



European
Commission

Annual Activity Report 2020

DIRECTORATE-GENERAL REGIONAL AND
URBAN POLICY

Table of Contents

THE DG IN BRIEF	3
EXECUTIVE SUMMARY.....	4
A. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives	4
B. Key Performance Indicators.....	6
C. Key conclusions on financial management, internal control and assurance process.....	9
D. Provision of information to the Commissioner.....	11
E. Specific actions on COVID-19.....	11
1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES.....	12
1.1. Contribution to economic, social and territorial cohesion.....	12
1.2. Mitigating the impact of the COVID-19 pandemic.....	13
1.3. Delivery of Commission priorities	15
2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL	26
2.1. Financial management and internal control	26
2.1.1. Control results	38
2.1.1.1. Control effectiveness as regards legality and regularity	38
A. Shared management 2014-2020	39
B. Shared Management 2007-2013	51
C. Conclusion on the protection of the EU budget in 2020	52
2.1.1.2. Fraud prevention, detection and correction	55
2.1.1.3. Other control objectives	57
2.1.1.4. Efficiency of controls	58
2.1.1.5. Economy (cost of controls).....	58
A. Shared Management	58
B. Indirect management	59
C. Direct management	59
D. Initiatives to improve economy and efficiency of financial and non-financial activities	59
2.1.1.6. Conclusion on the cost-effectiveness of controls.....	60
2.1.2. Audit observations and recommendations.....	61
A. European Court of Auditors	61
B. Internal Audit Service (IAS)	63
2.1.3. Assessment of the effectiveness of internal control systems	64
2.1.3.1. Main findings of the 2020 annual assessment	65
2.1.3.2. Conclusions about REGIO's internal control framework.....	66
2.1.4. Conclusions on the assurance	66
2.1.4.1. Review of the elements supporting assurance.....	66
2.1.4.2. Reservations and overall conclusion on assurance.....	66
2.1.5. Declaration of Assurance and reservations.....	69
2.2. Modern and efficient administration – other aspects.....	73
2.2.1. Human resources management.....	73
2.2.2. Digital transformation and information management.....	74
2.2.3. Sound environmental management.....	78

THE DG IN BRIEF

Directorate-General Regional and Urban Policy (REGIO) reports to Commissioner Ferreira, responsible for Cohesion and Reforms. With approximately 700 staff members, REGIO is composed of seven directorates.

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

REGIO delivers its objectives through management of programmes financed under the **European Regional Development Fund (ERDF)**, the **Cohesion Fund (CF)** and from 2021 the **Just Transition Fund (JTF)**. The implementation of these funds allows fulfilling the long-term objectives of strengthening economic and social cohesion in the EU. Thanks to the policy's specific features (e.g. alignment of investment to EU-wide priorities, concentration of resources on less developed and transition regions, multiannual programming, place-based approach, multi-level governance, interregional cooperation), the supported investments bring strong European added value, while respecting subsidiarity. The funds will be reinforced in 2021/22 by REACT-EU, financed by Next Generation EU, to support crisis repair measures.

REGIO is also managing the cross-border components of the **Instrument for Pre-accession Assistance (IPA-CBC)** ensuring EU financial and technical support for reforms in accession countries; the cross-border components of the **European Neighbourhood Instrument (ENI-CBC)** facilitating continuous cross-border cooperation with neighbouring countries, the **European Union Solidarity Fund (EUSF)** granting financial assistance to Member States and accession countries, mainly in the event of major natural disasters and **Urban Innovative Actions**, aimed at identifying and testing new solutions through pilot projects in cities. REGIO will also manage from 2021, the third pillar of the **Just Transition Mechanism (JTM)** – public sector loan facility and a new **Interregional Innovation Investment Instrument**. The policy is implemented under different management modes:

- **Shared management** (ERDF, CF and JTF from 2021; EUSF; IPA-CBC; ENI-CBC): the co-legislators fix the legal framework and overall funding and determine the allocations by Member States and category of region. The Commission adopts programmes and cooperates with Member State administrations in charge of the programmes' implementation including the selection of operations, audit and control and achievement of objectives.

- **Indirect management** (Urban Innovative Actions – to become the European Urban Initiative in 2021-2027): limited budget is channelled through this mode.

- **Direct management** (technical assistance; 3rd pillar of JTM, investments under InvestEU – Member State's compartment, interregional innovation investment instrument): a limited share of funding is implemented under direct management.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of REGIO to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it makes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties¹.

A. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

2020 was one of the most challenging years in the history of the European Union: the biggest pandemic for a century, the worst economic crisis for decades. Regional policy responded fast and strong, with first support already on the ground in April.

Funding from the ERDF, the CF and the EUSF played a central role to reduce the impact of the COVID-19 crisis, foster convergence and make sure no one is left behind. Exceptional flexibility was offered under the **Coronavirus Response Investment Initiative** CRII(+), resulting in close to EUR **20 billion** mobilised to counter the crisis. A EUR 7.6 billion immediate increase of liquidity was provided and many programmes opted for 100% EU co-financing. The Commission also proposed a series of measures under the **Recovery Assistance for Cohesion and the Territories of Europe initiative** (REACT-EU), financed under Next Generation EU, helping to bridge the gap between first crisis response measures and longer term recovery.

Regional policy² also continued to deliver on its primary objective of strengthening the economic, social and territorial cohesion by reducing disparities between regions. The policy has over the years offered expertise in transition, structural transformation and administrative capacity building.

By the end of 2020, the total available envelope for regional policy of more than EUR **350 billion**, was allocated to projects implemented under 2014-2020 programmes. The **payment rate**³ has continued to increase throughout the year reaching **52%**.

Over 2021-23, these means will be topped up by EUR **50.6 billion** under REACT-EU to finance crisis repair and recovery measures.

Almost EUR **29 billion** of ERDF and CF resources are planned to be delivered through **financial instruments** by 2023, constituting 8.3% of the overall allocation, creating an efficient and sustainable complement to grant-based support. The use of financial instruments have also accelerated due to CRII(+) measures.

¹ Article 17(1) of the Treaty on European Union.

² Where reference is made to REGIONAL POLICY throughout this document, activities of REGIO linked to ERDF and Cohesion Fund investments are meant. Where COHESION POLICY is mentioned, reference is made to REGIO and EMPL combined efforts through ERDF, Cohesion Fund and ESF investments.

³ Initial and annual pre-financing and interim payment claims submitted by Member States/amounts decided

The Funds, managed by REGIO, provide the biggest investment support for Europe's ambitious energy and climate policies under the **European Green Deal**, supporting regions and cities on their path to climate-neutrality and circular economy by 2050 and contributing to a just transition, also in line with the objectives of the EU's Recovery plan. ERDF and CF investments in climate action are set to represent EUR **51 billion** by 2023. Support to the renovation of buildings remains a key priority, in particular in the framework of the Commission Communication on a 'Renovation Wave'.

Cohesion Policy has a particular role in managing transition towards climate-neutrality in Member States and regions. The **JTF**, starting from 2021, with an allocation of EUR **19.3 billion**, aims at alleviating the social and economic impacts of the transition in the regions most dependent on fossil fuels and carbon-intensive industries, leaving no one behind. The Just Transition Platform was successfully set up in June 2020, providing technical assistance for the implementation of the JTM.

Regional policy is the largest EU source to modernise European **Network Infrastructures in Transport and Energy**, creating a more connected Europe and adapting it to new challenges for sustainable and smart mobility and energy supply. Over EUR **67 billion** is allocated to 2014-2020 programmes to address these.

The ERDF is also the main investment tool for the digitalisation of industry and SMEs, as well as the public sector and for the rollout of broadband. By 2023, investments into the **digital economy** from the 2014-2020 programme should reach more than EUR **16 billion**.

EUR **62 billion** is allocated to strengthen **research, technological development and innovation**. Over EUR **57 billion** will be invested in improving **business environment and entrepreneurship** from the 2014-2020 programmes.

In view of the new programming period, REGIO worked closely with co-legislators to have the **legislative framework for cohesion policy 2021-2027** in place as soon as possible. In December 2020, political agreement was reached on the **Common Provisions Regulation**, the **ERDF/CF**, the **JTF** and the **Interreg** regulations, paving the way for their adoption by the co-legislators in the first half of 2021 and the swift launch of the **2021-2027 programmes**. These programmes will play an important role in the long-term recovery of the European post COVID-19 economy and address its social impacts. Programming efforts and informal dialogues with Member States continued in 2020 despite the difficult circumstances and conflicting priorities.

REGIO's involvement in the **European Semester** continued in 2020, through the preparation of the investment guidance for the Just Transition Fund. The link with the EU's economic governance was further strengthened through the work in the context of the **Recovery and Resilience Facility** process.

Overall ERDF support to **health care** increased dramatically from originally planned EUR 5.6 billion to over EUR **10 billion** allocated currently thanks to the CRII(+) flexibilities.

Regional policy strives for direct contact with the regional and local level. About EUR **36 billion** is programmed for targeted and coordinated investments, supporting more than 1,600 integrated territorial and local strategies.

It is also important that EU policies are designed and implemented to take into account the challenges and potential of **cross-border regions**. Under the Border Focal Point, a compendium of 43 border obstacle cases was prepared. In order to foster the implementation of the Strategic Partnership with the **Outermost Regions**, REGIO continued mainstreaming the outermost regions' specificities across EU policies.

In order to support **a stronger Europe in the world**, REGIO engaged in policy dialogues and cooperation with EU strategic partners, enlargement and neighbouring countries.

B. Key Performance Indicators

Progress continued on key policy performance indicators⁴, also broadly in line with trends observed during the 2007-2013 period.

REGIO's online **ESIF Open data platform**⁵ offers transparent, timely and reliable data on implementation and achievements of cohesion investments. It collects information measured and reported by the Member States. Since 2020, the platform also includes a specific section on COVID-19 and CRII(+) support. ERDF and CF-specific performance data can also be found in the **2022 Programme Statements**. REGIO has defined the below KPIs in its Strategic Plan 2020-2024.

Note on the interpretation of targets and achievements (KPI charts below)

Performance information is transmitted to the Commission by Member States once per year in the Annual Implementation Reports (AIR). The latest available figures are from 2019. 2020 data will become available in July 2021 (upon submission of AIRs for 2020).

Target (end-of-period): at the beginning of the programming period (2014), targets are defined for indicators which the projects/programme should deliver by the end of the programming period. In practice, due to the N+3 rule, 2014-2020 implementation continues until end-2023. These targets are periodically fine-tuned and may explain variations compared to last year's (2019) AAR.

Forecasted achievements of selected projects: national authorities select projects for support under the programmes. These projects undertake to deliver achievements in the future and at the latest by end-2023.

Reported achievements: when implemented, the actual achievements of projects are reported to the Commission.

KPI 1 – With 19.2%, the proportion of **climate-related decided spending over total decided spending** remains stable in 2020 and is only slightly below the 2024 objective of 20%.

⁴ Reported achievements = the sum of achievements linked to CF and ERDF programmes reported by each programme, regardless of whether or not targets had been set. It expresses the most recent available estimate of the total achievements

⁵ <https://cohesiondata.ec.europa.eu/>. Figures are constantly updated and may slightly differ from the ones in this report.

General Objective 1 – A European Green Deal

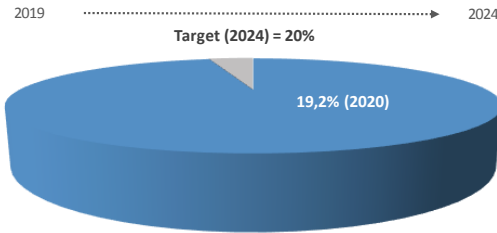
Specific Objective 1.1 – Investments in a climate-neutral, clean and circular economy for regions and cities to reach sustainability

KPI 1

Proportion of climate related investments over total ERDF/CF allocation⁶



Source: REGIO Climate tracking



KPI 2 - The number of **enterprises receiving support** shows good progress. The reported achievements grew by 48% compared to the previous year.

General objective 2 – A Europe fit for the digital age

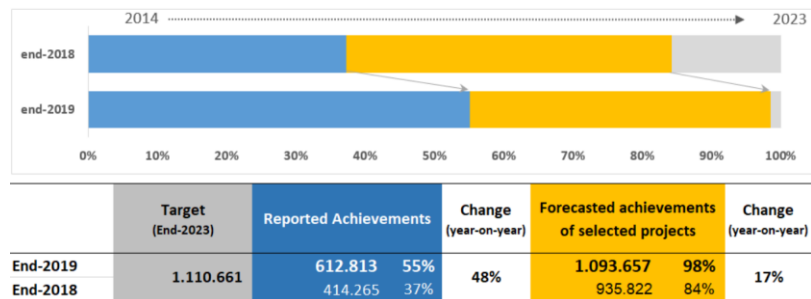
Specific Objective 2.2 – Innovative and smart economic transformation across the EU

KPI 2

Number of enterprises receiving support



Source: 2014-2020 common indicator 1



KPI 3 – Investments in **health and social care, education, skills and housing** also picked up with the reported achievements progressing by 41%.

General objective 3 – An economy that works for people

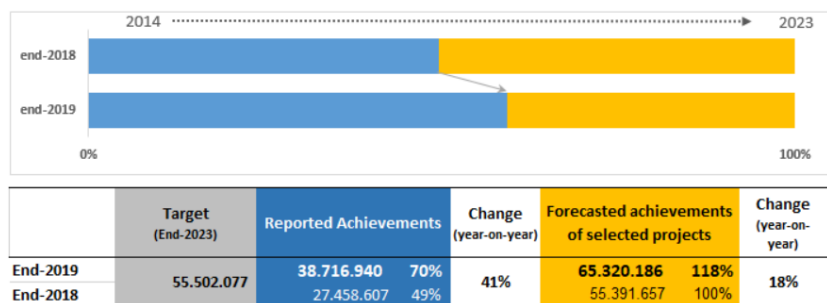
Specific Objective 3.4 – Investments in health and social care, education, skills and housing to help address demographic change and social and territorial inequalities and to enhance quality of life

KPI 3

Population covered by improved health services



Source: 2014-2020 common indicator 36



KPI 4 - The number of additional **households with broadband access** shows good progress. The reported achievements evolved by 53% compared to the previous year.

⁶ Envelope dedicated to climate-related selected projects (EUR 56.2 billion) in % of total ERDF and CF resources decided (EUR 293.2 billion).

General objective 2 – A Europe fit for the digital age

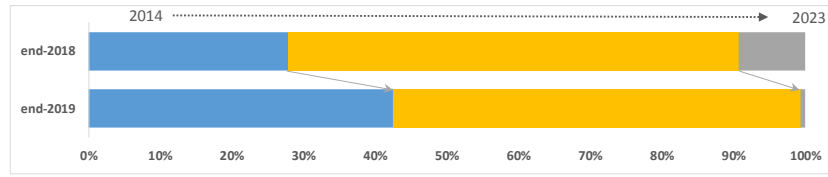
Specific Objective 2.2 – Innovative and smart economic transformation across the EU

KPI 4

Additional households with broadband access⁷



Source: 2014-2020 common indicator 10



	Target (End-2023)	Reported Achievements	Change (year-on-year)	Forecasted achievements of selected projects	Change (year-on-year)
End-2019	10.769.090	4.571.786 42%	53%	10.705.589 99%	10%
End-2018		2.989.418 28%		9.766.005 91%	

KPI 5 - The residual total error rate is 2.1 %. This could reach a maximum of 2.6% due to further risks under investigation. The material level of residual error is due to 63 programmes for which REGIO has evidence or indications at this stage that additional financial corrections are or may be necessary (and will be launched as from the signature of the AAR) to bring the residual total error rate down to 2%⁸.

General objective 7 – Modernising the administration

Sound financial management

KPI 5

Residual total error rate in shared management⁹



Source: See section 2 on the calculation of the confirmed residual total error rate for the accounting year 2018-2019 (programmes 2014-2020)

Estimated risk at closure¹⁰



Source: See section 2 of this report on the calculation

	Target	Latest confirmed results AAR 2020
Residual total error rate in shared management ⁹	< 2%	2.1 % up to 2.6 % (maximum risk)
Estimated risk at closure ¹⁰	<2 %	1.2 %

KPI 6 – The project selection rate for 2014-2020 programmes shows the share of funds committed to projects over the allocation for the whole period.¹¹

⁷ Of at least 30Mbps.

⁸ For the estimate of the maximum risk, flat rates are used until finalisation of ongoing verifications or audit contradictory procedures.

⁹ = estimated risk at payment. While the objective to reach 2% of residual errors each year for each programme was not achieved, REGIO's assurance system allows to identify the programmes considered at risk, with residual levels of error still above 2%. This enables REGIO to apply the necessary additional financial corrections, to ensure overtime that all programmes reach for each year a residual risk below 2%.

¹⁰ Estimated risk at closure = residual total error rate - necessary financial corrections to bring every residual total error rate down to 2%.

¹¹ To achieve 100% payment rate of EU funds at closure, Member States often use "overbooking" that translates into contracting and implementing more projects than EU funds available. This also allows to counter uncertainties linked to project implementation.

General Objective 3 – An economy that works for people

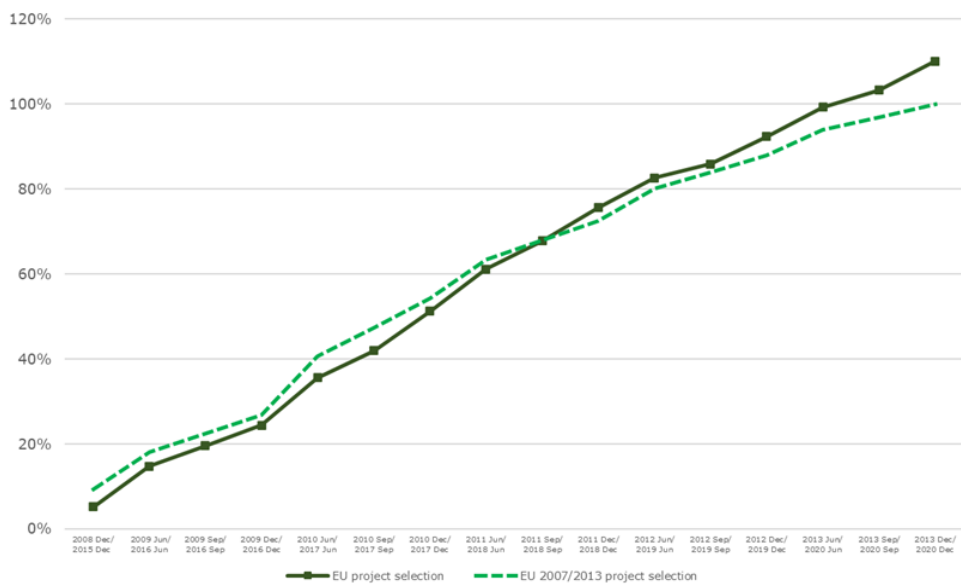
Specific Objective 3.1 - Full, effective and compliant use of funds

KPI 6

2014-2020 project selection rate



Source:
REGIO AIR
Scorecard



C. Key conclusions on financial management, internal control and assurance process

In accordance with the governance arrangements of the European Commission, 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.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The Financial Regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. REGIO has assessed its internal control systems during the reporting year and has concluded that the **internal control principles are implemented and function as intended**. Refer to section 2.1.3 for further details.

In addition, REGIO has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and by the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance about the achievement of control objectives.

In particular, for programmes under shared management (98% of the relevant expenditure in the reporting year), REGIO carried out **for each ERDF/CF programme** an assessment on the effectiveness of management and control systems and of the legality and regularity of expenditure entered in the accounts accepted in the reporting year. This approach allows **to disclose in this report the differentiated situation on the assurance obtained and individual risk rates confirmed for each programme**, by identifying which programmes function well, which still present deficiencies and what type of remedial actions are needed, and for which programmes further financial corrections are necessary

or likely to be needed based on the completed control cycle.

Based on a review of all available audit results and a programme by programme analysis, REGIO concludes that:

- **The estimated average error rate** (risk at payment) for the 2020 relevant expenditure for all management modes **is between 2.1% and 2.6%** (taking account of additional risks and on-going audit contradictory procedures). The decreased error rate compared to last year illustrates that corrective and remedial actions taken have had a positive effect.
- A material overall level of irregularities thus remains in the ERDF/CF accounts accepted in 2020, despite the various control layers implemented by managing authorities in first instance. REGIO has however robust audit evidence (including on the basis of its risk-based compliance audits) **showing a differentiated situation for its 293 programmes**: the confirmed residual error rate is below materiality for 225 programmes, but still above for 63. In most cases this did not question the reliability of the audit work carried out by the concerned audit authorities¹². For the concerned programmes REGIO will apply appropriate additional financial corrections so that ultimately the risk at closure for all programmes will be below 2% (to reach 1.2% according to REGIO's estimate). For previous years the risk at closure is now confirmed to be below 2%. This reflects REGIO's multiannual corrective capacity mechanism.
- By end 2020, management and control systems function (sufficiently) well for 262 programmes¹³ but present serious deficiencies for 30 programmes (15% of expenditure under assessment). **Weaknesses remain mainly at the level of managing authorities** or their intermediate bodies (deficiencies in the first level controls), but REGIO notes an **improved situation overall** compared to the last two years as a result of continuous efforts by programme authorities, with the Commission's support. **Weaknesses in the audit work** were also identified for eight audit authorities (or their control bodies) in charge of auditing 5.6% of ERDF/CF expenditure¹⁴. The tables on pages 36-37 present the concerned programmes and authorities.

Each time deficiencies are identified, REGIO requires **targeted remedial actions** to improve the functioning of the (part of the) system with a view to prevent recurring irregularities. Reservations are made in line with applicable criteria and are only lifted once sufficient corrective measures have been taken. The fact that 87% of REGIO reservations are upheld in less than two years shows the effectiveness of corrective measures put in place. Refer to Section 2.1 for further details.

In conclusion, **management has reasonable assurance that, overall, suitable controls are in place and working as intended**; risks are being appropriately monitored and mitigated and necessary improvements and reinforcements are being implemented.

¹² Apart from 14 of these programmes covered by 6 audit authorities.

¹³ This includes 7 programmes with only partial deficiencies.

¹⁴ This includes the six audit authorities referred to in footnote 12 above.

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

1. a reservation concerning ERDF/CF management and control systems for 34 programmes of the 2014-2020 programming period in 10 Member States and the UK, 2 ETC and 2 ENI-CBC programmes;
2. a reservation concerning ERDF/CF management and control systems for 9 programmes of the 2007-2013 programming period in 5 Member States and 1 IPA-CBC programme.

D. Provision of information to the Commissioner

In the context of regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Ferreira, responsible for Cohesion and Reforms.

E. Specific actions on COVID-19

In 2020, Europe was heavily impacted by the COVID-19 pandemic. The Commission has proposed a strong and coordinated response to the health crisis as well as to the impact on Europe's economy and society. COVID-19 has also posed challenges as regards performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the EU budget ensuring that appropriate mitigating measures were put in place. Funding from the ERDF, CF and EUSF played a central role in 2020 to reduce the impact of the COVID-19 crisis, foster convergence and make sure no one is left behind.

Exceptional flexibility for the use of the ESI Funds was offered under **CRII(+)**, resulting in close to EUR **20 billion** mobilised to counter the crisis. Flexibility measures enabled Member States to mobilise non-utilised funds and reallocate them to the most urgent needs. The possibility of up to 100% EU financing was introduced exceptionally to address liquidity shortages and pressure on public finances. In addition to CRII(+), the Commission also proposed a series of measures under the **REACT-EU**. This instrument helps to bridge the gap between first crisis response and longer term recovery. Additional EUR **50.6 billion** will be added to the ongoing 2014-2020 cohesion policy programmes, providing vital, rapid and additional support to Member States and regions. REACT-EU continues with emergency support for the health sector, SMEs and short-term employment schemes, while introducing the possibility to step up digital and green investments as part of crisis repair.

The restrictions and constraints encountered by auditors in carrying out their audit work due to COVID-19 bore potential risk on the **assurance process** for 2020-2021. In response, REGIO offered flexibilities to audit authorities, to cope with negative repercussions on Member States' assurance. Ultimately, such flexibility was used in only a limited number of programmes, and sufficient audits could be carried out in time, though with higher efforts. REGIO's audit plan was mostly performed remotely, making it possible, even if more burdensome and resource intensive, to fully cover the scope of the planned audit activities, with no or very limited bearing on the assurance provided this year. The situation will be carefully monitored in 2021 since remote audits and controls could, over time, reduce the level of assurance obtained by programme authorities and by the Commission.

1. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

Regional policy programmes are delivered through shared management. Programmes are agreed with the European Commission once every seven years but can be adapted whenever necessary. They are implemented over a ten-year period by Member State authorities who report annually on their progress. Policy achievements are the result of a combination of a number of factors including the policy, the quality of implementation by the implementing bodies, the framework conditions for implementation in the Member States and the economic context.

1.1. Contribution to economic, social and territorial cohesion

One of the main aims of regional policy, as provided for in the Article 174 of TFEU is to **reduce the economic and social disparities** between EU regions and the backwardness of the least favoured ones. The performance of EU regions is constantly monitored and every three years, the main observations are collected in the Cohesion Report, which offers a wide overview on the state of the Union's regions and territories (the next one will be published in 2021).

The need for the EU to reduce regional disparities is very topical, as disparities seem to increasingly threaten citizens' support for the European project. It is also more than relevant in the current context of the pandemic. Regional policy proves on a continuous basis that it can be very responsive to crisis situations at EU or Member State level.

Regional policy has been **a major source of public investment** in many Member States. The policy continues to support economic recovery and convergence in the European Union and acts as catalyst for further public and private funding through its co-financing requirement, leverage and its role in creating investor confidence. For 2014-2020, the funding channelled by the policy exceeds 50% of public investment in a series of less developed Member States.

Regional policy also represents good value for money: once the expected impact of the policy will have materialised, a return of close to **3 euros of additional GDP** for each euro invested in regional policy will be generated¹⁵.

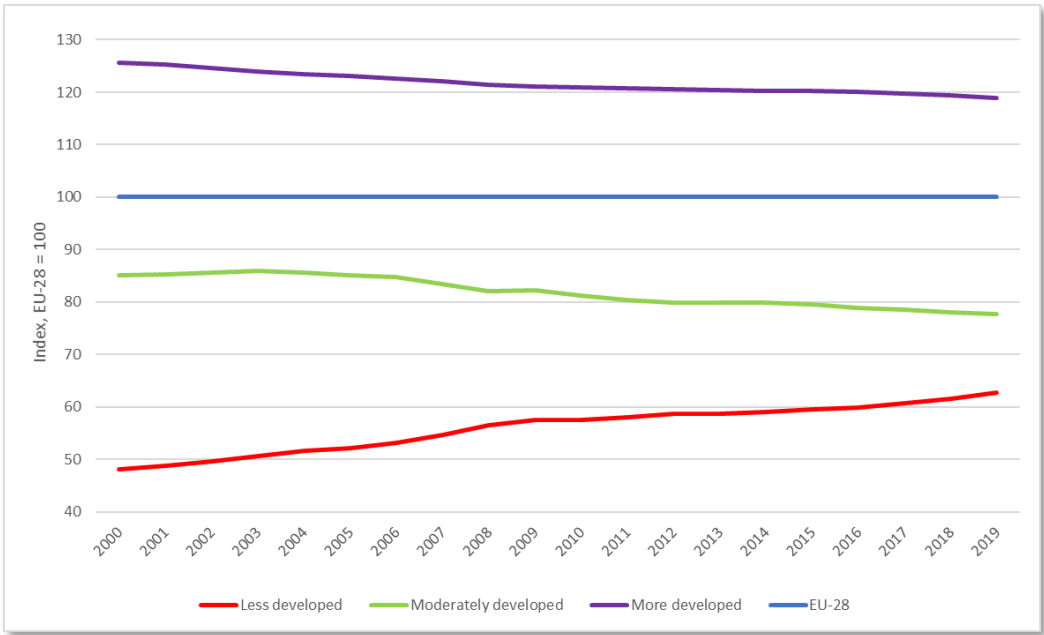
Regional policy effectively contributes to **convergence**. It boosts economic growth, creates jobs and improves quality of life. The impact of regional policy is particularly significant in cohesion countries¹⁶, contributing to a significant convergence of GDP per head. But non-cohesion countries including net payers to the EU budget also benefit from **spill-overs** generated by investments in less developed areas, both directly (through selling investment goods) and indirectly, owing to increased purchasing power of households and from increased trade¹⁷.

¹⁵ Source : [SWD \(2016\)318, 19.9.2016 : Ex-post evaluation of the ERDF and CF 2007-13](#)

¹⁶ Cohesion countries = Member States (MS) benefiting from the Cohesion Fund: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia

¹⁷ By 2023, the impact of 2007–2013 programmes is estimated to be around 0.12% of GDP in non-cohesion countries, of which around a quarter is due to spill-overs from spending in cohesion countries.

In 2019, GDP per head in the group of less developed regions had reached 63% of the EU average despite the economic crisis. In contrast, the group of moderately developed regions started drifting away from the EU average after the economic crisis. In 2019, GDP per head in the moderately developed regions corresponded to around 78% of the EU average.



GDP per head, less-, moderately and more developed regions, 2000-2019¹⁸

1.2. Mitigating the impact of the COVID-19 pandemic

Ensuring quality investment and compliant delivery is essential. Amidst the COVID-19 pandemic, cohesion policy is crucial to ensuring a balanced recovery, fostering convergence and making sure no one is left behind. Funding from the ERDF, the CF and the EUSF played a central role in 2020.

In response to the COVID-19 pandemic, specific measures were taken to mobilise investments in the healthcare systems and other vulnerable sectors of Member States' economies. Exceptional flexibility for the use of the ESI Funds was offered under the CRII(+). Specific measures have enabled Member States to mobilise non-utilised funds and focus them on the most urgent needs (saving lives, preventing job losses through short-time work schemes and supporting SMEs). In addition to CRII(+), the Commission also proposed a series of measures under REACT-EU. This instrument helps to bridge the gap between first crisis response measures and longer term recovery. Additional **EUR 50.6 billion** (in current prices) will be added to the ongoing 2014-20 cohesion policy programmes (ERDF, ESF, FEAD), providing vital, rapid and additional support to Member States and regions.

CRII(+) programme amendments were adopted in record time resulting in **the redirection of close to EUR 20 billion** (in current prices) **of cohesion policy funds** (of which around

¹⁸ Source: Eurostat, JRC and REGIO calculations

EUR 14.2 billion from ERDF and CF), to counter the crisis caused by COVID-19. In total, 232 amendments of 181 programmes were recognised as COVID-19 relevant from 24 Member States and the UK.

The vast majority of Member States have used at least one form of flexibility, such as extended deadlines for project implementation and for project calls, accelerating payments to beneficiaries and have used the opportunity to submit COVID-19 related expenses for reimbursement with retroactive eligibility since 1 February 2020. The use of financial instruments has also accelerated due to CRII(+) measures. Examples of flexibilities and results of simplified procedures:

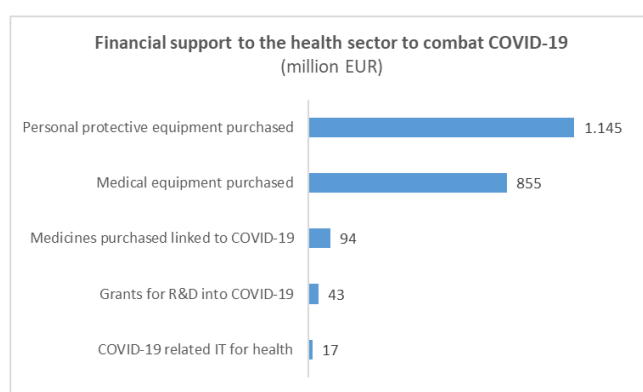
- EUR 7.6 billion immediate increase of liquidity was provided;
- Almost 170 cohesion policy programmes have opted for 100% EU co-financing;
- EUR 5.7 billion has been transferred between Funds and between categories of regions allowing for greater flexibility in using the available resources;
- Payments to financial instruments increased by EUR 3.5 billion.

In October 2020, the Commission launched a dedicated webpage **Coronavirus Dashboard**¹⁹, hosted on the ESIF Open Data Platform, with detailed information on the EU cohesion policy response to the crisis. This was possible as a result of the REGIO initiative to propose to the Member States a list of COVID-19 specific indicators, the use of which allows aggregation at EU level.

Based on these data, the main areas of investments from **ERDF** are:

- **health sector** to secure personal protective equipment, finance testing and support hospitals by purchasing additional medical equipment.

EUR 4.7 billion of ERDF was reallocated for health actions which is a net increase of EUR 4.5 billion for the EU-27 and the UK.



*COVID-19 / CRII(+): Financial Support to the health sector to combat the COVID-19 pandemic*²⁰

¹⁹ <https://cohesiondata.ec.europa.eu/stories/s/4e2z-pw8r>

²⁰ Source: <https://cohesiondata.ec.europa.eu/stories/s/4e2z-pw8r> (total public cost - ERDF only)

- **business sector** by providing working capital to SMEs, facilitating digitalisation and setting up or re-designing financial instruments

EUR 9.6 billion of ERDF was reallocated for business support which is a net increase of EUR 2.7 billion for the EU-27 and the UK.

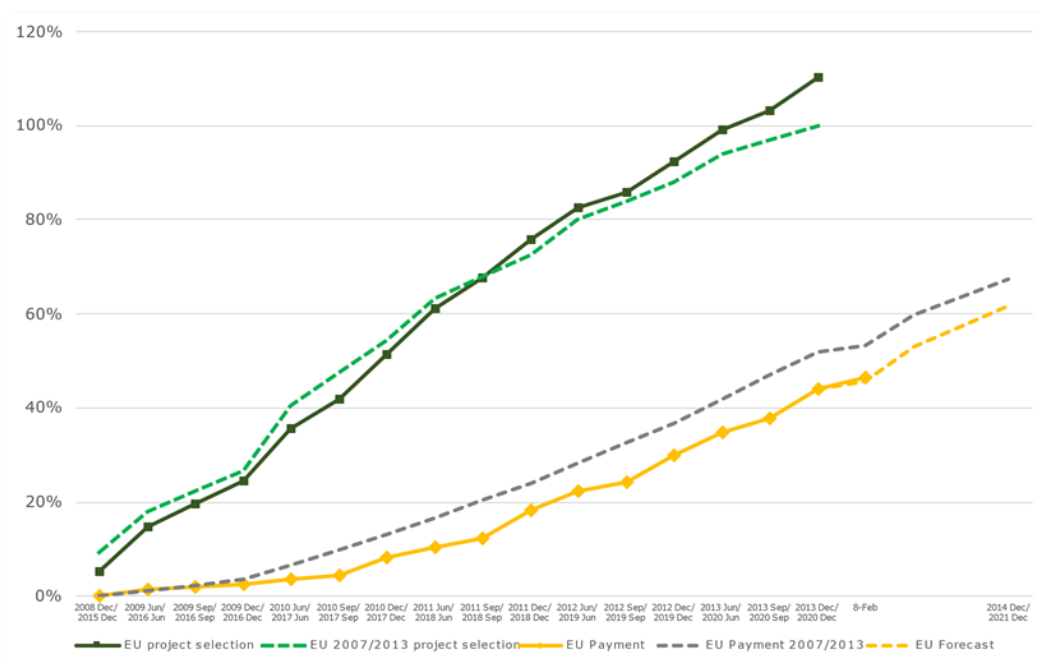
In addition, in response to the COVID-19 outbreak and the urgency to address the associated public health crisis, the Commission proposed in March 2020 to extend the scope of the EUSF to encompass major public health emergencies. In total, 19 Member States and three accession countries applied for assistance from the Fund relating to the major health emergency caused by COVID-19. An amount of EUR 133 million constituted advance payments for seven COVID-19 related applications. Further payments will be made in 2021.

REGIO will continue its efforts to counter the effects of the COVID-19 pandemic and support recovery in 2021 both through the implementation of CRII(+), REACT-EU and EUSF, as well as through the new 2021-2027 programmes. The Commission stands with the Member States and regions to face the challenge together and to make every effort to use available funds to alleviate the impact of the pandemic and preparing a green, digital, fair and resilient recovery.

1.3. Delivery of Commission priorities

Regional policy, representing almost one quarter of the total EU budget, continued throughout 2020 to contribute to the Commission priorities through investments in key policy areas. 2014-2020 investments will run until 2023, and quantitative targets are set until the end of that year.

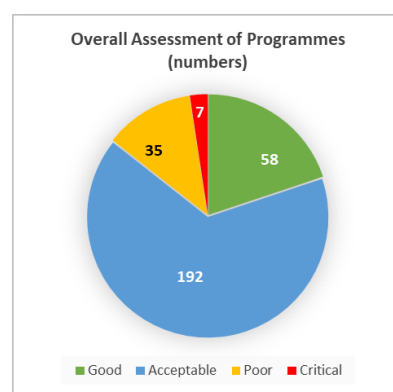
By the end of 2020, the total available envelope for regional policy of more than EUR **350 billion** (ERDF+CF & national co-financing) was allocated to projects selected under 2014-2020 programmes.



The **payment rate**²¹ has continued to increase throughout the year. Both the amount claimed by Member States and the payments made were above the initial expectations, partly due to the CRII(+) measures (100% co-financing rate for the 2020-2021 accounting year in 110 REGIO programmes). The total net cumulative payments (including advances) from the Commission to Member States for 2014-2020 programmes at end-2020 totalled EUR 136 billion²², almost **52%** of the combined ERDF and CF allocation. The gap between the overall interim payment claims rate of 2007-2013 and 2014-2020 at the end of the 7th year of implementation is 7.2 p.p.

REGIO has received six requests for exception to de-commitment under Article 87 of the CPR for programmes, which failed to reach their n+3 target at the end of 2020. All requests have been accepted.

In line with the “Strategy to manage change towards a more performance-based culture”, REGIO continued with the assessment of performance of programmes taking into consideration information submitted by Member States via the Annual Implementation Reports. Based on the overall assessment of 292 programmes, 42 were identified as ‘poor’ or ‘critical’. In total, 26 programmes were classified as ‘in difficulty’ and placed under close monitoring by the REGIO Board of Directors and tailored corrective actions were designed. REGIO also actively contributed to the corporate exercise on establishing a performance framework for the EU budget for the 2021-2027 MFF.



General objective 1: A European Green Deal



REGIO provides the biggest EU investment support for Europe’s ambitious energy and climate policies, supporting regions and cities to reach the targets of climate neutrality and circular economy by 2050 and contributing to a just transition, also in line with the objectives of the EU’s Recovery plan.

Investments in climate action are set to represent EUR **51 billion**²³ by 2023 (in 2014-2020 programmes²⁴).

- 7.5 million people already covered by investments in flood protection (45% of 2023 target).
- conservation of habitats already for 6 million hectares (70% of 2023 target).

In addition, the contribution to climate and environment related projects is expected to exceed EUR 100 billion, including financing research into greening of the economy and support smart economic transformation, over the 2021-2027 period.

²¹ Initial and annual pre-financing and interim payment claims submitted by Member States/amounts decided

²² Total Initial prefinancing + total annual prefinancing + total interim payments - total recovered

²³ This amount and all following ones are ERDF + CF and include national co-financing

²⁴ The proportion of planned climate-related investments from total ERDF and CF resources decreased from EUR 55 billion to EUR 51.4 billion in 2020 as a result of reallocations addressing the immediate COVID-19 response for health and SME support. The addition of REACT-EU in 2021 is expected to redress this decline in the absolute amount allocated to climate action.

REGIO contributed to environmental initiatives, such as the new Circular Economy Action Plan, the Biodiversity Strategy and the Zero-Pollution Ambition as well as to the adaptation strategy and the Climate Pact.

ERDF and CF provide main EU funding to **sustainable energy**, in particular in energy efficiency and renewable energy.

- projects resulting in 2,100 MW of renewable energy are already implemented (29% of the 2023 target).

Ireland: Mary Elmes Bridge across the River Lee in Cork City

In Ireland, the Mary Elmes Bridge delivers much-needed multi-modal access across the River Lee in the heart of Cork City. The bridge promotes greener transport by providing pedestrian and cycle access between two significant parts of the city for up to 11,000 people daily. The project received a EUR 1.5 million ERDF grant.

Support to the renovation of buildings will continue to be a key priority. In particular, in the framework of the Commission Communication on a 'Renovation Wave', the role of ERDF and CF in supporting energy efficiency in buildings was acknowledged.

Regional policy is the largest EU source to modernise the European **Network**

Infrastructures in Transport and Energy system, creating a more connected Europe and adapting it to new challenges for sustainable and smart mobility and energy supply. Over EUR **67 billion** are allocated to 2014-2020 programmes to address these priorities with significant support to the Trans-European Transport networks.

- 1,200 km of railways (21% of 2023 target) were reconstructed or upgraded.
- 100 km of metro or tram lines were improved (19% of 2023 target).

In 2021, REGIO will complete the **pilot projects on industrial transition**²⁵ targeting green technologies in a number of regions (low-carbon economy, circular economy). The work of the **S3 platform** also continued its focus on a number of green tech related areas, in particular through the thematic platform on energy and on industrial modernisation, the latter working on areas such as hydrogen, biomass or sustainable manufacturing.

REGIO has a particular role in managing transition towards climate neutrality in Member States and regions. The **JTF** will invest EUR **19.3 billion** (in current prices) in activities aimed at reskilling and retraining of workers, creation of new jobs, diversification of local economies and revitalisation of former mining sites, among others. A political agreement on the JTF Regulation was reached before the end of 2020. The preparation and adoption of the implementing act is expected during the first semester of 2021.

Last year, the Commission has identified for JTF to **support 104 territories, representing about 42 million people**. These territories cover all Member States and represent both coal, peat and oil shale regions as well as carbon-intensive regions with industries like steel, cement, pulp and paper or the chemical sector.

The preparation of the **Territorial Just Transition Plans** (TJTP), outlining the transition process and the social, economic and environmental challenges continued in cooperation with Member States throughout 2020. Discussions were held on the extension of the JTF

²⁵ [OECD Report : Regions in Industrial Transition](#)

scope²⁶ and eligibility of certain investments. Only one draft TJTP was sent and reviewed by REGIO due to delays in programme negotiations.

The **Just Transition Platform**, building on the work of the [Initiative for Coal Regions in Transition](#), was successfully set up in 2020. It offers a single access point and helpdesk for stakeholders, comprehensive technical and advisory support, and the establishment of dedicated project and expert databases.

As regards the **3rd pillar of the JTM** (Public Sector Loan Facility), where REGIO will oversee the grant element of the facility in partnership with the EIB, the legislative process is still ongoing. Mandates for both co-legislators have been established and trilogues will continue in 2021.

REGIO also undertook external communication actions to all citizens in an increasingly transparent and user friendly way in order to showcase the contribution of regional policy to the delivery of Commission political priorities. For example, over 13 million people were reached by each of the 15 regional communication campaigns carried out under **EU delivers in the regions** and the European **Week of Regions and Cities**, hosting almost 12,000 participants and scoring over 85% satisfaction rate.

General objective 2: A Europe fit for the digital age



Digitalisation has a recognised impact on the economy and society, improving quality of life, boosting access to knowledge and other services, thus helping reducing disparities.

Investments into research and innovation, digitalisation, competitiveness of SMEs and skills for smart specialisation will be a crucial tool for Member States to develop their strategies for economic and digital transformation that will allow them to stay competitive, while also achieving climate neutrality by 2050.

Spain: GVA Salut
In Comunidad Valenciana, a mobile app to communicate with healthcare service practitioners, manage medical appointments and avoid standing in queues, was made available to users thanks to the operation "GVA-Salut: Promoting digital public services in e-health". The application has boosted the efficiency, availability and quality of healthcare services throughout the region. With the outbreak of COVID-19, a new function was incorporated to distribute information to all users on measures and recommendations. The total investment for this project amounts to EUR 34 million, with an ERDF contribution of EUR 17 million.

Croatia: e-Schools
The e-Schools pilot project provided ICT equipment and digital education tools for 151 primary and secondary schools in Croatia, directly involving 7 000 teachers and 23 000 pupils. It ensured that all of the country's teachers and pupils were able to make use of digital content and services during the lockdown. This project equally helped 10 % of the country's schools to raise their level of competence in the use of ICT for teaching and learning, ensuring the project's long-term sustainability. The total investment for this project amounts EUR 40 million, with an ERDF and ESF contribution of EUR 34 million.

The ERDF improves the strategic policy frameworks for digital investments. By 2023, investments into the **digital economy** from 2014-2020 programme should reach more than EUR **16 billion**²⁷ making ERDF the main EU investment tool for digitalisation of industry, SMEs, public sector and for the rollout of broadband. The ERDF supported investment in the development of the broadband network in "white" and "grey" areas.

²⁶ As compared to Commission proposals in Annex D bis to the European semester country reports
²⁷ based on programmed amounts

- 4.6 million households (42% of 2023 target) have already gained access to broadband²⁸

REGIO (in partnership with AGRI and CNECT) ran the **European Broadband Competence Offices (BCO)** Network and Support Facility, which helps regional and local authorities in designing and implementing broadband connectivity projects, in particular in areas with market failures.

Promotion of innovation is a central feature in ERDF and CF programmes. Smart specialisation strategies mobilise the innovation potential of EU regions. For this, the new **interregional innovation investments instrument** should further contribute to the development of European value chains for key technologies from 2021 (e.g. within the framework of European Alliances for batteries and for hydrogen and fuel cell technology) while linking up more advanced regions with less developed ones and building on implementation experience with the pilot action on interregional innovation²⁹. In 2020, REGIO carried out a stakeholder consultation on the priorities of this instrument.

Thematic Smart Specialisation Platforms on industrial modernisation, energy and agro food continued to promote partnerships to stimulate interregional innovation investments, bringing together researchers, businesses, civil society and public administrations.

By 2023, EUR **62 billion** are allocated to strengthen **research, technological development and innovation**, from 2014-2020 programmes. This makes the ERDF the main source of R&D investment in 12 EU Member States³⁰.

SMEs represent 99.8% of all EU businesses. The ERDF aims at supporting the life cycle of enterprises in order to increase their productivity and competitiveness. In order to mitigate the impacts of the health crisis, SMEs have benefitted from ERDF support to working capital with a combined value of nearly EUR 11.5 billion³¹.

By 2023, over EUR **57 billion**³² are set to invest in improving the **business environment and entrepreneurship** from 2014-2020 programmes.

- 34,000 firms (53% of 2023 target) have already benefited from ERDF schemes promoting cooperation with research institutes
- 37,000 researchers (40% of 2023 target) have benefited from improved research infrastructure
- 610,000 firms (55% of 2023 target) have received support improving their productivity and competitiveness
- 185,000 direct jobs (46% of 2023 target) have already been created as a result of business support

²⁸ Of at least 30 Mbps

²⁹ [Interregional Innovation](#)

³⁰ All EU-13 countries, except CY. See: "[Science Research and Innovation Performance of the EU 2018](#)"

³¹ Private investment matching public support to enterprises (grants)

³² Based on programmed amounts

In terms of external communication activities under this General Objective, REGIO has for example reinforced delivery of online information of its websites on Europa: on **Inforegio** (2.9 million visits, +10% vs 2019), on the European Week of Regions and Cities (280,000 visits, +5% vs 2019) and on the ESIF Open Data Platform (10,000 visits, +15% vs 2019). Another example is **Scuola di Open Coesione**, an educational challenge and an online open course to promote the engagement of high-school students in monitoring the effectiveness of cohesion policy investments via the use of public open data. REGIO could replicate this experience in four other Member States, paving the way for mainstreaming in the 2021-2027 programmes.

General objective 3: An economy that works for people



REGIO contributes to building a future-proof economy that works for people and delivers stability, jobs, growth and investment. Implementation and delivery of regional policy funds and programmes is at the core of REGIO's business and a key to economic recovery following the COVID-19 crisis, ensuring long-term development and the necessary digital and green transformations.

In terms of **evaluation activities**, REGIO launched in 2020 its ex-post evaluation strategy for the 2014-2020 period by defining the pillars of a major exercise, which will be fully completed in 2025. Within this context, it launched its study on monitoring systems and project data in Member States. Equally, three major evaluations on research infrastructures and activities and innovation, Jaspers and e-cohesion in Member States moved forward with a view of providing feedback towards the end of 2021.

In view of the upcoming closure of the 2014-2020 period, work on the **Closure Guidelines** progressed in 2020 taking on board all relevant provisions in the CRII(+) and REACT-EU initiatives. The adoption is planned for mid-2021.

Slovakia: SIH Anti-Corona Guarantee

Slovak Investment Holding has, within three months, set up and launched a new financial instrument for small and medium-sized enterprises, to help support them through the period of difficulties caused by the health and safety measures to contain the spread of the coronavirus. The purpose of the instrument is to enable financial institutions to extend favourable-term bridging loans to SMEs, effectively helping them to overcome financial difficulties and help preserve existing jobs. The initiative was followed by the SIH Anti-Corona Guarantee 2 - together the two financial instruments have led to the signature of more than 8000 loan contracts for SMEs. The SIH Anti-Corona Guarantee is one of the 50 different schemes amounting to EUR 4.7 billion of Financial Instrument support to SMEs for working capital, as part of CRII(+) by the end of 2020.

In view of the 2021-2027 period, REGIO worked closely with co-legislators to have the **legislative framework for cohesion policy 2021-2027** in place as soon as possible. This involved negotiations on the legislative changes introduced in May 2020 as follow-up to the Commission's proposals for an adjusted **multi-annual financial framework** (MFF) responding to the new context of the COVID-19 crisis.

In December 2020, political agreement was reached on the **Common Provisions Regulation**, the **ERDF/CF**, the **JTF** and the

Interreg regulations, paving the way for the launch of the 2021-2027 period.

The **2021-2027 programmes** will play an important role in the long-term recovery of the post COVID-19 European economy and addressing its social impacts. Programming efforts and informal dialogues with Member States on draft Partnership Agreements and

programmes continued in 2020 despite the difficult circumstances and conflicting priorities.³³ The Commission also assisted Member States in their efforts to fulfil the **enabling conditions** (four horizontal and 16 thematic enabling conditions replace, streamline and develop further the legal framework of 2014-2020).

It is important to maintain the momentum in 2021, provide Member States with support and set up procedures to adopt the 2021-2027 programmes very rapidly once the regulations and the multi-annual financial framework are finally adopted to avoid delayed implementation.

The use of **financial instruments**, including InvestEU was further promoted. Overall the increased use of financial instruments will ease access to finance for SMEs in particular those affected by COVID-19. By 2023, close to EUR **29 billion** of the ERDF and CF allocation (8.3%³⁴) is planned to be invested in projects via financial instruments such as loans and guarantees, primarily for SMEs. By the end of 2019, EUR 14.7 billion of financing was disbursed in the form of loans or equity to final recipients thanks to EUR 4.6 billion of support from the ERDF and CF (multiplier of 3.2). The selection of financial instruments currently stands at 87%³⁵, and the amount paid to financial instruments reached 44%³⁶.

- 140,000 final recipients were supported including 111,000 SMEs, via financial instruments.

Good governance is a crucial element of economic development and requires efficient and effective administrations and **administrative capacity** at national, regional and local level to prepare, manage and implement investment projects. Experience shows that Member States and regions with weak institutions have significant problems absorbing available EU Funds and using them in the best way. To step up assistance and support a more strategic approach for capacity building in 2021-2027, REGIO elaborated a concept for the roadmaps for administrative capacity building and helped their preparation in eight Member States. A practical toolkit was developed and made available in 14 languages in order to support Member States and regions in developing similar roadmaps. REGIO provided tailored assistance through its peer learning tools (TAIEX-REGIO Peer 2 Peer and the REGIO Community of practitioners), as well as through strategic trainings for cohesion policy practitioners. In cooperation with other Commission services³⁷ a strategic and horizontal document on support to administrative and institutional capacity in 2021-2027 was prepared.

REGIO also continued to promote **simplified cost options** (SCOs) and **Financing not linked to Costs** (FNLC) through the Transnational Network (TN) of ERDF and CF SCO practitioners and through meetings with Member States. REGIO cooperated closely with EMPL to finalise the SCO Guidance and a study is being prepared on setting up SCOs at EU level. REGIO has also set up a subgroup on Simplification in the framework of the TN of ERDF and CF SCO practitioners to ensure real simplification on the ground for beneficiaries and programme implementation and to reduce the risk of irregularities.

³³ The CRUI(+) amendments, REACT-EU programming, complementarity of scope with the RRF, JTF programming, delayed legislation and other factors at national level

³⁴ Of the overall programme amounts for all forms of financing (about EUR 350 billion)

³⁵ End-2019: 87% = EUR 18.4 billion ERDF and CF committed to FIs / EUR 21.1 billion ERDF and CF indicatively planned

³⁶ End-2019: 44% = EUR 8.1 billion ERDF and CF paid to FIs / EUR 18.4 billion ERDF and CF committed to FIs

³⁷ EMPL, REFORM and SG-RECOVER

On Brexit, in 2020, REGIO and the Irish authorities pursued the dialogue with the UK as regards the negotiations of the **Peace Plus programme**, continuation of the successful Peace and Interreg programmes, which over the course of four programming periods contributed significantly to the peace process and to the reconciliation of communities in Northern Ireland and the border region of Ireland. In addition, a new Commission proposal on the **Brexit Adjustment Reserve** (EUR 5.3 billion in current prices) was adopted by the Commission in December, to help counter the adverse economic and social consequences of Brexit in the worst affected Member States and sectors.

Structural reforms have much potential to underpin ERDF/CF investments, making them more effective. REGIO's policy has over the years offered expertise in transition, structural transformation and policy implementation at local level, in cities and in remote areas. REGIO has reviewed under a tight schedule 545 Member State requests under the 2021 Technical Support Instrument (TSI) managed by REFORM, with the aim of ensuring synergies with regional policy investments and avoiding overlaps or duplication of effort.

REGIO's involvement in the **European Semester** continued in the first part of 2020, through the provision of regional analysis of public investments in the preparation of the investment guidance (Annex D) for the Just Transition Fund within the 2020 European Semester Country Reports for all 27 Member States. REGIO also contributed to the preparation of the 2020 **Country-Specific Recommendations**, which were specifically designed to coordinate the EU economic response to COVID-19 pandemic by focusing on actions and on measures to restart the economy.

The link to the EU's economic governance was further ensured during the year through the work carried out within the context of the **Recovery and Resilience Facility** process. REGIO has provided an important contribution to the identification of reform and investment priorities in the Commission country analysis for the forthcoming Recovery and Resilience Plans (RRPs) and actively participated in the informal technical discussions with Member States to prepare these plans cooperating with the RECOVER task force in the Secretariat General.

Poland: Geriatric Care Centre

The new opened Geriatric Care Centre in the Polish coastal city of Sopot is designed to provide the Pomorskie region's older residents with access to a comprehensive range of specialised medical services that were not previously available locally. Along with in- and outpatient treatment on site, these services include round-the-clock telecare support for the patients, their families and carers. In addition, the opening of the Centre already generated 70 new jobs. The project, whose total cost amounts EUR 6.6 million, was supported by a EUR 4.6 million ERDF contribution.

The legislative framework for 2021-2027 proposes a dedicated policy objective entitled "**A more social and inclusive Europe by implementing the European Pillar of Social Rights**". It provides an overall framework for investments in areas such as health and social care, education and training, skills, employability and housing.

From ERDF, which complements the activities financed by the European Social Fund (ESF), already more than EUR **32 billion**³⁸ was programmed in the above areas under the 2014-2020 programmes.

³⁸ ERDF part: EU and national co-financing; REGIO thematic objectives social inclusion, sustainable and quality employment, education and training and efficient public administration

Overall support to health care increased significantly from the originally planned EUR 5.6 billion to over EUR **10 billion**³⁹, thanks to the reallocations that made use of the flexibilities provided by CRII(+).

- 39 million (70% of 2023 target) citizens benefited from modernised health systems.

Gender equality has been one of the horizontal principles for cohesion policy and a number of projects have been supported in this area in 2014-2020 period. Sharing best practices will also continue in 2021-2027. REGIO actively contributed to the **EU Gender Equality Strategy** for 2020-2025, adopted in March.

REGIO has also been providing substantial input to the **Report on the impact of demographic change**⁴⁰. The contribution included maps, regional graphs and coordinated work with Eurostat. Closely linked is REGIO's involvement in the work on the **long-term vision for rural areas**. The adoption of the Vision as a Commission Communication is scheduled for mid-2021.

In 2020, REGIO initiated a new strand of work promoting the **active and meaningful engagement** of civil society and citizens, in the planning and implementation of cohesion policy funding. A high-level conference⁴¹ was organised in February and a series of pilot initiatives involving programme authorities and civil society organisations were launched, contributing to the Commission's European Democracy Action Plan.

REGIO plays an important role in promoting a balanced development of all European regions and all types of territories. About EUR **36 billion** of ERDF and CF are allocated for integrated territorial investments in both urban and non-urban areas supporting more than 1,600 integrated territorial and local strategies⁴². Around EUR 32 billion (89% of the allocation) has been assigned to projects⁴³ through these strategies, showing a general catching-up trend. A new policy objective 'a Europe Closer to citizens' proposed for 2021-2027 will go one step further offering tailor-made support to investment strategies of regions, cities, rural and local communities.

The urban dimension of cohesion policy has been significantly strengthened. In the 2014-2020 period - around EUR 128 billion of the funding under ERDF and CF is allocated for cities, of which some EUR 20 billion is implemented directly by urban authorities.

Urban Innovative Actions is an instrument allowing the Commission to directly support cities to test new solutions with a budget of EUR **372 million** for 2014-2020 implemented via indirect management. In 2020, REGIO funded 11 projects from eight Member States. An assessment study⁴⁴ of the Urban Innovative Actions 2014-2020 has been completed to prepare for the next generation of the urban experimentation under the European Urban Initiative in 2021-2027.

³⁹ ERDF only. Health infrastructure (incl. equipment) and ICT solutions addressing healthy, active ageing & e-Health

⁴⁰ https://ec.europa.eu/info/sites/info/files/demography_report_2020_n.pdf

⁴¹ https://ec.europa.eu/regional_policy/en/conferences/citizens_good_governance

⁴² More information on territorial, urban and local strategies available on the REGIO-JRC mapping tool [STRAT-Board](#)

⁴³ REGIO also says 'selected' projects

⁴⁴ https://ec.europa.eu/regional_policy/en/information/publications/studies/2021/assessment-study-of-the-urban-innovative-actions-2014-2020-final-report

REGIO is also coordinating the implementation of the **Urban Agenda** for the EU, seeking to improve the quality of life in urban areas. In November, the Ministers responsible for urban matters, agreed on the [New Leipzig Charter](#) pursuing the common good using the transformative power of cities.

The four **EU Macro-regional strategies** (MRS) facilitate multi-stakeholders cooperation across regions. In September 2020, the Commission adopted the third biennial report on the implementation of the four MRS and an accompanying Staff Working Document. These strategies provide frameworks to address common challenges and aim to coordinate the efforts at all governance levels to promote a more balanced development of these regions.

It is also important that EU policies are designed and implemented to take into account the challenges and potential of cross-border regions. REGIO made a substantial contribution to identifying **cross-border barriers to the single market**.

- 43 border obstacle cases were prepared to give wider publicity to b-solutions, also as possible inspiration for solving other bottlenecks along borders in the EU.

To foster the implementation of the Strategic Partnership with the **Outermost Regions**, REGIO prepared an implementation report to the EP and Council, which the Commission adopted in March 2020, showing that the Commission has delivered on its commitments. REGIO further mainstreamed the outermost regions' specificities in twenty one policy initiatives in such areas as taxation, agriculture, circular economy or biodiversity and numerous Commission proposals for 2021-2027 EU programmes. REGIO also launched a study on the impact of COVID-19 on the outermost regions, and launched a call for a culture promotion and exchange pilot project.

In terms of external communication activities under this General Objective, REGIO successfully organised the **Outermost regions Forum** and the annual **Interreg event** (30 years of Interreg). REGIO also received over 500 applications on the **Youth4Regions** project and continued to finance its volunteering scheme (**IVY**) placing young people in Interreg programmes and projects. The platforms **Smart regions** and **EU in my region** worked well and attracted numerous visitors. Finally the **RegioStars** project received over 200 project submissions.

General objective 4: A stronger Europe in the world



The objective of REGIO's action in third countries is to contribute to the strategic objectives and priorities of the Commission and EU external relations by strengthening its role through policy dialogues and management of cooperation with EU strategic partners, enlargement (IPA) and neighbouring countries including the neighbours of the EU outermost regions located in the Atlantic and Indian Oceans, in Latin America and the Caribbean, while supporting EU regions and cities.

In December 2020, political agreement was reached on the **Interreg** regulation and on the **Neighbourhood, Development and International Cooperation Instrument** (NDICI), under the lead of INTPA/NEAR.

The **orientation papers for IPA** cooperation programmes and **cluster papers for neighbourhood** cooperation programmes were finalised and sent to the Member States

and partner countries and discussed in 2020. Draft financing agreement templates for the partner countries and Russia were initiated. The preparation of the Multiannual Strategic programming documents for enlargement and neighbourhood countries was delayed due to the late adoption of the MFF, Interreg allocations and programming of NDICI and IPA funds.

Despite some complications due to COVID-19, regional and urban **policy dialogues with strategic partners** continued in 2020, contributing to the EU's global relations with non-EU countries (notably Japan, China, India, and Argentina).

Finally, REGIO defined actions and means of implementation for coordination and convergence of policies across the **Union for the Mediterranean** (UfM).

Under the **International Urban Cooperation programme** (IUC), for which REGIO leads on the development and steering, 85 city pairings were established, bringing together 168 cities and 40 regions from across Europe, Asia and Americas and 79 urban cooperation action plans were established. IUC also provided a knowledge sharing platform and organised several regional and global events.

Finally, REGIO undertook external communication actions in order to showcase its contribution of cohesion policy to the delivery of Commission political priorities. Under this General Objective, for example, it successfully organised the **What's**

NEXT – ENI CBC annual conference, discussing the programming documents for the future 2021-2027 programmes on EU external borders with neighbouring countries.



2. Modern and efficient administration and internal control

This section explains how the Directorate-General delivered the achievements described in the previous section and obtained the necessary assurance disclosed in section 2.1.5. It is divided into two subsections:

Sub-section 2.1 reports the audit and control results and all other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives⁴⁵. It includes any additional information to establish that the available evidence is reliable, complete and comprehensive. It covers all activities and programmes under shared management (details for other management modes relevant to the DG are, due to their relative lesser significance, reported in Annex 7⁴⁶). It provides an **overview of how REGIO obtains assurance for each programme and deals with material error rates, as well as of corrective and preventive actions it takes** or intends to take to address the weaknesses affecting some programmes or authorities not yet up to standards.

Sub-section 2.2 deals with the other components of organisational management: human resources, digital transformation and information and sound environmental management.

2.1. Financial management and internal control

Assurance is provided on the basis of an objective and systematic examination of all evidence available to the Directorate-General 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 (including through its audit activities), and by internal and external auditors. The results are explicitly documented and reported to the Director-General. The following reports have been considered in the assurance building process:

- annual reports by Authorising Officers by Sub-Delegation;
- reports of the Audit Directorate: risk-based audit plan (on-the-spot), ex-post supervision, controls, including the assessment of system audit reports, annual control reports and audit opinions received by 15 February/ 1 March;
- contribution of the Internal Control Coordinator, including the results of internal control monitoring at DG level;
- opinion, observations and recommendations reported by the Internal Audit Service;
- observations and recommendations reported by the European Court of Auditors;
- information received from OLAF, including follow-up to final case reports.

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

⁴⁵ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

⁴⁶ See in particular Annex 7J (European Union Solidarity Fund) and 7K (Direct and indirect management).

reported and results in a complete coverage of the budget delegated to the Director-General of REGIO.

This section covers the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

Overview of how REGIO obtains assurance for each programme, deals with material error rates and what actions it takes to improve the situation

The 2014 – 2020 regulation provides **increased safeguards for assurance**. A 10% retention applies on all interim payments during the year, thus effectively protecting the EU budget until annual programme accounts are accepted. Programme managing authorities carry out management verifications before expenditure is certified. Audit authorities report audit opinions and representative error rates based on audits carried out throughout the year. Programme authorities have an interest to apply themselves appropriate corrections in programme's annual accounts in order to be able to re-use such expenditure. Otherwise net financial corrections may apply⁴⁷.

REGIO assesses audit results reported for each programme: adjust error rates when deemed necessary and impose additional corrective actions which includes system improvements and financial corrections. REGIO has the tools to implement these additional corrections and use them to eventually bring each concerned programme's residual risk below 2%, after a due contradictory procedure.

The strengthened assurance model for 2014-2020 ensured overall lower error levels compared to 2007-2013⁴⁸. However, despite such improvements, the average error rate after corrections remains above the 2% materiality level. **REGIO is therefore applying various actions to improve the situation and to reduce the risks** associated with expenditure declared under the ERDF and Cohesion Fund.

The error rate for ESI Funds reported in the annual activity report (AAR) is robust and gives a fair view

REGIO carries out systematic desk audit work to assess the situation **for each programme** and accounts accepted in the reporting year. It discloses in the AAR **individual rates for each programme**, confirmed (where contradictory procedures are completed) based on Member States' reporting and following our systematic desk and risk-based on-the-spot audits⁴⁹.

REGIO also aggregates programme error rates to report a total, weighted average error rate for ERDF/CF once the control cycle is completed, the AAR Key Performance Indicator on legality and regularity (KPI5). **In this 2020 AAR a KPI5 of 2.1%, up to a possible maximum of 2.6%** is reported taking account of additional risks and ongoing audit contradictory procedures. REGIO

Impact of programmes annual accounts (2019-2020)

EUR 1.5 billion prudently
withdrawn from accounts
(managing authorities' work)

Including **EUR 345 million**
at least as definitive corrections
(audit authorities' work)

⁴⁷ See a detailed description of the assurance system in annex 7A.

⁴⁸ When the error rate was between 5%-7% over time with a starting point above 12%.

⁴⁹ We report confirmed error rates once the national and EU audit cycle is completed.

estimates that this KPI5 reflects a robust, reasonable and fair estimate of the overall risk at payment for all programmes taken together, following a programme by programme analysis.

It is therefore concluded that **despite the various control layers implemented at Member States level, a material overall level of irregularities remains present** in the expenditure certified to the Commission for ERDF/CF in the accounts accepted in 2020. REGIO has however robust audit evidence showing a differentiated situation for the 293 programmes.

A differentiated situation: identifying and correcting “bad” programmes

REGIO bases its assurance on audit results obtained each year for each programme, and complement such audit information by its own audit results on a risk-basis.

REGIO audits

- ✓ 25 compliance audits and 18 fact findings covering
- ✓ 54 programmes in 37 assurance packages and 17 Member States and the UK
- ✓ 26% of expenditure in accounts
- ✓ 7 thematic audits carried out
- ✓ 236 operations covered

Analysis of AA' audit results

(288 programmes with ERDF/CF expenditure declared)

- ✓ 528 system audits analysed
- ✓ 6,939 operations audited
- ✓ Statistical sampling covering 96% of the expenditure in the sampling population
- ✓ 22% of certified expenditure audited
- ✓ 288 residual error rates reported, including 225 < 2% and 63 > 2% (in 62 cases due to REGIO recalculations)

In 2020, REGIO conducted 43 risk-based audits (including 25 compliance audits) to review the work of audit authorities⁵⁰ covering 26% of the expenditure declared in the accounts accepted in 2020, in addition to the analysis REGIO carried out on the results from system audits (528 received in 2020) and audits of (parts of) operations (6,939) carried out by programme audit authorities and reported throughout the year or with the annual control reports.

As a result REGIO identified further irregularities to the ones detected by audit authorities in 22 assurance packages, or detected calculation errors, leading to a re-calculated material residual risk over 2% in 13 cases. This shows weaknesses at the level of managing authorities in first instance.

REGIO also identified weaknesses and **requested improvements for 8 audit authorities** (or their control bodies)⁵¹ out of 81 audit authorities for ERDF/CF programmes (see table page 37).

For accounts accepted in 2020, REGIO confirmed a residual error rate below materiality for

225 programmes (79%) and material residual error rates for 63 programmes⁵² in 38 assurance packages⁵³ as a result of our verifications and re-calculations. REGIO analysed the causes for the incorrect reported error rates and conclude that these may be due to the material impact of single errors not detected or insufficiently quantified. This is not automatically demonstrating a serious deficiency in the overall performance of the concerned audit authorities. REGIO took these results

⁵⁰ We also carry out thematic audits for cases of systemic incorrect implementation of public procurement Directives, State aid rules or selection procedures to ensure that only eligible projects are selected and that conflicts of interest are appropriately mitigated, as well as financial instruments.

⁵¹ 2 DE, 1 ES, 1 FR, 1 IT, 1 PL, 2 UK.

⁵² Concerning 22 audit authorities in 12 Member States (1 AT, 3 DE, 1 EL, 1 ES, 2 FR, 1 HU, 7 IT, 1 LT, 1 PL, 1 PT, 1 RO, 1 SK) and the UK. For 6 out of these 22 audit authorities, REGIO concluded to serious weaknesses in the work done impairing the reliability of the reported error rates. For the remaining 16 audit authorities REGIO's re-calculation was due to differences in the assessment of single irregularities, not pointing to serious deficiencies in the underlying audit work.

For two further audit authorities out of the above 8 audit authorities for which improvements were requested, the weaknesses in their functioning identified by REGIO concerned aspects which did not impact the reported residual error rates and therefore did not require a re-calculation.

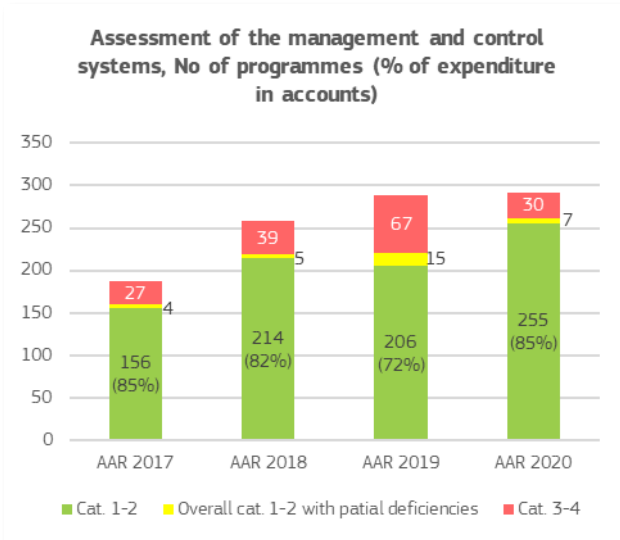
⁵³ Out of 293 ERDF/CF programmes in total, 288 reported expenditure in the 2018-2019 accounts and were therefore subject to audits of operations and reported error rates by audit authorities.

into account to assess the need for adjustments to reportable rates for the next accounting year and for additional reservations for 2020⁵⁴.

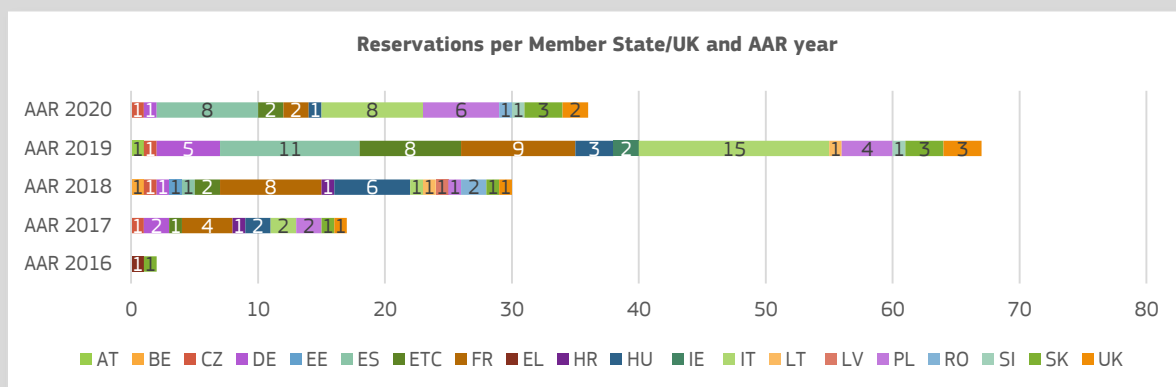
Based on all national and EU audit results by end 2020, REGIO can conclude that **management and control systems**

- function well or sufficiently well for **262 programmes** (89%) covering 85% of expenditure under assessment⁵⁵

- present **serious deficiencies for 30 programmes** (15% of expenditure under assessment). The share of expenditure and number of ERDF/CF programmes with effective management and control systems improved this year compared to the last two years, as indicated in the graph. It shows the continuous efforts carried out by programme authorities with the Commission's support to improve compliance with rules and the impact of audit recommendations on systems, where needed.



DG REGIO issues reservations in the AAR for all programmes in category 3 and 4⁵⁶ for which the risk to the EU budget is estimated above the 10% payment retention⁵⁷.



Programmes under reservation usually present high total error rates pointing to deficiencies in the first level controls by managing authorities, i.e. insufficient quality of management verifications in areas such as public procurement or eligibility of projects/expenditure or incorrect selection of operations (19 cases); or the programme residual total error rate is above 2%⁵⁸, meaning either that the work of the audit authorities is incomplete (1 case), that inappropriate financial corrections were implemented in the submitted accounts (2 cases) or that additional financial corrections are needed and will be required (20 cases).

⁵⁴ 3 ES, 4 IT, 2 PL, 1 RO, 1 SK, 1 UK.

⁵⁵ This includes 7 programmes with only partial deficiencies, as shown on the graph.

⁵⁶ All criteria for reservations are explained in Annex 5.

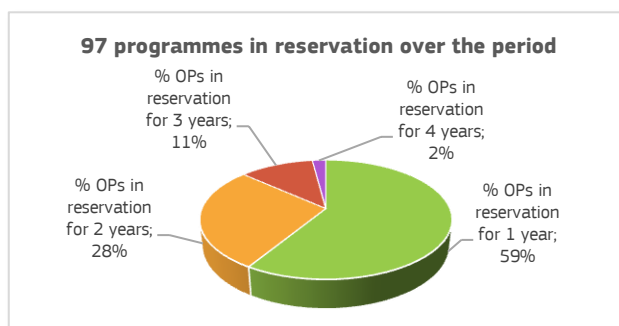
⁵⁷ 1 DE, 4 ES, 2 ETC, 2 FR, 1 HU, 2 IT, 3 PL, 1 RO, 3 SK and 2 UK.

⁵⁸ Possibly combined with a system deficiency, in 8 cases of material residual total error rate.

Reservations are only lifted once sufficient corrective measures are taken by the programme authorities. **The fact that 87% of REGIO reservations last less than two years shows the effectiveness of corrective measures put in place.**

REGIO also systematically transmit suspicions of fraud to OLAF (9 cases in 2020) and we apply financial corrections based on OLAF final case reports received (13 cases in 2020).

REGIO has therefore the tools to analyse the individual situation of each programme and to report the specific, individual weaknesses identified in the AAR (see annex 7).



The multi-annual corrective capacity to bring the risk at closure < 2%

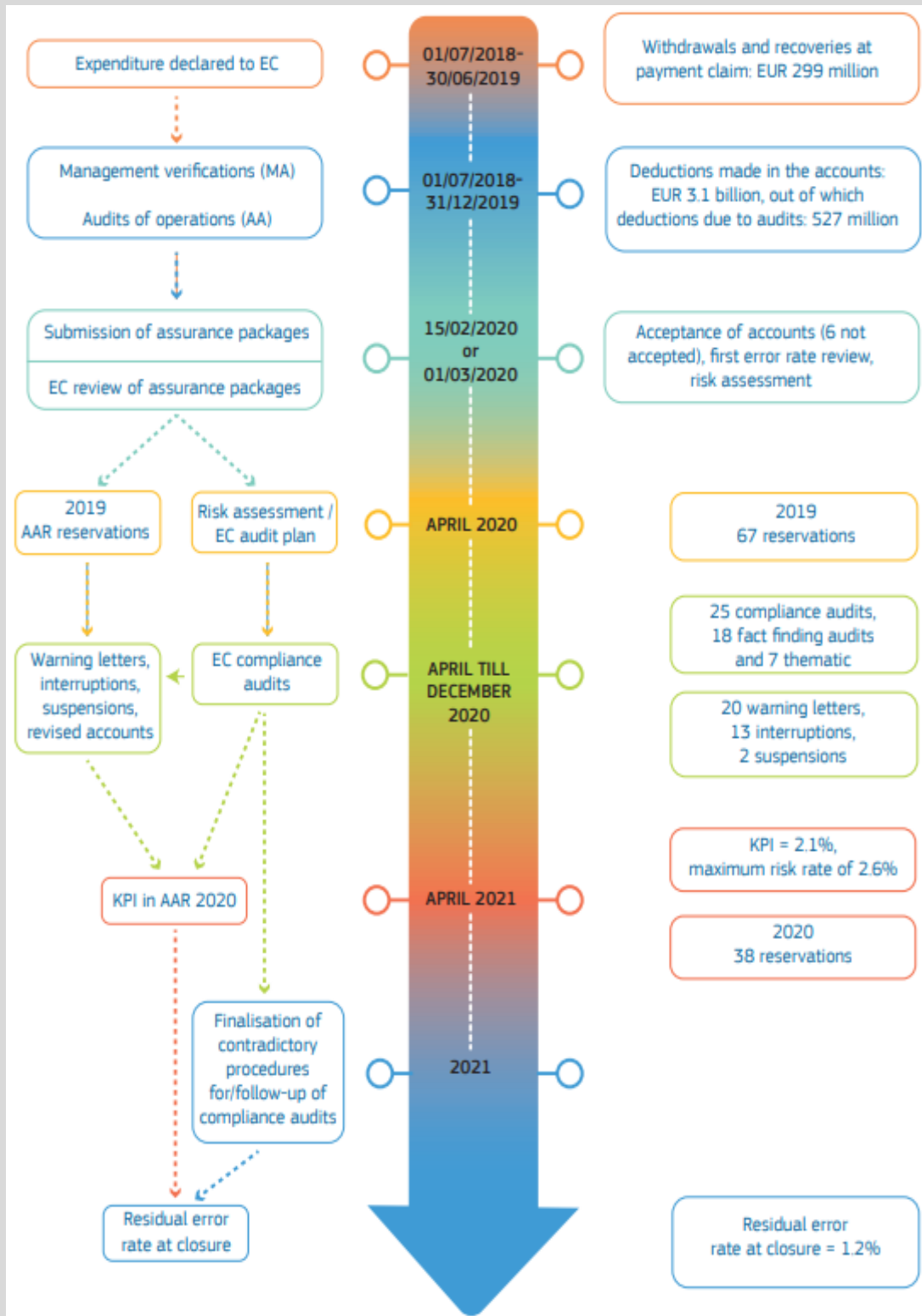
If REGIO detects system deficiencies at the level of managing or audit authorities throughout the year, or re-calculate an error rate beyond materiality for a programme, the regulatory tools at our disposal are used to **stop payments** (interruptions, suspensions).

REGIO also requests **remedial actions to improve the functioning of the management and control systems** and of the concerned programme authorities with a view to prevent recurring irregularities. REGIO does not resume payments until it has audit evidence that the systems were improved and/or appropriate financial corrections applied.

And as a last step of the assurance process, where REGIO re-calculated a residual total error rate above 2% for a programme, the **required additional financial corrections** is imposed to bring the residual risk below 2%, following due contradictory procedures to respect the right of defence of the concerned programmes' authorities. REGIO estimates that once it will have applied the required additional financial corrections, the **'risk at closure'** (after such additional corrections) will come **down to 1.2%**, well below materiality. For previous AARs, REGIO can report that, following corrective measures taken, the risk at closure is indeed now below 2%, as anticipated (see page 51). **This reflects our multiannual corrective capacity mechanism.**

The graph below illustrates the assurance building process for programme accounts submitted and accepted in 2020, as a result of the complete audit cycle reported in the 2020 AAR.

Assurance building process for programme accounts submitted and accepted in 2020 (annual accounts 2018-2019)



Steps to ensure sound financial management and a robust assurance process in the COVID-19 context

In 2020, confronted with the COVID-19 pandemic, REGIO has provided further targeted support to programme authorities to address the situation of lock-down, proposed the required flexibilities for controls and audits in a situation of travel restrictions⁵⁹ and worked with the audit authorities to ensure a robust and harmonised approach. Despite the situation, a clear message was passed to programme authorities that compliance with rules remained a prerequisite. Possible new risks introduced by the policy response to the COVID-19 pandemic, including inherent risks linked to the new types of expenditure (e.g. health) or agreed procedures (accelerated public procurements, retrospective eligibility of expenditure), are also assessed with audit authorities and shared with the ECA.

The 2020 assurance was not impacted by COVID-19 limitations in practice as the audit authorities finalised their audits of operations, except in two cases (ES), and submitted the assurance packages on time. A limited number of programmes (23) used the exceptional regulatory possibility to reduce sample sizes by moving to non-statistical instead of statistical sampling. Still the use of statistical samples was the rule for most programmes, thus providing a robust basis for the reported error rates, and audit results were found to be consistent with previous years.

As for REGIO audits, there was also a risk to the assurance process due to the impossibility to go on the spot during most of the year. However, it was eventually possible to carry out 50 audits⁶⁰ for the 2014-2020 programming period, most of them remotely via extensive videoconferencing and electronic exchange of documents. This revealed to be resource-intensive and exceptionally burdensome, but had no impact on the quality of results and direct assurance thus obtained⁶¹.

Examples of general administrative capacity building actions

- **Sharing common audit tools:** the Commission audit services share with audit authorities their detailed audit check lists. Audit authorities can thus review and complement / update their own checklists, as needed. In 2020, and in preparation of the 2021-2027 period, the Commission audit services have further updated their simplified-cost- options checklist and shared it with audit authorities.
- **Sharing good practices between peers** (see page 35)
- **Continuous professional development of programme authorities' staff:** due to staff turn-over in the programme authorities, continuous professional development is necessary to avoid that the quality of management and control systems deteriorates over time and that expertise gets lost. In 2020 1 physical and 6 virtual trainings sessions on State aid, public procurement and prevention of fraud and corruption were carried out with the help of EIPA with some 220 participants from national or regional administrations managing the Funds.

REGIO continues to carefully assess the situation and possible impact of the continuous crisis on the assurance process.

Actions undertaken in 2020 to improve the programme authorities' administrative capacity and effectiveness of management and control systems

REGIO continuously provides support to all programme authorities to improve their administrative capacities through guidance, targeted support, continuous training and professional development, peer-to-peer exchange of experience, action plans to improve

improve their administrative capacities through guidance, targeted support, continuous training and professional development, peer-to-peer exchange of experience, action plans to improve

⁵⁹ Possibility for managing authorities and their intermediate bodies to postpone on-the-spot projects visits. Possibility for the audit authorities to further increase the use for one year of non-statistical sampling, due to the COVID-related travel restrictions (in line with the modification of the CPR, Regulation (EU) 2020/558 of 23 April 2020). The Commission services also offered further flexibilities to audit authorities within the margin of existing regulatory provisions and guidance to help them finalise their work in time to report the required assurance for each programme (for example postponing system audits to focus on audits of operations; reducing the sample size for well-functioning systems; ...).

⁶⁰ Including 6 audits carried out in January 2021 and taken into account for the results reported in the present AAR.

⁶¹ The audit scope set initially by DG REGIO auditors could be appropriately covered in all cases.

implementation of public procurement or State aid rules, transnational networks to simplify procedures and to avoid gold-plating.

REGIO also actively **promotes less error-prone simplified cost options** and put at the disposal of Member States, free of charge, the **data mining tool Arachne** to increase capacities to detect fraud suspicions or possible conflicts of interest.

Errors and irregularities should be detected and corrected by **managing authorities in the first instance**. When it is identified that managing authorities missed errors, REGIO provides them with further **targeted support**. REGIO requests improvement in the quality and quantity of verifications carried out before certifying expenditure.

Audit authorities are a second control layer, and verify whether managing authorities worked effectively to prevent errors. When REGIO identifies that individual audit authorities do not appropriately, exhaustively or timely detect errors, targeted and technical support is provided to them in order to ensure they work up to expected standards and improve their detection capacity. REGIO requires that they apply targeted actions to improve their methodology and their capacities.

Example of remedial actions at the level of the audit authority (AA) in France

In 2018 and 2019 the French central AA could not report final audit opinions and error rates to the Commission by the legal deadline of 1st March for several programmes since the concerned regional control bodies had not finalised the planned audits due to insufficient resources. As a result REGIO issued reservations, launched interruptions of payments and requested remedial actions from the AA. By end 2020 the AA confirmed:

- (a) staff reinforcement at central and regional levels to improve the audit capacity and timeliness of reporting (no delay experienced in 2021);
 - (b) establishment of a reinforced central audit quality supervision over regional audit results and control bodies (incl. new re-performance procedures);
 - (c) the definition of reinforced and harmonised audit tools for all control bodies;
 - (d) implementation of a joint programme of professional training for both regional and central auditors on such updated audit tools.
- By 1st March 2021 the AA submitted annual control reports of good quality for all programmes.

Finally REGIO also continuously monitors and analyses the root causes of errors that remained non-detected by managing and /or audit authorities. Such results feed the annual

risk assessment for selecting programmes in view of subsequent risk-based audits.

Tackling the non-detection of errors by some auditors in the audit authorities

Based on the results of its own compliance audits to re-perform the work of audit authorities, REGIO organised **a dedicated workshop / training session with representatives from all audit authorities** in November 2020 (over 200 participants, video recordings shared with audit authorities for further dissemination). REGIO's objective was to analyse recurrent types of errors found in its audits and not detected by audit authorities to improve the common understanding on these findings. An important part of this training session was dedicated to (a) **public procurement errors** (artificial splitting, significant contract modification, discriminatory or disproportionate selection criteria, use of standards without the words "or equivalent") and explanations of why this constituted breaches of the directives, and how such errors are to be quantified; and (b) **eligibility errors** (in relation to ineligible participants, ineligible actions, ineligible costs, simplified cost options).

Actions to improve further the effectiveness of management and control systems and to boost the prevention, detection and correction of errors

Capacity building is an ongoing challenge requiring permanently to refocus and update the action. In the continuity of achievements made, and in order to address weaknesses

still identified for some programmes, REGIO will further amplify its efforts towards the target to ensure compliance and a residual risk below materiality for all programmes.

REGIO offers tailored preventive actions to address the risk of non-detection of errors by the first and second control layers of programmes (managing authorities / audit authorities) and under-reporting of their financial impact, thereby improving the quality of assurance offered by programme authorities:

- Organising dedicated information sessions, workshop discussions, training material and best practice guidance for managing and audit authorities on the basis of an analysis of the recurrent errors identified for the concerned programmes;
- Sharing with programme authorities detailed analysis of the errors found in REGIO/EMPL and ECA audits and divergence against the applicable legal framework;
- Providing an overall analysis comparing the main error types identified by the audit authorities and by REGIO auditors, based on the joint typology of errors;
- Lending assistance and supervision to audit authorities in need of support to arrive at reliable assurance results, providing support for the analysis of specific systemic or recurrent findings;
- Consistently imposing remedial action plans to managing and/or audit authorities in case of deficiencies identified.

REGIO takes targeted actions to safeguard the reliability of the assurance results presented by audit authorities and addresses high error rates

- Reviewing thoroughly all error rates reported and re-calculating them in case errors are not detected and/or not sufficiently quantified;
- Providing as the case may be preventive advice and support to audit authorities (before the annual control report is issued), should the nature and difficulties of the findings so require;
- Analysing the frequency and seriousness of errors found, including cases of systematic low error rates, auditing itself relevant expenditure if its risk assessment reveals the need to perform additional work in order to obtain direct assurance for a programme;
- In case of systemic deficiencies identified, re-calculating the residual error rates and monitoring how the authorities/management and control systems evolve over time;
- Adopting a strict approach to sampling parameters used by audit authorities, however in line with the flexibility offered by existing rules, and to the reporting of possible anomalous errors not extrapolated towards the total error rate.

REGIO increases the incentives for effective implementation of financial corrections by Member States authorities

- Continuing a strict policy of entering reservations in the AAR followed by appropriate legal actions (payment interruptions or suspensions, financial corrections), taking into account also findings from previous accounting years, should it reveal based on additional audit work done, that material errors found reflect system deficiencies which continue to impact the reliability of the assurance results presented;
- Ensuring that due withdrawals are done from the submitted account when doubts are raised about the eligibility of some expenditure;
- Reporting in full transparency in the AAR on the additional financial corrections imposed by the Commission for all accounting years to ensure a risk at closure below 2%;
- Liaising with the Commission Legal Service with a view to consistently and plainly using available legal means to impose financial corrections, including net financial corrections, if the situation so requires and the regulation allows.

REGIO takes initiatives to curb the root causes of errors, in particular by

- Reinforcing efforts for administrative capacity building through up-dated action plans on public procurement and State aid, peer-to-peer exchanges and technical assistance support;
- Facilitating the uptake of simplified cost options (SCO) – a radical game-changer for programme error rates - by providing assistance and support to the programme authorities to prepare and assess the SCO schemes for 2021 – 2027 programmes;
- Contributing to predictability based on methodologies approved and agreed with all actors, including with the ECA, taking account of recommendations issued by the ECA;
- Communicating, increasing trust and dialogue between programme authorities and with the Commission services and promoting simplification at all levels and fight against gold-plating at national / programme level.

Sharing good practices between peers

In 2020 17 TAIEX-REGIO Peer2Peer exchanges involving 537 participants from 21 Member States were organised (8 remotely due to the pandemic). This allows programme authorities to exchange good practice on concrete implementation or control issues, such as green public procurement, simplified cost options, conflict of interest, State aid, and management and control systems.

Annex 1 to the overview: List of 30 programmes with deficiencies in the functioning of the management and control system (MCS)

	Programme Title	Part of the MCS for which deficiencies were identified (KR ⁶²)	Authority concerned	Reservation Y/N	Expenditure concerned in 2019-2020 accounts (million EUR)	% of total expenditure in 2019-2020 accounts
BE	Flanders	KR4, total error rate > 5%	Managing authority	No, error <10%	50	0.1%
CZ	Enterprise and Innovation for Competitiveness	KR2 and KR4	Managing authority	Yes, full	1.137	2.5%
DE	Sachsen ERDF	KR4 (in particular public procurement)	Managing authority	No, error <10%	301	0.6%
ES	Andalucía ERDF	KR4, total error rate > 10%	Managing authority / Regional intermediate body	Yes, full	282	0.6%
ES	Cataluña ERDF	KR16 and KR18: the AA did not finalise its audits of operations on time. No assurance provided on the functioning of KR4.	Audit authority/ regional control body	Yes, full	46	0.1%
ES	Extremadura ERDF	KR4 (in particular in the area of land expropriation)	Managing authority / Regional intermediate body	No, error <10%	98	0.2%
ES	Murcia ERDF	KR16 and KR18: the AA did not finalise its audits of operations on time and submitted the ACR late. TER=5%	Audit authority/ regional control body	No, error <10%	-	-
ES	SME Initiative ERDF	KR2, KR4 and KR5. Ineligible loans detected during ECA audit.	Financial intermediaries	Yes, reputational	21	0.0%
FR	ROP Guadeloupe Conseil Régional	Managing authority, Audit authority	Managing authority	Yes, full	67	0.1%
FR	ROP Guyane Conseil Régional	KR4, total error rate > 5%	Managing authority	No, error <10%	43	0.1%
FR	ROP Mayotte	KR4, KR16 and KR18	Managing authority, Audit authority	Yes, full	-	-
IT	National OP Metropolitan Cities	KR4, total error rate > 5%	Managing authority	Yes, full	69	0.1%
IT	ROP Calabria ERDF ESF	KR4, total error rate > 5%	Managing authority	Yes, full	200	0.4%
IT	ROP Campania ERDF	KR2, KR4, KR16 and KR18, total error rate > 10%	Managing authority, Audit authority	Yes, full	433	0.9%
IT	ROP Emilia Romagna ERDF	KR4, total error rate > 5%	Managing authority	No, error <10%	106	0.2%
PL	ROP for Dolnośląskie Voivodeship	KR4 (in particular public procurement)	Managing authority	No, error <10%	501	1.1%
PL	ROP for Śląskie Voivodeship	KR4, KR16 and KR18, total error rate > 5%	Managing authority, Audit authority	Yes, full	648	1.4%
PL	ROP for Wielkopolskie Voivodeship	KR4, KR16 and KR18, total error rate > 5%	Managing authority, Audit authority	Yes, full	538	1.2%
RO	Regional Operational Programme	KR4, total error rate > 5%	Managing authority/ Intermediate body North-East	Yes, full	943	2.0%
SE	Community-led local develpt prog. (ERDF & ESF)	KR4 and KR5	Managing authority	No, error <10%	3	0.0%
SK	Human Resources	KR2, KR4 and KR6	Managing authority/ Intermediate body	Yes, full	309	0.7%

⁶² Managing authority: KR1: separation of functions, KR2: selection of operations, KR4: management verifications, KR5: audit trail, KR6: reliability of performance data, Certifying authority: KR13: drawing up accounts, Audit authority: KR15: system audits, KR16: audits of operations, KR18: annual control report and audit opinion

	Programme Title	Part of the MCS for which deficiencies were identified (KR ⁶²)	Authority concerned	Reservation Y/N	Expenditure concerned in 2019-2020 accounts (million EUR)	% of total expenditure in 2019-2020 accounts
			ERDF			
SK	Integrated Infrastructure	Deficiencies in KR4	Managing authority	Yes, full	242	0.5%
SK	Quality of Environment	Deficiencies in KR13	Certifying authority	Yes, full	470	1.0%
ETC	Germany/Saxony-Czech Republic	Deficiencies in KR1, total error rate > 5%	Managing authority	No, error <10%	41	0.1%
ETC	Czech Republic-Poland	KR4, total error rate > 5%	Managing authority	No, error <10%	42	0.1%
ETC	France (Mayotte-Comores-Madagascar)	Deficiencies in KR4, total error rate >10%	Managing authority	Yes, full	-	-
ETC	Caribbean Area	Deficiencies in KR4, total error rate > 5%	Managing authority	No, error <10%	6	0.0%
UK	ERDF West Wales and The Valleys	KR4, KR5 and KR 16 (in particular for public proc. of railway projects)	Managing authority, Audit authority	Yes, full	184	0.4%
UK	ERDF Gibraltar	Deficiencies in KR4 and KR15	Managing authority, Audit authority	No, error <10%	-	-
UK	ERDF Scotland	Deficiencies in KR4, total error rate = 5%	Managing authority	No, error <10%	56	0.1%
TOTAL					6.838 out of 46.374	15%

Note: Pending the end of the contradictory procedure REGIO doesn't report in this table OP ERDF England for which it is estimated the TER and RETER at flat rate at this stage (5%).

Annex 2 to the overview: Weaknesses and requested improvements for 8 audit authorities

	Audit authority (AA) or control body concerned	Identified deficiencies	Reservation Y/N	Share of total ERDF/CF expenditure audited by AA/control body
FR	Regional control body for Mayotte	Inadequate / incomplete audit check-lists used leading to the non-detection of errors (public procurements, State aid, breach of audit trail), under-quantification of errors, insufficient staff	Yes, full	0.1%
DE	AA Sachsen	Inadequate / incomplete audit check-lists used leading to the non-detection of errors (public procurements), under-quantification of errors	No	0.9%
DE	AA Brandenburg	Non-detection of errors (public procurement), under-quantification of errors	No	0.4%
IT	AA Campania	Non-detection of ineligible projects completed before the application for funding (Art.65(6) CPR), with serious impact on error rate	Yes, full	1.3%
PL	Regional control body for Opolskie	Deficiencies in the audit methodology of financial instruments	Yes, partial non-financial	0.3%
	Regional control body for Wielkopolskie	Inadequate / incomplete audit check-lists used leading to the non-detection of errors (public procurements, State aid), under-quantification of errors, insufficient resources	Yes, full	0.7%
	Regional control body for Slaskie		Yes, full	1.0%
ES	Regional control body for Cataluña	Inadequate / incomplete audit check-lists used leading to the non-detection of errors (public procurements); unfinished audits of operations at the time of the assurance package (leading to temporary error rate >10%)	Yes, full	0.3%
	Regional control body for Murcia	Inadequate / incomplete audit check-lists used leading to the non-detection of errors (public procurements); unfinished audits of operations at the time of the assurance package (all expenditure withdrawn from accounts) but audit subsequently submitted with one month delay	No	0.1%
UK	AA Gibraltar	Deficiencies in the performance of system audits	No	0.0%
UK	AA Wales	Inadequate / incomplete audit check-lists used leading to the non-detection of errors (public procurements)	Yes, partial non-financial for one OP	0.6%
Total				5.6%

2.1.1. Control results

This section reports and assesses the elements identified by management which 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 5. Annex 6 outlines the relevant control systems for budget implementation. Annex 7 provides a detailed assessment of the control effectiveness and remaining deficiencies if any, audit opinions reported and confirmed error rates for each programme under shared management, and reservations.

Overview of the financial resources managed by REGIO in 2020 with the control results for the activities of the Directorate General

Activity	Payments 2020 ⁶³ (EUR million)	% REGIO	IC indicators	Reservation
2014-2020 period				
<i>ERDF / CF</i>	42,067.1	95.7	Residual total error rate < 2% Total error rate < 10%	36 ERDF/CF programmes
<i>ENI-CBC</i>	222.4	0.5	No risk on the advance payments	2 ENI-CBC
2007-2013 period				
<i>ERDF / CF</i>	391.3	0.9	Residual risk rate < 2% Corrections applied at closure	9 ERDF/CF programmes
<i>IPA – CBC</i>	0.3	0.0	RRR <2%	1 IPA-CBC programme
Up to 2006				
<i>ERDF / CF</i>	6.0	0.0	Residual error rate <2%, (corrections applied at closure)	No
Solidarity Fund				
<i>EUSF</i>	1,105.8	2.5	No significant findings	No
Indirect Management				
<i>IPA Regional Development</i>	0	0.0	2020 error rates validated below materiality	No
<i>Urban Innovative Actions</i>	45.1	0.1	No significant findings	No
Direct Management				
<i>Technical assistance, Pilot projects and Preparatory actions</i>	99.6	0.2	Corrections with limited impact being carried out as a result of the checks and ex-post controls carried out No significant audit findings	No
Grand Total	43,937.7	100%		2 covering 48 programmes

2.1.1.1. Control effectiveness as regards legality and regularity⁶⁴

REGIO identifies and assesses, in so far as possible, the benefits resulting from the controls, mostly from a qualitative perspective. These benefits are further described in Annex 6 under column “Cost-Effectiveness indicators”.

REGIO has no cases of ‘confirmation of instructions’ (new FR art 92.3); no cases of financing not linked to costs (new FR art 125.3); no Financial Framework Partnerships >4 years (new FR art 130.4); no cases of flat rates >7% for indirect costs (new FR art 181.6);

⁶³ Including pre-financing.

⁶⁴ This chapter presents details on the effectiveness of controls of programmes under shared management. See Annex 7K for more details on programmes under direct/indirect management.

and no cases of “Derogations from the principle of non-retroactivity [of grants] pursuant to Art 193 FR” (new FR art 193.2).

On REGIO’s portfolio of segments and respective (low and high) error rates, see the “Overview” section above.

REGIO is using internal control processes to ensure the adequate management of the residual risks relating to the legality and regularity of the underlying transactions of each programme it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned under shared management. Annex 7A provides further details about the control architecture applicable to the shared management and regional policy funds.

A. Shared management 2014-2020

The Directorate-General reviews audit information available for each programme in order to identify the need for reservations in line with the materiality criteria disclosed in Annex 5, and requiring additional corrective measures.

With respect to the legality and regularity of the transactions for the 2014-2020 period, the objective is to ensure that the estimated residual risk of error⁶⁵ for each programme, after the control cycle is completed and the required financial corrections were implemented by the programme authorities, is below the materiality level of 2%. The Commission therefore endeavours to confirm all residual total error rates in the subsequent AAR following reception of the assurance packages⁶⁶, notwithstanding the requirement for robust contradictory procedures in case of on-going audits. The process for the confirmation of the residual total error rates and the calculation of the risk at payment for the relevant expenditure in 2020 is presented in Annex 7A.

In relation to the **accounting year 2019-2020** (assurance packages including residual total error rates communicated by the audit authorities by 1 March 2021, i.e. just before the AAR finalisation), a first consistency review was carried out before signature of the AAR to identify potential inconsistencies or deficiencies in the effectiveness of management and control systems that would require reservations⁶⁷, considering also possible adjustments needed based on the confirmed results of the previous accounting year. These error rates will then be comprehensively assessed in the course of 2021, through the two-step, desk and risk-based audit process described above, and confirmed in the 2021 AAR, to be signed in April 2022.

For details on the calculation method for risk “at payment” and risk “at closure”, refer to Annex 5. See also the graph presented on page 31 for an overview of the audit cycle and process of an accounting year.

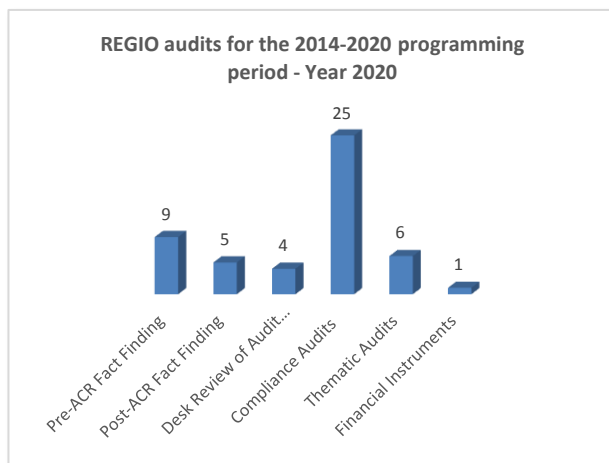
⁶⁵ Estimated through the Residual Total Error Rate of the amounts certified in the 2018-2019 accounts.

⁶⁶ In line with the legal provisions, the Commission can for individual cases continue to carry out compliance audits, including on the spot, after signature of the AAR, covering expenditure certified in relation to previous accounting years. Any impact of such audits would lead to the appropriate additional financial corrections, where necessary. The Directorate General will disclose such corrections (additional to what was already disclosed in previous years) in its subsequent AARs.

⁶⁷ See materiality criteria for reservations in Annex 5.

A.1. On-the-spot audit work⁶⁸ carried out by REGIO in 2020

In line with its **Single Audit Strategy**, REGIO annually updates its joint risk assessment with EMPL⁶⁹ and defines the on-the-spot audit plan. For 2020, this audit plan foresaw:



- A focus on **compliance audits to review the work of audit authorities**.

Their main objective is, based on a re-performance of the work carried out by the audit authorities, to seek reasonable assurance that no serious system deficiency remained un-detected or un-reported by Member States and that the reported audit opinions (on the effective functioning of systems and on legality and regularity of the expenditure declared) and residual error rates are reliable. In addition, REGIO carried out

pre- and post-fact-finding missions in relation to the annual control reports (ACR) under assessment⁷⁰ and carried out random desk reviews of results for audits of operations for lower risk audit authorities. Compliance audits, ACR fact-finding missions and desk reviews of control reports are thus preventive and corrective tools for reducing the risk of unreliable results in the assurance packages.

- **Thematic audits**, aiming in particular at verifying the **quality of management verifications** to prevent and detect public procurement errors (a more limited source of errors than in the past which however may still have a high impact on error rates), the implementation of **simplified cost options** or the system in place to manage and control **financial instruments** to build assurance up to closure (when the eligibility of underlying expenditure must be assessed, Article 42 CPR).

Some audits were performed jointly with EMPL to ensure synergies in particular for common management and control systems (multi-fund programmes, common audit authorities). The audit plan also took account of the ECA's Statement of Assurance audits⁷¹.

In 2020 REGIO carried out **43 risk-based audits in 17 Member States and the UK⁷² covering 37 annual control reports, 54 programmes and 26% of the EUR 51.2 billion certified** in the annual accounts 2018/2019. This included 25 compliance audits and 18 ACR fact finding missions (including four desk reviews of reports) in 11 Member States⁷³, either to preventively review the preliminary audit results to be reported in the 2020 and 2021 ACRs, or to clarify audit information reported in the concerned ACRs.

⁶⁸ Due to the Covid-19 restrictions most of the audits in 2020 were carried out remotely.

⁶⁹ To determine which audit authorities and programmes will be subject to compliance audits; the risk assessment is based on a set of risk criteria which are weighted to obtain a risk scoring for each audit authority and programme.

⁷⁰ Pre-ACR fact finding missions aim at checking the quality and the methods used to collect information before it is submitted to the Commission, thus being an important preventive tool. The post-ACR missions allow clarification of the assessment of results reported by the audit authorities and included also in 4 cases the desk review of a sample of audit reports of the audit authorities.

⁷¹ It can happen that the same programme or audit authority is selected for Commission and ECA audits, since ECA draws its random sample after the Commission has decided its audit plan.

⁷² AT, BE, BG, CZ, CY, HR, FR, DE, HU, IE, EL, IT, LT, PL, RO, SK, ES, UK.

⁷³ BE, BG, IE, RO, DE (2), IT (4) and covering all programmes for FR HU, PL, SK and ES.

Example of the assessment of root causes of errors and proactive actions taken by the audit authority (AA) in Portugal

Each year the Portuguese AA forms its own conclusions and audit opinion based on audit results provided by a delegated control body (ADC-ES) on a single sample covering 12 programmes. Appropriate corrections are made to the accounts (RTER at 2%). However, given the recurrent nature of some REGIO and ECA audit findings and their important impact overall, REGIO and the AA jointly analysed in 2020 the root causes of undetected errors and possible remedies to improve both management verifications (MAs) and delegated audits. The AA took the initiative to organise:

- a practical workshop for all MAs and auditors in Nov. 2019 with case studies based on the causes of errors identified by EU and national audits, covering public procurement, eligibility of expenditure, simplified costs options, double financing issues
- improved supervision and audit quality review over reported ADC-ES audit results (weekly meetings, re-performance of 15% of audits and closer supervision of risky areas)
- enlarged training for auditors covering the audit cycle, identified risky areas, anti-fraud measures (in coop. with the public prosecutor) and conflict of interests issues.
- improved MA procedures checking adequate financial corrections were applied.

As a result of these risk-based compliance audits and fact-findings, **REGIO identified further irregularities to the ones detected by audit authorities in 22 assurance packages which in all these cases led to a re-calculated residual risk** at this stage of the contradictory procedures⁷⁴.

REGIO analysed the causes for the incorrect reported error rates and conclude that

this may be due to the material impact of single errors not detected or insufficiently quantified. **Accordingly, these additional errors not previously found by audit authorities do not automatically demonstrate a serious deficiency in the overall performance of the concerned audit authorities.**

Taking into account the cumulative audit work carried out under compliance audits so far as well as its desk review of assurance packages, and independently from programmes where individual errors were not detected or insufficiently quantified with a possible impact on the reported error rate, **REGIO's preliminary conclusion is that it has reasonable assurance on the reliability of the work carried out by the 81 ERDF/CF audit authorities in total⁷⁵, except for eight audit authorities or their control bodies** for which – pending the result of on-going contradictory procedures – REGIO found deficiencies in the audit authorities' work⁷⁶ (see table on page 37).

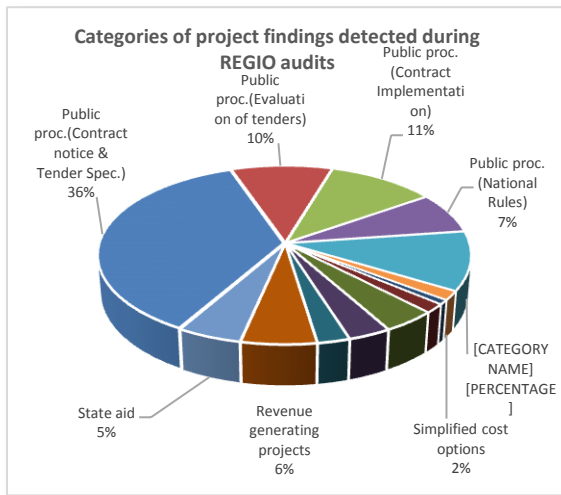
In all cases REGIO issued targeted recommendations to the concerned audit authorities to remedy the identified weaknesses, when necessary as part of remedial actions in interruption /warning letters.

Moreover, the different types of audits carried out in 2020 by REGIO led to the identification of **137 system** and **123 project findings** in relation to the **236 ERDF/CF operations it has audited remotely and on the spot**, mostly at the level of managing or audit authorities to avoid duplication of audits and control burden to beneficiaries (see Annex 7D). In line with the joint typology of errors agreed with audit authorities, the vast majority of the REGIO project findings related, pending contradictory procedures, to **public procurement irregularities (63%)** and **ineligible expenditure and projects (11%)**, the two main risk areas for the ERDF/CF implementation.

⁷⁴ In thirteen cases the RTER was recalculated above 2%. REGIO requested audit authorities to ascertain, in 15 cases, that no similar irregularities as the ones it found remained undetected in the parts of the audit samples not re-performed. Pending such verifications the risk has been reflected at flat rate in the maximum risk reported in KPI 5.

⁷⁵ 71 audit authorities covering both ERDF/CF mainstream and ETC programmes, and 10 covering only ETC programmes.

⁷⁶ 2 DE, 1 ES, 1 FR, 1 IT, 1 PL, 2 UK.



In 2020 the high frequency of public procurement irregularities is mainly due to a continued systemic issue detected already in 2019 in Spain and in Italy concerning the incorrect transposition of the public procurement Directives into former national laws (limitation of sub-contracting without justification)⁷⁷. The other main source of public procurement irregularities was due to the use of technical specifications, standards or brands without the required mention “or equivalent” in Spain, Poland and Romania, as well as the irregular award of additional contracts in programmes in five Member

States⁷⁸. These irregularities were not detected or not sufficiently quantified by the programme authorities. Details are provided in Annex 7D.

Example of remedial actions at the level of the managing authority/intermediate bodies identified by the audit authority (AA) in Spain (Andalucía)

The AA identified 37 errors in its 30 audits of operations for the accounting year 2019-2020. It reported a total error rate of 15.2% and issued an adverse opinion on the functioning of the managing authority (MA) and intermediate bodies due to weaknesses in the management verifications in the area of public procurement, State aid and eligibility of expenditure and beneficiaries. The AA addressed the required recommendations to the MA to improve the system. Based on the experience from the previous accounting year, the AA anticipated the reaction from the Commission services (interruption of payments expected) and pro-actively reported in its annual control report on the corrective and preventive measures already taken by the MA/intermediate body to implement its recommendations and validated by a follow-up audit assessment.

REGIO is taking **preventive action** to tackle the most frequent errors, besides requesting programme authorities to apply appropriate financial corrections for past expenditure concerned in all cases.

For each system finding, REGIO issues a recommendation for

remedial measures and ensures a close follow-up to verify that the recommendation is effectively and timely implemented to fix the system and mitigate any risk for future expenditure. The requested remedial measures entail improvement of methodological tools, recruitment of additional staff including experts, training activities on newly developed tools or on the correct interpretation of most frequent errors, etc. This can include, **for managing authorities** and their intermediate

Example of remedial actions at the level of the audit authority (AA) in Poland; financial instruments

In October 2019 REGIO auditors detected serious deficiencies in management and audit of financial instruments (FIs) in a Polish regional programme. An action plan was launched to improve management and audits for the future, based on the audit recommendations. One of the actions consisted in a dedicated seminar for Polish auditors organised in 2020 by REGIO. More than 100 participants including 80 auditors from the audit authority’s regional offices. Beyond general sessions on how to audit rules applicable to financial instruments, REGIO clarified and further explained the, specific issues raised during the 2019 audit.

⁷⁷ Limitation of subcontracting. However, this issue has been solved with the adoption of the Spanish public procurement law in 2017 transposing the 2014 Directives and with the adaptation of the Italian law since the ECJ ruling of September 2019. Expenditure related to previous contracts continue, however, to be declared under the programme accounts.

⁷⁸ FR, CZ, IT, UK, RO.

bodies, to improve the quality of selection procedures or management verifications to filter out irregularities.

Tackling the non-detection of errors by some auditors in the audit authorities

Based on the results of its own compliance audits to re-perform the work of audit authorities, REGIO organised a **dedicated workshop / training session with representatives from all audit authorities** in November 2020 (over 200 participants, video recordings shared with audit authorities for further dissemination). REGIO's objective was to **analyse recurrent types of errors found in its audits and not detected by audit authorities** to improve the common understanding on these findings. An important part of this training session was dedicated to (a) **public procurement errors** (artificial splitting, significant contract modification, discriminatory or disproportionate selection criteria, use of standards without the words "or equivalent") and explanations of why this constituted breaches of the directives, and how such errors are to be quantified; and (b) **eligibility errors** (in relation to ineligible participants, ineligible actions, ineligible costs, simplified cost options).

Managing and certifying authorities are also benefitting from the audit results and recommendations from audit authorities' work and conclusions on the main sources of irregularities; this helps managing authorities strengthen their internal control procedures in line with updated risk assessments, adjusting their checklists and further

training their staff and beneficiaries to avoid recurring errors.

For **audit authorities**, remedial actions refer mainly to the improvement of their capacity to detect all irregularities through updated and completed audit check lists and methodology, clarification of applicable law (in particular in relation to public procurement), recruitment of additional staff and continuous professional training. REGIO auditors have also been closely working with all audit authorities, bilaterally and multilaterally, in order to address the issues raised in EU and ECA audits and organised (1) annual bilateral audit coordination meetings with each Member State's audit authority(ies), where issues not detected by these were analysed and discussed; (2) multilateral technical meetings with representatives from all audit authorities; (3) joint Commission – audit authorities working groups (with the participation of ECA as observer) on different targeted audit topics⁷⁹.

REGIO assessment on the reliability of reported risks based on:

- a thorough desk assessment of 244 ACRs covering 293 programmes, of which 288 with expenditure
- results from its 25 risk-based compliance audits
- complementary fact findings and desk reviews of reports on audits of operations
- relevant audits from other DGs (e.g. same audit authorities)
- assessment of 528 national system audit reports and follow up measures (interruptions, remedial action plans)
- preliminary results communicated on the EAS's 2020 DAS audits
- follow-up to previous years' REGIO and ECA audits and to interruption, suspension or financial corrections procedures

These targeted measures are complemented by REGIO's regular preventive and corrective actions with all programme authorities, as part of a **general programme for continuous professional development and administrative capacity building of programme authorities**. REGIO's dedicated unit for administrative capacity building regularly organises events and workshops with programme authorities, to stimulate exchanges and sharing of good practices, in particular through **TAIEX-REGIO Peer2Peer and REGIO communities of practitioners**. (see box page 35).

⁷⁹ E.g. types of public procurement errors requiring further interpretation, measures to address risks with regard to CRII expenditure.

A.2. Accounting year 2018-2019 - Conclusions on the assessment of the assurance packages received by 1 March 2020 and overall assurance, after completion of the control cycle

The Commission auditors have looked at all evidence allowing them to complete their assessment of legality and regularity of expenditure included in the 2018-2019 certified accounts with an objective to confirm, where possible, the residual total error rates reported for the 288 programmes concerned in the annual control reports received in 2020.

At the time of signature of this AAR, the Directorate-General has completed its assessment of the concerned annual control reports (ACRs), based on the two-step desk and on the spot/remote audit approach described above and taken account of all available audit results⁸⁰ (see box).

In the 2020 ACRs, audit authorities have reported residual total error rates⁸¹ based on representative samples and have used **statistical methods** (mainly MUS⁸²) **covering 96% of the expenditure** in the accounting year⁸³. This resulted in a **significant audit coverage** (around **22%**) through the audit of more than **6,900 operations or part of operations** across all ERDF/CF programmes. Although coverage rates vary between programmes⁸⁴, this demonstrates that single auditing under shared management allows for a significant coverage of beneficiaries and expenditure by on-the-spot audits.⁸⁵

Audit authorities results

- **240** reported error rates covering 288 programme accounts
- **Statistical** samples (96%)
- **6,939** operations audited covering **22%** of expenditure
- **3,620** irregularities reported:
 - 35% ineligible expenditure
 - 26% public procurement
 - 16% audit trail

293 OPs in total, incl.
288 accounts with
expenditure

KPI5 2.1% - 2.6%

225 OP with RTER < 2%

63 OP with RTER > 2%
(REGIO re-calculations
in 62 cases)

Audit authorities continued to report irregularities following a **common typology of errors** agreed and shared between the Commission and Member States⁸⁶. Out of more than **3,600 irregularities**⁸⁷, audit authorities reported (in line with last year's results) that 35% of the cases concerned ineligible expenditure, 26% public procurement irregularities (highest impact in amount), and 16% missing documentation. More details are in Annex 7D.

As a result of its two-step assessment REGIO:

- confirmed **a residual total error rate below materiality for 225 programmes**⁸⁸ (including in some cases after adjustments without a material impact)⁸⁹;

⁸⁰ REGIO has adjusted the residual total error rates reported by audit authorities following the results of ECA's audits as well. These ECA audits are under contradictory procedure and REGIO will therefore assess the final impact to the confirmed residual total error rates and will apply additional financial correction, where necessary.

⁸¹ Some of them for programmes grouped under a common audit sample and annual control report.

⁸² Monetary unit sample, a frequently used, standard sampling method, also used for example by ECA for its Statement of Assurance.

⁸³ In the remaining cases, non-statistical samples were used, in line with the CPR amendments introduced in response to the COVID-19 outbreak for the accounting year 2019-2020 in Article 127 (1) CPR, and Commission guidance on flexibilities provided.

⁸⁴ Sub-sampling was used in some cases which were analysed to confirm a correct projection of the errors found.

⁸⁵ The guidance on statistical sampling recommended by the Commission helps to keep a balanced level of audit work at national level.

⁸⁶ And also aligned with the OLAF database for reporting irregularities, IMS.

⁸⁷ Several irregularities may be reported for the same sampling unit.

⁸⁸ Representing 78% of the programmes with certified accounts.

- considers, at this stage, **that 63 programmes covering 12 Member States, the UK and two ETC programmes present a confirmed residual total error rate above 2%**⁹⁰.

For these programmes (but two) the residual total error rate above 2% is the result of REGIO's re-calculation or re-assessment at flat rate (pending all audit information). In 7 of these programmes, the re-calculation results from systemic deficiencies in the audit work and multiple errors identified by REGIO. For the remaining programmes, the recalculation is due to individual errors which do not put under question the overall reliance on the work of the audit authorities.

Based on a prudent assessment of the results of the audit work described above⁹¹, REGIO is therefore in a position to confirm at this stage an **average total residual error rate of 2.1% for ERDF/CF programmes in the accounting year 2018-2019**. This rate has been calculated after neutralising the impact of advances paid into financial instruments, in line with ECA's 2016 recommendation⁹² and with prudent adjustments made when necessary⁹³. REGIO also estimates that this confirmed residual total error rate could reach a **maximum of 2.6%**, taking account of possible further errors in the remaining parts of audited samples that were not subject to detailed re-performance activities and of further information which might become available after adoption of the AAR⁹⁴.

REGIO has therefore reasonable assurance that, after the control cycle (national and Commission) has been completed, no material residual risk remains in the 288 accounts accepted in 2020, except for 63 programmes (in 38 assurance packages) for which there is at this stage evidence or indications that additional financial corrections are necessary to reach the objective of bringing the residual total error rate to materiality level.

There is an increase in the number of programmes with re-calculated residual error rate above 2% compared to previous years, however with a lower KPI5 in 2020 compared to 2019. This is due to improvements in a number of programmes, for which managing authorities have put in place and are implementing remedial action plans. In particular, progress was achieved in 2020 in the quantification and correction of specific issues of non-compliance of national laws identified in the 2019 AAR: in relation to State aid incentive effect in one Member State⁹⁵, and concerning systemic irregularities in public

⁸⁹ For 13 OPs (1 DE, 7 FR, 3 IT, 1 LT, 1 SK), the estimated KPI 5 is above 2% once the advance payments to financial instruments are removed; however REGIO could confirm a residual total error rate below 2% taking into account the total population, as correctly reported by the audit authorities in line with the regulation.

⁹⁰ 1 AT, 3 DE, 8 ES, 2 FR, 17 EL, 2 HU, 10 IT, 1 LV, 2 PL, 10 PT, 1 RO, 3 SK, 1 UK and 2 ETC programmes.

⁹¹ and all audit evidence available to date, pending the outcome of some contradictory procedures (conservative approach)

⁹² Advances paid into financial instruments are included in the declared expenditure which in line with Article 127 CPR form the basis for the samples of audit authorities. On this basis the confirmed residual total error rate is 2%, hence advance payments to financial instruments have a negligible impact on the confirmed residual error rate (0.1 percentage points).

In its recommendation n° 2 a) in the 2016 Annual Report (paragraph 6.40) ECA also addressed State aid advances. In line with the Regulation, State aid advances may be partially cleared by expenditure during the accounting year. Given this inherent legal complexity for dealing with such advances in the error rate calculation, and the limited impact estimated in previous years, REGIO did not remove these advances in the KPI 5 calculation.

⁹³ For 47 of these programmes (DE, ES, FR, IT, PT, SK, RO, UK and ETC) REGIO applied professional judgement using flat-rates or the best information available to estimate the impact of known systemic irregularities until final assessments by the concerned audit authorities.

⁹⁴ After having adjusted upwards the rates for 21 programmes (1 AT, 1 CZ, 1 DE, 2 ES, 4 FR, 1 HR, 3 IT, 1 LT, 1 LV, 2 PL, 2 RO, 1 SK, and 1 UK), including when needed by using conservative flat rate estimations (considering also the upper error limits reported by audit authorities and confirmed by REGIO); the same approach was applicable last year, allowing for a comparison of results over time.

⁹⁵ PT, 10 programmes concerned for which they have quantified the impact of the non-compliance for the 2018-2019 (EUR 109.3 million) and 2017-2018 accounts (EUR 65.3 million); similar corrections were preventively applied in the 2019-2020 accounts as a result of the audits of the audit authority.

procurement due to infringements of the EU-Directives by national law in 4 Member States⁹⁶.

The conclusions from the assessment of accounting year 2018-2019 are also taken into account for the ongoing review of the assurance packages in relation to the accounting year 2019-2020 and for the risk assessment that will support the next round of compliance audits to be carried out in 2021 for the preparation of the 2021 AAR.

Upon completion of the contradictory procedures on all concerned programmes, **REGIO will launch the required additional financial corrections** to bring the residual total error rate for each concerned

programme below 2%. These estimated future corrections are used for **the calculation of the amount at risk at closure** (see table “Estimated risk at closure” in conclusion, page 54). The list of confirmed total error rates and total residual error rates by programme, as well as the Commission opinion on the functioning of each management and control system, are disclosed in Annex 7B⁹⁷.

Remedial actions to address reservations / warnings or interruptions

Italy - In Sept.2019 an ECJ ruling concluded the national public procurement legislation was in breach of the directive by setting an abstract limitation to sub-contracting. REGIO alerted the Italian programme authorities about the risk of a systemic breach of the applicable EU rules in most co-financed works and services contracts and requested the help of audit authorities to quantify the impact. In the 2019 AAR, in the absence of detailed information available, REGIO quantified the financial impact using flat rates and issued reservations as necessary. In the 2021 annual control reports REGIO obtained data from the AAs to quantify the impact of the issue more precisely (for the accounting year under reporting and past years). This allowed to calculate more precise error rates and less reservations reported in the 2020 AAR. The required financial corrections are on-going. The same issue with national legislations was detected in **ES, LT and HU**, appropriately quantified in 2019 and 2020 AARs in all cases and already corrected in the case of LT and HU. Procedures in ES are also on-going.

A.3. Accounting year 2019-2020 - Assurance packages received by 1 March 2021

For the accounting year 2019-2020, all assurance packages were received by 1 March 2021.

Upon receipt, and in order to decide which reservations need to be issued for 2020, REGIO has carried out a preliminary assessment⁹⁸ of the information in the annual control reports and checked whether the reported audit opinions are in line with all other relevant information available to the Commission.

Following its assessment, REGIO concludes as of mid-April 2021 that all 285 accounts can be accepted⁹⁹. The Commission expects

2019- 2020

293 OPs in total, incl. 285 accounts
with ERDF/CF
expenditure

8 zero accounts

All can be accepted

⁹⁶ DE, ES, IT, LT; financial corrections were applied by LT (more than EUR 7.8 million) and most DE Länder (HOAI issue corrected at flat rate); and a more precise quantification of the impact of the issue was obtained from ES and IT, although these two Member States still dispute the possibility to apply the resulting financial corrections, due to their legal interpretation.

⁹⁷ With a view to the implementation of provisions in Article 78 on conditions for enhanced proportionate (controls and audits) arrangements of Common Provision Regulation for 2021-2027, see columns 1 to 3 of Annex 7B.

⁹⁸ In particular, the following aspects have been analysed, as part of the consistency checks carried out: have the Member States authorities taken appropriate preventive and corrective actions to follow-up the interruptions and warnings issued by the Commission; that audit conclusions reported by the audit authorities are in line with the national system audit reports transmitted to the Commission during the period, and with the results of the Commission's own on-the-spot audit work; and that, in case REGIO does not rely on the audit work performed by the audit authority, there is an analysis of the risk for the expenditure certified.

⁹⁹ Acceptance of the accounts is independent from the review of the legality and regularity of expenditure, followed up separately, in line with Article 139(5) CPR.

to formally accept these accounts by 31 May 2021, in line with the regulatory deadline.

Effective functioning of management and control systems

Based on audit opinions provided by audit authorities in the latest annual control reports, as per the results of their system audits and audits on operations, and taking account of its own audit results and further EU audit results, REGIO considers by mid-April 2021 that **management and control systems function effectively for the vast majority of programmes**¹⁰⁰ (89% of ERDF/CF programmes representing 85% of expenditure certified in the 2019-2020 accounts)¹⁰¹.

This provides assurance that the underlying transactions and expenditure declared in these accounts, as well as expenditure further declared by these programmes in 2020 under the on-going accounting year 2020-2021, are not affected by a risk of material level of irregularities.

However, **REGIO considers that for 30 programmes**¹⁰² representing 15% of expenditure certified in the 2019-2020 accounts **the management and control system (or part of this system for a specific priority or intermediate body) works only partially and substantial improvements are needed**. This number is an improvement compared to the last two years. Moreover, all interim payments made by the Commission in 2020 have been subject to a 10% retention until the national control cycle is completed and accounts are accepted, therefore protecting the EU budget in a number of these programmes. Where the risk is estimated above the 10% retention and in accordance with criteria set up in Annex 5, **reservations are made for the (part of) programmes concerned**. The table on page 36-37 and annex 7B provide further details by programme.

Residual total error rates reported by audit authorities by 1 March 2021

For 97 programmes the reportable total error rate at this stage of the assessment is above 2%¹⁰³, but the authorities applied sufficient financial corrections on time for the accounts in 74 cases (residual risk below or equal to 2%). For the remaining 23 programmes¹⁰⁴, material residual total error rates still affect the accounts submitted by 1 March and REGIO will apply additional financial corrections upon finalisation of the assessment. These programmes are put under reservation as the relevant expenditure in the reporting year is affected (see Annex 70), in line with the materiality criteria foreseen in Annex 5.

¹⁰⁰ Including for 110 programmes where some improvements are needed but without material impact on the expenditure declared.

¹⁰¹ For another 7 programmes although the management and control systems work overall, there are serious deficiencies affecting a specific part of these programmes (priority axis, intermediate body or a specific type of expenditure).

¹⁰² 1 BE, 1 CZ, 1 DE, 5 ES, 3 FR, 4 IT, 3 PL, 1 RO, 1 SE, 3 SK, 3 UK, 4 ETC.

¹⁰³ Either total error rate reported by the audit authority or reportable rate adjusted by REGIO at this stage of the assessment.

¹⁰⁴ In 3 out of these programmes, the audit authorities themselves have reported a residual risk above 2% due to insufficient financial corrections applied by the certifying authority in the certified accounts (1 CZ, 1 IT and 1 RO). For two of these, REGIO has re-calculated (increased) the residual risk due to ongoing desk review and to an audit. In another programme the audit authority did not finalise its audits of operations and therefore reported the maximum error which is above 2%. For the remaining 19 programmes, REGIO auditors have been able to provide a recalculation of the reportable residual risk based on information available from own audits and from the extended desk review of the assurance packages as up to the moment of signature of this AAR (the assessment is ongoing). It should be noted that for 6 IT the recalculation of the residual risk above 2% is due to a systemic irregularity in the area of public procurement (national law incorrectly transposing the public procurement Directives). For 13 programmes the recalculation of the residual risk was due to the ongoing desk review of the assurance packages in 10 cases (5 ES, 4 PL and 1 SI), and to the follow-up to previous Commission audits in 3 cases (1 IT, 1 SK and 1 UK).

A.4. Reservations in relation to the 2014-2020 period

Indicator	2020
Number of ERDF/CF and ENI-CBC programmes from the 2014-2020 programming period in reservation	38

On the basis of the systems assessment and reportable error rates reported in section A3, adjusted as necessary based on the previous year's confirmed error rates after all controls were applied (section A2), reservations are made for individual programmes in relation to the relevant expenditure in the reporting year and in line with criteria set in Annex 5. The list of total error rates and total residual error rates reported by the audit authorities for the 2019-2020 accounting year as adjusted by REGIO where relevant, is disclosed in Annex 7B. The list of programmes under reservation, with the reason for the reservation is disclosed in Annex 7O.

A.5. Safeguarding the EU budget by preventive and corrective actions (interruption and financial corrections)

The table below shows the number of warnings, interruptions and pre-suspension letters issued by the Commission in 2020 and early 2021.

	Warning (risk < 10%)	Warning of possible interruption of payment (risk >10% but no pending payment claim)	Interruption of payment (risk >10% and pending payment claim)	Pre-suspension letters pending	Suspensions
2020	44	20	13	0	2
January 2021	2	0	0	0	0

Payments are stopped when serious deficiencies / irregularities are found.

REGIO and EMPL follow a common approach regarding interruption of payments, as a balanced solution that protects the EU budget against serious irregularities and serious deficiencies in the management and control system, as soon as these are reported. The Directorates-General apply a strict but proportionate approach to interruptions, taking into account the annual acceptance of accounts and the 10% retention on reimbursement of interim payments until accounts are accepted (Articles 130 and 139 of the CPR).

An interruption of payments is applied only where the serious deficiency in the management and control system would require a correction higher than the 10% retention or where the individual irregularity would have serious financial consequences¹⁰⁵. If no payment claim is submitted, a warning letter of possible interruption of payment deadline (in case a payment claim would be introduced) is sent to the Member State.

In 2020, altogether payments were interrupted for eight programmes (two new ones and six carried over from 2019), together 13 payment applications. The total interrupted

¹⁰⁵ Article 83 (1)(a) of Common Provisions Regulation 1303/2013; REGIO considers this refers to cases with an impact above 10% of the programme's financial allocation or EUR 50 million.

volume amounted in 2020 to almost EUR 370 million (around EUR 300 million reported from 2019). By the end of 2020, it was possible to waive interruptions for five programmes amounting to some EUR 114 million.

Warning letters are also sent when risks linked to deficiencies are covered by the 10% retention.

Equally important, throughout 2020, letters were issued to the national authorities for 19 programmes warning them that a payment deadline would be interrupted if the national authorities fail to implement preventive and corrective measures to improve the functioning of their management and control system according to the regulatory requirements. It was possible to lift seven warnings of interruption of payment deadline overall in 2020.

A warning letter for corrective measures is also sent for cases of system deficiencies with estimated risk to the EU budget less than the 10% retention. In such cases, the Member State is requested to take the necessary measures to improve the system and to include the related expenditure in the next accounts only if the legality and regularity of the expenditure is confirmed. Overall in 2020, 44 programmes received a letter requesting the national authorities to implement corrective measures. The effective implementation of the required remedial actions by the programme authorities allowed the Commission services to close 17 such warnings.

Suspension procedures are opened based on legality and regularity issues or due to ex ante conditionalities not fulfilled or for insufficient performance data indicators

Germany - In 2020 the Commission adopted a suspension decision for part of an ERDF programme in Sachsen-Anhalt due to serious system deficiencies in the verification of public works and service contracts, based on REGIO audits. The programme authorities applied the required appropriate actions: improvement of the controls and capacity of the intermediate bodies; re-verification exercise by the MA over the work of the concerned intermediate bodies, thus demonstrating that management verifications of public procurement rules are now functioning adequately. This will allow REGIO to suggest the Commission to re-consider the suspension decision.

For two programmes for which payment deadlines had already been interrupted (UK, DE), the Commission has adopted a decision suspending the payments in 2020. The reason was that there were still serious deficiencies in the effective functioning of their management and control systems, which put at risk the Union contribution to the programmes, for which appropriate corrective measures had not been taken.

Ex ante conditionalities for the 2014-2020 period were fulfilled in all but 2 cases. In total, two suspension decisions were adopted for a failure to complete actions to fulfil an ex ante conditionality (one in 2018 and one in 2019) but only one was still applicable at the end of 2020.¹⁰⁶ Following the CPR amendments no such decision was adopted in 2020.

¹⁰⁶ Commission Implementing Decision C(2018) 2358 of 23 April 2018 concerning the suspension of interim payments from the European Regional Development Fund for Operational programme "Extremadura" for support under the Investment for growth and jobs goal for the region of Extremadura in Spain (CCI 2014ES16RFOP014) - repealed by Commission Implementing Decision C(2019) 1708 of 6 March 2019 & 2. Commission Implementing Decision C(2019) 911 of 12 February 2019 concerning the suspension of interim payments from the European Regional Development Fund for the operational programme "Sicilia" for support under the Investment for growth and jobs goal for the region of Sicily in Italy (CCI 2014IT16RFOP016) - still applicable.

With respect to the reliability of the monitoring system or of the data on common or specific indicators and as a result of its audit work and national audit results received from the audit authorities, REGIO closed in 2020 five pre-suspensions procedures which had been issued in 2019 due to deficiencies identified for key requirement 6 (reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries).

Moreover, in 2020, 118 cases of serious failure in achieving priority milestones based on Article 142(1)(f) were analysed. REGIO decided not to launch any suspension procedure because it considered in all cases that measures had been taken at Member State level or that progress had already been demonstrated.

Financial correction procedures

Further to the warnings and interruptions issued by the Commission, the Member States undertake measures for safeguarding the EU budget by performing financial corrections during the accounting year and directly from the programme accounts. REGIO also imposes additional financial corrections, as needed.

Financial corrections applied by the Member States' authorities in the submitted accounts are presented in Annex 7C.

The total ERDF/CF expenditure certified in the received accounts is EUR 46 billion. This is a difference of **EUR 1.5 billion directly withdrawn by programme authorities from the programme accounts** before submitting them to the Commission, compared to the related final interim payment applications for the accounting year submitted in July 2019. **These deductions protect the EU budget** as they result from **(a) continued management verifications** after the end of the accounting year and until submission for the accounts, **(b) audits** (in which case they are definitive), and from **(c) on-going assessments on the legality and regularity of expenditure previously declared during the accounting year** (Article 137(2) CPR, temporary withdrawals pending further verifications). Out of these, **EUR 345 million represent definitive deductions** made by the Member States **as a result of the work of audit authorities**, mainly following audits of operations¹⁰⁷.

Ireland - In 2020 a REGIO audit detected serious weaknesses in the implementation of State aid measures by the managing authorities due to insufficient management verifications. National audits subsequently confirmed the issue in opinions reported in February 2020, with an impact on the RTER. The programme authorities carried out in 2020 at REGIO's request a flat rate correction of 25% on all State aid expenditure already implemented and will refrain from declaring further related expenditure until procedures are reinforced and staff further trained. There was no need for a formal financial correction procedure. The thus deducted expenditure was used to increase the Irish response measures for the Covid-19 crisis.

REGIO is required to launch financial correction procedures each time it concludes that the national authorities failed to apply corrections in first instance, for example when it has concluded that **the confirmed residual total error rate for a programme remains material**. The Commission shall also apply net financial corrections should serious deficiencies be identified by its audit Directorates (or the European Court of Auditors), and which were not identified, reported and corrected by the

¹⁰⁷ A detailed table for the financial corrections and other deductions is provided in Annex 7C.

Member State authorities when submitting the corresponding accounts. In 2020, 5 financial correction procedures were on-going, and one procedure initiating net financial corrections was started.

In relation to the **previous accounting years**, the following **additional financial corrections** were carried out, **allowing to reach an overall “risk at closure” below 2% for each accounting year** (and although not for all individual programmes yet, pending on-going contradictory procedures). This demonstrates that **REGIO’s multiannual corrective capacity is functioning** (although taking some time due to the requirements to apply strict contradictory procedures), as indicated in previous AARs.

Acc. year	Number of programmes concerned	Additional audit work proving RTER<2% (no correction needed)	Financial corrections applied with RTER<2% after corrections	Financial corrections on-going to ensure a RTER<2%	Estimated RTER (KPI)	Additional corrections applied at this stage of the contradictory procedures	Risk at closure at this stage of the planned contradictory procedures
2015-2016	1	-	1 multi-fund OP (PL, ESF exp.)	0	0.6% ¹⁰⁸	EUR 56 675	0.6% (est. 1.05%)
2016-2017	41 (9 MS)	16 (3 FR, LT, PL, 10 PT, UK)	21 (BG, 17 EL, 2 FR, IT)	4 (PL, 2 SK, UK)	1.96%	EUR 16.6 million	1.55 % (est. 1.2%)
2017-2018	49 (14 MS)	7 (4 DE, 2 PL, SI)	6 (2 IE, LT, PL, RO, UK)	36 (¹⁰⁹)	2.7%	EUR 81.4 million	1.8 % (est. 1.1%)
2018-2019	63 (15 MS + UK + ETC)	-	N/A ¹¹⁰	63	2.1%	-	(est. 1.2%)

These financial corrections already applied to expenditure certified in accounts previously accepted, and the procedures launched or about to be launched, notwithstanding delays inherent to the applicable legal procedures for thorough contradictory procedures, confirm the effective functioning of the multiannual corrective capacity of the 2014-2020 programmes.

B. Shared Management 2007-2013

REGIO has fully closed or pre-closed 97% of the 322 2007-2013 programmes since 31 March 2017, the deadline for submitting closure packages (see annex 7E).

97% of the 322 OPs fully closed (265) or pre closed (48) for the uncontested part

Residual risk rate at closure is **0.37 %**

In 2020, REGIO made significant efforts to progress on its assessment of the additional information provided by Member States on the closure of the remaining 2007-2013 ERDF/CF programmes. As a result and follow-up to the 2019 AAR reservations, REGIO could in 2020 resolve 8 out of 18 reservations, close or pre-close these programmes and pay EUR 391.7 million from the ERDF.

The programmes for which the Commission considers that serious issues remain and therefore cannot authorise the closure payment yet, include nine ERDF/CF programmes in four Member States (3 IT, 1 HR, 1 HU and 4 RO). The important level of financial corrections still to be implemented, due to the significant deficiencies detected, exceeds the financial

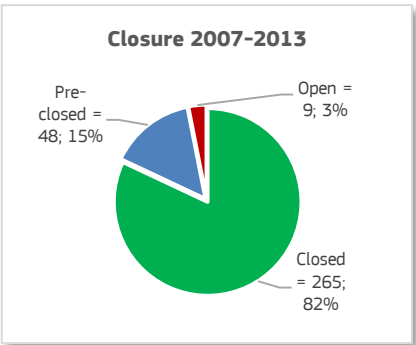
¹⁰⁸ In the AAR 2017 the KPI did not exist. It was weighted average of the RTER without financial instruments advances.

¹⁰⁹ 1 BE, 1 DE, 6 ES, 2 FR, 1 HR, 9 IT, 3 PL, 10 PT (covered under one single ACR), 1 RO, 1 SK, 1 UK

¹¹⁰ For additional 3 programmes (1 FR and 2 IE) REGIO completed the contradictory procedure and necessary corrections have been implemented to bring the confirmed RTER below 2% (while the reportable RTER in the 2019 AAR was above 2%).

retention of the overall allocation made at programme level (5% or less for underspent programmes of the overall allocation made at programme level) for these 9 programmes, which are put under reservation (see Annex 7 O). REGIO continues to monitor the process with the Member States in order to (pre)close these programmes as soon as possible.

Based on the data reported by certifying authorities and checked at closure by audit authorities, Member States have reported an average residual risk rate at closure for all programmes of 0.3%. Following examination, REGIO has either confirmed or further adjusted the reported error rates and residual error rates based on all additional information, including follow-up to its own audits. REGIO is therefore able to conclude at this advanced stage of closure that **the residual risk rate applied to the expenditure certified for the whole programming period 2007-2013 is 0.37%**. The list of programmes with error rates/residual risk rates and closure status is in Annex 7 F.



This low residual risk indicates that **appropriate financial corrections were systematically applied up to closure**, as expected, by programme authorities. This also confirms the **effective implementation of the programmes multi-annual corrective capacity** and that closure acted as an additional filter to correct any remaining material level of errors.

Reservations in relation to the 2007-2013 period

Indicator	2020
Number of ERDF/CF and IPA-CBC programmes from the 2007-2013 programming period in reservation	10

The reservation covers 9 ERDF/CF and 1 IPA-CBC programmes. See the list of these 10 programmes in Annex 7O.

The final payment for these 10 programmes will take place only when the relevant level of financial correction is accepted and implemented (or through a Commission decision).

C. Conclusion on the protection of the EU budget in 2020

REGIO's relevant expenditure, estimated risk at payment, estimated future corrections and estimated risk at closure are disclosed in Table "Estimated risk at closure" below.

The estimated overall risk at payment amounts to EUR **820.5 / 1028.3 million**, representing **2.1% / 2.6%** of the DG's total relevant expenditure for 2020. This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years.

The conservatively estimated future corrections for 2020 expenditure amount to EUR **331.1 million**. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in subsequent years. The difference between those two amounts results in the estimated overall risk at closure of EUR **489.4 million**, representing **1.2%** of the DG's total relevant expenditure for 2020.

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level in the AMPR.

Estimated risk at closure

DG REGIO	"payments made" (FY; m€)	minus new prefinancing (in FY; m€)	plus cleared prefinancing (in FY; m€)	plus 10% retention	minus deductions and cleared amounts	= "relevant expenditure" (for the FY; m€)	Average Error Rate (weighted AER; %)	estimated risk at payment (FY; m€)	estimated future corrections [and deductions] (for FY; m€)	estimated risk at closure (m€)	estimated risk at closure (%)
1	2	3	4	5	6	7	8	9	10	11	12
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing			= (2) - (3) + (4) + (5) - (6)	Detected error rates, or equivalent estimates	= (7) x (8)		= (9)-(10)	= (11)/(7)
ERDF/CF 2014-2020	42.067,43	7.390,60	2.139,72	3.887,28	1.514,08	39.189,75	(2,1% / 2,6%)	(816,74 / 1024,52)	(331,13 / 538,91)	485,61	1,2%
Cross border cooperation IPA-CBC/ENI;	220,54	147,39	4,76	7,71	5,07	80,55	1,5%	1,21	-	1,21	1,5%
ERDF/CF 2007-2013	391,33	0,00	136,32			527,66	0,4%	1,95	-	1,95	0,4%
IPA/CBC 2007-2013	0,33	0,00				0,33	0,5%	0,00	-	0,00	0,5%
ERDF/CF 2000-2006	6,02	0,00	16,40			22,42	0,5%	0,11	-	0,11	0,5%
Solidarity Fund	1.105,82	1.105,82	92,64			92,64	0,5%	0,46	-	0,46	0,5%
Urban Innovative actions	45,07	45,07				0,00	1,2%	-	-	-	1.2%
Direct Management	101,20	27,12	26,54			100,62	0,0%	0,01	-	0,01	0,0%
Overall, total	43.937,75	8.716,00	2.416,38	3.894,99	1.519,15	40.013,98	(2,1% / 2,6%)	(820,48 / 1028,27)	(331,13 / 538,91)	489,36	1,2%

Notes to the table

(1) Differentiated for the relevant portfolio segments at a level which is lower than the DG total

(2) Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means that preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs.

(3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis). "Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-Sub-Delegations. * In Cohesion, the (10%) retention made.

(4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption'). * In Cohesion, the retention which is now released by the Commission.

(5) The concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out & adds the retentions made, and adds the previous pre-financing actually cleared & subtracts the retentions released; adds the 10% retentions and subtracts any deductions and cleared amounts during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(6) For ERDF 2014-2020, the calculation is made using KPI 5, weighted average confirmed residual total error rate 2018-2019. For low-risk types of expenditure, where there are indications that the equivalent error rate might be close to 'zero' (e.g. administrative expenditure, operating subsidies to agencies), it is nevertheless recommended that 0.5% be used as a conservative estimate.

(7) Financial corrections are made by programme to bring the confirmed total residual error rate down to 2%

(8) For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

2.1.1.2. Fraud prevention, detection and correction

REGIO has developed and implemented its own anti-fraud strategy. Following the update in December 2019 of the Joint Anti-fraud Strategy (JAFS) together with EMPL and MARE based on an updated risk assessment, several initiatives were taken in 2020 to implement the action points in the Commission's (CAFS) and REGIO's strategies. As a consequence of the additional funding and recovery measures in reaction to COVID-19, REGIO launched a debate with the Commission services and Member State programming authorities to update risk analyses of ERDF/CF programmes. The results achieved in 2020 in support of the Member States anti-fraud measures in place can be summarised as follows:

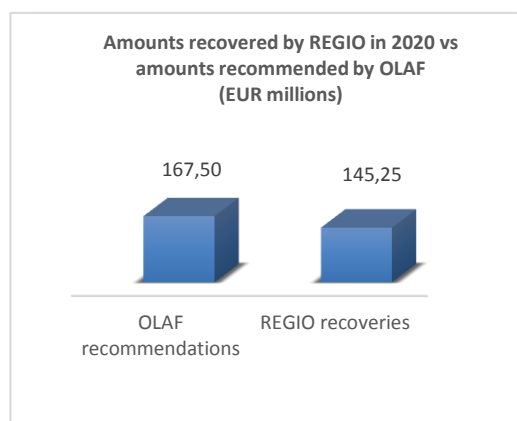
- In support of further administrative capacity building, the final report on a Compendium of Good practices as part of the technical assistance to Member States was adopted in February 2020 (thereby implementing CAFS Action 19). The new measures offered to Member States authorities comprise an e-learning module covering basic knowledge for staff training, and guidance together with an online toolbox with practical examples and case studies providing good practice;
- In line with the invitation addressed to the Commission by the European Council in July 2020, further measures to protect the EU-funds against fraud and irregularities were launched with the CPR legislator to increase the use of IT tools and achieve a more transparent and interoperable access of the Commission to data about recipients, financial recipients, beneficial owners, contractors and subcontractors¹¹¹. This is to be achieved through an increased use of specific data mining and risk scoring tools, in particular the use of Arachne by Member States authorities at all stages from project selection, tender procedures, the selection of beneficiaries and payment. Arachne is currently a voluntary support tool, but the number of connections as well as the number of active users is increasing. By the end of 2020, 20 Member States used Arachne for one or more programmes.

Further progress was made to encourage the adoption of anti-fraud strategies and policies, and to intensify the cooperation between national authorities across borders and with stakeholders and civil society. REGIO encouraged the programme authorities to update their analysis of the specific situation of fraud risks in each programme, both in the context of the adoption of 2014 – 2020 programme amendments to integrate CRII(+) and REACT-EU related objectives in the measures financed under the ESIF programmes, and in the negotiations on new programmes for 2021–2027 (thereby implementing CAFS Action 38). Technical support and training action was continued, e.g. in September and December 2020 by EIPA for REGIO trained participants on identifying and preventing fraud and corruption in 2014-2020 ESI funds (gathering 57 participants from 28 countries). REGIO also participated in an OLAF workshop on Anti-fraud strategies and the regions and in an IQ-Net conference in December on fraud risk management in cohesion policy.

REGIO also offered in 2020 two **training courses** for Member States, organised by EIPA. In total, 56 participants from 27 Member States and the UK attended.

¹¹¹ See CAFS Action 39.

REGIO continued its close cooperation with OLAF and has given systematic follow-up to all OLAF financial recommendations (thereby implementing CAFS Action 60). A thorough exercise with management authorities is continuously conducted in REGIO to follow-up to **OLAF administrative and financial recommendations.**¹¹²



In 2020, REGIO closed 13 follow up paths to OLAF cases, all programming periods included, implementing financial recommendations for each of them. Based on this population, **the recovery rate for OLAF financial recommendations in 2020 amounts to 87%** of the volume of these financial recommendations. In total, REGIO recovered from

Member States authorities EUR 145 million of the total amount of financial recommendations issued by OLAF (EUR 167 million). Amongst the cases closed, two dated back to 2000-2006, of which one had been under judicial procedures in the Member State concerned for more than ten years.

In the few cases in which the amount recovered was lower than the OLAF recommendation, REGIO provided a specific factual and legal explanation, linked to the regulatory basis for imposing financial corrections and the Commission guidelines on imposing corrections for public procurement. In several cases, the recovery was higher than the amount recommended by OLAF as REGIO recovered the amounts for more programme/projects than were investigated by OLAF.

Further action was taken **to communicate the new Commission guidance on conflict of interests**, prepared by BUDG in cooperation with ESI Funds DGs to the ESIF managing and audit authorities. Following this, REGIO consulted in September 2020 the programme authorities (at its technical group meeting of audit authorities and during the EGESIF meeting). REGIO has continued to review all the procedures in place by audit authorities to ensure that the provisions of the Financial Regulations which were enacted in 2018 are well understood and to confirm that appropriate audit procedures are in place in the Member States to prevent, cover and detect situations of a conflict of interests.

Following up on allegations of conflict of interests in one Member State, REGIO carried out its audit in 2019, issued its final audit report in December 2019 and followed up the implementation by the concerned programme authorities of its audit conclusions and recommendations in 2020. At the end of 2020, progress was achieved for most audit

¹¹² Over 2016 – 2020 OLAF has transmitted in total 129 recommendations for financial recovery to REGIO (aggregate volume of EUR 952 million). REGIO has closed the financial follow up for 70 of these recommendations (EUR 403 million). Out of these a total of EUR 250 million were accepted for recovery (= 62%). The reasons for amounts not accepted (EUR 153 million) concern objections by the Member States authorities with respect to the volume of the requested recovery (a lower rate of correction was applicable, payments to fraudulent beneficiary represented only a part of the total EU grant recommended by OLAF for full recovery, or calculation errors), the lack of a legal basis to apply corrections, or a disagreement on facts following findings of an audit mission. REGIO also implemented during the relevant period OLAF financial recommendations for amounts to be prevented from being unduly spent which amount at EUR 671 million.

recommendations but four were still under implementation. No expenditure has been declared to the EU budget for any of the operations affected by the audit.

2.1.1.3. Other control objectives

Safeguarding of assets and information

REGIO manages a number of intangible assets (EUR 9.6 million, see Annex 3, table 4).

Intangible assets are IT applications that continued to be developed:

SFC, acting as an interface between Member States and the Commission for the management of structural funds; and

WAVE, as the workflow system designed by REGIO to support all decisional, financial and audit procedures.

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

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

Assets owned by REGIO follow the international accounting rules and the closure guidelines established by the Commission accounting officer. The control objectives are fully met.

Reliability of reporting

Shared management: Audits on the reliability of performance data indicators

After the specific audits in 2017 and 2018 (a total of 26 audits in 14 Member States), REGIO now primarily relies on the work of audit authorities to obtain reasonable assurance on the reliability of performance data indicators. System audits on key requirement 6 (KR6) are part of the audit authorities' audit plans since 2019. They also have the obligation to review the reliability of reported performance data as part of the audits of operations¹¹³. REGIO assesses the audit authorities' work through the review of the annual control reports and system audit reports, performing also testing during on the spot compliance audits. Furthermore, plausibility and consistency of data reported in the annual implementation reports is checked when reviewing these reports. Deficiencies in the reliability of performance data or monitoring systems detected either by the Commission or audit authorities are closely followed up and can lead to the launching of a procedure for suspending interim payments, as provided by the legal provisions. REGIO satisfied itself with additional information received in 2020 that it could close the procedures launched previously (see above page 51). The **2014-2020 Closure guidelines**, drafted in 2020 and

¹¹³ CDR (EU) 2019/886 of 12/2/2019

presented already twice to the Member States, contains information about the obligations with regard to performance data reliability at closure and the related reporting in the final Annual Control Reports of the audit authorities.

An IAS audit on ‘Monitoring the implementation and performance of 2014-2020 operational programmes by REGIO, EMPL and MARE’ also tackled the issue of performance of programmes. The IAS concluded that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the ‘very important’ recommendations. Refer to section 2.1.2. These recommendations have been addressed, with one still ongoing in line with the agreed action plan.

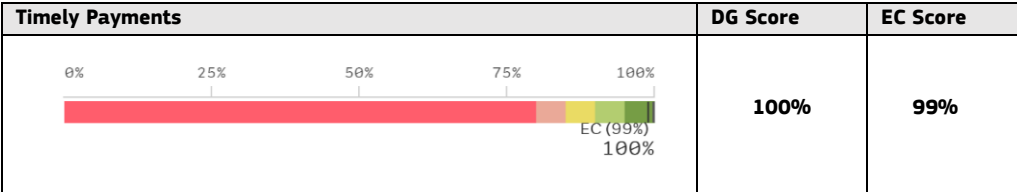
2.1.1.4. Efficiency of controls

REGIO has assessed the efficiency of its control systems. This section outlines the indicators used to monitor the efficiency of the control systems for each of the relevant management modes.

As from 2020, the former ‘payments-on-time (%)’ indicator changes from the number of payments on time (in %) to the payment accepted amount in time (in %). This new perspective is reflected in the corporate standard “timely payments (%)” indicator, as reported in the new Financial Scorecard (Annex 4).

REGIO manages funds under several management modes:

Management mode	Payment in 2020 (million EUR)	% Payments
Shared management	43,793	99.7%
Indirect management	45	0.1%
Direct management	99	0.2%



2.1.1.5. Economy (cost of controls)

The overall cost of controls at REGIO for all management modes combined is **0.20%**¹¹⁴.

A. Shared Management

REGIO quantifies the costs of the resources and inputs required for carrying out controls described in Annex 6 and compares them to the volume of payments registered in the reference year. See Annex 7N for more details on cost of controls.

The annual overall Commission cost is currently estimated at **0.20%** of total payments of the year, which slightly increased compared to the result reported in 2019 (0.19%)¹¹⁵. Most

¹¹⁴ Exact figure is 0.204%

staff costs included in the calculation correspond to supervisory and control activities by geographical and audit units.

In relation to the cost of controls in Member States, a study¹¹⁶ from 2018 assessed the cost at Member State level for the 2014-2020 period and concluded that **2.2%** of the total eligible costs for ERDF is spent on administrative tasks by programme authorities, compared to an overall 4% for ESIF in general: ERDF and CF have the **lowest** administrative costs for managing and controlling per million Euros of eligible funding.

B. Indirect management

The estimated annual overall Commission costs amount to **0.67%** of total payments of the year managed indirect management.¹¹⁷

C. Direct management

The estimated annual overall Commission costs amount to **2.4%** of total payments of the year managed under direct management mode.¹¹⁸

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

Transnational network of simplified cost options for ERDF and CF practitioners



Simplified cost options (SCO) are one of the most important measures to reduce administrative costs and burden. They are effective in reducing the error rate. They also facilitate access of small beneficiaries to the European Structural and Investment Funds thanks to the simplification of the management process and allow organisations to focus more on the achievement of the objectives.

Uptake of SCO varies amongst Member States. Insufficient experience in designing SCO methodologies is one of the most frequently cited reasons for not taking advantage of them. To respond to this challenge, REGIO put in place the Transnational Network (TN) of

¹¹⁵ Costs considered: staff in geographical desks (controls in design, implementation and monitoring); staff involved in audit (assessment of management and control systems in Member States, including the Commission's ex-post audits); staff acting as service providers to geographical desks (competence centres and units responsible for evaluation activities and financial instruments); share of staff involved in financial circuits; staff responsible for legal affairs and IT systems; the cost of IT tools (development/maintenance) supporting 2020 control activities and the costs related to outsourced audit work.

¹¹⁶ https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden

¹¹⁷ This is a decrease compared to 2019 (1.06 %), which is partly explained by a calculation error that has since been corrected. However, compared to 2018, the value from 2020 has doubled (0.34 %). Explanation: overall, decreasing payments (divided by 4 vs 2018) and a shift from managing the 2014-2020 programmes to preparing the next funding period can be observed. The costs incurred relate to staff costs involved in audit activities and part of the geographical staff involved in control and implementation activities for IPA.

¹¹⁸ This is a decrease of 0.3 p.p. compared to the 2.7% in 2019. The higher cost of controls compared to other management modes can be justified by the higher inherent risk and the potential reputational consequences for the Commission of any significant irregularity affecting direct management operations. The decreasing costs in 2020 show that a successful routine is in place, whereby a constant level of payments can be monitored with fewer staff (-0.4 FTE). The cost relates to staff of the newly established TA cell (financial advice, initiation, verification tasks and ex-post controls) as well as a proportion of operational staff involved in public procurement and contract management. The quantification of human resources is based on an estimation of FTEs implementing the DG's technical assistance. Their role is primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks being difficult to establish. In view of this, 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), REGIO estimated their involvement in the financial workflow at approximately 25%.

SCO ERDF and CF practitioners. The Network acts as a platform for regular exchanges of experience and supports the Member States from across the EU in improving their use.

The SCO Network allows exchanges between Member States that have both expertise and hands-on experience in the use of SCOs and those that do not. There have also been sessions on developing partnerships and assessing examples of good cooperation between managing and audit authorities as key solutions to enhance legal certainty around SCOs.

The Network members have also expressed interest in expanding the scope of the network to include topics of discussion other than SCOs. As a consequence, two TN subgroups have been recently created in order to deal with (a) the possibility of adopting EU level SCOs in 2021-2027 and (b) the identification of smarter/innovative procedures and practices in order to bring simplification, eliminate administrative inefficiencies and unnecessary rules in the implementation of the cohesion policy.

2.1.1.6. Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, REGIO has assessed the effectiveness, efficiency and economy of its control system and reached a **positive conclusion on the cost-effectiveness of the controls** for which it is responsible.

As regards **shared management**, REGIO's control strategy has proved to be effective in fulfilling the intended control objectives. As regards efficiency, the good performance is demonstrated notably by the fast processing of payments. This is achieved while ensuring a relatively low cost of controls.

REGIO is also constantly looking to improve and periodically review its control activities. This is notably reflected in the following:

- Risk-based approach for audit activities: focus on riskier programmes and areas while drawing maximum assurance from Member States' reported audit results, under the single audit approach;
- Differentiated approach for monitoring and supervisory activities of the implementing units allows adapting the monitoring and supervisory efforts of implementing units to the specific needs of each programme/Member State;
- Revision of the control system in line with the simplification measures introduced with the 2014-2020 period.

The focus and adequacy of resource allocation across control functions, as well as within each unit is assessed during the annual workforce planning exercise. Consequently, REGIO considers that an **adequate balance** has been found **between low error rates, fast payments and low costs of controls**.

A low error rate is also noted as regards **indirect management**. The indicators tracking the efficiency (time-to-pay) and the cost of the related controls also point to a cost-effective control architecture, taking into account the high inherent risk of irregularities, requiring extensive ex-ante controls and an intensive supervision. In view of this, REGIO considers that the related **controls are adequate and cost-effective**.

A similar conclusion can be reached for **direct management**. In addition to the swift processing of payments, no errors or notable deficiencies have resulted from the ex-post controls on transactions. The higher cost of controls in 2020 compared to other management modes can be justified by the higher inherent risk and the potential reputational consequences for the Commission of any significant irregularity affecting direct management operations. Consequently, REGIO considers that the related **controls are adequate and cost-effective**.

2.1.2. Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors - including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

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

A. European Court of Auditors

Annual report for 2019

The 2019 Statement of Assurance has relied for the third year concerning cohesion policy (REGIO and EMPL funds together) on the ECA pilot approach which focuses on the audit work already performed at national (and where timing allows Commission) level in assessing and testing management and control systems. This is a step that builds on the reinforced control and assurance framework for the 2014-2020 period.

A 2019 global error rate calculated by ECA at 4.4% for Cohesion spending

The ECA reviewed 24 assurance packages for 2014-2020 programmes (20) and 2007-2013 closures (4). Audit authorities had reported 64 quantifiable errors in the assurance/closure packages for the 220 transactions the ECA sampled, which mainly concerned ineligible costs and public procurement issues.

In the sample examined, the ECA identified and quantified 29 additional errors that had not been detected by the audit authorities. Taking account of the errors previously found by the audit authorities and corrections applied by programme authorities (total of EUR 334 million for both programming periods), the ECA estimated the level of error to be 4.4% (down from 5.0% in 2018 and 4.8% in 2016). The number/impact of the errors the ECA found for transactions in the 2014-2020 period were higher than for transactions relating to closure of the 2007-2013 period.

The Commission notes that the error rate reported in the 2019 AAR (with a maximum rate of 3.8% for REGIO) is fully within the ECA error range for cohesion (2.1% - 6.7%) The ECA also considered that Cohesion policy expenditure is part of the high risk expenditure of the EU budget.

Main sources of cohesion policy errors in the ECA 2018 annual report

The main sources of cohesion policy errors reported by ECA were the following:

- ineligible projects (issues of non-compliance with Article 65(6) of the CPR on operations physically or fully completed at the date of the application for funding),
- errors in public procurement procedures (even though the audit authorities demonstrated a good detection capacity for errors in that area) and State Aid rules (such errors are however less frequent over the past years)
- ineligible expenditure (ineligible participants or cost items),
- issues with financial instruments and absence of supporting documentation.

The ECA's assessment of the work of audit authorities

The work of audit authorities is critical part of the framework for assurance and control of Cohesion spending. In 2020 the ECA assessed 18 of 116 ERDF/CF and ESF/YEI audit authorities.

In all of the assurance and closure packages which the ECA examined, the audit authorities had reported a residual error rate equal to or below 2%. The additional errors the ECA detected in its sample of transactions examined by audit authorities led it to conclude that the residual rate for nine of the 20 assurance packages for the 2014-2020 period was above 2%. In its 2019 AARs, taking account of its own audit work and the preliminary results of ECA audits, the Commission had already adjusted the residual error rate for eight of those nine assurance packages to above 2 %. The ECA concluded that it cannot yet base its own assessment on the error rates reported by audit authorities and the Commission, which it considers are under-estimated.

The Commission noted in its replies that most of the irregularities identified by audit authorities and the Commission concern the same main categories, as identified by the ECA. This shows that audit authorities appropriately detect the different types of irregularities contributing to the error rate, but not entirely in all cases, due to complex projects and rules. The Commission also agrees with the ECA that management verifications are the first line of defence against errors and should be more effective in preventing and detecting errors in the first instance. It addressed updated guidance to Member States for 2014-2020 which, combined with the required use of simplified costs options, aim to improve the quality of management verifications. In addition, the typology of audit findings reported year on year to managing authorities by audit authorities should allow them to integrate the more frequent sources of errors in their risk assessments and to adapt their management verifications approaches and tools accordingly. On this basis, the Commission requires programme authorities to take action to tackle frequent errors and mitigate any risk for future expenditure, in a dialogue between programme authorities to improve, the detection capacities of both management verifications and audits.

The Commission cooperates with the audit authorities to ensure a consistent control framework, to improve the quality of the assurance work and to ensure the necessary detection and corrective capacities. It has obtained audit evidence that the vast majority of the audit authorities function well and that improvements are required for only a limited

number, as reported in the respective REGIO/EMPL AARs. REGIO has committed to continuing capacity building actions to ensure that all audit authorities perform to the same high-level standards. An illustration of this cooperation is the coordinated efforts it has put in place with the audit authorities in 2019 and 2020, with the support and expertise of the ECA, to improve audit documentation and ensure proper quality review of audit findings.

REGIO's follow-up of accepted errors reported by the ECA

REGIO is following-up all accepted errors reported by the ECA and ensures for all cases that corrective measures take place, including financial corrections, or that appropriate remedial action plans are implemented in the concerned systems in order to prevent errors in the future. For further details on audit observations by the ECA see Annex 7M.

B. Internal Audit Service (IAS)

In 2020, the IAS completed three audits in REGIO. In reply to the recommendations received, REGIO has developed action plans for all open recommendations, which have been accepted by the IAS and have been/are being implemented by REGIO as planned.

1. Audit on **implementation of financial instruments** under ERDF/CF 2014-2020 in REGIO: overall the IAS concluded that REGIO has put in place adequate controls for supporting Member States in the uptake and use of financial instruments under the 2014-2020 period for ERDF/CF and for monitoring their implementation. Although no critical or very important issues were identified, the IAS considers that there is room for further improvement in the areas of (1) internal capacity building in REGIO; (2) support to Member States; (3) and monitoring and reporting.
2. Audit on monitoring the **implementation and performance of 2014-2020** operational programmes by REGIO, EMPL and MARE: the IAS concluded that, although overall the Directorates-General are effectively monitoring the implementation and performance of the programmes and that the performance review was well prepared, there remain weaknesses and identified the following three areas for improvement: (1) assessing programme performance, identifying and following up on implementation weaknesses (very important); (2) performance data reliability (very important); (3) reporting on Implementation.
3. Audit on the processes for **coordinating technical support** to the Member States in REFORM (including the contribution of REGIO and EMPL): the IAS concluded that REGIO has put in place adequate and effective procedures for contributing to the coordination mechanism on technical support led by REFORM. Although no critical or very important issues were identified, the IAS considered that there is room for further improvement on the procedures put in place by REGIO to contribute to the SRSP project selection and to the coordination mechanism on technical support.

Finally, in 2020, the IAS has also carried out several follow-up assignments on previous audits. The very important recommendations and their state of play are the following:

Audit title	Very important recommendations	Deadline
Audit on implementation of Major Projects in REGIO	Governance: JASPERS contractual and supervision arrangements	Completed in July 2020, followed-up and closed by IAS ¹¹⁹
Monitoring the implementation and performance of 2014-2020 operational programmes by the Directorates-General for Regional and Urban Policy, for Employment, Social Affairs and Inclusion, and for Maritime Affairs and Fisheries	Assessing programme performance, identifying and following up on implementation weaknesses	Completed in June 2020, followed-up and closed by IAS ¹²⁰
	Performance data reliability	31/12/2022
TOTAL	3	

At the time of writing, in addition to the ongoing very important, the five other important recommendations (see above) were still ongoing as planned. In 2020, the IAS also announced two new audits. Opening meetings for these were planned for the beginning of 2021 (ISFC for ESIF 2014-2020 - Interruptions, Suspensions and Financial Corrections and preparation of the 2021-2027 programming period).

In its contribution to the REGIO AAR, the IAS concludes that **the internal control systems in place for the audited processes are effective, except for the observations giving rise to the ongoing 'very important' recommendation** from the audit: *"Monitoring the implementation and performance of 2014-2020 operational programmes by the Directorates-General for Regional and Urban Policy, for Employment, Social Affairs and Inclusion, and for Maritime Affairs and Fisheries"*. This recommendation will be addressed in line with the agreed action plan.

REGIO considers that, **in view of the actions already put in place for risk mitigation, the residual risk related to the above-mentioned very important recommendations does not affect in a material way the achievement of the internal control objectives**, and therefore the assurance provided in the AAR.

2.1.3. Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

REGIO uses its organisational structure and internal control system to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

REGIO's core tool is an annual assessment of the effectiveness of its internal control system. Business owners continuously oversee the effectiveness of the systems, and determine if they work as intended and ensuring that control weaknesses are detected, analysed and considered for improvement.

In addition, management performs specific assessments to ascertain whether the internal control systems and their components are present and functioning. The purpose of these is to provide reasonable assurance that the internal control principles adopted by the Commission are implemented and functioning in the DG, that the assessment findings are

¹¹⁹ ARES(2020)4086502 – 03/08/2020

¹²⁰ ARES(2020)6152168 – 30/10/2020

evaluated and that any deficiencies are communicated and corrected in a timely manner, with serious matters reported as appropriate.

The self-assessment, on the basis of the data provided by the ICS Chefs de file was reviewed by taking into consideration the following:

- The annual AOSD Management Reports;
- A register of reported non-compliance events and requested exceptions;
- The results of the IAS audits and the follow-up of their recommendations;
- The results of ECA audits and the follow-up recommendations are reported in Annex 7M.

The DG has followed the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission".

2.1.3.1. Main findings of the 2020 annual assessment

Targeted actions were carried in 2020 in relation to several principles, with a view to further enhance their effectiveness and robustness beyond 2020:

Control Environment (Component 1): As for Principle 1 (commitment to integrity and ethical values) the weaknesses detected require major improvements. In this regard, focus has been put on mitigating the fraud risks related to the particularities of a shared managed system. However, the need for action regarding several measures in the area of training of newcomers persists and will be addressed in 2021.

Risk assessment (Component 2): Regarding Principle 6 (Financial Reporting Objectives), the KPI in the Annual Activity Report 2019 was 2.7%, well above the set target of <2%. As a result, 33 financial correction procedures were initiated for 42 programmes and, in addition, 3 financial corrections have been implemented to reduce the risk at closure below 2%. Finally, another 4 programmes have been identified for which no further corrections are required. All contradictory procedures will have to be closed and possible financial correction procedures initiated for those cases remaining with a confirmed RTER above 2%.

Information and Communication (Component 4): In relation to Principle 13 (Information and Document Management), no significant systemic weaknesses were identified. However, Document Management should be closely monitored. Measures have already been taken to continue monitoring in this area.

Based on the end-of-the-year assessment, no weaknesses were identified which could have seriously affected REGIO's compliance and performance in 2020 with reference to the requirements foreseen for the component risk assessment. Nevertheless, major improvements are needed under Principle 1 and Principle 6. The associated risks should be further mitigated through REGIO guidelines and the need for action must be addressed. Annex 8 provides more details on the assessment of the effectiveness of internal controls.

2.1.3.2. Conclusions about REGIO's internal control framework

REGIO has assessed its internal control system during the reporting year and has concluded that it **is partially effective as internal control principles 1 and 6 need major improvements, additionally some improvements are needed under Principle 13.**

The improvements or remedial actions implemented or planned are continuous monitoring in the affected areas, increased awareness raising on compliance and performance in the impacted sectors, and further cooperation and capacity building with the business owners and the concerned national authorities (Principle 6).

Without prejudice to these findings, it can be considered that, in view of the actions already put in place for risk mitigation, the residual risk related to the above-mentioned recommendations **does not affect in a material way the achievement of the internal control objectives, and therefore the assurance provided in the AAR.**

2.1.4. Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

2.1.4.1. Review of the elements supporting assurance

The information reported in part 2 of this report stems from the results of management and audit monitoring. 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 REGIO.

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

REGIO 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 of this report).

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

2.1.4.2. Reservations and overall conclusion on assurance

Regarding **shared management**, the risk "at payment" is calculated by applying the residual total error rate of the accounting year (2018-2019 in this AAR) as confirmed by

the Commission services once the control cycle was completed, (KPI5)¹²¹, to the "relevant expenditure" of the Commission reporting year (i.e. payments made during the 2020 reporting year excluding new pre-financing, including the 10% retained, including the cleared pre-financing minus the retentions released and any deductions applied in the accounts 2019-2020).

The risk "at closure" indicates the remaining risk to the 2020 relevant expenditure once the Commission will have applied the necessary additional financial corrections to bring the total residual error rates for all programmes down to 2%. By using the confirmed residual total error rate for accounting year 2018-2019 by programme as detailed in Annex 7B, REGIO has been able to identify for which programmes additional financial correction will be required upon finalisation of the ongoing audit contradictory procedures.

For the 2014-2020 programming period, the estimated risk at payment linked to the 2020 relevant expenditure is calculated at **2.1% / 2.6%** taking into account the financial corrections already made.

There are 63 programmes for with evidence or indications at this stage point to a confirmed residual total error rate 2018-2019 above 2% and the need for additional corrections. The risk at closure is calculated at 1.2% after estimating such future corrections still required to bring down to 2% the residual total error rates for all programmes.

For **ENI-CBC programmes** with neighbouring countries, REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions in the 2020 reporting year except for **2** programmes due to the absence of the required audit work.

As a result, for 2014-2020 REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions in the 2020 reporting year except for **38** programmes due to the deficiencies detected affecting all or part of these programmes. Their quantification is calculated at EUR **262.1 million**.

For the **2007-2013** programming period, the **estimated average risk linked to the 2020 relevant expenditure** is calculated at **0.37%**.

As the 2007-2013 programming period is at the stage of closure, final payments are only processed when the Commission considers that all the necessary financial corrections have been made and that the residual risk is below the materiality threshold of 2%, meaning that no additional future corrections should be estimated. Therefore, the estimated amount at risk at payment is based on the estimated residual risk after financial corrections.

REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions except for **9 ERDF/CF** and **1 IPA-CBC** programmes, due to the level of financial corrections which still need to be applied as part of the closure process and a reputational reservation. There is no actual financial exposure due to these reservations as final payments are not made until the detected issues are solved and reservations lifted.

¹²¹ After neutralising the impact of the advances paid into financial instruments and included in the sample of audit authorities based on declared expenditure (in line with Article 127 CPR)

For the **2000-2006** programming period (estimated average risk is projected at 0.5%), **indirect management, direct management and Solidarity Fund** (no material deficiencies identified affecting the 2020 paid expenditure), REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

In conclusion, **management has reasonable assurance** that, overall, suitable controls are in place and 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 **two reservations**:

Nr.	Title	Type	Quantification of the reservations ¹²²	Scope / relevant expenditure affected ¹²³
1	Reservation concerning ERDF/CF management and control systems for 34 programmes of the 2014-2020 programming period in 10 Member States and the UK, 2 ETC and 2 ENI-CBC programmes	Financial	EUR 262.1 million	EUR 7,280.5 million
2	Reservation concerning ERDF/CF management and control systems for 9 programmes of the 2007-2013 programming period in 5 Member States and 1 IPA-CBC programme	Non-Financial	-	-

For the overall risk at closure, refer to table “Estimated risk at closure” on page 54.

¹²² Calculated on 2020 relevant expenditure. Full & partial financial reservations only (2014C16RFCB044 Interreg BE – FR at 31%)

¹²³ For financial reservations (full and partial)

2.1.5. Declaration of Assurance and reservations

I, the undersigned,

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 view¹²⁴.

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit 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 (see tables next two pages):

- a reservation concerning ERDF/CF management and control systems for 34 programmes of the 2014-2020 programming period in 10 Member States and the UK, 2 ETC and 2 ENI-CBC programmes*
- a reservation concerning ERDF/CF management and control systems for 9 programmes of the 2007-2013 programming period in 5 Member States and 1 IPA-CBC programme*

Brussels, 30 April 2021

Marc Lemaître

"Signed"

¹²⁴ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

Reservation 1 concerning ERDF/CF and ENI-CBC management and control systems for the 2014-2020 period in several Member States

REGIO	
Title of the reservation, including its scope	Reservation concerning ERDF/CF management and control systems for 34 programmes of the 2014-2020 programming period in CZ, DE, ES, FR, HU, IT, PL, RO, SI, SK, UK, 2 ETC and 2 ENI-CBC programmes
Domain	Structural and Cohesion Funds and IPA-ENI carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	<p><u>13.03 ERDF, 13.04 Cohesion Fund,</u></p> <p>2020 ERDF/CF total payments made to programmes affected by reservations: EUR 10,550.6 million (relevant expenditure is EUR 9,244.4 million)</p> <p><u>22.040301 and 22.040302 ENI CBC</u></p> <p>Payments made: EUR 12.7 million (relevant expenditure is EUR 1 million).</p>
Reason for the reservation	<ul style="list-style-type: none"> - systems deficiencies leading potentially to risk above the 10% retention - total error rates above 10% - residual total error rate above 2% - non-acceptance of accounts
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems with a material risk to the EU Budget, Residual error rate >2%, material issues on the completeness, accuracy and veracity of the accounts
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 262.1 million
Impact on the assurance	<p>The weakness affects the legality and regularity of the expenditure concerned and the effective functioning of the management and control systems in place.</p> <p>Financial impact is mitigated through:</p> <ul style="list-style-type: none"> - interruption/suspension of payments pending the correction by the Member States concerned of the identified weaknesses; - financial corrections to be applied before accepting the next expenditure statement.
Responsibility for the weakness	<p>The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures.</p> <p>The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).</p>
Responsibility for the corrective action	<p><u>At Commission level</u></p> <ul style="list-style-type: none"> - warning letters / interruption of payment deadlines / launch of suspension and financial correction procedures, - audit work both desk or on the spot to check the ability of programme managing and / or audit authorities to fulfil their obligations, <p><u>At Member State level</u></p> <ul style="list-style-type: none"> - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies, - audit by the audit authority of the effective implementation of remedial measures applied by managing authorities in management and control systems and of the basis for the application of financial corrections when required.

Reservation 2 concerning ERDF/CF and IPA-CBC management and control systems for the 2007-2013 period in several Member States

REGIO	
Title of the reservation, including its scope	Reservation concerning ERDF/CF management and control systems for 9 programmes of the 2007-2013 programming period in HR, HU, IT, RO, SK and 1 IPA-CBC programme
Domain	Structural and Cohesion Funds and IPA-CBC programmes carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	<p><u>13.03 ERDF, 13.04 Cohesion Fund,</u></p> <p>2020 ERDF/CF total payments made to programmes affected by reservations: EUR 0.0 (relevant expenditure is EUR 0.0)</p> <p><u>13.05 IPA-CBC</u></p> <p>2020 IPA-CBC payments made: EUR 0.0 (relevant expenditure is EUR 0.0). Reservations for Adriatic and Sicily programmes are reputational.</p>
Reason for the reservation	<p>Serious deficiencies in management and control systems for these programmes as detected by the programme audit authority and/or the Commission at closure which have significant financial impact (i.e. risk above the amount retained).</p> <p>In particular, these deficiencies concern one or several of the following key elements:</p> <ul style="list-style-type: none"> - compliance with public procurement rules and directives /revenue generated project/eligibility rules, - high error rates following audit of operations, - audit work (incomplete, procurement irregularities not detected...), - suspicion of fraud.
Materiality criterion/criteria	Following the in-depth assessment of closure documents, reservations are made for programmes with estimated financial corrections to be implemented exceeding the retention of the overall allocation made at programme level (5% or less for underspent programmes of the overall allocation made at programme level)
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 0.0
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. The Commission will not make the final payment until the Member States' authorities will have agreed all necessary additional financial corrections.
Responsibility for the weakness	<p>The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures.</p> <p>The Commission supervises the national authorities in this respect.</p>
Responsibility for the corrective action	For each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed, the Commission has analysed the Final Control Reports received and when needed has requested Member States to perform additional audit work and/or to apply additional financial corrections.

List of programmes in the 2020 reservation

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

Res. No.	MS	OP CCI	OP Title	Reservation 2020
1	CZ	2014CZ16RFOP001	Enterprise and Innovation for Competitiveness	Full reservation
2	DE	2014DE16RFOP011	OP Saarland ERDF 2014-2020	Partial non-financial
3	ES	2014ES16RFOP002	Multiregional OP for Spain ERDF 2014-20	Full reservation
4	ES	2014ES16RFOP003	Andalucía ERDF 2014-20P	Full reservation
5	ES	2014ES16RFOP006	Baleares ERDF 2014-20 OP	Full reservation
6	ES	2014ES16RFOP011	Cataluña ERDF 2014-20 OP	Full reservation
7	ES	2014ES16RFOP012	Ceuta ERDF 2014-20	Full reservation
8	ES	2014ES16RFOP015	Galicia ERDF 2014-20 OP	Full reservation
9	ES	2014ES16RFOP017	Madrid ERDF 2014-20	Full reservation
10	ES	2014ES16RF5M001	SME Initiative	Reputational
11	FR	2014FR16M00P009	Regional Programme Guadeloupe Conseil Régional 2014-2020	Full reservation
12	FR	2014FR16M20P012	Regional Programme Mayotte 2014-2020	Full reservation
13	HU	2014HU16M20P002	Competitive Central-Hungary OP	Partial non-financial
14	IT	2014IT05M20P002	National Operational Programme on Governance and Institutional Capacity	Full reservation
15	IT	2014IT16M20P002	ROP Puglia ERDF ESF	Full reservation
16	IT	2014IT16M20P004	National Operational Programme on Metropolitan Cities	Full reservation
17	IT	2014IT16M20P006	Calabria ERDF	Full reservation
18	IT	2014IT16RFOP002	National Operational Programme on Infrastructures and Networks	Full reservation
19	IT	2014IT16RFOP007	ROP Campania ERD	Full reservation
20	IT	2014IT16RFOP015	ROP Sardegna ERDF	Full reservation
21	IT	2014IT16RFOP016	ROP Sicilia ERDF	Full reservation
22	PL	2014PL16M20P002	ROP 2 Regional Operational Programme for Kujawsko-Pomorskie Voivodeship 2014-2020	Full reservation
23	PL	2014PL16M20P008	ROP 8 Regional Operational Programme for Opolskie Voivodeship	Partial non-financial
24	PL	2014PL16M20P012	ROP 12 Regional Operational Programme for Slaskie Voivodeship	Full reservation
25	PL	2014PL16M20P014	ROP 14 Regional Operational Programme for Warmińsko-Mazurskie Voivodeship	Full reservation
26	PL	2014PL16M20P015	ROP 15 Regional Operational Programme for Wielkopolskie Voivodeship	Full reservation
27	PL	2014PL16RFOP001	OP Smart growth	Partial non-financial
28	RO	2014RO16RFOP002	Regional Operational Programme	Full reservation
29	SI	2014SI16MAOP001	Operational Programme for the Implementation of the EU Cohesion Policy in the period 2014-2020	Full reservation
30	SK	2014SK05M00P001	Operational Programme Human Resources	Full reservation
31	SK	2014SK16M1OP001	Integrated Infrastructure	Full reservation
32	SK	2014SK16M1OP002	Quality of Environment	Partial non-financial
33	ENI-CBC	2014TC16M5CB006	Lithuania – Russia (ENI CBC)	Full reservation
34	ENI-CBC	2014TC16M5CB008	Latvia - Lithuania - Belarus (ENI CBC)	Full reservation
35	ETC	2014TC16RF0CB044	Interreg V-A Belgium-France (France-Wallonie-Vlaanderen)	Partial reservation
36	ETC	2014TC16RF0CB051	Interreg V-A - France (Mayotte-Comores-Madagascar)	Full reservation
37	UK	2014UK16RFOP001	United Kingdom - ERDF England	Full reservation
38	UK	2014UK16RFOP005	United Kingdom - ERDF West Wales and The Valleys	Partial non-financial

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

Res. No.	MS	OP CCI	OP Title	Reservation 2020
1	HR	2007HR161P0002	Transport	Full non-financial
2	HU	2007HU16UP0001	Electronic Public Administration	Full non-financial
3	IT	2007IT161P0005	Reti e mobilità	Full non-financial
4	IT	2007IT161P0006	Ricerca e competitività	Full non-financial
5	IT	2007IT161P0011	ERDF OP Sicily	Reputational
6	RO	2007RO161P0001	Regional OP	Full non-financial
7	RO	2007RO161P0003	Transport	Full non-financial
8	RO	2007RO161P0004	Environment	Full non-financial
9	SK	2007SK161P0007	Technical Assistance	Partial non-financial
10	IPA-CBC	2007CB16IP0001	Adriatic IPA CBC	Reputational

2.2. Modern and efficient administration – other aspects

2.2.1. Human resources management

REGIO continuously streamlines its working methods, optimises the allocation of its workforce and improves its efficiency by clearly establishing measurable targets and delivering results.

The results of the **2018 staff satisfaction survey** published in 2019 provided a useful feedback on the follow-up actions to the 2016 survey. The response rate achieved 51% and the staff engagement index increased from 69% to 72%. Compared to the Commission's average, REGIO scored better on teamwork and commitment to do quality work, the Commission as attractive employer and the staff liking their job. REGIO scored worse in managing the workload and ensuring better life-work balance of staff. As a follow-up to the results of the survey, a **Development Plan** including 19 actions was endorsed by the Board in June 2019. A survey on the implementation of the REGIO development plan was carried out in 2020. The results are positive and were taken into account in the preparation of the Local HR Strategy.

This new **Local HR Strategy** was prepared and will be concluded in early 2021, to ensure effective management of human resources and the capacity to deliver on the business priorities. The strategy will tackle the main issues to be addressed at DG level, such as talent management, organisation and culture, workplace, wellbeing and leadership. The strategy is a result of an extensive consultation of staff in 2020.

REGIO **monitors the use of the workforce** to ensure adequate staffing of units and to optimise the use of available job quotas to deliver on Commission and REGIO priorities as set out in the management plan. The issues such as decrease of human resources and increased need for internal redeployment, optimal use of job quotas and dependency on contract agents and in-house service providers are also included in the new local HR strategy. A **workforce allocation** exercise is regularly carried out and reviewed by REGIO's Board and the HR Steering Committee. The Board decided in September, how the permanent posts received from the 2020 complementary allocation and the new contract agents paid from the resources of Next Generation EU should be distributed among units.

It should also be mentioned that in 2020, REGIO has dedicated significant human resources to the EU Recovery and Resilience Facility (**RRF**) process. Although the work was mostly concentrated toward the end of the year, it is estimated that around 10-15% of REGIO's operational units' human resources were dedicated to this.

The **mobility exercise** continued to offer new job opportunities for colleagues occupying the same post for more than five years. The objective was to allow staff to develop new skills and competences and at the same time to give the DG the opportunity to profit from better sharing of ideas and experiences.

The College decision¹²⁵ on the measures to reach gender equality at all levels of management by the end of 2024, includes a quantitative target for REGIO of three **first**

¹²⁵ SEC(2020) 146

female appointments to middle management between 2020 and 2022. This target was already reached in 2020.

Particular attention is also paid to **diversity and inclusion**. REGIO is part of the Task force for equality within the Commission. The first task of the newly appointed equality coordinator was the preparation of an Equality Work Plan, which was endorsed by the Board of Directors in September 2020.

The above actions were accompanied by **e-learning** development included in the annual training plan. Due to COVID-19, several corporate and **in-house training courses** were postponed to 2021. Where possible, classroom courses were transformed into online training and several new trainings were organised in 2020 to help staff better cope with teleworking. Integration of newcomers was facilitated by putting more emphasis on e-learning and targeted communication.

Internal communication plays a key role in developing a sense of purpose and European commitment among staff. In REGIO, ‘communication is everyone’s business’.

Following the COVID-19 pandemic and the related safety measures, REGIO has provided guidance and support to all staff. A dedicated page was set up on the MyRegio intranet to allow for easy access to corporate and REGIO news and updates, to provide IT guidance and tips and serve as repository for REGIO’s collective effort to humanise teleworking.¹²⁶

On staff engagement, colleagues had the possibility to comment on the implementation of the Development Plan and provide their feedback on REGIO’s new Equality Work Plan. In addition, staff meetings, collective viewing of and discussion on key political announcements (e.g. State of the Union speech) were pursued in 2020 digitally.

A major collective achievement this year was the wealth of pandemic-related video outputs (“Stories from the regions”), mingling internal and external communication to show-case inspiring examples of European solidarity. REGIO also held its 3rd edition of the Internal Communication, External Communication and Knowledge Management awards.

Finally, REGIO maintained an active participation and contribution to Commission internal communication networks and integrated REGIO’s top news in the [MyIntracomm page](#).

2.2.2. Digital transformation and information management

Digital transformation

2020 was a crucial year for the IT preparation of the **new 2021-2027 period**, mainly regarding the delivery of the **two new flagship systems** (MyWorkplace and SFC2021). The 2020 IT work plan was considerably reshuffled and followed up closely in the second semester, mainly due to the COVID-19 crisis that required urgent unplanned adaptations of the IT systems to cope with the **Coronavirus response initiatives** (CRII(+)) and REACT-EU). However the IT unit succeeded in achieving most of its initial planning, despite slight delivery shifts triggered by the priority changes to accommodate new business needs and

¹²⁶ “[REGIO Working From Home](#)” page with tips for parents with children at home, Photo sharing, REGIO CONTACT – Feel Good Music playlist, Madeleine of Proust challenge.

to **reorganise IT teams in teleworking mode** (implementation report of the 2020 IT work plan¹²⁷). The delays in the adoption of the new MFF and the new cohesion policy legislative package led to a further revision of the IT work plan, to allow a proper roll out of the information systems for the first operations and transactions of the new period.

In May-June 2020, features of the **MyWorkplace platform** were demonstrated to key users from REGIO, EMPL, MARE, HOME and AGRI. A successful trial and feedback phase with volunteers from all implementing directorates in July-September, led to the approval by the Directors' Board¹²⁸ to proceed with MyWorkplace as the main choice for the 2021-2027 period whilst also preparing a backup plan in WAVE. Accordingly, the IT unit progressively doubled the resources assigned (~26 FTEs) to the MyWorkplace programme and related activities, and increased its financial contribution to DIGIT's Compass Corporate umbrella programme. The IT unit dedicated maximum effort preparing the general roll-out of MyWorkplace for all REGIO and MARE users. Together with the Business Process Team, the IT unit prioritised the change management and training/coaching offers¹²⁹ to ensure a seamless roll-out to users during the first semester 2021.

2020 was also a challenging year for REGIO's and EMPL's **SFC** development teams, as they successfully tackled the implementation of the EC recovery plan measures respectively in SFC2014-BO and FO simultaneously with the development and set-up of SFC2021. By end-2020, the team demonstrated integration of SFC2021-BO with MyWorkplace, ABAC, SFC2021-FO and a series of frameworks and reusable components provided by other DGs (Secunda, EULogin, eUI, ...), leading to better interoperability between systems. The IT unit remains on track for the implementation of SFC2021-BO in accordance with the revised timeline for the first submissions for the 2021-2027 programming period.

Furthermore, the **Business reporting system** (Launchpad reports and underlying data warehouse) was further adapted to ensure continued provision of common and improved reporting services to the shared management DGs, BUDG and ESIF Open Data Portal in alignment with the EC data strategy and EC data governance¹³⁰. Additional effort was invested into exploring new ways of leveraging the existing data (i.e. Artificial Intelligence-based prediction, real-time reporting and interactive dashboarding).

The **2014-2020 period WAVE** and **SFC2014** systems were subject to process simplifications as well as to new processes related to the EC recovery plan measures.

The IT unit also ensured the **continuity of base-line IT services** to all REGIO users in the unexpected conditions of teleworking. It performed the maintenance on **legacy systems**¹³¹ supporting **earlier periods**. A roadmap for phasing out some of these systems was defined in collaboration with the business, by identifying alternative solutions where needed (e.g. RegioVista decommissioned by end-2020).

Following the creation of REFORM, REGIO has successfully provided them with **IT support services**, focused mainly on infrastructure, security and system support, as well as

¹²⁷ Director's board meeting on 14 December 2020 acting as IT steering committee - [Ares\(2021\)141454](#)

¹²⁸ [Results of the Champion's trial and feedback phase](#) presented to the Board of Directors on the 21st September 2020

¹²⁹ The change management campaign was presented at the Board of Directors on 30 November 2020 - [Ares\(2020\)7618960](#)

¹³⁰ Data Strategy@EC - [Ares\(2018\) 2075673](#), Data Governance and Data Policies at the European Commission - [Ares\(2019\)7468514](#)

¹³¹ WFS, SysFin, AGMS, REGIOVISTA, SFC2007-BO and SysAudit

representing REFORM in all corporate IT Governance matters, in line with the Memorandum of Understanding on shared services between REGIO and REFORM.

In the framework of the **corporate IT governance**, REGIO continued as member of the Information Technology and Cybersecurity Board (ITCB) and the extended IT Investments team, representing the Shared Management family DGs: AGRI, EMPL, MARE and REFORM.

A **new corporate IT financing mechanism** was decided by the Corporate Management Board based on co-financing from all operational programmes. As of 2021, the annual contribution from REGIO is around EUR **6 million** on top of the regular IT budget.

In addition, the IT unit's investment to accelerate the provision of laptops and UCC devices for all REGIO users initiated in 2019 was finalised in 2020, highly facilitating the **business continuity during the teleworking period**. Resources were dedicated to provide assistance with remote connectivity issues and use of video conference tools. In order to comply with the COVID-19 guidelines, significant efforts were devoted to the installation of new videoconferencing hardware in the meeting rooms allowing for **full hybrid meetings**.

On request from central services, REGIO's **IT security plans** were reviewed using the new ITS^{RM}² methodology. Priority was given to major systems (MyWorkplace, SFC and WAVE).

Sharing of information and knowledge

RegioWiki constitutes a key REGIO enabler for strategic business processes, collaboration and knowledge sharing, such as the automation of country-specific briefings or the co-creation of strategic briefings for the Commissioner and the briefing handbook. Since its opening to all Commission services in 2018, this knowledge management repository and collaboration platform counts more than 700 users in REGIO and a growing number of more than 5,000 users throughout the Commission. Capitalising on this, as well as on the country knowledge already in RegioWiki, REGIO continued to contribute to the 2020-2021 data, knowledge and information corporate priority '**Enhancing Country Knowledge**'¹³².

The ambition is to **bridge the gap between different sources of information, platforms and stakeholders**. To this end, REGIO launched in 2020 a pilot project named **Kohesio** consisting in developing a knowledge base aggregating, connecting and standardising data and information on cohesion policy projects. It is fed with the lists of operations provided by a sample of six Member States for the 2014-2020 period. The main output and benefits of this pilot are:

- Better exploit the information available in the 2014-2020 lists of operations to achieve better monitoring, evaluation, communication, transparency and decision-making;
- Provide targeted data visualisation, including project geolocation, lists of beneficiaries by countries or graphic exploration by topics;
- Facilitate project search, allowing to quickly find information on 'hot topics' (e.g. "Green Deal", "Digital") or policy objectives etc.;

¹³² [Work programme on data, knowledge and information management 2020-2021](#)

- Connect and link information provided by Member States with elements coming from external sources;
- Foster collaboration with regional/local partners: testing user interface and allowing regional and local authorities to enrich and disseminate contents.

This work was done in close collaboration with CNECT and DIGIT. The 2014-2020 pilot is now ready for extension to 27+1 Member States and 2021-2027 period. It will allow to substantially increase available knowledge for REGIO and the Commission, while clearly reducing the need for staff to encode/curate information.

Document management

In 2020 REGIO closed over 1,000 electronic files. REGIO also implemented its second electronic archiving exercise. Almost 300 electronic files were transferred or eliminated.

In 2020, The Document Management Officer (DMO) provided REGIO staff with the typology of documents requiring sensitivity markings as well as tools available for REGIO staff to get acquainted with the correct use of markings.

The DMO also organised three meetings with the DMOC Network. They were a good opportunity for sharing information and best practices and contributed to “keeping the spirit” of the community during the COVID-19 period.

The DMO also provided guidance to REFORM in line with the Memorandum of Understanding on shared services between REGIO and REFORM.

Data protection

REGIO continued implementing the Data Protection Action Plan to comply with Article 4 of the Data Protection Regulation (EU) 2018/1725 taking the following steps in 2020:

- The Data Protection Coordinator (DPC) has assisted controllers to update all active processes under the old regulation to the new rules. REGIO reached 100% conversion rate of legacy notifications in 2020.
- Advice and assistance to units has been given, especially for the submission of the records for REGIO-specific processing operations in the Data Protection Management System (DPMS), the preparation of privacy statements and how to document data breaches.
- The dedicated page in REGIO Wiki was regularly updated with information on how to comply with data protection rules, practical guidance and templates.
- Organised awareness raising activities and general trainings and informative sessions with the main actors to provide support for any data protection related issues. Data protection has been included in the training for newcomers.
- The state of play of implementation of data protection was presented in the enlarged board of Directors in November with the participation of the DPO to draw attention of the management to the importance of data protection in REGIO.
- Obligations were embedded in the REGIO Internal Control Framework to ensure compliance and accountability. The Director-General was regularly updated about the state of play.

- REGIO data protection network meetings were held on corporate records and data breaches.
- Guidance on International transfers tools and an inventory on transfers of personal data to non-EU countries was carried out.

The current data protection legislation allows international transfers of personal data in principle if the EU standards for the protection of the rights and freedoms of the data subject are guaranteed also after the transfer. Moreover, the invalidation of the EU-U.S. Privacy Shield (the Schrems II judgement) poses concrete challenges for services transferring personal data to third countries or using international cloud services. REGIO will continue to assess its processing activities in light of the requirements of the Schrems II ruling and will coordinate with relevant Commission services and IT governance bodies, as well as the Data Protection Officer, to be able to draw from horizontal approaches to similar situations. The Commission services, coordinated by the Data Protection Officer, replied to a request from the European Data Protection Supervisor (EDPS) to all EU institutions to identify and map their international transfers and to report certain categories of transfers and are awaiting the EDPS' reaction. The goal is to minimise the risks linked to ongoing and future international transfers of personal data, notably by informing all data subjects of the legal situation in which such transfers take place, in order for operations undertaken by the Commission services to comply with EU data protection law.

The REGIO DPC is responsible for the implementation of data protection rules in the Cabinet and has offered training and support; and provides assistance to the data protection contact point of REFORM in the framework of shared services, liaises with the DPO when needed and participates in DPC network meetings.

Contribution to the action plan of the DataStrategy@EC

REGIO has contributed to the action plan of the DataStrategy@EC, notably by establishing the **inventory of its main data assets**. It will continue in the future, focusing on the following priorities:

- Fostering the transparency and accessibility to internal data sources, by opening up data sources for sharing and reuse;
- Exploit geo-spatial information, including satellite images;
- Implementation of the data governance framework, which sets out clear institutional and personal roles, their responsibilities and interdependencies. This already exists within the IT organigram but REGIO will ensure that the current framework complies with the principles outlined in the data governance and data policies document.
- Implementation of the guiding principles of data management, data interoperability, data quality, as well as data protection and information security outlined in the data governance and data policies document.

2.2.3. Sound environmental management

To contribute to corporate, EU and global efforts, and to meet the Paris objectives, REGIO has developed a strategy to reduce its carbon footprint. The strategy was developed in an inclusive manner, building on ideas from REGIO staff, thanks to the REGIO Green Ambassadors initiative¹³³. 2020 was of course an extraordinary year to say the least, where digital communication/events and working from home became the new normal – all this

¹³³ Launched in July 2019 inviting REGIO staff to submit innovative ideas that would make REGIO a greener DG. The REGIO Green Ambassadors initiative won a prize at the EC EMAS Awards 2019 in the "most innovative local waste reduction best practices" category.

having an impact on REGIO's sound environmental management objectives, mostly allowing to accelerate or over achieve targets in this area.

Greener flagship conferences/events

Drawing on best practice developed, REGIO flagship conferences/events aim to become **paperless and plastic-free** events and to minimise their environmental impact.

In line with the EU Eco-Management and Audit Scheme (EMAS), event organisers and partners are encouraged to use environmentally friendly materials, respecting the paperless and plastic-free guidance. Drawing on the lessons learnt during confinement and teleworking imposed by COVID-19, including the fast acceleration of digitalisation, REGIO developed the **digitalisation of its events**. This way, REGIO saves carbon emissions and ensures greater dissemination/resonance. Helped by the particular circumstances in 2020, REGIO can boast a significant increase in digital attendance of its events.

Missions/Transport

REGIO endeavoured to reduce the amount of missions carried out, by replacing them where relevant and possible by **video-conferencing**. Several rooms in REGIO have been equipped with videoconferencing tools and guidance. For unavoidable missions, the carbon emissions generated were offset¹³⁴ as much as possible and alternatives were promoted, such as train or shared transport¹³⁵. REGIO further promoted the use of public transport or **soft mobility** rather than individual cars to reach events within Brussels and consider public transport for collective events (teambuilding, etc. outside Brussels). REGIO also promoted **telework** in order to reduce emissions from staff's commuting and also to support work-life balance. Not surprisingly, telework increased very significantly this year.

Resources and waste

Bottled still water will be no longer be served in REGIO internal meetings in all bigger rooms equipped with a **water fountain**. All staff received a reusable mug and a glass bottle avoiding to resort to single-use containers. The **use of emails** should be further reduced by promoting **SharePoint or Wiki**. All documents are saved electronically, when possible, paper copies are not kept anymore. **Electronic publications** should be the default. REGIO started shifting to exclusively electronic signatures and pursued a paperless approach for those procurement and grants procedures for which corporate IT tools are already available. In addition, REGIO promoted and encouraged the application of the **Green Public Procurement principles** in all tender specifications, selection and award criteria. All exchanges with Member States regarding shared management programmes (the bulk of REGIO's activities), are already carried out in a paperless mode through a server called SFC. Individual bins in staff offices have been replaced in 2020 by **waste sorting stations**, reducing REGIO's waste substantially and improving the waste sorting quality¹³⁶.

¹³⁴ REGIO pursued its efforts in 2020 to encourage EMAS to develop a compensation scheme at corporate level.

¹³⁵ This action would/will facilitate offsetting the carbon footprint linked to missions, but would require nevertheless changes in the current corporate financial rules (the current mission guide only allows staff to take the train if this is cheaper than any other transport means).

¹³⁶ Together with other DGs, REGIO was rewarded for having completed the most innovative waste reduction actions. REGIO's building BU-1/5/9 (DGs ENV and REGIO) received the award for the most performant buildings in terms of waste reduction.