of creating conditions conducive to new businesses moving to the region and can prevent depopulation.
1.1.3 Achievement of specific objectives linked to EC priority 3 - A Resilient Energy Union with a Forward-Looking Climate Change Policy

Achieving an Energy Union will ensure that Europe has secure, affordable and sustainable energy. In addition, more sensible energy use and production, and fighting climate change, can create jobs and spur economic growth. Cohesion Policy has a key role in making the Energy Union happen and reaching the EU 2020 and 2030 climate and energy targets. This includes significant financial allocations, in particular from the ERDF and CF, constituting the single biggest EU funding contribution in this area, with EUR 69 billion for investments related to all five dimensions of the Energy Union and EUR 6 billion for climate change adaptation measures. More generally, 25% – or more than EUR 114 billion – of ESIF has been allocated for the 2014-2020 period to climate change-related investments. Almost half of this – about EUR 55 billion – comes from the ERDF and CF. In this way, ESIF supports strongly the EU objective to spend at least 20% of the EU’s budget on climate actions.

Contribution resulting from the implementation of 2014-2020 programmes

Main types of investments include:

- energy efficiency investments, particularly in the energy efficiency of buildings and Small and Medium-sized Enterprises;
- renewable energy and smart distribution grids, as well as smart energy transmission and storage infrastructure and energy-efficient, decarbonised transport;
- climate change adaptation and risk prevention, supporting a broad range of measures, including flood prevention and ecosystem-based measures such as green infrastructure.

Investments are being decided at a steady pace in this area, with more than 5,000 projects already selected on the ground, corresponding to a project selection rate of around 20% at end 2016. The decided amounts represent more than EUR 10 billion of total investment (ERDF and CF plus national co-financing).

Non-financial contributions aimed at improving investment conditions and accompanying effective implementation

DG Regional and Urban Policy’s contribution towards the achievement of a resilient energy union with a forward-looking climate change policy also includes important non-financial contributions. Ex-ante conditionalities, integrated territorial solutions, capacity building, cooperation mechanisms and technical assistance are key in this area. All these deliver real results for people and businesses.

2016 has been a crucial year for the implementation of ex-ante conditionalities related to this EC priority.
Pre-conditions aimed at ensuring the efficiency and effectiveness of the investments in this area related notably to (1) Smart energy distribution, storage and transmission systems; (2) Energy efficiency; (3) Cogeneration and (4) Renewable energy. Action Plans prepared to ensure the fulfilment of these ex-ante conditionalities have been instrumental in fostering a swift transposition of the Energy Performance of Buildings Directive and improving the framework for preparing high quality projects.

In addition to the support provided on ex-ante conditionalities in 2016, DG REGIO continued to undertake a number of initiatives to facilitate implementation, in particular as the energy allocations had sharply increased and such investments were new for many Member States and regions in the Cohesion Policy context, e.g. the Energy and Managing Authorities (EMA) network, the Smart Specialisation Platform on Energy, the fi-compass, the provision of off-the-shelf instruments, JASPERS and TAIEX REGIO PEER 2 PEER, explanatory documents and workshops, including on state aid for energy investments.

**Ensuring the best conditions for quality projects to emerge:**

In Poland, a project pipeline was developed in the framework of the ex-ante conditionality on Smart energy infrastructure, which serves as a common instrument for monitoring preparation (cost-benefit analysis, environmental decision, State aid, construction permit, major project application) and implementation (tenders, start of works, date of placing in service) of investments in energy infrastructure. A detailed review of the state of play of projects was completed and beneficiaries were mobilised to complete the relevant milestones. Furthermore, coordination of national and EU funding sources (ESIF, CEF and EFSI) was improved.

**Contribution to Energy Union and tackling of climate change resulting from the implementation of 2007-2013 programmes**

Finally, results from the 2007-2013 period continued to be observed throughout 2016. A large number of projects carried out with ERDF support to increase electricity-generating capacity from renewables, a significant part of which in less developed regions. In particular, the additional capacity of renewable energy production reported by MS directly resulting from supported interventions at closure is close to reaching 5,000 MW.

In the same vein, a significant number of projects have been implemented to increase the energy efficiency of apartment blocks and public buildings, notably in the EU-12 countries where both types of building are heavy energy consumers. Benefits of these interventions directly accrue both to energy consumers and producers. The reported reduction of greenhouse emissions resulting from these interventions was 420,577 kt of CO2 equivalents at closure.

**Lessons learnt from the ex-post evaluation in the 2007-2013 programming period:**

**Energy efficiency measures in buildings:**

Heating, cooling and lighting buildings account for a substantial proportion of the energy consumed across the EU. Improving the efficiency of energy use in buildings is a major contributor towards reducing overall energy consumption thus contributing to CO2 emissions and increasing energy security across Europe. A large number of programmes included energy efficiency measures in building in the 2007-2013 programming period, involving relatively modest amounts of funding.

According to the evaluation, an estimated cut of some 0.2% in total yearly energy consumption was achieved in the countries and regions concerned. This may not appear as very large but it is a significant result given the relatively small amount of funding involved. This figure was higher in countries, which invested larger share to increase energy efficiency in buildings. For example, Lithuania managed to achieve cuts of its overall annual energy consumption corresponding to about 3% of its annual electricity use. Other less quantifiable, but significant, achievements came in the
form of technological advances as a result of innovative projects undertaken, awareness raising of the benefits of investing in energy saving and policy learning.

Lessons: Programmes would need to spell out clearly the rationale for the use of EU funding to support investments in energy efficiency in buildings showing how it relates to national energy policy and to the support available from national and regional schemes so as to demonstrate the coherence of the policy and its justification. This has already been implemented under the result-orientation for 2014-2020 and more specifically in the formulation of specific objectives in the programmes. Bearing in mind the long term energy cost reduction for building owners, loans or other kinds of financial instrument are likely to be preferable to grant support for energy efficiency measures. Awareness-raising campaigns might be needed to overcome initial reservations. This is already implemented under the general expansion of the scope of financial instruments in 2014-2020. Other points of reflection include energy audits, which should be a standard part of project selection criteria to identify the reduction in energy use intended and to verify its achievement. In addition, financial support should be complemented by a range of non-financial measures, including advice and guidance, certification schemes and building regulations.

**Examples of EU added value**

**Poland - New biogas plant helps to power meat company's premises**
An agricultural biogas plant has been built at the premises of a meat processing company in Poland. It uses waste from a slaughterhouse owned by the firm to generate the biogas and power the establishment, thereby cutting use of conventional fossil fuels, as well as CO2 and dust emissions. The biogas plant has an electricity generation capacity of 0.5 megawatts (MW) and a heat energy production capacity of 0.7 MW. Along with slaughterhouse waste, it uses substrates in the form of maize silage and sorghum to produce biogas. Within a short period of entering into operation, the plant was operating at full capacity and producing a minimum of 300 megawatt hours of electrical energy per month. During the first year of operation, the efficiency rate of energy generation reached nearly 95%.

**France – ERDF-ESF supporting Nord-Pas-de-Calais to become a carbon-neutral territory:**
The Nord-Pas-de-Calais 2014-2020 ERDF-ESF OP foresees a contribution of EUR 225 million for the low carbon energy transition (about 27% of the budget). In view of reaching the national and European aim of reducing the GHG emissions by 20% by 2020, the Nord-Pas-de-Calais aims to become the first carbon-neutral French territory by 2050 by dividing its GHG emissions by 4 by 2050 (compared to 1990), reducing the energy consumption by 60% and multiplying by 10 the share of renewable energies. In this framework, the Nord Pas de Calais launched the financial instrument "CAP Troisième Révolution Industrielle" (CAP TRI) which is supported by ERDF funding from the 2014-2020 ERDF-ESF OP. It is the first public private financial instrument at EU level combining resources from ERDF, with EIB funding guaranteed by EFSI, and private investors. The ability to foster effective pooling of resources from different sources is a distinct added value resulting from Cohesion policy support.

**Belgium – innovative energy research in Flanders:**
Substantial support (3.4million EUR) went to the realisation of research infrastructure for EnergyVille, which is an association of the Flemish research institutes KU Leuven, VITO and IMEC in the field of sustainable energy and intelligent energy systems. Researchers provide expertise to industry and public authorities on energy-efficient buildings and intelligent networks for a sustainable urban environment. This includes, for example, smart grids and advanced district heating and cooling. EnergyVille wants to become one of the top five European institutes in innovative energy research. In this context, the centre was embedded in major national and international networks right from the start. It covers research, development, training and innovative industrial activities under one name and in close collaboration with local, regional and international partners.

**Latvia: supporting energy efficiency and promoting climate change adaptation**
The OP investments of EUR 565.4 million contributing to the EC objective "Energy Union and Climate" are aimed to implement energy efficiency measures in relation to residential and public buildings, district heating networks and transport sector, as well as to promote climate change adaptation, risk prevention and management, including the use of ecosystem-based approaches. The objectives are to achieve a 20% reduction in energy intensity and increase the proportion of RES in energy consumption to 40% in the manufacturing sector, to ensure reduction of the average energy
consumption for heating by 20%, and to increase the number of passengers using environmentally friendly public transport by 1.6 million. By the end of 2016, around 29% of funding was allocated to projects. This is a clear example of the added value of ERDF interventions in directing funds towards EU-wide policy objectives across all Member States, thus multiplying the overall impact of national investments.

1.1.4 Achievement of specific objectives linked to EC priority 4 - A Deeper and Fairer Internal Market with a Strengthened Industrial Base

Enhancing the effectiveness of the Single Market by delivering support in key investment areas

DG Regional and Urban Policy is contributing to this priority notably through the wide range of support channelled through the 2014-2020 programmes. As already illustrated in the sections above, these investments are (1) helping SMEs and start-ups to grow and encouraging modernisation; (2) encouraging innovation, supporting research and contributing to the balanced development of the collaborative economy, thus contributing directly to the strengthening of the European industrial base; (3) financing efficient large-scale infrastructure projects, which are essential for the proper functioning of the internal market.

The wide range of support provided to small and medium-sized enterprises (SMEs) is particularly noteworthy in this respect. Types of support include research and innovation, business development and modernisation, organisation of the food supply chain, entrepreneurship, incubation, technological transfer, internationalisation, energy efficiency and support to clusters. By end 2015 this had already benefitted to more than 36,000 enterprises.

Enhancing the creation of a real culture of compliance for Single Market rules and fostering efficient investments

In addition, the enforcement of ex-ante conditionalities on Public procurement and State aid has enhanced the creation of a real culture of compliance with the Single Market rules, allowing for efficient investments and removing important obstacles in a more structured and strategic way, while the ExAC on comprehensive plans for transport investments has helped provide the best possible environment for improving the functioning of the Internal Market. Significant work was notably carried in 2016 out to help Member States fulfill these conditionalities. While no particular bottlenecks were noted as regards state aid, some difficulties have affected the enforcement of the ExAC on public procurement (notably concerning actions linked to the introduction of e-procurement, administrative capacity and staffing) and, to a lesser extent, the comprehensive transport plans which could however be solved in most cases by the end of 2016. Nonetheless, several examples of concrete benefits brought about by these ex-ante conditionalities can be highlighted, as illustrated in the adjacent box.

Enforcing conditions for efficient investments:

In Italy, shortcomings in the transposition of the public procurement acquis led in the past to several suspensions of payments from the EU Funds. The ExAC public procurement speeded up the process of correcting the relevant national legislation and ensuring that the relevant regional and national authorities are well prepared to implement the revised public procurement rules.

In Romania, the measures put in place to fulfil the ExAC public procurement aimed at tackling recurring deficiencies and bottlenecks observed in the system. The first tangible results were a global rethinking of the public procurement set-up and the creation of a consolidated legal framework for effective application of Union rules (new and upgraded legislative texts and prevention of conflict of interests measures), a reinforced institutional set-up (the creation of the National Agency for Public Procurement) and arrangements ensuring transparent contract award procedures (including upgraded and coordinated methodologies, e-procurement and web-based, more user-friendly guidance).
Strengthening Single Market’s overall effectiveness by reducing internal barriers

A significant contribution towards increasing the effectiveness of the Single Market is also being provided by European territorial cooperation (ETC) programmes, which provide a framework for joint action between Member States, to find common solutions to shared problems. While the funding delivered through these programmes arguably support many of the Commission priorities (e.g. Jobs, Growth and Investments through support for business and research activities across borders; Energy Union and Climate through international activities in the field of natural resources management or risk prevention), their contribution is particularly noteworthy as regards tackling border obstacles. While it is still too early to report on concrete outputs and results brought about by the implementation 2014-2020 ETC programmes, programme implementation has been satisfactory during 2016, except for the payment rate. Programmes have speedily adopted selection criteria and launched calls for projects across the board (with very few exceptions). The selection rate has reached 25% at end 2016. The main bottleneck has been and remains the designation of authorities, which has a serious knock-on effect on the payment rate (still below 1%, excluding advance payments). Close monitoring during 2016 has highlighted that the responsibility for delays is shared between programme authorities, with designation being considered in several cases a lesser priority. The satisfactory project selection rate should however soon translate into higher levels of execution and into concrete achievements, smoothening the functioning of the internal market and contributing to the Lisbon Treaty’s objective of territorial cohesion. For instance, it is expected that more than 13,000 people will participate in cross-border mobility initiatives co-financed through the projects already selected.

As regards 2007-2013 cooperation programmes, they have addressed a very broad range of topics. While a significant number of CBC programmes have implemented people-to-people activities deemed to have a profound effect in the border regions concerned, more CBC programmes than before reported progress in developing new cross-border transportation facilities, either public transport services or improved infrastructures, thus providing a concrete contribution to a more integrated and better functioning internal market.

In response to persisting intangible obstacles to cross-border activities, and as a complement to what has been done with the financial allocations to the Cross-Border Cooperation programmes across Europe, important policy work was also carried out in 2016 in relation to the CB Review, aimed at reducing the border burden. The main expected outputs were delivered as planned, as the study on border needs was successfully completed and communicated to stakeholders, and the study on legal and administrative border obstacles is nearing completion. The Commission report notably highlights the added value of macro-regional strategies as a complement to traditional country policies on territorial management. This is because they offer a platform for multi-sectoral, multi-country and multi-level governance, encouraging the definition of shared strategies to tackle common challenges and fostering specific action rather than new policy initiatives. Rather than additional financial support, they provide a strategic framework for the concerned Member States and foster specific action

in response to common challenges, thus ensuring that available funding instruments at all territorial levels are aligned towards common objectives.

Specific work was also carried out in order to contribute to the effective integration of the Outermost Regions (OR) in the Internal Market, in line with the coordinating role within the Commission entrusted to REGIO. In coordination with the relevant services, the activities carried out focused on implementing the current strategy for the Outermost Regions taking into account the Commission priorities and strengthening the partnership with these regions through working groups and thematic workshops across many EU policy areas. Preparatory work was also initiated in view of the adoption of the Commission Communication on a renewed EU strategy for the Outermost regions. This notably resulted in the setting up of 4 groups of experts from the OR, the Member States and the Commission services to reflect on key issues and opportunities in major sectors such as energy, green growth, digital accessibility and transports to complement recent evaluations or study (POSEI, blue growth). DG REGIO also organised the 4th OR Forum, which took place on 30 and 31 March 2017. It was a very successful public debate to feed the renewal of the EU strategy towards OR and reflected the exemplary and unique nature of the partnership coordinated and developed by the Commission with the OR (650 participants in addition to 700 followers by web streaming).

Work has also progressed on the lagging regions initiative identifying the key growth and development bottlenecks in regions located at the Eastern and Southern periphery of Europe which go beyond cohesion policy. Such bottlenecks also hinder these regions to reap the full benefits offered by the Single Market. The outcome of this analytical work is reflected in a Commission communication formulating policy recommendations which will feed the reflections on cohesion policy post-2020\(^{17}\). Concrete support measures increasing the impact of ESIF programmes are also being tested in 4 pilot regions, two in Poland (Swietokrzyskie and Podkarpackie) and two in Romania (Nord-Est and Nord-West) with the help of the World Bank.

### Examples of EU added value

**Cross-border research on nanotechnology**

**Based in Braga, Portugal, the International Iberian Nanotechnology Laboratory (INL) is so far the only fully international research organisation in Europe in the field of nanotechnology. This Iberian cross-border project (EUR 30 million from the ES-PT CBC programme) is home to new innovation and interdisciplinary research methodologies, designed for top-level spin-offs and knowledge networks. The laboratory is planned for 200 scientists, about 100 PhD students, and supports technical and administrative staff. The research results are meant to be commercialised and to appeal to a wide range of investors.**

**Cross-border transport facilities**

- In the tri-lateral border area between Germany, the Netherlands and Belgium, cooperation among public transport providers has been significantly stepped up thanks to Interreg. A common platform has been created (http://mobilitv-euregio.com) and services are now developed in an integrated manner - with combined timetables, joint pricing and a modernized ticketing system.

- In the Franco-Italian land border programme (ALCOTRA), several projects have improved local cross-border mobility via investments in joint passenger information systems, integrated bus timetables and the introduction of transport “on demand” in less populated border area.

- A new bus line was established from Grenzach-Wyhlen (DE) to Basel (CH) to accommodate the 1,900 local commuters (out of a total population of 14,000 people). This new bus line necessitated the construction of ticket-terminals on every stop of the line in Germany, and the adaptation of the Swiss ticket-terminals to accept EUR coins.

UK/Ireland - Improving the health and well-being of Victims & Survivors through PEACE IV

The PEACE IV programme is a unique initiative of the European Union which has been designed to support peace and reconciliation in the Border Region of Ireland and Northern Ireland. It provides funding to support up to 17,650 Victims and Survivors of the conflict on a cross-community and cross-border basis. The project aims to address trauma, physical and mental health needs and to facilitate access for individuals to engage in resilience building activities. It will also assist them in engaging with new and existing bodies involved in historical investigations and the narrative associated with the conflict. The project will build on the work undertaken by previous PEACE programmes and add real value by investing in cross-border health and well-being services that will increase the capacity and quality of care for Victims and Survivors and their families.

1.1.5 Achievement of specific objectives linked to EC priority 8 - Towards a New Policy on Migration

Contribution resulting from the implementation of 2014-2020 programmes

DG Regional and Urban Policy has contributed to this priority in 2016 mainly through measures financed under the ERDF, which include significant investments in social, health, education, housing and childcare infrastructure; regeneration of deprived urban areas; actions to reduce spatial and educational isolation of migrants; business start-ups. Project selection rate in the area of social inclusion is around 12% at end 2016, with close to 1,000 projects already selected and being implemented.

In order to give further prominence and increase the focus of investments in support to migrants and refugees, the Commission has proposed a new investment priority under thematic objective 9 in the ERDF regulation, such as: "(e) supporting the reception and social and economic integration of migrants and refugees". The proposal includes also new indicators on housing and other infrastructure developments, which migrants may benefit from. The proposed modification is being negotiated in the European Council. In the same way, the Commission took stock of the review of Member States’ cohesion allocations in the framework of the Mid-term review in June to engage in discussions with Member States benefiting most from the adjustment of cohesion policy envelopes. These discussion aimed at focusing the additional amounts on measures to help tackling the migration crisis and youth unemployment and on investments through financial instruments and a combination with the European Fund for Strategic Investments, taking into account the needs and relevance of those priorities for each Member State.

In addition to medium- and long-term assistance, the Commission examined possible modifications to ESI Fund programmes in order to respond rapidly to emergencies encountered by Member States and non-member countries affected by the refugee crises. This notably led to the inclusion of measures allowing an easier integration of migrants in urban areas of the Midi-Pyrénées et Garonne region. A joint study with OECD was also launched, which should investigate the territorial impact of migration with a special focus on the local level, where migration is both a huge challenge but can also bring economic opportunities and cultural enrichment. The publication of the study, which will enable
European, national and regional authorities to further increase the focus of investments in this area, is expected at the end of 2017.

**Policy work in the framework of the European Urban Agenda and New Urban Agenda**

REGIO is carrying out targeted work to complement the funding delivered through the 2014-2020 programmes. Among the initiatives launched in 2016, the **Urban Agenda Partnership on Integration of Migrants and Refugees** is particular noteworthy. The partnership aims to manage the integration of incoming migrants and refugees (extra-EU) and to provide a framework for their inclusion, covering: housing, integration, provision of public services, social inclusion, education, and labour market measures. The partnership is coordinated by Amsterdam and DG Migration and Home Affairs of the European Commission. Two sets of calls have also been launched under the Urban Innovative Actions. The selection of a first wave of projects was done, through which 18 urban authorities will have the opportunity to experiment bold and innovative solutions.

On a wider scale, REGIO has been the chef de file for the contribution of the EU to the New Urban Agenda under UN Habitat 3 which was adopted by 167 countries in October 2016, and in this context, among other things, undertook engagements on behalf of the EU in the form of three voluntary commitments: "delivering the New Urban Agenda through the Urban Agenda for the EU"; developing a global, harmonized definition of cities (people-based definition of cities with OECD and World Bank); fostering the EU's International Urban Cooperation Programme in Asia and Americas and the World Cities projects".
1.2 Achievements in relation to the delivery of outputs as set in REGIO 2016 MP

1.2.1 Contribution to the delivery of policy results stemming from the implementation of 2016 REGIO operational priorities

The general objectives by policy area and the specific objectives for operational activities illustrated under section 1.1 above refer to the legal and multiannual objectives and implementation of Regional and Urban Policy through its main financial components (ERDF, Cohesion Fund, IPA and Solidarity Fund) contributing to the delivery of the overall cohesion policy objectives. The relevant indicators and policy outputs related to the functioning and execution of these instruments provide the framework for measuring and assessing the achievement of policy objectives.

In order to foster their achievement, DG Regional and Urban Policy identified 22 operational priorities for 2016. These priorities, structured around six main multiannual priorities, reflect the DG’s operational focus on actions (mainly measured through output indicators related to the DG’s internal processes) which can positively contribute to the delivery of policy results, thus enhancing policy performance.

The achievements associated with the DG’s operational priorities presented below (which have a greater impact on the achievement of policy objectives) should therefore be seen as a direct illustration of DG Regional and Urban Policy ability to accomplish its mission. A full overview of the implementation of 2016 operational priorities is provided in annex 6.

To deliver jobs, growth and investment by supporting the delivery by Member States of the 2014-2020 programmes’ objectives

**Contribution to (short- or long-term) policy achievements**

Providing continuous support to programme authorities to set up structures for implementation (including on the designation process) and to support programme implementation for the 2014-2020 were two big challenges for the year 2016. In addition, work continued on ex-ante conditionalities with a view to putting in place the right conditions for effective investments. These elements are key to a successful delivery of the Commission’s priorities 1, 2, 3, 4 and 8 (Growth, Jobs and Investment, Digital Single Market, Energy Union and Climate, Internal Market and Migration).

As regards financial implementation, in the delivery cycle of any investment policy the selection of projects and the subsequent fund absorption are necessary conditions for the delivery of growth and jobs through the effective use of the Funds. In order to ensure that, DG Regional and Urban Policy implemented targeted actions throughout the year 2016 aimed at addressing country-specific difficulties and at enabling programme authorities to find their cruise speed for the implementation of the 2014-2020 programmes.

**Illustration of main achievements / challenges**

**Ex-ante conditionalities**

Ex-ante conditionalities are a key element of the ESIF reform. They aim at making sure that adequate regulatory and policy frameworks are in place and that there is sufficient administrative capacity before investments are made, thus improving the effectiveness and efficiency of investment supported by the ESIFs as well as other public and private investments. They cover most investment areas, including research and innovation, broadband, SMEs, water and transport, active social inclusion, health, vocational education and training. These conditionalities also cover governance and the...
alignment of projects with national strategies in the area of public administration modernisation. Although around 75% of all ex ante conditionalities were fulfilled by the time the programmes were approved, some were not (for example transport master plans underpinning transport investment); leading Member States to the preparation of action plans for their fulfilment.

A large share of the 660 distinct action plans (AP) applicable to ERDF and Cohesion Fund priorities have been reported as completed by Member States by the beginning of 2017: as of 25 January 2017, 358 were completed and 115 were reported as completed but pending the Commission’s assessment. The regulatory deadline for notifying the fulfilment of ex ante conditionalities is June 2017. Even if steady progress has been made in the implementation of action plans, a number of action plans are still delayed or even substantially delayed. Member States reporting in the first half of 2017 will be important to assess whether all ex-ante conditionalities have been fulfilled or not.

Areas where the largest number of action plans are still being implemented are the following: thematic ex ante conditionalities linked with investments in the water and waste sectors (requirements relating to a water pricing policy and to waste management plans) and the general public procurement and state aid ex ante conditionalities. DG Regional and Urban Policy continues to monitor the state of play of action plans and to provide support, whenever necessary. In 2016, support was provided by DG Urban and Regional policy in relation to the fulfilment of ex ante conditionalities. For example, targeted and tailored support was provided to Member States/regions which had difficulties in putting in place smart specialisation strategies. This included joint assistance of DG Urban and Regional policy and DG Research and Innovation through the Policy Support Facility.

**Designation**

The process for the designation of programme authorities and bodies, which is a key step towards the effective implementation of new operational programmes, has continued throughout 2016 under close monitoring by DG Regional and Urban Policy. The aim of the designation process is to ensure that the necessary Management and Control System has been set up in a robust way so as to enable an effective implementation of programmes on the ground.

The designation process, which is a Member States responsibility, has continued in the year 2016, with large number of mainstream programmes now having finalised their designation. However, 33 designations for mainstream programmes for which DG Regional and Urban Policy has the lead are pending at the end of 2016. DG Regional and Urban Policy and Member States engage in order to complete the process for the remaining mainstream programmes as soon as possible.

The designation process for INTERREG and IPA/CBC programmes has been subject to additional delays. The majority of these programmes are finalising their designation packages.
DG Regional and Urban Policy continues to closely work with Member States to identify any difficulties/bottlenecks which have delayed the designation process so as to enable implementation on solid grounds. Tailor-made actions have been taken during 2016, depending on the nature of bottlenecks or difficulties. For example, technical assistance was mobilised in order to provide support to help Member States’ authorities design the IT system or to solve technical issues related to its implementation. Contingency systems have been discussed and agreed when the set-up and/or functioning of fully-fledged IT systems was delayed.

**Project selection and absorption**

In these first years of implementation of the 2014-2020 programming period, the selection of projects to be co-financed by Cohesion policy is a key step towards a successful implementation of investments in this programming period. In 2016, the rhythm of project selection by the member States has accelerated with an overall selection rate reaching 26.1%. This represents a dramatic improvement compared to the level of project selection registered at end 2015 (4.6%). The level of project selection is however uneven across programmes and Member States. DG Regional and Urban Policy has been monitoring and providing support to programmes/ Member States suffering from implementation difficulties.

![2014-2020 ERDF/CF: Project selection and expenditure declared per MS as of 3 January 2017](image)

Selection of projects has not yet translated into a high absorption rate in terms of payments by the Commission. The absorption rate at the end of 2016 falls short of the initial target with an overall figure of 3.7%. Reasons for this delay are manifold; the main ones relates to the delayed designation process (as described above), the time-lag between the selection of projects and the actual generation of first payment claims to the Commission, the prudent approach taken by some authorities in view of the strengthened requirements concerning legality and regularity and annual accounts, the responsible authorities’ work on the closure process of 2007-2013 programmes.

**DG REGIO support to implementation**

During 2016, DG Regional and Urban Policy deployed continuous efforts in supporting Member States' authorities to accelerate the implementation of the 2014-2020 programming period on the ground. Support was provided through technical meetings, targeted advice, dialogue with national authorities, and closer follow up on the

18 Absorption rate = interim payment claims submitted by Member States/amounts decided
implementation. In this respect, the work of REGIO’s Task Force for Better Implementation (TFBI) has to be particularly highlighted. The Task Force was set up in November 2014 with the mandate to help countries with significantly lower-than-average absorption rates in the 2007-2013 period to improve and accelerate implementation. The Task Force has continued its work in relation to the 2014-2020 programming period. Programmes considered at risk or having indicated difficulties are being closely monitored by the Task Force and the responsible geographical units within DG Regional and Urban Policy and support actions are proposed. At the beginning of 2017, a number of programmes in Greece, Italy, Romania, the Czech Republic, Slovakia and two cross-border cooperation programmes were subject to specific monitoring and targeted support by DG Regional and Urban Policy to accelerate the implementation of the 2014-2020 programming period.

The competence centre for administrative capacity building implemented a number of actions supporting Member State administrations, with a specific focus on Member States with weaker administrative capacity. Among the targeted actions carried out in 2016 is the implementation of the pilot phase of TAIEX REGIO PEER2PEER, an exchange tool for regional policy practitioners/experts in Member States. In this framework, 74 exchanges were implemented and 110 accepted by December 2016, involving 1,148 participants from 23 MS (mainly from LT, CZ, RO, BG and HR). The most popular topics so far have been financial instruments, public procurement, smart specialisation, state aid and integrated territorial/urban development. Following the positive results of the expert evaluation carried out, as well as an evaluation workshop with beneficiaries, the decision was taken to prolong operating PEER2PEER until 2020. These exchanges should help Member States increase the quality and the legality of spending and accelerate the absorption of Funds. Several actions have also been carried out in the framework of specific actions plans developed jointly with other Commissions services in order to prevent irregularities and reduce the error rates related to public procurement (action plan developed jointly with DG GROW, other ESIF DGs and EIB) and to state aid (action plan developed jointly with DG COMP). Measures to prevent fraud and corruption included conclusion of the first pilot phase on Integrity Pacts in cooperation with Transparency International to help governments, businesses and civil society to make public procurement procedures more transparent and efficient, and launch of a second phase during which 17 pilot Integrity Pacts will be implemented in 11 Member States.

Major Projects

More than 500 major projects are programmed in the 2014-2020 programmes; Member States with the highest number of projects being Poland, Romania and the Czech Republic. 76 major projects were submitted by Member States by the end of 2016, indicating some delays in the preparation and submission of major projects. The main sectors concerned were roads and other transport infrastructure, water and wastewater, energy and solid waste. 46 of these major projects have already been cleared by DG Regional and Urban Policy\(^19\) while 30 are under appraisal. To be noted that the average approval time to adopt major projects\(^20\) has been significantly reduced compared to the 2007-2013 programming period\(^21\). Delays in submitting major projects can be explained by several factors including delays in setting up programme systems, ambitious planning for major projects, transfer of a number of mature projects under the umbrella of other funding instruments in order to benefit from national allocations, phasing of ongoing 2007-2013 major projects. In parallel, DG Regional and Urban Policy has continued to clear outstanding modifications for the 2007-2013 major projects. The number of pending requests has being progressively

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\(^{19}\) 42 adopted and 4 withdrawn or non-admissible

\(^{20}\) i.e. excluding interruptions, when additional information is requested

\(^{21}\) 100 calendar days as opposed to 224 days in 2007-2013 period.
Financial Instruments

Financial Instruments (FIs) have become increasingly important delivery tools for Cohesion Policy objectives and a significant share of resources has been progressively delivered through these instruments.

At the end of 2015 (the most recent available figures) and for financial instruments set-up in the framework of the 2007-2013 programming period, 80% of FEI funds had been delivered to final recipients and as management cost and fees. Disbursements to final recipients until closure will continue to be monitored by DG Regional and Urban Policy; however, it remains to be seen whether the target of 100% disbursement to final recipients at closure will be achieved.

As regards the 2014-2020 period, ensuring better and increased use of financial instruments is a key objective of the Juncker Commission Initiative "Investment Plan for Europe" and ESI funds are also expected to play their part notably by achieving at least a doubling of use through financial instruments in comparison with 2007-2013.

Planned use of financial instruments for the 2014-2020 programming period reported by Member States show that the targets in relation to Research Development & innovation, to environment and resource efficiency could be reached. Current allocations show that EUR 20.1 billion of ERDF and CF is planned to be delivered through financial instruments.

In 2016 DG Regional and Urban Policy has pursued several strands of work in order to support Member States in setting up and using financial instruments and making proposals for an increased simplification of financial instruments:

- A number of Guidance notes on key topic for the use of financial instruments have been published during 2016 (e.g. on the selection of bodies implementing financial instruments).
- Advice and support to Member States has continued via the Fi-compass platform, which has continued to organise events (conferences, workshops, seminars etc.) addressing horizontal themes of interest for all MS implementing financial instruments. Hands-on support to implement financial instruments has also been delivered to some Member States.
- Innovative internal learning and training tools have also been set up, such as the "FI clinic", which brings together desk officers, policy officers and financial instruments specialists for questions relating both to the 2007-2013 and to 2014-2020 period. Fifteen FI clinic sessions took place in 2016 and more than 80 questions were discussed.
- Work was also carried out with a view to foster the ESIF/EFSI complementarity; one important achievement being the production in February 2016 of a brochure on the topic.
- Finally, in the context of the MFF mid-term review, some simplifications to the financial instrument framework were proposed and are currently being discussed with the co-legislators. The proposal covers important topics, such as: ESIF/EFSI complementarity, implementation of financial instruments by publicly owned banks or institutions operating under a public mandate to promote economic development, the extension of the SME Initiative, clarifications on procedures for replacement of individual irregular expenditure in financial instruments, clarifications of audit procedures of the EIB and IFIs when they manage financial instruments either at EU level or on behalf of managing authorities; measures to deal with negative interests.

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Ensuring and demonstrating the added value of Cohesion Policy and ensuring integration with EU governance mechanisms

Contribution to (short- or long-term) policy achievements

The integration of Cohesion Policy into EU economic governance for 2014-2020 helps to increase the responsiveness of the policy to changing economic circumstances and emerging imbalances. This is done by using the funds to support Country Specific Recommendations (CSRs) relevant for Cohesion Policy and ensuring that they are reflected in 2014-2020 programme strategies and their subsequent modifications. Thus, a strong link is ensured between growth and productivity-enhancing reforms and the related cohesion policy investments, making it possible to achieve a greater impact of ESIF intervention on the ground in relation to EU policy objectives.

Providing evidence on results of 2007-2013 programmes and evaluating their impact contribute to raise awareness of EU citizens and other stakeholders about what the policy and funds deliver. Gathering and disseminating evidence on what does not work as well as what does help Member States and regions develop more effective policies which will be supported by the Funds. Communicating and disseminating results and impacts of programmes contribute to building trust in EU policies, particularly in Cohesion Policy, as an effective contribution to fostering investments for growth and creating jobs in Europe.

Main achievements / challenges

Better linking the EU economic governance mechanisms with Cohesion policy

Throughout 2016, efforts to strengthen the links between the EU economic governance mechanisms and Cohesion policy have continued. During the 2014-2020 programming phase, DG Regional and Urban Policy worked with programme authorities to ensure that programmes reflected implicitly or explicitly (through targeted investment or ex ante conditionalities) relevant Country Specific Recommendations (CSRs).

DG Regional and Urban Policy also provided direct inputs into the 2016 EU semester process in particular by its active involvement in the Commission Country Teams, including actively contributing to the analysis and to the drafting of Country Reports on the assessment of progress made in addressing CSRs identified in previous years and wider structural challenges, and updating the assessment of economic and social developments. DG REGIO contributed directly to the analysis or supported the analysis of other DGs that led to 66 "investment relevant" CSRs (an increase from 32 in the 2015 exercise). These CSRs related to updating and adjusting recommendations made in the 2015 semester exercises or revisiting CSRs previously made. None of the 2016 recommendations required modifications to the recently adopted 2014-2020 programmes.
The main contributions made concerned thematic areas such as administrative reform and capacity, Health reforms, Social inclusion, research and innovation, SME support, and network infrastructures.

**Demonstrating policy results and encouraging policy learning**

In 2016, DG Regional and Urban Policy finalised the ex-post evaluation exercise of the 2007-2013 programming period. The evaluation involved 14 work packages (with 63 programme and 20 project case studies)\(^\text{23}\). Over 3,000 beneficiaries and 1,000 managing authority employees were interviewed; 530 stakeholders participated in 10 seminars to discuss the results – and 80 organisations responded to an online consultation; scientific experts commented on each main deliverable – a total of 25 respected experts in their fields. Furthermore, the evaluation used several innovative methods, including contribution analysis for support to large enterprises and state of the art econometric techniques.

Main findings are presented in section 1.1 above. Overall, the evaluation concluded that investments made in the framework of Cohesion policy in the 2007-2013 programming period will generate nearly €1 trillion of additional GDP by 2023. Impacts across various fields are described in the relevant thematic sections above. Lessons for the future have been taken into account in the mid-term review of the current MFF and will feed into the discussions for the post 2020.

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Contribution to (short- or long-term) policy achievements

DG Regional and urban Policy is continuously looking for ways to further enhance the effectiveness of Cohesion Policy investments. This objective is pursued notably through the preparation of the legislative proposals for post-2020 EU Cohesion Policy, which will shape the Cohesion policy of the future, but also through continuous contributions to the simplification and streamlining of the rules governing the implementation of Cohesion Policy in 2014-2020.

Main achievements / challenges

Positive results were achieved in relation to this objective. Work towards the preparation of the policy post-2020 has globally been carried out according to plan as regards the forward-looking studies, the first results of which will be available in early 2017. In order to mobilise all the knowledge internal to the DG, a series of 20 brainstorming sessions have been launched and are being implemented without bottlenecks, gathering interest from many participants.

As regards the mid-term review of the MFF, the Commission proposal was adopted on September 14th. This also included an ambitious package to further strengthen measures to simplify the use of the ESI Funds for the beneficiaries. The Commission proposals take into account recommendations made by the High-level Group on Simplification, which we set up last year. The changes are very much in line with the orientations of the Budget Focused on Results initiative, and can be grouped under the headings of reducing administrative burden for beneficiaries, improving synergies with other EU instruments, streamlining financial instruments and increasing flexibility. In addition, the proposals include simplification for revenue-generating operations and major projects as well as a number of other changes with a view to clarify rules and increase legal certainty.

Altogether these proposals constitute an ambitious package of changes which can have a real impact in reducing administrative burden, removing bottlenecks and putting the focus on achieving results.
2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question how the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

The first subsection (2.1) reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

The second subsection (2.2) deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are properly documented and reported to the Director-General.

The reports produced are:

- the annual reports by Authorising Officers by Sub-Delegation (AOSDs) in the DG;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from management and audit authorities in Member States in shared management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the reports of the Audit Directorate and ex-post supervision and controls, including the assessment of audit reports received from audit authorities;
- the opinion, observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support management's assurance. It is structured into, (2.1.1) Assessment of audit observations and recommendations, (2.1.2) assessment of the effectiveness of the internal control system, (2.1.3) Legality and Regularity of control, and resulting in (2.1.4) Conclusions as regards assurance.
The table below presents an overview of the financial resources managed by DG Regional and Urban Policy in 2016 as well as the control results for the activities of the Directorate General.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Payments in 2016 including pre-financing (million EUR)</th>
<th>% REGIO</th>
<th>IC indicators</th>
<th>Reservations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2020 period</td>
<td>ERDF / CF</td>
<td>13,512.60</td>
<td>46.60%</td>
<td>Residual risk rate &lt; 2% No risk on the interim payments due to the 10% retention</td>
</tr>
<tr>
<td>Cross border cooperation IPA-CBC/ENI</td>
<td></td>
<td>48.89</td>
<td>0.17%</td>
<td>No risk on the advance payments</td>
</tr>
<tr>
<td>2007-2013 period</td>
<td>ERDF / CF</td>
<td>14,507.95</td>
<td>50.04%</td>
<td>'reportable' error rate: 2.2% to 4.2% Residual error rate 0.4%</td>
</tr>
<tr>
<td>IPA - Cross border cooperation</td>
<td></td>
<td>91.96</td>
<td>0.32%</td>
<td>Error rate: 0.1% to 2%, CRR &lt;2%</td>
</tr>
<tr>
<td>2000-2006 period and before</td>
<td>ERDF / CF</td>
<td>291.37</td>
<td>1.00%</td>
<td>Residual error rate &lt;2%, (corrections applied at closure)</td>
</tr>
<tr>
<td>Solidarity Fund</td>
<td>EUSF</td>
<td>32.77</td>
<td>0.11%</td>
<td>No significant findings</td>
</tr>
<tr>
<td>Indirect Management</td>
<td>IPA Regional Development</td>
<td>372.79</td>
<td>1.29%</td>
<td>2015 error rates validated below materiality</td>
</tr>
<tr>
<td>Urban Innovative Actions; And International Fund for Ireland</td>
<td></td>
<td>44.64</td>
<td>0.15%</td>
<td>No significant findings</td>
</tr>
<tr>
<td>Direct Management</td>
<td>Technical assistance Pilot project Preparatory actions</td>
<td>91.72</td>
<td>0.32%</td>
<td>No significant findings resulted from the checks carried out</td>
</tr>
<tr>
<td>Cross-subdelegations given</td>
<td></td>
<td>9.46</td>
<td>0.03%</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td>29,004.14</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

### 2.1.1 Audit observations and recommendations

This section reports and assesses observations, opinions and conclusions made by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to audit recommendations.

DG Regional and Urban Policy is audited by both external and internal independent auditors: the European Court of Auditors and the Commission internal audit service (IAS).

#### A. European Court of Auditors

**Annual report for 2015 (SoA 2015)**

The European Court of Auditors (the Court) published its Annual Report for the budgetary year 2015 in October 2016. Chapter 6 of the report is dedicated to economic, social and territorial cohesion policy, with DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion Policy's funds accounting for respectively 80% and 20% of the
spending covered by this chapter. For the expenditure managed by DG Regional and Urban policy, the audit sample drawn by the Court was composed of payments relating exclusively to the 2007-2013 programming period.

The Court's audit results on a sample of transactions are taken into account for DG Regional and Urban Policy's assurance approach. The Court's findings are treated in the same way as audit results from Member States and the Commission, and are individually followed-up.

Main conclusions on legality and regularity of the expenditure: The Court concluded in its 2015 Annual Report that payments for economic, social and territorial cohesion policy were affected by material errors, with a most likely error of 5.2% and a frequency of error in the audited sample of 32%. Both the frequency and the rate of error have decreased compared to the previous year. The Court underlined that Member States verifications before declaring expenditure to the Commission, if all information available had been properly used, could have reduced the error rate by 3 percentage points. The main sources of errors reported were ineligible expenditure and projects, followed by non-compliance with public procurement and State aid rules (see table below).

Main sources of ERDF/CF errors detected by the Court

<table>
<thead>
<tr>
<th>Category</th>
<th>Share of total error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ineligible costs included in expenditure declarations</td>
<td>46%</td>
</tr>
<tr>
<td>Ineligible projects/activities or beneficiaries</td>
<td>28%</td>
</tr>
<tr>
<td>Errors in public procurement</td>
<td>14%</td>
</tr>
<tr>
<td>Non-compliance with State aid rules</td>
<td>6%</td>
</tr>
<tr>
<td>Other errors</td>
<td>6%</td>
</tr>
</tbody>
</table>

The Court also reviewed the effectiveness of the control systems by analysing the Directorate General’s validation of annual control reports submitted by audit authorities and the reservations made in DG Regional and Urban Policy’s 2015 Annual Activity Report.

On the work performed by DG Regional and Urban Policy to assess the work of ERDF/CF audit authorities, the Court concluded that the amounts at risk reported in the 2015 Annual Activity Report (between 3% and 5.6%) and the reservations made are accurate and consistent with the available information. It also noted some improvements in audit authorities’ checks on State aid and public procurement rules compared to the previous years' assessment. The Court mentioned that the robustness of the Commission's assessment depends on the accuracy and reliability of information reported by national authorities, with a risk of understatement of errors or inaccurate information on financial corrections.

Impact on assurance: The error rate estimated by the Court of 5.2% for Cohesion Policy in 2015 is above the materiality level of 2%, but is less than half the error rate reported by the Court during the implementation of the 2000-2006 programming period. It is expected that this rate will continue to oscillate around this value until closure, due to the multiannual character of the management and control systems of programmes and the fact that not all controls may have been carried out by the programme authorities when expenditure is declared to the Commission. At closure, after all controls have taken place at national level, the residual error is expected to fall below the materiality level (0.4% reported by Member States by the legal deadline of 31 March 2017, prior to assessment and validation by the Commission services).

24 As recommended by the Court in its 2013 Annual Report (see Recommendation 6 in chapter 5 of the 2013 ECA Annual report), the Commission also disclosed further details in annex to the Annual Activity report for individual cases where, based on its assessment of the specific situations, it takes a reasoned decision not to make reservations or not to include the issue in the quantification of the reservation.
Management verifications carried out by managing authorities before certifying expenditure to the Commission ('first level checks' of expenditure certification) is the critical first layer of control in the management and control systems. Member States bear responsibility in first instance to prevent, detect and correct irregularities in accordance with the legal framework. In case of evidence of a significant number of errors or insufficiently robust management verifications that undermine assurance, the Directorate General carries out risk-based audits to detect deficiencies in this element of the systems and takes actions to remedy the identified weaknesses\textsuperscript{25}. All the Court's findings on the effectiveness and efficiency of management verifications are also strictly followed up by the Directorate General which has a specific audit enquiry in place (see section 2.1.3.1 below). As a general rule in the 2007-2013 programming period, identification of serious deficiencies in the management verifications is a ground for interruption of payments, to be resumed when there is adequate and reliable evidence that weaknesses have been remedied and appropriate financial corrections are applied for expenditure concerned. A reservation is issued in the Annual Activity Report for related programmes.

Another crucial factor for the Directorate General's assurance building process is the effective functioning of audit authorities so that they report reliable audit results for the Commission's use. The Directorate General pays particular attention to the Court's findings on the review of the Commission's assessment on the work of audit authorities. The Court's results in this area are integrated with the DG's assessment of the reliability it can place on audits\textsuperscript{26}. In particular in order to follow up the Court's finding that the robustness of the Commission's assessment depends on the accuracy and reliability of programme authorities reported information, the Directorate General has taken specific measures to improve the reliability of this information, including the individual error rates reported by audit authorities and the financial corrections reported by certifying authorities. The results of this specific audit work, which are detailed in section 2.1.3, lead to a re-assessment and recalculation of the individual error rates reported when necessary, as well as to adjustments in the reports of certifying authorities, improving the basis for its calculation of the cumulative residual risk.

The decreasing trend in both the Court's calculated error rate and reported frequency shows the general improvement in tackling errors in Cohesion Policy. The successive programming periods have increased the administrative capacity of programme authorities and the reliability of their work, contributing to the reduction of the error rate over the years. In addition, the 2014-2020 programming period brings a new assurance model with reinforced provisions for control and accountability, along with annual balance payments (or recoveries) on the basis of certified accounts after all controls and necessary corrections have been implemented at national level (see section 2.1.3). The expectation is that the annual residual error rate of each programme will be below the materiality level of 2% or it will trigger additional corrections. In this context, the Commission considers that the programming period 2014-2020 provides an opportunity to move to a real single audit approach at EU-level where each actor reviews the controls and audit work performed in previous stages, whether from Member States or the Commission, in order to draw its own assurance. The single audit approach efficiently uses resources while avoiding the unnecessary repetition of audits for beneficiaries, in line with the principle of proportionality of controls.

Follow-up of recommendations:
The Court issued four new recommendations in its 2015 Annual Report for Cohesion Policy aiming to reconsider the design and delivery mechanism of the ESI Funds in the post-2020 programming period, promoting further simplification and guidance on eligibility rules in

\textsuperscript{25} See section 2.1.3.1 A2 on results of the risk-targeted audit enquiry “Bridge the assurance gap” and on “interruptions/suspensions”.

\textsuperscript{26} See section 2.1.3.1 A2 on the review of the work of audit authorities.
the current programming period and addressing specific control requirements for financial
instruments in view of the closure of the 2007-2013 programming period.
The Commission accepted these recommendations and is taking actions for their
implementation (see annex 8 for more details).
Regarding the follow-up of previous recommendations, the Court assessed that all
recommendations issued in its 2012 and 2013 Annual Reports and accepted by the
Commission, had been implemented.

Performance assessment of projects sampled by the Court:

For the second year, the Court also assessed whether projects already completed at the
time of the audit had achieved their objectives, based on both project outputs and results.
The Court concluded that 99% of the examined projects had a performance measurement
system in place for output indicators, also having defined result indicators for 60% of
them. For 96% of projects with performance measurement systems in place, output and result indicators defined have been either fully or partially achieved.

The performance of projects will be finally evaluated and reported to the Commission at
the time of closure of the operational programmes. For the 2014-2020 programming
period, the reliability and exhaustiveness of the performance data reported by Member
States will be further strengthened as a result of the increase in result-orientation.

Detailed information on the main conclusions and recommendations of the Court’s annual
report for 2015 in relation to DG Regional and Urban policy is available in Annex 8.

The Court’s Performance audits and special reports

Regional and Urban Policy and related investments were involved in about ten special
reports finalised by the Court in 2016. These audits covered various topics, either thematic
investments supported by cohesion policy funds such as: rail freight transport in the EU,
EU policy initiatives and financial support for Roma integration, maritime transport in the
EU, and actions tackling climate change; or other aspects linked to the implementation of
cohesion policy funds such as: financial instruments in the 2007-2013 programming
period, compliance with State aid rules, closure of the 2007-2013 programmes,
partnership agreements and operational programmes under the 2014-2020 period.

In audits on thematic investments supported by cohesion policy funds, the Courts’
conclusions focused mainly on:

- setting of investment priorities by Member States; and
- a better prioritisation and selection of projects to achieve objectives set in different
  policy areas, with the assistance of the Commission.

In the field of financial instruments, the Court examined whether financial instruments
in the areas of regional, social, transport and energy policy were an efficient way to
implement the EU budget during the period 2007-2013. Auditors identified a number of
significant obstacles although they acknowledge that improvements were made for the
2014-2020 programming period, and that under certain conditions, financial instruments
represent a better way to spend public money.

The Commission underlined in its replies that when preparing the 2014-2020 legal
framework, it addressed previous challenges detected in the 2007-2013 programming
period in order to provide Member States with clarity and legal certainty. In doing this, it
carefully considered past recommendations of the Court. The Commission considers it
premature to conclude on potential weaknesses of the 2014-2020 legal framework at this
stage of implementation and therefore did not accept the recommendations to modify
underlying legislative basis. The Commission is also unable to accept the recommendation
linked to an eventual change in the legislative basis for the 2007-2013 programming period as Member States and financial operators have legitimate expectations with regard to the interpretation of the legal basis which has been the subject of detailed guidance from the Commission.

In the field of **compliance with State aid rules in Cohesion Policy**, the Court noted that the Commission has simplified State aid legislation, reducing bureaucracy and increasing transparency, while placing greater responsibility on Member States on the design and implementation of measures – increasing the risk of errors in this area. In its replies, the Commission underlined the action plan launched in 2015 for authorities in charge of running Cohesion Policy programmes in order to further minimise errors. Furthermore, the fulfilment of specific measures strengthening administrative capacity in the field of State aid at national and local level has become one of the preconditions (so-called "ex-ante conditionalities") for the funds to flow. These preventive measures will improve the detecting capacity of programme authorities and help reduce errors.

Regarding the performance audit on the assessment of the **arrangements provided for the closure of the 2007-2013 cohesion and rural development programmes**, the Court noted the adequacy, relevance and timeliness of the Commission closure guidelines. Recommendations issued focused mainly on opportunities for further harmonisation between audited policy areas when preparing the post-2020 programming period. The Commission accepted to consider further harmonisation to a certain extent when preparing for post-2020, however emphasising that it is not in a position to commit to any concrete legislative proposals at this stage. Recommendations issued also addressed specific procedures at closure to verify the eligibility of expenditure, in particular that related to financial instruments and contractual advances, that the Commission accepted (it already encouraged programme authorities in 2016 to pay particular attention to these risks at closure).

Finally the Court performed an audit on the **adoption of the 2014-2020 partnership agreements and programmes in Cohesion Policy.** The objective was to determine whether EU funding is now more aligned with the EU-2020 strategy priorities and interventions better justified in terms of investment needs and intended results, and how the performance of these programmes would be measured. Main conclusions are that despite more demanding negotiations arising from to additional requirements, the Commission and the Member States have been successful in developing programmes with more robust intervention logic; partnership agreements have also proven to be an effective instrument in ring-fencing ESI funding for thematic objectives and investment priorities. The Court considers however that the way operational programmes are structured resulted in a significant number of performance indicators which could create administrative burden in the monitoring and reporting of Member States, even though it could pave the way for a more performance-based budget for the post-2020 programming period. The Court also regrets that the Commission did not succeed in harmonising the definition of those indicators and the requirements of reporting between Funds, which could impede a meaningful aggregation and comparison of performance data between Funds. The report contains six recommendations which are for the vast majority accepted by the Commission.

Detailed information on the main conclusions and recommendations of special reports involving DG Regional and Urban policy is available in Annex 8.

The Commission is taking action to implement the recommendations which have been accepted. Regarding special reports on thematic investments supported by Cohesion Policy, the vast majority of the recommendations issued were addressed to the Directorates General responsible for the policies concerned and some recommendations to the Member States. DG Regional and Urban policy is implementing the Court’s recommendations within the limits of its competencies provided by the legal framework under shared management.
B. Internal Audit Service (IAS)

In 2016, the IAS completed two audits:

- An audit on "Early implementation of the ESIF control strategy 2014-2020" to assess whether the control strategy of the three ESIF DGs for the management of their ESI funds was properly designed, effectively implemented and well-coordinated in the early stages of the 2014-2020 period.

  The IAS identified good practices in place: a single audit strategy and an action plan between REGIO and EMPL to pool and share audit resources. While recognising the early nature of this audit and the DGs' dependence on Member States to notify designated authorities to enable them to carry out their own audit activities, it identified two 'Very important' issues.

  The first one relates to the design of the control strategy. The legal basis for the 2014-2020 period introduced a number of new features and simplification measures which the DGs should assess more deeply in terms of their impact from a control/assurance perspective. Although the DG's audit plans are risk-based, there is no consistency between the DGs on how to take into account resources shortages and it is not clear to what extent those shortages impact the respective assurances.

  The second one relates to the implementation of the ESIF control strategy in the early stages. Some issues have been noted concerning the methodology and risk assessment for Early Preventive System Audits (EPSA). The DGs do not plan to review the Audit Strategies for certain risky OPs and there is room for improvement on the monitoring of these reviews. Regarding thematic audits on 'Performance Data Reliability' and Financial Instruments, in DGs REGIO and MARE there had been no audits on these issues yet, a number of methodological issues have yet to be resolved and the audit methodology is not yet defined for the audits on financial instruments.

- An audit on "Effectiveness of simplification measures under 2014-2020" to assess whether the three ESIF DGs have put in place the necessary processes to ensure that the simplification measures introduced in the 2014-2020 regulatory framework are effective in achieving the objective of reducing the administrative burden (at beneficiary and MS level) whilst at the same time obtaining the necessary assurances on legality and regularity of transactions and performance of programmes. Provisional estimates suggest that the take up of a number of simplification measures is low in practice and the resulting administrative savings will probably not meet the targets that were set of the outset of the 2014-2020 programming period.

  In this context, the IAS identified two "Very Important" issues.

  The first one relates to the risk that the uptake of the simplification measures may remain lower than expected for the MFF period 2014-2020 if the remaining obstacles to implementing simplification measures are not addressed. In addition, gold-plating may not be sufficiently addressed, so national rules and processes will not be significantly simplified.

  The second relates to the need to ensure that sufficient assurances are obtained on the legality and regularity of transactions following the introduction of simplification measures (for example the need to ensure that SCO constitute reliable proxies of real costs).
DG Regional and Urban Policy accepted all the recommendations from the two audits above and will implement them according to the agreed timetable.

In addition, the IAS has started two audits on "the Amendment of 2014-2020 Operational Programmes" and an audit on "Major projects". These audits are on-going and should be completed in 2017.

Finally, in 2016, the IAS has also carried out several follow-up assignments on the previous audits. As a result all very important recommendations followed up have been closed or downgraded to Important;

Conclusion:
Based on all work undertaken in the period 2014-2016, the IAS has provided its conclusion on the state of internal control within DG Regional and Urban Policy.

IAS has concluded that the internal control systems audited are overall working satisfactorily although a number of very important findings remain to be addressed in line with the agreed action plans. Particular attention is drawn to the combined effect of the very important recommendations related to the design and implementation of the ESIF control strategy 2014-2020 showing that certain elements of the overall control strategy need to be further strengthened, including the assurance building process and some new control related requirements introduced by the 2014-2020 legal base.

The Directorate General considers that the risks are mitigated and that the above findings will not impact on the assurance provided in the AAR given the fact that the three DGs agreed on 09/03/2017 on a common action plan for the audit on 'simplification measures' and that parts of the action plan relating to the audit on the 'ESIF Control Strategy' have already been implemented. In addition, there are no very important recommendations being overdue.
2.1.2 Assessment of the effectiveness of the internal control systems

The Commission has adopted a set of internal control standards, based on international good practices, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG Regional and Urban Policy has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

The DG assesses the effectiveness of the internal control systems twice per year (a mid-year round of interviews of the Chefs de file responsible for the Internal Control Standard (ICS) followed by a self-assessment exercise at the end of the year). The mid-year review allowed identifying areas for which improvements were needed and taking remedial actions when appropriate. The self-assessment exercise at the end of the year aimed at confirming compliance and effectiveness or at identifying further needs for actions, in case of partial effectiveness.

The self-assessment performed by the ICS Chefs de file was reviewed by taking into consideration mainly the following:

- The annual AOSD Management Reports;
- The non-compliance events reported and exceptions requested;
- The conclusion of the Internal Auditor on the state of internal control in the DG (see IAS above);
- The results of the IAS and the Court’s audits and the follow-up of their recommendations as reported in annex.

Overview of the main changes in REGIO internal control environment and mitigating measures implemented

The main changes impacting REGIO’s internal control environment in 2016 resulted from the reorganisations which took place in the second semester of the year, driven by corporate decisions (centralisation of the HR function) as well as internal optimisation endeavours (changes in the organogram, revision of internal processes for delivering technical assistance). Overall, no significant effects on the effectiveness of the internal control environment were noted, although actions will need to be taken in 2017 to ensure that the HR services delivered through the new set-up meet the required operational standards.

Work carried out to strengthen the effectiveness of the standards

Targeted actions were implemented throughout 2016 in order to strengthen the effectiveness of the standards for which room for improvement was identified as a result of the 2015 review: ICS 2 (Staff Evaluation and Development), ICS 3 (Staff Allocation and Mobility), ICS 4 (Staff Appraisal and Development), ICS 7 (Operational Structure), ICS 8 (Processes and Procedures), and ICS 10 (Business Continuity).

Other opportunities for further strengthening the effectiveness of the internal controls in other areas were also seized.

Based on the end-of-the-year assessment carried out, no weaknesses were identified which could seriously affect DG REGIO compliance in 2016 with any of the requirements associated with the internal control standards.

The IAS' Opinion on the state of controls in REGIO in 2016 also concluded that the internal control system in place provides reasonable assurance regarding the achievement of the
business objectives, although a number of very important findings remain to be addressed in line with the agreed action plans. For all these open recommendations, REGIO is taking the necessary actions to tackle the different issues brought up by the IAS audits. Overall, none of the very important recommendations is overdue.

On the basis of the above, the following conclusions can be drawn:

- **ICS generally effective**: Staff Allocation and Mobility (ICS 3); Objectives and Performance Indicators (ICS 5); Risk Management Process (ICS 6); Management Supervision (ICS 9); Information and Communication (ICS 12); Accounting and Financial Reporting (ICS 13); Evaluation of Activities (ICS 14), Internal Audit Capability (ICS 16);

- **ICS generally effective with some (minor) improvements needed**: Mission (ICS 1); Ethical and Organisational Values (ICS 2); Staff Evaluation and Development (ICS 4); Operational Structure (ICS 7); Processes and Procedures (ICS 8); Business Continuity (ICS 10); Document Management (ICS 11); Evaluation of Activities (ICS 14).

No ICS are considered partially effective or ineffective.

Further enhancing of the effectiveness of the DG’s control arrangements in place is an ongoing effort that will continue in 2017, when the new internal control framework which was adopted on the 19th of April 2017\(^{27}\) will need to be implemented.

In particular, actions aimed at further increasing the robustness of the DG’s internal control environment will be implemented in 2017 in areas covered by the standards identified as "Generally effective with some (minor) improvements needed":

- Mission (ICS 1);
- Ethical and Organisational Values (ICS 2);
- Staff Evaluation and Development (ICS 4);
- Processes and Procedures (ICS 8);
- Document Management (ICS 11);
- Evaluation of Activities (ICS 14).

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\(^{27}\) Communication on the Revision of the Internal Control Framework (C(2017)2373)
2.1.3 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

2.1.3.1 Control effectiveness as regards legality and regularity

An introduction to shared management and Cohesion Policy Funds and to the control architecture is provided in Annex 8.

A. Shared Management

A.1 ERDF and Cohesion Fund (CF): A strong control framework for the 2014-2020 programming period

In 2016, DG Regional and Urban Policy paid EUR 13.5 Billion for the 2014-2020 programmes.

Materiality criteria (control objective) and reservation

Regarding the legality and regularity of the underlying transactions for the 2014-2020 programming period, the objective is to ensure that the estimated residual risk of error is below the materiality level of 2% for each operational programme and accounting year.

The Directorate-General therefore assesses each operational programme in order to identify reservations and additional corrective measures that need to be applied. Annex IV discloses in detail the materiality criteria. Reservations or partial reservations are made for programmes with:

- Significant deficiencies in some key elements of the systems; and/or
- some legality and regularity issues and insufficient level of financial corrections implemented (the annual "residual total error rate" remains above 2%); and/or
- material issues on the completeness, accuracy and veracity of the accounts.

Source of information used to build up the assurance

For the 2014-2020 programming period, the main assurance source is the submission of the "assurance package" that programme authorities must provide each year by 15 February up to and including 2025. These "assurance packages" contain for each programme:

- A Management Declaration and Annual Summary, prepared by the managing authority;
- Certified Accounts, prepared by the certifying authority, which present

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28 Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).
a) the total amount of eligible expenditure for the accounting year concerned, the total amount of corresponding public expenditure incurred and the total amount of corresponding payments made to beneficiaries;

b) the amounts withdrawn and recovered during the accounting year, the amounts to be recovered as at the end of the accounting year and irrecoverable amounts;

c) the amounts of programme contributions paid to financial instruments under Article 41(1) and advances for State aid under Article 131(4), and their effective use on the ground;

d) for each priority, a reconciliation between the expenditure, stated in the accounts and the expenditure declared in the same accounting year, with an explanation of any differences.

- An Annual Control Report and Audit Opinion, issued by the audit authority, based on the main findings of system audits carried out to verify the effective functioning of the management and control system and audits on appropriate samples of operations on the basis of the declared expenditure, as well as audits on the accounts.

A.1.1 The assurance basis: solid and supervised management & control systems in Member States. Safeguarding the EU Budget by preventive and corrective actions

Setting up a robust management and control system (MS level, EC level):

Member States are, in first instance, responsible to prevent and detect irregularities, to make the required financial corrections and to report residual error rates each year. In that regard, the 2014-2020 programming period introduced some major regulatory changes in order to increase the programme authorities' accountability and to strengthen the management and control system, which are:

- Designation as a first layer of assurance aiming to ensure that the managing and certifying authorities in charge of each operational programme (OP) have the appropriate management and control system set up from the start of the period, in line with assessment criteria set in the regulation. The notification of the designation is a condition to the submission of the first application for interim payment to the Commission. This is complemented by horizontal ex ante conditionalities on the application of general governance issues such as public procurement or State aid to ensure that the appropriate legislative and regulatory environment is in place as from the start of the programmes.

- A twelve-month accounting period running from 1 July year n-1 to 30 June year n with the submission of programme annual accounts to the Commission each year on 15/02/n+1, reflecting an annual accountability in line with the annual discharge of the EU budget.

- A retention of 10% from each interim payment made by the European Commission during the accounting year to protect the EU budget until the submission of the programme accounts, once the full national control cycle is finalised; calculation of the balance to be paid/recovered on the basis of the accepted programme accounts.

The accounts should reflect the necessary financial corrections implemented to bring the annual residual risk below the materiality threshold (2%) for each programme. Thus management verifications and controls now have to be completed in time for the certification of annual programme accounts to the Commission.

- Submission to the Commission of documents accompanying the accounts to give assurance on: (1) the accuracy of the accounts, (2) the effective functioning of the management and control system and (3) the legality and regularity of the
underlying transactions included in the accounts, thus reinforcing the accountability of programme authorities (the "assurance package" as described above).

- Obligatory application of net financial corrections by the Commission where irregularities demonstrating serious deficiencies in the management and control system of the programme are detected by the Commission or the European Court of Auditors, but were not already identified in the assurance documents / other national audit reports previously submitted to the Commission, or where no remedial corrective measures were taken by the Member State by the time of detection by EU audits.

**Acceptance of the accounts and assessment of legality and regularity: two separate, but complementary processes**

This new architecture for the programming period 2014-2020 entails a new process of annual acceptance of accounts by the Commission. This process leads to the closure of an annual block of expenditure for each programme. The acceptance of accounts is a separate process from the assessment of the legality and regularity of expenditure, as foreseen in the regulation. However the block of expenditure certified in the accounts should not contain any remaining material level of irregularities. If a material level of irregularities is still identified in the accounts, either as reported by the audit authority (for ex. because of an annual residual error rate above 2%) or identified through Commission audits carried out on a risk-basis once the assurance packages have been assessed, the Commission has to launch financial correction procedures. These corrections will be net, either if the Member State does not accept the corrections (as for 2007-2013), or if they point to serious deficiencies not previously detected / corrected or reported by the Member State (new supervisory tool for 2014-2020). As a result, the process should allow the Commission to obtain reasonable assurance that the residual risk of error – after all corrections are applied – is below 2% for each programme, year on year.

**A system under constant monitoring: Commission's desk and on-the-spot audit work to implement the 2014-2020 Funds Single Audit Strategy**

The Single Audit Strategy for the funds managed by REGIO, EMPL and MARE for the 2014-2020 programming period aims at focusing the Commission's audit activity on the re-performance of the work of the audit authorities. This single audit approach is completed by capacity building actions and thematic/targeted audits to ensure that no serious deficiencies remain uncovered or uncorrected by the Member States when submitting the accounts, and that the Commission can rely on the assurance packages. The overall objective of the single audit strategy is to obtain reasonable assurance that the management and control systems established and implemented by Member States:

- comply with requirements of the relevant EU Regulations;
- are functioning effectively to prevent and detect errors and irregularities and to ensure the legality and regularity and the effectiveness of the expenditure declared to the Commission; and
- ensure the quality and reliability of the systems in place for reporting performance data.

The 2014-2020 Single Audit Strategy builds upon all efforts and achievements in previous programming periods, for a robust and coordinated control and audit framework between the Commission and the Member States. Under the 2014-2020 framework **95% of audit authorities remain unchanged as compared to 2007-2013**. The control systems can thereby benefit to a large extent from the extensive audit expertise and the quality of the work already developed under the 2007-2013 programming period. This will facilitate Commission's reliance on the work of audit authorities in the Member States for 2014-2020 as well, based on continuous monitoring.
This strategic approach is followed by the Commission in its assurance process which will be built up each year, combining:

- desk review: assessment of the designation process after programme adoption; examination of the ‘assurance package’ provided each year; and assessment of system audit reports and information obtained from Member States and beneficiary countries and from other EU sources.

- on-the-spot, risk-based audit work including:
  - review of audit authorities’ work, through re-performance of their audit work and regular monitoring when reliance has been obtained (at least two thirds of the audit capacity on the spot);
  - annual fact finding missions to assess the quality and reliability of audit information reported in the assurance packages in particular the annual control reports and audit opinions;
  - thematic / targeted early preventive system audits on specific areas, covering for example the reliability of systems for reporting performance data, management of financial instruments, essential key requirements of systems such as project selection, management verifications or the setting of proportionate and effective anti-fraud measures.

Preventive and capacity building actions for the operational programmes authorities will comprise providing early advice and feedback on the functioning of management and control systems and sharing of identified weaknesses and good practices with all programme authorities, to improve the sharing and learning from experience.

The Single Audit Strategy, accordingly, presents an overall vision on how to obtain assurance year on year and for the whole programming period.

The designation process: Commission’s review

<table>
<thead>
<tr>
<th>Indicator (programming period 2014-2020)²⁹</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>For mainstream programmes</td>
<td></td>
</tr>
<tr>
<td>% of managing and certifying authorities designated (compared to total number of ERDF/CF programmes) including multi-fund programmes with an ESF component</td>
<td>181 out of 209³⁰ (87%)</td>
</tr>
<tr>
<td>For ETC and IPA-ENI:</td>
<td></td>
</tr>
<tr>
<td>% of managing and certifying authorities designated (compared to total number of programmes)</td>
<td>33 out of 86³¹ (38%)</td>
</tr>
</tbody>
</table>

At mid-April 2017, notifications have been received for 214 operational programmes (71%).

The Commission may decide to assess designation packages³² which exceed EUR 250 million in Fund contribution, on the basis of its risk assessment. The Member State, on a voluntary basis, may also submit the designation package to the Commission for observation when certain conditions are met. Such assessment shall not interrupt payments in line with the regulation.

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²⁹ By mid-April 2017
³⁰ Designation of authorities not yet notified for 28 mainstream programmes: AT (1), BE (2), DE (8), FI (1), FR (2), IE (2), IT (6), RO (4), SK (1) and UK (1).
³¹ Including 10 IPA-CBC programmes.
³² The designation package comprises the description of the management and control system, the opinion of the independent audit body and the supporting audit report (see article 124 CPR).
Based on the results of a joint risk assessment shared between REGIO, EMPL and MARE, REGIO has identified for review the designation package for 52 programmes for which it is 'chef de file'. For these programmes, the REGIO audit directorate carries out desk reviews with the possibility to conduct on-the-spot fact-finding missions to collect additional information or clarifications before drawing conclusion, where considered necessary.

As at 31/03/2017, 33 (out of 52) designation packages for programmes at risk have been received, out of which 31 have been analysed through desk review and/or through on-the-spot missions. In 2016, 6 designation fact-finding missions took place in CZ, ES, FR, HR, HU and PL.

The desk-review and the fact-finding missions have confirmed that the main difficulties identified in the designation process relate to (a) the set-up of IT systems to feature the new elements of the 2014-2020 period in terms of reporting and (b) the design of procedures to ensure a robust supervision of managing authorities over intermediate bodies. The concerned Member States have taken measures to address these blocking factors and the Commission is closely monitoring the required improvements, when applicable, in close cooperation with audit authorities. This will contribute to improved management and control systems and compliance of certified expenditure.

A.1.2. Annual assurance – results for 2016

In line with the system described under section A1 above, DG Regional and Urban Policy reports in its Annual Activity Report (AAR) on various types of payments it has made in the AAR reporting year, corresponding to three accounting years (with exception of the initial pre-financing that is not related to any accounting year):

- the annual pre-financing is available to the Member State from 2016 until the end of the programming period;

- an additional initial pre-financing has been paid to Greece as part of the "Jobs and Growth Plan";

- interim payments made in the first semester of the AAR reporting year and covering expenses of one accounting year, taking into account the 10% retention and audit assurance reported in assurance packages received before the finalisation of the AAR;

- interim payments made in the second semester of the AAR reporting year and covering expenses of the next accounting year, taking into account the 10% retention;

- payment or recovery of the annual balance made in the AAR reporting year on the basis of the acceptance of accounts relating to a previous accounting year.

Table: 2016 payments for the 2014-2020 programmes:

<table>
<thead>
<tr>
<th>ERDF/CF (EUR million)</th>
<th>2016 – 1st semester</th>
<th>2016 – 2nd semester</th>
<th>2016 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial pre-financing</td>
<td></td>
<td></td>
<td>2,822.68</td>
</tr>
<tr>
<td>Annual pre-financing</td>
<td></td>
<td></td>
<td>4,894.45</td>
</tr>
<tr>
<td>Interim payments</td>
<td>881.15</td>
<td>4,914.32</td>
<td>5,795.48</td>
</tr>
<tr>
<td>Payments/recoveries of the annual balance</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

33 The cumulative audit knowledge as explained in chapter 2.1.3. constituted also a criterion when deciding on the work to be carried out on designation whenever the Independent Audit Body in charge of assessing the 2014-2020 system description is the same as the audit authority for the period 2007-2013 and when it is considered reliable.
Ensure the accuracy and completeness of the programme accounts related to EU payments made in 2016

For the first accounting year (from 1 January 2014 to 30 June 2015), no balance payment/recovery was made in 2016 since no expenditure has been declared by Member States and no annual pre-financing was paid out in 2015.

In relation to the second accounting year (from 1 July 2015 to 30 June 2016), expenditure the Commission has received accounts and relative accompanying documents for all programmes. In addition assurance packages for 10 IPA-CBC programmes were received.

For most of the operational programmes (247 out of 295) no amounts were certified in the accounts ("zero accounts") since no expenditure was declared until 31/07/2016. This concerns 13 Member States.

For 35 programmes (plus another 14 multi-fund programmes with only ESF expenditure), ERDF/CF expenditure was certified in the accounts submitted to the Commission in February/March 2017 for a total amount of EUR 1,666 million. This is a difference of EUR 22.5 million compared to the related final interim applications, EUR 10.7 million of which represents the amounts of irregularities deducted by the Member States from the accounts as a result of their audits of operations (see table on page 51). The audit authorities issued unqualified audit opinions on the completeness, accuracy and veracity of the submitted accounts.

Upon receipt, DG Regional and Urban Policy has made an assessment to confirm the extent of the work carried out by the audit authorities to issue their audit opinions. Through its assessment the audit directorate could agree with these opinions in all but one case, thus confirming the completeness, accuracy and veracity of the submitted accounts. In one case the unqualified opinion issue by the audit authority was found not to be in line with the fact that submitted accounts still contained expenditure related to an on-going interruption procedure and for which an assessment of the legality of this expenditure was thus still on-going. The accounts were returned for correction and the Member State agreed to implement the requested action and to re-submit corrected accounts.

It is anticipated that by the regulatory deadline of 31 May 2017 DG REGIO will be in a position to accept all received accounts. Consequently, the final balance will be processed by 30 June 2017 within 30 days after the adoption of the decisions.

Give assurance on Legality and Regularity and on the effective functioning of management and control systems

Assurance packages provide also the basis for the audit opinions on the management and control system in place and on the legality and regularity of underlying transactions.

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34 For three programmes (1 BE and 2 ETC), the accounts and assurance packages were submitted slightly after the regulatory deadline of 15 February due to technical problems in the submission.
35 In terms of total eligible expenditure certified in the accounts.
36 The remaining EUR 11.8 million deducted in the accounts are related to other verifications and controls than audits of operations, as from information transmitted by Member States in SFC2014.
37 Following the regulatory framework (Article 139(2) CPR), the audit authority’s opinion on the accounts is the key criterion to decide on the acceptance of the accounts.
38 OP 2014GR16M1OP001
The Commission's level of assurance varies in accordance with the different types of payments made during the AAR reporting year 2016.

**Pre-financing payments made in 2016**

Initial and annual pre-financing payments can be considered as not being 'at risk' from the legality and regularity perspective, due to the nature of these amounts still being assets of the European Commission which will be only transferred to Member States when 'cleared' in the Commission accounts at closure of programmes (initial pre financing) or following the acceptance of accounts (annual pre-financing).

**Interim payments made in 2016**

The assurance on EU interim payments made by the Commission in 2016 (including for 128 programmes for which expenditure was declared and reimbursed in the 2nd semester, therefore falling under the 3rd accounting year) is based on the following elements:

- All interim payments were subject to 10% retention in line with the regulation, pending finalisation of the full national control cycle.
- Reliable audit authorities have validated the designation process for these programmes before the first interim payment was submitted to the Commission.
- Results from all available audit information, such as 79 national system audit reports submitted by the audit authorities and/or the results of the Commission own audit work, and in particular the early preventive system audits performed in 2016, were assessed.

In addition, for payments made in the first semester 2016 and falling under the second accounting year, assurance packages received in February 2017 included audit opinions on the effective functioning of the systems and legality and regularity for 49 OPs based on system audits and audits on operations and provided information on management verifications carried out, an analysis of the nature of irregularities detected and weaknesses identified in the management and control system and remedial actions (including financial corrections) already applied or on-going.

The audit authorities issued unqualified opinions in relation to the legality and regularity of expenditure entered in the accounts, and the management and control systems for the 35 programmes with ERDF/CF expenditure certified in the second account year.

**Member States and DG REGIO's preliminary audit opinions on the received assurance packages:**

<table>
<thead>
<tr>
<th>Audit opinions</th>
<th>Accounts</th>
<th>Legality and regularity</th>
<th>Management and Control system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MS REGIO</td>
<td>MS REGIO</td>
<td>MS REGIO</td>
</tr>
<tr>
<td>Unqualified</td>
<td>35 35(^{43})</td>
<td>35 34</td>
<td>35 14</td>
</tr>
<tr>
<td>Qualified with limited</td>
<td>1(^{44})</td>
<td></td>
<td>21(^{45})</td>
</tr>
</tbody>
</table>

---

39 The CPR also foresees annual pre-financing payments as from 2016, which will be cleared each subsequent year following the acceptance of accounts. No annual pre-financing was therefore foreseen in 2015.
40 Acting as independent audit bodies as required by the CPR
41 35 OPs with ERDF/CF expenditure and 14 multi-fund OPs with only ESF expenditure in the accounts but a common management and control system with ERDF/CF
42 There is one qualified opinion with limited impact for the OP 2014HU16M00OP001, but no ERDF/CF expenditure has been certified in the accounts (only ESF)
43 For OP 2014GR16M1OP001 (Transport, infrastructure, environment and sustainable development), the Member State has submitted revised accounts on 24/04/2017 at the request of the Commission. It is expected to accept all received accounts by 31 May 2017
44 OP 2014EE16M3OP001 (Operational Programme for Cohesion Policy Funding 2014-2020)
45 DG REGIO has taken a prudent approach to conclude with category 2 (qualified with limited impact) the assessment of the functioning of the management and control system of 21 programmes which work well but some improvements are needed.
<table>
<thead>
<tr>
<th>impact</th>
<th>35</th>
<th>35</th>
<th>35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified with significant impact</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>35</td>
<td>35</td>
<td>35</td>
</tr>
</tbody>
</table>

For ERDF/CF, error rates and residual error rates communicated in the assurance packages are below the 2% materiality level, with an average total error rate based on reported data of **0.24%** for the concerned 35 operational programmes and corresponding **0.11%** residual total error rate\(^{46}\) after deduction of corrections linked to audits, as reported in the accounts (see detailed error rates by OP in Annex 7C).

Upon the receipt of the assurance packages, DG Regional and Urban Policy has carried a preliminary assessment based on consistency checks to confirm that the information disclosed in the annual control report and audit opinion is in line with the information gathered by the Commission in particular through their own audit work. In particular, the following elements have been analysed:

- that the Member States authorities have taken appropriate preventive and corrective actions to follow-up the interruptions and warnings issued by the Commission;
- that audit conclusions reported by the audit authorities are in line with the national system audit reports issued during the period and with the results of the Commission's on-the-spot audit work.
- that the expenditure under on-going assessment has been deducted from the accounts in accordance with article 13(2) CPR.

As a consequence, the audit opinions and error rates / residual error rates disclosed in the AAR are based on the information communicated by the audit authorities.

The preliminary checks carried out have not detected material inconsistencies to be reported, and error rates are disclosed in the annual activity report as the ones reported by the audit authorities to the Commission.

As explained above, 95% of the audit authorities remain unchanged since the programming period 2007-2013 and in the AAR 2015 the Directorate General of Regional and Urban Policy considered that it could confirm the audit opinions issued by the audit authorities for 97% of the operational programmes. There is therefore strong indication that the reported audit opinions and error rates can be generally validated. These preliminary checks will be completed in 2017 by a full desk review for all programmes and by on-the-spot compliance audits to a number of programmes selected through a risk assessment, to further confirm the reliance that the Commission can place on the audit results reported in the received assurance packages.

On the basis of these reported error rates, the Directorate general has estimated the risk rate for these 2016 payments linked to the accounting year July 2015-June 2016 for the 35 programmes to be on average 0.31% or 0.14% residual risk.

For OPs with no reported error rates this year but with payments made by the Commission in the second semester of 2016, the Commission has prudently estimated a **residual error rate of 2%** for the amount at risk.

As a result (i.e. using the residual error rates reported for the 35 programmes and flat rates at 2% for the remaining ones), the overall amount at risk at payment for the 2016 expenditure paid is estimated in the range of **0.95% to 2%**.

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\(^{46}\) It is worth underlying that without the impact of the contribution to an EU level financial instrument (the OP CC2014ES16RFSM001 - SME Initiative, which accounts for 38% of the expenditure certified for this accounting year) the total and residual error rates would be 0.38% and 0.17 %, respectively.
Commission’ on the spot audit work in 2016

Following the Single Audit Strategy, the 2016 audit plan focused mainly on the review of designation packages and Early Preventive System Audits (EPSA), jointly with EMPL to ensure synergies in particular for common management and control systems (multi-fund programmes, common audit authorities).

Designation fact finding audits were carried out in 6 Member States (CZ, ES, FR, HR, HU and PL) in view to complete the desk review of the reviewed designation packages.

A total of 11 EPSA audits took place covering operational programmes in BG, EL, HU, LT, LV, PL (3), PT (2) and SK\[^{47}\]. The programmes were selected through a single risk assessment performed by REGIO, EMPL and MARE.

These audits were preventive, with a view to obtain assurance at an early stage of implementation and before receiving the assurance packages from the national authorities. For the concerned programmes, the Commission was able to issue timely recommendations to the concerned Member States, addressing any shortcomings found in their systems. As a general conclusion there was reasonable assurance on the effective functioning of the management and control system of the audited programmes, except for three operational programmes (in PL, SK and EL) for which deficiencies affecting part of the programmes were found in relation to management verifications carried out on public procurement. In PL and EL this included delegation of such verifications to expert bodies outside the management and control system and without a clear common understanding on the methodology to be used and no possibility of supervision to be exercised by the managing authority, despite its regulatory obligations. In the PL programme, in addition the managing authority was not performing adequate supervision over the intermediate bodies.

Warning letters with clear exit points and/or an audit report were sent to the three Member States. The Polish authorities have already taken the requested corrective actions within 2016 to ensure that the system functions effectively. For the other 2 cases actions are on-going. For EL this deficiency did not materially impact the 2016 expenditure since the share of such public contracts in expenditure so far is not material, and therefore no reservation was made. The respective part of the concerned SK programme is subject to a reservation in this AAR.

Further EPSA missions are planned for 2017 since this is a useful tool also appreciated by Member States to provide early and preventive recommendations to programme authorities.

Preventive and corrective capacities (interruption and financial corrections)

The Directorate General of Regional and Urban Policy is adapting its approach on interruptions/suspensions to the new 2014-2020 assurance model as described above, in particular taking account of the retention of 10% on each interim payment. Should there be identified serious deficiencies in the management control system for which the estimate impact is above 10% – in application of paragraphs a) or b) of Article 31(3) of Regulation 480/2014, an interruption will be launched, or in the absence of a payment application, a letter will be sent to warn of a possible interruption and financial correction if the issue is not resolved or the relevant expenditure is not withdrawn at the time of submission of accounts for further verifications\[^{48}\].

\[^{47}\] These audits included 6 joint audits with EMPL as the programmes were multi-fund. Additionally REGIO auditors carried out 2 Early Preventive System audits covering ESF and YEI in Bulgaria and Sweden in the frame of the action plan to share and pool audit activities and resources between REGIO and EMPL.

\[^{48}\] For deficiencies in the management and control system for which there is evidence that the level of required financial correction should not exceed 10% (paragraph d) of Regulation 480/2014), no interruption needs to be launched. Instead, a
As a result of this approach interruptions / warning for interruption were sent in 2016 to two programmes in PL and SK where REGIO audits detected deficiencies with material impact (see above) and in EL due to a cartel detected by the national competition board and affecting one 2014-2020 programme.

The adjustments applied by the Member States in the annual accounts submitted for the second accounting year were the following: EUR 22.5 million have been deducted in the submitted accounts as a result of financial corrections implemented following audits (- EUR 10.7 million) and of different on-going management verifications on the legality and regularity of expenditure previously declared during the accounting year. This shows that the new system allows to exclude from annual accounts the expenditure found to be irregular (0.6% of the cumulative interim payments in the accounting year) or for which the assessment of the legality and regularity is still on-going and therefore not ascertained yet at this stage (0.7% of interim payments in the accounting year). As a result to these implemented financial corrections and subject to a final assessment and validation, the Directorate General has reasonable assurance that the residual error rates for all programmes are below materiality for 2016.

<table>
<thead>
<tr>
<th>Member State</th>
<th>Total eligible expenditure in final interim payment $^{50}$</th>
<th>Total eligible expenditure confirmed in the accounts</th>
<th>Difference $^{51}$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total deductions</td>
<td>Out of which amounts corrected as a result of audits of operations</td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>56.8</td>
<td>47.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Cyprus</td>
<td>2.8</td>
<td>2.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.7</td>
<td>1.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Estonia</td>
<td>165.9</td>
<td>155.6</td>
<td>10.2</td>
</tr>
<tr>
<td>Spain</td>
<td>633.1</td>
<td>633.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Greece</td>
<td>171.6</td>
<td>169.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Latvia</td>
<td>89.4</td>
<td>89.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Poland</td>
<td>545.7</td>
<td>545.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>18.9</td>
<td>18.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Territorial Cooperation</td>
<td>2.7</td>
<td>2.7</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>1,688.5</strong></td>
<td><strong>1,666.0</strong></td>
<td><strong>22.5</strong></td>
</tr>
</tbody>
</table>

A.1.3. Overall assessment of the effective functioning of management and control systems in 2016

The set-up of the assurance model for the 2014-2020 programming period strengthens the Member States’ accountability and reduces the risk of having a material level of error in

Letter will be sent to the Member State to inform them that they should resolve the issue (i.e. relevant expenditure to be deducted) by the submission of the accounts; otherwise the Commission will launch an interruption and/or a financial correction.

49 OP 2014GR16M1OPP001 (Transport, infrastructure, environment and sustainable development) for which a reservation is made in this AAR

50 July 2016

51 The difference is mainly due to expenditure still under on-going assessment (i.e. temporarily withdrawn from the programme’s expenditure certified in the accounts) and deductions following the results of audit of operations.
the certified programme accounts on a yearly basis. Moreover, timely identification of deficiencies and reporting of reliable error rates is in the Member States' best interest since the European Commission shall make net financial corrections in case Member States have not appropriately addressed serious deficiencies in their management and control systems errors before submitting annual accounts.

The Commission assurance is to be found in the compliant set-up of management and control systems, and then on the yearly assessment of the functioning of these systems and of the legality and regularity of underlying expenditure included in the accounts.

- The first layer of the assurance, the designation, is completed for 214 programmes\(^{52}\). The notification of the designation serves as a condition to start the submission of interim payment claims, and is a first filter against errors, to ensure that the system set-up is compliant and generates expenditure not materially affected by irregularities.

The further main sources of assurance are the assurance packages submitted by the national authorities by 15 February \(n+1\), after the full national cycle has been finalised, completed by audits carried out on-the-spot by REGIO in 2016.

- Early preventive system audits carried out by REGIO in 8 Member States on a risk-basis, allowed to detect and address deficiencies in 3 cases; in one case the identified deficiency is already solved.

- For the 35 programmes with ERDF /CF expenditure for which accounts and audit opinions together with the calculated residual error rates were received, the management and control systems are reported to function effectively (14) or need some improvements but the impact of which was considered limited (21). The corresponding audit authorities are considered reliable and the Commission has no evidence to contrary information at this stage, pending its further assessment.

- The residual error rate reported by Member States' audit authorities in the assurance packages, following audit work and corresponding financial corrections made within the year, is 0.11%\(^{53}\) and the reported opinions on the legality of expenditure included in the accounts are unqualified (34) or qualified with limited impact (1). REGIO's assessment of the reported data is on-going with the objective to be able to validate them, through a full desk review and following on-the-spot compliance audits on a risk basis.

- On the basis of reported rates and based on professional judgement for remaining programmes\(^{54}\), the overall amount at risk at payment estimated on the 2016 paid expenditure is in the range of 0.95% to 2%.

On this basis, DG Regional and Urban Policy has reasonable assurance that the management and control systems are reported to function effectively to ensure the legality and regularity of the EU payments made in 2016 for the 2014-2020 programming period since they bear practically no risk (pre-financing) or, for the interim payments made, adequate mechanisms are in place to ensure that only legal and regular expenditure are included and certified in annual accounts with the exception of two programmes for which significant deficiencies without impact on the 2016 payments were detected (Greek OP – "Transport and Environment" due to a cartel issue in the construction sector detected by the Member State; and Slovak OP – "Integrated Infrastructure" due to deficiencies at the level of one priority axis detected by the Directorate general).

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\(^{52}\) As at mid-April 2017

\(^{53}\) Or 0.14% on the 2016 payments linked to the accounting year July 2015-June 2016 for the 35 programmes.

\(^{54}\) Using for the minimum value the residual error rates received for the 35 programmes and flat rates of 2% for the remaining ones. For the maximum value a flat rate of 2% was used.
A.2. ERDF/ CF 2007-2013: preparing for a smooth closure process

In 2016, DG Regional and Urban Policy paid EUR 14.5 Billion for the 2007-2013 ERDF/CF programmes.

DG Regional and Urban Policy has set up internal processes aimed at ensuring adequate management of risks related to the legality and regularity of underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. In this respect, the control objective is to ensure that the residual risk of each programme does not exceed 2% on a cumulative basis at closure.

Materiality criteria (control objective) and reservations

Regarding the legality and regularity of the underlying transactions, the overall objective is to ensure that the estimated residual risk of error is less than 2% at the end of the implementation of each programme.

At closure of the period (31 March 2017, except for Croatia and the ETC programmes with an IPA component which closes programmes in March 2018), as the audit authorities are required to disclose a residual risk rate (RRR) calculated on the basis of the expenditure certified during the whole programming period, this RRR is used, instead of the cumulative residual risk which would require prior validation by the Commission. The RRR is currently the best estimate of the part of the expenditure which is not in full conformity with contractual or regulatory provisions.

Reservations or partial reservations are made for programmes with:

- Significant deficiencies in some key elements of the systems; and/or
- Some legality and regularity issues and insufficient level of financial corrections implemented ("residual risk rate" remains above 2%)

Source of information used to build up the assurance

For this Annual Activity Report, in addition to the results of the audit work carried out by the Commission during 2016 for preparing for closure and other ECA audit results, the main source on which the assurance is based is the closure packages submitted by Member States. As those documents were only received by 31 March 2017, the Commission cannot perform an in-depth assessment of the information disclosed by the audit authorities on time for the AAR. The regulatory deadline for the Commission to accept the closure documents is 5 months from reception, and DG Regional and Urban Policy will report in its 2017 AAR on the state of acceptance of closure payments and documents. Once closure will be completed or well advanced, the Directorate general will report to the discharge authority, as the latter requested, on the overall state of play of closure for ERDF/CF programmes.

A.2.1. Audit Activity of the Directorate-General in 2016: strong focus on the preparation for closure and the follow up of open recommendations

<table>
<thead>
<tr>
<th>Indicator (programming period 2007-2013)</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviewed audit authorities by DG REGIO</td>
<td>5255 in charge of 98.6% of ERDF/CF allocations56</td>
</tr>
</tbody>
</table>

55 The on the spot audits by Directorate General of Regional and Urban Policy covered the following ERDF/CF audit authorities responsible for audit of mainstream programmes and ETC programmes: (1 AT, 2 BE (out of 3 AAs), 1 BG, 1 CY, 1 CZ, 11 (out of 17 AAs), 1 DK, 1 EE, 1 ES, 1 FI (out of 2 AAs), 1 FR, 1 EL, 1 HR, 1 HU, 1 IE, 12 IT (out of 25 AAs), 1 LT, 1 LV, 1 MT, 1 NL, 1 PL, 1 PT, 1 RO, 1 SE, 1 SI, 1 SK and 4 UK (out of 5 AAs). LU was the only MS without on-the-spot audit by DG REGIO; in addition 7 audit authorities are responsible for ETC programmes only (the latter representing 0.36% of total ERDF allocation).

56 ERDF/CF allocation for the programmes under audit responsibility of the 75 ERDF/CF audit authorities, responsible for audit of both mainstream and ETC programmes.
During the 2007-2013 programming period, the audit directorate has built up significant knowledge of the effective functioning of the systems at national level both from monitoring and analysing the work carried out by the audit authorities, and from its own work under the EPMs listed below.

- Reliance on the work of audit authorities (for mainstream and ETC programmes)
- Monitoring article 73
- Bridging the assurance gap for the quality of management verification, in particular for public procurement and State Aid issues
- Withdrawals and recoveries
- Financial instruments
- Audit of the management verifications carried out under the ETC objective

The validated error rates reported annually by the audit authorities reflect the effective functioning of the management and control systems and, together with the cumulative residual risk (taking account of the financial corrections implemented by Member States), constitute the cornerstone of the assurance process and of the methodology to estimate the residual amount at risk.

Where the work of the audit authorities could not be fully relied upon, or where specific risks were not addressed in a timely way by the audit authorities' audit strategies, this has been addressed by the audit work carried out by the audit directorate under the Bridging the assurance gap EPM.

Where serious deficiencies have been detected, either through the work of the audit authorities or from the work of the DG REGIO audit directorate, timely corrective action has been taken to improve the functioning of the management and control systems and to implement appropriate financial corrections when needed. In particular, through the interruption and suspension procedures, DG REGIO has systematically requested the national authorities to implement appropriate action plans to ensure the effective functioning of the management and control systems for newly declared expenditure and to make proportionate financial corrections for expenditure already declared to the Commission. The audit directorate has closely monitored and assessed the system improvements and the corrective actions taken by the national authorities (e.g. through follow up of warnings, interruptions, suspensions and AAR reservations). More than 200 of the 322 ERDF/CF programmes have gone through a warning, interruption or suspension procedure since the beginning of the programming period.

This audit work and the related corrective actions taken by the national authorities have paved the way to closure and have contributed significantly to limiting the risks remaining at closure.

### Increasing Assurance derived from Member States' controls through adequate supervision

DG REGIO audit strategy aims to provide reasonable assurance that the management and control systems established by the Member States comply with the requirements of the regulations and are functioning effectively. In 2016, the Directorate-General focused its limited resources for on-the-spot audits to ensure that the remaining residual risks at closure have been or are being adequately addressed.

### Risks at closure

Risks at closure that have been identified are that, despite overall reliability, some of the work carried out by certain audit authorities is only partially reliable due to either a failure
to detect errors that should have been identified or inappropriate treatment of errors that have been identified. There is the additional risk that reported recoveries are inaccurate or have been overstated.

For Member States with low absorption, there is a risk that expenditure certified in 2015 and 2016 could contain a higher level of irregular expenditure due to insufficient management verifications. In this regard, account will be taken of the inherent risks associated with:

- the inclusion of retrospective projects expenditure in 2015 and 2016 payment claims,
- the inclusion in 2015 and 2016 payment claims of expenditure for contracts known to be affected by public procurement irregularities for which ex-ante flat rate corrections have been applied,
- the quality of management verifications being carried out due to the higher levels of expenditure being declared in 2015 and 2016 compared to prior years,
- delays in certification of expenditure resulting in the audit authority having limited time to complete its audits of operations, potentially resulting in the reported error rate being understated.

In relation to financial engineering instruments, there is the risk that audit authorities did not sufficiently cover implementation of the instruments. For instruments managed by the EIB/EIF, there is a risk that, due to fact that audit authorities have not been able to carry out audit work at the level of the EIB/EIF, audit authorities may provide either qualified audit opinions or scope limitations at closure.

Audit work

The audit work for preparation for closure was based on the following enquiries.

- **Reliance on the work of Audit Authorities**

  During 2016 and beginning 2017 DG REGIO auditors carried out the following audits to assess the reliance that could be placed on the work of the reviewed audit authorities:
  
  - 3 audits re-performing the audits of operations carried out by the audit authorities in CZ, IT and SK;
  - 5 audits to prepare for closure in DE, IT (2), SI and SK;
  - 14 fact-finding audits to assess the reliability of the 2015 annual control reports in BG, CZ, DE (3x), DK, EL, ES, FR, HU, IT, RO, SK and UK (2x) and one fact finding audit in relation to the 2016 annual control report in HR.

- **Monitoring Article 73**

  Regularly monitoring that the conditions to rely on the work of audit authorities (Article 73) remain valid is important throughout the implementation period, and in particular in view of closure. Audits have been carried out in DE (2x), EE and PL under this objective. These audits should also contribute to reduce the desk workload at closure for the concerned programmes, through a differentiate approach to be adopted for the assessment of closure declaration for programmes under Article 73.

The audits under both enquiries above confirmed that REGIO can continue relying on the work of the audit authorities for closure. In the case of one audit authority, a monitoring audit mission in 2017 revealed a risk of having deficiencies in the management and control systems, in particular on public procurement which were not previously identified
by the audit authority. The contradictory phase to be launched will indicate the impact of these deficiencies in the closure process of the three concerned operational programmes which are prudently put under reservation for the purpose of the AAR. The audit authority has correctly reported a qualified opinion on these programmes at closure, pending the finalisation of the Commission assessment.

Further assurance will be gained through the fact-finding audits to assess the reliability of the final control reports to be submitted at closure that are planned to be carried out after reception of the closure documents in BG, HU, ES, IT, PL, RO and SK.

- **Bridging the assurance gap**

  In 2016 9 audits were carried out under this enquiry in BG, DE, HU (3x), IT (2x) and RO (2x) in order to obtain reasonable assurance for operational programmes / areas considered by the Directorate general at high risk, due to absorption pressure for example or because there were indications that the programmes would not be adequately audited by the national audit authorities (because of time constraints due to late certification of expenditure, for example, despite Commission recommendations in its closure guidance). The aim was also to obtain direct assurance for closure declarations, ensuring that identified risks are appropriately treated and adequately mitigated at closure. The scope of the audits was tailored to address the specific residual high risks of each programme taking into account the results of the work of the audit authorities, systemic weaknesses previously identified, error rates from audits of operation and effectiveness of management verifications. Other high risk areas were also covered under this enquiry such as the inclusion of retrospective projects expenditure, the inclusion of expenditure linked to contracts known to be affected by public procurement irregularities for which appropriate ex-ante corrections have to be applied, risk of reduced quality of management verifications due to higher amounts of expenditure to be certified in 2015 and 2016 and delays in certification resulting in the audit authorities having limited time to complete their audits of operations.

  Following the work carried out for the 9 high risk programmes selected, significant deficiencies were detected in 7 out 9 audits. These deficiencies were in relation to management verifications in the area of public procurement and retrospective projects. Where necessary (threshold of 95% of payments not reached) the payments were interrupted or warning letters sent, and the Member State authorities were requested to implement the necessary corrective measures by closure of the programmes. All concerned programmes or part of programmes concerned are under reservation.

- **Withdrawals and Recoveries**

  In 2016, two audits on the spot (in Romania and Slovakia) at the level of the certifying authority and managing authority and three desk audits covering Greece, France and Italy were carried out. In all cases the audit work focused on the accuracy and reliability of the data reported by the Member States on withdrawals and recoveries by 31 March 2016 and previous years.

  The aim of the enquiry was to ensure that the recoveries and withdrawals reported during the programming period are reliable and accurate and thus the residual, risk rate at closure is not understated. The audits carried out during 2016 concluded that material inaccuracies in some French programmes exist and concluded that the statements on recoveries and withdrawals are unreliable for one Italian programme (Piemonte). However, the contradictory procedure being on-going, the Member States might still have submitted corrected statements at closure (to be analysed). REGIO verified that the

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57 2007EEI61PO0001, 2007EEI61PO0002 and 2007CB163PO050 (Estonian part)
58 HU: OP Transport, Electronic Administration OP, Implementation OP; IT: OP Reti e mobilità, OP Istruzione Priority 3, Technical Assistance; RO: Competitiveness OP and Environment OP.
59 In Greece material deficiencies were detected but during the contradictory procedures these were corrected.
impact of the wrong reported data on the calculation of the cumulative residual risk rate was not material in any of these cases.

- **Financial Instruments**

In order to complete the assurance at closure for financial instruments implemented by the EIB Group, it has been convened to put in place Agreed Upon Procedures (AUP). The AUP consisted of checks on the critical issues for the set-up and implementation of the JEREMIE and JESSICA instruments at holding fund level, by the independent external auditor of EIB/EIF.

This means that at the request of programme authorities the independent external auditor of EIB and EIF carried out the AUP engagement and provided to the national authorities a report setting out the checks carried out and recording the exceptions in relation to the set-up and implementation of the instruments at Holding Fund level.

The on-the-spot audits carried out in 2016 by DG REGIO in accordance with the specific enquiries under the audit strategy to prepare for closure and the resulting audit opinions are as follows:

**Table: on-the-spot audits carried out in 2016**

<table>
<thead>
<tr>
<th>Enquiry</th>
<th>Input</th>
<th>Audits carried out in 2016</th>
<th>Audit opinions(^{60})/assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of the reliability of the audit authorities (single auditing)</td>
<td>Review of audit authorities (in addition fact-finding missions on the FCR analysis) in the frame of preparation to closure</td>
<td>7</td>
<td>Assessment of the audit authorities reviewed in 2016</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Works, but some improvements are needed</td>
</tr>
<tr>
<td>65% of audit missions</td>
<td>Missions to validate the 2015 ACR error rates (fact-finding missions)(^{62})</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Audits to monitor the work of audit authorities when the article 73 has been granted to programmes</td>
<td>4</td>
<td>Unqualified</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Qualified with minor observations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Report not issued yet</td>
</tr>
<tr>
<td>Targeted high risk audits</td>
<td>Bridging the assurance gap - targeted audit of high risk</td>
<td>9</td>
<td>Works, but some improvements are</td>
</tr>
</tbody>
</table>

\(^{60}\) Audit opinions are preliminary at this stage, pending the finalisation of the contradictory process with the auditee. Depending on the audit enquiry, various audit missions may lead to the expression of one single audit opinion, therefore the possible discrepancies between the numbers of audits and opinions.

\(^{61}\) Includes the Italian OP Attratori Culturali for which serious deficiencies were detected and corrected following the contradictory procedure; does not include the audit authority for which the assessment of the impact of possible non-compliant tender procedures depends on the contradictory procedure to be launched and therefore not finalised at the date of the report.

\(^{62}\) In January-March 2016, 15 fact finding missions have been carried out in 12 Member States to verify the reliability of the error rates reported in the annual control reports submitted to the Commission end of 2015. These contributed to the assurance for 2015. Moreover, in January 2016 a fact finding mission has been carried out to Croatia as it still submitted an annual control report in January 2017 (closure only in March 2018).
## Enquiry

### Input

<table>
<thead>
<tr>
<th>Enquiry</th>
<th>Audit Enquiries related to ERDF/CF 2007-2013 programming period</th>
<th>Audits carried out in 2016</th>
<th>Audit opinions(^{60}) / assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>21% of audits</td>
<td>programmes / authorities / areas(^{63}) in the frame of preparation to closure</td>
<td></td>
<td>Works partially. Substantial improvements are needed(^{65})</td>
</tr>
<tr>
<td>Thematic audits</td>
<td>14% of audits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thematic audits on recoveries(^{66})</td>
<td>6</td>
<td>Unqualified 1(^{67})</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qualified with minor observations 2(^{58})</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qualified with significant observations 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adverse 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Report not issued yet 1</td>
<td></td>
</tr>
<tr>
<td><strong>Total number of audits</strong></td>
<td><strong>41</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Results

### Audit Enquiries related to ERDF/CF 2007-2013 programming period

- **21% of audits**
  - Programmes / authorities / areas\(^{63}\) in the frame of preparation to closure
  - Audit opinions: Works partially. Substantial improvements are needed\(^{65}\)

### Thematic audits

- **14% of audits**
  - Thematic audits on recoveries\(^{66}\)
  - Audit opinions:
    - Unqualified: 1\(^{67}\)
    - Qualified with minor observations: 2\(^{58}\)
    - Qualified with significant observations: 1
    - Adverse: 1
    - Report not issued yet: 1

### Total number of audits: **41**

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**Other work carried out in 2016 – contribution to audit capacity building and preventive actions**

Audit work also includes advisory procedures (including guidance) and capacity building actions at the level of audit authorities, but also managing and certifying authorities, which contribute to preventing and correcting errors and therefore contribute to the assurance process. These capacity building activities are not strictly limited to one programming period. They contribute to both periods, depending on the topic.

In January, a workshop was organised with audit authorities on sampling for ETC programmes. Another one was organised in June 2016 in Budapest on the preparation for closure 2007-2013 and designation 2014-2020. In addition, the Commission hosted Annual Coordination Meetings with each Member State’s audit authorities covering the monitoring of / progress on audit strategy with a focus on the preparation for closure 2007-2013. For the period 2014-2020, the debates concerned the designation of authorities and fraud prevention.

Two technical meetings with all audit authorities took place in 2016: in June and November. These dedicated meetings, workshops or targeted actions related to various areas such as: Guidance on sampling, Designation process, Audit of performance data, Simplified cost options. The meetings gave the opportunity to compare the Commission and audit authorities' points of view. A survey on the tools used by Member States to

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\(^{64}\) However, for the Italian OP Istruzione a conclusion “Works partially, substantial improvements are needed” was given for Priority 3 Technical Assistance.

\(^{65}\) Audit opinions are not provided but audit reports provide a conclusion as to the effective functioning of the audited system / part of the system.

\(^{66}\) 6 out of the 9 category 3 assessments are partial and limited to certain parts of the programmes (priority axis, measures, contracts...).

\(^{67}\) The results are preliminary, not yet fully validated and subject to the contradictory procedure with the Member States concerned.

\(^{68}\) Following the contradictory procedure the serious deficiencies reported in the draft report were corrected.

\(^{58}\) For the audit on all French programmes this opinion applies to all programmes except 5 and in particular OP Centre and OP Limousin for which significant deficiencies were detected.
collect typologies of errors was introduced in coordination with DG GROW. The November meeting focused on the assurance package 2014-2020, a joint framework for reporting on typologies of errors, reporting of irregularities for 2014-2020 presented by OLAF, the stock-taking study on anti-fraud measures, state of play of the use of ARACHNE and E-cohesion.


Other activities included technical workshops for managing and audit authorities on the use of ARACHNE (638 people trained in 14 Member States).

**Annual audit opinions of the Directorate-General’s Audit Directorate**

Based on the above, as well as results of Commission desk and on-the-spot audit work detailed under section B, the Audit Directorate expresses an audit opinion for each programme on the level of assurance it has that expenditures reimbursed by the Directorate-General in 2016 are legal and regular. These audit opinions are transmitted to operational Directors concerned as an input to their management opinion formulated for every programme.

On the basis of the analysis of all audit results received in 2016 and of the audit work performed, REGIO auditors have provided the management with their audit opinions for 2016:

Table: Assessment of management and control systems and Audit Directorate’s 2016 audit opinion (before analysis of closure declarations)

<table>
<thead>
<tr>
<th>DG REGIO Audit opinion</th>
<th>No. of Programmes</th>
<th>as % of No. of Programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>No/ low risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unqualified</td>
<td>80</td>
<td>25%</td>
</tr>
<tr>
<td>Qualified with moderate impact</td>
<td>198</td>
<td>62%</td>
</tr>
<tr>
<td>Medium/ high risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualified with significant impact</td>
<td>40</td>
<td>12%</td>
</tr>
<tr>
<td>Adverse</td>
<td>4</td>
<td>1%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>322</td>
<td>100%</td>
</tr>
</tbody>
</table>

**A.2.2. Assurance derived from controls by the Member States**

The table below shows the indicators used to assess the effectiveness of the controls carried out during the reporting year.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of error rates reported in the closure declaration</td>
<td>316</td>
</tr>
<tr>
<td>Weighted average error rate on 2016 payments as reported by Member States (based on 2015-2016 error rates)</td>
<td>1.8%</td>
</tr>
<tr>
<td>Weighted average residual risk rate as reported by Member States</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

69 A total of 317 programmes have sent closure declarations. For three programmes in Croatia and two ETC programmes including a Croat part the closure packages will be sent in March 2018.
70 For one programme in Italy, since no error rate has been sent by the audit authority, DG REGIO has used, for the purpose of estimating the risk in its annual activity report, a flat rate of 25%.
71 The weighted average error rate reported by DG REGIO for the AAR 2016 is 2.2%, see also section A.2.4 below.
72 Including for the three programmes (one in Italy and two in Estonia) for which the residual risk rates were not communicated by the audit authority but estimated by DG REGIO, based on information transmitted in the closure packages.
System audit information from Member States received in 2016

In 2016, the Directorate-General has received 233 system audit reports from Member States\(^\text{73}\) in line with the implementation of national audit strategies. Following the Directorate-General's assessment, written feedback has been provided to Member States for all reports. When significant deficiencies are reported by audit authorities, or where the Directorate-General considers that reported audit findings indicate significant deficiencies in the programme, this constitutes a basis to launch warning or pre-suspension procedures. A reservation is also made in the annual activity report, unless the issue is resolved at the time of reporting.

Closure packages submitted by the Audit Authorities by 31 March 2017

Programme authorities had to submit closure documents by the end March 2017 for all ERDF/CF programmes (except for Croatia and ETC programmes with an IPA component).

In 2016, audit authorities have focused their audit activities on preparing the final control report, on closure declarations with a view to finalising system audits, on follow-up to any open audit recommendations, on carrying out audits of representative samples of operations for any expenditure declared to the Commission in 2015 and 2016 and on addressing any remaining residual risks in the programme expenditure (e.g. implementation of financial instruments, verification that advance payments for State aid and public contracts were converted into actual expenditure. etc.).

In accordance with the regulation, no Annual Control Reports were submitted at the end of 2016, since final control reports and closure declarations were due by 31 March 2017.

Closure declarations: error rates and audit opinions reported

- The audit authorities submitted by 31/03/2017 all the closure declaration and the final control reports.
- They have reported 316 error rates covering all but one programme\(^\text{74}\).
- The audit authorities have reported in the closure documents significant audit coverage on 2015-2016 expenditure: 24%. However, for 92 programmes they reported scope limitations to their audit work, meaning that the audit authorities were not able to provide full assurance to the final amount certified to the Commission. The limitations are of different nature and magnitude but were mainly due to expenditure certified only at the very end of the period and therefore no sufficient time to cover them by appropriate audit work. Limitations were also due to the specific situation of financial instruments whose final eligibility can only be proven at closure. In such cases audit authorities had to indicate the impact of the expenditure that could not be covered by audits. The Commission will analyse the impact of the scope limitations and request the Member States the measures to be implemented.
- Audit opinions and error rates reported by audit authorities at closure:

![Member States' opinions in Final Control Reports](image)

- Unqualified 76%
- Qualified 24%

\(^{73}\) Covering 17 Member States and ETC OPs

\(^{74}\) The error rate for the Operational Programme Lazio ERDF (CCI 2007IT162PO004) was not communicated.
During the closure process, the Directorate General will carry out an in-depth assessment of the information provided for each programme (in particular the audit opinion, the projected error rate covering the 2015 and 2016 expenditure and the residual risk rate estimated at the end of the programme). The outcome of this full assessment will be reported in the subsequent AAR(s).

For the AAR 2016, since the closure packages have been received only by 31 March 2017, the Directorate General has performed a preliminary consistency check of the information provided by audit authorities, including a detailed assessment of the scope limitation reported in 92 cases. The error rates communicated by the audit authorities are therefore used as a basis for calculating the best estimate of the possible risk for expenditure in the reporting year. In case projected error rates are not available at the moment of this AAR (1 case), or the audit authority discloses a scope limitation (92 programmes), flat rates in line with the results of the assessment of the functioning of the management and control system are used instead - see table presented in annex 7B with error rates reported by the audit authorities as well as the error rates prudently adjusted by the Commission (‘reportable error rates’) for all concerned programmes. As a result, the 1.8% average error rate reported by Member States has been prudently adjusted by the Directorate General to be in the range of **2.2% and 4.2%**.

For its assurance in the AAR 2016, the Directorate General has opted for a prudent approach which consists in keeping the audit opinion by programme as established before the reception of closure documents for the programmes where the Commission had identified serious deficiencies in management and control systems which led to interruption or suspensions which are active at end March 2017, or to adopt a reservation where an error rate above 5% is reported. This means that even if for these programmes the closure declaration reports a sufficient level of correction to bring the residual risk rate below 2%, the Directorate General keeps and reports a reservation until a thorough assessment of the reported corrective actions is made. For the remaining cases, at this stage the audit opinions are the ones communicated by the audit authorities in the closure documents.

After the reception of the closure documents, 21 additional reservations are therefore prudently included in the AAR, for the following reasons:

- For 13 OPs, the reported total projected error rate as reported is above 5% and a final assessment of the corrective measures reported in the closure declarations is needed;

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75 For 8 cases which are put under reservation, the scope limitations issued by the audit authorities have material impact in the 2016 expenditure.
76 See section A.2.2 above.
77 See section A.2.4 below for more details on the methodology for estimating this range.
- For 8 OPs\textsuperscript{79}, the scope limitation reported by the audit authorities has a possible material impact on the expenditure of the AAR reporting year and therefore an assessment of the required additional work is needed before concluding on the reported error rate.

\textbf{A.2.3. Safeguarding the EU budget by preventive and corrective actions}

\textbf{Interruptions/suspensions of payments}

In 2016, DG Regional and Urban Policy continued to apply the strict policy on interruption and suspension of payments decided by the Commission in the framework of the 2008\textsuperscript{80} \textit{Action plan to strengthen the Commission's supervisory role under shared management of structural actions} in order to safeguard EU funds.

This is a preventive measure to avoid reimbursement of expenditure affected by serious irregularities. Evidence indicating significant deficiency in the management and control system of all or part of an operational programme, triggers the interruption of interim payments or the transmission of a warning letter if no payment claim is outstanding\textsuperscript{81}.

While the AAR reflects a management evaluation of programmes, the follow-up on reservations is the result of a legal assessment, made on each file individually, which could result in a decision to interrupt or suspend interim payments which could lead to a financial correction implemented by the Member States decided upon by the Commission.

Interruptions and suspensions are retracted upon implementation of an action plan indicating corrective measures, along with the treatment of financial corrections, where necessary. In order to ensure consistency, transparency and equal treatment, financial corrections are included payment claims submitted to the Commission or agreed with DG Regional and Urban Policy. The DG peruses audit evidence provided by national audit authorities or carries out its own follow-up audit. Cases are examined by the Senior Management of the DG.

Within DG Regional and Urban Policy, this process is formalised through the work of the Interruptions, Suspensions and Financial Corrections Committee (ISFCC), chaired by the Director-General. In 2016, the ISFCC met on a regular basis, analysing cases brought to its attention, took appropriate decisions and monitored the implementation of the policy.

The table below provides key figures on interruptions- ERDF/CF

<table>
<thead>
<tr>
<th>Indicator</th>
<th>As of 01/01/2017 (1)</th>
<th>New cases 2016 (2)</th>
<th>Any time in 2016 (1+2)</th>
<th>Lifted OPs during 2016</th>
<th>As of 01/01/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of OPs affected (warned/interrupted)</td>
<td>/</td>
<td>72</td>
<td>32</td>
<td>104</td>
<td>31</td>
</tr>
<tr>
<td>Amounts interrupted EUR Billion</td>
<td>1.73</td>
<td>2.63</td>
<td>4.36</td>
<td>2.68</td>
<td>1.69</td>
</tr>
<tr>
<td>No. of Payment claims interrupted</td>
<td>51</td>
<td>64</td>
<td>115</td>
<td>66</td>
<td>49</td>
</tr>
</tbody>
</table>

In 2016, the number of active warning letters, interruptions and pre-suspensions for ERDF/CF programmes remained steady, with the outstanding amount interrupted at year end of EUR 1.69 Billion.

Annex 10 itemises the affected programmes per Member State.

\textsuperscript{79} 2007CB163PO006, 2007ES162PO003 (national part), 2007IT162PO004, 2007IT162PO016 (financial instrument), 2007PL161PO0015 (financial instrument), 2007PL161PO016 (financial instrument), 2007PL161PO017 (financial instrument) and 2007PL161PO019 (financial instrument)

\textsuperscript{80} COM(2008) 97

\textsuperscript{81} Otherwise the submitted payment claim would be interrupted.
Financial corrections as a result of the Commission supervisory role

<table>
<thead>
<tr>
<th>Indicator (ERDF and Cohesion Fund)</th>
<th>2016 (EUR million)</th>
<th>Cumulated since 2007 (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decided/confirmed financial corrections(^{81}) as a result of the Commission supervisory role</td>
<td>570</td>
<td>2,887</td>
</tr>
<tr>
<td>Implemented financial corrections as a result of the Commission supervisory role</td>
<td>481</td>
<td>2,247</td>
</tr>
<tr>
<td>Rate of implementation of corrections for 2007-2013 programmes</td>
<td></td>
<td>78%</td>
</tr>
</tbody>
</table>

The purpose of financial corrections is to ensure that the risk on the legality and regularity of the expenditure declared for co-financing is below materiality.

A financial correction must be based on evidence. The Commission bears the (initial) burden of proof for system deficiencies, irregularities and breaches of the obligations under Articles 98 and 15(4).

The principal sources of evidence for the reported financial corrections are:
- REGIO audits (audits by the Audit Directorate or on its behalf);
- Reports by national audit bodies (annual control report and audit opinion submitted according to Article 62(1)(d)(i) and (ii) of Regulation (EC) No 1083/2006; national audit reports);
- Audits by the European Court of Auditors (ECA);
- OLAF final case reports.

Following this methodology, the reporting of financial corrections in this section provide only information on amounts of financial corrections carried out by the Member States at the Commission request resulting from EU bodies audit work. These amounts of financial corrections confirmed and implemented by Member States at the Commission’s request are reported on bi-annual basis to the European Parliament. The Commission’s annual Communications on the protection of the EU budget provide the details on an accrual and cash basis\(^ {84}\).

Financial corrections decided/confirmed in 2016

Decided/confirmed financial corrections for the programming period 2007-2013 are EUR 570 million. This figure is the result of new amounts confirmed in 2016 and adjustments to past reporting.

Financial corrections reported in 2016 remained high compared to previous years, thus confirming the multi-annual corrective capacity of the policy. This is also the result of the strict policy of interruption/suspension procedures by the Commission since the beginning of the programming period and the fact that we are approaching the closure of the programming period, with the last chance for the Member States to declare new

\(^{81}\) Financial corrections for the 2007-2013 programming period only. More details by Member State and for all programming periods are given in Annex 8.

\(^{82}\) Excluding financial corrections at source

\(^{84}\) The Communications on the protection of the EU Budget will be integrated in the Annual Management and Performance report (AMPR) as from June 2017.
expenditure, after the application of the financial corrections requested by the Commission. The Member States with the highest corrections in 2016 were Hungary (EUR 211 million), Greece (EUR 101 million), Spain (EUR 89 million) and Slovakia (EUR 41 million).

As a result, at end 2016 the cumulative amount of financial corrections for 2007-2013 confirmed by Member State as consequence of the Commission supervisory role is around EUR 2.9 billion.

**Financial corrections implemented in 2016 relating to the 2007-2013 period**

An amount of financial corrections of EUR 481 million has been implemented in 2016. This refers to corrections decided/confirmed in 2016 or previous years and brings the cumulative amount of implemented corrections for 2007-2013 programmes close to EUR 2.2 billion, with a rate of implementation of above 78%.

**Preventive impact of financial corrections on expenditure not yet declared to the Commission**

<table>
<thead>
<tr>
<th>Indicator (ERDF and Cohesion Fund)</th>
<th>2016 (EUR million)</th>
<th>Cumulative since 2007 (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>At source financial corrections for 2007-2013 programmes resulting from Commission supervisory role</td>
<td>229&lt;sup&gt;86&lt;/sup&gt;</td>
<td>1,433</td>
</tr>
</tbody>
</table>

It is worth underlining that the amounts of financial corrections reported in the sections above do not reflect the total amount of financial corrections accepted by Member States as a result of the Commission supervisory role. Indeed remedial action plans also have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts, but not yet declared to the Commission. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure ('ex ante' or 'at source'). Expenditure declared to the Commission is therefore net from irregular amounts.

Similarly, warning letters sent out by the Directorate-General when system deficiencies are identified before a payment claim is submitted to the Commission may also have the same preventive effect on the protection of the EU budget, but no amount is reported by the European Commission/ Member States in this case as this effect is more difficult to quantify.

The preventive effect of the Commission's supervisory role leads to an increased protection of the EU budget (and to reduced errors detected by audit authorities when auditing amounts claimed from the Commission) and has therefore to be reflected as well in the reporting.<sup>87</sup>

See also in annex 8 the tables showing per Member State the total cumulative decided/confirmed and implemented financial corrections for all programming periods at the end of 2016.

<sup>85</sup> Or “ex-ante” corrections, as reported in the AAR2015

<sup>86</sup> As also explained in the AAR 2015, DG REGIO performs an additional reporting exercises since 2014, targeted on the main cases in which flat rates corrections have been applied for problems linked to public procurement procedures or deficiencies in the Member States’ management and control systems. As a result of this exercise, EUR 1.43 billion of financial corrections 'at source' have been identified in 10 Member States (BG, CZ, EL, FR, HU, IT, LV, PL, RO and SK).

<sup>87</sup> Since there is no legal requirement for Member States to report on such amounts, nor a structured reporting since the beginning of the programming period, this section presents a prudent and non-exhaustive amount of additional financial corrections for cases for which the Directorate-General could reconstitute a clear audit trail at the level of the certifying authority.
Financial corrections reported by Member States relating to the 2007-2013 period

<table>
<thead>
<tr>
<th>Indicator (ERDF and Cohesion Fund)</th>
<th>2016 (EUR million)</th>
<th>Cumulative since 2007 (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrections for 2007-2013 programmes reported by Member States</td>
<td>3,103</td>
<td>8,901</td>
</tr>
<tr>
<td>Out of which additional to the Commission's reporting at 31/03/2017</td>
<td></td>
<td>6,655</td>
</tr>
</tbody>
</table>

Since the reporting year 2010 and by 31st March of each year, Member States are requested to submit to the Commission through the IT system SFC2007 an annual statement on withdrawals, recoveries, pending recoveries and irrecoverable amounts under the provisions of the Article 20(2) of Regulation (EC) No 1828/2006 for the 2007-2013 programmes. This report refers to two sources of financial corrections:

- Financial corrections implemented by Member States (or pending recoveries) following the national verification and audit work carried out by all programme authorities, i.e. including from management verifications in addition to audits,
- Financial corrections implemented as a result of EU audit work, including at the Commission's request.

When facing irregular expenditure included in previous payment claims submitted to and reimbursed by the Commission, Member States have two choices according to the regulation:

1) immediately withdraw the irregular expenditure from the programme as soon as they detect the irregularity, by deducting it from the next statement of expenditure and thereby releasing EU funding for other, eligible operations or
2) issue a recovery order from the beneficiary and leave the expenditure in the programme until the outcome of proceedings to recover the unduly paid grant from the beneficiary; once the amount is effectively reimbursed by the beneficiary, deduct the recovered amount from the next statement of expenditure.

The first type of financial corrections should be reported under withdrawals and the second one under recoveries and refer to corrections deducted from payment claims in the previous year.

Due to the new timeframe for signing off the annual activity report, the Member States' reporting on financial corrections for year 2016 can be reflected in full in this report. The complete figures for 2016 will be verified by the Directorate-General in view of the communication on the protection of the EU budget.

Finally, from the overall cumulative amounts reported by Member States the Commission deduces its own reported cumulative amounts to estimate the additional corrections from Member States only. Cumulatively at the date of this report, Member States reported EUR 88

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88 The 2007-2013 regulatory payment system implies that EU payments or the EU share of withdrawals and recoveries are calculated automatically based on either the declared total or public cost, taking into account the co-financing rate at priority axis level. Amounts of recoveries and withdrawals are therefore calculated on the basis of the latest available financing plan, which means that amounts of EU share for a given year can vary in subsequent years if the co-financing rates were subsequently modified. Reporting can also be subsequently adjusted by the Member State, at the Commission request, when errors are detected.

89 Following the provisions set in the guidance note to the Member States ref. COCOF 10/0002 EN.

90 As a result of comparison for each Member State between national and EU reporting of implemented corrections.
8.9 billion of withdrawals and recoveries for ERDF/CF for the 2007-2013 programming period, **out of which EUR 6.7 billion are estimated by the Commission to be additional to its reporting.**

Due to risks identified to the reliability of reported data, and following external and internal audit recommendations, the Directorate-General carries out since 2014 a deep assessment of the amounts of correction reported by the Member States. This includes an exhaustive desk-review of the data provided and follow up with the Member State authorities on the inconsistencies found and an increased number of risk-based audits on the spot (see also section A.2.1 above). As a result of this additional audit work, financial statements on withdrawals and recoveries have been corrected in 23 Member States\(^91\), thus contributing to improving the basis for the calculation of the CRR. The financial impact of the retrospective changes requested by the Commission on the corrections reported for 2008-2015\(^92\) represent 13 % of the cumulative corrections reported for all programmes. A table providing a detailed picture of withdrawals and recoveries reported by Member State can be found in Annex 8.

**Residual risk rate at closure of the period**

<table>
<thead>
<tr>
<th>Indicator (ERDF and Cohesion Fund)</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual risk rate at closure (average for all programmes) as at 31 March 2017</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Since 2011, the Commission services in charge of Cohesion Policy have established an indicator to assess whether the programme corrective capacity is effective and therefore if the financial risk is manageable on a cumulative basis, since the beginning of implementation of programmes.

For the years 2011-2015, this indicator has been used by the Commission services as a criterion for additional reservations when the error rate communicated by the Member State’s audit authority in the annual control report\(^93\) and validated by the Commission was between 2% and 5%.

At closure, the audit authorities had to disclose a residual risk rate (RRR) calculated on the basis of the expenditure certified during the whole programming period, the identified risk rates and the validated financial corrections. This was their best estimate of the expenditure which is considered not in full conformity with contractual or regulatory provisions.

The RRR is the best estimate of a programme’s corrective capacity, i.e. of the residual risk taking account of the corrective capacity of the programme over the programming period. It assesses whether the financial risk for programmes has been kept at a tolerable level at closure. It is estimated by considering for each programme or group of programmes the multi-annual impact of the validated error rates calculated since the beginning of the programming period, after deduction of the financial corrections reported by the certifying authority and audited/validated by the audit authorities at closure.

Based on the data reported by certifying authorities and audited in view of closure by audit authorities, Member States have **reported an average residual risk rate at closure for all programmes of 0.4%. This indicates that appropriate financial corrections**

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91 A lesser amount of financial corrections was taken into account by the Commission for the calculation of the residual risk rate, after deduction of doubtful amounts.
92 The impact on the 2016 corrections will be estimated in the next AAR exercise, since the report on the 2016 withdrawals and recoveries was sent on 31/03/2017.
93 The last annual control report has been sent in December 2015, covering the expenditure declared to the Commission in 2014. The remaining expenditure declared up to closure is covered by the final control report sent in March 2017.
have been applied at closure, as expected, by the programme authorities. The Commission services will carefully assess this indicator during the closure process and will apply additional financial corrections where necessary.

As explained in section A.2 above, thematic audit on recoveries have been carried out and have been complemented with desk consistency checks on the reliability of the art 20 statements submitted by 31 March 2016.

**Follow-up of 2015 reservations – ERDF/CF 2007-2013**

<table>
<thead>
<tr>
<th>AAR reservations94</th>
<th>Lifted by end Q1 2017</th>
<th>Outstanding as of 31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>67</td>
<td>39</td>
<td>28</td>
</tr>
</tbody>
</table>

In the AAR 2015, 67 ERDF/CF programmes of the 2007-2013 programming period were under reservation. The actions taken have led to a total of 39 reservations solved and 28 still outstanding by the end of March 2017.

For each of the case under reservation, DG Regional and Urban policy had identified and agreed with the Member States targeted remedial actions that needed to be carried out by the relevant authorities in order to remedy the deficiencies.

DG Regional and Urban Policy has, during the year, supervised that the remedial actions were indeed implemented and, when relevant, audited by the audit authorities. When necessary, DG Regional and Urban Policy’s supervisory role also included on-the-spot audits. The payments were resumed only based on audit evidence that corrective actions, including financial corrections where necessary, were fully implemented. Financial corrections have been agreed in 2016 upon for 47 of these 67 OPs, which represents a total amount of EUR 563.8 million.

**Table: Follow up of reservations by Member States for the 2007-2013 programming period:**

<table>
<thead>
<tr>
<th></th>
<th>Number of reservations in 2015</th>
<th>Lifted by end Q1 2017</th>
<th>Outstanding</th>
<th>Financial corrections decided/confirmed in 201695</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>number of OPs</td>
</tr>
<tr>
<td>BE</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>BG</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>CZ</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>FR</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>DE</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>EL</td>
<td>7</td>
<td>7</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>HU</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>IT</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>PL</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>RO</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>SK</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>ES</td>
<td>22</td>
<td>5</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>UK</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>ETC</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>67</strong></td>
<td><strong>39</strong></td>
<td><strong>28</strong></td>
<td><strong>47</strong></td>
</tr>
</tbody>
</table>

**A.2.4. Overall assessment of the functioning of the management and control systems**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
</table>

94 Excludes IPA CBC.
95 Including financial corrections at source.
The final stage of the evaluation process was a detailed review of all operational programmes in each Member State and beneficiary country taking account of all audit and implementation information available. This was done during meetings chaired at the highest level by the Director-General. The aim of these meetings was to:

- ensure the quality and consistency of the management assurance declarations (AOSD),
- resolve any cases of discrepancy between the audit opinions and management assurance declarations,
- agree on any modifications required as a result of subsequent developments during the first quarter of the current year (subsequent events),
- identify the programmes for which a reservation should be made and proceedings to be decided in relation to payments.

Following the evaluation stage and taking into account the audit opinion and error rates (total and residual) provided at closure, the programmes were classified into four categories in accordance with the level of assurance that they provide as to the legality and regularity of interim payments made during the reporting year.

**Final assessment of management and control systems in the annual management opinion:**

<table>
<thead>
<tr>
<th>IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nr. of Programmes</td>
</tr>
<tr>
<td>1</td>
<td>Reasonable assurance</td>
</tr>
<tr>
<td>2</td>
<td>Reasonable assurance with low risk</td>
</tr>
<tr>
<td>3</td>
<td>Limited assurance with medium risk*</td>
</tr>
<tr>
<td>4</td>
<td>Limited assurance with high risk</td>
</tr>
<tr>
<td></td>
<td><strong>322</strong></td>
</tr>
</tbody>
</table>

*Including partial reservation

All programmes falling under the categories 'limited assurance – medium risk' and 'limited assurance - high risk' in the table are subject to a reservation. This applies to 66 ERDF/CF programmes from the 2007-2013 programming period.

**Reservation for shared management – ERDF/CF 2007-2013**

The methodology followed for deciding whether or not a reservation is necessary is detailed in Annex 4. It has been agreed with DG Budget and the family DGs and it has remained stable compared to previous year.

As a general rule at closure, reservations for the 2007-2013 period are made if at least one of the following conditions applies: material deficiencies in the management and control systems, validated error rate exceeds or equals 5%, cumulative residual risk (or at closure residual error rate) exceeds 2%

For the cases where there is no financial risk but which could have a significant impact on the reputation of the Commission, a reservation is made on a reputational basis.
• The overall estimated average error rate on 2016 payments for the 2007-2013 ERDF/CF programmes is in the range of 2.2% to 4.2%;

• The residual error rate at closure of approx. 0.4% as reported by Member States confirms that the 2007-2013 ERDF/CF programmes are subject to appropriate control and corrective action on a cumulative basis;

• DG Regional and Urban policy prudently formulates a reservation for 66 programmes, pending the detailed assessment of closure declarations to be made in the regulatory five-month period as from 31 March 2017: out of these 38 are on a reputational basis (including 27 partial reputational) as no expenditure was paid for these programmes in 2016 and 6 on a partial basis (limited to specific axis, measures or IBs of OPs);

• The quantification of the estimated financial risk for reservations, as a percentage of 2007-2013 ERDF/CF paid expenditure of the year 2016, is at approximately 0.8%.

Further details as regards the reason leading to the reservation for these 66 ERDF/CF programmes are described in annex 7A.

A.3. ERDF / CF 2000-2006 and earlier periods: processing closures

In 2016, DG Regional and Urban Policy paid EUR 297 million for the 2000-2006 ERDF programmes and for the Cohesion fund.

State of play of closures and audit work

ERDF 2000-2006

The Commission's objective is to ensure that the residual error rate in the population (expenditure 2000-2006) will not exceed 2%. To this end, a mechanism of financial corrections, based on the error rates provided by the Member States and residual error rates calculated by the Commission has been implemented. In order to ensure equal treatment, a common methodology has been adopted for all Structural Funds.

At the end of 2016, DG Regional Policy has closed 378 out of a total of 379 programmes (comparing to 361 at end of 2015). The remaining programme (OP Sicily) should be closed in the coming weeks pending the official acceptance of the closure declaration by the Member State.

These programmes include also the ones where conclusions on a certain number of projects cannot be achieved as they are awaiting the decision of national institutions under administrative and/or legal procedures (including court cases). Depending on the decision

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96 This range of the estimated error rate is the most comparable with the error rate determined by the ECA in its Annual Report for Cohesion Policy. However these error rates are based on different approaches: on the one hand, an extrapolated error rate (combined for ERDF, CF, ESF, YEI) based on audits of a sample of programmes and of operations using a statistical approach (ECA approach); and on the other hand, an average error rate based on the audit of operations by the audit authorities reported in the ACRs covering all the ERDF/CF operational programmes (Commission).

97 This minimum "reportable" error rate represents an estimation of the level of risk for the 2016 expenditure. It is primarily based on the (most likely projected) error rates reported by the audit authorities at closure, prior to the assessment of the closure documents. In case of scope limitation reported, a flat rate of 2% is used.

98 A risk range is calculated as in previous year in order to estimate the risks. As statistical methods provide a confidence interval to estimate the risk, the upper limits reported by the audit authorities are used for estimating the maximum risks, in case of statistical sampling. In case of non-statistical sampling or when the upper limits were not provided a flat rate was applied (the flat rate immediately above the reported error rates). Finally, in case of scope limitation, the maximum risk was prudently assessed as minimum of 5%.

99 i.e. the corrective measures (withdrawals, recoveries) implemented by Member States up to closure have adequately mitigated the risks of all irregularities identified since the beginning of the programming period, subject to the Commission final assessment of closure declarations.
of national authorities it may result in the recovery of financial amounts or a decision to charge the amounts to EU budget. Out of 378 programmes closed, 20 are thus currently "partially" closed.

The 2015 reservations affecting the Italian programmes (OP Campania and OP Sicily) are considered lifted as the programmes authorities did or agreed to apply the proposed corrections which are significant (above 5%). Following the additional information provided, revised closure proposals were submitted and accepted by the programme authorities\(^\text{100}\).

The Directorate General can conclude that it has reasonable assurance on all the ERDF 2000-2006 payments made in 2016.

**Cohesion Fund 2000-2006**

The objective at closure is to ensure that the residual error rate for each project does not exceed 2% i.e. that the expenditure is not materially misstated.

In 2016, the audit directorate had already finalised its assessment of winding-up declarations of all Cohesion Fund projects. An additional 18 projects were closed which was less than anticipated. 57 projects remained open at the end of 2016 out of the 1,121 Cohesion Fund decided projects\(^\text{101}\). All of the 57 projects where there is no outside constraint, for example an ongoing national legal procedure, should be closed in 2017.

**Open projects per country as of 31 December 2016**

<table>
<thead>
<tr>
<th></th>
<th>BG</th>
<th>EE</th>
<th>ES</th>
<th>EL</th>
<th>LT</th>
<th>PL</th>
<th>PT</th>
<th>RO</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>12</td>
<td>4</td>
<td>10</td>
<td>2</td>
<td>21</td>
<td>57</td>
</tr>
</tbody>
</table>

As regards the two reputational reservations issued in the AAR 2015, these are not fully addressed as the necessary financial corrections were not yet applied. These reputational reservations were due to the level of error rate in one transport project (Calafat-Vidin bridge project in Bulgaria) and suspicion of fraud in three transport projects (in Romania). The financial correction/closure letters for the one BG transport project and the three RO transport projects will be sent by end of May 2017 at the latest.

Conclusion: The Directorate General has reasonable assurance on all the payments made in 2016. The two Cohesion Fund- transport sectors (Romania and Bulgaria) remain under reputational reservation as corrective action was not yet taken. The reservations are reputational as no payments were made for these projects at risk in 2016.

**ERDF / CF 2000-06 and 1994-99: financial correction decisions annulled by the Court of Justice**

The Court of Justice annulled 3 General Court judgments\(^\text{102}\) relating to financial correction decisions for the 1994-99 period for Germany and Spain. As a consequence, EUR 346 million were paid in 2015 with the available budget at the time and the remaining amount of EUR 147.6 million (balance of EUR 111 million and EUR 36.3 million of interests) was paid in the beginning of 2016.

Additionally, in July and September 2016, the Court of Justice dismissed the Commission's appeal on cases concerning financial correction decisions for the Cohesion Fund 2000-2006 in Spain\(^\text{103}\) and Portugal\(^\text{104}\). This resulted in additional payments in 2016 of EUR 21 million

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\(^{100}\) An official confirmation for the OP Sicily is expected to be received in May 2017.

\(^{101}\) for a Fund contribution of EUR 32.5 Billion

\(^{102}\) Judgments in cases C-549/12P, C-54/13P and C-263/P

\(^{103}\) T-111/12, C-140/15, T-109/12, C-139/15

\(^{104}\) T-314/13
for these two countries. The reasons for these annulment decisions remain, as for 2015, the new interpretation of the Court of Justice on applicable delays for the Commission to take a financial correction decision.

**A.4. Croatia, IPA-CBC and Solidarity Fund**

In 2016, DG Regional and Urban Policy paid respectively EUR 158 million for Croatia, EUR 91 million for IPA-CBC and for the Solidarity Fund EUR 32 million of pre-financing.

**Croatia and IPA-CBC 2007-2013**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average error rate on 2016 payments as reported by the audit authorities (based on 2015 error rates) – Estimate</td>
<td>1.4 % 0.13%</td>
</tr>
<tr>
<td>For Croatia</td>
<td></td>
</tr>
<tr>
<td>For IPA-CBC</td>
<td></td>
</tr>
<tr>
<td>Weighted average error rate on 2016 payments as recalculated by DG REGIO (based on 2015 error rates) – Estimate</td>
<td>5.7 % 0.13%</td>
</tr>
<tr>
<td>For Croatia</td>
<td></td>
</tr>
<tr>
<td>For IPA-CBC</td>
<td></td>
</tr>
</tbody>
</table>

**Croatia**

Croatia, which joined the European Union in 2013, has been granted an additional year compared to the other 27 Member States for implementing its three 2007-2013 programmes. The closure of the programmes will take place in 2018 (instead of 2017).

In 2016, the Audit Directorate has carried out a fact finding mission at the level of the audit authority to review its annual control report. Based on this work, the Audit Directorate has assessed that for 2 out the 3 programmes the management and control system is functioning well or with some non-material improvements required and has issued an adverse opinion for OP Transport due to deficiencies in public procurement not detected by the managing and audit authorities. The Commission auditors recalculated the error rate from 4% to 20% for this last programme (pending the on-going contradictory procedure).

**IPA-CBC**

The IPA cross-border programmes differ from the mainstream ETC programmes due to the fact that they involve at least one candidate country. In terms of management and control system as both the requirements and the control objective are identical to those for ERDF/CF, the assurance model of DG Regional and Urban Policy does not differ from the mainstream programmes.

As part of its audit enquiry on the review of the audit authorities, the Audit Directorate has reviewed the work of the audit authorities responsible for all IPA-CBC programmes105 and the audit conclusions are that the reviewed audit authorities work well, with some (non-material) improvements needed. DG Regional and Urban Policy auditors also reviewed and assessed the 2016 annual control reports, including the reported error rates.

Based on the results of this work, the Audit Directorate has assessed all programmes as functioning well or with some non-material improvements needed.

As regards the only programme which was under reservation in the AAR 2015 (OP Greece-FYROM), following the satisfactory implementation of the corrective measures including financial corrections, the reservation for this programme is considered solved.

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105 There are 8 IPA-CBC programmes. In addition, two ERDF programmes have an IPA component (2007CB163PO069 and 2007CB163PO045).
Conclusion Croatia, IPA-CBC 2007-2013

For the Croatian and IPA-CBC programmes, the final stage of the evaluation process is similar to the one applied for shared management. A detailed review at the highest level of the Directorate-General was carried out confirming that reasonable assurance can be obtained on all the programmes except for the Croatian OP Transport (2007HR161PO002) for which a reservation is issued.

Solidarity Fund (EUSF)

The way in which DG Regional and Urban Policy defines its assurance for the Solidarity Fund is tailored to the specificities of the instrument.

The main steps leading to the payment of an aid under the Solidarity Fund can be summarized as follows:

- applications are put forward by Member States and assessed by the Commission.
- if the application is accepted, the Commission proposes an amount of aid to the European Parliament and the Council who have to approve it before it can be paid out.
- once the appropriations become available in the EU budget the Commission adopts a decision awarding the aid to the affected State following which the aid is paid out immediately and in a single instalment.
- once the aid is paid out, the affected State is responsible for the implementation including the selection of operations and their audit and control.

The main inherent risk as regards the EUSF is that, due to the emergency nature of the events and the related expenditure, there is no prior assessment of the management and control systems in place. The assurance on the legality and regularity of the EUSF expenditure is therefore mainly obtained ex post, i.e. after the Fund has been received by the beneficiary country and the projects have been completed. Such assurance is based on management checks and audit work performed by the national authorities concerned, as described in the implementation reports and audit opinions submitted to the Commission for the closure of each EUSF assistance.

At the level of the Commission, assurance on the legality and regularity of EUSF spending is mainly obtained through the desk review of the audit opinions provided by independent audit bodies. These desk reviews are complemented by on the spot audits carried out on a risk basis by the Audit Directorate.

In 2016, six new applications for the EUSF financial assistance were received relating to earthquakes in Greece and Italy, flooding in the UK and Germany, fires affecting the Island of Madeira and drought and fires in Cyprus. Two of them were qualified as major disasters with total direct damage exceeding 0.6% of GNI or EUR 3,312.2 million and four as regional disasters. 5 requests were assessed in 2016, while the Commission is still analysing the request submitted by Italy following the series of earthquakes and will propose a final amount of aid, to be approved by the European Parliament and the Council, once the assessment of the damage linked to the October earthquake is completed by the Italian authorities. A total of EUR 32.77 million (1 full payment, including advance payment, and 3 advance payments) was paid out during the period thus contributing to the EUSF's objectives to respond to major natural disasters and express European

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106 The legal framework introduced by the Council Regulation (EU) No 661/2014, amending the Council Regulation (EC) No 2012/2002, introduced some improvements in this regard, namely by allowing the Member States to use the same national authorities designated for ESIF to manage and control EUSF assistance. However, the provisions of the amended Regulation are applicable only to the EUSF assistance granted after its entry into force on 28/06/2014.

107 For EUSF assistance granted up to June 2014, the audit opinions were submitted in the form of "statements of validity".
solidarity to the disaster-stricken regions. In one case (the earthquake in Italy), the Commission authorised a first aid disbursement worth EUR 30 million, the highest sum that can be paid as an advance. In particular, the EUSF will help cover the costs of emergency measures, clean-up operations and of the restoration of vital public infrastructure in the affected countries.

The Audit Directorate reviewed audit opinions108 (or, where applicable, additional clarifications from the national authorities) for 12 EUSF contributions. These 12 files concern: (i) 3 audit opinions received in 2016109; (ii) 4 files where further information received from the Member States allowed the closure of the respective EUSF assistance during 2016110; (iii) 3 cases where, further information received from the MS, the audit analysis has been completed and the closure process is at is final stage111; and finally (iv) 2 cases that still remains open112.

No on-the-spot audit was carried out in 2016. An on the spot audit is however planned for end May 2017.

Conclusion: For the Solidarity Fund, based on the audit work carried out so far, the Directorate-General can conclude that it has reasonable assurance on the audit opinions which were accepted in 2016. No reservation is made.

A.5. Instrument for Pre-Accession (IPA), Urban Innovative Actions and International Fund for Ireland (indirect management)

In 2016, DG Regional and Urban Policy paid EUR 417 million in indirect management.

Instrument for Pre-Accession

IPA (for Turkey, the former Yugoslav Republic of Macedonia and Montenegro) are managed under indirect management, with the EU delegations carrying out ex-ante controls on the tendering of contracts, launch of calls for proposals and the award of contracts and grants. This represents an important mitigating element in the overall assessment of the functioning of management and control systems in candidate countries. There are five113 IPA programmes.

The control system is built on multiannual and multilevel control whereby one level of control may rely on the work of previous controls performed by other bodies.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average error rate on 2016 payments as reported by the audit authorities (based on 2015 error rates) - Estimate</td>
<td>0.01%</td>
</tr>
<tr>
<td>Weighted average error rate on 2016 payments as recalculated by DG REGIO (based on 2015 error rates) - Estimate</td>
<td>0.18%</td>
</tr>
</tbody>
</table>

DG Regional and Urban Policy has assessed for all three countries (Montenegro, Turkey and Former Yugoslav Republic of Macedonia) the NAO’s statement of assurance, the

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108 For the EUSF assistance covered by Commission Decisions signed before the entry into force of the revised EUSF Regulation, the audit opinions were called “statements of validity”.

109 German floods 2013 – pending information from the MS; Czech Republic floods 2013 – being analysed after additional information has been provided by the MS and Romania drought and fires disaster 2012 – in the process of closure.

110 Spain – forest fires of 2003, Spain - Lorca earthquake of 2011, Austria floods 2013 and Croatia floods 2012

111 Slovenia floods 2010 and Slovenia floods 2012: already closed in 2017; Romania floods 2010: will be closed once the recoveries have been cashed by the Commission.

112 Italy – Liguria floods 2011 replies are being analysed by the Audit Directorate; Hungary floods 2010 additional information was requested from the MS.

113 Three programmes in Turkey, one in FYROM and one in Montenegro.
system audit reports, the annual audit work plan, the annual audit opinion and the annual audit activity report which were submitted at the end of 2016. No audits on the spot were carried out by REGIO in 2016.

On this basis, DG Regional and Urban Policy can conclude that the management and control systems are functioning effectively and obtained reasonable assurance on all five operational programmes.

**Urban Innovative Actions**

The Urban Innovative Actions (UIA) is an instrument allowing the Commission to directly support cities to test new solutions to address their future challenges. The initiative has a budget of around EUR 370 million for the 2014-2020 period and it is implemented via indirect management. The management of the instrument is delegated to the Nord-Pas de Calais Region in France, which has set up a Secretariat to manage Urban Innovative Actions.

The assurance system for UIA relies on the existence and functioning of an effective and efficient Internal Control both at the level of the entrusted entity and at the level of the Commission. The assurance building blocks can be found in annex 8.

A comprehensive set of control results is not yet available for 2016, since a full implementation cycle has not been completed. The ex-ante assessment required by Article 61(1) of the Financial Regulation in order to entrust tasks of budget implementation to an external entity has been done in 2014 and the management and control system is being finalized in accordance with applicable rules and principles. The external auditor is the audit company Ernst & Young, selected by the entrusted entity in 2016. The entrusted entity submitted to the Commission in December 2016 the draft audit strategy and audit methodology in December 2016, which requires clarifications.

The audit opinion for 2016 was submitted by mid-March 2017. The opinion provided by the external auditor on the effective functioning of the management and control system is unqualified.

Two Transfer of Funds from Commission to the Entrusted Entity of EUR 153 million in total took place in 2015 and 2016 for the implementation of entrusted tasks for the period 2014-2016 in accordance with Article 4 of the Delegation agreement. The entrusted entity did not carry out any payment to beneficiaries in 2015 and 2016. Only technical assistance was used to pay for costs incurred by the entrusted entity. However no expenditure was declared to the Commission in 2015 and 2016.

Despite the absence of expenditure declared to the Commission, implementation of the Urban Innovative Actions is on track. A first call for proposals on Urban Innovative Actions was launched in December 2015 with a budget of EUR 80 million. 18 projects were selected but no grant agreement signed yet in 2016. A second call for proposals has been launched in December 2016 with a budget of EUR 50 million.

On the basis of the information available so far and the fact that no expenditure was declared to the Commission, and despite the fact that neither the yearly control report, nor the management declaration were sent to the Commission (only the audit opinion was sent) there are no issue which would prevent DG Regional and Urban Policy from having reasonable assurance on the transferred funds.

**International Fund for Ireland**

The International Fund for Ireland (IFI) is an independent international organisation established by the British and Irish governments in 1986.
At the end of 2015, IFI had submitted all closure documents within the regulatory deadline. The analysis of the closure documents confirmed that the IFI fully achieved the objectives stipulated in Regulation (EU) No 1232/2010. The final winding-up report and declaration were analysed and accepted. In June 2016 the Commission released the final payment amounting to EUR 3 million against the 2010 commitment. The 2016 payment to the IFI concludes the European Union’s contribution to the Fund.

There are no issue which would prevent DG Regional and Urban Policy from having a reasonable assurance on the expenditure paid to IFI.
B. Direct management

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-post review of payments</td>
<td>20 direct management payments</td>
</tr>
<tr>
<td>Committee on Public Procurement and Grants (CIMS)</td>
<td>19 procurement files examined</td>
</tr>
</tbody>
</table>

Direct management

In 2016, expenditure paid under direct management was used mainly for operational and administrative technical assistance for ERDF and the Cohesion Fund and for preparatory actions. It represented EUR 91.7 million of which close to EUR 28.4 million were paid to the EIB for JASPERS, a technical assistance facility providing support to prepare high quality major projects.

The current assurance for direct management transactions is embedded in the DG's internal control system, which means that all transactions are processed according to the Financial Regulation and DG REGIO's financial circuits (partly decentralised model).

The assurance system is based on the following building blocks:

Programming: overall and individual action
For technical assistance (TA) operations, assurance that operations cover the needs of the DG and are carried out according to priorities is derived from the programming exercise. The main objectives and priorities for technical assistance interventions in the period 2014-2020 are spelled out in the TA strategy. Needs identified by REGIO services are consolidated and assessed against the overall strategy through the preparation of the yearly Financing decision and its mid-year modification. Reporting on the implementation of the TA strategy (financial execution of the yearly Financing Decision and annual progress in implementing the TA strategy) gives additional assurance that TA funds were used for their intended purpose.

Tendering and contracting
For the award of contracts and grants, DG Regional and Urban Policy has put in place partly decentralised financial circuits. In addition to these standard circuits, the central financial unit is acting as a "helpdesk" for questions related to tendering/grants procedures and all procedures above EUR 60 000 undergo additional verifications by the Committee on Public Procurement and Grants (CIMS). The CIMS checks the legality and regularity of the public procurement processes according its internal procedural rules.

In 2016, 19 procurement files have been examined during 14 meetings of the CIMS representing a total amount close to EUR 35 million. These contracts were awarded following 12 open procedures, 1 negotiated procedure without publication of a contract notice in the OJ, 5 specific contracts using a FWC with reopening of competition and 1 restricted call for proposals.

Monitoring of implementation and payments
In accordance with the partly decentralised financial circuit, payments are approved following the four-eye principle (each file is double-checked both on operational and financial aspects). Operational monitoring is carried out along the life of the contracts by the implementing services; generally through verifications of deliverables (e.g. interim, final reports...).

Ex-post controls
Additional assurance is provided through the performance of ex-post controls on a sample of payments (including both mainstream and direct payments) systematically selected from the different budget lines, to ensure that these were duly authorised, paid to the right beneficiaries, properly accounted for and materially correct. There were no critical or very important findings.
C. Budget implementation tasks entrusted to other services and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG’s supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

As in previous years, DG Regional and Urban policy has cross-sub-delegated the execution of a very limited part of the budget (EUR 9.46 million) to the Directors General of:

- DG Connect (EUR 0.10m) for communication activities;
- DG Economic and Financial Affairs (EUR 0.10m) for communication activities in the Economic Magazine;
- DG Employment, Social Affairs and Inclusion (0.83m) for ARACHNE Project risk scoring tool and study on linkage with country-specific recommendations;
- Eurostat (EUR 0.81m) for regional/urban statistics and geographical information;
- DG Neighbourhood and Enlargement Negotiations (EUR 0.34m) for Expert exchange system, TAIEX REGIO PEER2PEER;
- Structural Reform Support Service (EUR 0.34m) for renewable energies under the scope of Turkish-Cypriot reunification activities;
- Office of Publication (EUR 0.33m) for communication activities.

A total of EUR 6.7m was disbursed on behalf of DG Regional and Urban Policy by DG Human Resources (EUR 1.59m) and the Paymasters Office (EUR 5.13m) for staff-related expenditure such as staff reinforcements via short-term contracts, contract agents, seconded national experts, committees and missions.

DG Regional and Urban Policy also had co-delegation arrangements with other DGs and services:

- DG Communications (EUR 6.7m) as contribution to corporate communication activities;
- DG Translations (EUR 7k) for outsourced translations;
- DG Informatics (EUR 0.39m) for development of IT systems, maintenance and support to users;
- DG Interpretation (EUR 0.25m) for conferences and events.

The heads of Commission services, the AODs are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements. The cross-delegation agreement requires the AOD of these DGs to report on the use of these appropriations.

None of these reports communicate events, control results or issues which could have a material impact on assurance. They provided reasonable assurance that the resources assigned to the activities described 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.

2.1.3.2 Efficiency and Cost-effectiveness

Based on an assessment of the most relevant key indicators and control results, DG Regional and Urban Policy has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.
This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

As illustrated in the introduction of part 2, DG Regional and Urban Policy manages funds under several management modes:

<table>
<thead>
<tr>
<th>Management mode</th>
<th>% Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared management</td>
<td>98.24%</td>
</tr>
<tr>
<td>Indirect management</td>
<td>1.44%</td>
</tr>
<tr>
<td>Direct management</td>
<td>0.32%</td>
</tr>
</tbody>
</table>

A. Shared Management

The table below shows the indicators used to assess the efficiency of the controls carried out during the reporting year.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of control/financial management of the Commission checks and assessment (as a % of total 2016 payments)</td>
<td>0.26%</td>
</tr>
<tr>
<td>% of Commission payments on time</td>
<td>92% (8% late due to budgetary constraints (transfers between lines))</td>
</tr>
<tr>
<td>Time to lift interruption of payments</td>
<td>7.6 months on average (from first blocking letter to resuming payments)</td>
</tr>
<tr>
<td>% interruption of payments notified to MS within 2 months</td>
<td></td>
</tr>
<tr>
<td>• Payment claims submitted in 2016 and interrupted in 2016</td>
<td>100%</td>
</tr>
</tbody>
</table>

DG Regional and Urban Policy quantifies the costs of the resources and inputs required for carrying out the controls described in annex 5 and estimates, in so far as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls.

The estimated annual overall Commission cost is estimated at 0.26% of total payments of the year\(^{114}\), which is slightly higher than last year, due to a lower volume of payments made in 2016 (in 2015, it was 0.17%). This cost mainly relates to staff in the geographical desks (which carries out controls throughout the different design, implementation and monitoring phases) and staff involved in audit activities (notably assessment of management and control systems in Member States and including the Commission ex-post audits). The remaining direct Commission costs relate to staff acting as service providers to the geographical desks (in the competences centres and in the units responsible for evaluation activities and financial instruments). In addition, a share of the staff involved in the financial circuits, as well as staff responsible for legal affairs and IT systems is also included in the calculation, following a proportion estimated by the concerned units. The cost of IT tools (development/maintenance) supporting 2016 control activities is also included in the calculation.

When added to the cost at the level of the Member States assessed to be around 2.1% of the ERDF/CF 2007-2013 programme budgets, the total estimated cost for the management and control of the ERDF/CF corresponds to 2.36% of the total annual budget. The costs at the level of the Member States related to control (at national and regional level) are estimated around 2% of the total funding\(^{115}\). These costs are related to the

\(^{114}\) Corresponding to EUR 28,485.6 million

\(^{115}\) Study “regional governance in the context of globalisation”, 2010
following areas of control: 1% is derived from national coordination and programme preparation, 82% relate to programme management, 4% to certification and 13% to audit. Using this estimate based on the structures of the programming period 2007-2013 remains adequate, as payments for 2007-2013 OPs still represent a significant part of expenditure in 2016. While it was initially foreseen that cost estimates regarding the management and control structures for the new programming period would become available in 2016, a survey carried out in 2014-2015 showed that programme authorities were not yet in a position to provide reliable estimates, due to the delays in the implementation. Another survey aiming to assess the administrative burden is currently being prepared to cover this aspect. It will be launched in 2017.

The quantifiable benefits considered in the framework of this exercise mainly relate to the corrections\textsuperscript{116} implemented by DG Regional and Urban Policy following (Directorate-General's) audit work. In this context, it must be pointed out that financial corrections are not an objective as such. A decreasing amount of corrections over the years would not solely result from the quality and/or quantity of controls but could also reflect an improvement in sound financial management of the programme by the Member States.

**Overall, during the reporting year the controls carried out by DG Regional and Urban Policy for the management of the budget appropriations were cost efficient, as the estimated quantifiable benefits exceeded the cost in a proportion of 7 to 1.**

In addition, there are a number of non-quantifiable benefits resulting from the controls operated throughout the various control stages. This includes notably (but not exclusively):

1. An increased level of assurance, resulting from a) improvements in the management and control systems implemented at DG Regional and Urban Policy request, b) blocking of payment requests associated with unreliable systems and c) DG Regional and Urban Policy’s adjustments made on the error rates reported by MS.

2. The negotiation procedures on the content of the Partnership Agreements and Operational Programmes. These were thoroughly analysed by the Commission to ensure a) the respect of requirements laid down in the Cohesion Policy Regulation (CPR) and b) the adequate reflection of policy objectives and priorities, notably with the position papers and the follow-up to the relevant Country Specific Recommendations (CSRs). This work is of utmost importance to get the programming right from the start and focus the ESI Funds on the challenges MS and regions are facing as identified in the European Semester. While most of this work was completed in 2015, negotiations with Member States have continued in 2016, following Member States’ requests for OP modifications. Programming, management and monitoring roles carried out by the geographical units are key for all Member States if the ESI Funds are to deliver on the Europe 2020 Strategy. The deterrent effects of ex-post controls also bring unquantifiable yet undeniable benefits, in addition to the financial corrections reported in section A.2.3 as direct results.

DG Regional and Urban Policy considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they were not in place.

Nonetheless, the DG is constantly looking for additional efficiency gains in designing and deploying its control activities. This is notably reflected in the following:

- **Risk-based approach for audit activities** – the efficiency of the DG’s audit activities is ensured by the continuous focus on riskier areas, to which resources are

\textsuperscript{116} The corrections implemented in 2016 at the request of the Commission amount to EUR 522.5 million. However, it must be noted that corrected amounts might correspond to expenditure of previous years.
primarily allocated and the use of single auditing to avoid audit duplication and unnecessary burden on administrations and beneficiaries.

Differentiated approach for monitoring and supervisory activities of the implementing units - A differentiation exercise was launched in 2015, which allowed adapting the monitoring and supervisory efforts of implementing units to the specific needs of each programme/Member State. This differentiated approach has continued to be applied throughout 2016, thus contributing to the optimisation of control efficiency.

B. Indirect management

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of control/financial management of the Commission checks and assessment (as a % of total 2016 payments)</td>
<td>0.4%</td>
</tr>
<tr>
<td>% of Commission payments on time (vs Financial Regulation Target)</td>
<td>91%(^{117})</td>
</tr>
<tr>
<td>UIA and IPA</td>
<td></td>
</tr>
<tr>
<td>Budget execution</td>
<td>100%</td>
</tr>
</tbody>
</table>

The estimated annual overall Commission costs amounts to 0.4% of total payments of the year managed under indirect management mode\(^{118}\).

The cost relates to staff involved in audit activities and part of the geographical staff involved in control and implementation activities for IPA (both in DG Regional and Urban Policy concerned geographical unit and in the delegations\(^{119}\)). The FTEs corresponding to geographical staff should not be counted in full, as the concerned staff contributes to both control and implementation activities. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), DG Regional and Urban Policy estimated their involvement in the financial workflow at approximately 33% for the concerned staff in DG Regional and Urban Policy geographical unit and 75% for delegation staff.

The benefits of controls at the programming stage cannot be easily quantified. The unquantifiable benefits mainly relate to the relevance and effective implementation of activities in line with the DG’s policy objectives. The deterrent effects of monitoring and controls also bring unquantifiable benefits. They also contribute greatly to the improvement of the administrative capacity of the concerned countries. The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, DG Regional and Urban Policy makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds.

In view of the above, DG Regional and Urban Policy considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate.

\(^{117}\) Due to budgetary constraints and amounts interrupted/suspended.

\(^{118}\) Corresponding to EUR 417.4 million

\(^{119}\) While no more belonging to REGIO (staff transferred to NEAR in 2014), it is considered appropriate to include in the calculation delegation staff responsible for ex-ante controls and monitoring activities on IPA interventions financed by REGIO. This is to provide a more accurate picture of the overall control effort surrounding the implementation of the related budget lines.
C. Direct management

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of control/financial management of the Commission checks and assessment (as a % of total 2016 payments)</td>
<td>1.6 %</td>
</tr>
<tr>
<td>% of Commission payments on time (vs Financial Regulation Target)</td>
<td>94.3 %</td>
</tr>
<tr>
<td>Budget execution (payment appropriations)</td>
<td>100%</td>
</tr>
</tbody>
</table>

The estimated annual overall Commission costs are estimated to amount to 1.6% of total payments of the year managed under direct management mode, which is lower than last year, due to the transfer of the Turkish-Cypriot Community Task Force (which counted around 29 FTEs) to the central services.

The cost relates to staff involved in financial advice, initiation, verification tasks and ex-post controls as well as a proportion of the operational staff involved in public procurement and contract management activities. The quantification of human resources involved in such activities is based on an estimation of FTEs needed for implementing the DG's technical assistance actions. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), DG Regional and Urban Policy estimated their involvement in the financial workflow at approximately 25% of their time.

The benefits of controls at the programming stage cannot be quantified. The unquantifiable benefits mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives. The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, DG Regional and Urban Policy makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds. The deterrent effects of monitoring and controls also bring unquantifiable benefits.

In view of the above, DG Regional and Urban Policy considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate.

In 2016, the DG has however carried out an in-depth assessment of its current system for delivering technical assistance. This has led to the set-up at the end of 2016 of a dedicated TA cell in charge of tendering and contracting tasks for all operational units (see section D below). Efficiency gains are expected in 2017 as a result of this new set-up.

D. Initiatives to improve economy and efficiency of financial and non-financial activities

According to the Financial Regulation (Article 30), the principle of economy requires that the resources used by the Institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved. The respect of these principles is continuously pursued through the

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120 47 payments were paid outside the contractual deadlines, which represents a slight increase of late payments comparing it with the previous year (5.7% in 2016, 3.9% in 2015 and 4.4% in 2014). Nevertheless, there was no interest due to late payment paid in 2016.

121 Corresponding to EUR 91.7 million (excluding cross-subdelegations).
implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc…) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

However, under the shared management mode the Commission cooperates with Member States' administrations, which are in charge of the operational implementation. The Commission is also assessing and implementing performance-related conclusions and recommendations from the European Court of Auditors. Thus, efficient and effective implementation of actions supported by the ERDF and CF largely depends on good governance and partnership among all the relevant territorial and socio-economic partners. In particular, crucial processes such as project selection remain largely in the hands of programme authorities.

DG Regional and Urban Policy has however set up a control environment and put in place procedures aimed at inducing authorities in charge of the implementation to comply with the principles of economy (minimizing the cost of inputs), efficiency (relation between resources and results) and effectiveness (achievement of objectives). In addition to that, specific initiatives aimed at improving the DG's internal effectiveness and efficiency have been launched and implemented in 2016.

**Example 1: Enhancing efficient implementation of the Funds through the improvement of Member States’ administrative capacity**

Having the necessary administrative capacity in Member States and regions is a key element for a smooth implementation of the ESI Funds. That is why DG Regional and Urban Policy has started and will continue to implement a range of activities in order to support and help the public administrations managing and auditing EU funds.

Actions to support administrative capacity building for the management of ESI funds are carried out by DG REGIO in close coordination with other Commission services and also in cooperation with external organisations such as the World Bank, the European Investment Bank, the European Bank for Reconstruction and Development and the OECD. The competence centre for administrative capacity building has been established in DG REGIO in 2013 to provide support to other units that address issues of weak administrative capacity, in particular the country desk that are in regular direct contact with Member States and regions. The main actions coordinated by the competence centre in 2016 were notably the following:

- The implementation of the "TAIEX REGIO PEER2PEER", a new tool for peer-to-peer exchange of expertise between authorities managing the programmes. This tool has been set up in cooperation with DG NEAR, making use of the TAIEX instrument. Out of the 150 applications received so far (88 in 2016) 74 exchanges, study visits or workshops have been implemented (55 in 2016) and 110 accepted (69 in 2016). In total 1,148 participants from 23 MS have been involved. Following the positive feedback and evaluation, the DG has decided to extend the tool until 2020. The sectors where exchanges are most often organised include management and control issues, financial instruments, urban development, public procurement, and smart specialisation.

- The implementation of specific actions in the framework of a public procurement action plan (including publication of Public Procurement Guidance for Practitioners on the avoidance of errors in ESI-funded projects, stock-taking of good practices in MS) and a state aid action plan (including identification and dissemination of good practice, country-specific and thematic seminars, customised assistance to MS not
fulfilling the ex-ante conditionalities on state aid). Both action plans are implemented in close cooperation with other Commission services.

- The rolling out of the Lagging Regions Initiative, which will identify and tackle key bottlenecks so as to make cohesion policy work more effectively in lagging/underperforming regions and to deliver better results. Two different groups of regions are notably covered: lagging regions featuring low growth (predominantly located in Southern Europe) and low income regions with a very low level of GDP/head located in the eastern periphery of the EU). A report containing recommendations on how to improve the performance of these regions will be issued in Spring 2017. In addition a pilot programme for 4 regions is on-going (Nord-Est and Nord-West in Romania and Swietokrzyskie and Podkarpackie in Poland). The pilot aims at concrete recommendations to improve quality of interventions and is supported by the Joint Research Centre (in Romania) and the World Bank (in Poland).

Through these actions, the DG helps Member States increase the quality and the legality of spending and accelerate the absorption of Funds.

Example 2: Actions aiming at rationalising the DG’s operational structure and increasing the efficiency of internal processes

DG Regional and Urban Policy always seeks to increase the efficiency of its internal organisation and processes, while ensuring being in a position to achieve its operational objectives. Since October 2016, the DG has undergone several phases of reorganisation, both driven by corporate decisions (centralisations of HR functions, middle management mobility exercise) as well as internal optimisation endeavours. As regards the internally-driven changes, the DG management function was streamlined with the suppression of two senior management positions (a deputy director-general and a director), as well as the merger of two units and the dismantling of two others. These changes have led to rationalisations of the management and administrative support functions, while ensuring that the operational capacity of the DG remains stable and mobilised towards the delivery of its annual priorities. This is notably ensured through the Unit Management Plans, which have proven to be an effective tool for cascading down DG priorities to unit level and ensuring focus of available resources. Two further mergers at unit level are foreseen by September 2017.

In addition, DG Regional and Urban Policy has explored, in 2016, ways of enhancing the effectiveness and efficiency of its technical assistance (TA) delivery process. For this purpose, an in-depth assessment was carried out by an external contractor. The consultant notably:

- mapped the current system for delivering TA within the DG (including the resource intensity of key processes);
- assessed its effectiveness and efficiency;
- identified alternative options for delivering TA and assessed their potential impact in terms of effectiveness, efficiency as well as their potential impact on assurance.

While the conclusion was that overall the system in place in the DG to implement TA was effective in delivering technical assistance actions, it appeared that efficiency gains could be achieved by centralising a number of administrative and financial tasks. A dedicated TA cell was setup at the end of 2016 which is since the beginning of 2017 in charge of tendering and contracting tasks for all operational units using TA and providing support for the effective implementation, monitoring, supervision and ex post reporting of TA actions. This should lead to efficiency gains as regards the human resources involved, which are crucial in the overall context of shrinking resources.
2.1.3.3 Fraud prevention and detection

Fraud prevention and detection contribute to the assurance process. The responsibility is shared between Member States and the Commission. Measures to enhance fraud prevention and detection include adequate and timely reporting of fraud suspicions to OLAF, organisation of events and trainings on fraud awareness-raising and the promotion of the use of ARACHNE in Member States.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016 target</th>
<th>2016 result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cases of suspected fraud detected by/brought to the attention of the DG transmitted to OLAF for evaluation</td>
<td>100% (16 cases)</td>
<td>All cases that were brought to the attention of REGIO staff were communicated to OLAF for evaluation and possible selection</td>
</tr>
<tr>
<td>2 internal trainings/fraud-awareness events per year</td>
<td>2 trainings delivered in June and November to REGIO colleagues. 100%</td>
<td>Training contributed to a better understanding of the reasons, modus operandi, risks and sources of fraud. It also covered new regulatory requirements and procedures on handling final case reports and launching financial follow-up of recommendations from OLAF.</td>
</tr>
<tr>
<td>3 external training/fraud-awareness events per year</td>
<td>1 event in October with a high-ranking Swedish delegation on anti-fraud measures and strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16-20 Member States using Arachne tool</td>
<td>10 Member States are using the tool for 2007-2013 programmes. 23 Member States are using the tool in production for 2014-2020 (at least one programme)</td>
<td>Member States are trained to use the tool more efficiently in view of integrating it in their management verifications.</td>
</tr>
</tbody>
</table>

**Risk-based internal control.** The first and strongest preventive defence against fraud is the operation of a robust system of internal control, designed and operated as a proportionate response to the risks identified. Such a system can reduce the risk that fraud occurs or remains undetected, but cannot completely eliminate the likelihood of fraud occurring.

As at end 2016, DG Regional and Urban Policy operational directorates are responsible for follow-up actions of 81 OLAF investigation cases in relation to the ERDF and the Cohesion Fund. According to OLAF’s assessments in their Final Case Reports, an amount of up to EUR 1.2 billion could potentially be affected by the alleged suspected fraud or irregularities. This is a maximum amount that needs to be evaluated by the Authorising Officer based on the reported findings.

According to the Commission's Report on the fight against fraud of 14/07/2016, Member States communicated a total number of 9,165 irregularity cases to OLAF for the ERDF and the Cohesion Fund for a potentially affected amount of EUR 1.65 billion. According to the report, in 2015 the share of suspected fraud cases out of the irregularities notified by Member States to OLAF represented EUR 367 million. For the period 2008-2015, OLAF evaluates the fraud detection rate at 0.36% for Cohesion policy.

Nevertheless, DG Regional and Urban Policy considers that such data needs to be treated with caution. Other sources point to the fact that the scope of fraud and/or corruption in particular in public procurement in the EU (part of which also involve EU co-financed

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124 Fraud detection rate = Irregularities reported as fraudulent 2008-15 divided by Commitment appropriations 2007-13 (Source: statistical annex of the PIF report 2015, page 71)
projects) may be bigger than the reporting from Member States seems to suggest. The Directorate General therefore continue to analyse the fraud risk levels and suspicions in Member States, regions and programmes, the types of reported fraud (modus operandi) and the mitigating measures adopted by the Member States.

Based on its policy of zero tolerance to fraud, the Directorate-General adopted in December 2015 a Joint Anti-Fraud Strategy (JAFS) for the period 2015-2020, aligned with the timeframe covered by the single audit strategy, with EMPL and MARE. With the JAFS the three Directorates General aim at intensifying their on-going anti-fraud efforts through a series of new initiatives:

- following the introduction of an anti-fraud requirement for 2014-2020 in the Common Provisions Regulation (Article 125(4).c), drafting of guidance to managing authorities, including a fraud risk assessment tool;
- the rolling out by the Commission of the ARACHNE risk scoring tool to Member States to be used on a voluntary basis to help them better identify risky projects and take action appropriate action to ensure legality and regularity of expenditure;
- the organisation of anti-corruption and anti-fraud seminars for Member States with a view to strengthening their capacity to better fight fraud and corruption;
- other actions with the objective of promoting good governance, raising awareness and increasing the administrative capacity of the Member States to protect the EU's and national financial interests.

The Joint Anti-Fraud Strategy contains an action plan setting out the anti-fraud activities to be carried out by these DGs in close collaboration with OLAF in the period.

During 2016, other main actions which were implemented in the framework of fight against fraud were:

- **Internal training and awareness-raising actions** to desk officers and auditors; maintenance of dedicated platforms on fraud prevention on the intranet of DG Regional and Urban Policy and SFC2007 / SFC2014; continuous co-operation and exchange of information related to fraud suspicion cases between the DG and OLAF.

- **Internal procedure for following-up final case reports (FCRs) issued by OLAF.** The new procedure put in place helped facilitate the follow-up of cases issued by OLAF in 2016. Where OLAF recommends in its report to apply a financial correction, the Authorising Officer issues a follow-up letter within two weeks and asks the Member State not to certify expenditure in relation to parts of the programme(s) affected by OLAF findings. For payment claims already in-hand, the Authorising Officer verifies whether affected expenditure is included in the claim and interrupts the deadline of the payment claim accordingly. These conservatory measures have been put in place to protect the EU budget pending the outcome of the contradictory procedure with the Member State on the correction proposed.

- **Launch a study on compliance of Member States with regard to effective and proportionate anti-fraud measures.** The regulation introduces a new requirement (also key requirement for the management and control systems for the 2014-2020 programming period) to put in place risk-based anti-fraud measures. In line with priority objective 1 of the JAFS action plan, a desk review was conducted on a sample of 8 Member States (covering 15 programmes). Some programmes have foreseen mitigating measures in line with their risks, but this remains very theoretical and needs to be tested.

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126 Article 125.4 c) of the Common Provisions Regulation.
127 Greece, Spain, France, Hungary, Latvia, Lithuania, Portugal, Slovakia
with real transactions. The delayed designation process did not allow analysing the anti-fraud measures as planned. Therefore, DG REGIO has enlarged the scope of analysis and launched a tender for a stock-taking study on anti-fraud measures put in place by Member States. It will be outsourced to an external contractor and will cover ESI funds managed by REGIO, EMPL and MARE. Thanks to its broad network of local experts, the contractor will be in a better position to collect the measures in place in Member States and analyse their compliance with article 125.4c CPR. Results should be available towards the end of 2017 in the form of a practical handbook of best practices. As a result, the revision of the JAFS planned for 2017 will take place the year after.

- **Collaboration with OLAF to fight fraud.** A total of 16 fraud suspicions were transmitted by REGIO to OLAF. OLAF opened up 3 investigations on the basis of this information and dismissed 8 cases\(^\text{128}\), the remainder is in evaluation. OLAF is currently carrying out 70 fraud investigations in relation to DG Regional and Urban Policy's funds.

- **Promotion of Arachne to support management verifications.** In 2016, the Audit Directorate has actively promoted the use by the programme authorities of "Arachne", a preventive risk-scoring tool developed by the Commission and provided to Member States for free. As a result, 23 Member States are testing Arachne for at least one operational programme (2007-2013). Currently, 10 Member States consider integrating Arachne in their management and control system for at least one operational programme for the programming period 2014-2020. Annex 8 provides more detailed information on Arachne.

- **Actions related to administrative capacity building:** The Commission organised 2 workshops during the "European Week of Regions and Cities" on "Integrity pacts" and "Open Data". Moreover, the implementation of an action plan on public procurement was continued, in close coordination with DG GROW, ESIF DGs and EIB. The first pilot phase on Integrity Pacts to help governments, businesses and civil society to make procurement procedures more transparent and efficient and reduce the risk of fraud and corruption was concluded; a second phase was launched where 17 pilot Integrity Pacts in 11 Member States will be implemented. The implementation of an action plan on state aid was continued in cooperation with DG COMP. This included four thematic seminars for Member State experts (80 to 100 participants per seminar) and two 2-day training sessions (40 participants per session) on a more general level. TAIEX-REGIO PEER2PEER: Out of 150 applications received in 2016, 55 exchanges, study visits or workshops have been implemented and 69 accepted in 2016. A decision has been taken to prolong operating PEER 2 PEER until 2020.

As a result of its policy of zero tolerance to fraud, the Directorate-General has issued 25 warning letters linked to OLAF final case reports and other fraud suspicions in 2016. It has also issued reservations regarding the following programmes due partially to fraud suspicions (see list of reservations in Annex 7A): Czech Republic 2007CZ161PO008 – North West and Romania CF 2000-2006 - Transport Project.

**Conclusion:**

In view of the above, DG Regional and Urban Policy considers that the controls and procedures in place for Funds managed by this DG address the main fraud risks currently identified at all stages (prevention, detection, correction). Assessment of anti-fraud measures in Member States will be pursued in 2017 in line with the Joint Anti-Fraud Strategy so that DG Regional and Urban Policy will be able to adapt its anti-fraud actions - if deemed necessary- to continue to adequately protect the EU's financial interests.

\(^{128}\) Dismissed cases are treated in accordance with OLAF's guidance on dismissed cases.
2.1.3.4 Safeguarding of assets and information

DG Regional and Urban Policy manages a number of intangible assets (EUR 13.5 million – see Annex 3, Table 4).

The intangibles assets for the DG are the IT applications (SFC which acts as an interface between Member States and the Commission for the management of structural funds and WAVE which is the workflow system designed by DG REGIO to support all decisional, financial and audit procedures) that have been developed and continue to be developed.

The key control objectives for the DG are to ensure that these assets are appropriately accounted for and safeguarded, that information is protected, and that related weaknesses, errors, irregularities and losses are detected and addressed.

In the revision programme on the accounts of DG REGIO controls are put in place to verify if the cost-centre is correctly encoded including by other DG’s contributing and using our IT applications and to verify if the applications entered the Production phase. Once in production a linear depreciation over 10 years is applied.

Assets owned by DG REGIO follow the international accounting rules and the closure guidelines established by the accounting officer of the Commission. The control objectives are considered to be fully met.
2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.1.2 and 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

Review of the elements supporting assurance

The information reported in Parts 2 stems from the results of management and audit monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG Regional and Urban Policy.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EC Treaty.

DG Regional and Urban Policy has systematically examined the available control results and indicators, including the results of its own audits and communicated audits from programme audit authorities, as well as the observations and recommendations issued by internal auditors, the European Court of Auditors and OLAF. These elements have been assessed to determine their impact on the management’s assurance (part 2).

In addition, DG Regional and Urban Policy has assessed the effectiveness of its key internal control systems during the reporting year and identified areas for improvements, although in no case the weaknesses identified were leading to assurance-related concerns.

As regards shared management.

For the 2014-2020 programming period, the programme authorities provided an assurance declaration, a management declaration, an annual summary, audit opinions and an annual control report forming with the accounts the "assurance packages". DG Regional and Urban Policy has started to carry out a detailed analysis of these documents and will continue in 2017, including with on-the-spot audits where necessary.

For the 2007-2013 programming period, the programme audit authorities provided Final Control Reports and audit opinions as part of their closure declaration. DG Regional and Urban Policy has launched a detailed and thorough analysis of these documents which will continue during the regulatory five-month period to assess these documents in 2017.

For the 2000-2006 programming period, assurance has been built over the years. In the closure process, final payments are made when DG Regional and Urban Policy is reasonably certain that the error rate is below the materiality threshold of 2%, following implementation of additional appropriate financial corrections.

Although without direct effects on DG Regional and Urban Policy's decisions regarding the assurance, the performance of the programmes was also systematically assessed. This pilot exercise carried out for the third year reflects DG Regional and Urban Policy's willingness to expand and enhance its practices in relation to performance assessment and reporting for the 2014-2020 programmes. Based on the individual assessments formulated by the responsible geographical desks, the achievements of all the ERDF/CF Operational Programmes, as well as their overall capacity to deliver the expected outputs and results, were reviewed.

Reservations and overall conclusion on assurance

Regarding shared management, the situation is as follows:

For the 2014-2020 programming period, the estimated risk linked to the 2016 paid expenditure is in the range of 0.95% to 2%, DG Regional and Urban Policy concludes
that it has reasonable assurance as regards legality and regularity of transactions except for 2 programmes due to the deficiencies detected. Appropriate financial corrections were made where necessary, leading to a reported residual error rate of 0.1% for the 2nd accounting year.

**For the 2007-2013 programming period**, the estimated average risk linked to the 2016 paid expenditure for ERDF and Cohesion Fund is in the range of 2.2% to 4.2%.

Taking into account the corrective measures already implemented by Member States, the residual error rate communicated by the audit authorities for all 2007-2013 programmes is below 2% (0.4%).

DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions **except for 66 ERDF/CF programmes** of the 2007-2013 programming period, due to the deficiencies detected in the management and control systems and / or need to confirm the provided assurance on the implementation of all required corrective measures, including financial corrections, at the date of this report. Such assurance will be obtained once the thorough assessment of the closure documents received on 31 March 2017 will be completed.

The quantification of the reservation for these programmes is approx. EUR 220 million or 0.8% of the 2016 paid expenditure for ERDF/CF and IPA-CBC 2007-2013.

**For the 2000-2006 programming period**, a reputational reservation is maintained for the Cohesion Fund in the Transport sector for 2 Member States for which the proposed financial corrections which are above 5% of the allocation still have to be implemented. There is no financial risk in 2016, as no final payment was executed until a decision on financial correction will be taken (Commission procedure planned to be launched in May 2017).

Regarding **indirect management**, on the basis of analysis made at programme level DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Finally for **direct management and for the Solidarity Fund**, no material deficiencies were identified affecting the 2016 paid expenditure. On this basis, DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions.

DG Regional and Urban Policy therefore decides on the following three reservations:

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Title</th>
<th>Type</th>
<th>Quantification of the reservations</th>
<th>ABB amounts concerned i.e. scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Management and control systems for the programming period 2014-2020 for 2 programmes (2 ERDF/CF Operational Programmes impacting 2 Member States)</td>
<td>Reputational</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Management and control systems for the programming period 2007-2013 for 66 programmes (58 ERDF/CF Operational Programmes impacting 14 Member States and 8 European Territorial Cooperation programmes)</td>
<td>Financial</td>
<td>220 million</td>
<td>3.97 Billion</td>
</tr>
<tr>
<td>3</td>
<td>Cohesion Fund for the programming period 2000-2006 in the Transport sector in 2 Member States</td>
<td>Reputational</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

129 The reservations were quantified by using the reportable error rates or flat rates of 5,10,25 or 100% on the relevant expenditure affected by deficiencies
1. Reservation concerning ERDF/Cohesion Fund management and control systems for the period 2014-2020 in several Member States

<table>
<thead>
<tr>
<th>DG/service</th>
<th>Regional and Urban Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title of the reservation, including its scope</td>
<td>A/ Reservation (reputational) concerning the ERDF/Cohesion Fund management and control systems for the period 2014-2020 for: 2 programmes in Greece and Slovakia (Detail at OP level is to be found on last page).</td>
</tr>
<tr>
<td>Domain</td>
<td>Structural and Cohesion Funds and IPA-ENI carried out under 'Shared Management Responsibility'</td>
</tr>
<tr>
<td>ABB activity and amount</td>
<td>13.03 ERDF, 13.04 Cohesion Fund. 2016 ERDF/CF expenditure paid: EUR 6.4 billion 2016 ERDF/CF expenditure paid to 2014-2020 systems affected by reservations: EUR 0 (out of the EUR 290 million expenditure paid in 2016 for the concerned 2 programmes which are under reservations)</td>
</tr>
<tr>
<td>Reason for the reservation</td>
<td>- management verifications (Slovakia), - Cartel investigations at national level (Greece)</td>
</tr>
<tr>
<td>Materiality criterion/criteria</td>
<td>Significant deficiencies at the level of the key elements of the management and control systems with a material risk to the EU Budget, Residual error rate &gt;2%, material issues on the completeness, accuracy and veracity of the accounts</td>
</tr>
<tr>
<td>Quantification of the impact</td>
<td>EUR 0. There is no financial risk.</td>
</tr>
<tr>
<td>Impact on the assurance</td>
<td>The weakness affects the legality and regularity of the expenditure concerned and the effective functioning of the management and control systems in place. Financial impact is mitigated through: - 10% retention - interruption/suspension of payments pending the correction of the identified weaknesses by the Member States concerned; - financial corrections to be applied before declaring the first expenditure statement.</td>
</tr>
<tr>
<td>Responsibility for the weakness and its correction</td>
<td>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. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).</td>
</tr>
<tr>
<td>Corrective action</td>
<td>At Commission level - warning letters / interruption of payment deadlines / launch of suspension and correction procedures, - audit work both desk or on the spot to check the ability of national auditors to fulfil their obligations, At Member State level - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies, - audit by the audit authority of the effective implementation of remedial measures in management and control systems and of financial corrections when required.</td>
</tr>
</tbody>
</table>
### 2. Reservation concerning ERDF/Cohesion Fund management and control systems for the period 2007-2013 in several Member States

<table>
<thead>
<tr>
<th>DG/service</th>
<th>Regional and Urban Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title of the reservation, including its scope</td>
<td>A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013 for: 66 programmes in Belgium, Croatia, Czech Republic, Germany, Greece, Estonia, Hungary, Italy, Ireland, Poland, Romania, Slovakia, Spain, the UK and some ETC programmes (These include partial/full and reputational/financial reservations – see annex 7)</td>
</tr>
<tr>
<td>Domain</td>
<td>Structural and Cohesion Funds and IPA-CBC carried out under 'Shared Management Responsibility'</td>
</tr>
<tr>
<td>ABB activity and amount</td>
<td>13.03 ERDF, 13.04 Cohesion Fund, 2016 ERDF/CF expenditure paid to 2007-2013 OPs: EUR 26.2 billion (14.5 billion payments and 11.7 billion clearings) 2016 ERDF/CF expenditure paid to 2007-2013 systems affected by reservations: EUR 3.97 billion (3.38 billion of interim payments and 0.59 billion cleared) out of EUR 8.2 billion expenditure paid in 2016 for the concerned 66 OPs which are under reservations.</td>
</tr>
<tr>
<td>Reason for the reservation</td>
<td>Serious deficiencies in management and control systems for these programmes as detected by the programme audit authority and/or the Commission at closure. In particular, these deficiencies concern one or several of the following key elements:  - compliance with public procurement rules and directives /revenue generated project/eligibility rules (including Major Project),  - management verifications,  - high error rates following audit of operations,  - audit work (procurement irregularities not detected…),  - scope limitation reported by audit authorities,  - suspicion of fraud and on-going cartel investigation</td>
</tr>
<tr>
<td>Materiality criterion/criteria</td>
<td>Significant deficiencies at the level of the key elements of the management and control systems, error rate &gt;5% or Residual error rate &gt;2%.</td>
</tr>
<tr>
<td>Quantification of the impact</td>
<td>Total quantification of the reservation: EUR 220 million corresponding to approx. 0.8% of the 2007-2013 ERDF/CF expenditure paid in 2016.</td>
</tr>
<tr>
<td>Impact on the assurance</td>
<td>The weakness affects the legality and regularity of the payments concerned and the effective functioning of the management and control systems in place. The final payment will be made by the Commission once all necessary financial corrections as agreed and reported by the Member states' authorities in the closure declarations will be fully assessed and additional corrections agreed when necessary.</td>
</tr>
<tr>
<td>Responsibility for the weakness and its correction</td>
<td>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. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures including through the assessment of closure declarations within the regularity five-month period and additional on the spot audit work if necessary).</td>
</tr>
<tr>
<td>Corrective action</td>
<td>For each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed, the Commission will analyse the Final Control Reports received by 31 March 2017 and if needed request Member States to perform additional audit work and/or apply additional financial corrections.</td>
</tr>
</tbody>
</table>
### 3. Reservation concerning Cohesion Fund for the period 2000-2006 in the transport sector in two Member States

<table>
<thead>
<tr>
<th>DG/service</th>
<th>Regional and Urban Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title of the reservation, including its scope</strong></td>
<td>Reservation (reputational) concerning the Cohesion Fund for the 2000-2006 period affecting transport sector projects in 2 Member States:</td>
</tr>
<tr>
<td></td>
<td>- in Bulgaria and Romania (Cohesion Fund – Transport sector)</td>
</tr>
<tr>
<td><strong>Domain</strong></td>
<td>Structural and Cohesion Funds carried out under 'Shared Management Responsibility'</td>
</tr>
<tr>
<td><strong>ABB activity and amount</strong></td>
<td>13.03 ERDF and 13.04 Cohesion Fund</td>
</tr>
<tr>
<td></td>
<td>Expenditure linked to the programme / sectors in reservations: 0&lt;sup&gt;130&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Reason for the reservation</strong></td>
<td>- suspicion of fraud in the implementation of several projects in the Cohesion Fund (Transport sector in Romania)</td>
</tr>
<tr>
<td></td>
<td>- significant corrections to be applied at closure for a project in the Cohesion fund (Transport sector in Bulgaria)</td>
</tr>
<tr>
<td><strong>Materiality criterion/criteria</strong></td>
<td>Significant deficiencies at the level of the key elements of the management and control systems, corrections above 5%.</td>
</tr>
<tr>
<td><strong>Quantification of the impact</strong></td>
<td>EUR 0 (as there were no expenditure paid in 2016; the reservations are reputational).</td>
</tr>
<tr>
<td><strong>Impact on the assurance</strong></td>
<td>The weakness affects the legality and regularity of past payments. Financial impact is mitigated through precautionary measures taken by the Commission: no final payment till agreement on financial corrections to be applied at closure of the programme.</td>
</tr>
<tr>
<td><strong>Responsibility for the weakness and its correction</strong></td>
<td>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 programme authorities are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).</td>
</tr>
<tr>
<td><strong>Corrective action</strong></td>
<td>At Commission level</td>
</tr>
<tr>
<td></td>
<td>- launch of financial correction procedure by end of May 2017.</td>
</tr>
<tr>
<td></td>
<td>At Member State level</td>
</tr>
<tr>
<td></td>
<td>- implementation of financial corrections in order to remedy the deficiencies,</td>
</tr>
</tbody>
</table>

<sup>130</sup> The amounts paid in 2016 were not related to the projects potentially affected by the deficiencies.
Overall conclusion on risks

In the context of the protection of the EU budget, at the Commission’s corporate level, the DGs’ estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG Regional and Urban Policy, the estimated overall amount at risk at payment\textsuperscript{131} for the 2016 expenditure paid for all management modes is in the range of 1.9\% to 3.7\% (implying an approximate amount at risk between EUR 0.65 billion and 1.26 billion). This is the AOD’s best, conservative estimation of the amount of relevant expenditure\textsuperscript{132} during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls by the Commission and the Member States and a proportion of the underlying error will be detected and corrected in successive years, after the Commission has authorised the payment.

The conservatively estimated future corrections\textsuperscript{133} for those 2016 expenditure paid are approx. EUR 480 million. This is the amount of errors that the DG conservatively estimates to be identified and corrected from controls that will be implemented after the Commission’s payments. This amount is calculated taking into account the residual error rate communicated at closure of the 2007-2013 programming period by the programme authorities which is the best indicator for estimating the corrections that have been implemented after the Commission’s payments. For the 2014-2020 programming period, the future corrections are currently estimated at 0 as the relevant corrections have been implemented by the Member States in the relevant annual accounts.

The difference between those two amounts leads to the estimated overall amount at risk at closure in the range of 0.5\% to 2\% (implying an approximate amount at risk between EUR 0.17 billion and EUR 0.68 billion). For the Cohesion Policy, the risk at closure is by nature below 2\% as it is not possible to close a programme in case this risk is known to be above the materiality level of 2\%.

Table - Estimated overall amount at risk at payment and at closure for 2016

<table>
<thead>
<tr>
<th>DG REGIO</th>
<th>Error rate Average Error Rate (weighted AER; %)</th>
<th>Estimated overall amount at risk at payment (% of)</th>
<th>Estimated future corrections (and deductions)</th>
<th>Estimated overall amount at risk at closure (%)</th>
<th>Estimated overall amount at risk at closure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
<td>Max</td>
<td>Average</td>
<td>Max</td>
<td>Average</td>
</tr>
<tr>
<td>ERDF/Cf - 2014-2020</td>
<td>0.691</td>
<td>0.95</td>
<td>2.00</td>
<td>0.97</td>
<td>61.7</td>
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<tr>
<td>Crossborder cooperation IPA-ENI 2014-2020</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ERDF/Cf - 2007-2013</td>
<td>26.222</td>
<td>2.21</td>
<td>4.19</td>
<td>0.58</td>
<td>581.1</td>
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<tr>
<td>IPA-CBC - 2007-2013</td>
<td>112.5</td>
<td>0.13</td>
<td>2.00</td>
<td>0.6</td>
<td>2.3</td>
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<tr>
<td>IPA - 2007-2013</td>
<td>372.8</td>
<td>0.20</td>
<td>2.20</td>
<td>0.7</td>
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</tr>
<tr>
<td>ERDF/Cf - 2000-2009 and before</td>
<td>421.6</td>
<td>0.00</td>
<td>2.00</td>
<td>-</td>
<td>9.0</td>
</tr>
<tr>
<td>Solidarity Fund</td>
<td>348.8</td>
<td>0.00</td>
<td>2.00</td>
<td>-</td>
<td>7.0</td>
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<tr>
<td>Urban Innovative actions and IFI</td>
<td>3.0</td>
<td>0.00</td>
<td>2.00</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>Direct management (incl. Cross Subdelegations given)</td>
<td>112.0</td>
<td>0.00</td>
<td>2.00</td>
<td>-</td>
<td>2.2</td>
</tr>
<tr>
<td>Overall, total</td>
<td>34,116.1</td>
<td>1.89</td>
<td>3.69</td>
<td>644.7</td>
<td>1,757.3</td>
</tr>
</tbody>
</table>

\textsuperscript{131} In order to calculate the weighted average error rate (AER) in the reporting year, the ‘reportable error rates’ were used for the 2007-2013 period and, for the 2014-2020 period, the residual error rates or a flat rate of 2\%. See page 54 and 73.

\textsuperscript{132} “relevant expenditure” during the year = payments made, minus new pre-financing paid out, plus previous pre-financing cleared. The detailed calculation is provided in Annex 8.

\textsuperscript{133} Estimated future corrections= relevant expenditure *(reportable error rate- residual error rate).
Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal controls systems implemented by DG Regional and Urban Policy provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regards to the achievement of the other internal control objectives.
Declaration of Assurance

I, the undersigned, Marc Lemaître, Director-General of the Directorate General for Regional and Urban Policy

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view\textsuperscript{134}.

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 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.

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:

- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2014-2020 programming period in 2 Member States (see table next page)

- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2007-2013 programming period in 14 Member States, 8 European territorial cooperation programmes (see table next page)

- a reputational reservation concerning Cohesion Fund for the 2000-2006 programming period affecting transport sector projects in 2 Member States (see table next page).

Brussels, 25 April 2017

Marc Lemaître
"Signed"

\textsuperscript{134} True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.
List of operational programmes in the 2016 reservation

2014-2020 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

<table>
<thead>
<tr>
<th>Res. No.</th>
<th>MS</th>
<th>CCI</th>
<th>Title</th>
<th>Reservation AAR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GR</td>
<td>2014GR16M1OP001</td>
<td>Transport &amp; Environment</td>
<td>Rep-Full</td>
</tr>
<tr>
<td>2</td>
<td>SK</td>
<td>2014SK16M1OP001</td>
<td>Integrated Infrastructure</td>
<td>Rep-Par</td>
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</table>

2007-2013 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

<table>
<thead>
<tr>
<th>Res. No.</th>
<th>MS</th>
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<th>Title</th>
<th>Reserve AAR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BE</td>
<td>2007BE162PO001</td>
<td>Région de Bruxelles-Capitale</td>
<td>Rep-Full</td>
</tr>
<tr>
<td>2</td>
<td>CB</td>
<td>2007CB163PO006</td>
<td>España - Francia</td>
<td>Full</td>
</tr>
<tr>
<td>3</td>
<td>CB</td>
<td>2007CB163PO021</td>
<td>Romania - Bulgaria</td>
<td>Full</td>
</tr>
<tr>
<td>4</td>
<td>CB</td>
<td>2007CB163PO028</td>
<td>Botnia-Atlantica</td>
<td>Rep-Full</td>
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<tr>
<td>5</td>
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<td>France - Suisse</td>
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<tr>
<td>6</td>
<td>CB</td>
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<tr>
<td>7</td>
<td>CB</td>
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<td>Slovenia - Hungary</td>
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</tr>
<tr>
<td>8</td>
<td>CB</td>
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<td>Greece - Italy</td>
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<tr>
<td>12</td>
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<td>Sachsen - Anhalt</td>
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<td>Ceuta</td>
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<td>Galicia</td>
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<td>Extremadura</td>
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<td>ES</td>
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<td>Lowlands and Uplands</td>
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**2000-2006 PROGRAMMING PERIOD, ERDF/CF**

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<td>2</td>
<td>Romania</td>
<td>Rep-Par</td>
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</table>
2.2 Other organisational management dimensions

2.2.1 Human resource management

In the context of shrinking resources (a reduction of 20 posts in 2016), DG Regional and Urban Policy has deployed its resources effectively by focusing on the delivery of the Commission's priorities and core business, along with other vital areas where it is best placed to contribute.

The Directorate General used various tools for adequate HR planning and allocation:

1) The Workforce Planning exercise - identifies the optimal staff allocation to tasks;
2) Training Plan and Competency Gap analysis – improves matching of staffs’ skills with DG needs and identifies areas where skills should be further developed;
3) REGIO Mercato - facilitates staff mobility and provides opportunities to develop skills and careers; and
4) HR Rolling Plan - provides a full overview of the deployment of resources.

Decisions on the allocation of resources were taken at the level of the DG HR Strategic Committee (HRSC), composed of the Director-General, both Deputy Directors-General and the Resource Director in 2016. The HRSC decided on the use of vacant posts, taking into account strategic priorities, requirements, and conclusions derived from HR planning tools indicated above.

Recruitment decisions are of strategic importance for the DG. Recruitment of all administrators is subject to a multi-layered process where the final stage is an interview with the High Level Panel, always in the presence of a Deputy-Director General and another senior manager. Recruitment decisions took into consideration the overall alignment of the applicants’ individual qualities with the strategic needs of the DG.

During the year, DG Regional and Urban Policy has continued to deliver actions to enhance staff satisfaction, as specified in REGIO’s Action Plan on Staff Satisfaction, which includes, but are not limited to, well-being actions aligned with the fit@work EC-wide initiative, such as yoga, pilates, reiki sessions, and lunch-time conferences.

It has made progress in reaching targets for indicators for well-being and staff engagement set in its 2016-2020 Strategic Plan. According to the 2016 Commission staff survey, 38% of REGIO staff feel that the Commission care about their well-being, this is higher than Commission average of 35%, and an improvement on REGIO’s result in 2014 which was at 34%.

With regards to the staff engagement index, which is based on seven elements of the Commission staff survey, the DG improved its result from 65% in 2014 to 69% in 2016, with Commission average of 64% in 2016.

As for the female representation in middle management, REGIO is a consistent advocate in the area. As of end-December 2016, the female representation in middle management in REGIO was 40 %, with the Commission average being 34 %.
2.2.2 Information management aspects

Sharing of information and knowledge
DG Regional and Urban Policy is strongly committed to cultivate and utilise knowledge related to Cohesion Policy for better policy-making, improve programme implementation and collaboration with Member States, as well to increase staff efficiency.

As part of its Knowledge Management initiative launched at the end of 2012, the DG has set-up REGIO WIKI which is being rolled out in phases. In 2016, two new pillars were opened, capturing our geographic and thematic knowledge. The final pillar devoted to internal procedures and processes has also been populated and should be rolled-out by mid-2017.

The public, particularly programme authorities are able to access the regulatory pillar of the Wiki since mid-2016. This contains all our primary and secondary legislation as well as related guidance.

Document management
As regards document management, a comprehensive Paper Archival Action Plan involving all REGIO units was implemented in 2016. This was followed by the launch of an Electronic Archival Action Plan which should reduce the number of non-filed documents and optimise the quality of filing. Trainings were carried out to ensure that managers and administrators are aware of their responsibilities in respect of Document Management. These actions will continue in 2017.

Finally, at the end of 2016, only a limited number of the DG files were shared with other Commission services. The DG has taken actions in early-2017 to increase this number and has granted access to all its programme files in April 2017, in line with the EC Corporate Information Management Policy.

2.2.3 External communication activities

With a budget of EUR 454 billion for 2014-2020, the European Structural and Investment Funds are a key component of the Commission’s drive to fulfil its first political priority of investing in jobs and growth. The reform for 2014-2020 has made the Funds resolutely performance-orientated.

Communication efforts of DG Regional and Urban Policy in 2016 aimed to take this message to national and regional levels within Member States, supporting the implementation of the 2014-2020 programmes. Actions included production of customised communication materials for each Member State, “going local” workshops on communicating EU funds, outreach to regional and local media, as well as “town hall” style meetings between the Commissioner for Regional Policy and stakeholders during her missions to Member States.

A continued close cooperation with DG Communications and the Corporate Communication Steering Group ensures that corporate communication actions reflect the important contribution of ESI Funds to growth and jobs.

REGIO has contributed to the focus on the EU Budget for Results, including input to the conference organised by DG Budget in September 2016. The new ESIF open data platform was further developed in 2016, encouraging debate on the performance of the 2014-2020 programmes. The 2016 edition of RegioStars continued to recognise achievements of innovative EU-funded projects. The DG has continued to promote and share examples of good practices, including the organisation of the project “Open Days” across Europe in cooperation with national managing authorities. The ex-post evaluation of the 2007-2013 period have provided data and analysis on impact and results that will feed the reflection on the future of the policy post-2020.
The 2016 European Week of Regions and Cities in October focused on smart, sustainable and inclusive growth - including opportunities in the global economy, the circular economy and the integration of migrants. This was an important opportunity for dialogue between the Commission, regions and cities on the delivery of the Commission’s political priorities.

The evolving EU Urban Agenda was a prominent feature in REGIO communication actions in 2016, particularly under the Dutch Presidency during the first half of the year.

The results of the public consultation and Review on Cross-border Cooperation became available during 2016, which helped focus attention on the contribution of Regional Policy to the functioning of the internal market. Cooperation between regions on common challenges linked to the Commission’s political priorities such as investment for growth and jobs, energy union, digital single market, etc. were also the focus of the different fora on the EU macro-regional strategies (Alpine, Adriatic-Ionian, Baltic and Danube).

Finally, the kick-off for the debate on the future of the policy post-2020 was held through a conference at the London School of Economics in April 2016.

For an extensive reporting on all components, please refer to Annex 2.