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INTRODUCTION:

DG in brief

Regional Policy is delivered through shared management with agreement on multi-annual development and investment programmes between the Commission, Member States and regions every seven years. These agreed programmes ensure that sufficient resources are made available in good time to the right objectives. Regional policy is funded by the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) and invests in a wide range of economic and social activities ranging from large infrastructure projects, environmental projects to support to research and innovation and small-scale support services for SMEs. The forms of assistance also vary from grants to more sophisticated financial engineering instruments and public-private partnerships. The ERDF and CF, together with the European Social Fund, constitute the cohesion policy of the EU.

The year in brief

The Annual Activity Report is a management report of the Director-General of DG Regional and Urban Policy to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

A) Key Performance Indicators (5 most relevant)

| Key Performance Indicator | Progression of global achievements (latest known results) 2012 - 2013 - 2014* | Total targets (end 2015) | Achievements/targets*
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Related Policy Objective: ERDF and CF General objective</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To reduce disparities between the levels of development of the various regions, in particular for rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps and to contribute to achieving the targets set out in the Europe 2020 strategy of smart, sustainable and inclusive growth, and in particular towards the achievement of quantitative headline targets identified in that strategy.

**KPI 1: Jobs created**

*Source: Aggregate core indicators 00, Annual Implementation Reports (all MS covered)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>590.303</td>
</tr>
<tr>
<td>2013</td>
<td>769.918</td>
</tr>
<tr>
<td>2014</td>
<td>940.039</td>
</tr>
</tbody>
</table>

1,122,833

810,008 (72.1%)

---

1 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.

2 Achievements with targets: under this heading, the cumulative value of achievements reported by programme authorities is presented where a target was set. The related figure can then be used to assess progress against targets.

3 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.)
### Related Policy Objective: ERDF Specific objective

**Strengthening research, technological development and innovation**

**KPI 2**: Number of enterprises cooperating with supported research institutions  
*Source: Core indicator 05, Annual Implementation Reports*

<table>
<thead>
<tr>
<th>Year</th>
<th>Latest known results</th>
<th>Target</th>
<th>Achievements/ targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>19,874</td>
<td>28,395</td>
<td>28,395 (111.9%)</td>
</tr>
<tr>
<td>2013</td>
<td>26,719</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>36,421</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Related Policy Objective: ERDF Specific objective

**Enhancing the competitiveness of small and medium-sized enterprises**

**KPI 3**: Number of enterprises receiving support  
*Source: Core indicator 07, Annual Implementation Reports*

<table>
<thead>
<tr>
<th>Year</th>
<th>Latest known results</th>
<th>Target</th>
<th>Achievements/ targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>183,317</td>
<td>208,706</td>
<td>208,706 (100.8%)</td>
</tr>
<tr>
<td>2013</td>
<td>209,292</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>225,535</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**KPI 4**: Additional capacity of renewable energy production (MW)  
*Source: Core indicator 24, Annual Implementation Reports*

<table>
<thead>
<tr>
<th>Year</th>
<th>Latest known results</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.014</td>
<td>N.A.</td>
</tr>
<tr>
<td>2013</td>
<td>2.757</td>
<td>N.A.</td>
</tr>
<tr>
<td>2014</td>
<td>3.915</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

*Data resulting from 2014 Annual Implementation Reports

### Key Performance Indicator

**KPI 5**: Cumulative residual error rate in shared management

<table>
<thead>
<tr>
<th>Year</th>
<th>Latest known results 2013-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.2%</td>
</tr>
<tr>
<td>2014</td>
<td>1.1%</td>
</tr>
<tr>
<td>2015</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

* Target values for this indicator are unreliable, due to errors in measurement units in some MS.
B) Policy highlights of the year (executive summary of section I)

When analysing the figures illustrating DG Regional and Urban Policy progress against the target values defined for indicators associated with the policy general and specific objectives, the impact of the economic crisis over the programming period has to be taken into account. This constitutes a major change in the context in which programmes have been carried out as compared with what was envisaged when the plans for expenditure were initially drawn up.

Despite that, there is evidence 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 some 30% of the total EU budget in 2015 - regional 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 recover from the crisis and return to a job-creating growth.

This mainly derives from the analysis of the performance information contained in the annual implementation reports submitted by the Member States in June 2015, as well as from the assessment of programme performance carried out by the responsible geographical desks, showing a steady progression of achievements reported by Member States.

**Progress continues to be registered in relation to the 4 key policy performance indicators**, for which reported global achievements have progressed on average by 31% compared to the previous year. Reported job creation has increased by 22% compared to 2013, confirming the steady progress registered in previous years. Where targets were set, the 2014 value represents 72% of the target initially set. While some of the related policy targets might not be met in all Member States - largely due to the economic crisis - the final level of achievements is projected to be very close to the set targets.

**Positive long-term trends** are reported in relation to the indicators linked to ERDF/CF specific objectives, although there are large variations among Member States and sectors.

Based on the last figures reported by member States, many of the difficulties identified in previous years notably in relation to environment and transport are being mitigated effectively, notably thanks to the work of the REGIO Task Force on Better Implementation and to the work of REGIO’s dedicated competence centre. In particular, assistance to Member States is being delivered through two networks gathering national thematic and managing authorities in the areas of energy and environment. This has helped removing obstacles to a smooth implementation, leading to a more efficient financial execution and increased outputs being delivered. A positive contribution is also resulting from the implementation of ex-ante conditionalities' action plans for the 2014-2020 programmes, which are also positively affecting the implementation of projects financed under the 2007-2013 OPs, by removing obstacles to a smooth implementation of the remaining funds.

Overall, thanks to the interventions co-financed by ERDF and CF, **Cohesion Policy contributed to EU2020 objectives**:

1. Through the implementation of the 2007-2013 programmes, which are investing 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.

2. Through the adoption and the start of 2014-2020 programmes, which concentrate resources on a limited number of policy areas contributing to the pursuit of Europe 2020 strategy, thus maximising the impact of EU investment.

In addition, the inclusion of ex-ante conditionalities into the ESIF regulations and the increased result orientation ensure that the new programmes are more effective in delivering the priorities of Europe 2020 and supporting structural, institutional and regulatory preconditions necessary for their achievement.
As regards the Instrument for Pre-Accession assistance (IPA), the Solidarity Fund (EUSF) and the Aid programme to the Turkish Cypriot community (TCCTF), policy achievements are also globally in line with the expected trends.

C) Key conclusions on Management and Internal control (executive summary of section 2)

Different sources of information are used to build up the Director-General's annual declaration of assurance that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle 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. The assurance is built on a comprehensive assessment by all parties involved in the management and control of every programme on accumulated results over the period and the specific results of 2015.

The first sources of information are the annual control reports (ACRs) and the audit opinions submitted by the programmes’ audit authorities and covering all programmes’ management and control systems. DG Regional and Urban Policy performed a thorough assessment of the ACRs and audit opinions and confirmed for 97% of the programmes, the audit opinions given by the audit authorities.

Besides and similarly to previous years, DG Regional and Urban Policy assessed the reliability of the error rates reported in the ACRs. Globally, 95% of the error rates reported by the audit authorities were assessed as a reliable source of information for the purpose of calculating the risk to 2015 payments. In 5% of the cases the Directorate-General estimated the risk at flat-rate because the reported error rates were considered unreliable or insufficient / inconclusive audit information was obtained at the date of the assessment to allow full confirmation of the reported error rates.

The assessment of management and control systems and the validated error rate, reflecting the effective functioning of management and controls systems, together with the cumulative residual risk constitute the cornerstones of the assurance process of the now consolidated methodology to estimate the amount of payments at risk. The sources of information to build up this annual declaration of assurance are: (i) the results of DG Regional and Urban Policy's own audit work in 2015, in particular the review of the work of the audit authorities and the audit of specific risk programmes or areas such as the quality of management verifications of public procurement or of State aid or the selection of eligible projects; (ii) other EU audit results; (iii) national system audit reports received throughout the year; (iv) annual summaries of controls and national declarations (where available); (v) the opinions of the operational Directors as Authorising Officers by Sub-Delegation for the programmes and (vi) experience from previous years, including the monitoring of remedial action plans in case of interruptions and suspension of interim payments.

As with the previous Annual Activity Reports, DG Regional and Urban Policy presents a view of the multiannual impact of Member States' corrective capacity on the identified risks to payments and estimates the cumulative residual risk (CRR) of irregular expenditure after nine years of implementation. The timeliness of implementation of corrective measures is also considered. This estimated CRR has been used to confirm whether corrective measures (withdrawals and recoveries in 2015 and previous years) already implemented and reported by Member States or registered in the certifying authority's accounts in view of deduction in the next certification of expenditure (formal agreements) have adequately mitigated the risks of irregularities since the beginning of the period. Programmes with serious deficiencies are under reservation. As a general rule, a cumulative residual risk above 2% at the date of this report has also led to a reservation for the concerned programme.

The reservations are identified for the entire programme or for a part of it when only a specific isolated component is concerned (for example for a priority axis or a specific intermediate body). On the basis of these sources of information, DG Regional and Urban Policy has made an assessment of the functioning of the national management and control
systems for all programmes and estimated an average risk to 2015 expenditure at Member State level.

**Overview of reservations**

Regarding **shared management**, the situation is as follows:

As regards the 2007-2013 programming period, the estimated average risk rate linked to the 2015 payments for ERDF and Cohesion Fund is in the range of **3.0% to an upper limit of 5.6%**.

Taking into account the corrective measures already implemented by Member States\(^5\), the 2015 cumulative residual risk is 1.0% (therefore below the materiality threshold of 2%).

A comparison of 2015 key figures to those from previous years shows an overall stability of figures (variations below one percentage point). Nevertheless two trends can be identified:

- a slight increase since 2012 of the estimated average annual risk range, reflecting progressive improvements in measurement of the risk of error over the years and increased pressure on legality and regularity towards closure;

- a slight but stable decrease since 2012 of the Cumulative Residual Risk (CRR), showing the impact of the financial corrections over the years thus demonstrating that the multi-annual control framework is successfully protecting the EU budget over time.

DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions for 2015 payments except for 68 programmes (67 ERDF/CF programmes and 1 IPA -CBC programme).

The quantification of the reservation for these programmes is approximately EUR 231 million or 0.7% of the interim payments made in 2015 for ERDF/CF and IPA-CBC 2007-2013.

As regards the 2000-2006 programming period, a reputational reservation is formulated for 2 ERDF programmes and for the Cohesion Fund for 2 Member States in the Transport sector. There is no financial risk in 2015 as final payments will be executed only when an agreement reached with the Member States concerned on the level of financial correction to be applied.

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 affecting the 2015 payments were identified. On this basis, DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions.

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for all DG Regional and Urban Policy's expenditure authorised during the year under shared, direct and indirect management is estimated between 2.5% and 4.7%.

By applying the calculated CRR for the programming period 2007-2013 to all DG Regional and Urban Policy's interim payments, the DG's conservative estimate of future corrections for those 2015 payments should reach at least EUR 660 million.

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\(^5\) Financial corrections reported by Member States cumulatively since the beginning of the programming period until 21 March 2016, cut-off date for the computation of the amounts communicated through SFC in the Art. 20(2) statements
Overall conclusion on assurance

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 entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and 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. Please refer to Part 2 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and are working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by 2 reservations : a reservation for the 2007-2013 programming period concerning 67 ERDF/CF programmes and 1 IPA-CBC programme and a reservation for the programming period 2000-2006 concerning 2 ERDF operational programmes and 2 Cohesion Fund sectors.

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 Policy.
1. POLICY ACHIEVEMENTS

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 2007-2013 programmes have been implemented during an unprecedented economic crisis which was not foreseen at the time they were agreed. This should notably be taken into account when assessing progress against the target values, which were set before the crisis started to be felt.

In addition to that, it should also be considered that the last year of implementation on the ground for 2007-2013 programmes is 2015. Considering that the reported achievements values are in most cases referred to the year 2014, the policy will continue to produce results for at least one full year of implementation and its full impact will only be felt after closure when all the expenditure has been completed on the ground, in 2018 and onwards.

1.1.1 Policy area Cohesion Policy: a positive contribution to the economies of Member States, mitigating the effects of the crisis

The expected long-term results of Regional and Urban Policy contribute to (1) the achievement of the targets of Europe 2020 strategy and (2) the reduction of disparities in the level of development of EU regions.

The indicators associated with these objectives are presented below. It is however to be noted that, while the EU budget is one of the levers contributing to the achievement of these targets, national governments play a primary role in delivering the objectives of the EU strategy. The EU budget on its own represents only approximately 2% of overall public spending in the EU and 1% of EU Gross National Income. Therefore, the cumulative national budgets and actions are the key factor to deliver the objectives of the EU strategy. Several other EU policies also contribute to the achievement of Europe 2020 objectives.

While it is difficult to identify the impact of Cohesion Policy in relation to the achievement of headline targets, we can identify intermediate contributions to supporting the objectives of smart, sustainable and inclusive growth (as reflected in the EU2020 targets) in the different policy areas in which Cohesion Policy is active. These intermediate contributions correspond to the intervention logic established in the regulatory framework and defined in detail in each programme through financial inputs, outputs and results.

This contribution can be seen in the two programming periods covered by this report:

1. Firstly, through the implementation of the 2007-2013 programmes, which are investing 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.

2. Secondly, through the adoption and start of 2014-2020 programmes, which further concentrate resources on a limited number of policy areas contributing to the pursuit of Europe 2020 strategy, thus maximising the impact of EU investment. EUR 40.2 billion will be invested in the thematic objective for strengthening RTD and innovation, EUR 13.5 billion in the thematic objective enhancing access to, and use and quality of, ICT, EUR 32.4 billion in the thematic objective enhancing the competitiveness of SMEs, and EUR
37.6 billion in the thematic objective for supporting the shift towards a low carbon economy. Compared to 2007-2013, investment in the four thematic objectives outlined above is expected to increase by 18% (from 105 billion to 124 billion). Financial support from the Cohesion Fund will be concentrated on the thematic objective for promoting sustainable transport and removing bottlenecks in key network infrastructure (EUR 33.5 billion) and the thematic objective for preserving and protecting the environment and promoting resource efficiency (EUR 17.1 billion).

In addition, the inclusion of ex-ante conditionalities into the ESIF regulations and the increased result orientation ensure that the new programmes are more effective in delivering the priorities of Europe 2020 and supporting structural, institutional and regulatory preconditions necessary for their achievement.

The table below presents the current state of play as regards Europe 2020 headline targets, to which policies at Member States and EU level should contribute. The section below the table assesses regional policy’s specific contribution to the achievement of these objectives on the basis of the information available at this intermediate stage of implementation.

<table>
<thead>
<tr>
<th>Policy Area: Cohesion Policy</th>
<th>Spending programme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General objective 1:</strong></td>
<td>To reduce disparities between the levels of development of the various regions, in particular for rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps and to contribute to achieving the targets set out in the Europe 2020 strategy of smart, sustainable and inclusive growth, and in particular to the achievement of quantitative headline targets identified in that strategy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Europe 2020 impact indicators</th>
<th>Target or estimated impact (2020)</th>
<th>Interim Milestone</th>
<th>Latest known results (cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment rate by sex, age group 20-64 (Source: Eurostat and DG REGIO calculations)</td>
<td>75%</td>
<td>NA</td>
<td>69.2% (2014)</td>
</tr>
<tr>
<td>Gross EU domestic expenditure on R&amp;D (GERD) (Source: Eurostat and DG REGIO calculations)</td>
<td>3%</td>
<td>NA</td>
<td>2.03% (2014)</td>
</tr>
<tr>
<td>Share of renewables in gross final energy consumption (Source: Eurostat and DG REGIO calculations)</td>
<td>20%</td>
<td>NA</td>
<td>16% (2014)</td>
</tr>
<tr>
<td>Energy intensity of the economy, i.e. final energy consumption (proxy indicator for energy savings, which is under development) (Source: Eurostat)</td>
<td>20% of savings</td>
<td>NA</td>
<td>16.9% (2014)</td>
</tr>
<tr>
<td>Greenhouse gas emissions (Source: Eurostat and DG REGIO calculations)</td>
<td>80 (70, if conditions are right)</td>
<td>NA</td>
<td>80.2 (2013)</td>
</tr>
<tr>
<td>Early school leavers, age group 18-24 (Source: Eurostat and DG REGIO calculations)</td>
<td>10%</td>
<td>NA</td>
<td>11.2% (2014)</td>
</tr>
<tr>
<td>Tertiary educational attainment by sex, age group 30-34 (Source: Eurostat and DG REGIO calculations)</td>
<td>40%</td>
<td>NA</td>
<td>37.9% (2014)</td>
</tr>
<tr>
<td>People at risk of poverty or social exclusion (Source: Eurostat and DG REGIO calculations)</td>
<td>20,000,000 less than the baseline (i.e. 96,600,000)</td>
<td>NA</td>
<td>122,320,000 (2014)</td>
</tr>
</tbody>
</table>
Cohesion Policy continues to counteract the negative effects of the crisis

In a context of significantly reduced public investments, Cohesion Policy continued to provide the basis to support the achievement of Europe 2020 objectives. Available information reported by programmes suggests that more than 800,000 jobs were created through Cohesion Policy interventions, thus sustaining the employment rate in many Member States.

Cohesion Policy supported close to 95,000 research and development projects, thus ensuring a significant level of investment in research and technological development and positively influencing the gross EU domestic expenditure on R&D.

Significant achievements in the area of energy efficiency and renewables also resulted directly from supported interventions: close to 4,000 MW of reported additional capacity of renewable energy production; reported reduction of greenhouse emissions of 475,592 kt of CO₂ and equivalents.

A wide range of interventions in the area of education (close to 27,000 investments in infrastructure) and of social inclusion (more than 3,500 projects) have also been carried out with the support of ERDF and CF, thus contributing towards the achievement of the related headline targets.

<table>
<thead>
<tr>
<th>Convergence impact indicators</th>
<th>Target or estimated impact (2020)</th>
<th>Interim Milestone</th>
<th>Latest known results (cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of regions with a GDP per head below 50% of the EU average (Source: Eurostat)</td>
<td>18</td>
<td>19 (2015)</td>
<td>19 (2013)</td>
</tr>
<tr>
<td>Coefficient of variation of GDP per head between regions (NUTS II) (Source: Eurostat)</td>
<td>37</td>
<td>38 (2015)</td>
<td>38.4 (2013)</td>
</tr>
</tbody>
</table>

A significant level of investment in lagging regions, countering the slowing convergence

As the largest source of EU funds to regions, localities and enterprises, ERDF and Cohesion Fund have continued to play a pivotal role in helping Member States to reconcile their fiscal consolidation constraints with the support to long-term investments strategies which are necessary to recover from the crisis and return to a job-creating growth. Overall, the role of cohesion policy in supporting growth friendly expenditure has become even more important than before, with cohesion funding representing more than 60% of the public investment budget in a number of countries, notably in those lagging behind. This situation should remain unchanged in the near future.

The context in which Cohesion Policy funds are being delivered is however difficult. The crisis has halted the convergence process among EU regions. In particular, while regional disparities in terms of GDP or employment rate decreased up to 2007, they significantly increased afterwards. For the employment rate, the coefficient of variation rose from 9.8 in 2007 to 13.0 in 2013. Most of these movements are explained by the dramatic deterioration of the economic performance of Southern European economies (Spain, Portugal, Italy and Greece) following the outburst of the economic and financial crisis. As EU economies progressively recover from the crisis, the long run convergence process is expected to resume, with disparities in terms of GDP declining again since 2012 and in terms of employment since 2014.
General Objective 2:
To support candidate countries and potential candidates (‘beneficiary countries’) in implementing the political, institutional, legal, administrative, social and economic reforms required to bring the countries closer to Union values and to progressively align to Union rules, standards, policies and practices with a view to Union membership.

Defined and monitored by DG NEAR

DG REGIO’s 2015 detailed achievements in relation to the three Europe 2020 priorities of smart, sustainable and inclusive growth are presented below under the relevant specific objectives.

1.1.2 European Regional Development Fund (ERDF) and Cohesion Fund (CF): contributing to smart, sustainable and inclusive growth

The analysis and performance information presented in the sections below mainly results from the reporting on core indicators, which are an important tool for assessing the achievement of objectives associated with 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, due to the variety of interventions supported by the ERDF and CF, the core indicators cannot cover the full spectrum of benefits resulting from the implementation of the funds on the ground. They represent the only data on the achievements of programmes which can be aggregated to the EU level. In addition, it is also to be noted that the adoption of core indicators by programme authorities was not compulsory for the period 2007-2013. Because of that, for some OPs, targets are not available for all the relevant indicators. Information concerning achievements is clustered around the main European policy objectives of smart, sustainable and inclusive growth.

The mapping of the ERDF/CF specific objectives and details about all the related performance information is provided in Annex 11.

The achievement values presented in the sections below result from data reported by the Member States and reflect the quality checks carried out by DG Regional and Urban Policy up to the cut-off date of 24/02/16.

Smart Growth

A substantial share of Cohesion Policy funding in both the 2007-2013 and 2014-2020 programming periods is oriented toward smart growth. Results in the smart growth area are delivered both by mobilising financial resources and by contributing to the improvement of investment conditions. Programmes boost jobs, growth and investment across Europe, while focusing on the least developed areas and sectors with growth potential. Through these interventions the EC contributes to modernising and diversifying economic structure, strengthening the endogenous potential for development of the concerned regions, ensuring creation or preservation of sustainable jobs.

Typical projects in the smart growth area aimed at strengthening the research capabilities of businesses and higher education institutions, creating incubators and technological centres, building cluster partnerships, stimulating collaboration between innovation actors, etc. The investment in digital networks has also helped the Single Market run more smoothly, increasing productivity and specialisation in all regions, thus strengthening the position of the EU in global markets where it has to compete with both low-cost locations and highly innovative competitors. In addition, through interventions aimed at promoting the ICT take-up and the high-speed broadband roll-out, the structural funds also contribute to the goals of the Digital Agenda.
The results of these interventions foster the attainment of the Commission key priorities of "Jobs, Growth and Investment" and the "Digital Single Market".

With many projects of the 2007-2013 programming period reaching their final stages in 2014, significant progress towards targets set in the programmes is reported by Member States for that year. Main outcomes reported by Member States up to 2014 are set out below.

**Research, technological development and innovation (specific objective 1)**

More than 35,000 projects were co-financed across the EU to support cooperation between businesses and research centres up to 2014. These were mainly in Competitiveness regions in the EU15, reflecting the significant share of funding allocated to this in the concerned programmes. For example, in the United Kingdom, ERDF support to cooperation between enterprises and research institutions has been particularly successful, with initial targets being largely exceeded, thereby allowing increasing technology transfer from universities, institutes and businesses to improve products and processes, and boost commercialisation of innovations. Collaboration between the public sector and the private sector remains below the targets set in several Member States (such as Poland, Belgium or Austria) but sustained efforts are being made in order to foster this important cooperation.

Close to 95,000 research and development projects carried out by enterprises received support from Cohesion funding, most of them in Competitiveness regions. For example, around 5,000 research and development projects have been completed in Spain in 2014; showing that ERDF funding enables to continue funding research and development projects, despite the credit crunch and budgetary restrictions.

Processed over 2014, with improved research facilities reported across Member States. For example, in Poland, a large part of ERDF resources was devoted to the overhaul of the scientific infrastructure base. In Slovakia, 72 centres of excellence, 8 competence centres, 56 research development centres and 15 strategic projects of university science parks and research centres have been financed throughout the 2007-2013 programming period.

**Enhancing access to, and use and quality of, information and communication technologies (specific objective 2)**

Information and communication technologies continues to be a key area of investment for Cohesion funding, with close to 50 000 projects having been co-financed between 2007 and 2014. For instance, in Slovakia, large-scale e-government projects have been co-financed. 1,500 e-services within e-Government were developed and are fully accessible for citizens and business. E-services are accessible via an e-ID card (with 1.2 mil inhabitants in Slovakia already owning an e-ID card) and the active use of e-ID card is expected to save up to 50% of management fees in public administration.

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 8 million additional citizens have gotten access to broadband as a result of ERDF support up to 2014. Significant achievements are reported in Greece with an extended coverage of broadband internet to 800,000 additional citizens having been completed by 2014. In Slovenia, more than 70,000 additional population is covered by broadband access
thanks to investments made up to 2014 and ESIF investment of over EUR 72 million in the 2014-2020 programming period will increase broadband coverage and contribute to more balanced regional development by enabling an additional 20,000+ households to be connected to new broadband networks with speeds of at least 100 Mb/s.

However, more efforts are needed to close the digital divide and some Member States face particular challenges. In France, for instance, access to very high speed broadband is still among the poorest in Europe and the share of population with access to broadband remains beyond initial targets. Despite an additional 2,300,000 citizens with broadband access reported up to 2014 in Italy thanks to ERDF financing, Italy is still facing a digital divide. This issue is to be further tackled through additional investments in the 2014-2020 period.

**Enterprise support (including access to finance) (specific objective 3)**

A substantial share of Cohesion Policy funding has been 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. More than 250,000 projects to support investment in SMEs were undertaken across the EU in the period 2007-2014; some of these through financial instruments (JEREMIE – ERDF, which helped achieving positive results notably in Bulgaria and Romania).

More than 800,000 jobs have been created up to 2014. 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. However, with numerous projects coming to an end in 2014, progress reported at the end of the year are steady, including in many regions which have been severely hit by the crisis. Achievements are expected to further increase until closure as projects co-financed in the last part of the programming period will be completed.

In addition, more than 120,000 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. For example, more 20,000 new businesses have been supported in Sweden; with targets have been largely exceeded in Upper-North Sweden, a large region characterised by particular challenges due to harsh climate, low density of population and long distances.

Among the interventions aiming at supporting enterprises, increasing importance is being devoted to financial instruments (loans, guarantees and equity) which increase the impact of the Funds.

In 2015, the SME initiative has also taken up with 4 more countries deciding to use this implementation option (Bulgaria – ERDF contribution: EUR 102 million; Italy – ERDF contribution: EUR 100 million plus same amount from national resources; Romania- ERDF contribution: EUR 100 million; Finland – ERDF contribution: EUR 20 million plus same
amount from national resources). Spain (ERDF contribution: EUR 800 million) and Malta (ERDF contribution: EUR 15 million) had already signed up in 2014. The SME Initiative is a mechanism to stimulate additional lending by the banking sector to SMEs, through the combination of EU funding available to Member States and regions under the ERDF or EAFRD. The SME Initiative offers two products: uncapped guarantees providing capital relief for portfolios of new loans to SMEs and the securitisation of existing or new portfolios of debt finance linked to the building up of portfolios of new loans to SMEs.

**Evidence resulting from ex-post evaluations linked to enterprise support (SME, large enterprises, financial instruments)**

DG Regional and Urban Policy is currently carrying out the ex post evaluation of the programming period 2007-2013. An already finished part of the evaluation looked into the support to small and medium-sized enterprises and to larger enterprises.

The evaluation found that the ERDF supported at least 246,000 SME (without counting the indirect support); especially micro enterprises have received grants. The support represents about EUR 47.5 billion or 16% of total ERDF allocations. There are three main benefits: improvement in economic performance – in spite of the crisis; enhancement in innovation thanks to investment in R&D, and behavioural changes.

A substantially smaller part of the support (approximately EUR 6 billion) went to around 3,700 larger enterprises, many of them just above the SME threshold. Most of the supported projects achieved their goals such as increased private investment, enhanced firms' productivity or more jobs. However, the evaluations argue that regions and Member States should concentrate their support on reaping indirect benefits such as linking larger enterprises with a local supply chain. Such support is promising as it can facilitate the sustainability of investments and jobs in a region.

**Examples of achievements**

**Research, technological development and innovation (Spec. Obj. 1)**

**United Kingdom**: Intellectual property (IP) is an increasingly important means of supporting growth in SMEs. The Innovating for Growth Project is a unique initiative that leverages the British Library’s IP collections and expertise for the benefit of London SMEs supporting them to transform their innovative ideas for expansion into a viable business plan and to collaborate and increase innovation by organising regular networking events, such as ‘Growth Club’ evenings. Nearly 200 companies have taken part and feedback has been overwhelmingly positive and 62 new jobs have been reported to date (the target is 200). It is estimated that every euro of public funds invested leads to an additional 39 euros being triggered in company turnover.

**Digital networks (Spec. Obj. 2)**

**France**: a project has been co-financed throughout the county territory of Côtes d’Armor with the aim to achieve broadband connection throughout the territory and to bridge the digital divide. In particular, the project aimed at covering unserved areas in broadband (white areas) and promoting Internet access throughout the county; setting up local loops (part of the line connecting the operator to the user) in the towns of Saint-Brieuc and Lannion to serve key public services and business parks; and ensuring fairly available collection infrastructure throughout the county.

**Enterprise support (including access to finance) (Spec. Obj. 3)**

**Spain**: A holding fund of almost EUR 16 million was set up in 2013 in the Extremadura region and absorbed in less than two months so it was almost doubled up to EUR 30 million. By providing loans to SMEs for growth and innovation, it has contributed to enlarge the private investment market in the only Spanish less developed region. So far more than 600 SMEs have benefitted from its support. Critical success factors are the partnership between the EIF and the regional government and a thorough ex ante assessment of the regional market that
led to a tailor-made financial instrument. Building on this experience, Extremadura has contributed EUR 75 million of its regional ERDF allocation to the 2014-20 Spanish SME Initiative.

Sustainable Growth

Cohesion Policy is investing a large share of its funds in both the 2007-2013 and 2014-2020 programming periods to encourage a shift towards a more sustainable mode of development in EU regions. To this end, it provides support for the production of renewable energy and for improving energy efficiency, for mitigating the risks of natural hazards such as fires, droughts and floods, for installation of main water supply to improve drinking water quality and urban waste water treatment plants, for solid waste management and recycling schemes and contributing to the modernisation and resources efficiency of transport.

The results of these interventions foster the attainment of the Commission key priorities "Jobs, Growth and Investment" (circular economy, transport) and "A Resilient Energy Union with a Forward-Looking Climate Change Policy" (notably in relation to renewables, energy efficiency and environment protection).

Based on the last figures reported by member States, Cohesion Policy achievements in relation to sustainable growth have continued to progress. In particular, many of the difficulties identified in previous years notably in relation to environment and transport in Cohesion Fund countries are being mitigated effectively, notably thanks to the work of the REGIO Task Force on Better Implementation and to the work of REGIO’s dedicated competence centre. In particular, assistance to Member States is being delivered through two networks gathering national thematic and managing authorities in the areas of energy and environment. This has helped removing obstacles to a smooth implementation, leading to a more efficient financial execution and increased outputs being delivered.

The main outcomes reported by Member states up to end 2014 are set out below.

Renewable energy (specific objective 4)

A large number of projects continue to be 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 end 2014 is close to reaching 4,000 MW.

In addition to that, a significant number of projects continue to be 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 and, as a result, regions will be able to increase income, improve trade balance and contribute to industrial development and job creation. The reported reduction of greenhouse emissions resulting from these interventions was 475,592 kt of CO2 and equivalents at end 2014.

Environment protection (specific objective 5)

Interventions aiming at preventing and managing risk are essential to ensure that development and economic growth are sustainable. To this end Cohesion Policy has invested in projects aiming at increasing the number of population benefiting from flood and forest fire protection measures. Thanks to these interventions, better protection from natural risks was achieved at end 2014 for around 20 million (flood) and 30 million (forest fire) people respectively.

Environment infrastructure (specific objective 6)
While the overall level of achievement is still lagging behind in several regions, significant improvements were recently reported by Member States. This was made possible by recent breakthroughs allowing solving long-standing issues which were negatively affecting the implementation of environmental projects. In particular, issues resulting from the incorrect transposition of the EIA Directives in Czech Republic and Slovakia - also affecting the transport sector - could be solved (the national legislations have since been brought into line with the Directive) and several pending major projects were adopted in 2015 in particular with the assistance of JASPERS.

Difficulties still persist in several countries, however, due to complex structures and procedures in some Member States (e.g. Czech Republic, Hungary), low capacity of implementing bodies and beneficiaries, solvency problems for constructors (e.g. Greece, Cyprus). Frequent changes in the national legal environment have in some cases also added to the difficulties. Some serious difficulties as regards solid waste management have notably been noted in Greece, where political decisions are urgently needed at national level to increase ownership and coordination in some regions (e.g. Attica and Peloponnese). An operational plan has been requested to local authorities to tackle effectively the implementation blockages.

Despite that, the reported achievements show positive progress at end 2014, with significant increase in additional population served by water (more than 1.7 million) and waste water projects (more than 1.2 million) compared to 2013.

Transport (specific objective 7)

Steady progress was also reported by Member States in 2014 compared to 2013. Special efforts have notably been directed toward interventions that experienced more difficulties during previous years, such as construction of new roads (including TEN) and reconstructing of railways.

In some Members States, problems related to compliance with EIA Directive, public procurement and planning procedures, as well as delays in submitting and implementing Major Projects had hindered progress in recent years. Some of them are still not entirely solved. These difficulties have been addressed with the help of REGIO Task Force on Better Implementation and of JASPERS, through the definition and implementation of targeted action plans in close cooperation by with national authorities, thus improving the overall progress towards the set targets. In SK, for instance, issues related to high unit costs which had led to irregularities were mitigated through the introduction of more systematic feasibility studies, use of better benchmarks and estimation methodologies.

The most significant progress was registered in relation to reconstructed roads, for which achievements exceeding 30,000 km were reported.

Through investment in transport infrastructure, a direct impact is sought on the economic activity of the regions through employment in transport construction, travel time and cost savings that accrue to businesses and travellers. In the medium and long term, reduction of bottlenecks in transport infrastructure contributes to sustainable economic growth by increasing levels of accessibility and cohesion between places, thus facilitating trade activity and creation of new business, residences and other development activities.

**Evidence resulting from ex-post evaluations linked to environment and transport**

The support for environment for the programming period 2007-2013 represented about EUR 46.5 billion and the decided amounts account for over 17% of all Cohesion Policy resources.

The ex post evaluation of support to environment found that in many EU13 and southern EU15 Member States, Cohesion Policy is one of the main sources of public financing and
therefore provided a major contribution to achieving EU water and waste targets. Many of these countries have made broad progress: in the area of waste, the recycling rate increased in almost all EU13 Member States; in the area of water, projects financed by the ERDF and Cohesion Fund improved drinking water supply for at least 4 million EU citizens and contributed to better wastewater treatment for over 7 million EU citizens. Furthermore, the evaluation found that the financial analysis undertaken as part of the preparation of the examined major projects on water and waste management was of reasonable good quality and provided a sound basis for financial sustainability of those environmental projects.

The support for transport in the programming period 2007-2013 represented about EUR 80 billion or over 30% of total cohesion policy allocations. The ex post evaluation of support to transport found that, by the end of 2013, the ERDF and Cohesion Fund contributed to the building of over 3,700 km of new roads and reconstruction of over 22,000 km of existing roads. Cohesion policy also supported construction of more than 250 km of new railways and upgrade of over 3,000 km of existing railways and to develop multiple urban and public transport projects, such as new metro and tram lines or upgrade of urban/suburban railways.

By addressing the needs of regions, where the transport infrastructure was underdeveloped (the support concentrated in Convergence regions), Cohesion Policy support fostered better connectivity both within and across Member States. It also stimulated improvement in the way transport interventions are planned (development of transport strategies) and prepared (improvement in quality of major projects applications), while encouraging Member States to pay more attention to sustainable transport in line with the EU strategic documents.

### Examples of achievements

**Renewable energy (Specific objective 4)**

**Latvia:** ERDF funded some 860 projects aiming at achieving energy savings by end 2014. The related investments notably allowed renovating almost 500 buildings, within which average energy savings of 44.2% were reached. In addition, 113 projects promoting the usage of renewable energy were implemented. This contributed to the very good progress registered by Latvia in relation to the corresponding Europe 2020 headline target (37% of renewables in gross final energy consumption at end 2013).

**Environment Protection (Specific objective 5)**

**France:** An extensive campaign of flood vulnerability diagnoses for businesses, industries and business parks was implemented in the Loire river basin (9 regions concerned). On a voluntary basis, 2,350 firms have commissioned a diagnosis of their exposure to flood risks, and 420 of them implemented measures to lower their vulnerability to floods.

**Environment infrastructure (Specific objective 6)**

**Bulgaria:** The Bulgarian waste sector has significantly increased its treatment capacity since the start of the 2007-2013 programming period thanks to new or rehabilitated plants supported by ERDF and CF funding. Striking examples amongst others are the Solid Waste Treatment Plant in Sofia, providing services to more than 1.5 million people, and the construction of a network of waste water treatment plants in several other cities (e.g. Burgas, Gabrovo).

**Transport (Specific objective 7)**

**Poland:** Thanks to ERDF and CF support, Poland has invested around EUR 5.5 billion in the railway sector since the start of the 2007-2013 programming period. Financed interventions allowed reconstructing more than 1,700 km of railway lines and purchasing/modernizing some 760 items of rolling stock with a total capacity of 94,000 passengers. The country also exceeded targets related to length of railways adapted to 160 km/h (almost 2,030 kilometres vs. 1,786 planned). The investments in rail contributed significantly to the spectacular reduction of greenhouse gas emissions registered since 1990 (~12.7% at the end of 2012 compared to base year 1990).
Inclusive Growth

Projects currently co-financed by 2007-2013 programmes in this area cover a range of different interventions, including investment in education facilities, construction and renovation of healthcare and social facilities such as hospitals, clinics and community centres, renovation of buildings and local areas, support to cultural activities. While they are often small, they can have a significant effect in improving the quality of life in local communities. Because of their nature, however, the outcome of the investment carried out is in many cases difficult to capture through physical indicators - such as an increase in the attractiveness of a town or a district of a city or an improvement in local facilities.

Some of the main reported outcomes up to the end of 2014 are summarised below.

Close to 4,700 projects were co-financed across the EU to expand or to improve healthcare facilities, most of them in Convergence regions and many (around 60%) in the EU15.

The ERDF gave support to close to 27,000 projects involving investment in education facilities, to build new schools or colleges or to modernise and re-equip existing ones. These were almost entirely in Convergence regions, mainly in Italy. Notable results in this respect were also noted in Romania, where ERDF supported the upgrade of 350 health, social and education infrastructures and services to European standards.

Some 3,539 projects were co-financed up to end 2014 across the EU aiming at offering services to promote equal opportunities and social inclusion for minorities and young people.

Examples of achievements

**Education (Specific objective 10)**

**Bulgaria:** Thanks to ERDF investments delivered through the Regional OP, over 3.2 million people enjoy a renewed urban environment and over 2.5 million people benefit from the 994 renovated educational, social and cultural infrastructure, in which significant energy savings - over 166,000 MWh/average - have been achieved.

**Slovakia:** The ERDF supported a wide-ranging reconstruction plan of education infrastructure, targeting all education levels. As at the end of 2014, these interventions already benefited more than 230,000 children in kindergartens, elementary and secondary schools and more than 220,000 students in universities. Such projects also have a beneficial impact on energy savings (53% actual decrease in energy consumption).

**European Territorial Co-operation**

No comprehensive information is available concerning indicators associated with ERDF specific objectives for European Territorial Cooperation, since the use of core indicators was not compulsory for ETC programmes for the 2007-2013 programming period. The overall assessment is therefore mainly based on information provided in the Annual Implementation Reports as well as on programme managers' assessments. For macro-regional strategies, regular reports delivered by key implementers (National Coordinators, Thematic Area Coordinators) are also taken into account.

- Developing regional and local potential through encouraging integrated development approach, capacity building, cross border and transnational cooperation and supporting networking, exchange of experience and cooperation between regions, towns and relevant social economic and environmental actors (Spec. Obj. 12)
The trends identified in the Annual Activity Report 2014 which were based on additional information provided by each programme are confirmed, with a few additional elements highlighted in the 2015 reporting:

- The importance of health as a cooperation area, with significant progress on health projects being reported. Health cooperation includes sharing infrastructure, conducting joint preventive work, common training, developing common protocols, implementing joint emergency services, facilitating social security reimbursement, exploiting the possibilities offered by ICT development for e-health. A notable example of this is the "Telepom" project, which implements tele-medecine in the rural areas of the Germany-Poland border in Pomerania.

- The continued focus on investment in the joint management of natural resources and on preventing risks. This is done for instance via flood management or firefighting services operating across borders or joint water management plans (e.g. the "Ardaforecast" project, creating a cross-border flood early warning system on the Greece-Bulgaria border).

- The increased awareness of border regions of the benefit of working together rather than seeing each other as competitors. In 2015, increased interest is reported on the development of joint economic development strategies and actions (especially in more developed border regions). These are often seen as a good complement to smart specialization strategies. Tourism is also highlighted as an area with development potential for cross-border cooperation programmes. Many examples of joint tourism products having been offered on the market were reported in 2015 (often with significant increases in numbers of visitors) such as the Lighthouse Trail in Ireland/Northern Ireland.

- The improvement of accessibility is continuously seen as a pre-condition for increasing growth and creating jobs. Many achievements are being reported, from building renovation of cross-border roads, to the development of better public transport links via an integrated offer, joint information services to users or single cross-border transport tickets (e.g. the "Inforailmed" project providing integrated information and tickets on the rail line between France-Monaco and Italy).

- More programmes than previously report on the positive development of long-term sustainable cross-border institutional links, via for instance new institutions or networks in the field of health care provision (joint health boards) or education (e.g. the cross-border university network on the Romania-Bulgaria border).

Despite these achievements, some programmes are also affected by difficulties and bottlenecks: between 10 and 15% of programmes suffer from strained relationships (in particular programmes where the negotiations of the 2014-2020 programmes have been difficult and have often involved difficult discussions on management structures) and several programmes suffer from complex management and control procedures, which creates a risk of reducing their efficiency. Throughout the year, DG Regional and Urban Policy has been committed to helping these programmes overcome difficulties and make the most of territorial cooperation.

For 2014-2020, EUR 10 billion will be invested in territorial cooperation via 79 programmes investing in sustainable growth (41% of the total Interreg budget), smart growth (27% of the total Interreg budget), inclusive growth (13% of the total Interreg budget), transport and institutional cooperation.

- Supporting cross-border, transnational and interregional cooperation (Spec. Obj. 13)

As regards specific objective 13, work has continued in 2015 on the macro-regional strategies. The four macro-regional strategies requested by the Council are at various stages of implementation; but experience with the oldest strategies (Baltic and Danube) show that they contribute to streamlining and better implementing EU policies. Several important
deliverables could be produced throughout the year: for the EU Strategy for the Baltic Sea Region (EUSBSR), the review process of the EUSBSR Action Plan has been finalised after 5 years of implementation and has speeded up the process of implementing actions of the Energy Union package on energy security and on renewable energies; in the EU Strategy for the Danube Region (EUSDR), participating countries have adopted the Master Plan on navigation of the Danube River; in the EU Strategy for the Adriatic and Ionian Region (EUSAIR) participating countries have identified actions to which they will pay priority attention in an initial period (e.g. diffuse pollution of the Sea, restoration of wetlands and cast fields). To be noted also that a new strategy, the EU Strategy for the Alpine Region (EUSALP), could be drafted, adopted by the Commission and endorsed by the Council in 2015. It benefits from the experience in the other strategies and it is structured around three objectives focussing on economic growth, connectivity and environment supported by only nine actions. A cross-cutting objective aiming at building a sound macro-regional governance model is also part of the Strategy.

Illustrations of specific achievements resulting from transnational cooperation and macro-regional strategies are provided below.

### Examples of achievements

#### Specific objectives 12 and 13

**The United Kingdom and Ireland** have set up new science park facilities that have created high-quality new jobs and added impetus to the creation of a knowledge-based economy in the cross border region.

**In France, the United Kingdom, Belgium and the Netherlands** ("2 Seas programme"), new state aid provisions concerning territorial cooperation have enabled SMEs to increase their participation in cross-border activities.

**Baltic Sea transnational programme:** The member states participating in the programme set up a Baltic Science link - a network of research facilities of photon and neutron sources and their users to support and encourage innovation and entrepreneurship in the Baltic Sea Region.

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<th>1.1.3 Instrument for Pre-accession Assistance (IPA): implementation of the Regional Development Component programmes reaching its cruising speed</th>
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<td><strong>Support for political reforms (Spec. Obj. 1):</strong> several deliverables in 2015</td>
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The Instrument for Pre-accession Assistance (IPA) is the means by which the EU supports reforms in the 'enlargement countries' with financial and technical help. The IPA funds build up the capacities of the countries throughout the accession process, resulting in progressive, positive developments in the region. The allocation of EU pre-accession funds helps translate the political priorities of the enlargement strategy into concrete actions. Through IPA, the EU reinforces its guidance to the aspiring countries on the priorities necessary for aligning with EU standards and legislation.

Throughout the year 2015, DG REGIO continued to provide support, guidance and advice on relevant areas of the accession process. Several milestones were reached in 2015, for instance, the year marked the successful completion of the screening meetings with Serbia and the completion of the assessment of Montenegro's opening benchmark and negotiating position.

| **Support for economic, social and territorial development, with a view to a smart, sustainable and inclusive growth (Spec. Obj. 2):** |

The implementation of the Regional Development Component of IPA ("Component III") reached its cruising speed in 2015, allowing reaching an average absorption for IPA Component III of 75%. All of these programmes are now well poised to take full advantage of EU funding, which is visibly bearing its first fruit, be it modern wastewater management plants from Luleburgaz in European Turkey to Ordu on the Black Sea coast, to the fast-rail link between Ankara and Istanbul, to upgrading Corridor X of the TEN-T networks to full motorway on the territory of the former Yugoslav Republic of Macedonia, shortening and making safer the road links between central Europe, the Western Balkans, and the Member States of Southeast Europe.

The Instrument for Pre-accession also contributed to the Commission's top political priority on "migration" in 2015. This was done through a transfer of EUR120 million in IPA funds from Component III programmes to the EU Trust Fund for Syria. The funds will be used to assist Turkey to integrate the refugee population in its economy and society, thereby easing migration pressure towards the EU territory.

- **Strengthening of the ability of beneficiaries to fulfil the obligations stemming from Union membership by supporting progressive alignment with and adoption, implementation and enforcement of the Union acquis (Spec. Obj. 3):**

Progress was made in 2015 on various deliverables measuring progress in the accession process. These include:

- The successful completion of the screening meetings with Serbia. In the framework of these meetings, DG Regional and Urban Policy presented the legislation which falls within the competence of the DG to the Serbian authorities and responded to questions. DG REGIO also assessed information provided by the Serbian authorities in relation to Chapter 22 requirements.

- The assessment of Montenegro's opening benchmark (Action Plan) for chapter 22. This process involved intensive contacts between DG Regional and Urban Policy and the Montenegrin authorities and coordination with other DGs involved in the process at Commission level, in particular DG NEAR and DG EMPL. DG REGIO provided guidance which was indispensable to overcoming the draft opening benchmark's weaknesses, esp. in what pertains to the institutional and legal frameworks for cohesion policy, including budgetary arrangements.

- **Strengthening regional integration and territorial cooperation (Spec. Obj. 4):**

Strengthening regional integration between IPA and EU countries through cross border cooperation programmes has been part of the EC policy instruments for several years. IPA Cross border cooperation programmes have been running well in 2015, with some difficulties, for the IPA Adriatic programme due to serious deficiencies in the management and control system which have been resolved at the end of 2015. The progress of the calls for proposals for all IPA CBC programmes have been satisfactory; this illustrates the increased interest amongst stakeholders in launching common cross-border initiatives to contribute to the sustainable development of the relevant regions. To be noted as well that two programmes (Greece-the Former Yugoslav Republic of Macedonia and Greece-Albania) encountered difficulties in the process of implementation due to the transitional management mode instead of shared management. With many projects now reported as completed in the
As for the 2014-2020 programmes, 10 cross-border co-operation programmes have been adopted in 2015. These programmes pave the way for continued territorial cooperation at transnational level. IPA Cross border cooperation programmes for 2014-2020 will stimulate the balanced and sustainable development of the relevant border regions through smart economic growth, environmental change adaptation and learning culture enhancement. The objective of these programmes is to enhance territorial cohesion by improving living standards and employment opportunities holding respect to the environment and by using the natural resources for upgrading the tourism product.

Examples of achievements

Turkey – innovative financial engineering instruments: Several innovative financial engineering instruments have been set-up in the framework of the operational programme "Regional Competitiveness". These include, the Technology Transfer Accelerator (TTA) project, an innovative financial engineering instrument supporting the commercialisation of research to foster technology based entrepreneurship in Turkey started its operations. Another financial engineering instrument, the Greater Anatolia Guarantee Facility Project (GAGF) provided, by the end of 2015, more than EUR 500 million worth of loans to SMEs and EUR 37.5 million worth of loans to micro-enterprises, ranging from the construction sector, to textiles and private medical services.

Turkey – water and waste management sectors: A range of projects are co-financed by the operational programme "Environment," which funds projects in the domain of water and waste management. These projects usually include the construction of water and/or wastewater treatment plants, and sewer/water network construction/reconstruction as required by the preliminary studies. For instance, in Ceyhan the programme co-financed a wastewater and stormwater project (total cost EUR 22.6 million). In addition to the wastewater treatment plant, a stormwater collection network was built to further improve public health as well as the environmental status of the area. Projects of this kind bring clean water and modern wastewater management service for the first time to approximately 30 municipalities.

1.1.4 European Union Solidarity Fund: a sustained capacity to meet the requests for assistance formulated by the countries affected by natural disasters

The European Union Solidarity Fund (EUSF) is an instrument based on the subsidiarity principle, which assists eligible countries in coping with disasters of such size and impact that they have difficulties facing them with their own means alone. EUSF aid comes in addition to national efforts as an act of European solidarity.

In 2015, the revision of the EUSF Regulation approved in 2014 became fully operational, thereby contributing to making the Fund more effective and responsive:

- As of 2015, Member States applying for EUSF aid may also request an advance payment of 10% of the anticipated amount of aid (capped at EUR 30 million). The new provision was used for all 3 applications received in 2015 (see below).
- The responsiveness of the Fund was further improved by shortening administrative procedures (the 'grant decision' and 'implementing agreement' to be adopted for each case previously were merged into one single act).
- New provisions were introduced focusing on the implementation of EU legislation on risk prevention and management to encourage Member States to make efforts to prevent natural disasters from occurring and mitigate their effects.
Three new applications were received in 2015: two applications for floods in Greece (Central Greece flooding and Evros flooding) for which aid totalling EUR 9.9 million was awarded; and one application related to severe winter conditions in Bulgaria in January/February 2015 which lead to the payment of Solidarity Fund aid of just under EUR 6.4 million. These bring the total number of disasters for which the EUSF has been mobilised since its creation in 2002 to 70. Moreover, in 2015, four monitoring missions to Bulgaria, Serbia, Italy and Croatia were undertaken, confirming that the implementation of the EUSF aid paid out to these countries for disasters in 2013 and 2014 is progressing according to the conditions agreed.

### Examples of achievements

In 2015, an amount of EUR 16.3 million was proposed by the Commission for disasters that occurred in Greece (flooding) and Bulgaria (severe winter conditions). The European Parliament and Council, in their capacity as budgetary authority, approved the mobilisation of the Solidarity Fund and the aid amounts proposed by the Commission in September 2015. The financial contribution is being used by the beneficiary States for essential emergency operations such as the restoration to working order of infrastructure, providing temporary accommodation and funding rescue services, securing of preventive infrastructure and measures of protection of cultural heritage, as well as cleaning up operations.

1.1.5 Encouraging the economic development of the Turkish Cypriot Community

In 2015, the Task Force for the Turkish Cypriot community continued to pursue the general objective of facilitating the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, on improving contacts between the Turkish and Greek Cypriot communities and on preparation for the acquis.

Indicators on the economic development of the Turkish Cypriot community and on the economic integration of the island show mixed results: although the GDP per capita gap between the north of the island and government-controlled areas has gone down steadily since 2012, a large share of this convergence is due to the almost continuous negative growth in the Greek Cypriot economy since then. Cross Green-Line trade volume increased for the first time in 4 years in 2014 and increased slightly again in 2015, probably as a result of the stabilisation of the economic crisis. However, despite this increase, the trade volume is still limited and at a low level (and below the volume it used to be prior to the economic crisis).

Technical and political support to the settlement process and preparation for the application of the acquis to the whole island after the achievement of settlement (result indicator 1):

Cyprus settlement talks are held between the Greek Cypriot and Turkish Cypriot communities' leaders under the auspices of the UN and the Secretary-General’s Special Advisor on Cyprus. The EU has no formal role in this process but is understood to be a vital player. The elementary agreed parameters of a solution are based on two politically equal communities and constituent states forming a federation (bi-communality, bi-zonality).

2015 has seen a very positive momentum with frequent social as well as formal meetings between the leaders, providing an unprecedented demonstration of their commitment to

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6 From 44% to 53% (although data is considered not fully reliable).
7 A slight increase of 3.1%
8 A slight increase of 2.8%
resolving the longstanding Cyprus problem. A "bi-communal ad hoc committee" to prepare the future Turkish-Cypriot Constituent State for the implementation of the EU acquis upon entry into force of the settlement agreement was established. The committee which met for the first time in early September is identifying needs and expertise required on all areas of the acquis as it relates to the functioning of the federal constitution as well as to the federal and constituent state competences. In carrying out its tasks under the UN auspices, the Committee has started inviting European Commission experts to present the relevant acquis areas. For this purpose, DG Regional and Urban Policy has set up a team in October, with the Task Force for Turkish Cypriot community being nominated as the focal point. The team has drafted an "Options paper" which describes the Regional Policy acquis and considers different options to prepare for the further steps that may be required following the settlement, in particular in light of a possible transition period as well as reconciliation between the two communities.

Throughout the year, the Commission has been very actively engaged in supporting the settlement talks and has been instrumental in laying the foundations for the future roll-out of the acquis to the northern part of Cyprus. Pieter Van Nuffel, former President Barroso's Personal Representative to the UN Good Offices Mission, was reconfirmed in this function by President Juncker during the latter's visit to Cyprus in July. On 17 February 2016, the Commission decided to transfer the Task Force for the Turkish Cypriot community to the Secretariat General's Structural Reform Support Service (SRSS) which will be responsible for further continuing efforts to facilitate the process for the reunification of Cyprus and for coordinating all the Commission's efforts towards that aim.

Implementation of the Aid programme:

During the year 2015, the Aid programme to the Turkish Cypriot community has continued to target the six key areas9 of the Aid Regulation 389/2006 and to aim at social and economic development.

The table below presents the main outputs of the Aid programme in 2015.

<table>
<thead>
<tr>
<th>Description</th>
<th>Indicator</th>
<th>Achievement in 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure development</td>
<td>Active sites</td>
<td>6</td>
</tr>
<tr>
<td>Grant contracts (civil society, community development, SMEs)</td>
<td>Grants signed</td>
<td>21</td>
</tr>
<tr>
<td>Scholarships</td>
<td>Scholarships granted</td>
<td>125</td>
</tr>
<tr>
<td>Committee on Missing Persons</td>
<td>Identification made</td>
<td>61</td>
</tr>
<tr>
<td>Cultural Heritage Protection</td>
<td>Active sites</td>
<td>8</td>
</tr>
<tr>
<td>TAIEX</td>
<td>Actions carried out</td>
<td>307</td>
</tr>
</tbody>
</table>

In the infrastructure development area, all remedial works for the Morphou/Giizelyurt wastewater treatment plant have been completed. Design work is underway for the extension to the Koutsoventsis/Güngör landfill, including for a unit for treating leachate running from the site.

Waste transportation trucks have been ordered. These efforts on solid waste management will be supplemented by further investments to be made under the 2015 programme, including closure of polluting dumpsites and construction of "transfer stations" for efficient transport of waste to the new landfill. Also in the solid waste field, a new medical sterilisation facility was ordered to help prevent dangerous disposal of unsterilized waste. Significant investments were also made in 2015 in plant and equipment for animal by-product management, disease eradication and for reforming the dairy sector.

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9 Please refer to article 2 of the Aid Regulation 389/2006.
A number of important technical assistance teams were mobilised in 2015 in support of private sector actors (SMEs, business support organisations); vocational education and training; supporting civil society organisations; building capacity in water and water management.

Important work on the bi-communal Committee on Missing Persons was continued throughout the year and the very successful EU scholarship programme was prolonged for a further three years until 2020.

Preparation for the implementation of the acquis continued in 2015 with 307 TAIEX actions including expert missions, training courses, workshops and study visits around the same 16 'sectors' of the acquis.

**Examples of achievements**

**Business support intervention:** As a second phase of an overall business support intervention a new technical assistance contract was signed to build capacity in business support organisations, assess the feasibility of business incubation and clustering, facilitate dialogue on a Smart Specialisation Strategy that is needed for access to European Structural and Investment Funds and analyse market trends. Since the start of this business support, help has also been given to development of an SME strategy, and an e-strategy, training has been delivered to business support organisations, SMEs, NGOs, academic centres and municipalities on entrepreneurship, export, research and development, local handicrafts, history and culture of Cyprus, nature conservation, IT and other topics. In addition, 330 enterprises have received grant support.

**Cultural Heritage protection and confidence building:** the Technical Committee on Cultural Heritage continued its operation during 2015 as a key component of the reconciliation and confidence building part of the Aid Programme. The reopening of the Othello Tower in Famagusta in July, attended by the two community leaders, was the highlight of the year. Besides the work on Othello Tower, emergency and conservation works were also carried out on the Hamam (Turkish bath) in Paphos, the mosque in Evretou/Evretu, the mosque in Cherkezoï/Çerkez and the Profitis Elias church in Philia/Serhatkoy\(^{10}\).

1.2 Contribution to policy achievements resulting from the implementation of 2015 operational priorities and from the enhanced assessment of programme performance

1.2.1 Outcomes resulting from the implementation of REGIO 2015 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 20 operational priorities for 2015. These priorities, structured around six main multiannual priorities, reflect the DG's operational focus on actions (mainly measured through output indicators related to

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\(^{10}\) The cultural heritage protection work is based on a 2010 study, requested by the European Parliament, which examined conditions and estimated restoration costs and established an inventory of approximately 2800 sites. Around 250 sites were ranked and about 120 detailed technical assessments were made.
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 2015 operational priorities is provided in annex 6.

| Supporting the start of the 2014-2020 period with a strong performance orientation and improving the investment framework |
| Contribution to (short- or long-term) policy achievements |

Finalising the negotiations for all programmes so as to obtain high quality programmes for the 2014-2020 period and supporting programme authorities in putting in place the right conditions for effective investments constituted the main challenge for 2015. These 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). Operational programmes are the basis upon which the Member States, for the next seven years, will invest in a limited number of agreed priorities capable of achieving sustainable, smart and inclusive growth; and the fulfilment of ex ante conditionalities, will ensure that adequate regulatory and policy frameworks are in place and that there is sufficient administrative capacity for these investments to be effective.

| Illustration of main achievements / difficulties |

**Adoption of all remaining Operational Programmes (OP)**

The year 2015 saw the completion of a key DG objective with the adoption of all mainstream and ETC programmes, thereby enabling all programmes to start implementation on the ground. The "Article 16" report[^11], presenting the main results of negotiations between Member State authorities and their partners and the European Commission on their investment programmes was adopted in December, providing a good overview of ESIF investments programmed for the 2014-2020 programming period and of the application of the reformed framework for ESIF investments on the ground.

**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 been closely monitored by DG Regional and Urban Policy throughout 2015. The aim of the designation process is to ensure that the necessary Management and Control System has been set up from the start of the period, thereby ensuring the effectiveness of investments from the start.

The designation process, which is a Member States responsibility, has taken up slower than expected in the year 2015, with only 52 programmes out of 283 ERDF/CF programmes having notified the designation of their programme authorities by the end of the year. DG Regional and Urban Policy has been closely cooperating with Member States to identify any difficulties/bottlenecks which have delayed the designation process and, when necessary took action. For instance, in the second half of the year a letter was sent by the Director General to ambassadors expressing concerns over delays in submission of designation documents and offering support in case of difficulties. In addition, the Commission Services provided to Member States a Q&A document to clarify potential blocking issues (IT systems, intermediate bodies). DG Regional and Urban Policy will continue to closely monitor the state of play of designations in 2016. The majority of designation processes are expected to be completed in the first half of 2016.

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 investment. 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 750 were not (for example transport master plans underpinning transport investment). Action plans for their fulfilment were agreed with the Commission in areas where improvements to the existing framework were necessary. Action plans are to be completed by the end of 2016 at the latest. In 2015 a number of plans were reported as delayed\(^\text{12}\); efforts are being made on the ground to ensure completion of the exercise in 2016 and DG Regional and Urban Policy is monitoring the state of play of action plans on a continuous basis.

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 firm integration of Cohesion Policy into the new economic governance of the EU in the Multiannual Financial Framework (MFF) for 2014-2020 helps to increase the responsiveness of the policy to changing economic circumstances and emerging imbalances. This is done by influencing Country Specific Recommendations (CSRs) related to Cohesion Policy and ensuring that they are reflected in Member States' 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.

**Main achievements / difficulties**

**Better linking the EU economic governance mechanisms with Cohesion policy**

Throughout 2015, efforts to strengthen the links between the EU economic governance mechanisms and Cohesion policy were continued. As all 2014-2020 programmes had to be adopted by the end of the year, 2015 was an important year to ensure links between relevant structural challenges and reforms identified through the European Semester and Cohesion policy programming. Throughout the year, DG Regional and Urban Policy worked with programme authorities to ensure that those 2014-2020 programmes adopted in 2015 reflected implicitly or explicitly relevant Country Specific Recommendations (CSRs).

DG Regional and Urban Policy provided direct inputs into the 2015 EU semester process in particular by its active involvement in the Commission Country Teams,

\(^{12}\)327 out of 436 action plans which were due for completion in 2015.
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 updating the assessment of economic and social developments. One measure of the contribution of REGIO is demonstrated by the 32 2015 CSRs where REGIO provided direct analysis or supported analysis of other DGs to “investment relevant” CSRs. 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.

<table>
<thead>
<tr>
<th>SK</th>
<th>CZ</th>
<th>IT</th>
<th>HR</th>
<th>LV</th>
<th>RO</th>
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<th>EE</th>
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<th>MT</th>
<th>NL</th>
<th>PL</th>
<th>PT</th>
<th>Grand Total</th>
</tr>
</thead>
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<td>1</td>
<td>1</td>
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<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>32</td>
</tr>
</tbody>
</table>

**Regional Policy results**

In 2015, DG Regional and Urban Policy continued to carry out the ex-post evaluation exercise of the 2007-2013 programming period, making significant progress towards its completion. Of the 17 work packages included in the exercise, three could be completed in 2015 (WP 0 “Data collection and quality assessment; WP 8 Energy efficiency and WP 13 Geography of expenditure) and four additional packages were close to completion at the end of the year (WP 3- Financial engineering; WP 4- Large enterprises; WP 9- Tourism/Culture and WP 10- Urban development/Social infrastructure), enabling to further develop knowledge and analytical tools on the policy. For instance, in the framework of the WP on "Geography of expenditure", a database was produced which contains detailed information on the allocations to selected projects and expenditure to final beneficiaries for the years 2013 and 2014 with a break-down by NUTS 2 and 3 regions and by 86 themes. The database has already started to feed into on-going analytical activities of the DG and will make it possible to refine macroeconomic simulations.

To achieve sound and efficient use of funds to channel investments for growth and jobs

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

A sustained rhythm of absorption is a necessary condition 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 2015 aimed at addressing country-specific difficulties and increasing the Member State capacity to effectively use the remaining Funds.

**Illustration of main achievements / difficulties**

**Level of absorption**

In the final year of implementation of the 2007-2013 programming period, it was

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13 WP 0 Data collection and quality assessment; WP 1 Synthesis; WP 2 Support to SMEs – Increasing Research and Innovation; WP 3 Financial instruments for enterprise support; WP 4 Support to Large Enterprises; WP 5 Transport; WP 6 Environment; WP 8 Energy efficiency; WP 9 Culture and Tourism; WP 10 Urban development and Social Infrastructures; WP 11 European Territorial Cooperation; WP 12 Delivery system; WP 13 Geography of expenditure; WP 14 macroeconomic effects of Cohesion Policy (including WP 14 a QUEST; WP 14 b RHOMOLO; WP 14 c Discontinuity Design; WP 14 d Matching).
particularly important to support Member States and Regions in making the most of their programmes. The rhythm of delivery has further accelerated towards the end of 2015 with an overall implementation rate for all MS of 87%. The absorption rates for the least performing countries exceed 70%, except for Romania (65%) and Croatia (45%), the latter, however, having another year of implementation ahead.

**DG REGIO support to implementation**

The good results in relation to financial execution are partly due to the efforts DG Regional and Urban Policy deployed in supporting Member States' authorities through technical meetings, targeted advice, dialogue with national authorities and closer follow up on the implementation of EU Funds. 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 to improve and accelerate implementation. It assessed the situation in each of the 8 Member States covered, identified the bottlenecks hampering successful implementation, defined country and programme-specific concrete action plans - containing quantifiable milestones and implementation targets - and closely monitored their implementation through missions and high-level and technical-level meetings with the concerned Member States. The Task Force also fostered exchange of experience and good practices among the participants and assisted Member States to combine the maximisation of the use of the available flexibility provisions following the line requested by the European Council and ensured a better spending of the funds.

**Major Projects**

Sustained efforts have been deployed throughout the year to deal with major projects requests/requests for modifications of major projects for the 2007-2013 period. In 2015 a total of 166 major projects were cleared, with a big push being given at the end of the year (with 37 major projects cleared in November/December only). In general, the Commission cleared 97% of all projects submitted for adoption and 83% of all modification requests submitted by end of September. There were still 48 open projects, and 127 pending modification requests at the end of 2015, which are expected to be dealt with in the first half of 2016 (with a few additional phasing/modification requests submitted or to be submitted in 2016).

**Financial instruments**

As regards the 2007-2013 programming period, Financial Instruments (FIs) have become an increasingly important delivery tool for Cohesion Policy objectives and a significant share of resources has been progressively delivered through these instruments. The majority of the 1025 FEIs are for support to enterprises (90%), with
6% for urban development projects and just under 4% for funds for energy efficiency/renewable energies.

At the end of 2014 (the most recent available figures), EUR 17.06 billion were committed in funding agreements between managing authorities and FI for the 2007-2013 period, out of which EUR 1.04 billion had not yet been paid into FIs by 31/12/2014. Payments to final recipients have increased to EUR 9.41 billion, which gives an absorption rate of almost 60%. Given that programmes are now approaching closure, there is an increased risk that amounts committed in FI will not be fully absorbed at the end of the programming period in particular for Spain and Italy. Continued efforts will be needed to improve implementation and absorption rates in order to avoid losses at the end of the period.

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"14 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.

In 2015 DG Regional and Urban Policy continued its monitoring activities on the progress made in financing and implementing FIs. A series of advice products were delivered during the year: three conferences were organized, national workshops held and 26 advice products produced. The fi-compass platform is playing a key role in supporting the delivery of financial engineering instruments. It provides advisory services applicable to all Member States, all types of financial instruments and related to common themes such as ex-ante assessment, as well as practical know-how and learning tools, including regional and national seminars for managing authorities and other stakeholders working on FIs. In 2015, fi-compass horizontal assistance has already delivered an extensive range of products aimed at both awareness-raising of the benefits and possible application of financial instruments and explaining to managing authorities in a clear and accessible way how they can be used.

1.2.2 Outcome of the yearly assessment of the performance of programmes

Introducing a systematic assessment of programmes' performance is one of the key actions indicated in REGIO's Strategy to Manage Change towards a more Performance-Based Culture. In line with the strategy, the first two annual reviews of performance covering 2007-2013 programmes, carried out in 2014 and in 2015, are used as pilot exercises. The lessons learnt should help develop approaches and guidance supporting a more comprehensive assessment of programme performance for the 2014-2020 programmes.

The 2015 assessment, targeting 2007-2013 programmes, has also served as a component for management opinions and declarations for assurance purposes in the 2015 Annual Activity Report. This assessment was based on two elements:

1. Information contained in the programmes' Annual Implementation Report (AIR);
2. Additional qualitative elements available to the desks, resulting from their monitoring activities, as well as from formal and informal contacts with MS.

The assessment of the programme’s performance is categorised based on the judgement reached (good, acceptable, poor, or critical) and covers six main areas which are used to characterize the programmes’ performance:

• Project Selection
• Financial execution
• Major Projects
• Financial Engineering Instruments
• Core and programme Indicators / (Outputs)
• Management and control issues.

Although the approach developed in this pilot bottom-up exercise is being perfected in view of the assessment of 2014-2020 AIRs, it allowed drawing an indicative picture of the estimated performance of programmes. Overall, the performance of the programmes was considered to be as either good or acceptable for 91% of the programmes and poor or critical for 9% of them, as shown in the chart below.

Corrective actions to address the main weak areas identified in the framework of the previous exercise by DG Regional and Urban Policy have been or are currently being implemented and monitored. Notably as a consequence of the actions already implemented, a positive evolution can be noted compared to the picture resulting from the assessments recorded in the 2014 AAR. The percentage of programmes considered at risk has decreased from 12% to 9%. In particular, 21 programmes assessed as poor/critical in the 2014 AAR are now assessed as good/acceptable, while 9 programmes assessed as good/acceptable in the 2014 AAR are now assessed as poor/critical.

As regards the main areas of assessment, the main difficulties are linked to the rhythm of financial execution and to core and programme indicators (covering both plausibility of reported data and progress against targets). While these areas were already identified as
problematic in the previous yearly assessment, the situation has significantly improved with regard to management and control issues, project selection and financial instruments.

12 Programmes were assessed as poor/critical for 2 years running. Targeted assistance to the concerned authorities continues to be provided, notably through REGIO’s Task Force for Better Implementation, and the implementation of corrective actions is closely monitored.

The experience gathered in the last two years helped developing tools supporting a more extensive review of the upcoming AIRs related to the 2014-2020 programming period. The assessment checklist that will be used for this purpose is currently being finalised.

The assessment of the performance of the new programmes will be based on more reliable data on achievements produced by the national and regional data systems, in line with the requirements introduced by the 2014-2020 regulatory framework. In addition, it will make full use of the new features enhancing the result orientation of the programmes (intervention logic for each priority axis accompanied by result indicators and more prescriptive selection criteria, performance framework, new requirements as regards information to be provided by programme authorities), as well as of the evidence regarding policy performance gathered through the evaluation activities. Based on its outcome, DG Regional and Urban Policy could request the relevant national authorities to implement targeted corrective actions, which will enhance the programmes' capacity to deliver the expected results.

1.2.3 Examples of EU-added value and results/impacts of projects or programme financed

Example 1: Smart growth - SME growth for digital economy

The Scandinavian Game Developers project is a cross-border project between Denmark and Sweden, providing a range of support to entrepreneurs who are seeking to establish viable companies and survive in a highly competitive business environment.

When the project started, the gaming industry needed new business models. The project’s Swedish partner, the University of Skövde, designed a business model for entertainment and educational games – and business coaches, who counselled the young start-ups in the 2 project incubators, ensured the mainstreaming of the new model.

The project established 22 new small companies which now employ 67 persons, and just recently one of these companies attracted an external investment of around EUR 270,000. All the new companies have stated that the incubators have been vital to the survival of their companies, and that they will continue to develop their companies in the incubators which they see as very dynamic and inspiring environments.

Apart from the business models and trainings, the project has produced and disseminated a number of magazines on how to create and run companies in the games industry and has created a database on Scandinavian competences within the gaming industry which resulted in 78 cross border meetings, conferences, and workshops with a total of 1,793 participants. Due to its capacity to produce effects which go beyond the national borders, the project is a perfect illustration of the added value of EU-wide cooperation initiatives.

Example 2: Sustainable Growth – Renewable energy

The Sustainable Construction Programme, in Andalusia, Spain, seeks through energy saving and renewable energy to promote the energy refurbishment of buildings, rehabilitate urban areas, improve the competitiveness of companies of the construction sector, create skilled employment and reduce energy poverty.

The Programme consists of three main actions:
1. An incentive scheme of EUR 116 million and 48 possible actions to facilitate the energy refurbishment of existing buildings.

2. Implementation of a financing line, specifically through revolving funds for companies.

3. Creation of the “Sustainable Construction Roundtable” involving more than 70 experts from different disciplines.

Quantitatively, the outputs that have resulted from the incentive scheme include 24,562 actions (60,000 citizens, 600 neighbourhood communities and 2,500 companies), EUR 170 million invested, and 7,663 collaborating companies. 80,000 new jobs are expected to be generated in the next 5 years.

The project has also achieved 26,000 toe/year of energy saved and/or diversified and 62,000 tons of CO2 avoided, created 14,000 direct jobs in the implementation and management of the actions, resulted in economic saving of more than EUR 210 million in companies, citizens, neighbourhood communities and other entities.

1.3 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending 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 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, and as recalled under section 1.1 above, 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\textsuperscript{15}. 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.

The following initiatives show how these principles are implemented in our DG.

\textit{Example 1: Differentiation}

In order to foster a more efficient use of the available human resources, DG REGIO has launched in 2015 a differentiation exercise based on the activities of the implementing units. Its aim was to adapt its monitoring and supervisory efforts according to the specific needs of each programme/Member State, focusing its resources on the situations which require a

\textsuperscript{15} See section 2.3.1.2.
stronger involvement from the Commission services and define the scope for applying lighter procedures, wherever possible.

This has been based on a screening exercise, which classified the tasks related to programme monitoring and supervision into two groups:

1. Tasks deriving directly from the regulations and which can be defined as "compulsory" and which have a clear legal base to enforce action if necessary.

2. Tasks of an accompanying, advisory and preventative nature which, though not compulsory in terms of the regulations, are however essential to guarantee a smooth, effective, result-orientated delivery of EU funds on the ground, as they are the tool to help Member States to deliver cohesion policy.

While the first set of tasks corresponds to the “minimum requirements” (i.e. activities that are to be carried out in any case) for the implementing units, the second one corresponds to tasks for which the degree of involvement and workload for the implementing units may vary greatly, depending on quantitative and qualitative factors inherent to each Member State, the programme and the period.

Based on a detailed analysis of the needs of each Member States and on the DG’s Work Force Planning exercise, the efforts to be deployed by each implementing unit have been defined and translated into concrete decisions about staff allocation. As a result, the DG has been able to optimise its staff allocation.

Example 2: Sharing and pooling audit services between ESIF DGs

The Structural actions DGs have put in place a single audit strategy and have been carrying out a common risk assessment and established a common audit plan for several years, including joint audit missions where the programme authorities were common. Common IT tools have been developed: MAPAR allows auditors to manage audit missions from preparation to the final report and its follow-up; ARACHNE is a risk scoring tool to be used by both the Commission and Member States in order to identify the most risky projects and to strengthen fraud prevention and detection.

For the 2014-2020 programming period, DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion have decided to go further as many programmes are multi-funds ones. Therefore more in-depth cooperation and efficiency in the use of existing audit resources will be sought through:

- The pooling of country audit expertise in one single DG for 10 Member States which have a limited allocation of funds, a small number of OPs, a low/medium risk profile and which require specific linguistic capacity not always available in the two Directorates General.

- The sharing of specific expertise and competencies available in one DG with a view to providing service to the other DG. REGIO would cover for both DGs audits related to Financial Instruments while EMPL would provide assistance in audit issues related to Simplified Cost Options and could take in charge the few REGIO Direct Management audits.
2. 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 explicitly 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 ex-post supervision or audit;
- the 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) Assessment of audit observations and recommendations, (2.2) assessment of the effectiveness of the internal control system, (2.3) Legality and Regularity of control, and resulting in (2.4) Conclusions as regards assurance.

2.1 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported 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 the 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).

2.1.1 European Court of Auditors

2.1.1.1 Annual report for 2014 (DAS 2014)

The European Court of Auditors (the Court) published its Annual Report for the budgetary year 2014 in November 2015. The Court has updated its audit approach and the structure of the report in order to reflect the 2014-2020 Multiannual Financial Framework headings. Chapter 6 of the report is now dedicated to economic, social and territorial cohesion policy. DG Regional and Urban policy, accounts for 80% of spending covered by this chapter, mainly through ERDF and the Cohesion Fund, while the remaining 20% concern DG Employment, Social Affairs and Inclusion policy. The Court has also updated its audit approach concerning the quantification of serious infringements in public procurement rules, clarifying the way it assesses the impact of these infringements. Previous figures reported in the Court’s 2013 and 2012 annual reports were adjusted in order to ensure the comparability of results presented.

Even though the Court is the external auditor of the Commission, its audit results are taken into account for DG Regional and Urban Policy’s single audit approach. In this context, the
Court's findings are treated in the same way as audit results from Member States and the Commission.

**Main conclusions:** The Court concluded in its 2014 Annual Report that payments for economic, social and territorial cohesion policy were affected by material errors, **with a most likely error of 6.1%** for regional and urban policy and a frequency of error in the audited sample of 47%. The Court underlined that 40% of the errors found could and should have been detected by the Member States before declaring expenditure to the Commission, which would have reduced the error rate by 3.3 percentage points for regional and urban policy. The sources of error reported by the Court were lack of compliance with public procurement procedures (51% of the error rate), ineligible costs being declared (25%) and non-compliance with State aid rules (24%) (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>Public Procurement</td>
<td>51%</td>
</tr>
<tr>
<td>Ineligible costs</td>
<td>25%</td>
</tr>
<tr>
<td>State aid</td>
<td>24%</td>
</tr>
</tbody>
</table>

The Court also reviewed the effectiveness of the control systems by analysing the validation by the Directorate General of annual control reports submitted by audit authorities and the reservations made in the DG Regional and Urban Policy's 2014 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 2014 Annual Activity Report (between 2.6% and 5.3%) are accurate and consistent with the available information.** However, it mentioned that:

- the robustness of the Commission's assessment depends on the accuracy and reliability of the information reported by national authorities (risk of understatement of errors or inaccurate information on financial corrections reported by Member States),
- the Commission did not always have full information to validate the data reported by the audit authorities (no information about audits of operations),
- some deficiencies were detected in the checks performed by audit authorities on State aid rules.

Concerning the Directorate-General’s management representation, **the Court assessed the consistency and accuracy of the Commission’s calculation of the amounts at risk and the reservations made in the Directorate’s General 2014 Annual Activity Report and concluded that these were consistent and accurate.** As recommended by the Court in its 2013 Annual Report\(^\text{16}\), the Commission also agreed to disclose 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.

**Impact on assurance:** The error rate calculated by the Court in 2014 for DG Regional and Urban policy is above the materiality level of 2% but remains less than half of the error rates reported by the Court during the implementation of the 2000-2006 programming period for Cohesion policy and is in line with the error rates presented by the Court in the four last years. This is 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 be below the materiality level.

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\(^{16}\) See Recommendation 6 in chapter 5 of the 2013 ECA Annual report.
Management verifications by managing authorities before certifying expenditure to the Commission ('first level checks') is the critical first layer of control in the management and control systems. The 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 risk undermining assurance, the Directorate General carries out risk-based audits to detect deficiencies in the functioning of this key element of systems and takes actions to remedy the identified weaknesses. All the Court's findings on the effectiveness and efficiency of management verifications reported in the course of its audits are also strictly followed up by the Directorate General which also has a specific audit enquiry in place (see section 0 below). As a general rule, when serious deficiencies in the management verifications are identified, the Directorate General immediately stops the payments until remedial actions have been taken. Payments are resumed only when there is sufficient and reliable evidence that weaknesses have been remedied. A reservation is issued in the AAR for the programmes concerned.

Another factor of critical importance 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. Therefore, the Directorate General pays particular attention the Court's findings on the audit authorities' work and integrates the Court's results in its own assessment of the reliability it can place on audit. In particular to follow up the Court's finding that the robustness of the Commission's assessment depends on the accuracy and reliability of audit authorities reported information, the Directorate General has taken specific measures to improve the reliability of this information, including the individual error rates per programme, and the financial corrections reported by certifying authorities. The results of this specific audit work, which are detailed in section 2.3.1.2, lead to a re-assessment and recalculation, when necessary, of the individual error rates reported, as well as corrections in the reporting from national authorities which improve the basis for the European Commission's calculation of the cumulative residual risk.

The Directorate General also worked with audit authorities in 2015 to improve the quality of tools to audit complex issues such as State aid and public procurement.

Follow-up of recommendations:

The Court issued seven recommendations in its 2014 Annual Report under the economic, social and territorial cohesion policy chapter aiming at promoting simplification, addressing weaknesses in the 'first level checks' performed by the national management authorities, and strengthening the reliability of the reporting on financial corrections as well as the control system for audit authorities.

The Commission accepted these recommendations except one explained below and the Directorate-General is implementing or has already implemented the Court’s recommendations.

Concerning the simplification of rules, the Commission is cooperating with national programming authorities to identify complex national eligibility rules and avoid 'gold-plating' which creates unnecessary administrative burden. The Commission has also set up a High-level Group on simplification for beneficiaries in June 2015 to assist in identifying obstacles to simplification and ways to address them.

Concerning the assessment on the 'first level checks', targeted risk-based audits are continuously being carried out since 2010 by the Directorate General (see chapter 2.3.1.2). The Directorate General has set up a dedicated unit on administrative capacity building and is carrying out actions to assist and support Member States in improving management verifications. Specific actions are being implemented to tackle the main sources of errors.

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17 See Annex 8 section 2.3.1.2 B2. on results of the risk-targeted audit enquiry "Bridge the assurance gap" and section 2.3.1.2. C on "interruptions/suspensions".

18 See Annex 8 section 2.3.1.2 B1 on the review of the work of audit authorities since 2009.
through a joint public procurement action plan and State aid action plan (see section 2.3.4). In 2015, this led to the publication of a public procurement guidance for practitioners in all official languages, customised action plans and assistance for countries not fulfilling the ex-ante conditionalities on public procurement and/or State aid and strategic training programmes. In 2014-2020, management verifications and controls will have to be carried out in time for the certification of annual accounts and submission of management declarations. Their effectiveness will be assessed through a residual rate of error for programmes each year. New guidelines for management verifications have been provided to the Member States by the Commission services in 2015.

Concerning the reliability of financial corrections, as recommended by the Court and the Discharge authority, the Directorate General has widened the scope of its assessment and carries out systematic consistency checks on annual financial corrections statements for all Member States and operational programmes. In addition, through its annual risk assessment it identifies targeted audit missions to be conducted on financial corrections reporting. The results of this audit work led to corrections in the reporting from national authorities and improve the basis for the calculation of the cumulative residual risk (see section C of chapter 2.3.1.2). During the implementation of the 2014-2020 programming period, the accuracy of the information on financial corrections will be audited by the audit authorities and covered by their annual opinion on the accounts.

Concerning the control system for audit authorities and taking into account the risk identified by the Court, the Directorate General has taken action aiming at obtaining additional specific information from audit authorities on audits of operations each time it is considered necessary, performing risk-based 'pre-annual control report' missions to prepare for the review of their annual control reports or ex post fact-finding missions to clarify issues (see section 2.3.1.2) and provided in 2015 updated checklists on State aid and public procurement rules to audit authorities.

Finally the Court also issued a recommendation on the need to submit a legislative proposal to amend Regulation (EC) n°1083/2006 to extend the eligibility period for financial instruments under shared management instead of simply providing for this possibility in Commission closure guidelines. The Commission did not accept this recommendation. It considers that the clarifications introduced in the closure guidelines on the expenditure to be declared at closure were within the scope of the existing regulation and rules and exception foreseen in Regulation (EC) n°1083/2006 for the expenditure to be declared for financial instruments.

Performance assessment of projects:

In addition to the assessment of the regularity of transactions, the Court also assessed for the first time and as a pilot exercise whether the projects that were completed at the time of the audit had achieved their objectives, based on project outputs and, where possible, project results. The Court concluded that 145 out of the 186 examined projects have reached (either fully or partially) or exceeded their targets. Only in three cases out of the 186 projects assessed none of the objectives were attained.

It is however only at the stage of the closure of the programmes in 2017 that the performance of projects will be finally evaluated and reported to the Commission. 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 enhanced result-orientation.

2.1.1.2 The Court’s Performance audits

Regional and urban policy and related investments were involved in five special reports finalised by the Court in 2015, topics included: inland waterway transport in Europe, investments in urban waste water treatment plants in the Danube river basin, public
procurement in EU cohesion expenditure, security of energy supply and water quality in the Danube river basin.

Regarding the **audit on public procurement in EU cohesion expenditure**, the Court acknowledges that both the Commission and Member States are starting to address the problem of public procurement errors in EU cohesion expenditure, but considers that there is still room for improvement and further actions needed.

Regarding the **audits on thematic investments supported by cohesion policy funds**, the Court’s conclusions focused mainly on the setting of investment priorities by Member States and on a better prioritisation and selection of projects to achieve the objectives set in the different policy areas.

The Commission is taking action to implement the recommendations issued:

In the field of **public procurement**, the Commission began to put a range of actions in place in 2010. Legislative actions included the revision of the public procurement directives (to be transposed by Member States by April 2016) and the inclusion in partnership agreements for the 2014-2020 programming period of specific ex-ante conditions for public procurement systems that must be fulfilled by Member States by end-2016. In 2013, the Commission established an internal technical working group and drew up a joint internal action plan with GROW and EMPL in 2014, which is under implementation (see section 2.3.4). In order to follow up the Court’s recommendation and provide greater political support to this action plan, the two concerned Commissioners decided to publish the action plan and organised a 'jour fixe' meeting with the Court member responsible for its endorsement.

Regarding the recommendations issued in the special reports on **thematic investments supported by cohesion policy funds**, the vast majority of recommendations were addressed to the Directorates General responsible for the policies concerned. 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.

Further details on the recommendations issued are available in Annex 8.

### 2.1.2 Internal Audit Service (IAS)

In 2015, the IAS performed:

- An audit on monitoring of the action plans for unfulfilled ex-ante conditionalities in DG Regional and Urban Policy and in DG Employment, Social Affairs and Inclusion. This was to assess whether the two DGs were adequately prepared to effectively and efficiently monitor and assess the implementation of the action plans for partially fulfilled and unfulfilled ex-ante conditionalities by the Member States. The IAS concludes that the DGs have taken adequate measures in this respect but that weaknesses still remain, making two very important recommendations related to:
  - the 'Reporting to senior management' concerning the accuracy of data reported by DG REGIO to the various stakeholders, and
  - the 'Better regulation principles', concerning (a) the implications of the potential burden imposed by the regulatory changes of the 2014 – 2020 programming period for Member States’ authorities and beneficiaries; and (b) the internal coordination within the Commission between the DGs and the newly created "Structural Reform Support Service").

- Several follow-up assignments on the previous audits on: Control Strategy - Audit and Financial Corrections Processes; Implementation of the 2007-2013 Programming Period; and DG REGIO Performance Measurement Systems. As a result all very
important recommendations followed up have been closed or downgraded to Important;

- Several follow-up audits on a number of former IAC recommendations stemming from 9 audits which were handed over. As a result the recommendations have been closed or downgraded to Important.

Based on all work undertaken in the period 2013-2015, the IAS has provided its conclusion on the state of internal control within DG Regional and Urban Policy. This replaces the former Internal Audit Capability (IAC) opinion on the state of control.

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 should be given to:

(i) the impact of the delays observed in implementing:

- two very important recommendations related to the preparation of the closure for the 2007-2013 programming period stemming from the IAS audit on the closure of the 2000-2006 ERDF programming period, and
- one very important recommendation regarding the legal framework for financial instruments in 2014-2020 stemming from IAS audit on preparation for the use of financial instruments in 2014-2020 programming period.

(ii) the combined effect of a number of open recommendations related to:

- the reliability, plausibility or accuracy of data reported by the Member States to the Commission, and
- the accuracy of data reported by DG REGIO to the various stakeholders as regards the information on the monitoring of unfulfilled ex-ante conditionalities.

For all these open recommendations, DG Regional and Urban policy has taken sufficient actions to ensure that the delays do not lead to any material residual risk. The Directorate General is also taking the necessary actions to tackle the different issues brought up by all IAS audits.

More detailed information on all very important recommendations which are assessed as open are provided in annex 8.
2.2 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 ICS Chef de file 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 Chef 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.

In 2015, DG Regional and Urban Policy has taken actions to further strengthen the effectiveness of internal control standards, particularly in relation to the following:

1. The two main changes which impacted DG REGIO’s internal control environment in 2015, namely the recentralisation of the IACs in the IAS and the integration of the Turkish Cypriot Community Task Force (TCCTF) in January 2015.

As a consequence, mitigating measures were defined and put in place to (1) clarify and reinforce the internal arrangements for monitoring and assessing the effectiveness of the internal control framework, by strengthening ownership and testing activities by Chefs de file, and to (2) assess the adequacy of the existing controls surrounding the activities of the TCCTF as well as any potential risks affecting the legality and regularity of related financial transactions. To this end, a due diligence was carried out in the second semester 2015.

2. The two prioritised standards for the year 2015 (ICS 3 and 8).

ICS 3 (Staff allocation and mobility) which was assessed as partially effective last year: A Human resources action plan adopted in September 2014 has been implemented. In order to define what optimal allocation would be, two distinct exercises have been carried out to assess the quantitative (Workforce Planning) and qualitative (Competency Gap Analysis) aspects of staff allocation. The outcome of both exercises allowed establishing an Optimal Staff Allocation Plan which was used for deciding on compulsory staff cuts. As regards the mobility policy, following the adoption of the programmes, a Mercato has been carried out. It is an annual one-off "market place" where on one hand staff has an opportunity to express their career aspirations and on the other, the DG can communicate possible openings.
ICS 8 (Processes and procedures): In line with the Business Process Team work plan for 2015, efforts were concentrated in preparing the remaining processes for the 2014-2020 period (Major projects, Amendment to partnership agreement, Amendment to programmes, Interim payments, acceptance of accounts). A comprehensive inventory of processes and of relevant documentation was also completed. This will be used to enhance accessibility and user-friendliness of procedures for all staff.

3. **Other standards for which specific measures were taken**, in order to further strengthen their effectiveness.

ICS 4 (Staff Evaluation and Development) with the adoption of a Training Plan aligned to the DG’s priorities, ICS 5 (Objectives and Performance Indicators) with the roll out of UMPs and bi-monthly reporting to the Board, ICS 11 with the reduction of backlog of files to be transferred to the Historical Archives and ICS 12 (Information and Communication) with REGIO’s recognition for good practice in the area of internal communication and staff engagement in the Commission’s 2015 Internal Communication and Staff Engagement Awards.

Based on the review of the work carried out and on the assessment of the ICS Chef de file, it can be concluded that the internal control standards are effectively implemented and functioning. The conclusion per standards is presented in annex 8.

Further enhancing of the effectiveness of the DG’s control arrangements in place is an ongoing effort that will continue in 2016.

In addition, DG Regional and Urban Policy is particularly concerned to keep error rates in spending programmes down to a tolerable level and to balance trust and control. Current annual error rates for the 2007-2013 period are between 3.0% to 5.6% on an annual basis, the cumulative residual risk being less than 2% (1.0% at 21 March 2016). An analysis of the main causes of errors led DG Regional and Urban policy to implement an action plan to enhance compliance with public procurement procedures in the Member States and to launch actions to improve compliance with State aid issues (see section 2.4.4 - overall action plan).
2.3 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.

The table below presents the control results for the activities of the Directorate General.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Payments 2015 (million EUR)</th>
<th>% REGIO Expenditure</th>
<th>IC indicators</th>
<th>Reservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2020 period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERDF / CF</td>
<td>5,398.2</td>
<td>13.16%</td>
<td>No risk on the advance payments (No risk on the interim payments due to the 10% retention)</td>
<td>No</td>
</tr>
<tr>
<td>Cross border cooperation IPA – ENI</td>
<td>33.0</td>
<td>0.08%</td>
<td>No risk on the advance payments</td>
<td>No</td>
</tr>
<tr>
<td>2007-2013 period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERDF / CF</td>
<td>34,094.5</td>
<td>83.12%</td>
<td>Error rate: 3% to 5.6% CRR 1%</td>
<td>Yes – 67 ERDF/CF OPs</td>
</tr>
<tr>
<td>IPA - Cross border cooperation</td>
<td>40.0</td>
<td>0.10%</td>
<td>Error rate: 1.5% to 3.6%, CRR &lt;2%</td>
<td>Yes- 1 IPA- CBC OP</td>
</tr>
<tr>
<td>2000-2006 period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERDF / CF</td>
<td>473.6</td>
<td>1.15%</td>
<td>Residual error rate &lt;2%, (corrections applied at closure)</td>
<td>Yes – 2 OPs and 2 CF sectors</td>
</tr>
<tr>
<td>Before 2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERDF / CF</td>
<td>349.0</td>
<td>0.85%</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>EU Solidarity Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUSF</td>
<td>209.5</td>
<td>0.51%</td>
<td>No significant findings</td>
<td>No</td>
</tr>
<tr>
<td>Indirect Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IPA Regional Development</td>
<td>257.2</td>
<td>0.63%</td>
<td>2014 error rates validated below materiality</td>
<td>No</td>
</tr>
<tr>
<td>Turkish-Cypriot - indirect Urban Innovative Actions</td>
<td>87.9</td>
<td>0.21%</td>
<td>No significant findings</td>
<td>No</td>
</tr>
<tr>
<td>Direct Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance Pilot project Turkish Cypriot – direct</td>
<td>76.1⁰²</td>
<td>0.19%</td>
<td>No significant findings resulted from the checks carried out</td>
<td>No</td>
</tr>
<tr>
<td>Grand Total</td>
<td>40,019.1¹¹</td>
<td>100%</td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

¹⁰ 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).

¹¹ Including 14.7 million of cross-subdelegation

¹² Excluding payments made on C8 appropriations for administrative lines (EUR 6 m) and the amounts related to the global envelope
Overall, Management has reasonable assurance that for the direct 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.

Management has the same assurance that suitable controls are in place and work as intended as regards IPA and the ERDF/CF. The internal control system allowed detection of deficiencies in the management and control systems of 67 ERDF/CF and 1 IPA-CBC programmes of the 2007-2013 programming period, which are included in the 2015 reservation.

Consistently with previous years, the above table only refers to payments made and reconciles with Annex 3. It should be noted that in 2015 an amount of EUR 5.072 billion was cleared in 2015 for ERDF and CF for the period 2007-2013. This clearance is done in accordance with Article 79 of Regulation 1083/2006 which foresees that the cumulative total of pre-financing and interim payments made shall not exceed 95 % of the contribution from the Funds to the Operational Programme. When this ceiling is reached, the certifying authorities continue to declare expenditure to the Commission and the eligible declared expenditure is used to clear the outstanding pre-financing in the Commission accounts. Those expenditures are subject to the same verifications by the national authorities and are therefore part of the population covered by the audits of operations.

2.3.1 Control effectiveness as regards legality and regularity

2.3.1.1 ERDF and CF: setting up a strong control framework for the new 2014-2020 programming period

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 less than 2% for each accounting year.

The Directorate-General therefore assesses each operational programme in order to identify reservations and corrective measures to be applied. Reservations or partial reservations are made for programmes with:

- material deficiencies in some key elements of the systems (including non-acceptance of accounts); and/or
- legality and regularity issues and insufficient corrective actions implemented (e.g. programmes with an "annual reviewed projected error rate" above 5 % and an "annual residual error rate" above 2% or below 2 % but for which, if applicable, the implementation of the corrective action plans has not been assessed as satisfactory yet); and/or
- corrective actions still to be undertaken on the accepted accounts (through additional flat rate corrections).

Source of information used to build up the assurance and materiality criteria (control objective)

For the 2014-2020 programming period, the main source of information is the "assurance package" that programme authorities must provide each year by 15 February from 2016 up to and including 2025. This "assurance package" contains:

- A Management Declaration and Annual Summary, prepared by the managing authority;
• Certified Accounts, prepared by the certifying authority, which according to Art 137(1) of the CPR must include:
  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 the irrecoverable amounts;
  c) the amounts of programme contributions paid to financial instruments under Article 41(1) and the advances of State aid under Article 131(4);
  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 the system audits carried out on the functioning of the management and control system and audits on an appropriate sample of operations on the basis of the declared expenditure, as well as audits on the accounts prepared by the certifying authority.

In addition, the Directorate-General will use the following sources of information:

• Audit work:
  o National system audits submitted by the audit authorities throughout the year;
  o The results of DG REGIO’s main audit activity focusing on the review of the work of the audit authorities, including through the re-performance of audit work;
  o Results from other DG REGIO’s audits following the Single Audit Strategy;
  o Relevant audit information received from DG EMPL, DG MARE (under the Single Audit Strategy) and/or the Court;
  o Conclusions from final case reports from OLAF.

• Other source of information, formal or informal, acquired by the geographical units in the context of their day-to-day management of the programmes:
  o Annual Implementation Reports from the Member States, including the data on performance and results;
  o Monitoring committees and annual meetings;
  o Contacts with regional and national programme managers.

A. The assurance base: solid and supervised management & control systems in Member States

A1. A system designed to foster sound financial management

Main improvements in the management and control system (MS level, EC level):
The 2014-2020 programming period introduces some major changes, compared to the previous one.

These key new features are:

• A twelve-month accounting period running from 1 July year n-1 to 30 June year n;
• A retention of 10% from each interim payment made by the European Commission in relation to expenditure of the accounting year and calculation of the balance to be paid/recovered. This principle is established to protect the EU budget until the submission of the annual programme accounts by the certifying authorities after the finalization of the full control cycle.
• Submission to the Commission of accompanying documents to give assurance on: (1) the accuracy of the accounts, (2) the effective functioning of the system and (3) the legality and regularity of the underlying transactions thus reinforcing the
accountability of programme authorities (management declaration, annual summary, audit opinion and annual control report forming with the accounts the "assurance package" to be submitted by the Member State to the European Commission on 15/02/n+1);

- The accounts should reflect the necessary financial corrections to bring the annual residual risk below the materiality threshold for each programme each year. Thus, in the programming period 2014-2020, management verifications and controls will have to be carried out by programme authorities in time for the certification of the annual accounts and the submission of the assurance package to the Commission.

- Commission shall accept the accounts by 31 May n+1 where it is able to conclude that the accounts are complete, accurate and true. If the accounts are accepted, the Commission shall pay/recover the balance within 30 days taking into account the amount certified in the annual accounts, the interim payments made during the reference period and clearing of the annual pre-financing.

A final key new element of 2014-2020 programming period is the obligatory application of net financial corrections by the Commission where irregularities demonstrating serious system deficiencies are detected by the Commission or the European Court of Auditors, and were not already identified in the assurance documents / other national audit reports submitted to the Commission or remedial corrective measures were taken by the Member State by the time of detection by EU/Court audits.

More details on set-up of the 2014-2020 management and control system are disclosed in annex 8.

**State of play on the designation on 31/12/2015:**

<table>
<thead>
<tr>
<th>Indicator (programming period 2014-2020)</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<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>52 out of 283 (18%)</td>
</tr>
</tbody>
</table>

The first layer of assurance is provided by the "designation" process 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.

For the 2014-2020 period, the designation process is solely a national responsibility. According to Articles 123 and 124 of CPR, and based on a report and an opinion of an independent audit body, Member States shall notify to the Commission of the date and form of the designation of the managing authority and the certifying authority, prior to the submission of the first application for interim payment to the Commission.

The designation process, which is a key step towards the effective implementation of new operational programmes, has been closely monitored by DG Regional and Urban Policy during the year 2015. It has taken up slower than expected in the year 2015, with 52 ERDF/CF programmes out of 283 having notified the designation of their programme authorities by the end of the year.

DG Regional and Urban Policy has been closely cooperating with Member States to identify any difficulties/bottlenecks which have delayed the designation process and took action when necessary. For instance, some delays were observed in the designation process since the ICT systems are still under development or procedures to ensure a robust supervision of managing authorities over intermediate bodies already identified are not yet fully designed.

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22 Including 92 multi-fund programmes with an ESF component.
As a result, in the second half of the year, a letter was sent by the Director General to all Member States expressing concerns over delays in submission of designation documents and offering support in case of difficulties. In addition, the Commission services provided to Member States a Q&A document to clarify potential blocking issues (set-up of IT systems, designation of intermediate bodies). The majority of designation processes are expected to be completed in the course of 2016. At the end of March 2016, notifications have already been received for another 18 operational programmes (see table below).

State of play on the designation per Member State (end March 2016)

DG Regional and Urban Policy will continue to closely monitor the designation situation in 2016. Upon notification, the Commission is required by the Regulation to assess designation packages only by exception, for programmes which exceed EUR 250 million in Fund contribution. The Commission, on the basis of its risk assessment, can request the designation package on which it may make observations. The Member State on a voluntary basis may also submit the designation package to the Commission for observation when certain conditions are met.

Based on the results of the joint risk assessment shared between REGIO/EMPL and MARE, the designation package for 51 programmes for which REGIO is 'chef de file' have been identified for review. The main criteria for such selection were either programmes which were already at risk in the previous programming period or programmes in Member States where the management and control system has changed radically compared to the previous period23. For these 51 cases, the audit directorate conducts desk reviews with the possibility to conduct on-the-spot fact-finding missions to collect additional information or clarifications before drawing conclusion24. In case an interim payment claim has already been submitted, it may be decided to carry out an 'early preventive system audit' (EPSA) which will focus on the effective functioning of the management and control system at this early stage of implementation. Such audits are planned to be implemented jointly by EMPL/REGIO audit teams for multi-fund OPs25.

In 2015, one designation fact-finding mission took place in Greece, covering all ESIF programmes. Further 36 audits are scheduled in the first half of 2016, depending on progress made on designation by Member States.

A2. A system under constant monitoring

The single audit strategy for the funds managed by REGIO, EMPL and MARE for the 2014-2020 programming period foresees a constant supervision of audit authorities by the Commission audit services, completed by capacity building actions and thematic/targeted audits to ensure that no serious deficiencies remain uncovered or uncorrected by the Member States in the programme annual accounts. The overall objective of the single audit strategy is to obtain reasonable assurance that the management and control systems established and

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23 The cumulative audit knowledge as explained in chapter 2.3.1.2 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.

24 Until end March 2016, out of the 51 operational programmes selected by DG Regional and Urban Policy, 13 designation packages have been received out covering 5 Member States (LV,HU, EL, PL and SK). The analysis has been performed at the end of March 2016 for 8 out of these 13 designation packages received so far.

25 Or by auditors from only one DG covering all ERDF/CF and ESF programmes, the other DG relying on the work done for 10 Member States under the REGIO/EMPL action plan for sharing and pooling audit resources and activities, as mentioned in chapter 1.3.
implemented by Member States (and beneficiary countries in the case of the IPA-CBC programme):

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

The 2014-2020 Single Audit Strategy will be able to build 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. In particular, the assurance process will continue to take into account the single audit concept, whereby the Commission may rely principally on previous controls performed by the audit authorities (as 95% of these authorities remains unchanged since 2007-2013), thereby benefitting from the extensive audit work already carried out by the Directorates General under the 2007-2013 programming period to ensure reliance on the work of audit authorities in the Member States.

This strategic document sets out how the Commission’s assurance will be built up each year for the entire programming period, combining:

- desk review: assessment of the designation process after programme adoption; examination of the ‘assurance package’ to be provided by 15 February each year by the Member State in relation to the programme annual accounts (including the annual control report and audit opinion); and assessment of system audit reports and information obtained from Member States and beneficiary countries and from other EU sources.

- on-the-spot audit work:
  - review of audit authorities' work, including 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 annual control reports;
  - thematic / targeted audits on specific areas and based on the result of the annual risk assessments, covering for example the reliability of systems for reporting performance data, financial instruments, proportionate and effective anti-fraud measures or the verification by managing and audit authorities of complex areas such as public procurement procedures or State aid.
  - Preventive and capacity building actions for the operational programmes audit authorities, by providing early advice and feedback to authorities on the functioning of management and control systems, including anti-fraud. Additional information on these aspects are provided below in Annex 8 (part B2).

The Single Audit Strategy presents a vision on how to obtain assurance for the whole programming period and is implemented through 18-month rolling audit plans for periods running from January of year n to June of year n+1 each time. As for 2015, the first year of implementation, the audit plan focused mainly on the review of designation packages and related on-the-spot fact finding missions or early preventive audits (see section B below).

A3. Preventive and corrective capacities (application of financial corrections)

As little expenditure has been declared and no system audits or audits of operations took place in 2015, there are no financial corrections for the 2014-2020 programming period to be reported.
A4. Conclusion
DG Regional and Urban Policy has adopted a robust single audit strategy with other ESI Funds Directorates General for the 2014-2020 programming period with a first 18 month audit plan attached, built on the assumption of a swift designation in Member States of operational programmes authorities. The delay of the designation process in Member States had thus an impact on the implementation of the foreseen audit plan for 2015 and audit resources have been refocused on 2007-2013 audits. It is expected to make progress in 2016 in the implementation of the 2014-2020 single audit strategy and audit plan, as Member States will complete their designation.

B. Annual assurance – results for 2015
As described under section A1 above, DG Regional and Urban Policy will report in its Annual Activity Report on four types of payments that refer to three different accounting years and executed during the reporting year:

- the **annual pre-financing** that is available to the Member State as from 2016 until the end of the programming period and the **initial pre-financing** paid at the beginning of the period;

- **interim payments paid during the first semester** of the AAR reporting year and covering expenses of one accounting year after making a retention of 10%;

- **interim payments paid during the second semester** of the AAR reporting year and covering expenses of another accounting year after making a retention of 10%;

- **payment or recovery** of the annual balance made on the basis of the acceptance of the accounts of a third accounting year approved at the latest on 31 May of the AAR reporting year.

In 2015, the initial prefinancing foreseen by the regulation at the beginning of the programming period was also made for each operational programme.

Therefore, in 2015, as mentioned in the table below:

- the majority of the payments made were the initial pre-financements to programmes.
- During the first accounting year (from 1 January 2014 to 30 June 2015), no interim payments were made.
- Some interim payments were made at the end of the year falling under the 2nd accounting year (July 2015-June 2016). This applies to two programmes.
- No annual balance was expected for 2015.

Payments made in 2015 for the 2014-2020 programmes

<table>
<thead>
<tr>
<th>ERDF/CF (EUR million)</th>
<th>2015 - 1st semester</th>
<th>2015 - 2nd semester</th>
<th>2015 total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial pre-financing</td>
<td>16.26</td>
<td>4,913.30</td>
<td>4,929.56</td>
</tr>
<tr>
<td>Annual pre-financing</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interim payments(^{16})</td>
<td>0</td>
<td>468.20</td>
<td>468.62</td>
</tr>
<tr>
<td>Payments/recoveries of the annual balance</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,398.18</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{16}\) Interim payments made in the 2nd semester covers 2 OPs: one in Spain (SME initiative) and another in Estonia.
**B.1 Assurance on accounts**

During the first accounting year (from 1 January 2014 to 30 June 2015), no expenditure was declared to the Commission by the certifying authorities. Therefore: (1) no annual accounts were required by 15 February 2016 for any 2014-2020 operational programme; (2) audit authorities expressed a disclaimer of opinion for the first accounting year; and (3) there are no annual balances to be paid/recovered in 2016.

2017 will be the first year for which DG Regional and Urban Policy will be able to report on the annual balance, on the basis of accounts with underlying expenditure certified to the Commission on 15 February 2017. In February 2017, audit authorities will be in a position to give an audit opinion regarding the completeness, accuracy and veracity of the accounts for the second accounting year, followed by the Commission's examination in order to determine whether the accounts with expenditure certified can be accepted by 31 May 2017.

**B.2 Assurance on Legality and Regularity and on the effective functioning of management and control systems**

In addition to the opinion on the annual accounts, Annual Control Reports provide the basis for the audit opinions on the management and control system in place and on the legality and regularity of underlying transactions.

The Commission's assurance varies in accordance with the different types of payments made during the reporting year.

- **Pre-financing payments made**

The vast majority of payments made in 2015 concerned initial pre-financing for the programmes adopted in 2014 and in 2015. The CPR foresees an initial pre-financing of 1% of the main allocation annually in 2014, 2015 and 2016 (and 1.5% for countries under financial assistance mechanisms). Programmes adopted in 2014 received 1% (or 1.5%) in 2015. For programmes adopted in 2015 (after the reprogramming exercise), a double pre-financing (2 to 3%) related to 2014 and 2015 was paid.

Initial 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.

- **Interim payments made in the first semester 2015**

For interim payments made in the first semester on year N, DG Regional and Urban Policy will have to analyse the assurance package received on 15/02/N+1, namely annual control reports and audit opinions, management declarations and annual summaries for the purpose of the assurance. All these documents will provide information on final audit reports and of management verifications carried out, an analysis of the nature of errors and weaknesses identified in the management and control system and corrective action/s (including financial corrections) taken or planned, thus establishing the level of assurance on legality and regularity and on the effective functioning of management and control systems.

In 2015, since no expenditure was declared by Member States as of 31 July 2015 in relation to the first accounting year, audit authorities were not in a position to carry out audits of operations. Therefore, error rates and audit opinions were not reported in February 2016 in relation to the first accounting year. Instead, audit authorities have submitted pro forma annual control reports and disclaimers of opinion, as foreseen in the Commission guidance.

The information provided in the management declarations and the annual summaries submitted was very limited as well due to the absence of accounts.

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27 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.
• *Interim payments made in the second semester 2015*

During the 2\(^{nd}\) semester of 2015, interim payments were made for 2 programmes. In total EUR 468.2 million were paid for the Spanish programme (2014ES16RFSM001 - SME Initiative) and for an Estonian programme (2014EE16M3OP001).

The retention of 10\% for 2014-2020 interim payments explained above, associated to the fact that a reliable and experienced audit authority validated the designation process for the Estonian programmes and the fact that the Spanish SME Initiative programme covers an EU-level financial instrument managed by the EIB, provide reasonable assurance on these payments at this stage of implementation, until the assurance packages are received on 15/02/2017.

**B3. Conclusion**

DG Regional and Urban Policy has reasonable assurance on EU payments made for the 2014-2020 programming period in 2015 since they bear practically no risk (pre-financing) or, for the limited interim payments made, mechanisms were in place for the legality and regularity of expenditure through the designation process. In addition, the retention of 10\% from each of the two interim payments made by the Commission is sufficient protection of the EU budget during the year prior to receiving the assurance package from the Member State expected in February 2017.

**C. Overall assessment of the management and control systems**

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 the accounts. Moreover, timely identification of deficiencies and reporting reliable error rates is in the Member States' best interest since the European Commission now has the regulatory provision of making net financial corrections mandatory in case Member States did not address errors appropriately before submitting annual accounts.

Designation of authorities is currently being notified to the Commission, while few notifications were made in 2015. No expenditure was declared during the first accounting year (covering 2014 and the first semester 2015) and therefore audit authorities issued disclaimer of opinions in February 2016. For the expenditure declared in the second semester of 2015 (and the one expected to be declared in the first semester of 2016), the assurance package will be provided by the respective Member States' authorities in February 2017. At this stage of implementation, designation and the retention of 10\% from each interim payment made by the Commission ensures the protection of EU budget during the year, before receiving the assurance packages from the Member States.

**2.3.1.2 ERDF/ CF 2007-2013: supervising the end of implementation of the programming period**

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 cumulative residual risk of each programme does not exceed 2\% on a cumulative basis.

**Materiality criteria (control objective) and reservation**

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 multiannual implementation of each programme. During implementation, reservations are made annually for programmes for which the management and control system is not considered sufficiently effective in preventing material irregularities. In addition, reservations are also made as a general rule for programmes presenting a system assessed by the Directorate-General as functioning well (or programmes with only some improvements needed), but for which the cumulative residual risk (CRR) exceeds 2\%, at the end of the reporting year (thus
demonstrating an insufficient corrective capacity over the period).

The CRR is estimated by considering the multi-annual impact of the validated error rates calculated since the beginning of the programming period, after two types of deductions:
- after due analysis and when considered appropriate, deduction of withdrawals and recoveries reported by Certifying Authorities for each year;28;
- deduction - under certain conditions - of amounts of irregular expenditure that Certifying Authorities have accepted to withdraw and have recorded in their accounts prior to the date of signature of the annual activity report, for deduction from the next payment claim to be submitted.

The CRR is expressed as a percentage of the value of the cumulative interim payments made for the programming period, taking into account financial corrections assessed up to the cut-off date.29

Key control indicators and results reported

Different sources of information are used to build up the Director-General’s annual declaration of assurance. The assurance covers that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle 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.

The assurance is built on a comprehensive assessment by all parties involved in the management and control of every programme.

Brief recapitulation of the control architecture for Funds under shared management

Control system for the Fund under shared management

For Shared Management and in particular for Cohesion Policy, the control system is built on a multiannual and multilevel control system. In this system, one level of control may rely on the work of previous controls performed by other bodies after having performed its own verifications that preceding controls are effective (single audit concept).

The assurance as regards the legality and regularity of operations is built on work carried out at two levels:

1. **At Member States level**, the daily control framework is the following:

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28 Withdrawals and recoveries formally reported by Certifying authorities in the IT system SFC 2007 by 31 March each year (article 20(2) of Regulation (EC) No 1828/2006 as amended) reflect corrections implemented at national level in the preceding year through the deduction of the corresponding amounts from statements of expenditure previously certified to the Commission. They reflect the overall corrective capacity of the management and control system for each programme, aggregated at priority axis level, independently from the source of the correction.

29 A cut-off date of 21/03/2016 to take account of reports on financial corrections received from Member States has been chosen for prudence reason in order to have time to check the figures before the signature of the annual activity report.
- The **Managing Authority** performs management verifications before declaring expenditure to the next level, ex ante documentary checks on all payment claims and ex ante or ex post on the spot checks on sampled operations;

- The **Certifying Authority** relies on this first level of verification before certifying the legality and regularity of expenditure declared to the Commission. It takes steps to satisfy itself that adequate controls have been made by the Managing Authority, including carrying out its own checks when necessary;

- The **Audit Authority** has the responsibility to design an audit strategy in order to perform audits of the management and control systems and ex post audits of representative samples of operations, as well as complementary audits on high risk operations where necessary. It provides the Commission with its results on an annual basis in an Annual Control Report. This report includes an annual audit opinion on the functioning of the management and control system and in particular of the quality and effectiveness of the first level of verification by managing authorities, and the error rate resulting from its audit of sampled operations.

2. At Commission level, the way in which DG Regional and Urban Policy defines its assurance for the management and control systems for each operational program is a process based on the internal control and audit procedures implemented within the Directorate-General\(^\text{30}\) (role of the operational units, the audit units and the financial unit) and the analysis and evaluation of information acquired through various sources:

   a) From the various audit sources (based on the application of the single audit approach with programme audit authorities and mutualisation of audit results with other EU audit sources in line with DG Regional and Urban audit strategy and risk-assessment in place:

   - National system audit reports;
   - The national Annual Control Reports and Audit Opinions;
   - DG Regional and Urban Policy’s audit work on the review of the work of the Audit Authorities;
   - DG Regional and Urban Policy’s on-the-spot system audits and audits of operations;
   - Relevant audit information received from DG EMPL, DG MARE and/or the European Court of Auditors;
   - OLAF.

   b) From any other source of information, formal or informal, acquired by the geographical units in the context of their day-to-day management of the programmes, for example:

   - Annual implementation reports from the Member States;

\(^{30}\) In this process, the operational units, the audit units and the financial unit are involved.
- Monitoring committees and annual meetings;
- Contacts with regional and national programme managers.

Through the **single audit approach**, notably with the Annual Control Reports and Audit Opinions from the national or regional Audit Authorities for each operational programme, complemented by DG Regional and Urban policy’s risk-based audits, all programmes are covered by audit activities each year. The entire audit work together with the analysis of national audit reports and other guidance activities result in an Annual Audit Opinion of the Directorate General for each operational programme. This forms the basis for management opinions by the Authorising Officers by Sub-Delegation.

Schematically, the following diagram outlines the assurance building process:

![Annual Activity Report Diagram](image)

The following points form the building blocks of DG Regional and Urban Policy’s assurance.

**A. 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>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of reported error rates assessed as reliable (unchanged or recalculated)</td>
<td>306 (95%)</td>
</tr>
<tr>
<td>% of the 2015 payments for which the Directorate-General can rely on the work of the audit authorities (based on ACRs reliable error rates)</td>
<td>96% of 2015 payments</td>
</tr>
<tr>
<td>Weighted average error rate on 2015 payments as reported by Member States (based on 2014 error rates) – Estimate</td>
<td>2.0%(^{31})</td>
</tr>
<tr>
<td>Weighted average error rate on 2015 payments after the Directorate-General's analysis and validation (based on 2014 error rates) - Estimate</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

\(^{31}\) A revised ACR for the OP 2007IT161PO001 was submitted on 15/04/2016 with a revised error rate of 25.11%, which is under assessment by DG Regional Urban and Policy. For the purposes of the AAR analysis and in the absence of a reliable error rate reported to the date of finalising the report, this programme is counted towards unreliable error rates. If this revised error rate is computed in the calculation, the estimate of weighted average error rate as reported by Member States on 2015 payments would be 2.2%.
Analysis of the ACR audit opinions: reliance on 97% of audit opinions

A major source of information under the 2007-2013 programming period is the annual control reports (ACRs) and audit opinions submitted by the programmes’ audit authorities and covering, in principle, all programmes each year.

For the year 2015, all ACRs have been received except one, for which DG REGIO has issued a reservation. The 214 ACRs received cover 321 ERDF/CF programmes.

The large majority of ACRs and Audit Opinions received are of acceptable quality and have been prepared in line with the guidance issued by the Commission. According to the regulation and auditing standards, audit authorities can express three types of opinion: unqualified, qualified or adverse. The Member States’ audit authorities expressed the following audit opinions in their 2015 ACRs (see also the detailed table in annex 8):

- unqualified opinion for 196 programmes (61% of programmes or 42% of the amount of 2015 interim payments made),
- qualified opinion for 120 programmes (37% of programmes or 58% of the amount of 2015 interim payments made)
- adverse opinion for 4 programmes (1% of programmes or 0.2% of the amount of 2015 interim payments)

Other for two programmes (1% of programmes): disclaimer for one programme (ES Melilla) and no opinion reported for the second one (DE Bremen).

Following its analysis of the ACRs, DG Regional and Urban Policy considers that it can confirm the audit opinions issued by the audit authorities for 311 programmes (97%). In 10 cases (3% of the programmes) the Directorate-General expressed a more negative opinion than the one issued by the audit authority: for 5 programmes (1 BG, 1 DE and 3 ES) the Directorate-General’s audit opinion was qualified with significant impact, while an unqualified opinion was reported by the audit authority. In another 4 cases (2 IT, 1 UK and 1 ETC), the Directorate-General expressed an adverse opinion instead of qualified opinions reported by the audit authorities and in one case (ES) instead of a disclaimer. Finally, in one case (DE) an adverse opinion was issued because the ACR was not sent.

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22 Annex 8: table showing the Member States’ national audit opinions (in the ACRs) per Member State.
23 DE Bremen
24 This includes the OPs for which the audit authority expressed an unqualified audit opinion and the Directorate-General expressed a qualified opinion with moderate impact, a classification that means that improvements needed are of a minor importance and thus do not jeopardise the overall assurance. This category is not available to audit authorities under the 2007-2013 regulation.
25 DG Regional and Urban Policy will closely follow up these cases during 2016 and in view of closure.
**Analysis of the error rates reported by audit authorities in the ACRs: a large share of error rates reported is reliable**

The Member States’ audit authorities have reported 318 error rates\(^{36}\) covering all but 4 programmes\(^{37}\) based on representative samples, including statistical ones for 69% of cases (programmes covering 94% of the 2015 interim payments).\(^{38}\) The audit authorities have reported significant audit coverage, **around 29% of 2014 expenditure on average** (32% for 2013 expenditure) through the audit of **around 7.300** \(^ {39}\) operations or part of operations across all programmes. Cumulatively since the start of the programming period and until December 2015, audit authorities audited on average 34.8% of all declared expenditure. Although the coverage rate varies between programmes\(^{40}\), this demonstrates that single auditing under shared management allows for a large coverage of beneficiaries and expenditure each year. Representativeness of national audits increased through the growing use of statistical sampling methods by audit authorities, following the Commission updated guidance and training efforts with all audit authorities as from end 2012/early 2013, and continued in 2015. Compared to the previous programming period, the quantity and quality of the Member States' audit work has therefore increased significantly.

Reported error rates are below materiality for 202 programmes (63%); between 2% and 5% for 88 programmes (27%); between 5% and 10% for 21 programmes (7%) and above 10% for 7 programmes (2%).

Error rates reported by audit authorities in the ACRs\(^ {41}\) and validated by DG Regional and Urban Policy as a result of its assessment and adjustments are disclosed in the chart below:

The Directorate-General bases in first instance its analysis of the reliability of reported error rates on the results of its own audit work to assess of the reliability of the work of the main audit authorities, in the framework of the audit enquiry “review of the work of audit authorities”. This also includes re-performance of the audit work of the audit authorities' on-the-spot at beneficiary level for programmes considered at risk, pre-ACR missions to validate the audit results in some cases, as well as fact-finding on-the-spot audits in January-

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\(^{36}\) For the 3 programmes (1 DE MVP and 2 SK) where no error rate was provided as no expenditure was certified in 2014 (sampling basis for the 2015 ACR), DG Regional and Urban Policy uses a flat rate of 2% as a best estimate of the risk for 2015 of these three programmes. For DE (Bremen) the flat rate is of 25%, since no ACR was provided by the Member State.

\(^{37}\) Member States report error rates per programme or groups of programmes. For 23 programmes with a Cohesion Fund component, a common sample and error rate covering both Funds is reported. When programmes are grouped, for the sake of presentation, the same error rate being reported for the group of programmes is considered in statistics for each programme within the group.

\(^{38}\) In the rest of the cases (covering 6% of 2015 interim payments), non-statistical samples were used although the Commission continues to encourage Member States to use statistical sampling whenever possible. For 14 OPs (5 CB, 6 ES, 2 DE and 1 DK), the audit authorities decided to use non-statistical sampling for populations above 150 units despite the Commission guidance recommending the use of statistical methods when the population exceeds 150 items. DG Regional and Urban Policy has analysed the impact of these cases and notes that, given the large audit coverage the reported error rates are not materially affected by the use of non-statistical sampling. Nevertheless DG Regional and Urban Policy has reminded the concerned audit authorities to follow the recommendation to use statistical sampling above 150 units, in particular, in view of the first sampling exercise of the programming period 2014-2020.

\(^{39}\) Sampling units.

\(^{40}\) The sub-sampling is used in at least in 35% of the samples. The cases have been identified and analysed for a correct projection of the errors found, but some over estimates in the percentage of effective coverage remain possible for some programmes.

\(^{41}\) In annex 7B, information is disclosed per operational programme.
February 2016, following the reception of the ACRs. The objective is to verify the reported error rates for programmes considered most at risk or where inconsistencies have been detected during the desk review of the ACRs. This audit activity allows the Directorate-General to verify the adequacy of audit results and of the treatment of detected errors, the compliant calculation of the reported error rates and to request audit authorities to re-calculate their error rates when needed.

The Directorate-General thoroughly assessed the reliability and correctness of the total projected error rates reported by audit authorities. This assessment encompassed the following steps:

(a) A critical review of detailed information on sampling data and results provided in the ACR or of additional detailed information subsequently requested from audit authorities. This critical review included the Directorate General’s audit results for 13 audits carried out in 2015 at the level of audit authorities and beneficiaries, in addition to cumulative audit results since 2009;

(b) Several contacts with the audit authorities have taken place including specific meetings organised in Brussels beginning of 2016 in which additional clarifications were obtained; and

(c) 14 on-the-spot fact-finding missions in 2016 covering in total 12 Member States and 126 programmes out of 322.

Taking into account all of the above, the Directorate-General has assessed 95% of the reported error rates as a reliable source of information for the purpose of calculating the risk to 2015 payments: it validated the error rates as reported in the ACRs in 59% of cases or was able to recalculate or adjust the error rate based on all information made available by the audit authorities and validated by the Directorate-General’s auditors for 36% of cases. Such error rates recalculations by the Commission can also be for purely technical reasons, in a complex environment of statistical rules, while audit authorities have carried out correctly their audits on the spot.

In 5% of the cases the Directorate-General considered the reported error rates to be unreliable and/or decided to estimate the risk at flat-rate instead.

These ratios are similar overall to those reported in the AAR 2014. This confirms the increased expertise of audit authorities in dealing with statistical sampling thanks to the continuous support and guidance in this area provided by DG Regional and Urban Policy.

Graph: DG Regional and Urban Policy's assessment of reported error rates in 2011-2015

![Graph: DG Regional and Urban Policy's assessment of reported error rates in 2011-2015](image)

42 BG, CZ, DE, DK, EL, ES, FR, HU, IT, RO, SK and UK.

43 For the sake of presentation, statistics for 2011-2013 error rates have been aligned to the new methodology in use since 2014. This means that for the 23 programmes with a Cohesion Fund component, a common sample and error rate covering both funds is reported. For comparison, please refer to page 44 of the 2014 AAR.
In relation to 2015 interim payments, the best estimate of error rates and risks associated, following the Directorate-General’s assessment and validation, is the following:

<table>
<thead>
<tr>
<th>RESULTS</th>
<th>Best estimate error rates following assessment by DG REGIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of error rates for 322 programmes (ERDF/CF)</td>
<td>2015 interim payments</td>
</tr>
<tr>
<td>Range</td>
<td>Nr.</td>
</tr>
<tr>
<td>&lt;2%</td>
<td>181</td>
</tr>
<tr>
<td>2-5%</td>
<td>106</td>
</tr>
<tr>
<td>5-10%</td>
<td>24</td>
</tr>
<tr>
<td>&gt;10%</td>
<td>11</td>
</tr>
<tr>
<td>TOTAL</td>
<td>322</td>
</tr>
</tbody>
</table>

In 2015 audit authorities reported an average error rate\(^44\) of 2.0%\(^45\), higher than in previous years (1.8% in 2014). The impact of the Directorate-General’s analysis applied to 2015 expenditure was 1 percentage point (when sufficient and reliable information was available and including the substitution of unreliable error rates by flat rates). It means that the average error rate of 2.0% reported by audit authorities in the ACRs has been increased to 3.0% of 2015 expenditure through DG Regional and Urban Policy’s assessment and validation process.

It has to be underlined that the weighted average error rate does not reflect, by nature, two specific cases:

- programmes where there were payments interrupted in 2015 due to the preventive measures taken by the Directorate general (on-going interruption/pre-suspension procedures, as this was in particular the case for 70 programmes for which an amount of EUR 3.8 billion was still interrupted at end 2014);
- programmes where expenditure was corrected at Member State level before certification according to remedial action plans requested by the Commission (see in particular section below "Preventive impact of financial corrections on expenditure not yet declared to the Commission").

A comparison of 2015 key figures to those from previous years shows an overall stability of figures (variations below one percentage point). Nevertheless two trends can be identified:

- a slight increase since 2012 of the estimated average annual risk rates, reflecting progressive improvements in measurement of the risk of error over the years and increased pressure on legality and regularity towards closure;
- a slight but stable decrease since 2012 of the Cumulative Residual Risk (CRR), showing the impact of the financial corrections over the years thus demonstrating that the multi-annual control framework is successfully protecting the EU budget over time.

\(^{44}\) Estimated on the basis of the 2015 payments.
\(^{45}\) Or 2.2%, in case the revised error rate in the revised ACR sent in April 2016 for one Italian programme is finally confirmed by the assessment of DG REGIO auditors.
Finally, when applying the validated error rates on the 2014 expenditure, the average risk rate for 2014 payments is recalculated to 2.9%. This confirms that the Directorate-General has prudently and correctly estimated the risk range in the 2014 AAR (between 2.6% and 5.3% (maximum)).

In its annual report for 2014, the Court concluded that "the calculation of the amounts at risk in the 2014 Annual Activity Report [of the DG] was consistent and accurate with the available information reported and/or provided by the audit authorities" (para. 6.70 of 2014 Annual Report of the ECA refers). However, in this context it is also important to highlight that the Directorate-General's methodological approach to the best estimate of the annual error rate and the error rate calculated by the Court in its Annual Report are not directly comparable, as indicated by the Court itself in the same paragraph 6.7046.

Finally, in addition to individual assessment letters, the Audit Directorate provided throughout 2015 horizontal feedback to audit authorities on its assessment of ACRs and areas for improvement. In particular, this led to:

- Publication in October 2015 of an update of the 2011 guidance on the treatment of errors in view of the calculation of projected error rates;
- Presentation to audit authorities in June 2015 of a draft updated guidance on sampling;
- Clarifications to audit authorities on the methodology to calculate the residual risk rate at closure47.

This will contribute to the better accuracy of the reported error rates by audit authorities at closure.

**National system audit reports, annual summaries and national declarations: additional assurance elements**

**National system audit reports**

Throughout the year, audit authorities are requested to provide their final systems audit reports to DG Regional and Urban Policy, once the contradictory process is completed. In

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46 The Court’s estimate is higher and is an overall statistical estimate at a certain moment in time of the implementation of programmes ('snapshot') covering the EU as a whole, independently of the quality of the different underlying management and control systems. The Court does not fully take into account the multiannual functioning of the management and control systems and the flat rate financial corrections imposed by the Commission to programmes. See also the Court's Special Report 16/2013 "Tacking stock of 'single audit' and the Commission reliance on the work of national audit authorities in Cohesion", paragraph 11.

47 Homologues Group Meeting in Riga in September 2015
2015, the Directorate-General has received 446 system audit reports from the Member States in line with the implementation of the national audit strategies. Following the Directorate-General assessment, feedback has been provided to Member States for all reports in writing. 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 for the Director-General to launch pre-suspension or warning procedures. In such cases payments are interrupted for the programme concerned during the year in order to prevent reimbursement of irregular expenditure. This has been the case for some 19% of all ERDF/Cohesion Fund programmes interrupted or suspended in 2015.

For the purpose of the annual activity report and its audit opinion per programme, the Audit Directorate took account of the result of its analysis of national system audit reports and cross-checked individual audit results and conclusions with audit opinions provided in the annual control reports received by year end.

Annual summaries
The submission of annual summaries of payments and audit results by 15 February each year is an obligation for Member States under the previous Financial Regulation. This requirement runs until the end of the implementation of the current programming period. The Commission strongly recommended Member States to add value to the annual summaries by providing additional information than formally required (e.g. analysis of the functioning of systems across all programmes at Member State level, diagnosis of problems and their solutions and description of best practices). Member States are reluctant to provide such information in the annual summaries since it is a duplication with what is provided in the annual control reports for each individual programme.

For 2015, all Member States have complied with the minimum requirements of the Financial Regulation regarding the information to be provided. Some Member States have followed the Commission’s recommendations by providing a voluntary overall analysis at Member State level (18) and/or a voluntary declaration on the overall level of assurance (13) in their annual summaries. When relevant, the Directorate-General has analysed this information to corroborate its own assessment of the national management and control systems or the information provided to the Commission in the ACR.

All annual summaries have been accepted or accepted with follow-up, by requesting some additional information from the Member States. Information per Member State is disclosed in Annex 8.

National declarations
Three Member States - the Netherlands, Denmark and Sweden – have regularly submitted national declarations on a voluntary basis to the Commission over the last years. The Commission supports those Member States who provide the Commission with a national declaration of assurance and encourages them to disclose elements of the underlying process in order for the Commission to be able to optimize the assurance it may draw from their declarations. Public declarations issued at senior national level make the control process in the Member States more transparent and help identify changes which are needed to make the system more effective, where necessary.

49 At the date of the AAR signature, the Annual Summary for UK is under the process of acceptance.
50 No national declaration from the UK has been issued since 2012 (see details on latest UK national declaration in AAR 2013). The UK authorities (HM Treasury) however published in December 2015 on a voluntary basis a “Report on the use of EU Funds in the UK” as annex D to the “European Union Finances 2015: statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement” report. This is not a national declaration contributing to increasing assurance.
51 The Commission guidance on national declarations was made available to Member States in March 2011. It encourages Member States to develop such national declarations that would fulfil the conditions for adding value to the Commission assurance building process. It also
A national declaration from the Netherlands was issued in March 2016. The Directorate-General notes that the reference period for the national declaration is 1 January 2014 to 31 December 2014 for the functioning of systems and therefore provides some additional assurance for the 2014 expenditure. The declaration thus confirms the assessment made by the Directorate-General in its 2014 AAR.

Sweden submitted the 2014 national declaration on 9 April 2015. The information in the national declaration is consistent with the information in the annual summary received on 26 February 2015. The national declaration for 2015 is due to be submitted by 30 June 2016. A national declaration for 2014, published in September 2015, has been produced by the Danish Supreme Audit Authority ("http://www.rigsrevisionen.dk). An unqualified opinion was issued in relation to the general financial statement of EU revenue and expenditure for 2014. According to the view of the Danish Supreme Audit Authority the management of the ERDF in general is handled satisfactory. The national declaration provides additional assurance on top of the audit work carried out by the national audit authority and the Commission auditors for the 2014 expenditure. For the 2015 expenditure no national declaration was received yet.

B. Audit Activity of the Directorate-General: strong supervision and bridging assurance gaps in high risks areas

<table>
<thead>
<tr>
<th>Indicator (programming period 2007-2013)</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviewed audit authorities by DG REGIO</td>
<td>51(^{52}) in charge of 98.5% of ERDF/CF allocations(^{53})</td>
</tr>
<tr>
<td>Reliance on reviewed audit authorities by DG REGIO</td>
<td>100% of reviewed audit authorities (after action plans, where necessary)</td>
</tr>
</tbody>
</table>

B1. Increasing assurance derived from MS controls through adequate supervision

Audit missions overall

The Commission's on-the-spot audit activity in the Member States provides a direct source of assurance to the Directorate-General, including for the assessment of audit results communicated by audit authorities.

The Directorate-General therefore focused its limited resources for on-the-spot audits to key identified risks, programmes and bodies. DG Regional and Urban Policy's audit strategy in place for 2014-2016\(^{54}\) covers the main risks identified for the policies and instruments managed by the Directorate-General and foresees rolling audit plans over 18 months (the current one running up to end June 2016). Audit plans are reviewed each year based on updated risk assessments that take account of all available audit results and new information obtained through the assessment of all audit results from the previous year. The audit strategy is currently being updated as a result of risks identified following the assessment of 2015 ACRs.

For ERDF and Cohesion Fund 2007-2013, the Directorate-General's audit work focused in 2015 on five audit enquiries, as well as specific missions to validate selected ACR error

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\(^{52}\) Out of 75 ERDF/CF audit authorities, responsible for audit of mainstream (1 AT,3 BE,1 BG,1 CY, 1 CZ, 17 DE, 1 DK, 1 EE, 1 ES, 2 FI, 1 FR, 1 GR, 1 HR, 1 HU, 1 IE, 25 IT, 1 LT, 1 LU, 1 MT, 1 NL, 1 PL, 1 PT, 1 RO, 1 SE, 1 SI, 1 SK and 5 UK) and ETC programmes, and 7 audit authorities responsible for ETC programmes only (the latter represent 0.36\% of total ERDF allocation);

\(^{53}\) ERDF/CF allocation for the programmes under audit responsibility of the 75 ERDF/CF audit authorities, responsible for audit of mainstream and ETC programmes;

rates, as indicated in the table below. On-the-spot audits are carried out at the level of programme authorities and/or intermediate bodies, and usually include verifications of audit evidence down to the source, on the spot, at the level of beneficiaries/projects. The scope and extent of on-the-spot audit work, particularly at the level of individual beneficiaries and projects, varies between enquiries and audits, depending on the specific objectives of audit missions and identified risks.

The on-the-spot audits carried out in 2015 according to the specific enquiries under the audit strategy and the resulting audit opinions are as follows:

Table: on-the-spot audits carried out in 2015

<table>
<thead>
<tr>
<th>Enquiry</th>
<th>Input</th>
<th>Audits carried out in 2015</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of the reliability of the audit authorities (single auditing)</td>
<td>Review of audit authorities (in addition to pre-ACR and fact-finding missions on the ACR analysis)</td>
<td>11</td>
<td>Assessment of the audit authorities reviewed in 2015</td>
</tr>
<tr>
<td>43% of audit missions</td>
<td>Missions to validate the 2014 ACR error rates (fact-finding and pre-ACR missions)</td>
<td>25</td>
<td>Works, but some improvements are needed</td>
</tr>
<tr>
<td></td>
<td>Audits to monitor the work of audit authorities when the article 73 has been granted to programmes</td>
<td>2</td>
<td>N/A</td>
</tr>
<tr>
<td>Targeted high risk audits</td>
<td>Bridging the assurance gap - targeted audit of high risk programmes / authorities / areas</td>
<td>35</td>
<td>Unqualified</td>
</tr>
<tr>
<td>40% of audits</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Works, but some improvements are needed</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Works partially. Substantial improvements are needed</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Report not issued yet</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Thematic audits</td>
<td>Thematic audits on financial instruments</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>17% of audits</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Works, but some improvements are needed</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Thematic audits on recoveries</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unqualified</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Qualified with minor observations</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Qualified with significant observations</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Report not issued yet</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total number of audits</td>
<td></td>
<td>88</td>
<td></td>
</tr>
</tbody>
</table>

55 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.

56 In January-March 2016, 14 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 November-December 2015, pre-ACR missions have been carried out in 5 Member States to verify the sampling methodology, the procedures to draft the ACR and the reliability of the error rates before submission of the ACR to the Commission.

57 Audit opinions are not provided but audit reports provide a conclusion as to the effective functioning of the audited system / part of the system.

58 6 out of the 9 category 3 assessments are partial and limited to certain parts of the programmes (priority axis, measures, contracts...).

59 Audit opinions are not provided but audit reports provide a conclusion as to the effective functioning of the audited system / part of the system.

60 The results are preliminary, not yet fully validated and subject to the contradictory procedure with the Member States concerned.
The main results and conclusions from the 2015 audits and cumulatively since the start of the enquiries are set out below. The next paragraphs also summarize the resulting follow-up and corrective actions requested from the programmes concerned to safeguard the Commission’s interests and which are directly relevant for the Directorate-General’s annual assurance process. Further information on the two main audit enquiries, the review of audit authorities and targeted audits to high risk programmes, as well as capacity building actions are provided in Annex 8.

**Review of Audit Authorities: reliance can be placed on the work of all reviewed AAs**

The results of the audit enquiry "review of audit authorities" are used to assess whether DG Regional and Urban Policy can rely principally on the audit authorities' audit opinion and error rates for its annual assurance and implement Article 73 of Regulation (EC) No 1083/200661.

In total there are 75 audit authorities as detailed in footnote 53. The main 51 were audited. In terms of audit work, a total of 316 missions have been carried out on the spot cumulatively since 2009: 198 audit missions (including 11 in 2015) and 20 monitoring missions (2 in 2015), as well as 98 fact-finding missions (20 in 2015, 13 in 2016 and 5 pre-ACR missions-) to validate the ACR error rates. Audits covered cumulatively the main 51 audit authorities responsible for 98.5% in total of the ERDF/CF total allocation62.

The audit work included on-the-spot re-performance of audits at the level of individual beneficiaries in order to test the reliance which can be placed on the audit work carried out by the audit authorities. In 2015, this was the case for all the 11 audit missions carried out on the spot. In total, the Audit Directorate re-performed 138 audits of operations at the level of the final beneficiary in 2015. As a result, and based on the audit reports issued so far, the Directorate-General concluded that it can generally rely on the work of all 51 audit authorities audited under the enquiry.

The extensive audit work under this enquiry, which represents 43% of the on-the-spot audit missions in 2015, has considerably contributed to DG Regional and Urban Policy's overall assurance for the programmes covered by the reviewed audit authorities through many aspects: increased assurance that the annual control reports and reported audit opinions and error rates are reliable; reduction of errors; concrete remedial action plans and significant capacity-building for audit authorities.

This extensive audit work has also contributed to interruptions / pre-suspensions during the year and to the necessary reservations expressed in the annual activity report when deficiencies had not been remedied i.e. in the case of the audit authority of Germany/Bremen and Spain/control body of the Autonomous City of Melilla63. In both cases a full or partial reservation is expressed in the AAR.

**Single audit – Article 73**

In accordance with Article 73 of Regulation (EC) No 1083/2006 and as a direct result of its audits to review the work of audit authorities, the Directorate-General has concluded that it could formally rely on the work of 18 reviewed audit authorities presenting satisfactory audit results and covering 63 programmes. This conclusion also takes into account the effective functioning of the management and control system of these concerned programmes (the second condition under Article 73). New Article 73 letter were notified in 2015 to seven ERDF / CF programmes in Ireland, Germany (Brandenburg), Estonia and Poland.

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61 Through the latter, DG Regional and Urban Policy relies on the audit authority in a formal manner and does not carry its own audits any longer.

62 ERDF/CF allocation for the programmes under audit responsibility of the 75 ERDF/CF audit authorities, responsible for audit of mainstream and ETC programmes (i.e. not including the allocation for the 7 audit authorities responsible for ETC programmes only, which represent 0.64% of the ERDF/CF allocation).

63 The SP AA is taking actions to address the serious deficiencies identified at the level of the regional control body.
Based on current information available, a minimum of 71 of the 75 audit authorities currently in place for the mainstream ERDF/CF programmes of the 2007-2013 period will remain in place for the 2014-2020 period. As a result, the significant audit work and capacity building carried out by the Audit Directorate to verify the reliability of the work of the national audit authorities since 2009 will constitute a sound basis for developing a differentiated approach for 2014-2020. It will also allow the Audit Directorate to focus its scarce audit resources on the audit authorities which remain high risk, while applying a monitoring approach for the audit authorities which have been proven to deliver reliable audit results, in accordance with the Audit Directorate's road map for single auditing.

The cumulative audit knowledge as explained above 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 system description is the same as the audit authority for the period 2007-2013 and when it is considered reliable.

**Audits to monitor the work of audit authorities when Article 73 has been granted to programmes**

The decision under Article 73 that the Commission can rely principally on the audit opinion provided by the audit authority and will not audit the concerned programmes does not prevent it from carrying out on-the-spot audit work in the future for these audit authorities. The Commission remains responsible for ensuring a continuous monitoring and supervision of the work of those audit authorities on which work it is relying (e.g. through review of the annual control reports and annual audit opinion, assessment of national system audit reports, joint/observer audit missions with the audit authorities and bilateral meetings), as detailed in its updated roadmap for Article 73 and in line with auditing standards. After having carried out an important number (11) of such on-the-spot monitoring missions in 2014, only two monitoring missions were carried out during 2015: one in Belgium (Wallonia) and one in Cyprus with positive results.

The Directorate-General envisages continuing the monitoring missions in 2016 in line with its audit strategy and road map, and keeping a balance between the available resources and risks.

In addition, the Commission notified in 2015 to the programme authorities of Sachsen-Anhalt that it will resume its own audits on-the-spot as it considers that the work carried out by the audit authority could not any longer relied upon without additional analysis in the context of the annual assurance due to the serious weaknesses identified in the methodology applied by the AA as well as the serious deficiencies at the level of the MA.

**B2. Complementing the assurance via targeted audit activities**

*Bridging the assurance gap - targeted audits of high risk programmes, authorities or areas*

Through the enquiry to review audit authorities’ work, in some cases the Directorate-General may identify that certain deficiencies could remain undetected or not timely detected, which could jeopardise the assurance process (assurance gap). The scope of this complementary audit enquiry is therefore to cover (part of) operational programmes or particular areas still considered at high risk. Such risk-based audits focused mainly on the reliability of management verifications at the level of the managing authorities/intermediary bodies.

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64 Three Italian AA's will change and the German AA for the Transport OP will not be designated as this programme will not exist in 2014-2020.
65 Roadmap for the implementation and the monitoring of the correct implementation of the "single audit principle", 26/09/2013
66 And to a lesser extent on selection of operations, corrective capacity of the managing authority, certification of expenditure by the certifying authority and high risk operations not yet audited by the national audit authority.
In 2015, 35 audits were carried out under this enquiry (40% of all the on-the-spot audit missions in 2015). A total of 143 audit missions have been carried out since 2010 covering 19 Members States and 88 operational programmes (audited one or more times under this enquiry). These audits included 59 on-the-spot audits on operations at the level of beneficiaries.

In addition, these risk-based audits also contributed to:

- verify the implementation of preventive and corrective measures such as remedial actions plans, interruptions and financial corrections for high risk areas / bodies, and
- validate the improvements in the management and control systems for programmes put under reservation, ensuring that past and future expenditure declared to the Commission is legal and regular.

The same approach will be implemented in the mission plan for 2016-June 2017 to address and follow-up the reservations in the 2015 annual activity report of the Directorate-General in close co-operation with the audit authorities and to address specific risks in the run-up to closure (March 2017).

**Thematic audits (audits on recoveries and on financial instruments)**

Results from thematic audits on recoveries and on the implementation of financial instruments also contribute to the assurance on the legality and regularity of expenditure. Thematic audits constituted 17 % (15 out 88 audits) of the on-the-spot audit work in 2015 \(^{67}\).

As a result of Court and internal audit recommendations, DG Regional and Urban Policy committed to allocate an appropriate number of its audits to the verification of recoveries and withdrawals (financial corrections) reported by Member States, to obtain an increased assurance for the calculation of the cumulative residual risk. In view of the assurance in the 2015 AAR, 8 audits on the reliability of the Member States’ reporting on financial corrections submitted to the Commission by 31 March 2015 were carried out (7 in 2015, 1 in January 2016) on time for the annual activity report. Since 2011, the Directorate-General's on-the-spot audits on recoveries have covered 18 Member States and 23% of the ERDF/Cohesion Fund programmes (75 out of 322), to complete the 100% desk review carried out in 2014 and 2015.

Pending the results of contradictory procedures, the preliminary conclusions show that, for the eight audits above-mentioned covering seven Member States, the reporting on financial corrections is considered reliable for three Member States (Germany/Hessen, UK/North West England and Sweden), while for the remaining four Member States (France/Basse Normandie, Italy (OP Attratori Culturali and Piemonte), Netherlands, Portugal), the auditors have identified deficiencies that require adjustments in the reporting on financial corrections. These adjustments are in the process of being implemented or have led to adjusted statements already submitted to the Commission on time for the calculation of the cumulative residual risk for 2015.

With the increase of allocations to **financial instruments** and the specific risks identified in the management and control of financial instruments, a specific enquiry on the implementation of financial instruments was launched in 2011. Two audit missions in two Member States (Bulgaria and Germany) were carried out in 2015, in addition to the 16 missions that have already been carried out under this enquiry.

As a result of the cumulative audit experience obtained through this enquiry, the Commission has published in February 2016 the updated guidelines laying down common rules on

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\(^{67}\) The 15 audits correspond to: 6 audits on recoveries performed between January to March 2015 (covering the annual statements on withdrawals and recoveries submitted by 31 March 2014), 7 audits on recoveries carried out between June and December 2015 (covering the annual statements on withdrawals and recoveries submitted by 31 March 2015) and 2 audits performed under the enquiry on financial engineering.
determining financial corrections to be applied in the area of financial instruments. This will allow audit authorities to better quantify detected irregularities in this complex area in particular in their preparation for closure of the programming period.

B3. Other audit work carried out in 2015 – contribution to 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. This included in particular dedicated meetings, workshops or targeted actions related to various areas such as: public procurement (CZ, DE, HR, HU, PL and SK), State aid (BG, CZ, DE, HR, LT, RO, SK and UK), implementation of financial instruments (BG, HR and RO), closure of the 2007-2013 programming period (all audit authorities in the Homologues Group in Riga in September 2015 and in additional specific actions in CZ, ES and HR).

Other activities included workshops on Anti-fraud and Anti-corruption (EE, HU, LT, LV, PT and PL), technical meetings on the use of ARACHNE, training on sampling methods (BG, PT and RO) and Peer-2-Peer exchanges (EE, FR, HU, LT, LV, SI, UK). Detailed reporting on actions taken in this area in 2015 is reported in Annex 8.

Annual audit opinion of the Directorate-General’s Audit Directorate

Based on the above blocks of information, and as a result of the Commission desk and on the spot audit work (detailed under section B), the Audit Directorate of the Directorate-General expresses an audit opinion for each programme on the level of assurance it has that expenditure reimbursed by the Directorate-General in 2015 is legal and regular. These audit opinions are transmitted to the operational Directors concerned as an input to their management opinion which is formulated for every programme.

On the basis of the analysis of the ACRs received at end 2015 and of the audit work performed, REGIO auditors have provided the management with their audit opinion for 2015:

Table: Assessment of management and control systems and Audit Directorate’s 2015 audit opinion

<table>
<thead>
<tr>
<th>DG REGIO Audit opinion and estimated risk to 2014 expenditure</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>149</td>
<td>46%</td>
</tr>
<tr>
<td>- Qualified with moderate impact</td>
<td>142</td>
<td>44%</td>
</tr>
<tr>
<td>Medium/ high risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Qualified with significant impact</td>
<td>21</td>
<td>7%</td>
</tr>
<tr>
<td>- Adverse</td>
<td>10</td>
<td>3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>322</td>
<td>100%</td>
</tr>
</tbody>
</table>
C. Safeguarding the EU budget by preventive and corrective actions

Interruptions/suspensions of payments

In 2015, 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 Action plan to strengthen the Commission's supervisory role under shared management of structural actions\(^68\) in order to safeguard EU funds.

This policy, in force for the 2007-2013 period, operates on a preventive basis, triggering the interruption of interim payments - or the sending of a warning letter if no payment claim is outstanding\(^69\) - as soon as there is evidence to suggest a significant deficiency in the management and control system of all or part of an operational programme, thus avoiding the EU budget to reimburse amounts which might be affected by serious irregularities.

While the AAR reflects a management evaluation of programmes, the follow-up to 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, leading, where necessary, to a financial correction implemented by the Member States decided upon by the Commission.

Interruptions and suspensions are only terminated on the basis of reasonable assurance on the implementation of an action plan including corrective measures and/or after financial corrections have been implemented. Financial corrections need to be included in a payment claim submitted to the Commission or agreed with DG Regional and Urban Policy, in particular on the basis of audit evidence provided by the national audit authority or by an DG Regional and Urban Policy (follow-up) audit, and after examination of the case by the Senior Management of the DG, to ensure consistency, transparency and equal treatment.

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 2015, the ISFCC met on a weekly basis, in order to analyse the cases brought to its attention, to take the appropriate decisions and to monitor their effective implementation.

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

<table>
<thead>
<tr>
<th>Indicator</th>
<th>As of 01/01/2015 (1)</th>
<th>New cases 2015 (2)</th>
<th>Any time in 2015 (1+2)</th>
<th>Lifted OPs during 2015</th>
<th>As of 01/01/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPs affected (warned/ interrupted / suspended)</td>
<td>76</td>
<td>41</td>
<td>117</td>
<td>45</td>
<td>72</td>
</tr>
<tr>
<td>Amounts interrupted EUR bn</td>
<td>3.82</td>
<td>5.29</td>
<td>9.11</td>
<td>7.38</td>
<td>1.73</td>
</tr>
<tr>
<td>Payment claims interrupted</td>
<td>99</td>
<td>87</td>
<td>186</td>
<td>135</td>
<td>51</td>
</tr>
</tbody>
</table>

In 2015, the number of warning letters, interruptions and pre-suspensions for ERDF/CF programmes are still at a very high level. 41 programmes were affected by new interruptions/warnings/suspensions in the year.

Approximately two thirds of these interruptions and pre-suspensions are based on audit results reported to the Commission by audit authorities during the year or at year end. The amount still interrupted at year end was approximately EUR 1.73 billion.

The application of this strict interruption policy has allowed reducing the risk on the 2015 payments as the declared expenditure which was likely to be materially misstated was not reimbursed.

Annex 10 provides details on the interruptions/suspensions per Member States.

---

\(^{68}\) COM(2008) 97

\(^{69}\) 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>2015 (EUR million)</th>
<th>Cumulated since 2007 (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decided/confirmed financial corrections as a result of the Commission supervisory role</td>
<td>1,110.6</td>
<td>2,316.8</td>
</tr>
<tr>
<td>Implemented financial corrections as a result of the Commission supervisory role</td>
<td>787.8</td>
<td>1,766.4</td>
</tr>
<tr>
<td>Rate of implementation of corrections for 2007-2013 programmes</td>
<td>71%</td>
<td>76%</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 a quarterly basis to the European Parliament. The Commission’s annual accounts provide the details on an accrual and cash basis.

**Financial corrections decided/confirmed in 2015**

Decided/confirmed financial corrections for the programming period 2007-2013 are EUR 1.1 billion. This figure is the result of new amounts confirmed in 2015 and adjustments to past reporting.

Financial corrections reported in 2015 increased significantly 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 in 2015 some longstanding cases, for which payment applications were blocked since few months or even years, came to an end after the implementation of financial corrections. For those cases, the corrections applied by Member States could only be reported in 2015 after the lifting of the interruption/suspension procedures. The increase of financial corrections in 2015 is also corroborated by the somehow higher error rates reported by the national audit authorities in the ACRs 2015 compared to the error rates reported in the past. The Member States with the highest corrections in 2015 were Slovakia (EUR 236.2 million), Italy (EUR 161.4 million), Germany (EUR 142.6 million), Greece (EUR 119.5 million) and Spain (EUR 117.0 million).

---

70 Financial corrections for the 2007-2013 programming period only. More details by Member State and for all programming periods are given in Annex 8.
As a result, at end 2015 the cumulative amount of financial corrections for 2007-2013 confirmed by Member State as consequence of the Commission supervisory role is above EUR 2.3 billion.

**Financial corrections implemented in 2015 relating to the 2007-2013 period**

An amount of financial corrections of EUR 787.8 million has been implemented in 2015. This refers to corrections decided/confirmed in 2015 or previous years and brings the cumulative amount of implemented corrections for 2007-2013 programmes close to EUR 1.8 billion, with a rate of implementation of above 76%.

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

<table>
<thead>
<tr>
<th>Indicator (ERDF and Cohesion Fund)</th>
<th>2015 (EUR million)</th>
<th>Cumulative since 2007 (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ex ante</strong> financial corrections for 2007-2013 programmes resulting from Commission supervisory role</td>
<td>421.8(^{71})</td>
<td>1,204.0</td>
</tr>
</tbody>
</table>

It is worth underlining that the reported amounts of financial corrections 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. Expenditure declared to the Commission is therefore net from irregular amounts. Particularly in the case of extrapolated or flat rate corrections due to deficiencies in management and control systems, the amounts preventively corrected by certifying authorities prior to certification may be significant, as demonstrated in the case of ex ante financial corrections applied by Romania in 2015 (EUR 345 million) or in 2014 by the Czech Republic (EUR 398 million) and Hungary (EUR 135 million) in the frame of remedial action plans for different programmes.

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\(^{72}\).

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 2015.

\(^{71}\) Financial corrections ex ante were not reported up to end 2013. Following a specific request from BUDG, REGIO performs 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 1.2 billion of financial corrections ex ante have been identified in 8 Member States (BG, CZ, EL, HU, LV, PL, RO and SK).

\(^{72}\) 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>2015 (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>1.988</td>
<td>6.138</td>
</tr>
<tr>
<td>Out of which additional to the Commission's reporting at 31/03/2016</td>
<td></td>
<td>4.372</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.

This year and due to the new timeframe for signing off the annual activity report, the Member States' reporting on financial corrections for year 2015 can be reflected in full in this report up to 31 March 2016. The complete figures for 2015, including the corrections reported after 21 March 2016, will be verified by the Directorate-General in view of the communication on the protection of the EU budget to be published in September.

Finally, from the overall cumulative amounts reported by Member States the Commission deducts 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 6.14 billion of withdrawals and recoveries for ERDF/CF for the 2007-2013 programming period, out of which EUR 4.37 billion are estimated by the Commission to be additional to its reporting.

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73 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.

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

75 As a result of comparison for each Member State between national and EU reporting of implemented corrections.

76 Cut-off date for their inclusion in the CRR calculation.
Due to risks identified to the reliability of reported data, and following external and internal audit recommendations, the Directorate-General carries out since 2014 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 B above). As a result of this additional audit work, financial statements on withdrawals and recoveries have been corrected for 198 programmes (6.4 % of the statements sent since 2009) in 13 Member States, 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 2008-2014 represent 9.2 % 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.

### Cumulative residual risk

<table>
<thead>
<tr>
<th>Indicator (ERDF and Cohesion Fund)</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative residual risk (average for all programmes) as at 21 March</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

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

This cumulative residual risk (CRR), if above the materiality threshold of 2% for each programme or group of programmes, is also used as a criterion for additional reservations when the validated error rate is between 2% and 5%.

The CRR 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 is kept at a tolerable level on a cumulative basis since the beginning of programme implementation. It complements the yearly validated projected error rate for determining whether a reservation has to be issued. 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 recoveries and withdrawals reported for each year by certifying authorities and recorded in their accounts prior to 21/03 and adjusted by the Commission to lower levels where necessary. These reported financial corrections by Member States do not include the preventive impact on expenditure not yet declared to the Commission, therefore such preventive ex ante corrections are not included in the calculation of the CRR.

DG Regional and Urban Policy has taken an increasing number of measures to improve the reliability of information on withdrawals and recoveries reported by Member States. As explained in section B 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 2015. For the purposes of the calculation of the CRR, the Directorate-General takes a prudent approach to consider only the withdrawals and recoveries data which were assessed as reliable. In some cases the Member States were requested to correct their statements before computing them in the calculation. In absence of correct statements, the CRR calculation does not take into account the

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77 The impact on the 2015 corrections will be estimated in the next AAR exercise, since the report on the 2015 withdrawals and recoveries was sent on 31/03/2016.

78 Cut-off date for the computation of withdrawals and recoveries communicated by the Member States for 2015. This rate is comparable to the rates reported in previous years.

79 Calculations may also take account of withdrawals registered in the certifying authority’s accounts in view of deduction in the next certification of expenditure (formal agreements); this was the case for 4 programmes.
withdrawals and recoveries (see above)\textsuperscript{80}.

This means that the financial corrections taken into account for the calculation of the CRR at the end of 2015 are EUR 3.6 billion or 68% of the corrections reported by Member States at the cut-off date of 21 March 2016\textsuperscript{81}. \textbf{After the deduction of corrections assessed as reliable, the cumulative residual risk is estimated at 1.0% of the cumulative payments at the end of 2015.}

This methodology to assess the cumulative residual risk, despite the inherent limitations to the calculation of this indicator, therefore reinforces the annual assessment and Commission's supervision for operational programmes in the context of shared management under a multiannual control framework. It also requires a more proactive role by managing and certifying authorities to quickly correct irregular expenditure across the whole programme or concerned population of operations, based on the results and analysis of the audit authorities' work and statistical sampling and thus increasing the assurance process for the year.

A more comprehensive explanation of the CRR can be found in annex 8 including details on adjustments made to the calculation of the CRR for certain programmes.

\section*{Follow-up of 2014 reservations – ERDF/CF 2007-2013}

\begin{table}
\centering
\begin{tabular}{|l|c|c|}
\hline
AAR reservations\textsuperscript{82} & Lifted & Outstanding as of 31 March 2016 \\
\hline
77 & 33 & 44 \\
\hline
\end{tabular}
\caption{Follow-up of 2014 reservations by Member States for the 2007-2013 programming period:}
\end{table}

In the AAR 2014, 77 ERDF/CF programmes of the 2007-2013 programming period were under reservation. The actions undergone have led to a total of 33 reservations solved and 44 still outstanding.

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 2015 upon for 43 of these 77 OPs, which represents a total amount of EUR 875.7 million.

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

\begin{table}
\centering
\begin{tabular}{|l|c|c|c|c|}
\hline
Number of reservations in 2014 & Lifted by end Q1 2016 & Outstanding & Financial corrections decided/confirmed in 2015\textsuperscript{83} \\
& & & number of QPs & Amount (EUR million) \\
\hline
AT & 1 & - & 1 & 0.7 \\
BE & 1 & - & 1 & 1.3 \\
\hline
\end{tabular}
\caption{Follow up of reservations by Member States for the 2007-2013 programming period:}
\end{table}

\textsuperscript{80}As a result of internal and external audit recommendations, financial corrections reported by Member States have also been excluded from the CRR calculation in case they are higher than the risks identified in the past (new calculation rule applied since 2014 in order to avoid the carry-over of negative amounts at risk)

\textsuperscript{81}At the date of 21 March 2016, cut-off date for the calculation of the CRR, the Member States had declared Eur 5.2 billion of financial corrections out of the Eur 6.1 billion declared in total at the end of March. In this amount were also included, when relevant, the formal agreements, i.e. the financial corrections applied at Member State level but not yet reported officially to the Commission but used for the purpose of deciding on reservations, in line with the applied methodology.

\textsuperscript{82}Excludes IPA CBC dealt under section 2.3.1.3.

\textsuperscript{83}Including financial corrections at source.
### D. Overall assessment of the functioning of the management and control systems

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 cumulative residual risk, 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</th>
<th>Coverage</th>
<th>Payments to Programmes in question as % of 2007-2015 period interim payments in the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>(based on functioning of systems, materiality and legality and regularity criteria)</td>
<td>Nr. of Programmes</td>
<td>as % of Programmes</td>
</tr>
<tr>
<td>1 Reasonable assurance</td>
<td>131</td>
<td>40.7%</td>
</tr>
<tr>
<td>2 Reasonable assurance with low risk</td>
<td>124</td>
<td>38.5%</td>
</tr>
<tr>
<td>3 Limited assurance with medium risk*</td>
<td>47</td>
<td>14.6%</td>
</tr>
<tr>
<td>4 Limited assurance with high risk</td>
<td>20</td>
<td>6.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>322</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Including partial reservation

---

**Indicator**

<table>
<thead>
<tr>
<th>Number of ERDF/CF programmes from the 2007-2013 programming period in reservation</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of ERDF/CF programmes from the 2007-2013 programming period in reservation</td>
<td>67</td>
</tr>
</tbody>
</table>

---

### Table: Financial corrections decided/confirmed in 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of reservations in 2014</th>
<th>Lifted by end Q1 2016</th>
<th>Outstanding</th>
<th>Financial corrections decided/confirmed in 2015</th>
<th>Number of QPs</th>
<th>Amount (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CZ</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td></td>
<td>3</td>
<td>10.7</td>
</tr>
<tr>
<td>FR</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>DE</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td></td>
<td>2</td>
<td>138.2</td>
</tr>
<tr>
<td>GR</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td></td>
<td>7</td>
<td>83.5</td>
</tr>
<tr>
<td>HU</td>
<td>10</td>
<td>2</td>
<td>8</td>
<td></td>
<td>8</td>
<td>127.1</td>
</tr>
<tr>
<td>IT</td>
<td>10</td>
<td>9</td>
<td>1</td>
<td></td>
<td>4</td>
<td>51.8</td>
</tr>
<tr>
<td>RO</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td>2</td>
<td>122.0</td>
</tr>
<tr>
<td>SK</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td></td>
<td>5</td>
<td>231.0</td>
</tr>
<tr>
<td>ES</td>
<td>22</td>
<td>0</td>
<td>22</td>
<td></td>
<td>12</td>
<td>109.3</td>
</tr>
<tr>
<td>UK</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ETC</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>77</strong></td>
<td><strong>33</strong></td>
<td><strong>44</strong></td>
<td></td>
<td><strong>43</strong></td>
<td><strong>875.7</strong></td>
</tr>
</tbody>
</table>
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 67 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, reservations for the 2007-2013 period are made if at least one of the following conditions applies (conditions are assessed in the following order):

1) First step is the identification of significant weaknesses in the management and control systems resulting in material risk for the Community budget.

2) Secondly consideration is made of validated error rates above 5\% and of the actions taken to mitigate this high level of risk.\(^{84}\)

3) Third step is the consideration of a cumulative residual risk (CRR) estimated for all programmes since the beginning of the programming period, based on the best available sources of information).

This means that in the case that conditions 1) and 2) do not apply (system assessed as functioning well or with some improvements needed, and a validated error rate below 5\%), a reservation would still be made if the CRR remains above 2\% at the date of signature of the annual activity report\(^{85}\). This criterion introduced in 2011 therefore allows for additional reservations compared to ARR 2010 and previous ones.

When no interim payments have been made in the year concerned (e.g. because of existing warning letter/pre-suspension of payments) a reservation could still apply on a reputational basis.

The table on the following page presents the results of the assurance process which can be summarised as follows:

- **The overall estimated validated average error rate**\(^{86}\) on 2015 payments for the 2007-2013 ERDF/CF programmes is in the range of **3.0\%**\(^{87}\) to **5.6\%**\(^{88}\);
The cumulative residual risk of approx. 1.0% 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 formulates a reservation for 67 programmes: of which 27 on a reputational basis (including 21 partial reputational) as no interim payment was made for these programmes in 2015 and 25 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 interim payments in the year 2015, is at approximately 0.7%.

The methodology (which considers the cumulative residual risk for programmes with a 2015 validated error rate between 2 and 5 % and encourages Member States to apply self-corrections) has a positive impact on the overall estimated impact. The risk identified is already being mitigated by the strict, effective and timely implementation of a number of corrective measures, in particular interruptions, suspensions and financial corrections either already in place or being launched.

Further details as regards the reason leading to the reservation for these 67 ERDF/CF programmes are described in annex 7A.

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89 i.e. whether corrective measures (withdrawals, recoveries) already implemented by Member States had adequately mitigated the risks of irregularities since the beginning of the programming period.

89 This approach has already been applied in the AAR 2014. Last year the range was 2.6% to 5.3%.

Partially and 10% for respectively programmes under category 1, category 2, category 3 and category 4). This approach has already been applied in the AAR 2014. Last year the range was 2.6% to 5.3%.
### Table indicating by Member State the management's best estimate of the risk of error, presented as a weighted average of the estimation for each ERDF/CF operational programme.

<table>
<thead>
<tr>
<th>Member States</th>
<th>2015 Estimated risk</th>
<th>Cumulative residual risk</th>
<th>AAR 2015 reservation</th>
<th>Commission's actions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ERDF / CF 2007-13</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NUMBER OF PROGRAMMES UNDER WHOLE RESERVATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ERDF / CF 2007-13</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AVERAGE RISK RATE 2015 (2) (3)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>QUANTITATIVE ANALYSIS OF GLOBAL RISK ON 2015 INTERIM PAYMENTS (€ MILLION)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>% OF CUMULATIVE INTERIM PAYMENTS AT END 2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NUMBER OF PROGRAMMES UNDER PARTIAL RESERVATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NUMBER OF PROGRAMMES UNDER DECLARATION OF RISK</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AGGREGATE RISK RATE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ANALYSIS OF RISK FOR PROGRAMMES IN RESERVATION 2015 (€ MILLION)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NUMBER OF PROGRAMMES AFFECTED BY A WARNING OR AN INTERRUPTION OF PAYMENT DEADLINES IN 2015 AND Q1 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NUMBER OF PROGRAMMES AFFECTED BY A SUSPENSION IN 2015 AND Q1 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) EUR 8.9 Billion was paid in total for the 67 programmes which are under reservations. However only on part of the expenditure the DG could not obtain reasonable assurance (EUR 2.3 Billion)  
(2) Average error rate by Member State is calculated on the basis of weighted validated error rates at operational programme level  
(3) Range of OP's error rates for Member States with an important number of OPs: DE, ES and IT: 0% to 25%
2.3.1.3 ERDF / CF 2000-2006 and earlier periods: processing closures

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 2015, DG Regional Policy has closed 361 out of a total of 379 programmes (compared to 338 at end of 2014). 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 of national authorities it may result in the recovery of financial amounts or a decision to charge the amounts to EU budget. Out of 361 programmes closed, 27 are currently partially closed.

The remaining 18 programmes represent cases where the Member States contested the financial corrections proposed by the Commission, presented additional information to be considered or requested reimbursement of irrecoverable amounts. These cases result in financial correction procedures (which lead to hearings between the Commission and the concerned Member States) and decisions on irrecoverable amounts.

The audit work in 2015 on ERDF focussed only on the analysis of the remaining closure cases and the follow-up of audits carried out in previous years. The main work consisted in preparing new closure proposals for 2 Italian programmes (Campania and Sicilia) following receipt of additional information from Member States and in analysing the reliability of the newly submitted error rates provided by the Irish authorities for the 3 open programmes. In 2015, it could be noted that the Austrian authorities have applied a financial correction of EUR 0.19 million for the OP Steiermark following DAS 2012.

Cohesion Fund 2000-2006

The objective at closure is also to ensure that the residual error rate does not exceed 2%. During 2015, the Cohesion Fund Closure Task Force has closed 95 projects for the pre-2006 periods. For all of these projects, the audit opinions were taken into account, outstanding OLAF irregularities in IMS were closed and all legally supportable corrections were implemented. Payments were made all categorised with reasonable assurance. The situation at the end of 2015 is that approximately 94% of the Cohesion Fund 2000-2006 projects are closed\(^{90}\). 75 projects remained open beginning of 2015 and should all be closed by end 2016.

The audit work carried out in 2015 consisted in reviewing the winding-up declarations submitted by Member States. In 2015, thanks to the analysis of 20 winding-up declarations\(^{91}\) the audit directorate has finalised its assessment of winding-up declarations of all Cohesion Fund projects.

In terms of assurance, the audit directorate has qualified its opinion for Bulgaria and Romania transport sector due to respectively high error rates detected for one project and due to a suspicion of fraud at the level of 3 projects already reported in the AAR 2013.

\(^{90}\) 1046 out of the 1,121 Cohesion Fund projects accepted for a Fund contribution of EUR 32.5 Billion.

\(^{91}\) Romania 4, Bulgaria 1, Hungary 8, Lithuania 5, Poland 1, Estonia 1
In terms of financial corrections, the Polish authorities applied a net correction of 2% to all projects to be closed after June 2010, due to 5 systemic findings in the area of public procurement. In addition, a 5% net correction for 7 technical assistance projects in the rail sector was also imposed. Moreover, individual financial corrections are applied on other projects on a case by case basis.

**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 affecting 5 financial correction decisions for the 1994-99 period concerning Germany and Spain. The Court did not rule on the substance of the cases. The annulment was based on a new legal interpretation that the most recent procedural rules had not been respected by the Commission for past programmes.

The Court of Justice applied the procedural rules laid down in Regulation 1083/2006 applicable for the 2007-2013 programming period to financial corrections for the 1994-1999 period. It considered that the Commission had failed in its obligation to organise a hearing with the Member State and to approve a financial correction decision within the given 6 months' time-limit following the hearing. This is despite the fact that Regulation (EC) No 4253/88, applicable for the 1994-99 programming period, contains no requirement for a hearing and no deadline by which a Commission decision must be adopted.

The Commission could not be aware when adopting its financial correction decisions on the 1994-99 programmes that such conditions and deadlines would retroactively be applicable. Indeed, previous case-law of the Court of Justice considered that the regulatory deadline of 3 or 6 months for adopting financial corrections decisions was only indicative (applicable for all periods).

The amount to be reimbursed is EUR457 million for ERDF and EUR 44.8 million for CF. At end 2015 a total amount of EUR 346 million was paid and the remaining EUR 111 million has been processed in February 2016.

### C. Financial corrections linked to closure of 2000-2006


Financial corrections linked to the 2000-2006 closure process and follow-up audit work carried out for both ERDF and the Cohesion Fund as described above are the following (for amounts per programming period, Fund and Member State see detailed table in annex 8):

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015 (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrections for 2000-2006 resulting from Commission audit work (decided in 2015, ERDF and Cohesion Fund):</td>
<td>208</td>
</tr>
<tr>
<td>Cumulative financial corrections for 2000-2006 programmes (decided/confirmed till end 2015)</td>
<td>6,627</td>
</tr>
<tr>
<td>Cumulative financial corrections for 2000-2006 programmes (implemented till end 2015)</td>
<td>6,502</td>
</tr>
<tr>
<td>Rate of implementation of corrections for 2000-2006 programmes (cumulatively)</td>
<td>98%</td>
</tr>
</tbody>
</table>

**Financial corrections confirmed in 2015:**

For the 2000-2006 programming period, the closure process of both ERDF programmes and Cohesion Fund projects led to total additional financial corrections of an amount of EUR 208 million being imposed and accepted by Member States in 2015. This figure can be broken down mainly in 2 categories:

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92 Judgments in cases C-549/12P, C-54/13P and C-263/P
- EUR 155 million of financial corrections for complex ERDF closure files in 7 Member States;
- EUR 53 million accepted by 13 Member States for Cohesion Fund projects.

The most significant amounts concern Italy (EUR 107.6 million), Greece (EUR 34.2 million) and Poland (EUR 12.4 million).

**Financial corrections implemented in 2015:**

For the 2000-2006 programming period, the reported amount of corrections implemented in 2015 is EUR 396.7 million. This corresponds to the closure of further 2000-2006 ERDF programmes in 8 Member States, following contradictory procedures on more complex cases (in particular in Italy), and the continuation of the closure of Cohesion Fund in 13 Member States (EUR 69.5 million). The implementation rate of financial corrections for ERDF 2000-2006 thus increased to 98% by end 2015 and will further progress with the payment of final balances to programmes that remained open by end 2016.

**C. Follow up of 2014 reservations ERDF/CF 2000-2006)**

**ERDF 2000-2006**

Two of the three programmes which were under reservation in the AAR 2014 remain outstanding as the programmes authorities did not apply the proposed corrections which are significant (above 5%). These programmes are the two Italian programmes (OP Sicilia and OP Campania) for which the Member States have provided additional information. This information is being taken into account in the revised closure proposal that is being prepared. In addition, for OP Sicilia, DG Regional and Urban policy has carried out additional verifications to verify the reliability of the information on the completed/operational projects. Hearings will be organised in the second half of 2016 with the relevant authorities. The amounts of expected financial corrections to be applied are substantial.

The reservation for the Irish programme (Productive Sector) is resolved. The programme authorities have accepted the revised closure letter sent in March 2016 given that the amount of financial correction applied by national authorities at closure is higher than the extrapolation of the error rate of 4.71%.

**Cohesion Fund 2000-2006**

The two reputational reservations issued in the AAR 2014 remain outstanding as the necessary financial corrections were not yet applied. These reputational reservations were due to the level of error rate in one project (Calafat-Vidin bridge project) and suspicion of fraud (in three transport projects in Romania). The corrections should be implemented in 2016.

**D. Conclusion reservation for ERDF/CF 2000-2006**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of programmes from the 2000-2006 programming period in reputational reservation</td>
<td>2</td>
</tr>
<tr>
<td>Number of sector for the Cohesion Fund 2000-2006 in reputational reservation (partial)</td>
<td>2</td>
</tr>
</tbody>
</table>

The 2 Italian ERDF programmes\(^{94}\) for which significant financial corrections (above 5%) have not yet been applied by the programme authorities and the two Cohesion Fund-transport sectors (Romania and Bulgaria) remains under reputational reservation as

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\(^{93}\) (AT, BE, DE, EL, HU, IT, UK).

\(^{94}\) OP Campania and OP Sicilia (Italy).
corrective action was not yet taken. The reservations are reputational as no payment for the programmes and the projects at risk in 2015.

2.3.1.4 Shared Management – IPA-CBC and Solidarity Fund

A. Audit work

IPA-CBC 2007-2013

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average error rate on 2015 payments as reported by the audit authorities (based on 2014 error rates) - Estimate</td>
<td>0.97 %</td>
</tr>
<tr>
<td>Weighted average error rate on 2015 payments as recalculated by DG REGIO (based on 2014 error rates) - Estimate</td>
<td>1.53 %</td>
</tr>
</tbody>
</table>

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 programmes and the audit conclusions are that the reviewed audit authorities work well, with some improvements needed. DG Regional and Urban Policy auditors also reviewed and assessed the 2015 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 except for one programme (Greece-fyRoM (2007CB161PO009)) for which the Audit Directorate has delivered a qualified opinion with significant impact based on the error rate reported (5.68%) and the qualified opinion issued by the audit authority.

Solidarity Fund

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

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,

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95 10 programmes in total. 8 IPA and two ERDF programmes which have an IPA component ref 2007CB163PO069 and CCI 2007CB163PO0045.
96 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.
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 2015, the audit work carried out consisted in reviewing 5 implementation reports and validity statements submitted during the year for disasters related to 2012 and 2013 (2 accepted, 1 pending provision of additional information by national authorities and 2 still being analysed). Moreover, during 2015, additional information was requested from Member States concerning validity statements originally submitted in 2013 and 2014. For 8 cases the analysis has been completed which enabled the Directorate-General to close the file; the closure process has started for 2 additional cases where implementation reports were received in 2015. As at the date of the signature of the AAR, 4 cases are still being analysed and for 2 cases the Audit Directorate is waiting for additional information.

As far as the on-the-spot audits are concerned, 2 missions were carried out in 2015 (Poland following the floods of May and June 2010 and Slovakia relating to the flood disaster of May and June 2010). Finally, the audit of the UK flooding case of 2007 could be finalised in 2015 (Final Position Letter), with the UK authorities accepting the Commission’s proposal for a financial correction of 10%. This file is being closed.

Further details can be found in annex 8 (paragraph 2.3.1.4).

B. Safeguarding the EU budget by preventive and corrective actions

IPA-CBC

The only programme currently affected by an interruption is the OP Adriatic (suspended) which was the only programme under reservation in the AAR 2014. Following the satisfactory implementation of the action plan by the programme authorities, it was decided to lift the suspension. The drafting of the Decision to repeal the suspension is ongoing, therefore the reservation for this programme is considered solved.

C. Conclusion IPA-CBC 2007-2013 and Solidarity Fund

For 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. It results in classifying the programmes as follows:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of IPA-CBC programmes from the 2007-2013 period in reservation</td>
<td>1</td>
</tr>
<tr>
<td>Reservation for the Solidary Fund</td>
<td>0</td>
</tr>
</tbody>
</table>

<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># of Programmes</td>
<td>as % of Programmes</td>
</tr>
<tr>
<td>1 Reasonable assurance</td>
<td>6</td>
</tr>
<tr>
<td>2 Reasonable assurance with low risk</td>
<td>3</td>
</tr>
<tr>
<td>3 Limited assurance with medium risk</td>
<td>1</td>
</tr>
<tr>
<td>4 Limited assurance with high risk</td>
<td>10</td>
</tr>
</tbody>
</table>

The programme for which limited assurance is given is in full reservation. This is the programme 2007CB161PO009- Greece-FYROM. The reservation is due to the high error

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97 For EUSF assistance granted up to June 2014, the audit opinions were submitted in the form of "statements of validity".
rate of 5.68% reported by the audit authority. It will be lifted once all appropriate corrective actions have been taken by the programme authorities.

For the Solidarity Fund, based on its audit work, the Directorate-General can conclude that it has reasonable assurance on the validity statements, which were accepted in 2015, without prejudice to any final audit results deriving from on-the-spot audits. No reservation is made.

2.3.1.5 Instrument for Pre-Accession (IPA) and Urban Innovative Actions (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 five98 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. The following points form the building blocks behind the assessment of DG Regional and Urban Policy’s management towards reasonable assurance:

A. Audit work

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average error rate on 2015 payments as reported by the audit authorities (based on 2014 error rates) - Estimate</td>
<td>0%</td>
</tr>
</tbody>
</table>

Regarding the Instrument for Pre-Accession, DG Regional and Urban Policy assessed for all three countries (Montenegro, Turkey and Former Yugoslavian Republic of Macedonia) the NAO’s statement of assurance, system audit reports, the annual audit work plan, the annual audit opinion and the annual audit activity report.

On this basis, DG Regional and Urban Policy has assessed that the management and control systems are functioning effectively and obtained reasonable assurance on all five operational programmes. Moreover, regarding Montenegro, DG Regional and Urban Policy carried out a desk-based follow-up of the fulfilment of the recommendations from the Conferral of Management mission of May 2013. Based on the desk-audit work, the Directorate General concluded that the set-up of the management and control system is compliant with the regulatory requirements and closed the audit during 2015.

B. Safeguarding the EU budget by preventive and corrective actions

There are no on-going interruptions or suspensions of payments for IPA. The only programme which was interrupted and pre-suspended in 2015 was the OP Transport for Turkey due to the unreliability of the error rate reported by the audit authority. This programme was under reservation in the AAR 2014. Following additional audit work, the pre-suspension was lifted in October 2015.

C. Conclusion - IPA

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of IPA programmes from the 2007-2013 programming period in reservation</td>
<td>0</td>
</tr>
</tbody>
</table>

98 Three programmes in Turkey, one in FYROM and one in Montenegro.
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 5 programmes.

**Urban Innovative Actions**

The "Urban Innovative Actions" 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 "Urban Innovative Actions" 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 (section 2.3.1.5)

A comprehensive set of control results is not yet available for 2015, 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 selection of an external auditor is foreseen for 2016. No interim or final payments have been carried out yet. An advance of EUR 80 million has been paid to the entrusted entity in 2015 in order to start operations: a first call for proposals on Urban Innovative Actions has been launched in December 2015.

### 2.3.1.6. Direct management and Task Force for the Turkish Cypriot Community

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</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>20 files examined</td>
</tr>
</tbody>
</table>

**Direct management (except Task Force for the Turkish Cypriot Community)**

In 2015, expenditure paid under direct management (with the exception of expenditure realized by the Task Force for the Turkish Cypriot Community) was used mainly for operational and administrative technical assistance for ERDF and the Cohesion Fund and for preparatory actions. It represented EUR 51.8 million of which close to EUR 15 million was 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 regularity of the public procurement processes based on its internal procedural rules. In 2015, 20 files have been examined during 14 meetings of the CIMS representing a total amount close to EUR 40 million.

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.

Task Force for the Turkish Cypriot community (TFTCC)

In accordance with Aid Regulation 389/2006, the Aid Programme for the Turkish Cypriot community uses 'external action’ rules, including the Practical Guide to financial and contractual procedures (PRAG) and financial circuits in place are tailored to these rules and to the specific environment of the Task Force. Upon the transfer of the Task Force for the Turkish Cypriot community (TFTCC) from Directorate-General for Neighbourhood and Enlargement Negotiations to DG Regional and Urban Policy on 1 January 2015, most of the existing management and control system was retained and only minor adjustments to the environment of DG Regional and Urban Policy were made.

Main assurance elements for TFTCC operations in 2015 were the following:

Tendering and contracting

In addition to the partly decentralised financial circuits, which apply to the tendering and contracting phases, public procurement/grant procedures were subject to the control of a "procurement cell" based in the EU Programme Support Office in Nicosia with back-up from Headquarter. Adequate focus has been put on training staff working in the procurement cell and support from the central financial unit of DG Regional and Urban Policy has been provided, where necessary.

Monitoring of implementation and payments

In accordance with the partly decentralised financial circuit, payments have been approved following the four-eye principle (each file is double-checked both on operational and financial aspects). Operational monitoring has been carried out along the life of the contracts; generally through verifications of deliverables (e.g. interim, final reports...). Furthermore, grants implementation under direct management has been monitored by a dedicated PMU (Project Management Unit) which has carried out regular on-the-spot controls. Infrastructure projects were subject to specific monitoring arrangements, including monthly reporting, project visits and site Meetings.

99 Rules set down in Title IV of part 2 of the Financial Regulation
Audit, ex-post controls and other audit engagements

In 2015, and in accordance with its ex-post control plan, the Directorate-General for Neighbourhood and Enlargement Negotiations has carried out an ex-post control mission on the Aid Programme. The auditors verified the legality and regularity of a sample of interim and final payments made by the Task Force, and the legality and regularity of the related procurement procedures and award of contracts. No issues have been identified. In addition, a review of the management and control system of the Task Force was carried out in 2015, with a view to, among others, assess its adequacy and effectiveness. No issues of non-adherence to established processes and controls have been detected in the areas subject to the engagement. Opportunities to streamline procedures have been identified in a few areas and will be followed-up.

Assurance elements for operations in indirect management

A share of the Task Force’s portfolio is implemented in indirect management (around EUR 7 million expenditure were incurred in indirect management in 2015). In indirect management, implementation tasks are entrusted to international organisations or Member States agencies. Entities to which budget implementation tasks are entrusted undergo an ex-ante assessment (called "pillar assessment"). Pillars correspond to broad areas covered by the assessment and include (1) internal control, (2) accounting and (3) independent external audit. Moreover, the assessment must also include at least one of the following, so that the entity can be entrusted with the corresponding budget-implementation tasks: (4) procedures and rules for grants, (5) for procurement, (6) for financial instruments, as well as (7) a specific pillar for sub-delegation. Furthermore appropriate supervision of the entrusted tasks has been continuously ensured by the Task Force, including through examination and approval of regular implementation reports.

2.3.1.7 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 14.7 million) to the Directors General of:

- Office for Administration and Payment of Individual Entitlements – EUR 8, 5 million for contract agents, SNEs, experts, committees and missions (vertical co-delegation)
- DG Connect – EUR 0.3 million for communication activities on Euronews;
- DG Neighbourhood and Enlargement Negotiations – EUR 0.9 million for the use of TAIEX for the needs of the Turkish Cypriot Community & EUR 0.1 million for the REGIO PEER 2 PEER exchange system;
- DG Employment, Social Affairs and Inclusion – EUR 1.5 million for ARACHNE risk scoring tool, the Support Group of Cyprus and the Task Force for Greece;
- Eurostat – EUR 0.18 million for regional/urban statistics and geographical information;
- Office for Infrastructures and Logistics in Brussels – EUR 0.09 million for Printshop activities.

And in co- delegation:

- DG Informatics – EUR 3 million for development of IT systems, maintenance and support to users);
- DG SCIC – EUR 0.2 million for the organisation of conferences.
• DG Human Resources and Security – EUR 0.32 million
• Publications Office – EUR 0.38 million for printed communication activities

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.

2.3.2 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>% budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared management</td>
<td>99.0</td>
</tr>
<tr>
<td>Indirect management</td>
<td>0.8</td>
</tr>
<tr>
<td>Direct management</td>
<td>0.2</td>
</tr>
</tbody>
</table>

2.3.2.1 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>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of control/financial management of the Commission checks and assessment (as a % of total 2015 payments)</td>
<td>0.2 %</td>
</tr>
<tr>
<td>% of Commission payments on time</td>
<td>83% (17% late due to cash flow and budgetary constraints).</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>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 0.2% of total payments of the year. 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.

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 2.3% 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. These costs are related to the 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 is adequate as payments for Ops 2007-2013 still represent the bulk of expenditure in 2015. Assessing the cost of the management and control structures for the new programming period should be available in the next AAR following the results of an ongoing study.

The quantifiable benefits mainly relate to the corrections implemented by DG Regional and Urban Policy following (Directorate-General) 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 12 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). Most of this work completed in 2015 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

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100 Corresponding to EUR 40,598 million
101 Study "regional governance in the context of globalisation", 2010
102 The corrections implemented in 2015 at the request of the Commission amount to EUR 840 million. However, it must be noted that corrected amounts might correspond to expenditure of previous years.
semester. 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 benefits.

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.

Since the cumulative residual error rate for payments related to the 2007-2013 programming period is below 2% in 2015, it can be concluded that the control system functioned effectively.

Nonetheless, the DG is constantly looking for additional efficiency gains in designing and deploying its control activities. Among the main actions carried out to this end in 2015, the following are particularly noteworthy:

- **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 primarily allocated.

- **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. More details on this initiative are presented under 1.3 above.

### 2.3.2.2 Indirect management

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of control/financial management of the Commission checks and assessment (as a % of total 2015 payments)</td>
<td>0.5 %</td>
</tr>
<tr>
<td>% of Commission payments on time (vs Financial Regulation Target)</td>
<td>87.5% (due to cash flow and budgetary constraints)</td>
</tr>
<tr>
<td>Budget execution</td>
<td>100%</td>
</tr>
</tbody>
</table>

The estimated annual overall Commission costs amounts to 0.5% of total payments of the year managed under indirect management mode\(^\text{103}\).

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). 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

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\(^{103}\) Corresponding to EUR 345.1 million
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.**

### 2.3.2.3 Direct management

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of control/financial management of the Commission checks and assessment (as a % of total 2015 payments)</td>
<td>4.9 %</td>
</tr>
<tr>
<td>% of Commission payments on time (vs Financial Regulation Target)</td>
<td>96.15%</td>
</tr>
<tr>
<td>Budget execution</td>
<td>100%</td>
</tr>
</tbody>
</table>

The estimated annual overall Commission costs are estimated to amount to 4.9% of total payments of the year managed under direct management mode.\(^{104}\)

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. In addition, costs relating to staff working in the Task Force for the Turkish Cypriot community (TFTCC) have also been included.

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.**

Nonetheless, in order to explore additional opportunities for efficiency gains in this area, specific actions were launched in 2015. In particular, following the transfer of the Task Force for the Turkish Cypriot community (TFTCC) from DG NEAR to DG REGIO in January 2015, an independent assessment was carried out by an external consultant on the management and control systems of this programme. One of the objectives of the assessment was to identify opportunities for possible simplification/streamlining of procedures while ensuring a smooth integration of the Task Force with DG REGIO. Potential for streamlining existing procedures as well as monitoring and control processes was identified in several areas. Following the transfer of the Task Force from DG REGIO to SG in 2016, the follow-up of the related recommendations will be done by SG.

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\(^{104}\) Corresponding to EUR 76.1 million
2.3.3 Fraud prevention and detection

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015 target</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% (14 cases)</td>
</tr>
<tr>
<td>2 internal trainings/fraud-awareness events per year</td>
<td>Fully met</td>
</tr>
<tr>
<td>3 external training/fraud-awareness events per year</td>
<td>(5 external events in Member States)</td>
</tr>
<tr>
<td>5 to 7 Member States using Arachne tool (pilot) by end 2015</td>
<td>Fully met</td>
</tr>
<tr>
<td></td>
<td>(16 Member States testing for at least one programme)</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 2015, DG Regional and Urban Policy operational directorates are responsible for follow-up actions, in relation to 70\textsuperscript{105} OLAF investigation cases in relation to the ERDF and the Cohesion Fund. According to OLAF's assessments in their FCRs, an amount of up to EUR 1 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 31/07/2015\textsuperscript{106}, Member States communicated a total number of 3,579 irregularity cases to OLAF for the ERDF and the Cohesion Fund for a potentially affected amount of EUR 1.68 billion. According to the report, in 2014 the share of suspected fraud cases out of the irregularities notified by Member States to OLAF represented around 0.51% of the 2014 payments 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 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)**\textsuperscript{107} 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

\textsuperscript{105} As at end 2014, 50 cases were being followed up. For 8 cases the follow-up was finalised in 2015. 28 new final case reports which were received from OLAF in 2015 are being followed up.


\textsuperscript{107} Ares(2015)6023058 of 23 December 2015
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 2015, 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 and programme authorities in the Member States (e.g. presentations held in seminars, meetings and conferences); maintenance of dedicated platforms on fraud prevention on the intranet of DG Regional and Urban Policy and SFC2007 / SFC2014; continuous cooperation and exchange of information related to fraud suspicion cases between the DG and OLAF.

- **Reinforcement of the internal procedure for following-up final case reports (FCRs) issued by OLAF.** In September 2015, DG Regional and Urban Policy has strengthened its procedure to ensure swift follow-up of FCRs issued by OLAF: 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, if the case occurs. These conservatory measures have been put in place to protect the EU budget without waiting the outcome of the contradictory procedure with the Member State on the proposed financial correction proposed in the FCR drafted by OLAF.

- **Training and awareness-raising actions for Member States having to put in place effective and proportionate anti-fraud measures** to mitigate against residual fraud risks (as a new key requirement for the management and control systems for the 2014-2020 programming period). The Guidance to Member States published in 2014 on "Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures" was presented in anti-fraud and anti-corruption seminars in 2015. The guidance as well as other anti-fraud and anti-corruption measures (such as public scrutiny, integrity pacts etc.) were discussed during 4 anti-fraud and anti-corruption seminars organised in Poland, Latvia (for the 3 Baltic states), Portugal and Hungary. The seminars targeted managing and audit authorities, other bodies involved in the management and control of the Funds as well as representatives of civil society organisations active in the field. These seminars were organised by REGIO in cooperation with other Commission services and Transparency International national branches. A presentation was also made to the Council SAWP meeting in Riga in June 2015 on the new anti-fraud requirements for 2014-2020.

- **Collaboration with OLAF to fight fraud.** A total of 14 fraud suspicions were transmitted by REGIO to OLAF. OLAF opened up 4 investigations on the basis of this information and dismissed 10 cases. OLAF is currently carrying out 108 fraud investigations in relation to DG Regional and Urban Policy's funds. In 2015, the follow-up for 8 cases was finalised.

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108 Article 125.4 c) of the Common Provisions Regulation.
109 ref. EGESIF_14-0021-00 of 16/06/2014;
110 This activity of organising anti-fraud seminars in Member States was a continuation from 2014 when 8 seminars were held in Slovakia, Czech Republic, Bulgaria, Croatia, Romania, Italy, Slovenia and Spain.
111 Dismissed cases are treated in accordance with OLAF’s guidance on dismissed cases.
- **Promotion of Arachne to support management verifications.** In 2015, the Audit Directorate has also actively promoted in close cooperation with DG Employment, Inclusion and Social Affairs the use by the programme authorities of the Arachne tool, a preventive risk-scoring tool developed by the Commission and provided to Member States for free. As a result, 16 Member States are testing Arachne for at least one operational programme. There are strong indications that 12 from these 16 Member States will continue to use Arachne and will integrate Arachne in their management and control system for at least one operational programme for the programming period 2014-2020. The 4 other Member States will decide in the coming months if they will use Arachne. Annex 8 provides more detailed information on Arachne.

- **Involvement of civil society through "Integrity pacts".** Preventing fraud and corruption in the Funds through co-operation with civil society organisations and increased transparency is at the heart of a new initiative – the pilot project "**Integrity Pacts - Civil Control Mechanisms for Safeguarding EU Funds**". This initiative was launched by the Competence Centre for Administrative Capacity Building of the Directorate General and is being implemented in co-operation with Transparency International. One of the key elements in the pilot project "**Integrity Pacts - Civil Control Mechanisms for Safeguarding EU Funds**" is testing innovative ways to increase transparency in the EU co-funded investments and learning from this experience.

As a result of its policy of zero tolerance to fraud, the Directorate-General has issued 42 warning letters linked to OLAF final case reports and other fraud suspicions in 2015. It has also issued reservations regarding the following programmes due partially to fraud suspicions (see list of reservations in Annex 7A): 2007CZ161PO008 – North West and Romania ERDF 2000-2006 (Transport Project, reputational-partial).

**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 performed in 2016-2017 according to the Joint Anti-Fraud Strategy so that DG Regional and Urban Policy will be able in 2017 to adapt its anti-fraud measures -if necessary- to continue to adequately protect the EU's financial interests.**
2.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.2 and 2.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

2.4.1 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, the Commission has put in place, since 2008, a series of steps with the goal of improving its supervisory role for structural actions.

For the 2007-2013 programming period, 2015 is the seventh year for which the programme audit authorities provided Annual Control Reports (ACRs) and audit opinions. DG Regional and Urban Policy carried out a detailed and thorough analysis of these documents, and could use after its validation process the audit opinions and error rates provided by audit authorities in the ACRs as one of the key elements for building its assurance.

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 2007-2013 programmes was also systematically discussed in the framework of the trilateral meetings. This pilot exercise carried out for the second 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. While the picture resulting from this review was globally positive (91% of the programmes were assessed as either good or acceptable), particular concern was expressed notably with regard to 1 Italian programmes (OP Campania) as well as for 1 programme for Romania (OP Environment), affected by issues notably related to poor governance which are seriously compromising their effectiveness.
### 2.4.2 Reservations and overall conclusion on assurance

#### Reservations and amount at risk

Regarding **shared management**, the situation is as follows:

**As regards the 2014-2020 programming period**, the estimated risk linked to the 2015 payments is nil as the risk is covered by the 10% retention applied on the interim payments. DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions.

**As regards the 2007-2013 programming period**, the estimated average risk linked to the 2015 payments for ERDF and Cohesion Fund is in the range of 3.0% to 5.6% which is comparable to last year which was between 2.6% and 5.3%.

Taking into account the corrective measures already implemented by Member States, the average cumulative residual risk for all 2007-2013 programmes is below 2% (1.0%). This indicator is not looked at ABB level but for each programme or group of programme.

DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions **except for 68 programmes** of the 2007-2013 programming period, due to the deficiencies detected in the management and control systems and / or a cumulative residual risk above 2% at the date of this report for **67 ERDF/CF programmes and 1 IPA-CBC programme**.

The quantification of the reservation for these programmes is EUR 231.2 million or approx. 0.7% of the interim payments made in 2015 for ERDF/CF and IPA-CBC 2007-2013.

**As regards the 2000-2006 programming period**, a reputational reservation is maintained for ERDF for 2 programmes and for the Cohesion Fund for 2 Member States in the Transport sector for which the proposed financial corrections which are above 5% of the allocation still have to be implemented. There is no financial risk in 2015, as final payments will be executed only when an agreement will be reached with the Member States concerned on the level of financial correction to be applied.

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 2015 payments. 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 two 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 2007-2013 for 68 programmes (62 ERDF/CF Operational Programmes impacting 13 Member States, 5 European Territorial Cooperation programmes and 1 IPA-CBC programme)</td>
<td>Financial</td>
<td>231.2 million</td>
<td>2.31 Billion</td>
</tr>
<tr>
<td>2</td>
<td>Management and control systems for the programming period 2000-2006 for 2 specific ERDF Operational Programmes in Italy and 2 Cohesion Fund sector in Bulgaria and Romania</td>
<td>Reputation</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
The reservations were quantified by using the validated error rates reported by the programme audit authorities (if available) or flat rates of 5, 10 or 25% on payments made in 2015 and affected by deficiencies to the programmes concerned.

1. Reservation concerning ERDF/Cohesion Fund and IPA-CBC 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>
</table>
| Title of the reservation, including its scope | A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013 for:
67 programmes in Belgium, Bulgaria, Czech Republic, France, Germany, Greece, Hungary, Italy, Poland, Romania, Slovakia, Spain, United Kingdom and for ETC programmes
B/ Reservation concerning one IPA-Cross-Border programme (Greece-Fyrom)
(These include partial/full and reputational/financial reservations. Detail at OP level is to be found on last page.) |
| Domain | Structural and Cohesion Funds and IPA-CBC carried out under 'Shared Management Responsibility' |
| ABB activity and amount | 13.03 ERDF, 13.04 Cohesion Fund,
2015 ERDF/CF interim payments made to 2007-2013 OPs: EUR 34.1 billion
2015 ERDF/CF interim payments made to 2007-2013 systems affected by reservations: EUR 2.31 billion (out of EUR 8.9 billion paid in 2015 for the concerned 67 Ops which are under reservations)
13.05 IPA-CBC
2015 IPA interim payments linked to IPA - CBC for the 2007-2013 period: EUR 40 million
2015 IPA interim payments made to systems affected by reservations: EUR 1.5 million |
| Reason for the reservation | Serious deficiencies in management and control systems for these programmes as detected by the programme audit authority and/or the Commission. In particular, these deficiencies concern one or several of the following key elements:
- compliance with public procurement rules and directives/State aid/revenue generated project/eligibility rules,
- procedures for the selection of operations,
- management verifications,
- certification activities,
- high error rates following audit of operations,
- audit work (unreliable error rate due to uncompleted work, procurement irregularities not detected)
- suspicion of fraud |
| Materiality criterion/criteria | Significant deficiencies at the level of the key elements of the management and control systems, error rate >5% or CRR >2%. |
| Quantification of the impact | Total quantification:
EUR 231.1 million corresponding to approx. 0.7% of the 2007-2013 ERDF/CF interim payments made in 2015.
EUR 0.09 million on IPA-CBC corresponding to 0.2% of the interim payments made for IPA - CBC in 2015. |
| Impact on the assurance | The weakness affects the legality and regularity of the payments concerned and the effective functioning of the management and control systems in place. Financial impact is mitigated through precautionary measures taken by the |

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<table>
<thead>
<tr>
<th><strong>Commission:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- interruption/suspension of payments pending the correction of the identified weaknesses by the Member States concerned;</td>
</tr>
<tr>
<td>- financial corrections applied to past expenditure statements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Responsibility for the weakness and its correction</strong></th>
</tr>
</thead>
<tbody>
<tr>
<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>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Corrective action</strong></th>
</tr>
</thead>
</table>
| The following corrective actions are taken for each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed:

**At Commission level**
- warning letters / interruption of payment deadlines / launch of suspension and correction procedures,
- complementary guidance and support for national authorities,
- identification of targeted remedial actions that needs to be carried out by the relevant authorities in the member States in order to remedy the deficiencies,
- audit work to check the ability of national auditors to fulfil their obligations,
- on the spot audits of operations or on systems on a risk-based approach

**At Member State level**
- implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies,
- audit by the audit authority (when considered reliable) of the effective implementation of remedial measures in management and control systems and of financial corrections when required.
# 2. Reservation concerning ERDF/Cohesion Fund management and control systems for the period 2000-2006 in some Member States

<table>
<thead>
<tr>
<th>DG/service</th>
<th>Regional and Urban Policy</th>
</tr>
</thead>
</table>
| **Title of the reservation, including its scope** | Reservation concerning the ERDF and Cohesion Fund management and control systems for the period 2000-2006:  
- in Italy as regards 2 ERDF programmes  
- in Bulgaria and Romania related to the Transport sector (Cohesion Fund) |
| **Domain** | Structural and Cohesion Funds carried out under 'Shared Management Responsibility' |
| **ABB activity and amount** | 13.03 ERDF and 13.04 Cohesion Fund  
Payments linked to the programmes / sectors in reservations: 0\(^{112}\) |
| **Reason for the reservation** | - significant corrections to be applied at closure (above 5%) for 2 Italian programmes  
- suspicion of fraud in the implementation of several projects in the Cohesion Fund (Transport sector in Romania)  
- significant corrections to be applied at closure for a project in the Cohesion fund (Transport sector in Bulgaria) |
| **Materiality criterion/criteria** | Significant deficiencies at the level of the key elements of the management and control systems, corrections above 5%. |
| **Quantification of the impact** | EUR 0 (as there were no payments made in 2015; the reservations are reputational). |
| **Impact on the assurance** | 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. |
| **Responsibility for the weakness and its correction** | 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). |
| **Corrective action** | For the programmes and sectors concerned, on-going discussions with the national/regional authorities on the financial corrections proposed by the Commission. In 2016, two hearings should take place for the OPs Campania and Sicilia. The Commission is about to send the Member State a proposal for final closure of the Irish programme with a financial correction based on the latest updated error rates provided by the programme audit authority. |

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\(^{112}\) The amounts paid in 2015 were not related to the projects potentially affected by the deficiencies.
2.4.3 Overall conclusion

In view of the control results and all other relevant information available, the AOD’s best estimation of the risks relating to the legality and regularity for all expenditure authorised in 2015 under the various management modes and before further financial correction is estimated between 2.5%\(^{113}\) and 4.7% for the reporting year (implying an approximate amount at risk between EUR 1 billion and 2 billion).

<table>
<thead>
<tr>
<th>DG REGIO</th>
<th>Scope: All payments made in 2015 (EUR million)</th>
<th>Risk range (2015, %)</th>
<th>Amount at risk average (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERDF /CF</td>
<td>Average</td>
<td>Maximum</td>
<td>Average</td>
</tr>
<tr>
<td><strong>Activity 1 - 2007-2013</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(interim)</td>
<td>34,094.5</td>
<td>3.0%</td>
<td>5.6%</td>
</tr>
<tr>
<td><strong>Activity 2 - 2000-2006 and before</strong></td>
<td>822.6(^{115})</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Activity 3 - 2014-2020</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(prefinancing)</td>
<td>4,929.6</td>
<td>None-prefinancing</td>
<td>0</td>
</tr>
<tr>
<td><strong>Activity 4 - 2014-2020</strong></td>
<td></td>
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<td></td>
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<tr>
<td>(interim)</td>
<td>468.6</td>
<td>Covered by 10% retention</td>
<td>0</td>
</tr>
<tr>
<td><strong>Cross border cooperation IPA – ENI 2014-2020</strong> (prefinancing)</td>
<td>33.0</td>
<td>None-prefinancing</td>
<td>0</td>
</tr>
<tr>
<td><strong>Solidarity Fund</strong></td>
<td>209.5</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>IPA-CBC</strong></td>
<td>40.0</td>
<td>1.5%</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>IPA</strong></td>
<td>257.2</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Urban Innovative actions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(prefinancing)</td>
<td>80.8</td>
<td>None-prefinancing</td>
<td>0</td>
</tr>
<tr>
<td><strong>Direct management and Turkish Cypriot community</strong></td>
<td>83.3</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>41,019.1</td>
<td>2.5%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

This expenditure will be 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.

Although it is not possible to identify the specific errors and amounts which will be effectively corrected, DG Regional and Urban Policy could assess its corrective capacity on the basis of the data built to support the assurance process of the bulk of its expenditure, i.e. the ERDF/CF 2007-2013, and which results in the calculation of a Cumulative Residual Risk (CRR 1% at end 2015).\(^{116}\)

As the payments made to 2007-2013 programmes represent more than 95% of all interim payments in 2015 (which accounts for 88% of the total payments of the year, the remainder being pre-financing at zero risk), the CRR calculated for the 2007-2013

\(^{113}\) Weighted Average Error Rate calculated as follows: payments per category of expenditures multiplied by the estimated error rates of the year.

\(^{114}\) The amount at risks are calculated on the amounts of interim payments made in 2015. In addition, as an amount of EUR 5.072 billion was cleared in 2015 for the ERDF/CF 2007-2013 programmes, DG Regional and Urban Policy has also estimated a risk range on this cleared amount. This was done using the same methodology than the one used for the interim payments. The risk range calculated is 2% to 4.3% (i.e. EUR 100 million to 217 million). For the amounts cleared for the 2000-2006 period, the risk is below 2%.

\(^{115}\) This includes EUR 345 million –pre-2000 cases lost in the Court of Justice.

\(^{116}\) The approach is more conservative this year compared to the one used in 2014. In 2014, it was based on a six year average of financial corrections which resulted in an estimated corrective capacity of 2.75%. It was mostly due to the fact that it included financial corrections and recoveries relating to previous programming periods when the amounts at risk were higher.
programming period is considered as the best indicator/information available to estimate the future corrective capacity of all ex-post controls that will be implemented after the Commission’s payments.

By applying the calculated CRR to all interim payments, DG Regional and Urban Policy’s conservative estimate of corrections for those 2015 payments will be at least EUR 660\(^{117}\) million.

In terms of comparison, the average in recoveries and financial corrections since 2009 represents EUR 970 million\(^{118}\) or 2.6% of the average payments per year over the same period (or 1.085 million if applied to the expenditure of the reporting year).

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, taking into account the multiannual character of programmes and despite the reservations outlined, which concern exclusively legality and regularity risks. 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.

### 2.4.4 Overall action plan

As a general rule, DG Regional and Urban Policy will continue to rigorously exercise its supervisory role by ensuring that Member States address the weakest points in their management and control systems, by:

- updating its audit risk assessment jointly with EMPL and MARE taking into account all available cumulative audit results and information;
- ensuring continuous review of the quality of the audits undertaken by the audit authorities and monitoring the single audit status granted to programmes so far and
- applying payment interruptions and proposing to the Commission to decide on suspensions of payments and financial corrections whenever necessary, unless Member States accept to apply the necessary financial corrections first.

In addition to the above and to the specific actions defined for each programme under reservation (as described in annex 7A), DG Regional and Urban Policy will continue to apply the following initiatives to mitigate the main risks and weaknesses identified and has taken action to address the absorption difficulties of some Member States via its task force on better implementation.

**Administrative capacity building and public procurement initiatives**

DG Regional and Urban Policy will continue to support Member States’ administrations in managing EU funds in particular through the following actions:

- in the areas of public procurement and state aid, actions plans will continue to be implemented. Key actions under the public procurement action plan will include monitoring of the ex-ante conditionality action plans on public procurement; cooperation with external experts like OECD on pilot projects in SK and BG; promotion of

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\(^{117}\) Estimated corrections = Amount at risk (1,021.6) - Interim payments (35,975.7)*CRR (1%) = 1,021.6- 359.8=661,8 million.

\(^{118}\) In this average, the “ex-ante” corrections reported are not taken into account. The average including the "ex-ante" corrections would be EUR 1,142 million or 3.1% of the average payments per year.
transparency and open data on public procurement. In addition, integrity Pacts\(^{119}\) will be set up as from 2016 in 11 Member States to help governments, businesses and civil society to make procurement procedures more transparent and efficient and reduce the risk of fraud and corruption. Under the state aid action plan actions will focus on monitoring of the ex-ante conditionality action plans; organisation of expert seminars and webinars in specific sectors\(^{120}\), and further knowledge development on administrative capacity.

- Actions to support further professionalization of the management of the funds include a study on an "EU Competency Framework for efficient management and implementation of ERDF/ Cohesion Fund" which includes a self-assessment tool to help Member States' administrations to identify competency gaps among their staff and define training and recruitment needs. Implementation of a strategic training programme on the new regulatory requirements for the 2014-2020 programming period will continue. Exchanges of expertise in the framework of the TAIEX-REGIO PEER2PEER\(^{121}\) instrument will be subject to an evaluation in 2016, which will enable to decide on the scope of its continuation.

**Ensure a genuine simplification for beneficiaries and programme implementation**

Simplification in the implementation of EU funds is a major block of "an EU budget focused on results" initiative. The regulations for the 2014-2020 period offer a broad range of opportunities for simplification and reduced administrative burden. These include a set of common rules for all ESI Funds, the extended use of simplified costs options, shorter retention period for documents for beneficiaries and the move towards e-cohesion. DG Regional and Urban Policy is currently assessing how the new provisions have contributed to a reduction of administrative burden for beneficiaries and to simplification. Several studies have been launched to contribute to the assessment on the uptake of the simplification measures. In addition, Commissioner Crețu has set up a High Level Group on Simplification for beneficiaries, whose objective is to analyse the implementation of simplification opportunities in Member States and regions and make recommendations to improve the uptake of simplification measures for 2014-2020 and on the way forward for post 2020. It is chaired by former Commission Vice-President Siim Kallas. To date, the High level group has met three times since 20 October 2015. They have discussed four topics in detail: e-Governance, simplified cost options, access to EU funding for SMEs and financial instruments. The High Level Group has already adopted its first conclusions and recommendations on the themes of e-Governance and simplified costs options. The conclusions will feed the ongoing internal discussion on enhanced simplification. Proposals to change in a very targeted way certain provisions governing the Funds will be made in 2016.

**Audit capacity initiative**

Over the years DG Regional and Urban Policy has reviewed the work of the most important audit authorities covering over 98% of ERDF and CF allocations. It is continuously monitoring the situation where the single audit status has been granted. On-the-spot re-performance of audits including at the level of beneficiaries, associated with the issuance of continuous advice, audit guidelines and methodological tools by the Commission services, has enabled comprehensive capacity-building for audit authorities since 2009. As a result, most audit authorities are now up to standards and provide the Directorate-General with reliable audit results, as demonstrated in 2015 (see section 2.3 above). In 2016 DG Regional and Urban Policy will continue to monitor the work of audit authorities through desk and on-the-spot audit work. This remains particular useful in view of the audit opinion for the closure of 2007-2013 programmes expected to be

\(^{119}\) Integrity Pacts were developed by the NGO Transparency International to support governments, businesses and civil society to improve trust and transparency in public procurement. In Cohesion Policy Integrity Pacts entail legally binding agreement between the Managing Authority and companies bidding for public contracts that they will follow a transparent and efficient procurement process.

\(^{120}\) such as RD&I, transport, ICT, energy and broadband.

\(^{121}\) This exchange instrument offers access to peer expertise to Member States' administrations involved in the management of the Funds through study visits, expert missions or workshops.
received in March 2017, and taking into account that most audit authorities will continue carrying out their functions for the 2014-2020 programmes.

The Directorate-General pursued during 2015 and will continue to pursue the organisation of fora for exchanges on audit issues and capacity building actions for the benefit of all audit authorities through targeted training on request, on issues such as audit of public procurement or State aid, recommended sampling technics for conclusive and reliable audit results and to ensure good implementation of 2014-2020 new features such as audit of performance indicators, e-cohesion etc.. Continuous feedback will be given to the audit authorities based on the assessment of the 2015 annual control reports and audit results for better understanding of the main weaknesses identified and dissemination of good practices within the audit community.

***********************
3. DECLARATION OF ASSURANCE

I, the undersigned, Walter DEFFAA, 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{122}.

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 2007-2013 programming period in 13 Member States, 5 European territorial cooperation programmes and 1 IPA CBC cooperation programme (see table next page)

- a reputational reservation concerning ERDF/Cohesion Fund management and control systems for the 2000-2006 programming period in 3 Member States (see table next page).

Brussels, 15 April 2016

Walter Deffaa

"Signed"

\textsuperscript{122} True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.
<table>
<thead>
<tr>
<th>Res. No.</th>
<th>MS Name</th>
<th>CCI</th>
<th>Title</th>
<th>Reservation AAR 2015</th>
</tr>
</thead>
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<tr>
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<td>Development of the Competitiveness of the Bulgarian Economy</td>
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<td>Czech Republic</td>
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<td>Central Moravia</td>
<td>Rep-Full</td>
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### 2000-2006 PROGRAMMING PERIOD, ERDF

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### 2000-2006 PROGRAMMING PERIOD, CF

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